Annual Summary Report (Consolidated)
for the fiscal year from April 1, 2002 to September 30, 2002

November 15, 2002

Company Name : Kenwood Corporation
Code No. : 6765
Representative : Haruo Kawahara, President
Inquiries : Masanobu Waku, Manager of Investors Relations Office, Strategic Business Planning Divison
Tel : (0426)46-1384

Date of the board of directors' meeting for the approval of the consolidated accounts : November 15, 2002

1. Consolidated Annual Performance in fiscal year 2003 (April 1, 2002 ~ September 30, 2002)

(1) Operations

	Net Sales		Operating Income		Ordinary Income	
	¥Million	%	¥Million	%	¥Million	%
Sep., 2002	118,016	-14.5	4,626	425.1	2,301	-
Sep., 2001	138,048	0.9	881	-50.0	-1,069	-

	Net Income		Net Income per share		Net Income per share after adjustment for latent shareholdings
	¥Million	%	¥		¥
Sep., 2002	863	-	4.69	-	-
Sep., 2001	-11,056	-	-74.04	-	-

Notes :
1) Profit or Loss on equity method investments — Sep., 2002 ¥ -44Million; Sep., 2001 ¥ 65Million
2) Average number of shares in fiscal year (Consolidated) — Sep., 2002 183,923,561; Sep., 2001 149,335,643
3) Change of Accounting Principles None
4) Percentages of Net Sales, Operating Income, Ordinary Income, Net Income mean the ratio versus the semi-annual amount of the last fiscal year

(2) Consolidated Financial Situation

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per share
	¥Million	¥Million	%	¥
Sep., 2002	152,195	-16,966	-11.1	-92.27
Sep., 2001	188,390	-3,783	-2.0	-20.56

(3) Consolidated Cash Flow

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the end
	¥Million	¥Million	¥Million	¥Million
Sep., 2002	5,826	-1,347	59	26,042
Sep., 2001	1,520	-3,857	1,895	20,250

(4) Basis of consolidation and application of equity method (Number of companies)

Consolidated Subsidiaries : 53
Equity Method : Unconsolidated Subsidiaries 1
Affiliates 0

(5) Change of basis of consolidation and application of equity method (Number of companies)

Consolidation : (New) 1 (Exclusion) 1
Equity Method : (New) 0 (Exclusion) 0

2. Forecast for fiscal year 2003 (April 1, 2002 ~ March 31, 2003)

	Net Sales	Ordinary Income	Net Income
	¥Million	¥Million	¥Million
Mar., 2003	230,000	6,400	4,800

Ref. : Forecast of Net Income per share ¥ 26.10

Managerial Policy

1. Principal Managerial Policy

As we complete the restructuring process before the end of this business term, we look forward to enjoying a V-shaped recovery and "Creating excitement through surprising ideas" as we rebuild Kenwood into a leading global enterprise.

The Company started a fundamental restructuring immediately following the switch to the new management organization in June this year, under a new corporate vision of **"Creating excitement through surprising ideas"**.

In the subsequent three months to the end of the current semi-annual business term, the Company completed all the measures of the "Fundamental Rebuilding Plan", and expects to complete group-wide restructuring by the end the current term. We are confident that our performance will follow a V-shaped rebound by the end of the current 74th business term. After undergoing a rigorous restructuring, the Company is entering a new phase, creating and supplying products and services that will convey sound and messages that reach people's hearts.

We shall make "creative and intelligent" the key brand image of Kenwood's many products, and shall make the Company one of the recognized leaders in the field of mobile & home multimedia systems, which has great potential in the 21st Century.

2. Major Managerial Actions

(1) A**ction plans under the "Fundamental Rebuilding Plan" to be completed before the end of the first half of the current fiscal year.**

The Company has been restructuring every aspect of the organization, involving all employees. All measures proposed under the "Fundamental Rebuilding Plan" announced on July 11, 2002, which were scheduled to be completed as the first step within the fiscal half, have largely been completed three months ahead of schedule for Kenwood Corporation. As the second step, we are now implementing group-wide restructuring with expected completion by the end of 2002.

The achievements of the first step are described below.

