KENWOOD

KENWOOD

ANNUAL REPORT

For the Year ended March 31, 2000

2000

Company Profile

Approximately half a century ago, Kenwood started its business with the production of parts and components for communications equipment. Today, its business field has expanded to include wireless radio equipment, telephones, high-grade audio products for homes and automobiles, and other electronics equipment. Its operation also stretches throughout the world to include not only Japan, the US, and Europe, but also Asia, Africa, and Latin America.

In recent years, the Information Technology (IT) revolution has brought about a rapid change throughout the world in people's lifestyles, the widespread use of the Internet and cellular phones. We are observing the beginning of a new era where immense amounts of content and a multitude of services are offered over networks, not only by computers but via various types of information and audio-visual equipment. By fusing IT with its unique technologies in sound and communications, Kenwood is actively developing new products that will lead the digital-networking society.

In the meantime, in its existing business areas, Kenwood is striving to offer more appealing products by utilizing its distinctive know-how in product planning and design. Further, in order to solidify its foothold as a manufacturer, an effort is being made to restructure its production, distribution, and sales facilities on a global scale. Kenwood continues to revitalize itself with its innovative management and pertinent business strategies for higher profitability.

KENWOOD

Contents

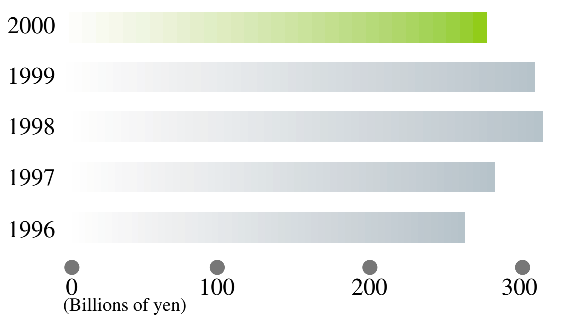
Financial Highlights

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2000 and 1999

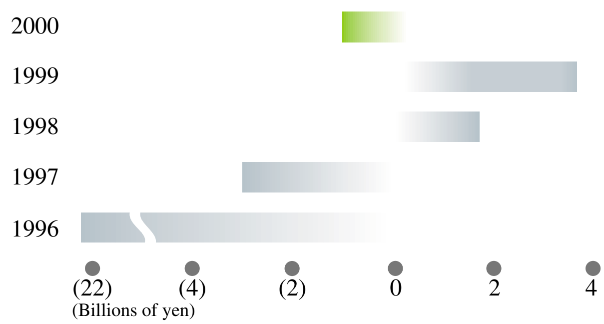
	Millions of yen		Thousands of U.S. dollars*
	2000	1999	**2000**
For the year:			
Net sales	**\ 274,517**	\ 309,825	**$ 2,589,783**
Net income (loss)	**(1,017)**	3,734	**(9,595)**
Per share data (in yen and U.S. dollars):			
Net income (loss)	**\ (6.91)**	\ 25.35	**$ (0.07)**
Cash dividends applicable to the year	**—**	3.00	**—**
At year-end:			
Total assets	**\ 212,472**	\ 213,253	**$ 2,004,453**
Total shareholders' equity	**35,287**	32,249	**332,896**

*The U.S. dollar amounts in this report are provided for convenience only and have been converted at the rate of ¥106 to $1, the approximate rate of exchange in effect at March 31, 2000.

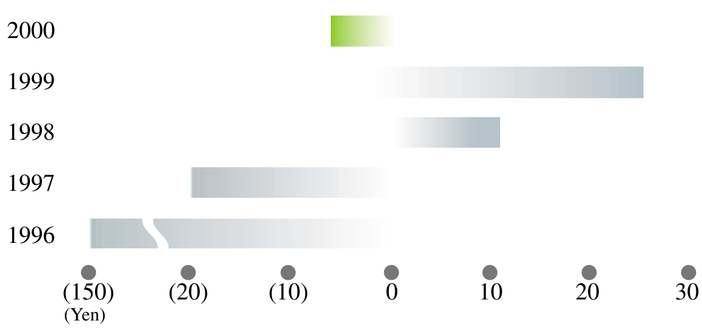
Net Sales



Net Income (Loss)



Net Income (Loss) Per Share



A Message from the President

Overview of Fiscal 2000

In the fiscal year ended March 31, 2000, the Japanese economy began to recover to some extent, encouraged by the various budgetary and financial measures taken by the government. However, personal consumption and investment in the private sector still remained dull with only slight improvement. Overseas, the US economy continued to grow favorably, while both the European economy, which had been struck by the depreciation of the euro, and the severely depressed Asian economy, started to recover at last.

Results of Operations

Consolidated net sales decreased 11.4% from the previous year to \274.5 billion.

Domestic sales were \123.5 billion, an 10.0% decrease. Despite the rapid growth of MD radio-cassette players and MD players, home audio sales in total decreased 1.2% to \43.7 billion, due to falling prices of component systems. In car audio, the sales amount increased 3.2% to \41.6 billion, thanks to the large growth in car navigation systems and OEM sales to automobile manufacturers. Sales of communications equipment suffered a fall of 31.8% to \32.6 billion, due to a long delay in introducing a promising new cellular phone model.

Overseas sales also decreased 12.5% to \151.0 billion. Sales of audio products, especially, decreased considerably, affected by falling prices from severe competition and a sharp appreciation of the yen against the euro and the US$. Consequently, the share of domestic sales increased 0.7% to 45.0% of total sales, as opposed to 55.0% for overseas sales.

Operating income decreased substantially from the previous year's \13.7 billion to \5.1 billion, and net income, which was \3.7 billion in 1999, turned into a loss of \1.0 billion. Such a serious change was brought about mainly by a large sales decrease in cellular phones and the sharp appreciation of the yen mentioned above. In addition, Kenwood depreciated \3.1 billion for securities priced lower than book value, and disposed of unusable inventories of \2.9 billion, incurring the above net loss.

Prospects for the IT Era

As described above, Kenwood performed disappointingly in the period under review due to the stronger yen and a large sales decrease. The company is undertaking various projects to restore profitability in its business operations, but prior to presenting details of these undertakings, this section focuses on general trends in the electronics industry and the company's mid-term business prospects.

Hardware for Diverse Multi-media Contents

The worlds of audio-visual (AV) equipment and communications equipment are experiencing tumultuous changes, the likes of which no one has ever seen, the key phrase being the "IT revolution." One must have access to content, or intellectual property such as music and videos, in order to use AV equipment, and people must have access to services provided by carriers in order to use communications equipment such as cellular phones. These services and content will, without a doubt, be reorganized and structured using a digital network like the Internet. If so, AV hardware and communications equipment must function as a gateway to access various multi-media services on the network.

Focusing on IT in Product Planning

Kenwood believes that IT can only be built upon superior hardware, and is committed to developing products that will guide people into the future of the IT world. One such example is a car audio player with a built-in MP3 decoder, which was introduced in February 2000, that enables sharing the same data on both PCs and the car audio.

Meanwhile, in the field of home audio, it is expected that IT will be blended with existing media such as DVD, CD, and MD, at least for the immediate future. As seen in our introduction of a prototype MD-radio-cassette player that connects to the Internet, the company is concentrating its power to develop unique audio products to take advantage of the future network distribution of music.

