Haruo Kawahara, President & CEO

## "V"-shape recovery accomplished as efforts for sweeping restructuring and concentrating on core businesses take hold

Kenwood Corporation, which had continuously expanded its audio and wireless radio businesses as its main areas of expertise 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 car electronics and communications equipment businesses offset unprofitable areas such as home electronics and new businesses. However, it is true that these unprofitable businesses weighed on the Company's business conditions, and the balance sheet deteriorated markedly due to an extraordinary loss as a result of the withdrawal from new businesses and an extraordinary loss due to evaluation losses as deflation worsened. Hurt by these negative legacies, the Company stated its negative net worth at 17.0 billion yen[*1], interest-bearing debt at 110.1 billion yen[*1] and a cumulative loss of 44.6 billion yen[*2] as of the end of March 2002. Against this backdrop, corporate management restructuring was a pressing task for the Company.

There have been many Japanese corporations whose performance became sluggish as their industry matured, but I believe that such industries are intrinsically quite attractive. In a 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 reduced 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 under which all the staff strived to achieve drastic restructuring of finances, business, costs and the management of the Company. 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 year ended March 31, 2003, the Company booked the largest consolidated net income in its history, achieving a "V"-shape recovery in net income.

## The first mid-term business plan "Excellent Kenwood Plan" —enhancement of competitiveness and promotion of growth strategy enabled us to sweep away the past negative legacies

As earlier mentioned, the Company had completed various restructuring measures by the end of March 2003, and shifted its management priorities aiming for 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 first mid-term business plan, the "Excellent Kenwood Plan" that focuses on the business domain of "Mobile & Home Multimedia System," which is expected to be one of the most promising fields in the 21st century.

In fiscal year ended March 2004, the initial year of the first mid-term business plan, the Company focused on "Production Innovation" to improve the profitability and cash flows, while enhancing its consolidated management system. As a result, net income rose to a record high for two consecutive years. Managing to reduce cumulative loss and interest-bearing debt significantly, the balance sheet also became healthier, as the Company took its first step towards becoming an excellent company.

In fiscal year ended March 2005, the second year of the mid-term business plan, the Company promoted the "New Financial Strategy," which involves the simultaneous execution of four measures: entirely eliminating cumulative loss; redeeming half of the preferred stocks through public share 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 and capital structure. As a result, the Company was able to achieve the goal of resuming dividend payments, one of the four objectives set in the first mid-term business plan, one year ahead of schedule. In addition, we have the prospect of accomplishing two other goals; "achieving a 20% return on equity (ROE)" and "implementing zero net-debt business management."

In fiscal year ending March 2006, the final year of the first mid-term business plan, we made efforts to redeem the remaining half of the preferred stocks and we completed the redemption of all preferred stocks issued through a debt-for-equity swap to eliminate the negative net worth by the end of August 2005, producing a healthier balance sheet and an increase in shareholder value.

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

With the completion of this redemption of preferred stocks, the Company broke free from its past negative legacies, shifting its management priorities to full-scale growth.

In fiscal year ended March 2005, the Company pushed forward its growth strategy through measures such as strategic investment of about 4 billion yen as well as strategic partnership and M&A to prepare for the final year of the first mid-term business plan in fiscal year ending March 2006. However, the Company was forced to revise the goal of achieving an operating profit margin of 10%, the remaining objective of the first mid-term business plan, due to such factors as fluctuations in foreign exchange rates and dramatic changes in the consumer electronics market environment, and reformed its business structure to address these changes and implement measures such as strategic investment. As a result, we initiated our new efforts after formulating the second mid-term business plan, the "Value Creation Plan," in May 2005 rather than waiting for the final year of the first mid-term business plan. While implementing the second mid-term business plan, we will strive to become one of the most profitable companies in the industry through significant growth and reconstruction of revenue base and enhance corporate value to join the billion-dollar club at an early stage.

### The second mid-term business plan "Value Creation Plan" —working on the strategy to enhance corporate value for the purpose of joining billion-dollar club to realize significant growth and become one of the most profitable companies in the industry

In fiscal year ending March 2006, the first year of the second mid-term business plan, we will enhance the revenue base with the car electronics consumer (audio) and wireless radio equipment businesses as our core operations. Based on this, the Company will restructure the profit structure of the car electronics OEM and car multimedia (consumer) businesses, two of the growing businesses, and dynamically overlay it on top of that of the stable businesses. In addition, we will embrace the digitization of music media as a new business opportunity. Combining these businesses together, we will create a new sound entertainment business, primarily in home electronics.

To achieve the above-mentioned goal, we will further accelerate our growth strategy through such measures as enhancing strategic development in each business and strengthening marketing systems in new markets, centering on the BRICs nations, as well as fully-utilizing surplus funds, by for example, reinvesting in each business including M&As.

Looking ahead, we recognize the development of technology in the field of digital, network, wireless and multimedia as a new business opportunity. As the sole manufacturer that simultaneously operates in the three businesses of car electronics, communications equipment and home electronics, we will strive to combine our technology in the audio visual field that we have nurtured over the years with the cutting-edge digital network technology to expand seamless entertainment of home-use, mobile and car-mounted equipment, as well as promote networking with PCs and the Internet. Through these measures, we will actively strive to develop new businesses that match our target Mobile & Home Multimedia System business and create added value for the marketplace.

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.

*1 Consolidated figures posted as of the end of March 2004
*2 Non-consolidated figures registered as of the end of March 2004