February 8, 2010

Company JVC KENWOOD Holdings, Inc.
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Report of the Investigation Committee and Summary of Adjustments to Previous Earnings Results; Delay in Submission of Quarterly Report on Earnings Results for the Third Quarter; and Prospect for Assignment to Securities Under Supervision (Confirmation)

The JVC Kenwood Group, as announced in the “Notice on the Reexamination of Losses Posted in the Second Quarter, Establishment of Investigation Committee and Delay in JVC's Submission of Interim Report” dated January 4, 2010, has established the Investigation Committee, including outside experts, to proceed with the reexamination of the losses with respect to Victor Company of Japan, Ltd. (JVC) — a consolidated subsidiary of JVC Kenwood — for the second quarter of the fiscal year ending March 2010. The Investigation Committee reported at the meeting of the Board of Directors of JVC KENWOOD Holdings, Inc. (JVC Kenwood) held today, on the results of the investigation conducted.

Given the results of the investigation, JVC Kenwood has decided on a policy to adjust the previous earnings results. From now on, JVC Kenwood will promptly pursue detailed verifications and examinations, and take other steps deemed necessary. Please find below a summary of the adjustments to the previous earnings results recognized as of this date.

Going forward, JVC Kenwood will proceed with adjustments to the previous earnings results. The tasks for these adjustments will be performed in conjunction with the accounting audit. Given that these processes are expected to take time, JVC Kenwood will be unable to submit its report on quarterly earnings results for the third quarter of the fiscal year ending March 2010 by February 15, 2010, which is the deadline stipulated in the Financial Instruments and Exchange Law.

We deeply apologize to our shareholders, investors, financial institutions, customers and the many other parties concerned about this situation in which adjustments to previous earnings results have become necessary, and will do our utmost to make proper and sufficient disclosure as soon as possible. We will also strive to resolve all the past issues and make a new start. We would greatly appreciate the support and understanding of all parties in this matter.

Please note that the summary of adjustments to previous earnings results outlines the forecasts as of this date, and it is possible that the figures may change as a result of the accounting audit and other factors.

1. Report of Investigation Committee and actions taken by JVC Kenwood

The JVC Kenwood Group had formulated a policy to implement in the second quarter of the fiscal year ending March 2010 a one-time posting losses (hereinafter, the “subject losses, etc.”), including those with respect to sales companies in Europe and other regions of JVC, a consolidated subsidiary of JVC Kenwood, and those accompanying other structural reforms. This policy was stated in the “Notice on the Reexamination of Losses Posted in the Second Quarter, Establishment of Investigation Committee and Delay in JVC's Submission of Interim Report” which we announced on January 4, 2010. Under this policy, JVC Kenwood posted losses totaling about 7.6 billion yen, comprising an operating expense of about 5.5 billion yen, a non-operating expense of about 1.2 billion yen and an extraordinary loss of about 0.9 billion yen, in the settlement of accounts for the second quarter.

Thereafter, JVC Kenwood discussed JVC's consolidated interim financial statements for the fiscal year ending March 2010 with its accounting firm, and concluded that it was necessary to further examine the period, amount and method of posting the subject losses, etc. For this purpose, JVC Kenwood established the Investment Committee, consisting of outside experts, independent from the management engaged in the business operations of the JVC Kenwood Group, and outside directors and auditors of JVC Kenwood to conduct further investigation into the matter.

The four members of the Investigation Committee are as follows:

Committee member: Osamu Sudoh (Lawyer; Sudoh & Takai Law Offices)
Committee member: Kakuji Takano (Certified Public Accountant and Licensed Tax Accountant; Takano Sogo Account Office)
Committee member: Koji Kashiwaya (External Director of JVC Kenwood)
Committee member: Akihiko Washida (External Auditor of JVC Kenwood)

The Investigation Committee investigated and verified facts concerning the subject losses, etc. and investigated whether such losses should be posted in the settlement of accounts for the second quarter of the fiscal year ending March 2010, or whether previous earnings results should be adjusted. The Investigation Committee evaluated and verified the amount and method of posting these losses. JVC Kenwood has cooperated fully with the Investigation Committee in the investigation.