① **Structural reforms**

To concentrate on three major divisions (home electronics, car electronics and

communications) and to eliminate accumulated deficits

- The concentration and prioritization of the distribution areas and systems in the home electronics business, and integration of manufacturing facilities, in order to halve the fixed cost of this business segment, were completed as planned;
- The production of mobile telephone terminals (PDC) was terminated, and Yamagata Factory was substantially reduced (to be completed by the end of October this year);
- A Procurement Department reporting directly to the President was established to promote innovation in material procurement and to reduce cost;
- The corporate office structure was revamped and consolidated into five “Control Divisions”. Simultaneously, the overall Company organization, including the three business divisions, was restructured in line with downsizing as shown below:
- Restructured the Japan-domestic sales distribution systems;
- Successfully completed the closure of three overseas factories: one in Mexico, one in Hungary, and one in Huizhou, China; and
- Revitalized the management of domestic and overseas group companies by replacing many of the presidents and restructuring consolidated business administration systems.

② **Personnel downsizing**

- A voluntary-retirement program was offered at the head office at the end of March this year; some 642 employees applied for the program out of the total of 2,367 as of the end of that month (27%), (against an expected figure of 600);
- For the entire group companies, downsizing reached 1,837 (a 20% reduction), completed as of the end of September, out of the total group staff of 8,820 as of the end of March this year.

③ **Cost reductions**

- Agreement was reached with the labor union on a 15% wage cut, effective as from October;
- Emergency measures for reducing costs and material expenses were implemented for the corporate office as well as business divisions (production cost was reduced by 9.4%, and selling, general and administrative expenses by 20.3% from the previous year).

The effects are already partly visible in the interim settlement of accounts, allowing the Company to book a net profit on a consolidated basis for the first time in three years. The Company is thus backing on track to rehabilitation.

(2) Measures during the latter half of the current business term
Writing off accumulated losses and achieving a V-shaped recovery in performance

① Demonstrated support by capital increase and other financial assistance

- Capital was increased through a third-party allocation of shares by Sparks Asset Management Investment Fund Ltd. and Merrill Lynch Investment Managers Ltd. for more than ¥2 billion (completed during October);
- Subject to agreement at the special general meeting of shareholders of the Company to be held in December this year on a proposed revision of the articles of incorporation, a third-party allocation of shares shall be implemented in the form of a debt-equity swap for a total of ¥25 billion (to be closed toward the end of December), plus a loan commitment for up to ¥20 billion (facilities completed end of September), both arranged with The Asahi Bank, Ltd. These arrangements together will allow the Company to eliminate its negative net worth before the end of this business term.
- Agreements have been secured with other financial institutions on the rescheduling of loans over three years (completed end of September).

② Completion of measures under the Action Plan

We anticipate that the Company's performance will realize a V-shaped recovery in the second half of this business term, based on the success of the first step through the end of the first half of the business term, and together with the structural reform of the entire group companies as the second step to be completed before the end of this business term.

- The restructuring of overseas and domestic selling systems and the restructuring of affiliated companies by reorganizing production facilities are expected to be completed (the plants together with land and production facilities in Mexico and Huizhou, China);
- Structural reform of domestic affiliated companies;
- Downsizing (implemented end of March this year, whereby approximately 3,000 personnel are being reduced (34%) as planned).

③ Application for the granting of measures under the Special Measures Law for the Revival of Japan's Industry (Industry Revival Law)

- We shall be filing an application for public support available to business enterprises, which implement structural reforms.

  * When we have secured approval from the authorities for the structural reform and

capital reinforcement measures under the "Fundamental Rebuilding Plan", we shall perform those measures in a highly transparent manner. We shall then file an application for various incentive measures provided under the Industry Revival Law including exemption/reduction of registration and license taxes, etc. Such actions will be beneficial for the Company in the long term.

* The Special Measures Law for the Revival of Japan's Industry provides various tax and legislative incentives to corporations that undertake structural reforms, and an increasing number of corporations are enjoying the incentives.

Beyond the restructuring period described above, we shall rebuild the Kenwood brand for the future. We shall strengthen the business by reinforcing the interface between the Company and customers (via advertising, Website showrooms, etc.), allowing us to develop and launch mobile & home multimedia system products in succession.

