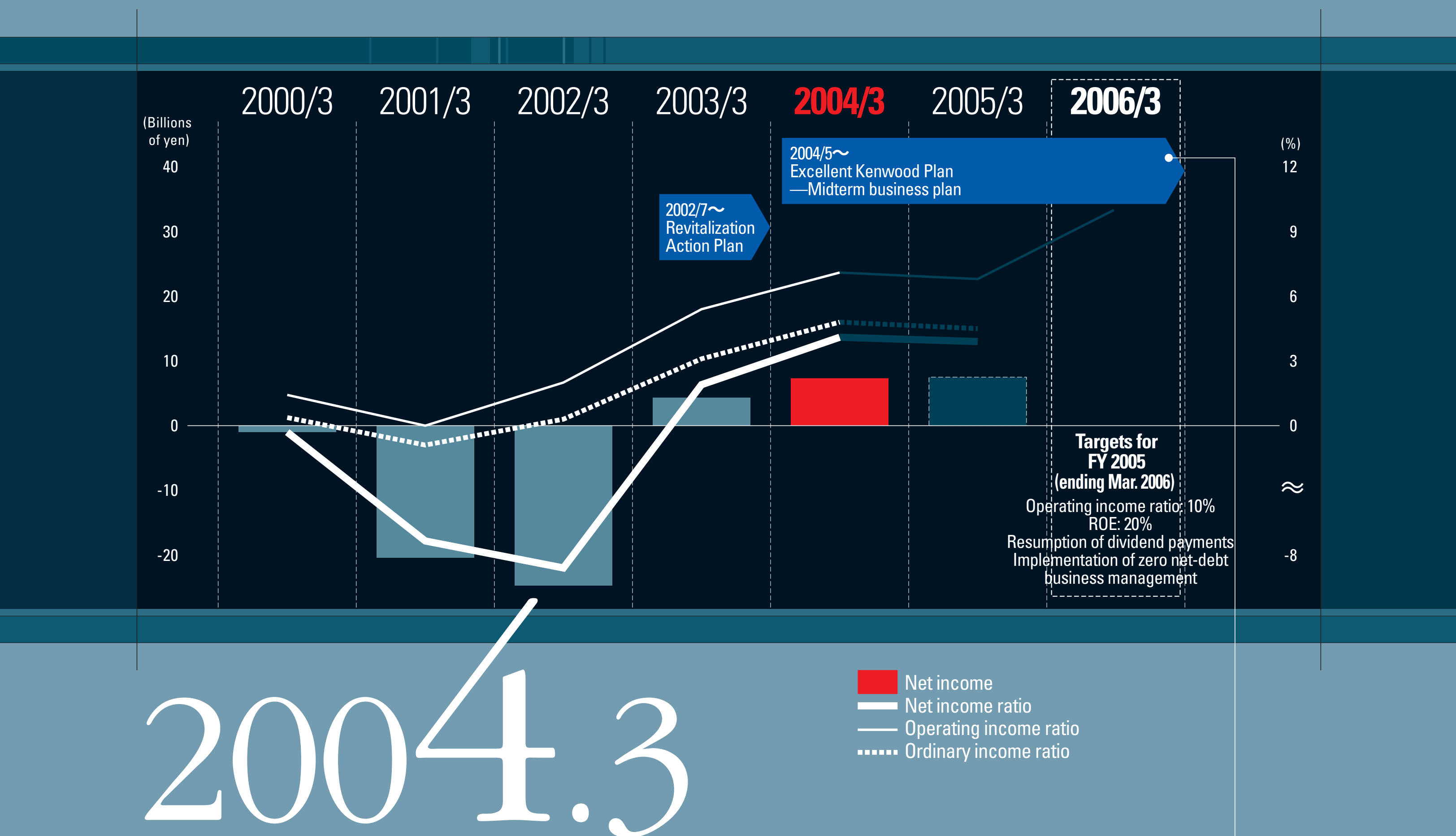
Kenwood achieved a V-shaped recovery, while eliminating the past "negative legacies" —Fiscal year through March 2004

In fiscal 2002, the Company completed restructuring measures under the plan called "Revitalization Action Plan" and shifted its management priorities to regeneration, revitalization and a new leap forward, as a reborn Kenwood. In May 2003, the Company devised its three-year midterm business plan "Excellent Kenwood Plan" for fiscal 2003 to 2005, aiming to become a "world's truly excellent company," while focusing on the business domain of "Mobile & Home Multimedia Systems," 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 the four restructuring phases 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, the Company booked a record high consolidated and non-consolidated net income in its 57-year history, for the second consecutive year. On top of this, managing to reduce loss carried forward and interest-bearing debt significantly, the balance sheet also became healthier, as the Company took its first step towards becoming a truly excellent company.