The Investigation Committee completed its investigation and reported at the meeting of the Board of Directors of JVC Kenwood, held today, on the results of the investigation.

The investigation conducted by the Investigation Committee revealed inappropriate accounting treatment adopted by JVC, which became a consolidated subsidiary of JVC Kenwood in the management integration effective October 1, 2008, with respect to the earnings results prior to the management integration.

As such, the investigation report pertains to JVC. However, adjustments to previous earnings results are divided into adjustments to the results of JVC prior to the management integration (please refer to "2. (1) (i)" shown below) and those for JVC Kenwood (please refer to "2. (1) (ii)" shown below), which made JVC its consolidated subsidiary as a result of the management integration.

With respect to the background and causes that led to inappropriate accounting, JVC Kenwood takes a serious view of the results of the Investigation Committee's investigation and will promptly adjust previous earnings results, while considering whether or not to take fundamental preventive measures, in addition to the measures already pursued, to prevent recurrence.

2. Summary of adjustments to previous earnings results

(1) Summary of adjustments

(i) Summary of adjustments to previous earnings results for JVC

Taking into account the results of the investigation conducted by the Investigation Committee, JVC's subject losses, etc. from the fiscal year ended March 2005 through the second quarter of the fiscal year ending March 2010 amount to roughly 17.0 billion yen. Compared with the 7.6 billion yen in losses posted in the second quarter of the fiscal year ending in March 2010, this is an increase of roughly 9.4 billion yen.

Of the total of roughly 17.0 billion yen in the subject losses, etc. mentioned above, the amount of loss posted for the periods prior to the management integration amounts to roughly 10.0 billion yen, while losses for the terms between the management integration and the second quarter of the fiscal year ending March 2010 total roughly 7.0 billion yen. This is roughly 0.6 billion yen less than the approximate amount of 7.6 billion yen in losses posted in the second quarter of the said fiscal year.

The increase in losses is due primarily to the following factors. We perceive that these factors entail little possibility of cash outs.

- Accounting for undisposed sales promotion expenses, etc. and reassessment of inventories for sales companies in Spain, Austria (in charge of Russia/Eastern Europe) and Germany: Roughly 4.5 billion yen
- Newly accounting for an impairment loss associated with the adjustments to previous earnings results in the optical component (optical pick up) business (hereinafter "the OC business") and others: Roughly 2.8 billion yen
- Accounting for customs duty and provision for retirement benefits for service subsidiaries in Europe, newly accumulated reassessment of inventories and others: Roughly 1.3 billion yen
- Newly applied correction of erroneous postings of unpaid expenses, etc. related to head office accounting: Roughly 0.8 billion yen

(ii) Summary of adjustments to previous earnings results for JVC Kenwood

JVC Kenwood was newly established on October 1, 2008 through a management integration by the share transfer method executed between JVC and Kenwood Corporation (hereinafter "Kenwood"). Under the purchase accounting standard applied for the management integration, Kenwood is the purchasing company in accounting terms, and profits and losses, net assets and other accounting items of JVC, the purchased company, for the periods prior to the management integration, are not carried over to the consolidated financial statements of JVC Kenwood. Therefore, profits and losses, net assets and other accounting items of JVC Kenwood at the time of establishing the company are not affected directly by the adjustments to previous earnings results prior to the management integration with respect to JVC described in (i) above. The total subject losses, etc. of JVC prior to the management integration (roughly 10.0 billion yen) equate to the reduction in JVC's net assets, which affect the positive or negative goodwill that JVC Kenwood must recognize in conjunction with the management integration. As a result, positive goodwill (hereinafter "goodwill") of roughly 6.8 billion yen must be recognized in place of the negative goodwill of about 3.2 billion yen previously recognized, plus the amount of negative goodwill amortized and posted until the second quarter of the fiscal year ending March 2010 must be cancelled. Hence, non-operating income will decrease by a total of about 1.6 billion yen. JVC Kenwood is currently discussing how to treat this goodwill with its accounting firm and will decide on the method of postng before announcing the earnings results for the third quarter of the fiscal year ending March 2010. Assuming, however, that a one-time posting losses will be made retroactively to the time of the management integration, an extraordinary loss of roughly 6.8 billion yen will be incurred for the fiscal year ended March 2009.

