



Haruo Kawahara, President and CEO

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

“V”-shape recovery and resumption of dividend accomplished as efforts for sweeping restructuring and concentrating on core businesses take hold

Kenwood Corporation has expanded its businesses based on its core competences of “sound” and “wireless radio communications” ever since its foundation. The strong performance in the car electronics and wireless radio equipment businesses enabled the Company to keep reporting operating profit even after the collapse of Japan’s bubble economy. However, mature Home Electronics business and new businesses weighed on the Company, and prompted the Company to implement structural reforms at the end of March 2002.

There have been many Japanese corporations whose performance became sluggish as their industry matured, but I believe that such industries are intrinsically quite attractive. Mature fields, which are not expected to grow, have large and stable markets that have been already established and that have accumulated resources such as technologies, facilities, sales networks, and brand presence.

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 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 2002 (ended March 31 2003), the Company booked the highest consolidated net income in its history, achieving a “V”-shape recovery, and realizing resumption of dividend in June 2005.

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 and complete the reforms on the financial base and capital structure

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 2003, the initial year of the first mid-term business plan, the Company focused on "Production Innovation" to improve its profitability and cash flows, while enhancing its consolidated management system. As a result, the Company posted record net income for two years running. In addition, the Company strengthened its balance sheet by significantly reducing cumulative loss and interest-bearing debt.

In fiscal 2004, 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 stock through public offering; terminating the repayment agreement through refinancing; and substantially reducing interest-bearing debt. The Company completed this unprecedented scheme (for Japan). 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 fiscal 2005, the final year of the first mid-term business plan, the Company made efforts to redeem the remaining half of the preferred stock, and 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. The Company substantively accomplished its goals of, "ROE of 20%" and "interest-bearing debt of 30 billion yen or less," completely reformed its financial base and capital structure, and managed to put an end to a series of structural reforms that it had addressed since fiscal 2002. 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.

The second mid-term business plan "Value Creation Plan" efforts to enhance the corporate value by promoting growth strategy and reforming profit structure

Kenwood, which made a clean break with its negative past legacy upon completion of its structural reforms, moved into a full-scale growth stage and started new efforts in accordance with the second mid-term business plan "Value Creation Plan," which it formulated in May 2005.

The purpose of this plan was to join the billion-dollar club at an early stage by pursuing a strategy to enhance corporate value toward new growth and increased profitability.

Concretely speaking, Kenwood will increase sales and profits in the core businesses of Car Electronics Consumer (Audio) and communications Equipment businesses, add a reformed profit structure of growing Car Electronics OEM and Car Electronics Consumer (Multimedia) businesses to them, promote structural reform of the Home Electronics business by taking the spread of digital media and the advance of digital and network environment as a new business opportunity, and create a new "seamless sound entertainment" that links home audio and car audio with digital media.

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 BRIC nations, as well as fully-utilizing surplus funds as reinvestments in each business including M&As.

Moreover we will actively strive to develop new businesses that match our target "Mobile & Home Multimedia System" business and create added value for the market.

Kenwood is celebrating its 60th year in business in December 2006. We sincerely express our gratitude for the longstanding support and understanding of all the stakeholders including the shareholders, investors, financial institutions, and customers. We will promote more highly transparent management, try to enhance the corporate value, and contribute to the public good through our business operations. Your continued understanding and support would be appreciated.