# Financial Section

## Contents

# 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) |
|---|---|---|---|---|---|---|
| | **2003** | 2002 | 2001 | 2000 | 1999 | **2003** |
| **For the year:** | | | | | | |
| Net sales | **¥967,640** | ¥954,172 | ¥934,350 | ¥870,235 | ¥946,617 | **$8,063,667** |
| Overseas | **638,092** | 626,209 | 567,977 | 545,316 | 566,551 | **5,317,433** |
| Domestic | **329,548** | 327,963 | 366,373 | 324,919 | 380,066 | **2,746,234** |
| Cost of sales | **668,821** | 684,458 | 641,209 | 600,506 | 642,140 | **5,573,509** |
| Selling, general and administrative expenses | **276,520** | 281,808 | 287,449 | 277,748 | 305,698 | **2,304,333** |
| Operating income (loss) | **22,299** | (12,094) | 5,692 | (8,019) | (1,221) | **185,825** |
| Income (Loss) before income taxes and minority interests | **10,064** | (38,446) | 9,444 | 6,088 | (3,671) | **83,867** |
| Income taxes | **3,568** | 5,985 | 7,238 | 11,295 | 4,466 | **29,733** |
| Net income (loss) | **6,336** | (44,572) | 2,498 | (5,341) | (8,315) | **52,800** |
| Depreciation and amortization | **25,250** | 28,000 | 28,085 | 28,590 | 30,513 | **210,417** |
| Capital expenditures | **21,036** | 21,175 | 31,127 | 24,336 | 28,815 | **175,300** |
| R&D expenditures | **40,973** | 40,981 | 44,094 | 43,351 | 41,660 | **341,442** |

| | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| **At year-end:** | | | | | | |
| Working capital | **¥149,172** | ¥118,948 | ¥150,067 | ¥127,709 | ¥142,628 | **$1,243,100** |
| Stockholders' equity | **146,410** | 146,246 | 180,515 | 199,164 | 232,162 | **1,220,083** |
| Total assets | **479,750** | 513,365 | 586,628 | 540,359 | 588,001 | **3,997,917** |

| | Yen | | | | | U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| **Per share:** | | | | | | |
| Net income (loss) (Note 2) | **¥ 24.9** | ¥ (175.3) | ¥ 9.8 | ¥ (21.0) | ¥ (32.7) | **$ 0.21** |
| Diluted net income (Note 2) | **23.5** | — | — | — | — | **0.20** |
| Cash dividends (Note 3) | **—** | — | 3.0 | — | 5.0 | **—** |

Notes: 1. U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥120 to U.S.$1, the approximate rate prevailing on March 31, 2003.
2. Net income (loss) per share of common stock for the years ended March 31, 2002 and 2001 have not been recalculated using the new accounting standard, which is effective April 1, 2002.
3. Cash dividends represent amounts applicable to the respective years.

# Management's Discussion and Analysis

## Overview

During fiscal 2003, ended March 31, 2003, full-scale recovery in the US was stalled by a number of high-profile business failures and weaker consumer spending. This combined with the impact of the war in Iraq to cloud the U.S. in uncertainty. Although there was evidence of a mild recovery in Europe, the economy lost momentum from the summer of 2002, with the slowdown in Germany most prominent. In Japan, the economy remained mired in a slump with no signs of a recovery as stock prices plummeted and consumer spending deteriorated.

## Net Sales

Net sales rose 1.4%, or ¥13.5 billion, to ¥967.6 billion. By geographic segment, sales in Japan were held to a 2.0% increase at ¥405.7 billion, primarily due to anemic consumer spending and falling prices. This outweighed an upturn in demand related to the 2002 FIFA World Cup™ Korea/Japan. In the U.S., stronger sales of televisions, car AV systems and video recorders failed to offset the effects of weakening consumer sentiment and a slowdown in the economy in the latter half of the year. As a result, sales in the U.S. dropped 8.4% to ¥259.0 billion. In Europe, sales of DVD players sold as individual units and as part of digital theater systems, broke through the one million-unit barrier. This combined with

## Net Sales by Segment

Billions of yen

| | Consumer electronics business | Professional electronics business | Components & Devices business | Software & Media business | Other business | Total |
|---|---|---|---|---|---|---|
| **2003** | | | | | | |
| Sales | **¥675.0** | **¥71.0** | **¥47.6** | **¥167.5** | **¥ 6.5** | **¥967.6** |
| Percentage | **69.8%** | **7.3 %** | **4.9 %** | **17.3 %** | **0.7 %** | **100.0%** |
| Change | **5.3%** | **(9.3)%** | **(4.2)%** | **(5.4)%** | **17.7 %** | **1.4%** |
| Domestic Sales | **¥122.1** | **¥48.5** | **¥ 3.6** | **¥149.1** | **¥ 6.2** | **¥329.5** |
| Change | **6.2%** | **(6.4)%** | **(20.0)%** | **(0.3)%** | **(12.7)%** | **0.5%** |
| Overseas Sales | **¥552.9** | **¥22.5** | **¥44.0** | **¥ 18.4** | **¥ 0.3** | **¥638.1** |
| Change | **5.1%** | **(15.1)%** | **(2.7)%** | **(32.8)%** | **62.5 %** | **1.9%** |
| 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% |
| Major Products | VCRs, camcorders, televisions, stereo systems, car AV 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, optical pickups, motors and "VIL" PWBs | Audio and visual software including CDs, DVDs and videotapes recording media | Interior furniture production facilities | |

healthy sales of televisions, car AV systems and video recorders to drive double-digit sales growth on a local currency-basis for the fifth consecutive year; sales in Europe rose 15.0% year on year, to ¥220.4 billion. Sales in Asia remained flat, at ¥82.5 billion, as lower demand for Hi-Fi audio components and video recorders negated growth in DV camcorders and car AV systems.

### Cost of Sales and SG&A

Cost of sales declined 2.3%, or ¥15.6 billion, to ¥668.8 billion. Consequently, the cost of sales ratio declined from 71.7% in the previous year, to 69.1%.

Selling, general and administrative (SG&A) expenses fell 1.9%, or ¥5.3 billion, to ¥276.5 billion. As a percentage of net sales, SG&A expenses continued to fall, from 29.5% in fiscal 2002, to 28.6%.

### Operating Income (Loss)

The company recorded operating income of ¥22.3 billion, a ¥34.4 billion reversal from the operating loss in the previous year. This was chiefly due to efforts to pare materials and other costs, the positive effects of business restructuring, beneficial movements in exchange rates and royalty income.

## SEGMENT INFORMATION

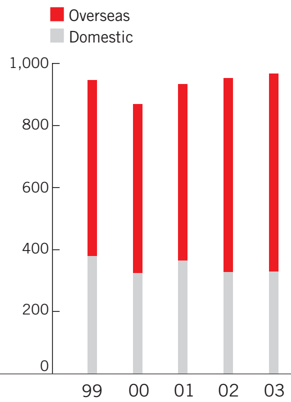
### Consumer Electronics

Favorable exchange rates played a part in the 5.3%, or ¥33.6 billion, increase in segment sales, to ¥675.0 billion. Consumer Electronics posted operating income of ¥25.3 billion, a ¥28.7 billion turnaround from the operating loss in the previous year. In Japan, sales of DV camcorders grew, while visual products, such as high-definition televisions and Plasma Display Panels (PDPs), posted a strong performance. Overseas, sales of DVD players, car AV systems and projection televisions rose, but sales declined in America, against strong results in Europe and Asia.