While an impairment loss (roughly 2.8 billion yen) in the OC business and others for JVC described earlier will be newly accounted for, the posting losses for JVC Kenwood, excluding those related to the aforementioned goodwill, will amount to roughly 7.0 billion yen for the period after the management integration to the second quarter of the fiscal year ending March 2010 (including the impairment loss newly accounted for), which is roughly 0.6 billion yen less than the approximate amount of 7.6 billion yen posted in the second quarter of the fiscal year ending March 2010. This is because the majority of the 7.6 billion yen posted in the second quarter of the said fiscal year is recognized as losses in the previous years for JVC.

As a result, the losses related to the subject losses, etc. for JVC Kenwood after the management integration and the cancellation of the amortized negative goodwill will total roughly 15.4 billion yen, assuming a one-time disposition of goodwill is performed. Compared with the 7.6 billion yen in losses posted in the second quarter of the fiscal year ending March 2010, this is an increase of roughly 7.8 billion yen. We perceive that this also entails little possibility of a need to pay out cash.

Amount of posting losses by JVC

	Prior to management integration	After management integration	Total
Prior to adjustments	—	7.6 billion yen	7.6 billion yen
After adjustments (rough estimate)	Roughly 10.0 billion yen	Roughly 7.0 billion yen	Roughly 17.0 billion yen
Amount of impact (rough estimate)	Increase by Roughly 10.0 billion yen	Decrease by Roughly 0.6 billion yen	Increase by Roughly 9.4 billion yen

Effects on JVC Kenwood

	Effects on positive or negative goodwill		Effects on posting losses	Total
Prior to adjustments	At the time of management integration Negative goodwill: 3.2 billion yen	Negative goodwill amortized: 1.6 billion yen already posted	7.6 billion yen	
After adjustments (rough estimate)	Positive goodwill: Roughly 6.8 billion yen	Amortized negative goodwill of 1.6 billion yen to cancel	Roughly 7.0 billion yen	In case of one-time disposition of positive goodwill: Roughly 15.4 billion yen
Amount of impact (rough estimate)	In case of one-time disposition of positive goodwill: Extraordinary loss of roughly 6.8 billion yen	Non-operating income balance: Decrease of 1.6 billion yen	Decrease of roughly 0.6 billion yen	In case of one-time disposition of positive goodwill: Increase of roughly 7.8 billion yen

(2) Scheduled adjustments to accounting reports, securities reports and others

In conjunction with the subject adjustments to the previous earnings results, adjustments with respect to JVC Kenwood and JVC to accounting reports for the fiscal year ended in March 2005 through the second quarter of the fiscal year ending March 2010 will be made along with revisions to the securities reports (including internal control reports), semi-annual reports and quarterly reports so that revised versions can be submitted.

In addition to the above, we will make adjustments to the Securities Report dated June 11, 2008, which includes the consolidated financial statements of JVC, and the Securities Report dated July 10, 2009, which includes the consolidated financial statements of JVC Kenwood, as well as to the Report on Interim Earnings Results for the First Half of the Fiscal Year Ending March 2009 of Kenwood Corporation, which includes that of JVC.

3. Adjustments to previous accounting reports, securities reports, and others and delay in submission of report on quarterly earnings results for third quarter

Taking into account the results of the investigation conducted by the Investigation Committee, JVC Kenwood will promptly make adjustments to past-year earnings results. However, we expect it will take some time to make these adjustments given that the processes will be performed in conjunction with the accounting audit.

In light of these circumstances, JVC Kenwood will submit the revised versions of its accounting reports, securities reports, and other documents by early March 2010, along with JVC's report on interim earnings results for the first half of the fiscal year ending March 2010, the submission of which has been delayed.