3. Medium- and Long-term Managerial Strategy

In line with the company-wide actions described above, we shall implement the following policy for our divisions.

* **The car electronics division**, which is a major business of the Company, has two sales channels: direct sales to consumers (aftermarket), and indirect sales through components built into car-mounted devices (OEM). The Company is now focusing on OEM business. Regarding next-generation products, we have already released a series of AVN (audio visual navigation) products, following which we have been launching next-generation mobile multimedia products that of integrate communication technologies with network audio systems, while pursuing security functions, new telematics, etc.

* **The home electronics division** is experiencing a strategic transition from traditional items to products that offer high growth and profit potential in the field of home multimedia products including home theater systems. In the field of traditional hi-fi audio equipment, we shall reassess the potential demand. Next-generation home multi-media products that integrate car electronics with communication technologies are already being offered in the U.S.

***** **The communications division** will maintain its established supply relationship with LMR (Land Mobile Radio, business-use wireless systems), where the company is ranked second in the world, and a key channel for our products. Efforts will be made to increase direct sales to users, and to increase our share in the special use markets by responding to the trend of digitization. The range of system-related products will be expanded to secure and increase steady profits.

4. Distribution of retained earnings

As stated above, the Company anticipates returning to positive net worth by the end of this business term, which has been the most crucial hurdle toward restoring the financial health of the Company, thanks to the debt-equity swap in this December. Our top priority is to strengthen the financial health of the Company by allocating funds from improved profits and cash flow from the major businesses of the Company to the repayment of interest-bearing funds borrowed from banks. However, as the accumulated losses carried forward are too large to be offset by any improvement in revenues and net profit for the time being, we regret that we are unable to pay an interim dividend for this semiannual closing of accounts.

5. Stronger corporate governance

By a resolution passed at the board of directors' meeting of the Company held on June 27, 2002, the Company has reorganized its management structure. Under the new management system, outside experts who may have different views have been appointed as directors and will participate in the board of directors' meetings in order to make decisions on key management issues of the Company. The corporate officers appointed by the board of directors' meeting would exclusively engage in running the business and operations of the Company, such as rigorously controlling the inventory level.

Note that at the special meeting of shareholders to be held in December, a vote will be held on a motion for the appointment of two outside directors for reinforcing the board of directors.

6. Pending issues for the Company

As stated, the Company will–implement the action plans under the "Fundamental Rebuilding Plan", including the increase of capital through third-party allocation of shares in the form of a debt-equity swap, with the approval and cooperation of the parties concerned. The Company will soon have completed the process of structural reform and innovatively increased its capital, and will thus embark on a new era of growth.

I herewith offer my sincere appreciation to all those who continue to support Kenwood, and reiterate our determination to improve profits and cash flow. By restoring the company to good health, we will be able to resume the distribution of dividends to shareholders. We look forward to your continued support.

Business Performance

1. Overview of performance in the current term

Recovery in the overseas markets, especially in the U.S., is slowing down, in spite of steady consumer spending on housing and cars in particular, and production growth is decelerating. In the markets in Japan, the pace of business recovery including consumer spending remains disappointingly slow, with the stagnant domestic and overseas demand for capital goods counteracting signs of a modest recovery supported by overseas demand. The situation in Europe was broadly similar, with recovery remaining sluggish.

2. Status of sales and profit

Actual results were approximately as forecast in our upward revision announced on October 25 this year.

(On a consolidated basis)

Sales for the interim closing of accounts expanded smoothly in overseas markets thanks to steady demand for car electronics, radio equipment, ~~etc.~~, but ~~domestic~~ demand for home electronic and car electronic devices and equipment did not increase and sales of mobile phones declined sharply in Japan. After accounting for the effects of pulling out of the home telephone and measuring equipment businesses, total sales were ¥118,016 million, a notable decline from the previous year (¥138,048 million).

Recurring profit, however, was ¥2,301 million, a remarkable improvement of ¥3,370 million from the previous term (a loss of ¥1,069 million), thanks to the effects of faster cost cutting than anticipated, group-wide efforts to reduce expenses, reduction of inventory, etc.