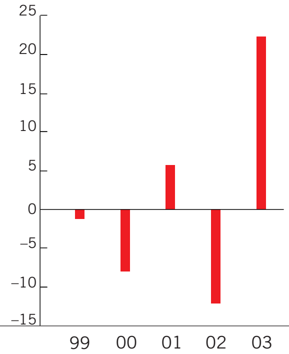
### Professional Electronics

Sales in this segment fell 9.3%, or ¥7.4 billion, to ¥71.0 billion, while the operating loss narrowed to ¥3.7 billion. In Japan, although optical wireless LAN systems gained ground, overall sales declined due to a general market downturn in which Direct-Drive Image Light Amplifier (D-ILA) projectors and security products, such as camera systems, faced stiff competition. Overseas, competition was intense in the Americas and Europe, with sales of professional camcorders and D-ILA projectors falling, dragging down sales below fiscal 2002 levels.

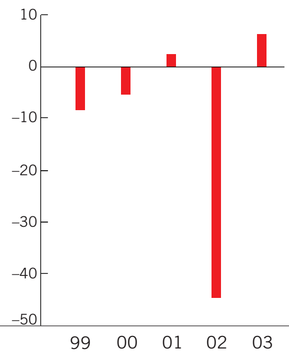
NET SALES
(Billions of yen)




OPERATING INCOME (LOSS)
(Billions of yen)




NET INCOME (LOSS)
(Billions of yen)



### Components & Devices

Healthy sales of motors for electronic devices could not cancel out the impact of the protracted slump in the IT sector, which continued to depress demand for high-density build-up multilayer printed wiring boards (“VIL” PWBs) and deflection yokes. As a result, this segment posted a 4.2%, or ¥2.1 billion, decline in sales, to ¥47.6 billion, and an operating loss of ¥0.7 billion.

### Software & Media

Sales in this segment declined 5.4%, or ¥9.5 billion, to ¥167.5 billion, while operating income fell ¥1.9 billion, to ¥1.3 billion. Sales fell due to the industry-wide downturn in software and the effects of delays in the launch of music content. The decline was checked by higher sales of software and media consigned from other companies.

### Other

Sales dropped 17.7%, or ¥1.4 billion, to ¥6.5 billion, while operating income grew ¥1.7 billion, to ¥1.2 billion, reversing the previous year’s operating loss.

### Income (Loss) Before Income Taxes and Minority Interests

Income before income taxes and minority interests grew ¥48.5 billion year on year, to ¥10.1 billion, due to the turnaround in operating income and lower restructuring charges.

### Income Taxes

Income taxes fell 40.4%, or ¥2.4 billion, to ¥3.6 billion. This represented an effective tax rate of 35.5%.

### Net Income (Loss)

Net income was ¥6.3 billion, a ¥50.9 billion improvement from fiscal 2002’s net loss. Consequently, the company reversed the net loss per share of ¥175.3 in the previous fiscal year to post net income per share of ¥24.9. ROE also rose from negative 27.3% to 4.3% in the year under review. Despite this improved performance, the company made the difficult decision not to pay a dividend for fiscal 2003.

## LIQUIDITY AND SOURCES OF FUNDS

### Assets, Liabilities and Capital

Total assets as of March 31, 2003 stood at ¥479.7 billion, a 6.5%, or ¥33.6 billion decline from a year ago. This was mainly the result of steps to pare back total assets by reducing inventories and improve working capital. Total current assets fell 2.9%, or ¥10.5 billion, to ¥356.1 billion, mainly reflecting an 11.7%, or ¥14.8 billion, reduction in inventories at the end of the period, to ¥111.3 billion.

Investments and advances fell 55.0%, or ¥11.4 billion, to ¥9.3 billion, primarily reflecting the sale and write down of investment securities.

Property, plant and equipment (less accumulated depreciation) at the end of the fiscal year was 10.6%, or ¥11.8 billion, lower than the previous fiscal year-end, at ¥98.9 billion. This was chiefly attributable to lower capital expenditures and the sale of fixed assets.

Total current liabilities fell 16.5%, or ¥40.7 billion, to ¥206.9 billion, reflecting the redemption of bonds due within one year, a decline in short-term debt and a decrease in reserves for business restructuring.

Total long-term liabilities increased 6.6%, or ¥7.6 billion, to ¥122.3 billion, mainly due to a rise in long-term debt.

Stockholders' equity was up 0.1%, or ¥0.2 billion, to ¥146.4 billion. Stockholders' equity as a percentage of total assets increased to 30.5%, compared with 28.5% at the previous fiscal year-end.

### Cash Flows

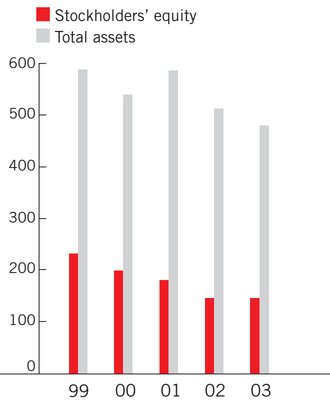
Operating activities provided net cash of ¥35.8 billion, reflecting the reduction of inventories and improvements in working capital, and other factors that generated funds.

Net cash used by investing activities rose ¥6.9 billion, to ¥12.5 billion. This increase was mainly attributable to payments of ¥18.5 billion for the acquisition of property, plant and equipment, which outweighed cash inflows of ¥6.4 billion from the sale of fixed assets.

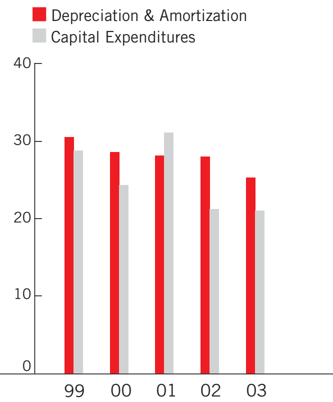
Financing activities used net cash of ¥7.3 billion, primarily for the redemption of bonds. This led to a reduction in interest-bearing debt of ¥10.3 billion.

As a result of the foregoing, cash and cash equivalents at the end of the year stood at ¥83.4 billion, 20.4%, or ¥14.1 billion, higher than a year ago.

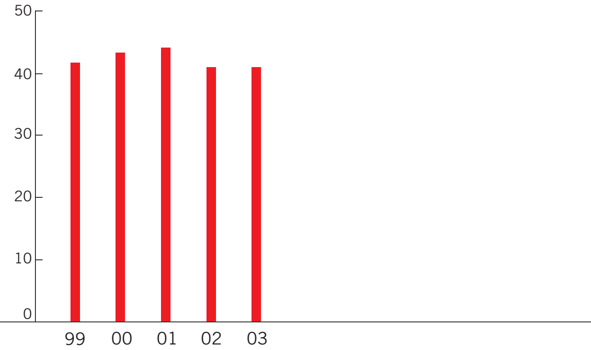
STOCKHOLDERS' EQUITY/
TOTAL ASSETS
(Billions of yen)




DEPRECIATION & AMORTIZATION/
CAPITAL EXPENDITURES
(Billions of yen)




R&D EXPENDITURES
(Billions of yen)



## CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION

Capital expenditures totaled ¥21.0 billion, a 0.7%, or ¥0.1 billion, decrease compared with the previous fiscal year. This decline represented greater selectivity in the company's investment strategy.

As a result, depreciation decreased 9.8%, or ¥2.7 billion, to ¥25.2 billion.

## R&D COSTS

R&D costs for fiscal 2003 were ¥41.0 billion, the same as in fiscal 2002. Consequently, the ratio of R&D costs to net sales was 4.2%.