Moreover, in connection with the rapidly progressing digital broadcasting field, Kenwood signed a contract in March 2000 to develop receivers for mobile units with SIRIUS Satellite Radio of the US. With this, we are building on the success we have had with DAB receivers in Europe.

Focusing at Original Technologies

In order to formulate products that have a technological edge, Kenwood is placing priority on making key components based on our own proprietary technical breakthroughs.

The optical microphone, for example, is one such innovative device that has gained a lot of attention from a variety of manufacturers in different industrial fields. The optical microphone evolved after considerable efforts were expended in joint research with Phone-Or Ltd. in Israel. Since its official introduction, it has attracted a remarkable number of inquiries for applications in various industries due to its sensitivity, sound quality, compact design, and, above all, amazing directionality unthinkable in conventional microphones. The company is drawing up further development and marketing plans to make this a new global standard for microphones.

Another example is "high quality CODEC", developed solely by Kenwood for network distribution of music. The new CODEC was well received by the major recording labels in Japan and the US, and is believed to be the key player in improving the quality of sound both on the network and in stand-alone players.

In Pursuit of Appealing Products

Beyond merely packaging those advanced technologies, ergonomic and unprecedented design is the added feature of every Kenwood product, even in basic product categories. Though the company has long had a reputation for superior product design, recent efforts are aimed at creating variations that fit the different personalities of users. One example is the color variations in component audio systems and radio-cassette players. And another is the outdoor radio introduced in February 2000, which was designed to appeal to rugged outdoor sportsmen by making it operable under the severe conditions of mountains, seashores, and winter weather.

Management for the 21st Century

If Kenwood is to thrive in the new century, it is imperative to maintain a competitive edge. Thus, the company is determined to supply consumers with the products they want by anticipating market trends, as well as technological trends such as IT. Solidifying the infrastructures for manufacturing - making efficient production lines, rationalizing the distribution network, improving production methods, localizing R&D activities, etc. - will of course also remain a major task of the company. In the area of environmental preservation, the company has already obtained ISO 14001 certifications on all its domestic sales offices, including the head office, two factories in Japan, and two overseas factories. We will carry our efforts into the 21st century and take further measures in conservation of energy, reduction of waste and office paper, replacement of harmful materials, and recycling of various resources.

Seeking Business Partners

In order to develop products incorporating IT, which is a collective name for advanced technologies in diverse fields, self-sufficiency is nearly impossible. Instead, technical tie-ups with companies that excel in different fields can produce a superior product in a shorter period. Up to now, Kenwood has had partners in the research and manufacturing of car audio and other major product categories.

70% Share for Overseas Production

The R&D Department for home audio has already been partially transferred to Malaysia, following the transfer of major manufacturing plants overseas. During the next term, the R&D functions for car audio and cellular phones will be partially transferred, as well. Overseas plants are planned to account for 70% of total production in this fiscal year.

An Internet based SCM (Supply Chain Management) system is being introduced in addition to the existing PEAK system, which is a custom-made production management tool.

Maximizing Product Value with IT

Kenwood plans to introduce a series of high value-added products, including products with network capability, and shorten production lead-time in order to further enhance the sales of popular items and improve profitability. As for the component business, it is the company's decision that the supply of components be continued because, as described earlier, certain devices are also essential to our own future IT strategy.

Kaku Sakaida
President

Special Section

Implied in the rapid growth of the Internet and cellular phones is the next wave to rock The society - information technology (IT). As societies become based on networks, rather than on geographic location, Kenwood will stay a step ahead because it has established two major goals in its product development. First, the development of unique, trend-setting products with network capability by fusing IT with the company's expertise in sound and communications. Second, the conceiving of a whole new set of products that will appeal to people's subliminal needs and desires, utilizing Kenwood's creativity in product planning and design.
The 21st century is already here and half a century has passed since Kenwood's foundation. Be prepared for the emergence of a revitalized Kenwood.

Creativity

Establishing a new product category with an anti-theft device
—— Mask car audio players

Appealing to consumers' distinctive tastes and personalities
—— "Rampage" MD-radio-cassette players

Capturing the hearts of outdoor sports enthusiasts with heavy-duty specifications
—— Outdoor radio

Generating innovative ideas with creative thinking

For music distribution over the Internet
—— Car audio with a built-in MP3 decoder

For digital broadcasting
—— Receivers and key components for digital broadcasting

For the industry standard of the future
—— The optical microphone

Creating trends by fusing Kenwood's expertise with IT

Toward the creation of a new category

Toward the fusion of basic technology and new technology

Toward strengthening brand value

Toward the cutting-edge technology

Toward the forefront of the market

Technology

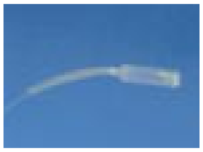
Technology

By fusing IT with its unique know-how in sound and communications, Kenwood develops new technologies and products that will stimulate the society

Recent years have seen explosive growth in the number of PC users, Internet users, and users of cellular phones and other mobile equipment. During the next few years, a series of new services will be introduced - digital broadcasting on both BS and surface waves, a broadband cellular phone service, and so on. In other words, our society is facing waves of changes, the so-called IT revolution, as we continue into the new millennium. In order to stay ahead of the changes, Kenwood is striving to incorporate IT in the product development of each major business area: Home Audio, Car Audio, and Communications. The results of such efforts can already be seen in the popular car audio players with MP3 decoder, in digital broadcast receivers being supplied to broadcasters abroad, and in the optical microphone that has a potential to be a key component in diverse industrial fields. Kenwood continues to develop new technologies and products that will set the tune for the age, by combining its expertise in hi-fi audio and high-frequency equipment with the latest IT offered by the industry.

Optical Microphone

The world's first optical microphone was developed in collaboration with Phone-Or Ltd. of Israel. Unlike conventional dynamic microphones and condenser microphones, it utilizes the innovative technology of perceiving sound as fluctuations in light waves. In addition to superior hi-fi characteristics, it offers a number of benefits such as pinpoint directionality, a substantial reduction in noise, and compact design. These advantages make the microphone suitable for a variety of applications: voice recognition devices for information equipment, broadcasting and music microphones, cellular phones, camcorders, etc. It has the potential to become the industry standard for microphones.



Car Audio Players with Built-in MP3 Decoder

Z919 and D919 were the first-in-the-industry component audio systems with built-in MP3 decoders. These models enable users to use, inside their automobiles, CD-R and CD-RW disks from their PCs to listen to music recorded in MP3 format. Since the MP3 format compresses the data to one-tenth the original size, a CD-R disk can store as much music data as recorded on ten CDs. Thus one can enjoy uninterrupted playback without the help of a CD changer. The two models caught on fast with PC users, and continue to sell well.

Receivers and Components for Digital Broadcasting

There is a worldwide trend in the broadcasting industry toward digitalization. Kenwood has been marketing DAB receivers for automobiles in Europe since 1997 and, in September 1999, started shipments of integrated receiver decoders (IRD) for CANAL+ in Europe. In March 2000, a contract was signed with Sirius Satellite Radio of the US to develop a receiver for digital satellite broadcasts planned to start in March 2001. Meanwhile, for the Japanese market, Kenwood has developed a receiver front-end module (NIM) for BS digital broadcast scheduled to commence in December 2000, and plans to supply it to various television set manufacturers.