In conjunction with the above, JVC Kenwood is unable to submit the quarterly report for the third quarter of the fiscal year ending March 2010 by February 15, 2010, the deadline stipulated in Article 24.4.7, Paragraph 1 of the Financial Instruments and Exchange Law.

JVC Kenwood is also unable to submit its report on quarterly earnings results for the third quarter of the fiscal year ending March 2010 by February 15, 2010.

4. Prospect for assignment to securities under supervision (confirmation)

For the reasons described above, JVC Kenwood is unable to submit its report on quarterly earnings results for the third quarter of the fiscal year ending in March 2010 by February 15, 2010, the deadline stipulated under the Financial Instruments and Exchange Law.

The provisions of Article 605, Paragraph 13 (a) of Enforcement Regulations for Securities Listing Regulations of the Tokyo Stock Exchange stipulates that if a disclosure is made to the effect that the subject quarterly report is not likely to be submitted by the deadline stipulated in the Financial Instruments and Exchange Law, the issue will be assigned to "securities under supervision (confirmation)." As such, as of this date we prospect the stock of JVC Kenwood to be assigned to "securities under supervision (confirmation)" as a warning from the Tokyo Stock Exchange to investors.

5. Schedules going forward

(1) Announcement of quarterly earnings results for the third quarter and earnings forecast for the fiscal year ending March 2010

In conjunction with the adjustments to previous earnings results described above, we will retroactively revise the majority of losses of about 7.6 billion yen posted in the second quarter of the fiscal year ending March 2010 for periods prior to the fiscal year ended March 2009. As soon as we have determined the effect of such retroactive revisions on the consolidated business results for the fiscal year ending March 2010, we will revise the earnings forecast for the fiscal year ending March 2010 in consideration of profits, losses and other factors for the third quarter of the said fiscal year. We will announce it along with the earnings results for the third quarter of the fiscal year ending March 2010.

(2) Development of measures to prevent recurrence

Although the results described above were caused by events that took place prior to the management integration, JVC Kenwood extremely regrets the situation herein as it was caused by the accounting treatment adopted by its consolidated subsidiary. JVC Kenwood has made efforts to strengthen consolidated management through management integration and, in particular since the second quarter of the fiscal year ending March 2010, it has continued to resolve issues internally, with support from third parties and the aforementioned Investigation Committee. It has already implemented the necessary measures. Furthermore, in order to ensure that such issues described above never recur, JVC Kenwood has decided to promptly consider a fundamental preventive measure. This recurrence preventive measure will be developed in consideration of the comments provided by the Investigation Committee, in conjunction with the process of adjusting the previous earnings results and the accounting audit, and will be announced as soon as the details of the measure are finalized.

TRANSLATION – FOR REFERENCE ONLY –

February 8, 2010

JVC KENWOOD HOLDINGS, INC.
Haruo Kawahara, Chairman, President and CEO

Investigation Committee
Chairperson: Osamu Sudo
Committee member: Kakuji Takano
Committee member: Koji Kashiwaya
Committee member: Akihiko Washida

Investigative Report (Summary)

The Investigation Committee herewith presents a summarized report of the outcome of the investigation as per your company's request. For the purpose of this report, your company as a pure holding company will be referred to as "Your Company" or "HD"; Victor Company of Japan, Ltd., a wholly owned subsidiary, will be referred to as "JVC"; and the names of sales vehicles in Europe and of departments shall be represented by the abbreviated forms commonly used in Your Company. In addition, years are shown using the last two digits in accordance with the Western calendar.

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I. Investigation as per your request

Your Company asked the Committee to perform each of the items described below and to report to Your Company on the outcome.

(1) Examination of facts required for review of loss posted, etc. related to Your Company's consolidated subsidiaries, as well as assessment and verification of the amount of loss and method of posting related to questions such as whether it shall be settled during the second quarter of the fiscal year ending March 2010 or whether the past consolidated financial statements shall be retroactively corrected and restated;
(2) Recommendation on measures to prevent recurrence; and
(3) Matters that were considered necessary by Your Company.