The company's R&D organization comprises the Technology Development Division, which functions as the JVC Group's corporate laboratory, and a Development Division and an Engineering Division in each Group company. The Technology Development Division is responsible for developing group-wide 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 future products. Each Development Division is responsible for next-generation product development in five priority business areas: high-definition displays, digital high-density storage, network AV systems, Components & Devices, and Software & Media. The Engineering Division is responsible for the design and commercialization of products. Overseas, the JVC North America R&D Center and the JVC Singapore R&D Center are mainly involved in the development of software for digital AV equipment based on market developments in their respective operating regions. JVC is currently implementing initiatives to strengthen its international R&D network.

## PERSONNEL

Owing to new consolidations during fiscal 2003, which resulted in the addition of 2,087 personnel to the JVC Group, the number of employees on a consolidated basis at fiscal year-end stood at 34,492, an aggregate increase of 309 employees compared to the previous fiscal year-end.

# Consolidated Balance Sheets

Victor Company of Japan, Limited and its consolidated subsidiaries
March 31, 2003 and 2002

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2003 | 2002 | 2003 |
| **Current assets:** | | | |
| Cash and time deposits (including time deposits with maturities over three months of ¥8,105 million (US$67,542 thousand) in 2003 and ¥5,105 million in 2002) | ¥ 91,517 | ¥ 74,376 | $ 762,642 |
| Marketable securities (Note 6) | — | 2,802 | — |
| Notes and accounts receivable: | | | |
| Trade | 113,405 | 125,617 | 945,042 |
| Non-consolidated subsidiaries and affiliated companies | 397 | 735 | 3,308 |
| Allowance for doubtful accounts | (5,532) | (4,797) | (46,100) |
| Inventories (Note 5) | 111,256 | 126,063 | 927,133 |
| Deferred tax assets (Note 7) | 19,364 | 17,143 | 161,367 |
| Other current assets | 25,674 | 24,660 | 213,950 |
| Total current assets | 356,081 | 366,599 | 2,967,342 |
| **Investments and advances:** | | | |
| Investments in and advances to non-consolidated subsidiaries and affiliated companies (Note 6) | 1,834 | 3,164 | 15,283 |
| Other (Note 6) | 7,507 | 17,588 | 62,559 |
| Total investments and advances | 9,341 | 20,752 | 77,842 |
| **Property, plant and equipment:** | | | |
| Land (Note 9) | 29,344 | 30,044 | 244,533 |
| Buildings (Note 9) | 110,381 | 113,913 | 919,842 |
| Machinery and equipment | 240,646 | 257,744 | 2,005,383 |
| Construction in progress | 4,642 | 3,478 | 38,684 |
| | 385,013 | 405,179 | 3,208,442 |
| Less accumulated depreciation | 286,129 | 294,530 | 2,384,409 |
| Net property, plant and equipment | 98,884 | 110,649 | 824,033 |
| **Deferred tax assets** (Note 7) | 3,083 | 2,696 | 25,692 |
| **Other assets** | 12,361 | 12,669 | 103,008 |
| | ¥479,750 | ¥513,365 | $3,997,917 |

See accompanying notes.

| LIABILITIES AND STOCKHOLDERS' EQUITY | Millions of yen 2003 | Millions of yen 2002 | Thousands of U.S. dollars (Note 1) 2003 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Bank loans (Note 8) | **¥ 25,376** | ¥ 35,994 | **$ 211,467** |
| Current portion of long-term debt (Note 8) | **12,727** | 27,168 | **106,058** |
| Notes and accounts payable: | | | |
| Trade | **128,895** | 121,301 | **1,074,125** |
| Construction | **2,186** | 1,704 | **18,217** |
| Non-consolidated subsidiaries and affiliated companies | **2,233** | 7,988 | **18,608** |
| Accrued income taxes (Note 7) | **3,905** | 5,754 | **32,542** |
| Accrued expenses | **18,327** | 19,204 | **152,725** |
| Accrued restructuring charges | **873** | 13,423 | **7,275** |
| Other current liabilities | **12,387** | 15,115 | **103,225** |
| Total current liabilities | **206,909** | 247,651 | **1,724,242** |
| **Long-term debt** (Notes 8 and 9) | **105,468** | 89,872 | **878,900** |
| **Employees' retirement benefits** (Note 10) | **14,058** | 22,551 | **117,150** |
| **Other long-term liabilities** | **2,728** | 2,231 | **22,734** |
| **Minority interests** | **4,177** | 4,814 | **34,808** |
| **Contingent liabilities** (Note 11) | | | |
| **Stockholders' equity** (Note 12)**:** | | | |
| Common stock; | | | |
| Authorized 800,000,000 shares | | | |
| Issued 254,230,058 shares | **34,115** | 34,115 | **284,292** |
| Capital Surplus | **67,216** | 67,216 | **560,133** |
| Retained earnings | **63,865** | 57,559 | **532,208** |
| Net unrealized holding gains on securities | **518** | 977 | **4,317** |
| Foreign currency translation adjustments | **(19,198)** | (13,609) | **(159,983)** |
| | **146,516** | 146,258 | **1,220,967** |
| Treasury stock, at cost | **(106)** | (12) | **(884)** |
| Total stockholders' equity | **146,410** | 146,246 | **1,220,083** |
| | **¥479,750** | ¥513,365 | **$3,997,917** |

# Consolidated Statements of Operations

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| **Net sales** | **¥967,640** | ¥954,172 | ¥934,350 | **$8,063,667** |
| **Costs and expenses:** | | | | |
| Cost of sales | **668,821** | 684,458 | 641,209 | **5,573,509** |
| Selling, general and administrative expenses | **276,520** | 281,808 | 287,449 | **2,304,333** |
| | **945,341** | 966,266 | 928,658 | **7,877,842** |
| **Operating income (loss)** | **22,299** | (12,094) | 5,692 | **185,825** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | **949** | 1,108 | 2,509 | **7,908** |
| Unrealized gain (loss) from changes in fair market values of trading securities | **—** | (280) | 9,749 | **—** |
| Equity in income of affiliated companies | **70** | 63 | 173 | **583** |
| Interest expense | **(3,403)** | (4,447) | (5,383) | **(28,358)** |
| Gain on sales of investment securities | **318** | 1,099 | 1,450 | **2,650** |
| Gain on return of substitutional portion of Employees' Pension Insurance | **3,456** | — | — | **28,800** |
| Loss on liquidation of subsidiaries and affiliated companies | **(170)** | (1,059) | (656) | **(1,417)** |
| Restructuring charges | **(3,785)** | (13,423) | (2,197) | **(31,541)** |
| Loss from write-down of investment in securities | **(5,408)** | (7,691) | (739) | **(45,067)** |
| Other, net | **(4,262)** | (1,722) | (1,154) | **(35,516)** |
| | **(12,235)** | (26,352) | 3,752 | **(101,958)** |
| **Income (Loss) before income taxes and minority interests** | **10,064** | (38,446) | 9,444 | **83,867** |
| **Income taxes** (Note 7)**:** | | | | |
| Current | **6,706** | 7,438 | 14,319 | **55,883** |
| Deferred | **(3,138)** | (1,453) | (7,081) | **(26,150)** |
| | **3,568** | 5,985 | 7,238 | **29,733** |
| **Income (Loss) before minority interests** | **6,496** | (44,431) | 2,206 | **54,134** |
| **Minority interests** | **(160)** | (141) | 292 | **(1,334)** |
| **Net income (loss)** | **¥ 6,336** | ¥ (44,572) | ¥ 2,498 | **$ 52,800** |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| **Amounts per share of common stock** (Note 2)**:** | | | | |
| Net income (loss) | **¥ 24.9** | ¥ (175.3) | ¥ 9.8 | **$ 0.21** |
| Diluted net income | **23.5** | — | — | **0.20** |
| Cash dividends applicable to the year | **—** | — | 3.0 | **—** |

See accompanying notes.