Creativity

Making use of its strengths, Kenwood gives birth to new product categories with creative design techniques and the latest technology

While we all benefit from the efficiency of technological innovations and high performance electronics, people also enjoy unsophisticated, personalized objects that have distinctive character. Kenwood wishes to fulfill this inherent human desire and tries to create unique lines of products, in addition to developing high performance equipment filled with advanced technologies. The Mask series car audio players, which registered a huge success in the US market with their unique retractable anti-theft device, and Rampage MD-radio-cassette players, which captured the hearts of youngsters in Japan with their vivid 5-color variations, are two examples. Meanwhile, our outdoor radio with heavy-duty specifications is an example of a completely new line of electronic product that performs well in nature. Kenwood continues to locate undiscovered demands and to develop products that expand people's lifestyle.

Mask

The US is the biggest market for Kenwood's car audio business, now celebrating its 20th anniversary. Having enormous popularity in this market is the Mask series of CD player-receivers. The secret to its success is, in addition to the fundamentals of superior sound quality and high functionality, the unique retractable anti-theft device in which the operation panel flips over and hides. The practicality of the device, plus the intricate mechanism that amuses consumers, captured a large number of hearts. The recently introduced middle-rank D-Mask series, with an anti-theft mechanism that functions as a detachable device as well as a retractable one, is also performing well.

Rampage

In the past, home audio equipment was either silver or black. The product that broke this industry practice and set the trend for colorful audio products in the Japanese market was Kenwood's Rampage MD-radio-cassette players. The latest variations released this spring come in untraditional colors: violet, red, yellow, green, etc. Rampage is expected to gain even more market share with its fashionable design and outstanding performance.

Outdoor Radio

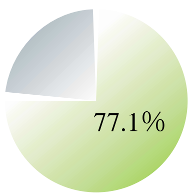
Kenwood introduced a high-performance portable radio that performs well under the severe conditions of mountain climbing and marine sports. Its impact resistance is outstanding, thanks to a sturdy body made of titanium alloy and a shock absorbing gel on four corners. It also has superior water-resistance unprecedented in conventional portable radios, in the event it falls into the water. In addition to the AM/FM tuner that covers the broadcast bandwidth of the entire planet, it features a short-wave tuner which is indispensable for obtaining weather reports. Added features, such as an IC recorder with a timer and a switch layout that enables one-hand operation even with a glove on, make it a perfect device for outdoor life.

Audio equipment is one of the major business categories for Kenwood. In recent years, the market for home audio equipment has been marked by a drastic fall in prices, and with the added impact of a stronger yen the company has been struggling in this category, especially overseas, despite more units being sold each year. Domestically, where MD is gaining more popularity, Kenwood has added color variations to the major products with built-in MD player and has turned them into the most wanted items on the market.

Now celebrating 20 years of activity, domestic market car audio sales remain only on a par with the previous year as automobile sales continued to slump. On the other hand, newly introduced DVD car navigation systems performed very well and OEM sales have expanded. Overseas sales also thrived, aided mainly by the continuous growth of the automobile market, especially in the US.

Kenwood continued to hold second place in that country's after-market sales, thanks largely to the popularity of the brand. However, despite such performance, the sales amount in yen decreased due to the appreciation of the yen.

Percent of Net Sales



Audio Equipment

Home Audio

Overview

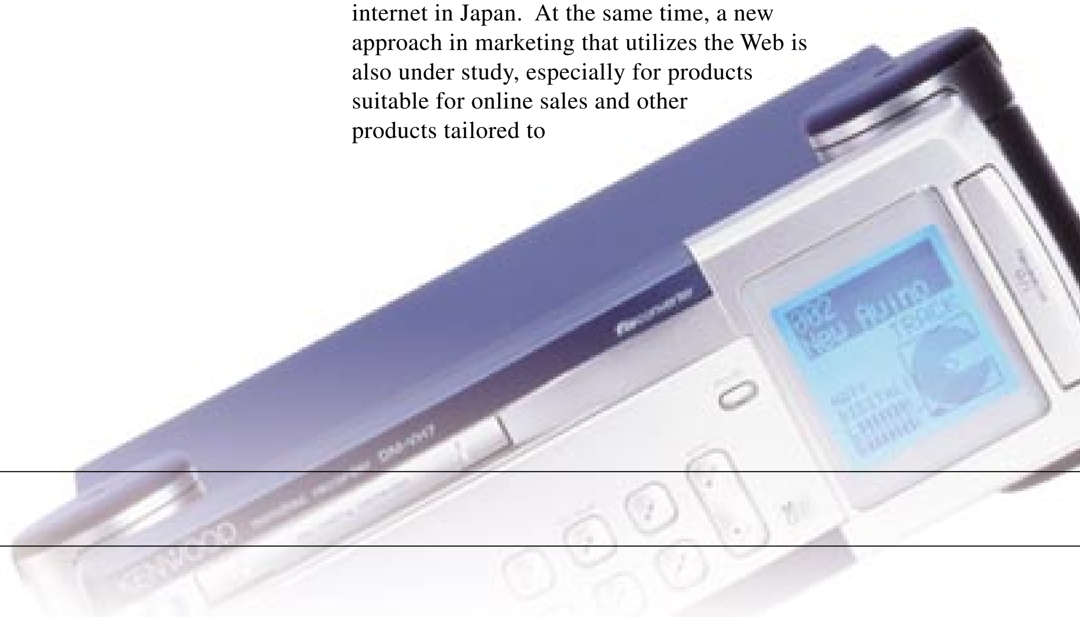
Sales of the home audio for the year ended March 2000 decreased 12.9% from the previous year to \95.2 billion.

Despite the expansion of MD products, such as MD component systems and MD-radio-cassette players, in the domestic market, Kenwood's major items - stereo component systems - have been affected by lower market prices. As a result, domestic sales stood at \43.7 billion, a decrease of 1.2% from the previous year. However, our newly introduced line of products featuring interior-friendly design was well received in the market as there was nothing equivalent. One of the new design concepts was the introduction of color variations. Five color variations in the Rampage line of MD-radio-cassette players and four variations in the Avino micro-component systems increased sales of those lines, largely by attracting female users. Meanwhile, the Avino VH-7MD was awarded the Good Design Prize by MITI for its superior look and a unique concept that enables it to be operated on its side as well as upright.

On the other hand, overseas sales shrank to \51.5 billion, 20.8% less than the previous year, due to falling prices on the global market and the stronger yen against the dollar and the euro.

Strategy and Prospects

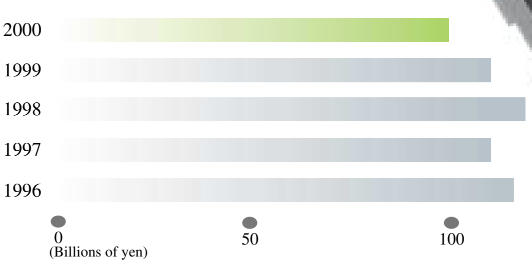
In the home audio business, Kenwood will try to improve sales and profits by introducing new models with added features in the Rampage and Avino lines, both exhibiting impressive performance in the domestic market. We also have a plan to develop devices to handle music distribution over the internet by fully utilizing our competence in diverse technologies. For example, at an exhibition held in November 1999 (Audio EXPO '99) the company drew acclaim by demonstrating a prototype piece of audio equipment that is capable of downloading music from the internet and playing it back. Such products will be introduced in the market at the appropriate times, with an eye to progress in the infrastructure for music distribution services on the internet in Japan. At the same time, a new approach in marketing that utilizes the Web is also under study, especially for products suitable for online sales and other products tailored to



particular personal likings.