II. Method of investigation

Since January 6, 2010, the Committee has interviewed over 40 interested employees in total, and closely reviewed materials held by Your Company as a pure holding company (hereinafter referred to as "HD") and Victor Company of Japan, Ltd. (hereinafter referred to as "JVC") that is Your Company's consolidated subsidiary (numerous materials including minutes of various meetings such as board of directors' meetings, reference materials for meetings, and e-mails retrieved by use of certain keywords from directors and employees designated by the Committee, and other materials; with regard to e-mails, the Committee delegated the primary retrieval process to a professional service entity, and then the Committee reviewed the selected ones). In addition, the Committee dispatched certified public accountants belonging to the Committee to and retained local certified public accountants for a Spanish sales subsidiary of JVC (JVC ESPANA S.A.) (hereinafter referred to as "JSP"), a German sales subsidiary (JVC DEUTSCHLAND GMBH.) (hereinafter referred to as "JDL") and a Chinese sales subsidiary (JVC (China) Investment Co., Ltd.) (hereinafter referred to as "JCC") to systematically and thoroughly audit accounting books, vouchers and such like. The investigation at the site of JDL took five and a half days and was conducted by persons including 20 certified public accountants in total; at the site of JSP, the investigation took seven days and was conducted by persons including 59 certified public accountants in total; and the investigation at JCC took two days and was conducted by two certified public accountants in total.

For these investigations, the certified public accountants of KPMG AZSA & Co. were present at every site of these sales subsidiaries and made sure that the work was conducted properly in its capacity as an audit corporation.

As a result of these investigations, the Committee acknowledged the facts specified below.

III. Loss due to inappropriate accounting treatment

1. Display Business in Spain and Germany

The display business of JVC (TV business) that had maintained certain market shares in the UK, Germany, the Netherlands and Spain has lost its price competitiveness quickly, in particular since ’05 and ’06, when it faced intense price cuts led by Korean manufacturers such as Samsung and LG.

Under such conditions, JVC could not take effective and appropriate measures responding to such changes in those markets, and Japanese senior management could not fully control companies, especially JSP and JDL, with heavily sales-oriented local sales departments. This led to a rapid increase in sales-related expenses including advertising and promotional costs and expenses for price-related measures that were implemented in an effort to maintain sales.

Having faced these situations, JVC Europe Ltd. (hereinafter referred to as “JEL”), which was responsible for these European sales vehicles, strongly demanded that sales corporations under JEL including JSP and JDL should achieve their business plans developed by themselves under the concept of management with self-imposed responsibility. Senior management of both JSP and JDL feared that disclosure of the increased sales-related expenses all at once would lead to drastically deteriorated profits, and after consultation with JEL, evaded the posting of such increased sales-related expenses as a loss for the current term and procrastinated on how to dispose of loss on condition that it should be absorbed by profits in the following terms or realized as a loss in the future.

JVC, however, could not deploy effective and appropriate management strategies relevant to the display business in Europe and the balance sheets did not improve in the following terms, resulting in a swollen undisposed loss of JSP, and in ’08 it resulted in improper accounting procedures being applied by JDL, where sales-related expenses were left unsettled. The reason why JEL, which is in a position to supervise and instruct JSP and JDL, permitted such inappropriate accounting was that the chief accounting officer of JEL also needed to contribute to achieving the profit targets of JEL.

In addition to these undisposed sales-related expenses, JDL and JSP are expected to have a loss of 6.3 billion yen in total, partially going back to the term ended in March '05, due to an appraisal loss on inventory, etc.

Note: The amount of loss mentioned above represents the accumulated loss up to the second quarter of the fiscal year ending March 2010, and the same shall apply hereinafter.