# Consolidated Statements of Stockholders' Equity

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (Thousands) | Common stock | Capital surplus | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| **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 the 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) |
| Net income | — | — | — | (44,572) | — | — | — |
| Adjustment from translation of foreign currency financial statements | — | — | — | — | — | 7,804 | — |
| Net changes | — | — | — | — | 692 | — | — |
| Treasury stock | — | — | — | — | — | — | (8) |
| Adjustment due to change in the number of consolidated subsidiaries | — | — | — | 2,602 | — | — | — |
| Cash dividends paid (¥3.0 per share) | — | — | — | (762) | — | — | — |
| Bonuses to directors and corporate auditors | — | — | — | (25) | — | — | — |
| **Balance at March 31, 2002** | 254,230 | ¥34,115 | ¥67,216 | ¥ 57,559 | ¥ 977 | ¥(13,609) | ¥ (12) |
| Net income | — | — | — | 6,336 | — | — | — |
| Adjustment from translation of foreign currency financial statements | — | — | — | — | — | (5,589) | — |
| Net changes | — | — | — | — | (459) | — | — |
| Treasury stock | — | — | — | — | — | — | (94) |
| Bonuses to directors and corporate auditors | — | — | — | (30) | — | — | — |
| **Balance at March 31, 2003** | **254,230** | **¥34,115** | **¥67,216** | **¥ 63,865** | **¥ 518** | **¥(19,198)** | **¥(106)** |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Net unrealized holding gains on securities | Foreign currency translation adjustments | Treasury stock |
| **Balance at March 31, 2002** | $284,292 | $560,133 | $479,658 | $ 8,142 | $(113,408) | $(100) |
| Net income | — | — | 52,800 | — | — | — |
| Adjustment from translation of foreign currency financial statements | — | — | — | — | (46,575) | — |
| Net changes | — | — | — | (3,825) | — | — |
| Treasury stock | — | — | — | — | — | (784) |
| Bonuses to directors and corporate auditors | — | — | (250) | — | — | — |
| **Balance at March 31, 2003** | **$284,292** | **$560,133** | **$532,208** | **$ 4,317** | **$(159,983)** | **$(884)** |

See accompanying notes.

# Consolidated Statements of Cash Flows

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| **Cash flows from operating activities:** | | | | |
| Income (Loss) before income taxes and minority interests | **¥ 10,064** | ¥(38,446) | ¥ 9,444 | **$ 83,867** |
| Depreciation and amortization | **24,062** | 26,826 | 27,047 | **200,517** |
| Interest and dividend income | **(949)** | (1,108) | (2,509) | **(7,908)** |
| Interest expense | **3,403** | 4,447 | 5,383 | **28,358** |
| Unrealized loss (gain) from changes in fair market values of trading securities | **—** | 280 | (9,749) | **—** |
| Increase (Decrease) in accrued restructuring charges | **(12,550)** | 13,423 | — | **(104,583)** |
| Gain on sales of investment securities | **(318)** | (1,099) | (1,450) | **(2,650)** |
| Decrease (Increase) in notes and accounts receivable | **15,211** | 12,055 | (18,046) | **126,758** |
| Decrease (Increase) in inventories | **18,062** | 35,370 | (29,751) | **150,517** |
| Increase (Decrease) in notes and accounts payable | **(6,983)** | (18,224) | 8,737 | **(58,192)** |
| Other | **(3,287)** | 4,920 | 1,527 | **(27,392)** |
| Sub-total | **46,715** | 38,444 | (9,367) | **389,292** |
| Interest and dividends received | **962** | 1,178 | 2,433 | **8,017** |
| Interest paid | **(3,447)** | (4,539) | (5,143) | **(28,725)** |
| Income taxes paid | **(8,452)** | (7,001) | (14,330) | **(70,434)** |
| **Net cash provided by (used in) operating activities** | **35,778** | 28,082 | (26,407) | **298,150** |
| **Cash flows from investing activities:** | | | | |
| Purchases of time deposits | **(8,000)** | — | (8,150) | **(66,667)** |
| Sales of time deposits | **5,000** | 3,000 | — | **41,667** |
| Purchases of property, plant and equipment | **(18,517)** | (22,853) | (28,942) | **(154,308)** |
| Proceeds from sales of property, plant and equipment | **6,440** | 2,710 | 4,883 | **53,667** |
| Purchases of marketable securities | **—** | (13,006) | (43,687) | **—** |
| Proceeds from sales of marketable securities | **2,804** | 18,166 | 63,612 | **23,367** |
| Purchases of investment securities | **(53)** | (719) | (3,552) | **(442)** |
| Proceeds from sales of investment securities | **3,468** | 5,285 | 6,714 | **28,900** |
| Additional investment in newly consolidated entity | **(421)** | — | — | **(3,508)** |
| Other | **(3,208)** | 1,799 | 1,255 | **(26,734)** |
| **Net cash used in investing activities** | **(12,487)** | (5,618) | (7,867) | **(104,058)** |
| **Cash flows from financing activities:** | | | | |
| Proceeds from long-term loans | **30,005** | 1,230 | 1 | **250,042** |
| Repayments of long-term loans | **(1,715)** | (4,254) | (1,577) | **(14,292)** |
| Proceeds from issuance of bonds | **—** | — | 37,372 | **—** |
| Redemption of bonds | **(24,970)** | (10,101) | — | **(208,083)** |
| Increase (Decrease) in short-term bank loans, net | **(9,719)** | (15,208) | 6,300 | **(80,992)** |
| Decrease in commercial paper, net | **(734)** | (5,527) | (7,661) | **(6,117)** |
| Cash dividends paid | **(168)** | (970) | (255) | **(1,400)** |
| Other | **(36)** | 121 | 1,025 | **(300)** |
| **Net cash provided by (used in) financing activities** | **(7,337)** | (34,709) | 35,205 | **(61,142)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(1,813)** | 2,136 | 6,675 | **(15,108)** |
| **Effect of changes in the number of consolidated subsidiaries and companies accounted for based on the equity method** | **—** | 129 | 60 | **—** |
| **Net increase (decrease) in cash and cash equivalents** | **14,141** | (9,980) | 7,666 | **117,842** |
| **Cash and cash equivalents at beginning of the year** | **69,271** | 79,251 | 71,585 | **577,258** |
| **Cash and cash equivalents at end of the year** | **¥ 83,412** | ¥ 69,271 | ¥ 79,251 | **$ 695,100** |

See accompanying notes.

# Notes to Consolidated Financial Statements

Victor Company of Japan, Limited and its consolidated subsidiaries
Years ended March 31, 2003, 2002 and 2001

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Victor Company of Japan, Limited (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120 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, account balances and unrealized profits have been eliminated.

Investments in certain non-consolidated 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 domestic subsidiaries (the "Companies") adopted the revised accounting standard for foreign currency translation, (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 not material.

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

Statements of operations 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. They were previously included in assets or liabilities.

### *Cash and cash equivalents*

In preparing the consolidated statements of cash flows for the years ended March 31, 2003, 2002 and 2001, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### *Inventories*

Inventories are stated at cost, which is determined primarily 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 issued 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).

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 shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by non-consolidated 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 non-consolidated subsidiaries and affiliated companies not accounted for by 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, in the year ended March 31, 2001, income before income taxes increased by ¥1,484 million.

### *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 hedge 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. Certain consolidated overseas subsidiaries use the straight-line method.

The ranges of useful lives for computing depreciation are generally as follows:

| | |
|---|---|
| Buildings | 20 to 50 years |
| Machinery and equipment | 3 to 7 years |

Expenditures for maintenance and repairs are charged to income as incurred.

### *Finance leases*

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

### *Research and development*

Research and development expenditures for new products or improvement of existing products are charged to income as incurred.