For the overseas market, we will introduce highly competitive new models carefully designed for the particular needs and tastes of each market, such as home theater systems for the North American market and mini component systems for the Asian market.

Sales of Home Audio Products (Consolidated)



Car Audio

Overview

Sales of the Car Audio for the year ended March 2000 were \108.0 billion, 5.6% less than the previous year.

Domestic sales were up by 3.2% and reached \41.6 billion. Automobile sales showed no signs of recovery and the after-market sales of car audio remained at almost the same level. On the other hand, new DVD navigation systems performed extremely well since their introduction, and OEM sales to automobile manufacturers and distributors soared by 24.8%.

Sales in the overseas market were \66.5 billion, 10.3% less than the previous year. In addition to the "MASK" series, which continued to excel in the US market, the middle class "D MASK" series was added to the line-up in January 2000 and gained in popularity. As for DAB receivers in the European market, the company has started mass-production of a brand-new model which is considerably smaller than existing models. It is an indication of Kenwood's preparedness for the digital broadcasting technology sprouting all over the world.

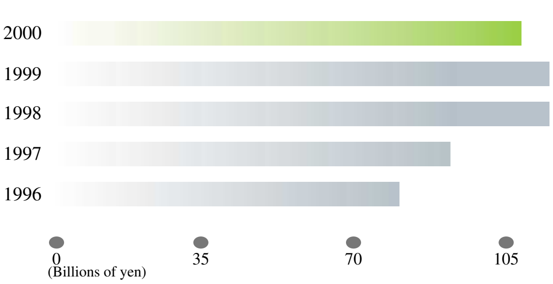
Strategy and Prospects

Kenwood's significant share of the world's after-market proves the superior quality, features and design of its products, as well as the firm establishment of its brand name. To build on its strength, Kenwood plans to introduce attractive new products, including DVD navigation systems which have proven to be extremely successful in Japan, to the US and European markets.

On the other hand, the company's share in OEM businesses is still small and global sales remain at \15.0 billion. This means there is a room for expansion and various strategies are currently being formulated to increase sales. One of them is to seek business partners among influential suppliers of automobile parts. In Japan, a DVD navigation system was developed in a joint effort with Denso, a Toyota affiliate. In Latin America, a complete knockdown assembly of car audio products is in progress at a factory belonging to Visteon, an affiliate of Ford Motors. The tie-up with Visteon could serve as a stepping-stone in our company's strategy to penetrate into the North American market.

In February 2000, Kenwood started the marketing of a car audio system with a built-in MP3 decoder, the first of its kind in the industry, and that model has attracted many PC users, a new customer group for Kenwood. So far it has proven to be successful, exceeding the original sales plan.

Sales of Car Audio Products (Consolidated)

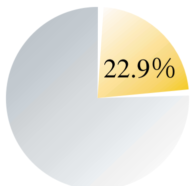


Home Audio

Car Audio

Communications equipment is another pillar of Kenwood's business and includes telephones, mobile communications equipment, and wireless radio equipment. As network operators are starting to offer more diversified services, mobile terminals such as cellular phones and PHS terminals are no longer simple communication tools, but are information terminals which have such functions as information gathering and dispatching. Kenwood offers a range of attractive terminals utilizing its know-how in the fields of telecommunications and audio.
As for radio communications systems, there are persistent demands for commercial applications throughout the world, although the demand for amateur radio is shrinking.
Kenwood's high performance radio equipment is highly valued in the world market for individual homes, and offices, as well as public institutions.

Percent of Net Sales



Communications Equipment

Telephones and Mobile Communications

Overview

Total sales for telephones and communications equipment during the year ended March 2000 were \30.9 billion, down 31.5% from the previous year. In the field of home telephone, however, Kenwood held its place in the matured market by achieving the same level of sales as the previous year. A new all-in-one model with functionality of a fax machine was added to the lineup of cordless telephone answering machines. Kenwood looks for a steady growth by expanding its product range.

In mobile communications, a decline in sales resulted from a delay in the introduction of PDC (cellular phones). Only one new model of PDC could be marketed before the end of the period. Meanwhile, with PHS (Personal Handy-phone System), a new model was developed in accordance with the H" standard released by DDI Pocket and it gained immediate popularity in the marketplace.

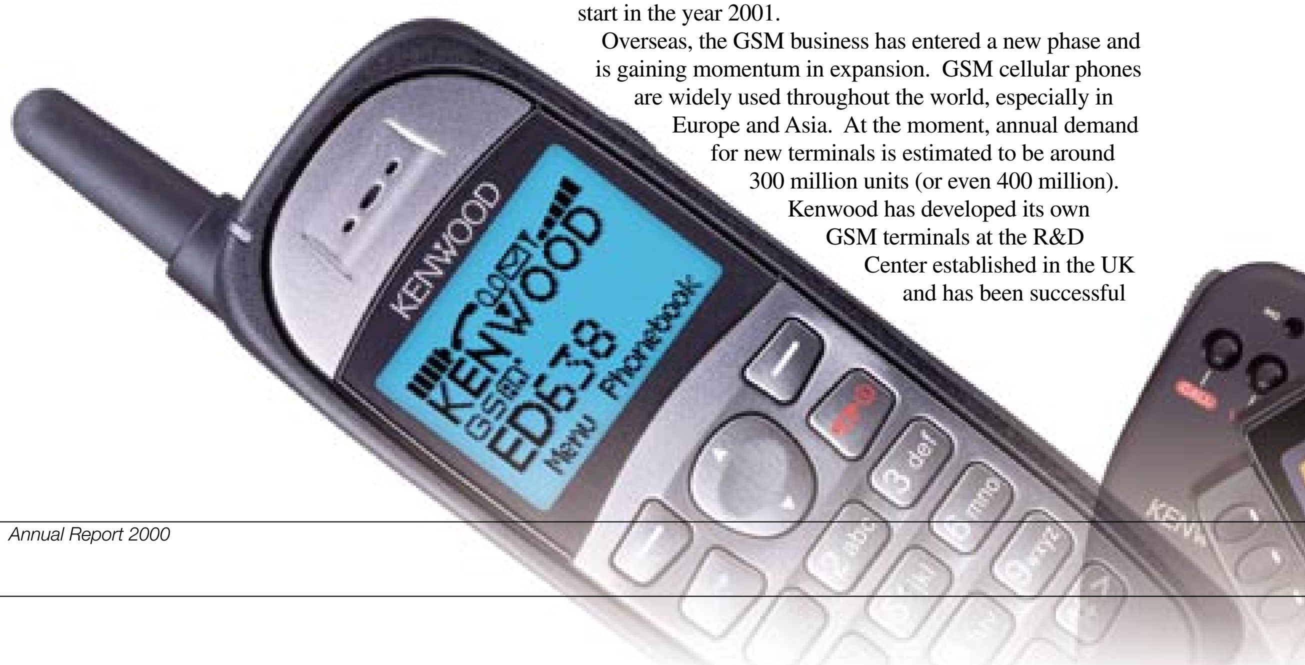
Strategies and Prospects

In Japan, PDC and PHS terminals are undergoing a series of transformations these days: clarity of voice, high-speed data communication, e-mailing, browsing the Web, a color LCD display ... the list goes on and on. To survive in an ever-changing market like this, a company must be ready to develop one product after another in accordance with shifting demands and the requirements of network operators. In other words, one must be able to foresee the direction each network operator is headed and continually work on future products.