2. Business in China

With regard to JCC, an inappropriate accounting treatment was caused by the characteristics of the market where rational economic activities cannot be necessarily attained in relationships with dealers regarding sales and promotional expenses and such like for the camcorder business and the audio business. This was triggered by JCC's effort to make transactions with dealers rationally: JCC changed its payment method from sales on credit to advance payment, which resulted in a loss and JCC failed to transact such loss properly. This loss was found in the course of changing the transaction method, and in that sense, this accounting treatment was not a willfully conducted inappropriate accounting treatment, but it may be said that it consequently became an inappropriate accounting treatment. Therefore, this event can be classified as something that resulted from an accidental factor, not a structural factor such as was the case with JDL and JSP.

JCC will likely have a loss of about 1.3 billion yen, going back to the term ended in March '07, due to accounting items such as provision for accounts receivable and transactions of undisposed sales promotion expenses.

3. Display Business in Russia

A similar case to the above 2. is found at JVC International (Europe) GmbH) (hereinafter referred to as "JIN") (which is in charge of Eastern Europe including Russia), a sales subsidiary in Austria; it is a case of an inappropriate accounting treatment being taken where JIN did not properly account for the loss that was caused in the course of changing transaction methods. In this case, it did not properly record risks of recovery and exchanges in association with a new alternative transaction method that was implemented to respond to a deterioration in traditional transactions using regional characteristics that JIN had engaged in, because the person in charge of sales who changed the transaction method did not have sufficient accounting knowledge. This incident was also caused by an accidental factor. Therefore, this accounting treatment was not a willfully inappropriate accounting treatment, but it should be said that it consequently became an inappropriate accounting treatment.

JIN will likely have a loss of about 2.2 billion yen, going back to the term ended in March ’08, due to appraisal loss on stock, etc., in addition to loss of accounts receivable and exchange loss.

4. Optical Component Business

The OC business is related to the optical pickup business that makes components to be used for in-car CDs and DVD mecha-drives. The inappropriate accounting treatment regarding this business was not caused by a change in transaction methods, but the details were revealed in the course of replacing an employee who had exclusively engaged in the accounting of this business. This inappropriate accounting treatment was not a result of an accidental factor as in the cases of JCC or JIN; the cause of this inappropriate accounting treatment in the OC Business Department is similar to those inappropriate accounting treatment in JDL and JS. In other words, an employee in the OC Business Department who had been in charge of accounting for it for a long time also tried to help achieve the target profit in accordance with the managerial idea of self-imposed responsibility. The employee committed the same offense as the chief accounting officer of JEL.

The OC business will likely see a loss of about 1.8 billion yen, partially going back to the term ended in March ’04 and further back, due to accounts due and production losses, slow-moving inventory and other factors relevant to JVC OPTICAL COMPONENTS (THAILAND) CO., LTD., a production subsidiary in Thailand.

5. Impairment-related matters

In relation to retroactive realization of the loss due to the reasons set forth in 1. through 4. above, it is necessary to newly realize the impairment of 2.9 billion yen in total regarding fixed assets by going back to the term ended in March ’09. In addition, it is necessary to correct the timing of the impairment made in the past by JVC Manufacturing U.K. Limited, a production subsidiary in UK that is undergoing liquidation.

6. Others

Other inappropriate treatment cases involve JVC Video EUROPE GmbH, a production subsidiary in Europe that failed to recognize about 1.1 billion yen due to an additional duty penalty and insufficient reserve for employees’ retirement benefits; a realization of loss of about 0.8 billion yen related to restatement including an error in recognizing accrued expenses for the term ended March ’04 in connection with accounting transactions of the head office; and other expenses totaling about 0.7 billion yen related to non-disposition and insufficient provision by oversea subsidiaries.

7. How inappropriate accounting was found

As stated above, in May ’09 JVC’s Head Office was told that JSP and JDL, which are major sales corporations of the European display business, had engaged in inappropriate accounting treatments. JVC integrated its management with Kenwood in October ’08; however, it insisted that there should be a certain transition period to prepare for joint management after the merger, and failed to inform HD of such fact. It was as late as the end of July ’09 after the shareholders’ meeting held in June ’09 when HD learned that fact and after the establishment of the governance system of HD following substantial staff exchanges between JVC and Kenwood and renewal of HD’s management structure.