### *Income taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and foreign tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### *Employees' severance and retirement benefits*

The Company has funded pension plans and unfunded benefit plans to provide retirement benefits for substantially all employees.

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 Company provided allowance for employees' severance and retirement benefits as of the balance sheet dates based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is 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, and income before income taxes decreased by ¥557 million compared with what would have been recorded under the previous accounting standard.

Effect on segment information is described in 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 resulting in the issuance of common stock. As a result of computation for the year ended March 31, 2001, and as the Company reported net losses for the year ended March 31, 2002, 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.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of the new accounting standard was not material. Such amounts for the years ended March 31, 2002 and 2001 have not been recalculated using the new accounting standard.

Cash dividends per share represent the actual amount declared as applicable to the respective years.

***Accounting standard for treasury stock and reversal of statutory reserves***

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reduction of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The adoption of the new accounting standard had no impact on net income. However, as a result of adopting this new accounting standard and application of the related revised disclosure requirements, stockholders' equity accounts in the accompanying balance sheet as of March 31, 2003 are presented differently from prior years. Presentation of the stockholders' equity accounts as of March 31, 2002 has been changed to conform to the presentation for 2003.

***Reclassifications***

Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

## 3. CHANGE IN ACCOUNTING METHOD

The Company changed the method of accounting for royalty income and related expenses. Under the former method, the net amount of the two items was included in the income statement as royalty income—net, under other income (expenses). Effective April 1, 2002, royalty income is included in net sales, and the related expenses are included in selling, general and administrative expenses.

This change reflects the recognition that royalty income is directly attributable to the Company's principal operating activities, in light of the increasing number of technological alliances with partners both in Japan and overseas, and their growing strategic significance. Therefore, royalty income and the related expenses will be disclosed more appropriately under the new presentation method. As a result of the change, net sales, selling, general and administrative expenses and operating income increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand) and ¥3,290 million ($27,417 thousand), respectively, and other income decreased by ¥3,290 million ($27,417 thousand), compared with what would have been reported under the former accounting policies. Income before income taxes and minority interests was unaffected by this change.

Details of the impact on segment information are described in Note 15.

## 4. RELATIONSHIP WITH MATSUSHITA ELECTRIC INDUSTRIAL CO., LTD.

The Company is a subsidiary of Matsushita Electric Industrial Co., Ltd. ("Matsushita"). At March 31, 2003, Matsushita held 133,227 thousand shares of common stock of the Company, 52.40% of the total outstanding shares.

Transactions between the Company and Matsushita for the years ended March 31, 2003, 2002 and 2001, and the account balances between the two companies at March 31, 2003 and 2002 are not material.

## 5. INVENTORIES

Inventories at March 31, 2003 and 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Finished goods | **¥ 77,378** | ¥ 85,815 | **$644,817** |
| Work in process | **10,391** | 13,166 | **86,592** |
| Raw materials and supplies | **23,487** | 27,082 | **195,724** |
| | **¥111,256** | ¥126,063 | **$927,133** |

## 6. SECURITIES

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2003 and 2002:

(a) Trading securities

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Book value | **¥ —** | ¥ — | **$ —** |
| Amount of net unrealized gains or losses included in the income statement | **—** | (280) | **—** |

(b) Available-for-sale securities

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| **2003:** | | | |
| Securities with available fair values exceeding acquisition costs | | | |
| Equity securities | **¥ 406** | **¥1,474** | **¥1,068** |
| Securities with available fair values not exceeding acquisition costs | | | |
| Equity securities | **¥4,212** | **¥4,018** | **¥ (194)** |
| Total | **¥4,618** | **¥5,492** | **¥ 874** |

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| 2002: | | | |
| Securities with available fair values exceeding acquisition costs | | | |
| Equity securities | ¥ 5,941 | ¥ 8,458 | ¥2,517 |
| Bonds | 1,801 | 1,801 | — |
| Total | ¥ 7,742 | ¥10,259 | ¥2,517 |
| Securities with available fair values not exceeding acquisition costs | | | |
| Equity securities | ¥ 4,310 | ¥ 3,561 | ¥ (749) |
| Bonds | 4,002 | 3,941 | (61) |
| Total | ¥ 8,312 | ¥ 7,502 | ¥ (810) |
| Total | ¥16,054 | ¥17,761 | ¥1,707 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| **2003:** | | | |
| Securities with available fair values exceeding acquisition costs | | | |
| Equity securities | **$ 3,383** | **$12,283** | **$ 8,900** |
| Securities with available fair values not exceeding acquisition costs | | | |
| Equity securities | **$35,100** | **$33,483** | **$(1,617)** |
| Total | **$38,483** | **$45,766** | **$ 7,283** |

The following tables summarize acquisition costs, book values and available fair value of securities not stated at fair values as of March 31, 2003 and 2002:

(a) Available-for-sale securities

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| | Book value | Book value | Book value |
| Non-listed equity securities | **¥2,008** | ¥2,196 | **$16,733** |
| Non-listed foreign debt securities | **2** | 2 | **17** |
| Subsidiaries and affiliated companies | **916** | 2,040 | **7,633** |
| Total | **¥2,926** | ¥4,238 | **$24,383** |

In the year ended March 31, 2002, the Company re-examined the intent of holding securities and decided not to sell any securities that were previously classified as trading securities, until such time as the Company finds it appropriate to do so. Those securities were reclassified from trading securities to available-for-sale securities.

As a result, securities in current assets decreased by ¥2,426 million and investment securities increased by the same amount at March 31, 2002. Also, due to the classification change, both of unrealized loss and loss before income taxes and minority interests in the consolidated statement of operations for the year ended March 31, 2002 decreased by ¥230 million, and net unrealized holding gains on securities in the consolidated balance sheet as of that date decreased by ¥145 million compared with what would have been reported if not for the classification change.

The Company and consolidated subsidiaries had no available-for-sale securities with maturities at March 31, 2003. Such securities as of March 31, 2002 were 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 |
| 2002: | | | | | |
| Available-for-sale securities | | | | | |
| Government bonds | ¥ 1 | ¥ — | ¥ — | ¥ — | ¥ 1 |
| Corporate bonds | — | — | 991 | — | 991 |
| Others | 2,801 | — | — | — | 2,801 |
| Total | ¥2,802 | ¥ — | ¥991 | ¥ — | ¥3,793 |

Available-for-sale securities sold in the years ended March 31, 2003, 2002 and 2001 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Sales | **¥6,247** | ¥19,640 | ¥16,160 | **$52,058** |
| Gains | **318** | 763 | 1,450 | **2,650** |
| Losses | **15** | 358 | 640 | **125** |

## 7. INCOME TAXES

Income taxes in Japan consist of corporation, enterprise and inhabitants' taxes. The Company and consolidated domestic subsidiaries are subject to income taxes referred to above, which in the aggregate, result in the statutory tax rate of approximately 42.0%. 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, 2003.

| | **2003** | 2001 |
|---|---|---|
| Statutory tax rate | **42.0 %** | 42.0 % |
| Lower tax rates of overseas subsidiaries | **(10.3)%** | (7.4)% |
| Expenses not deductible for tax purposes | **7.9 %** | 20.0 % |
| Effect of changes in valuation allowance for deferred tax assets | **(71.9)%** | (13.7)% |
| Reduction of deferred tax assets due to the change in tax rates | **10.2 %** | — |
| Other | **57.5 %** | 35.8 % |
| Effective tax rate | **35.4 %** | 76.7 % |

Information for 2002 was not prepared as the Company incurred a net loss in the year ended March 31, 2002.