To achieve stable growth in the cellular (PDC) phone business, we now make it a rule that two new models must be made available each year. Since the summer of 1999, a new system has been implemented to develop products with two separate teams. The change will be reflected in products scheduled for introduction this coming fall.

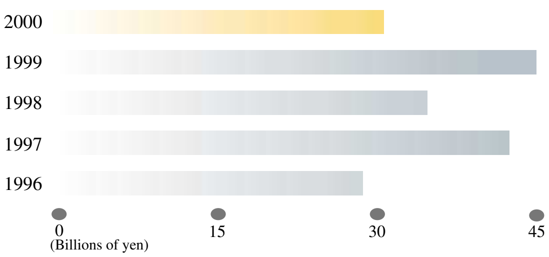
In addition, new cellular phone services using IMT-2000 or W-CDMA will become available in Japan next year. At Kenwood, development of a W-CDMA mobile terminal has been underway since December 1998. Commercial production of IMT-2000 or W-CDMA mobile terminals will start in the year 2001.

Overseas, the GSM business has entered a new phase and is gaining momentum in expansion. GSM cellular phones are widely used throughout the world, especially in Europe and Asia. At the moment, annual demand for new terminals is estimated to be around 300 million units (or even 400 million). Kenwood has developed its own GSM terminals at the R&D Center established in the UK and has been successful



in signing contracts with several network operators in Europe and Asia. However, as the market expands, the company has been receiving new buying offers that could add up to sales of one million units. In order to catch up with this growing demand, a new R&D facility is being established in Singapore and, if everything goes as expected, production facilities will be expanded to increase the output.

Sales of Telephone and MobileCommunication Products (Consolidated)



Wireless Radios

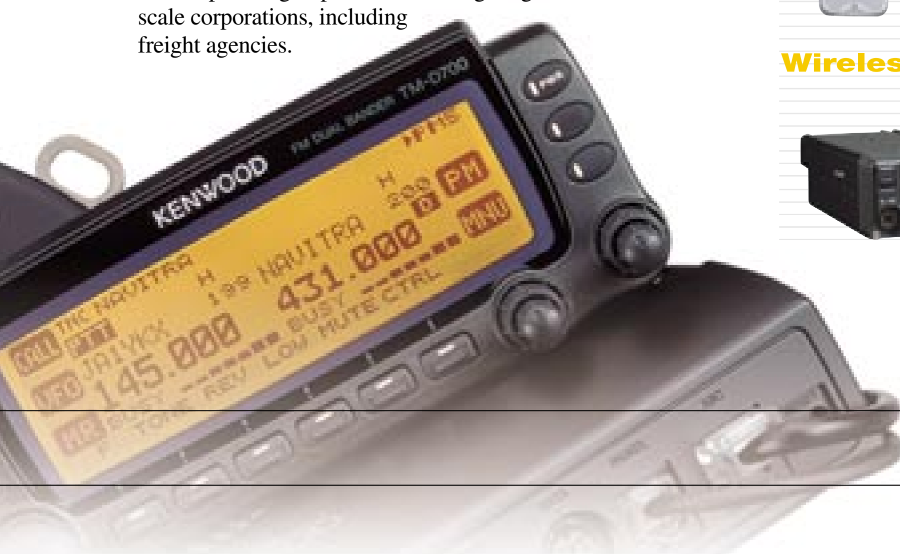
Overview

Sales of wireless radio equipment for the year ended March 2000 were \32.0 billion, 7.5% less than the previous year.

In addition to the shrinking amateur radio market throughout the world, the model change for business use LMR caused an interruption in supply, decreasing the sales amount.

Overseas demand is steady and continuous growth can be expected in various commercial applications, especially in the LMR market in the US. Thanks to aggressive marketing efforts in recent years, Kenwood became the second largest supplier (in terms of sales amount) of LMR equipment in the world. However, its market share is only 5%, painfully behind the No.1 manufacturer whose share is believed to be around 70%. Continuous efforts are being made to increase our market share.

As for the Japanese market, Kenwood has developed GPS AVM (Automatic Vehicle Monitoring System), which is a combination of a handy positioning system and a radio transmitter/receiver system for business communications. We are planning to promote this, targeting small-scale corporations, including freight agencies.



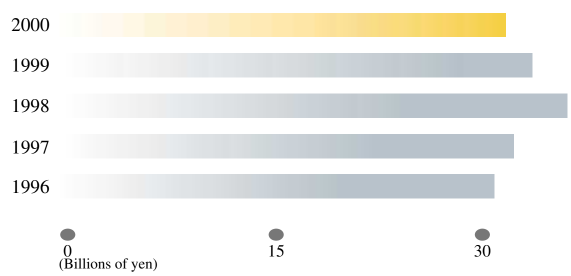
Strategies and Prospects

As the amateur radio market continues to wane due to the expansion of mobile communications equipment, Kenwood has been shifting its emphasis toward LMR equipment in recent years.

In the US, where further growth is expected in LMR, the company will cultivate sales by augmenting its product lineup aimed at public safety institutions, such as police stations and fire stations, and in the corporate office and factory sectors. To execute the plan, a new sales and R&D facility will open in Atlanta in July 2000. Having this new office working in tandem with the existing L.A. office will significantly increase Kenwood's sales force in the US.

In Asia, Kenwood's market share for radio terminals is very close to that of the industry leader, thanks largely to success in China. However, we lack experience in project sales and systems integration, as for example, in supplying equipment for new wireless base stations. Thus, in the future, the company's priority will be placed on offering better solutions by integrating various systems according to specific needs of customers.

Sales of Wireless Radios (Consolidated)