"Excellent Kenwood Plan" —Midterm business plan

The Company drafted its midterm business plan "Excellent Kenwood Plan" starting fiscal 2003 (ended March 2004) through 2005 (ending March 2006), as a step towards regeneration, revitalization and a new leap forward.

This plan is designed so that Kenwood will regenerate itself by breaking with the past and become one of the "world's truly excellent companies" with the brand image of innovation and intelligence in "Mobile & Home Multimedia Systems," one of the most promising fields in the 21st century, as part of its vision of "Reaching out to discover, inspire and enhance the enjoyment of life." To this end, the Company intends to dramatically improve its competitiveness and profitability, by allocating profits earned as a result of the progress of production innovation and other systematized management for reinvestment in developing new products and technologies, strengthening the brand name and "sharing profits among employees," while expanding audio and radio communications businesses as core competences to the greatest extent.

Production innovations-Best practice reflected on all production sites at home and abroad

In March 2003, the Company launched a production innovation project to further improve profits and cash flows through "Kenwood Quarter QCD (quality, cost and delivery) Revolution"-the supply chain management (SCM) overhaul targeting production, marketing and technology. The themes of the project were "revival of domestic plants to outdo Asian peers" and "reinforcing overseas plants' competitiveness."

The best practical example for the project was the return of the production of portable MD players for the Japanese market from the Malaysian plant to the factory in Yamagata (Japan), where manufacture resumed in September 2003. The move resulted in a reduction in costs, a substantial cut in the lead time from manufacturing to marketing, and a decrease in the percentage of defective products, which helped turn a profit in the home electronics business in the second half of the year and contributed to improving cash flows.

In a similar move, the Company shifted the production of "Theater Navi," a high potential audio-visual hard disc navigation system, from the Nagano plant to the Yamagata factory, where manufacture of the product started in January 2004, while positioning the Nagano plant as the main production center of OEM car electronics products. This production innovations were adopted in the car electronics business. Through these moves, the Company established a system to propagate best practice methods at all manufacturing bases both in Japan and overseas.

As a result, inventories decreased approximately 7.7 billion yen from the previous year. Cash flows from operating activities increased about 17.1 billion yen, marking a significant improvement, due to cuts in inventories, a sharp rise in net income and a reduction in accounts receivable due to restructuring of marketing functions. In addition, indirect fixed costs and direct processing costs declined, wastage costs decreased thanks to improved product quality, and procurement costs went down owing to innovative procurement activities. Reduction in these costs translated into an increase in earnings for every business division.

Development of new product lines

The Company strove to develop new product lines leveraging its core competencies, "audio" and "radio communication" technologies, aiming to establish the "Mobile & Home Multimedia Systems" business.

In the car electronics business, the Company enjoyed strong sales of DVD theater systems that use proprietary audio and multimedia technologies, as well as "Theater Navi," an audio-visual hard disc navigation system that integrates DVD theater and automotive navigation systems for the domestic market. The Company strengthened its multimedia equipment lines, through development of tuners for digital satellite broadcasting (provided by Sirius Satellite Radio, Inc. of the United States) and the first civilian use of tuners for terrestrial digital broadcasting high definition radios, both for the U.S. market. Sales of multimedia and mechanical systems fared well, and the Company stepped up their production. Accordingly, its OEM business expanded remarkably.

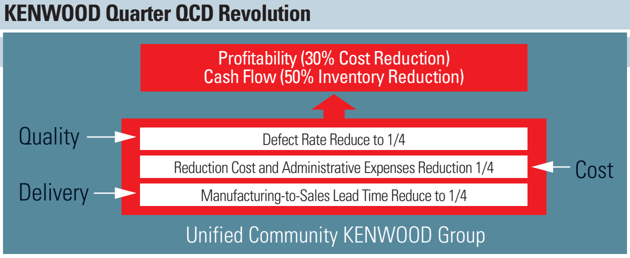
In the communications business, the Company focused on developing digital radio communication terminals and radio communication systems in response to the digitalization wave affecting radio communication domain.