The effective tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced effective tax rate of 40.6% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred tax assets, income taxes-deferred and net unrealized holding gains on securities increased by ¥9 million ($75 thousand), ¥3 million ($25 thousand) and ¥12 million ($100 thousand) compared with what would have been reported using the currently effective tax rate of 42.0%.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Deferred tax assets: | | | |
| Loss on devaluation of inventory | **¥ 5,365** | ¥ 5,465 | **$ 44,708** |
| Accrued expenses not deductible for tax purposes | **7,887** | 5,956 | **65,725** |
| Accrual for losses on business restructuring | **367** | 5,597 | **3,058** |
| Depreciation | **8,378** | 8,028 | **69,817** |
| Retirement and severance benefits | **2,383** | 5,101 | **19,858** |
| Tax loss carry forwards | **23,275** | 21,767 | **193,958** |
| Other | **12,665** | 13,640 | **105,543** |
| Total gross deferred tax assets | **60,320** | 65,554 | **502,667** |
| Less valuation allowance | **(37,026)** | (44,628) | **(308,550)** |
| Net deferred tax assets | **¥23,294** | ¥20,926 | **$194,117** |
| Deferred tax liabilities: | | | |
| Unrealized gain from changes in fair market values of trading securities | **—** | ¥ (944) | **—** |
| Net unrealized holding gains on securities | **(356)** | (670) | **(2,967)** |
| Other | **(1,077)** | (823) | **(8,975)** |
| Total gross deferred tax assets | **¥ (1,433)** | ¥ (2,437) | **$ (11,942)** |
| Net deferred tax assets | **¥21,861** | ¥18,489 | **$182,175** |

## 8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans of certain of the Company's consolidated subsidiaries consist of notes maturing generally in three months. The applicable annual interest rates on short-term bank loans outstanding at March 31, 2003 and 2002 ranged from 1.26% to 26.42% and from 0.50% to 24.30% , respectively.

Long-term debt at March 31, 2003 and 2002 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| 1.5% unsecured convertible bonds due in 2005 | **¥ 11,483** | ¥ 11,483 | **$ 95,692** |
| 0.35% unsecured convertible bonds due in 2002 | **—** | 19,999 | **—** |
| 0.55% unsecured convertible bonds due in 2005 | **20,000** | 20,000 | **166,667** |
| 1.75% unsecured bonds due in 2003 | **5,000** | 5,000 | **41,667** |
| 2.15% unsecured bonds due in 2005 | **10,000** | 10,000 | **83,333** |
| 1.68% unsecured bonds due in 2006 | **20,000** | 20,000 | **166,667** |
| 1.89% unsecured bonds due in 2007 | **10,000** | 10,000 | **83,333** |
| 1.61% guaranteed notes due in 2002 | **—** | 5,432 | **—** |
| 1.50% guaranteed notes due in 2005 | **7,206** | 8,883 | **60,050** |
| Loans, primarily from banks with interest principally at 0.82% to 7.00% | | | |
| Secured | **322** | 328 | **2,683** |
| Unsecured | **34,184** | 5,915 | **284,866** |
| | **118,195** | 117,040 | **984,958** |
| Less current portion | **12,727** | 27,168 | **106,058** |
| | **¥105,468** | ¥ 89,872 | **$878,900** |

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. The price at which shares of common stock shall be issued upon conversion is ¥2,867 ($23.89) per share, subject to adjustment under certain circumstances. The 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 103% to 100% of the principal amount. The price at which shares of common stock shall be issued upon conversion is ¥1,487 ($12.39) per share, subject to adjustment under certain circumstances.

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2004 | ¥ 12,727 | $106,058 |
| 2005 | 17,498 | 145,817 |
| 2006 | 57,337 | 477,808 |
| 2007 | 20,134 | 167,783 |
| 2008 | 10,136 | 84,467 |
| Thereafter | 363 | 3,025 |
| | ¥118,195 | $984,958 |

## 9. PLEDGED ASSETS

The following assets were pledged as collateral for long-term debt, including current portion, at March 31, 2003:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Buildings | 467 | 3,892 |
| Land | 180 | 1,500 |
| | ¥647 | $5,392 |

## 10. 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").

***(Return of substitutional portion of Employees' Pension Insurance)***

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the substitutional portion of the government's scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company and its domestic consolidated subsidiaries decided to restructure their Employees' Pension Fund and were permitted by the Minister of Health, Labor and Welfare on July 1, 2002 to be released from their future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme. Pension assets for the substitutional portion maintained by the Employees' Pension Fund are to be transferred back to the government.

The Company and its domestic consolidated subsidiaries applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and the effect of transferring the substitutional portion was recognized on the date permission was received from the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2003, the Company and its consolidated domestic subsidiaries recorded gains on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥3,456 million ($28,800 thousand), which was calculated based on the amounts of the substitutional portion of the projected benefit obligations, the related pension assets, and the related unrecognized items.

The amount of pension plan assets expected to be transferred back to the government approximated ¥65,305 million ($544,208 thousand) as at March 31, 2003.

Liability for employees' retirement benefits included in liabilities in the consolidated balance sheets for 2003 and 2002 and the related expenses for 2003, 2002 and 2001, which were determined based on the amounts obtained by actuarial calculations, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Projected benefit obligation: | | | |
| Projected benefit obligation | **¥(164,185)** | ¥(252,417) | **$(1,368,208)** |
| Unamortized prior service costs | — | (8,009) | — |
| Unamortized actuarial differences | **55,865** | 42,321 | **465,542** |
| Less fair value of pension assets | **75,037** | 159,425 | **625,308** |
| Less unrecognized net transition obligation | **19,225** | 36,129 | **160,208** |
| Liability for severance and retirement benefits | **(14,058)** | (22,551) | **(117,150)** |

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Severance and retirement benefits expenses: | | | | |
| Service costs | **¥ 7,103** | ¥ 8,200 | ¥ 7,044 | **$ 59,192** |
| Interest costs on projected benefit obligation | **6,383** | 8,884 | 8,923 | **53,192** |
| Expected return on plan assets | **(3,080)** | (4,499) | (4,499) | **(25,667)** |
| Amortization of net transition obligation | **1,994** | 2,779 | 2,779 | **16,617** |
| Amortized actuarial differences | **3,151** | 1,610 | — | **26,258** |
| Amortized prior service costs | **(297)** | (890) | — | **(2,475)** |
| Severance and retirement benefits expenses | **15,254** | 16,084 | 14,247 | **127,117** |
| Gain on return of substitutional portion of Employees' Pension Insurance | **3,456** | — | — | **28,800** |
| Total | **¥11,798** | ¥16,084 | ¥14,247 | **$ 98,317** |

Not included in the above table is special retirement payments amounting to ¥4,260 million ($35,500 thousand), ¥1,199 million and ¥3,595 million which were expensed in 2003, 2002 and 2001.

The discount rate and the rate of expected return on plan assets used by the Company are 3.0% and 3.0% in 2003, and 3.5% and 3.0% in 2002, and 4.0% and 3.0% in 2001, respectively.

The estimated amount of all retirement benefits to be paid at the 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 following period.

## 11. CONTINGENT LIABILITIES

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2003 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| As endorser of export bills discounted with banks | ¥4,794 | $39,950 |
| As guarantor for loans to employees | 2,422 | 20,183 |
| As guarantor for lease obligations of affiliated company and others | 1,126 | 9,384 |
| | ¥8,342 | $69,517 |

## 12. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares 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, which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors.

On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions or certain other purposes by the resolution of stockholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

## 13. 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: | Hedged 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 |

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, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2003 | Contract amount | Market value | Recognized gain (loss) |
| Swap contracts: | | | |
| Receive floating/pay fixed | **¥8,013** | **¥(530)** | **¥(530)** |

As the company applied hedge accounting to all derivatives in 2002, market value information for 2002 is not disclosed.