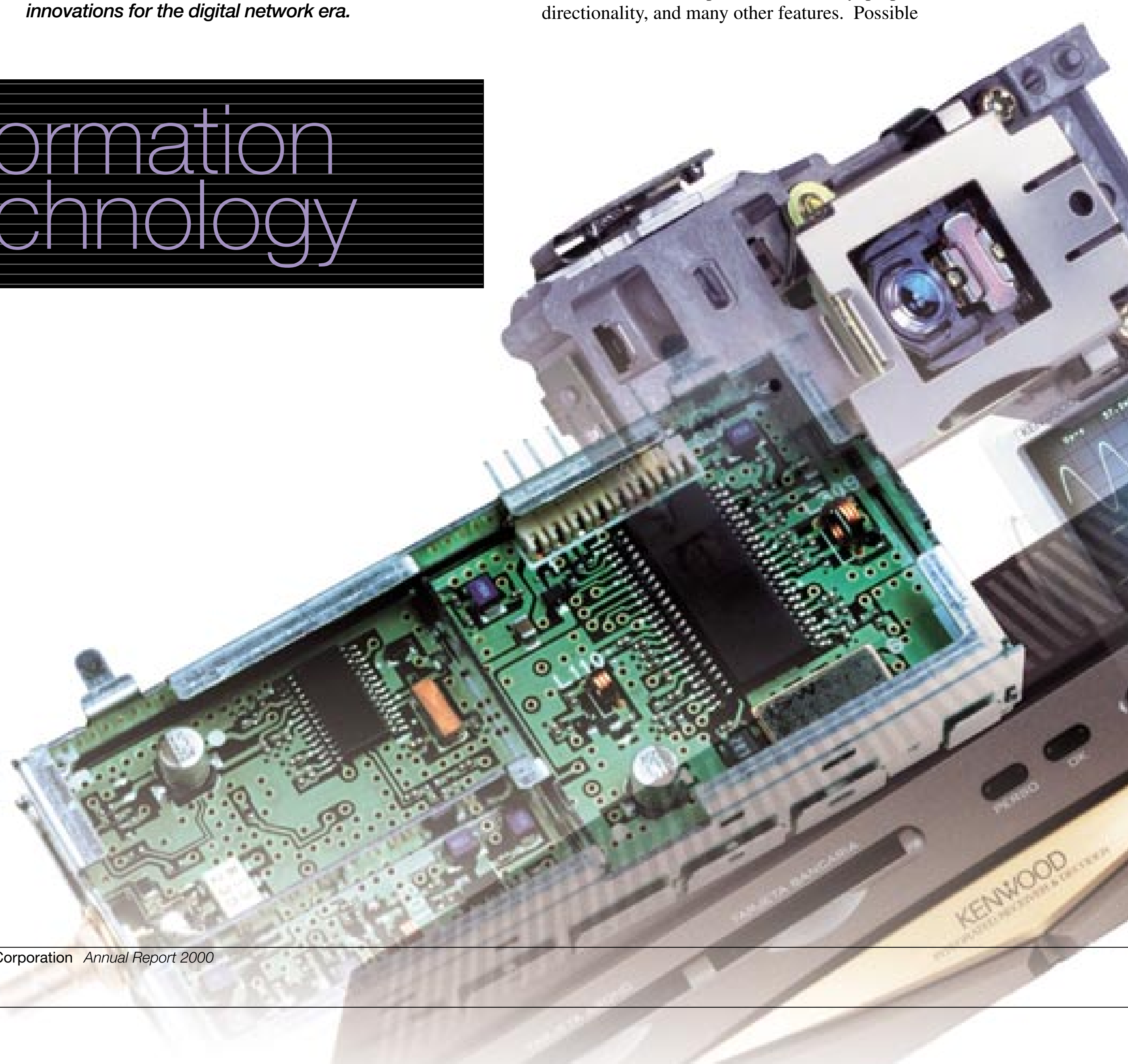
Various products offered by Kenwood, such as car audio equipment, car navigation systems, home audio equipment, cellular phones, and communications equipment, must function as multi-media appliances in the society of the near future where electronic networks will play an important role. Hence, Kenwood perceives the ongoing IT revolution as an opportunity and intends to be the first to offer a range of "network capable" products - audio equipment with MP3 decoders and cellular phones for the new standards, to name a few. The development of key devices, derived from our own unique technologies, constitutes a large part of our attempt to commercialize this advanced equipment. The world's first optical microphone, the high quality CODEC that enables the emergence of music distribution services, IRD (Integrated Receiver Decoder) and circuit modules for digital broadcasting ... Kenwood continues to lead the industry with its innovations for the digital network era.

Overview

In the area of digital broadcasting, the company has been developing products for each standard proposed in Japan, the US, and Europe. In September 1999, it started shipments of IRD exclusively developed for CANAL+, the largest broadcaster in Europe, destined for the Polish market. Approaches to other markets are already in progress. In Japan, OEM sample shipments are being made for NIM, a front-end module indispensable for de-modulation of signals in BS digital broadcasts, scheduled to start in December 2000.

The list of prospective devices also includes the optical microphone announced in October 1999. This is a microphone based on the entirely new principle of capturing sounds, i.e. air vibrations, in the form of fluctuations in light waves. Kenwood became the first manufacturer to offer such a product as a result of joint development with Phone-Or Ltd. in Israel. Unlike conventional ones, this microphone adds a completely new dimension with its superlative sensitivity, pinpoint directionality, and many other features. Possible

Information Technology



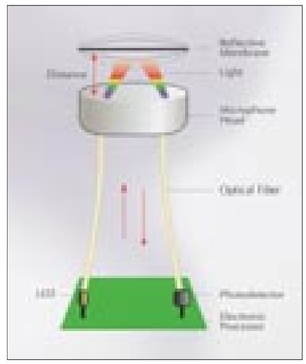
applications include, but are not limited to, cellular phones, car navigation systems, audio-visual equipment, computers, broadcast equipment, and hearing aids.

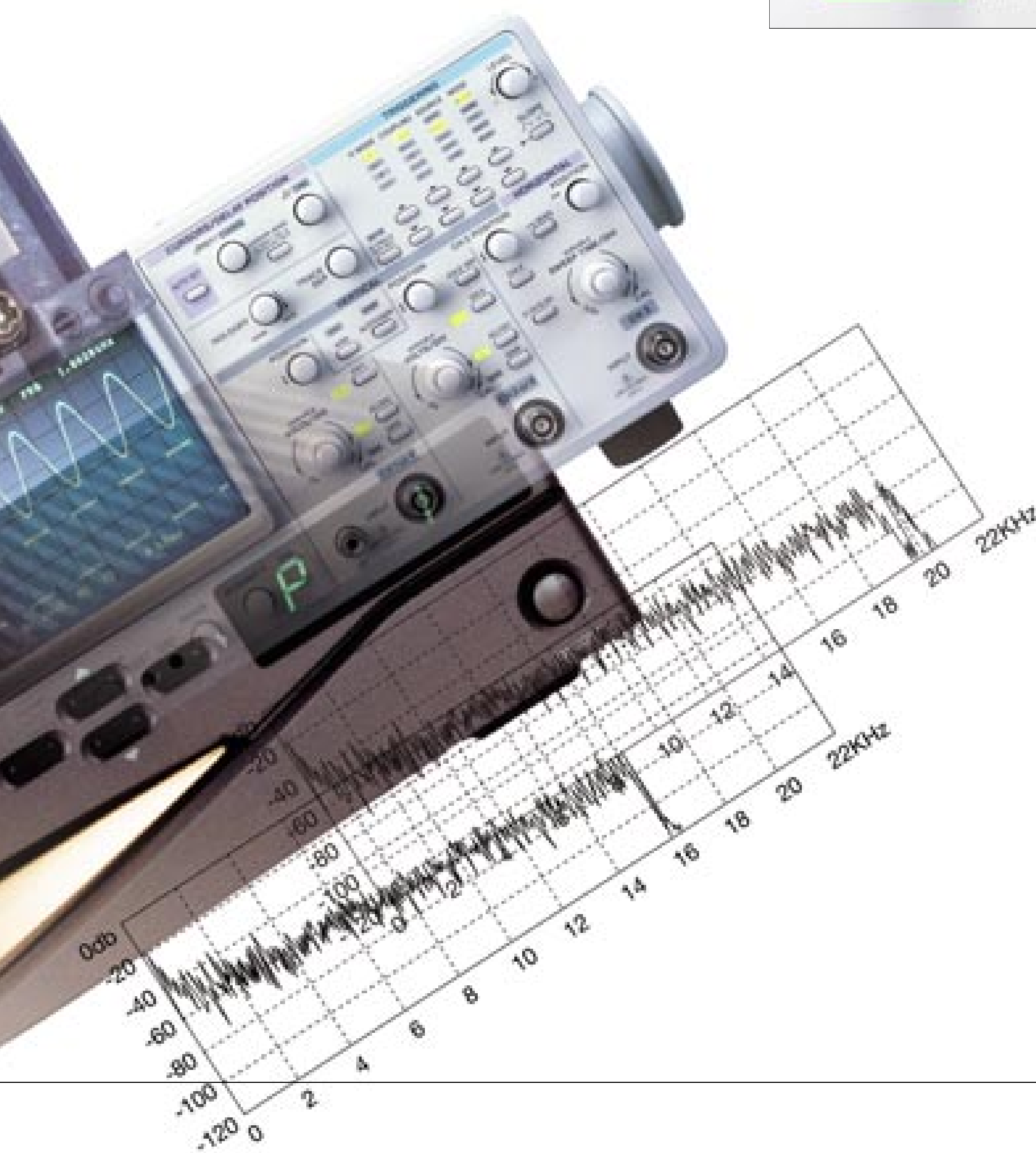
On the other hand, Kenwood TMI develops and produces measuring instruments such as oscilloscopes, DC electric loads, regulated DC power supplies, AV test equipment and sophisticated digital test instruments. These are essential for R&D activities for manufacturing equipment, quality control, research for new AV technologies, etc. The highly efficient electronic load with a built-in sequence controller, and the IEEE1394 bus tester, are examples of high performance measuring instruments produced by the company, which enjoys a high reputation throughout the world.