Responding to the disclosed event, HD carried out an internal audit led by the Management Audit Section and conducted an investigation using an external professional body. As a result, HD learnt that in addition to improper accounting procedures at JSP and JDL, there were other types of inappropriate accounting treatments.

The Committee got to know the entire picture of those inappropriate accounting treatments as set forth above through a series of investigations and reviews, and considers that it is absolutely impermissible that JVC, a company that had been listed only a little more than one year ago, had engaged in such acts, and that a thorough investigation is required to totally eliminate such inappropriate accounting treatments for the company to make a fresh start.

8. Conclusion

The Committee, as per the request of HD, reviewed the facts that formed the basis of the loss disposition relevant to your consolidated subsidiaries by Your Company for the second quarter of the fiscal year ending March 2010, as set forth in the beginning of this report, and examined the various facts described above. As a result, the Committee reached the conclusion that such confirmed facts are different in some points from those that Your Company placed as the basis for the above-mentioned loss posted. We judge that the positions in terms of accounting are different. Therefore, the Committee concluded, based on such confirmed facts, that the consolidated financial statements for previous terms shall be retrospectively corrected and restated as stated above for each case. In the investigation of the case by the Committee, KPMG AZSA & Co. has also engaged in auditing in the capacity of an audit corporation, and the Committee has given careful and faithful consideration to this investigation based on the information it brought to light, as well as the information used by the audit corporation so as to prevent any omission. Please be aware that as of the date of this report, KPMG AZSA & Co. has not completed its auditing.

IV. Recommendation on measures to prevent recurrence

First of all, we want to inform you about how this case was revealed. At the time of forming the merged company (October ’08), thorough governance by HD was substantially deferred because a transition period was provided for consolidation of management, etc. as JVC insisted. However, the functions of the HD structure were reinforced through extensive personnel exchanges between JVC and Kenwood as well as drastic changes of HD’s management rights after the shareholders’ meeting held in June ’09. Since this case was revealed in the course of reinforcing HD’s structure, we consider and note specifically that it means that such reinforcement of the structure should continue to be promoted in the future as well.

In accordance with research conducted by the Committee, the underlying reason why JSP and JDL applied inappropriate accounting treatments was lack of proper response by the management to the changing markets, and we conclude that factors (i) through (iv) below are interconnected, resulting in the inappropriate accounting treatments:

(i) a corporate culture was established in which, under the name of management with self-imposed responsibility, sales corporations and business divisions set a profit target by themselves and pushed forward to achieve that target; (ii) the market research system had not worked, and it did not have a system to make its once-set-up profit target change to respond to market conditions appropriately and flexibly; (iii) regarding achievement of the target by sales corporations, as the relevant Regional Headquarters was responsible for achieving the target, excessive pressure was put on the sales corporations; and (iv) the Accounting Department was burdened with monitoring sales corporations' achievement of the profit target under the Regional Headquarters. Further, when taking into consideration the inappropriate accounting treatment by the OC Business Department as well, another underlying factor for applying inappropriate accounting treatment would be JVC's corporate culture that placed the Accounting Department in a position where it was jointly responsible for achievement by the management by supporting the management.

In addition to the background mentioned above, in JVC the internal governing system (to be based on the COSO model) specified by the Financial Instruments and Exchange Act as the essential condition was not properly operated, which also caused inappropriate accounting treatments in multiple JVC sales corporations and a business division.

Accordingly, the Committee recommends general measures to prevent recurrence as follows. Such recommendation is mainly for JVC, a subsidiary, but Your Company is referred to therein as a pure holding company.

(1) The top executives should exert leadership to improve the corporate culture.
(2) In order to respond to a risk of inappropriate accounting treatments, to improve and operate the structure and system throughout the company, and to improve and operate the procedures in proceeding duties.

To endeavor to have information relevant to inappropriate accounting treatment treated and announced in a timely and proper manner.
(3) Not only JVC but also Your Company should monitor the measures to prevent recurrence that have been developed.