As a result, the net profit for the current semi-annual period was ¥863 million, or a remarkable improvement of ¥11,919 million from the previous year (a loss of ¥11,056 million) after accounting for the sale of securities from the liquidation of cross-shareholdings and before the general fall of stock prices in Japan, and for an extraordinary loss of no more than ¥867 million, including the cost of restructuring for the current semi-annual period, which remained at the level allowed for business restructuring retained at the close of accounts of the previous business term.

(Non-consolidated basis)

Sales remained at ¥85,888 million (a decline of 21.4% compared to the previous business term), resulting in a recurring loss of ¥403 million (an improvement of ¥730 million compared to the previous term) The profit for the current term after accounting for the writing-off of investment in subsidiaries of ¥555 million was a loss of ¥1,007 million, an improvement of ¥9,600 million from that of the previous term.

3. Financial position

Consolidated cash flow for the current semi-annual period (unit: ¥million)

	Previous Tern	Current Term	Increase/Decrease
Cash Flow from Operating Activities	1,520	5,826	4,306
Cash Flow from Investment Activities	- 3,857	- 1,347	2,510
Cash Flow from Financing Activities	1,895	59	-1,836
Cash and Cash Equivalent at the End of the Year	20,250	26,042	5,792

As a result of strict cash-flow management for the efficient use of funds, the Company was able to book a free cash flow of ¥4,356 million at the end of the business term comprising the operating cash flow of ¥5,826 million, thus comfortably offsetting the loss of ¥1,347 million caused by investment activities.

4. Prospects for the business term ending March 2003

With the domestic economy remaining stagnant, Japanese industries have been struggling to survive on export earnings, mainly to the U.S. market where the economy has remained healthy for some time. The outlook for the U.S. economy has dimmed recently, however, as strong consumer demand appears to be losing momentum.

Business conditions will be as severe for Kenwood as any other company. However, through the ongoing reduction of fixed costs, improvement of fund utilization, etc. under the “Fundamental Rebuilding Plan”, the Company’s performance is expected to recover on a consolidated basis. Forecasts for the full term exceed even the upward revision made for the interim result on an accelerated basis, as well as the forecast made as of May 24 this year.

Business results on a consolidated basis (Unit: Yen Million)

	Forecast for the period ending March 2003	Actual result at the end of March 2002	Increase/Decrease
Sales	230,000	302,604	-72,604
Recurring profit	6,400	1,046	5,354
Net profit for the term	4,800	-26,658	31,458

Business performance on a non-consolidated basis (Unit: Yen Million)

Forecast of business results on a consolidated	Forecast for the period ending March 2003	Actual result at the end of March 2002	Increase/Decrease

basis			
Sales	160,000	223,002	-63,002
Recurring profit	4,000	-1,327	5,327
Net profit for the term	2,800	-28,587	31,387

Notes on performance forecast

The performance forecast for the business term ending March 2003 is what we reasonably consider we shall be able to achieve taking into consideration the information available at present. The actual performance results may therefore greatly deviate from the above figures should there be changes in the various factors, which we took into consideration when forming our judgment. We recommend that your judgments should not be made based on this forecast only.

Especially, we remind you that the performance of companies in the electronics business is subject to drastic swings due to changes in technology, demand, price, competition, economic conditions, foreign exchange, and other factors.

Consolidated Balance Sheet

as at September 30, 2001 and September 30, 2002

(Unit : ¥Million)

	2001/9/30		2002/9/30	
	Amount	%	Amount	%
(Assets)				
Ⅰ Current Assets	136,235	72.3	109,227	71.8
Cash	20,950		28,658	
Trade notes and accounts receivable	53,652		35,650	
Inventories	54,795		37,658	
Prepaid expenses	2,457		2,235	
Deferred tax assets	748		459	
Other current assets	5,005		5,705	
Allowance for doubtful receivables	-1,374		-1,139	
Ⅱ Fixed Assets	52,043	27.6	42,901	28.2
(1) Tangible fixed assets	33,124	17.6	29,251	19.2
Building and structures	23,265		22,092	
Machinery and equipment	21,464		19,716	
Tools, furniture and fixtures	13,629		10,411	
Land	13,262		12,311	
Construction in progress	361		66	
Total	71,981		64,599	
Accumulated depreciation	-38,857		-35,347	
(2) Intangible fixed assets	7,895	4.2	6,802	4.5
(3) Investment and others	11,024	5.8	6,847	4.5
Investment securities	8,142		3,817	
Long term loan	73		73	
Deferred tax assets	869		1,253	
Other investments	3,543		3,453	
Allowance for doubtful receivables	-1,603		-1,750	
Ⅲ Deferred Assets	111	0.1	67	0.0
New stock issuing expenses	111		67	
Total Assets	188,390	100.0	152,195	100.0