Strategies and Prospects

Product development aimed at digital broadcasting in Japan and the US is also a key to invigorating the broadcast business, in addition to the expansion of IRD sales in Europe. Already in March 2000, Kenwood signed a contract with Sirius Satellite Radio in the US to develop a car receiver for the BS digital radio broadcasts they plan to start in March 2001. Also on the agenda is the development of receivers for surface wave (AM/FM) digital broadcasts in the US.

The optical microphone is undergoing repeated tests under the severe conditions of car racing. Besides being incorporated into Kenwood products, the microphone will be sold to various electronics suppliers in order to expand its applications and make it the new standard for microphones.





Financial Review

Although the Japanese economy during the fiscal year under review had seen a moderate recovery backed up by the government's spending and financial policies, the recession is far from over as private demands such as personal consumption and private investments lacked strength in rebounding. Overseas, the US economy continued to grow while the European market, where the euro is still weak, and the Asian market had hit the bottom and rebounded.

Performance

Sales

Total net sales for the group during the fiscal 2000 were \274.5 billion, a decrease of 11.4% from the previous year. Domestic sales were \123.5 billion (\137.2 billion in the previous year), and accounted for 45% of the total net sales (44.3% in the previous year). On the other hand, overseas sales were \151.0 billion (\172.6 billion in the previous year) and accounted for 55.0% of the total sales (55.7% in the previous year).

Revenues from audio business including measuring instruments declined 8.0% to \211.6 billion. While portable audio with built-in MD player and car navigation systems performed well, the price drop of component audio systems and weakened foreign currencies had negative effects on the outcome. In communications equipment business, sales were affected by the delay in the introduction of new cellular phones in Japan and remained at \63.0 billion, a decrease of 21.1% from the previous year.

Expenses and Earnings

The cost to sales ratio deteriorated slightly from 73.4% the previous year to 74.5%. Sales cost amounted to \204.5 billion (\227.3 billion in 1999) and gross profit declined 15.1% to \70.0 billion.

Selling, general and administrative expenses (SG&A) decreased 5.6% from the previous year to \64.9 billion. The decrease was mainly attributable to reduction in payrolls and other measures taken to improve financial status of the company. However, the reduction in gross profit was too big to overcome and operating income was held to \5.1 billion (\13.7 billion in 1999).

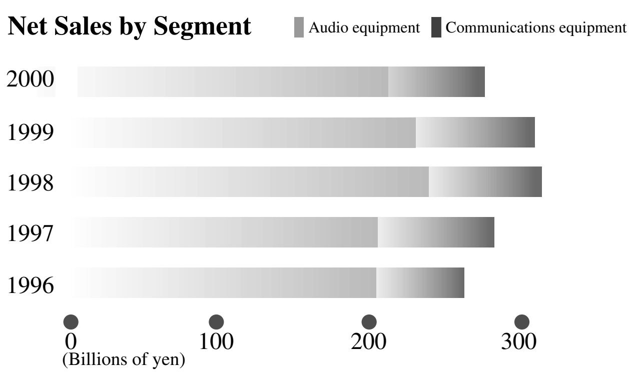
We had a net loss of \1.2 billion before tax as opposed to net income of \5.7 billion before tax in the previous year. Net loss after tax was \1.0 billion (net income after tax was \3.7 billion in 1999).

The loss translates to a loss of \6.91 per share (earnings per share in 1999 were \25.35).

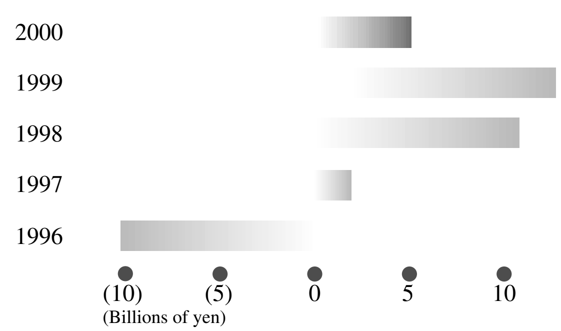
Financial Position

Total assets of the company, on a consolidated base, decreased 0.4% from the previous year and stood at \212.5 billion at

Net Sales by Segment



Operating Income



the end of March 2000. Total current assets decreased 5.1% to \130.2 billion as a result of our efforts to hold down the total amount in accounts receivable and inventories. Property, plant and equipment, at cost, less accumulated depreciation, on the other hand, increased 6.2% from the previous year to \36.1 billion thanks largely to revaluation of land values. Investments and other assets were \46.2 billion, an increase of 9.7% from the previous year. The recognition of deferred tax assets, investments in software, and a rise in translation adjustment all contributed to the increase. Meanwhile, the reduction in short-term debt led to a 6.7% decrease in current liabilities, which stood at \135.8 billion. Long-term liabilities increased 17% from the previous year to \40.8 billion. Major reasons for the increase were recognition of deferred tax liabilities for revaluation and expanded long-term borrowings. As a whole, total shareholders' equity increased 9.4% from the previous year to \35.3 billion as a result of revaluation of land values.

Cash Flows

The balance of cash and cash equivalents at the end of the fiscal term increased \4.8 billion from \13.7 billion in 1999 and was \18.5 billion. Net cash provided by operating activities was \16.8 billion thanks to reductions in notes and accounts receivable and in inventories, as well as the increase in accounts payable. Net cash used in investing activities was \9.2 billion due to purchases of tangible fixed assets and software. In financing activities, increased payment of short and long-term borrowings led to a net spending of \1.7 billion

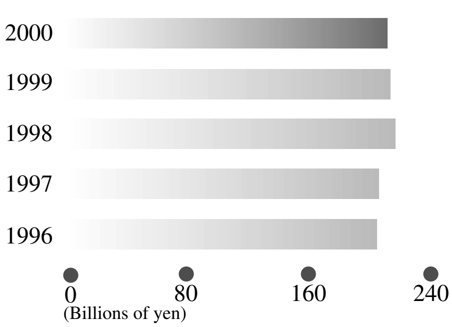
Capital Expenditures

Total capital expenditures during the term under review were \11.0 billion, an increase of 6.9% from the previous year, of which a majority was spent for obtaining metal dies for new products.