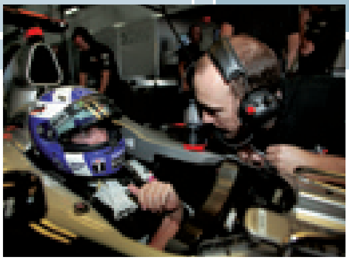
In the home electronics business, the Company, concentrating its efforts on home theater systems, pure audio equipment and portable audio devices, developed digital amplifiers with high quality and next-generation network-based audio systems, as well as products with excellent tone quality by stepping up research on tone quality.

Reinforcement of the brand

After its start as a reborn Kenwood, the Company strove to rebuild its brand, aiming to increase its global presence. In January 2004, the Company launched a brand management project, in which Group staff around the world joined, to work on a brand strategy to provide new value to the market. The Company also signed an official supplier contract with McLaren-Mercedes Racing to provide the renowned team with its radio communication equipment for the Formula One (F-1) world auto-racing championship.

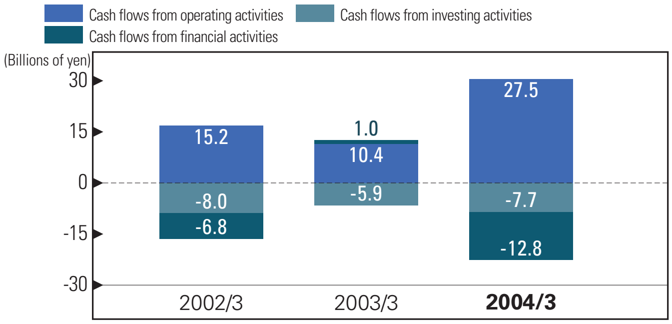
KENWOOD Quarter QCD Revolution



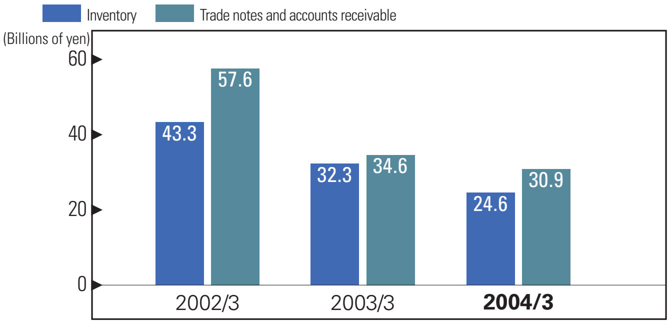


Transceiver system provided to West Maclaren Mercedes Team, as an official supplier

Transition of cash flow



Transition of inventory and receivables



Results and expansion of restructuring

■Corporate restructuring

As a result of business restructuring implemented the previous year, consolidated sales for the communications and home electronics businesses decreased about 28.6 billion yen from the previous year. However, operating income margin of the communications business rose 5.3 percentage points year-on-year to 13.7%. Meanwhile, the home electronics business saw profitability improve significantly and it turned a profit in the latter half of the year, due partly to robust sales of products introduced in the summer 2003 after its corporate makeover.

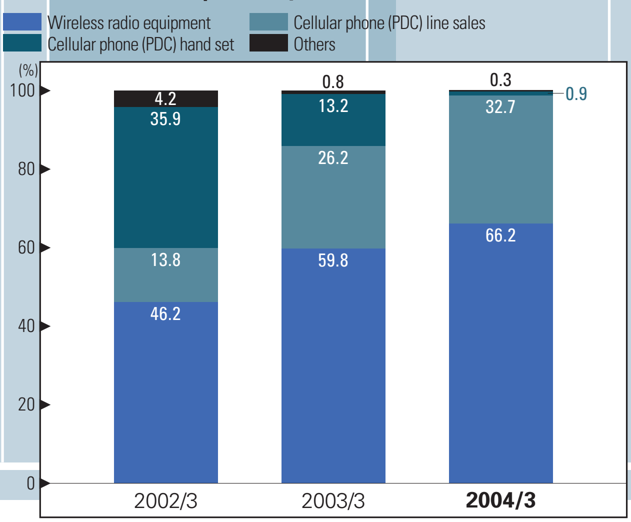
■Cost restructuring

The Company lowered fixed costs by approximately 20.7 billion yen from a year earlier, through closures, divestments and reorganizations of production sites, realignments of its marketing structure and domestic affiliates, under its business restructuring initiative. As a result, its profitability was enhanced, with the cost-to-sales ratio standing at 70.7%, an improvement of 1.3 percentage points from the preceding year.