	2001/9/30		2002/9/30	
	Amount	%	Amount	%
(Liabilities)				
Ⅰ Current Liabilities	158,782	84.3	148,862	97.8
Trade notes and accounts payable	47,558		24,548	
Short term bank borrowings	90,344		93,966	
Bonds payable	-		5,000	
Accounts payable (non trade)	7,747		8,975	
Income tax payable	630		660	
Accrued expenses	9,469		12,434	
Deferred tax liabilities	15		17	
Allowance for restructuring of business	-		483	
Other current liabilities	3,016		2,776	
Ⅱ Long Term Liabilities	32,907	17.5	19,922	13.1
Bonds Payable	5,000		-	
Long term debt	20,482		8,625	
Deferred tax liabilities (Revaluation of land)	2,287		2,283	
Deferred tax liabilities	-		0	
Allowance for Employees' retirement	4,450		8,172	
Other long term liabilities	686		839	
Total Liabilities	191,689	101.8	168,784	110.9
Minority Interests	484	0.2	377	0.2
(Shareholders' Equity)				
Ⅰ Common Stock	25,937	13.7	25,937	17.0
Ⅱ Additional paid-in capital	3,555	1.9	3,555	2.3
Ⅲ Retained Earnings	-22,984	-12.2	-37,761	-24.8
Ⅳ Revaluation surplus	3,159	1.7	3,153	2.1
Ⅴ Devaluation of investment securities - Others	-769	-0.4	-104	0.0
Ⅵ Translation adjustment	-12,681	-6.7	-11,737	-7.7
Ⅶ Treasury stock	-0	-0.0	-9	-0.0
Total Shareholders' Equity	-3,783	-2.0	-16,966	-11.1
Total Liabilities, Minority Interests and Shareholders' Equity	188,390	100.0	152,195	100.0

Consolidated Income Statements

for the years ended September 30, 2001 and September 30, 2002

(Unit : ¥Million)

	2001/9/30		2002/9/30	
	Amount	%	Amount	%
Net Sales	138,048	100.0	118,016	100.0
Cost of Sales	106,091	76.9	86,425	73.3
Selling, General and Administrative expenses	31,075	22.5	26,964	22.8
Operating Income	881	0.6	4,626	3.9
Non-operating Profit and Loss				
Non-operating Profit	1,359	1.0	1,225	1.0
Interests and dividends	151		106	
Other Non-operating Profit	1,207		1,118	
Non-operating Loss	3,310	2.4	3,549	3.0
Interests	1,813		1,756	
Other Non-operating Loss	1,497		1,793	
Ordinary Income	-1,069	-0.8	2,301	1.9
Special Income	1,583	1.2	103	0.1
Reversal of allowance for doubtful receivables	166		8	
Gain on sales of investment securities	608		-	
Gain on repurchase of loan	791		-	
Gain on sales of fixed assets	17		94	
Special Loss	10,106	7.3	867	0.7
Loss on devaluation and sales of membership	35		26	
Additional retirement allowance paid to employees	48		65	
Loss on disposal/devaluation of inventories	3,213		-	
Loss on devaluation of investment securities	6,028		0	
Loss on sales of investment securities	408		103	
Retirement allowance paid to directors	112		-	
Loss on disposal and sales of fixed assets	259		187	
Loss on cancellation of lease contracts	-		2	
Loss on extinguishment of investments	-		10	
Retirement expenses	-		215	
Loss on devaluation of fixed assets	-		257	
Income before Income tax and Minority interests	-9,592	-6.9	1,537	1.3
Income tax				
Current	558	0.4	692	0.6
Deferred	907	0.7	0	0.0
Minority interests	-2	-0.0	-17	-0.0
Net Income	-11,056	-8.0	863	0.7