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| March 31, 2003 | Contract amount | Market value | Recognized gain (loss) |
| Swap contracts: | | | |
| Receive floating/pay fixed | **$66,775** | **$(4,417)** | **$(4,417)** |

The fair value of interest swap contracts is estimated based on the quotes obtained from financial institutions.

## 14. LEASE INFORMATION

The Company leases 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, 2003 and 2002 is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| **2003:** | | | |
| Buildings and structures | **¥ 1,505** | **¥ 687** | **¥ 818** |
| Vehicles, machinery and equipment | **7,315** | **3,621** | **3,694** |
| Tools, furniture and fixtures | **10,922** | **5,282** | **5,640** |
| Leasehold rights | **399** | **219** | **180** |
| Software | **128** | **51** | **77** |
| | **¥20,269** | **¥9,860** | **¥10,409** |

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| 2002: | | | |
| Buildings and structures | ¥ 1,223 | ¥ 446 | ¥ 777 |
| Vehicles, machinery and equipment | 7,882 | 3,688 | 4,194 |
| Tools, furniture and fixtures | 12,575 | 6,221 | 6,354 |
| Leasehold rights | 183 | 79 | 104 |
| Software | 56 | 27 | 29 |
| | ¥21,919 | ¥10,461 | ¥11,458 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net book value |
| **2003:** | | | |
| Buildings and structures | **$ 12,542** | **$ 5,725** | **$ 6,817** |
| Vehicles, machinery and equipment | **60,958** | **30,175** | **30,783** |
| Tools, furniture and fixtures | **91,017** | **44,017** | **47,000** |
| Leasehold rights | **3,325** | **1,825** | **1,500** |
| Software | **1,067** | **425** | **642** |
| | **$168,909** | **$82,167** | **$86,742** |

(2) Future minimum lease payments under the non-capitalized finance and operating leases at March 31, 2003 and 2002 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Due within one year | **¥ 3,768** | ¥ 4,346 | **$31,400** |
| Due after one year | **7,108** | 7,561 | **59,233** |
| | **¥10,876** | ¥11,907 | **$90,633** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Operating leases | **2003** | 2002 | **2003** |
| Due within one year | **¥1,506** | ¥1,053 | **$12,550** |
| Due after one year | **2,654** | 1,941 | **22,117** |
| | **¥4,160** | ¥2,994 | **$34,667** |

(3) Lease payments, assumed depreciation charges and assumed interest charges for the years ended March 31, 2003, 2002 and 2001 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2003** | 2002 | 2001 | **2003** |
| Lease payments | **¥3,727** | ¥4,253 | ¥3,018 | **$31,058** |
| Assumed depreciation charges | **3,367** | 3,780 | 3,018 | **28,058** |
| Assumed interest charges | **290** | 466 | — | **2,417** |

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

(5) The excess amount of total lease payments over acquisition cost of leased property is deemed as accumulated interest expenses and allocated for each period on the basis of the interest method.

***Lessor:***

The Company and its subsidiary lease certain equipment under non-capitalized finance leases, as lessees and lease that equipment under non-capitalized finance leases, as lessors. Future minimum lease receipts under these non-capitalized finance and operating leases at March 31, 2003 and 2002 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Non-capitalized finance leases | **2003** | 2002 | **2003** |
| Due within one year | **¥ 683** | ¥1,031 | **$ 5,692** |
| Due after one year | **778** | 1,093 | **6,483** |
| | **¥1,461** | ¥2,124 | **$12,175** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| Operating leases | **2003** | 2002 | **2003** |
| Due within one year | **¥15** | ¥38 | **$125** |
| Due after one year | **—** | 17 | **—** |
| | **¥15** | ¥55 | **$125** |

## 15. SEGMENT INFORMATION

Information by segment for the years ended March 31, 2003, 2002 and 2001 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 | Software & Media business | Other business | Total | Eliminations and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| **2003:** | | | | | | | | |
| Sales | | | | | | | | |
| External sales | **¥674,970** | **¥70,953** | **¥47,576** | **¥167,525** | **¥ 6,616** | **¥967,640** | **¥ —** | **¥967,640** |
| Intersegment sales | **2,722** | **4,141** | **2,003** | **7,193** | **3,512** | **19,571** | **(19,571)** | **—** |
| Total sales | **677,692** | **75,094** | **49,579** | **174,718** | **10,128** | **987,211** | **(19,571)** | **967,640** |
| Operating expenses | **652,408** | **78,791** | **50,292** | **173,425** | **8,951** | **963,867** | **(18,526)** | **945,341** |
| Operating income (loss) | **¥ 25,284** | **¥ (3,697)** | **¥ (713)** | **¥ 1,293** | **¥ 1,177** | **¥ 23,344** | **¥ (1,045)** | **¥ 22,299** |
| Identifiable assets | **¥245,794** | **¥44,267** | **¥29,727** | **¥ 94,795** | **¥20,692** | **¥435,275** | **¥ 44,475** | **¥479,750** |
| Depreciation & amortization | **13,910** | **1,645** | **4,441** | **4,324** | **639** | **24,959** | **291** | **25,250** |
| Capital expenditures | **12,719** | **1,516** | **4,747** | **1,631** | **247** | **20,860** | **176** | **21,036** |

Millions of yen

| | Consumer electronics business | Professional electronics business | Components & Devices business | Software & Media business | Other business | Total | Eliminations and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| 2002: | | | | | | | | |
| Sales | | | | | | | | |
| External sales | ¥641,329 | ¥78,344 | ¥49,701 | ¥177,004 | ¥ 7,794 | ¥954,172 | ¥ — | ¥954,172 |
| Intersegment sales | 2,802 | 4,412 | 2,432 | 9,555 | 3,552 | 22,753 | (22,753) | — |
| Total sales | 644,131 | 82,756 | 52,133 | 186,559 | 11,346 | 976,925 | (22,753) | 954,172 |
| Operating expenses | 647,583 | 87,750 | 56,863 | 183,350 | 11,830 | 987,376 | (21,110) | 966,266 |
| Operating income (loss) | ¥ (3,452) | ¥ (4,994) | ¥ (4,730) | ¥ 3,209 | ¥ (484) | ¥ (10,451) | ¥ (1,643) | ¥ (12,094) |
| Identifiable assets | ¥263,357 | ¥46,418 | ¥32,216 | ¥114,121 | ¥17,981 | ¥474,093 | ¥39,272 | ¥513,365 |
| Depreciation & amortization | 15,442 | 1,764 | 4,585 | 5,083 | 821 | 27,695 | 305 | 28,000 |
| Capital expenditures | 10,808 | 2,300 | 3,852 | 2,701 | 1,449 | 21,110 | 65 | 21,175 |

Millions of yen

| | Consumer electronics business | Professional electronics business | Components & Devices business | Software & Media 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 |

| | Consumer electronics business | Professional electronics business | Components & Devices business | Software & Media business | Other business | Total | Eliminations and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Thousands of U.S.dollars |
| **2003:** | | | | | | | | |
| Sales | | | | | | | | |
| External sales | **$5,624,750** | **$591,275** | **$396,467** | **$1,396,042** | **$ 55,133** | **$8,063,667** | **$ —** | **$8,063,667** |
| Intersegment sales | **22,683** | **34,508** | **16,692** | **59,942** | **29,267** | **163,092** | **(163,092)** | **—** |
| Total sales | **5,647,433** | **625,783** | **413,159** | **1,455,984** | **84,400** | **8,226,759** | **(163,092)** | **8,063,667** |
| Operating expenses | **5,436,733** | **656,591** | **419,100** | **1,445,208** | **74,593** | **8,032,225** | **(154,383)** | **7,877,842** |
| Operating income (loss) | **$ 210,700** | **$ (30,808)** | **$ (5,941)** | **$ 10,776** | **$ 9,807** | **$ 194,534** | **$ (8,709)** | **$ 185,825** |
| Identifiable assets | **$2,048,283** | **$368,892** | **$247,725** | **$ 789,958** | **$172,434** | **$3,627,292** | **$370,625** | **$3,997,917** |
| Depreciation & amortization | **115,917** | **13,708** | **37,008** | **36,033** | **5,326** | **207,992** | **2,425** | **210,417** |
| Capital expenditures | **105,992** | **12,633** | **39,558** | **13,592** | **2,058** | **173,833** | **1,467** | **175,300** |