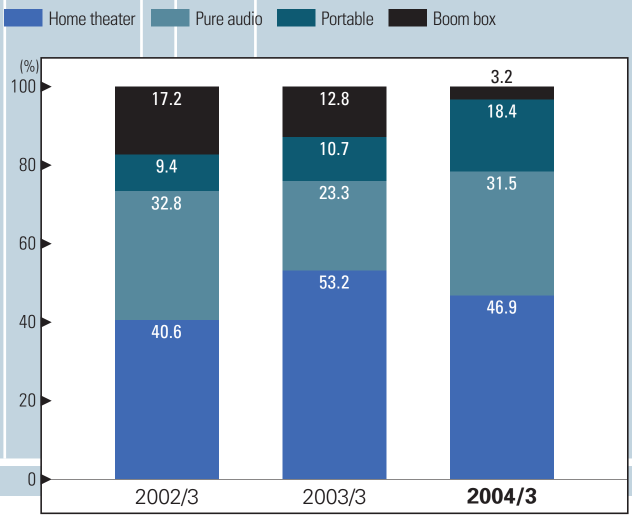
■Management restructuring

Under the consolidated management system adopted in the previous year, the Company developed a "systematized management" featuring more precise management based on numerical data. To this end, it strengthened its consolidated operations from production to marketing, and implemented

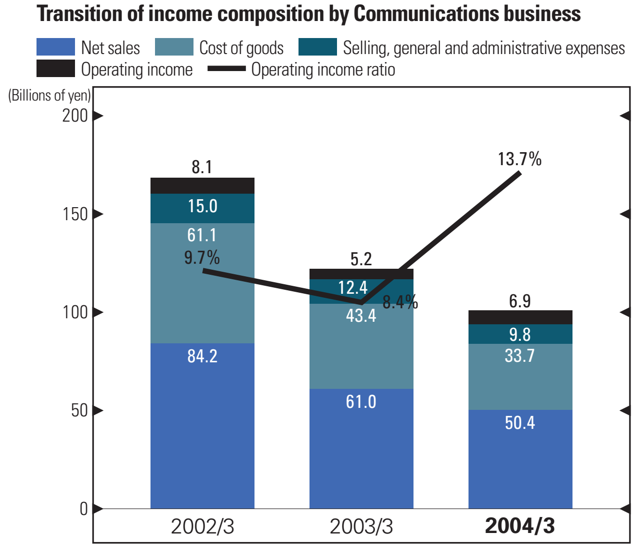
Transition of sales composition by Communications business



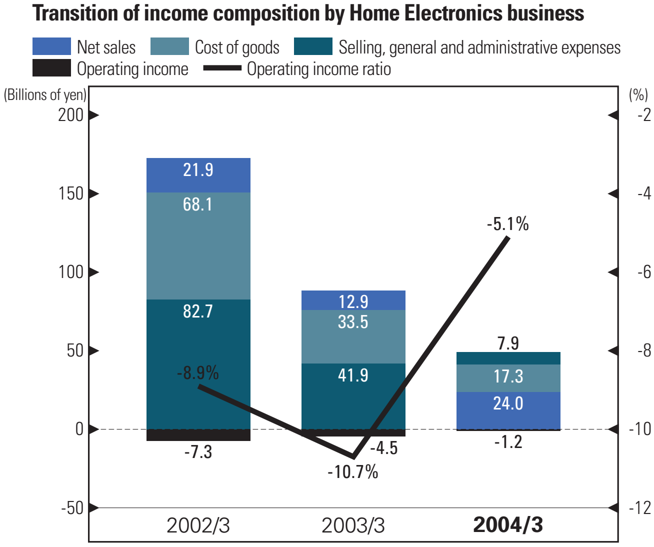
Transition of sales composition by Home Electronics business



Transition of income composition by Communications business



Transition of income composition by Home Electronics business



organizational reforms and various measures for affiliated firms to enhance competitiveness and ability to respond to market change. In view of making the use of resources on a consolidated basis more efficient, improving SCM and increasing CS, the Company further accelerated the reorganization of domestic affiliates, merging Kenwood Service Corporation, an after-sales service subsidiary, and Kenwood Logistics Corporation, a distribution unit, in January 2004.

