Haruo Kawahara, Chairman

Kazuo Shiohata, President and CEO

Efforts to create corporate value by promoting growth strategy and enhance the corporate value beyond the limit of Kenwood's own —A historical first step toward reform of the industry—

Kenwood, which made a clean break with its negative past legacy upon completion of its corporate revitalization, moved into a full-scale growth stage and is driving forward 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 the corporate value toward new growth and increased profitability. Concretely speaking, Kenwood will promote structural reforms for an earnings turnaround of the Car Electronics and Home Electronics businesses in response to market changes, as well as increase sales and profits of the Communications Equipment business, our largest earnings base.

In the previous fiscal year, Kenwood completed its preparations for investments in strategic development and advanced technology, sales expansion and earnings turnaround, and the time has finally come to put its existing businesses on track for new growth, focusing on its core business areas by managers of the next generation. At the same time Kenwood has started to accelerate its growth beyond the limit of its own with the Chairman being responsible for strategic initiatives aimed at the medium- and long-term creation and enhancement of the corporate value.

On May 10, the conversion of Zetron, Inc., a U.S. systems-based communications company, into a subsidiary was completed with the aim of expansion in the Land Mobile Radio business by deployment ranging from wireless terminal to system solution. Along with this effort, on July 24, Kenwood concluded a capital and strategic business alliance with Victor Company of Japan with the goal of new evolvement into the world's strongest car electronics manufacturer and home audio manufacturer appropriate for the digital/network era. Aiming to integrate their management early, in addition to the further creation and enhancement of the corporate value of both companies, we have taken a new, historical step toward the reform of Japanese specialty manufacturers.

Thus 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.

Overview of the current management

"Kenwood Revitalization Action Plan" in fiscal 2002

"V"-shape recovery accomplished as efforts for drastic structural reforms and concentrating on core businesses take hold

The Kenwood Group has expanded its businesses based on its core competences of "sound" and "wireless communications" ever since its foundation. The strong performance in the car electronics and wireless radio equipment businesses enabled Kenwood to keep reporting operating profit even after the collapse of Japan's bubble economy. However, mature Home Electronics business and new businesses weighed on Kenwood, and prompted Kenwood 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 we 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 Kenwood 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 Kenwood. 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 2003), Kenwood booked the highest consolidated net income in its history, achieving a "V"-shape recovery.

The first mid-term business plan "Excellent Kenwood Plan" from fiscal 2003 to fiscal 2005

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, Kenwood 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, Kenwood 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, Kenwood focused on "Production Innovation" to improve its profitability and cash flows, while enhancing its consolidated management system. As a result, Kenwood posted record net income for two years running. In addition, Kenwood 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, Kenwood 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. Kenwood completed this unprecedented scheme (for Japan). This accomplishment translated into a dramatic improvement in its financial basis and capital structure. As a result, Kenwood was able to achieve the goal of resuming dividend payments, set as an objective of the first mid-term business plan, one year ahead of schedule.

In fiscal 2005, the final year of the first mid-term business plan, Kenwood 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. Kenwood 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.

A new trend of management

The Kenwood Group believes that, in mature industries where competition is fierce, M&A and business alliances enable the parties involved to achieve growth at a faster pace than when such parties attempt to grow independently, and therefore constitute effective means of creating and enhancing their corporate value. For this reason, Kenwood has been reviewing various options for the enhancement of the global competitiveness of the Japanese consumer electronics industry, taking into consideration possible realignment of the industry.

For first step of above plan, on July 24, the Kenwood Group established with JVC a strategic business alliance through an investment in an amount which will not exceed the equity method threshold (thereby increasing the shareholding ratio of Kenwood to 17%). Through this agreement, JVC will not be subject to consolidation with the Kenwood Group, and through a relationship in which the business performance of the two companies shall not directly affect each other, will be implemented in such a way that is believed to offer prospects for development of a significant synergy effect for both companies early on. In other words, Kenwood can expect synergy effect in Car Electronics and Home Electronics businesses, two of its three core businesses, which in turn produces nearly 70% of the net sales. In particular, by combining JVC's consumer (audio) business with the Kenwood's consumer (audio) business which constitutes approximately one-half of its overall Car Electronics business, accounting for 60% of net sales of Kenwood, the scale of the business will double and achieve the largest market share in the world.

A significant synergy effect, such as enhanced cost competitiveness, is also expected from economy of scale in the consumer (multimedia) business (including car navigation and home/portable audio systems) through joint development, joint materials procurement and mutual manufacturing services by a joint venture, etc.

The second step then will be to follow through and ensure the stable management and performance of both companies, and continue to examine progress with an aim toward integration of the management of both companies in a spirit of equality.