As explained in Note 2 "Employees' retirement benefits and pension plans", effective April 1, 2000, the Company 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, operating loss of Professional electronics business increased by ¥83 million, operating income of Components & Devices business decreased by ¥70 million, operating income of Entertainment Software & Media business decreased by ¥145 million, operating loss of Other business increased by ¥20 million and unallocated operating expenses increased by ¥1 million.

As explained in Note 3 "CHANGE IN ACCOUNTING METHOD", effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, external sales, operating expenses and operating income of Consumer electronics business increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand), ¥3,290 million ($27,417 thousand), respectively.

## 2) Geographical segment information is as follows:

| | Japan | Americas | Europe | Asia | Total | Elimination and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| **2003:** | | | | | | | |
| Sales | | | | | | | |
| External sales | **¥405,734** | **¥259,043** | **¥220,378** | **¥ 82,485** | **¥ 967,640** | **¥ —** | **¥967,640** |
| Intersegment sales | **261,732** | **155** | **1,204** | **201,717** | **464,808** | **(464,808)** | **—** |
| Total sales | **667,466** | **259,198** | **221,582** | **284,202** | **1,432,448** | **(464,808)** | **967,640** |
| Operating expenses | **656,536** | **256,500** | **215,806** | **279,253** | **1,408,095** | **(462,754)** | **945,341** |
| Operating income | **¥ 10,930** | **¥ 2,698** | **¥ 5,776** | **¥ 4,949** | **¥ 24,353** | **¥ (2,054)** | **¥ 22,299** |
| Identifiable assets | **¥317,020** | **¥ 78,768** | **¥ 76,406** | **¥ 87,126** | **¥ 559,320** | **¥ (79,570)** | **¥479,750** |

| | Japan | Americas | Europe | Asia | Total | Elimination and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| 2002: | | | | | | | |
| Sales | | | | | | | |
| External sales | ¥397,635 | ¥282,828 | ¥191,591 | ¥ 82,118 | ¥ 954,172 | ¥ — | ¥954,172 |
| Intersegment sales | 246,654 | 248 | 1,036 | 166,361 | 414,299 | (414,299) | — |
| Total sales | 644,289 | 283,076 | 192,627 | 248,479 | 1,368,471 | (414,299) | 954,172 |
| Operating expenses | 663,129 | 280,245 | 188,945 | 244,906 | 1,377,225 | (410,959) | 966,266 |
| Operating income (loss) | ¥ (18,840) | ¥ 2,831 | ¥ 3,682 | ¥ 3,573 | ¥ (8,754) | ¥ (3,340) | ¥ (12,094) |
| Identifiable assets | ¥338,843 | ¥ 93,275 | ¥ 72,262 | ¥ 75,958 | ¥ 580,338 | ¥ (66,973) | ¥513,365 |

| | Japan | Americas | Europe | Asia | Total | Elimination and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|
| | | | | | | | Millions of yen |
| 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 | ¥ 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 |

| | Japan | Americas | Europe | Asia | Total | Elimination and unallocation | Consolidated total |
|---|---|---|---|---|---|---|---|
| | | | | | | | Thousands of U.S. dollars |
| 2003: | | | | | | | |
| Sales | | | | | | | |
| External sales | **$3,381,117** | **$2,158,692** | **$1,836,483** | **$ 687,375** | **$ 8,063,667** | **$ —** | **$8,063,667** |
| Intersegment sales | **2,181,100** | **1,292** | **10,033** | **1,680,975** | **3,873,400** | **(3,873,400)** | **—** |
| Total sales | **5,562,217** | **2,159,984** | **1,846,516** | **2,368,350** | **11,937,067** | **(3,873,400)** | **8,063,667** |
| Operating expenses | **5,471,133** | **2,137,500** | **1,798,383** | **2,327,109** | **11,734,125** | **(3,856,283)** | **7,877,842** |
| Operating income | **$ 91,084** | **$ 22,484** | **$ 48,133** | **$ 41,241** | **$ 202,942** | **$ (17,117)** | **$ 185,825** |
| Identifiable assets | **$2,641,833** | **$ 656,400** | **$ 636,717** | **$ 726,050** | **$ 4,661,000** | **$ (663,083)** | **$3,997,917** |

As explained in Note 2 “Employees’ retirement benefits and pension plans”, effective April 1, 2000, the Company 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 and unallocated operating expenses increased by ¥1 million.

As explained in Note 3 “CHANGE IN ACCOUNTING METHOD”, effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, external sales, operating expenses and operating income of Japan increased by ¥7,356 million ($61,300 thousand), ¥4,066 million ($33,883 thousand), ¥3,290 million ($27,417 thousand), respectively.

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

| | Americas | Europe | Asia | Other area | Total |
|---|---|---|---|---|---|
| | | | | | Millions of yen |
| **2003:** | | | | | |
| Overseas sales | **¥268,674** | **¥229,222** | **¥133,024** | **¥7,172** | **¥638,092** |
| Consolidated sales | | | | | **¥967,640** |
| Ratio of overseas sales to consolidated sales | **27.8%** | **23.7%** | **13.7%** | **0.7%** | **65.9%** |
| 2002: | | | | | |
| Overseas sales | ¥299,512 | ¥197,621 | ¥123,883 | ¥5,193 | ¥626,209 |
| Consolidated sales | | | | | ¥954,172 |
| Ratio of overseas sales to consolidated sales | 31.4% | 20.7% | 13.0% | 0.5% | 65.6% |
| 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% |

| | Americas | Europe | Asia | Other area | Total |
|---|---|---|---|---|---|
| | | | | | Thousands of U.S. dollars |
| **2003:** | | | | | |
| Overseas sales | **$2,238,950** | **$1,910,183** | **$1,108,533** | **$59,767** | **$5,317,433** |
| Consolidated sales | | | | | **$8,063,667** |
| Ratio of overseas sales to consolidated sales | **27.8%** | **23.7%** | **13.7%** | **0.7%** | **65.9%** |

As explained in Note 3 “CHANGE IN ACCOUNTING METHOD”, effective April 1, 2002, the Company changed the method of accounting for royalty income. As a result, total overseas sales increased by ¥3,365 million ($28,042 thousand), and overseas sales of Americas, Europe and Asia increased by ¥2,741 million ($22,842 thousand), ¥69 million ($575 thousand), and ¥555 million ($4,625 thousand), respectively.

# Independent Auditors' Report

To the Stockholders and 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, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Victor Company of Japan, Limited and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion we draw attention to the following, as discussed in Note 2 to the consolidated financial statements, effective April 1, 2000, Victor Company of Japan, Limited and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments and employees' severance and retirement benefits and the revised Japanese accounting standard for foreign currency translation. Also, as discussed in Note 3, effective April 1, 2002, Victor Company of Japan, Limited changed the method of accounting for royalty income and related expenses.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Asahi & Co.

Tokyo, Japan
June 27, 2003