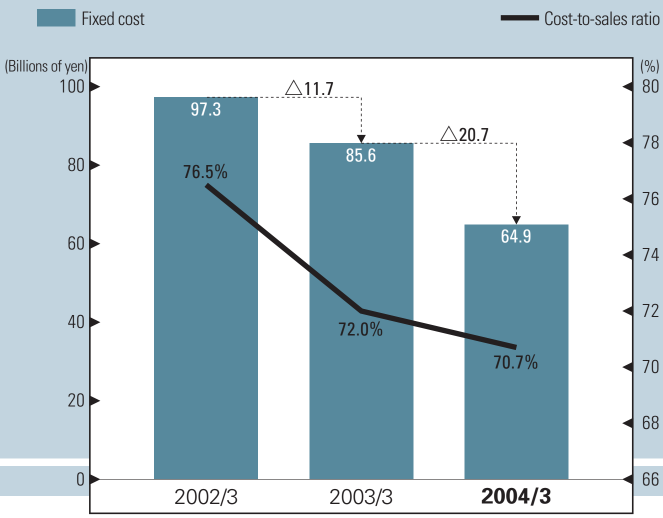
■Financial restructuring

Cash flows from operating activities increased about 17.1 billion yen, or some 170%, from a year earlier, to 27.502 billion yen, due mainly to a reduction in inventories through production innovations, increased net income and contraction in accounts receivable thanks to the reforms in marketing structure that started during the previous year.

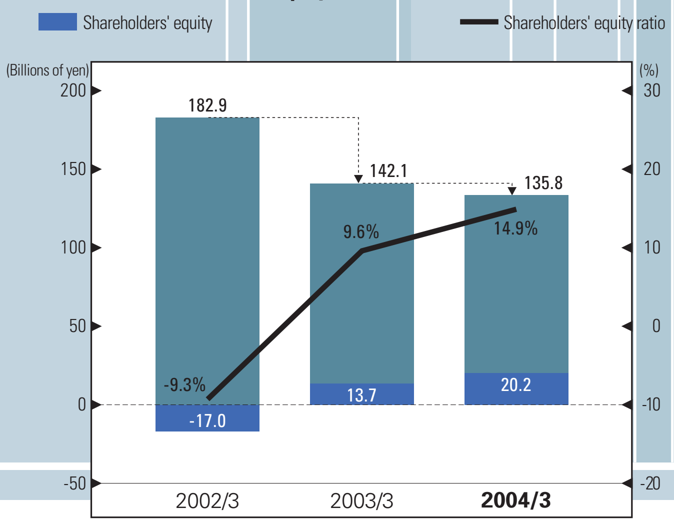
Consolidated interest-bearing debts fell around 13.6 billion yen to 67.272 billion yen, owing to an active repayment of borrowings supported by strong cash flows, and net debts were 29.885 billion yen, achieving the initial target of 30.0 billion yen or less.

Loss carried forward decreased about 24.5 billion yen to 9.777 billion yen, due to the disposition of additional paid-in capital that was enhanced with increase of capital through a third-party allocation of new shares and a debt-for-equity swap in the previous year, as well as a record net income for the second straight year. Shareholders' equity increased some 6.5 billion yen year-on-year to 20.161 billion yen, and the equity ratio gained 5.3 percentage points to 14.9%, by the end of the fiscal year.

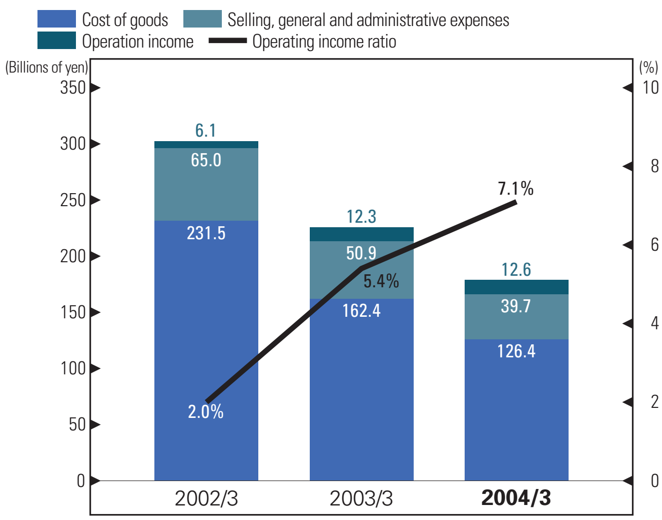
Transition of fixed cost composition



Transition of shareholders' equity



Change of cost and expenses composition



Transition of accumulated losses and interest bearing debt