

### **Record high income booked as efforts for sweeping restructuring and concentrating on core businesses take hold**

Kenwood Corporation, which had continuously expanded its audio and radio communications businesses as core competences since its foundation, had kept its operating balance in the black even after Japan's bubble economy collapsed. The strong performance was achieved as the automotive electronics and wireless radio businesses offset unprofitable business areas such as home electronics, a matured sector, and CD-ROM drives and GSM, the Company's new business. However, it is true that these unprofitable businesses weighed on the Company's bottom line, and in the course of promoting measures to cope with the situation, the balance sheet deteriorated markedly. In fiscal 2000 (ending March 2001), the Company booked an extraordinary loss as a result of the withdrawal from new businesses, and in the following year it posted another extraordinary loss due to evaluation losses as deflation worsened. Hurt by these negative legacies, the Company stated its negative net worth\*<sup>1</sup> at 17.0 billion yen, interest-bearing debt\*<sup>1</sup> at 110.1 billion yen and a loss carryforward\*<sup>2</sup> of 44.6 billion yen as of the end of March 2002. Against this backdrop, corporate management restructuring was a pressing task for the Company.

Under such circumstances, I assumed the Kenwood presidency at the end of June 2002. There have been many Japanese corporations whose performance became sluggish as their industry matured, but I believe that such an industry is intrinsically quite attractive. In the matured field, no growth is expected, but a large and stable market already exists. While an increasing number of companies are withdrawing from this industry due to declined profitability, it is difficult for new entrants, because, in this industry, resources such as technologies, facilities and sales networks have generally been established and brand presence has been built, constituting an extremely high barrier for entrants.

To eliminate the past negative legacies as soon as possible and restructure the Company by leveraging the benefits of a mature industry, we formulated our "Revitalization Action Plan" in July 2002 (immediately after I became CEO), under which the entire staff is striving to achieve drastic restructuring of finances, business, costs and the industry. As a result, we were able to eliminate the negative net worth in December 2002 and completed various restructuring measures within nine months. In fiscal 2002 (ended March 31, 2003), the Company booked the largest consolidated net income in its 57-year history.

### **Enhancement of competitiveness enabled a V-shaped recovery in net income and elimination of the past negative legacies**

As earlier mentioned, the Company had completed various restructuring measures as part of the "Revitalization Action Plan" by the end of March 2003, and shifted its management priorities to a new leap forward as the reborn Kenwood. In May 2003, aiming to become one of the world's truly excellent companies, the Company drafted its midterm business plan, the "Excellent Kenwood Plan" that focuses on the business domain of "Mobile & Home Multimedia System," which is expected to be the most promising field in the 21st century."

In fiscal 2003, the initial year for the midterm plan, the effects of restructuring efforts, which were completed in the previous year, together with the result of production innovations launched in March 2003 to further improve profits and cash flows, clearly contributed to the Company's earnings for the whole year. As a result, net income rose substantially to a record high for two consecutive years, literally achieving a V-shaped recovery. Managing to reduce loss carryforward and interest-bearing debt significantly, the balance sheet also became healthier, as the Company took its first step towards becoming a truly excellent company.

Aiming to drastically strengthen its financial and capital structure, the Company in May 2004 formulated the "New Financial Strategy," which involves the simultaneous execution of four measures: entirely eliminating loss carried over; retiring preferred stock through public offering; terminating the repayment agreement through refinancing; and substantially reducing interest-bearing debt. The Company completed this unprecedented scheme (for Japan) by the end of August 2004. This accomplishment translated into a dramatic improvement in its financial basis, a big step toward attaining three of the four objectives set in the midterm business plan: "Excellent Kenwood Plan." The three goals are to "achieve a 20% return on equity (ROE)," "resume dividend payments" and "implement zero net-debt business management."

We could complete the above-mentioned scheme thanks to the understanding and support of every shareholder, financial institution as well as the other stakeholders. Taking this opportunity, I would like to express my heartfelt gratitude to you.

## Promotion of growth strategy led us to shift our management priorities to full-scale growth for a new leap forward

As described above, departing from the past negative legacies, the Company shifted its management priorities to a full-scale growth. To achieve an operating income margin of 10%, the remaining objective of the midterm business plan: "Excellent Kenwood Plan," the Company will proactively carry out measures to grow in fiscal 2004 (ending March 31, 2005), the second year of the midterm plan. To this end, the Company, with "strategic investment" as its basic policy, will develop new products and innovative technologies that are competitive, strengthen the brand name to increase the corporate presence worldwide and enhance human resources to bolster its business promotion capabilities and aggressively proceed the "M&A Strategy."

In June 2004, as part of its M&A strategy, the Company acquired the radio operations of Toyo Communication Equipment Co., Ltd. to further reinforce the communications business, centering on domestic operations. In October, as part of its brand strategy, the Company defined its "Principle"<sup>\*3</sup> and "Core Value,"<sup>\*3</sup> by further developing the corporate vision: "Reaching out to discover, inspire and enhance the enjoyment of life." To further increase the



presence of the Kenwood brand, the Company also redefined the method for promoting the brand logo and decided on a "Brand Statement."<sup>\*3</sup> On top of this, the Company will continue to provide the West McLaren-Mercedes team with radio systems for the Formula One (F1) world auto-racing championship, as an official supplier, aiming to promote its brand with high technology and reliability by playing a role in leading this team to victory in these highly demanding races. Furthermore, the Company will commercialize flagship models that are appropriate for the new corporate vision, with which it will make an appeal to the world for the reborn Kenwood.

The Company is promoting the growth strategy in its three core businesses through proactive development and investment, aiming to further strengthen the audio and radio communications fields, its core competences. Consequently, the Company has already materialized the networking of home audio systems and personal computers, and commercialized home audio equipment that is compatible with online (web-based) music distribution services. The Company is now working on networking of home audio systems and automotive electronics, commercialization of new car-navigation and car-multimedia systems by integrating PCs, networks and home audio equipment based on proprietary Kenwood technologies, and production of business-use digital radio equipment that is compatible with the U.S. APCO standard. Through this move, the Company will make the framework of the core businesses seamless and create a new sound entertainment and mobile world, aiming to establish the Mobile & Home Multimedia System business, which is designed to provide customers with fresh innovations and impressions."

In proceeding with these measures for growth, we will increase the transparency of our corporate management and strengthen accountability so that all the stakeholders, including the shareholders, investors, financial institutions and customers, can understand well what we are doing. The Company will also strive to contribute to the public good through its business operations as well as to improve corporate value. We appreciate your continued understanding and support.

**Haruo Kawahara, President & CEO**

A handwritten signature in black ink, reading "H. Kawahara". The signature is fluid and cursive, with a long horizontal stroke at the end.

<sup>\*1</sup> Consolidated figures posted as of the end of March 2004

<sup>\*2</sup> Non-consolidated figures registered as of the end of March 2004

<sup>\*3</sup> "Principle" "Core Value" and "Brand Statement" are described on page 3.