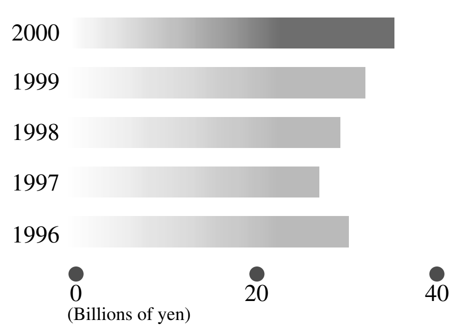
Financial Indicators

At the end of March 2000, the shortage in working capital was \5.6 billion. The current ratio was 0.96 (0.94 in 1999). The shareholders' equity ratio was 16.6% (15.1% in 1999) and asset turnover rate was 1.29 times (1.45 times in 1999).

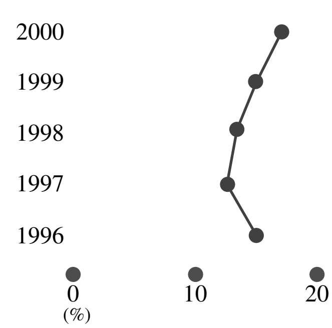
Total Assets



Total Shareholders' Equity



Equity Ratio



Consolidated Balance Sheets

Kenwood Corporation and Consolidated Subsidiaries
As of March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2000**	1999	**2000**
Current Assets:			
Cash and cash equivalents	**\ 18,496**	\ 13,712	**$ 174,491**
Time deposits	**4,736**	4,894	**44,679**
Marketable securities (Note 2)	**365**	393	**3,443**
Trade notes and accounts receivable	**48,881**	55,985	**461,142**
Less: Allowance for doubtful receivables	**(1,194)**	(1,286)	**(11,264)**
Inventories—			
Finished goods	**30,048**	33,426	**283,472**
Work in process and raw materials	**19,864**	22,457	**187,396**
Deferred tax assets (Note 9)	**2,402**	1,486	**22,660**
Prepaid expenses and other	**6,620**	6,133	**62,453**
Total current assets	**130,218**	137,200	**1,228,472**
Property, Plant and Equipment, at Cost (Note 5)**:**			
Land (Note 4)	**13,104**	7,890	**123,623**
Buildings and structures	**22,560**	23,713	**212,830**
Machinery and equipment	**19,479**	17,616	**183,764**
Tools, furniture and fixtures	**39,659**	42,964	**374,141**
Construction in progress	**68**	39	**642**
	94,870	92,222	**895,000**
Less: Accumulated depreciation	**(58,781)**	(58,253)	**(554,538)**
Net property, plant and equipment	**36,089**	33,969	**340,462**
Investments and Other Assets:			
Investment securities (Note 2)	**17,686**	18,802	**166,849**
Investments in and advances to unconsolidated subsidiaries and associated companies	**1,685**	1,128	**15,896**
Software	**5,056**	3,838	**47,698**
Deferred tax assets (Note 9)	**2,523**	—	**23,802**
Lease deposits and other	**5,145**	6,826	**48,538**
Financial statement translation adjustments	**14,070**	11,490	**132,736**
Total investments and other assets	**46,165**	42,084	**435,519**
Total	**\212,472**	\ 213,253	**$ 2,004,453**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	1999	Thousands of U.S. dollars (Note 1) 2000
Current Liabilities:			
Short-term bank borrowings (Note 5)	**\ 58,963**	\ 72,592	**$ 556,255**
Current portion of long-term debt (Note 6)	**10,700**	7,506	**100,943**
Trade notes and accounts payable	**54,616**	53,949	**515,245**
Income taxes payable (Note 9)	**568**	1,210	**5,359**
Accrued expenses	**8,177**	8,382	**77,142**
Other	**2,793**	1,927	**26,349**
Total current liabilities	**135,817**	145,566	**1,281,293**
Long-term Liabilities:			
Long-term debt (Note 6)	**35,867**	32,278	**338,368**
Employees' retirement allowances	**2,147**	2,108	**20,255**
Deferred tax liabilities (Note 4)	**2,288**	—	**21,585**
Other	**471**	476	**4,443**
Total long-term liabilities	**40,773**	34,862	**384,651**
Minority Interests	**595**	576	**5,613**
Commitments and Contingent Liabilities (Note 3 and 11)			
Shareholders' Equity (Note 7)**:**			
Common stock, par value \50 per share;			
Authorized–500,000,000 shares			
Issued and outstanding–147,333,995 shares	**22,382**	22,382	**211,151**
Additional paid-in capital	**18,144**	18,144	**171,170**
Revaluation surplus (Note 4)	**3,160**	—	**29,811**
Accumulated deficit	**(8,398)**	(8,276)	**(79,226)**
	35,288	32,250	**332,906**
Less: Treasury stock, at cost	**(1)**	(1)	**(10)**
Total shareholders' equity	**35,287**	32,249	**332,896**
Total	**\212,472**	\ 213,253	**$ 2,004,453**

Consolidated Statements of Operations

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Net Sales	**\274,517**	\ 309,825	\ 312,175	**$ 2,589,783**
Cost of Sales	**204,506**	227,340	226,136	**1,929,302**
Gross profit	**70,011**	82,485	86,039	**660,481**
Selling, General and Administrative Expenses	**64,867**	68,741	74,409	**611,953**
Operating income	**5,144**	13,744	11,630	**48,528**
Other Income (Expenses):				
Interest expense, net	**(3,028)**	(3,634)	(3,786)	**(28,566)**
Equity in earnings (losses) of affiliates	**70**	61	(347)	**660**
Gain (loss) on sales of investment securities, net	**3,494**	584	(74)	**32,962**
Loss on devaluation of investment securities	**(3,141)**	(1,736)	(833)	**(29,632)**
Loss on disposal of inventories	**(2,921)**	(1,923)	(1,891)	**(27,556)**
Loss on devaluation of marketable securities	**—**	—	(171)	**—**
Gain (loss) on sales of property, plant and equipment, net	**(303)**	(71)	82	**(2,858)**
Loss on liquidation of unconsolidated subsidiary	**—**	—	(141)	**—**
Additional retirement allowances paid to employees	**(90)**	(462)	—	**(849)**
Retirement allowances paid to directors and corporate auditors	**(467)**	—	—	**(4,406)**
Other, net, including cash discounts	**52**	(875)	(2,424)	**491**
Total	**(6,334)**	(8,056)	(9,585)	**(59,754)**
Income (loss) before Income Taxes and Minority Interests	**(1,190)**	5,688	2,045	**(11,226)**
Income Taxes (Note 9)**:**				
Current	**1,187**	1,559	759	**11,198**
Deferred	**(1,441)**	373	(428)	**(13,594)**
Total	**(254)**	1,932	331	**(2,396)**
Minority Interests in Net Income	**81**	22	34	**765**
Net Income (Loss)	**\ (1,017)**	\ 3,734	\ 1,680	**$ (9,595)**

	Yen			U.S. dollars (Note 1)
Per Share Data (Note 10)**:**				
Net income (loss)	**\ (6.91)**	\ 25.35	\ 11.41	**$ (0.07)**
Cash dividends applicable to the year	**—**	3.00	3.00	**—**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Common Stock:				
Beginning balance	**\ 22,382**	\ 22,382	\ 22,382	**$ 211,151**
Ending balance	**\ 22,382**	\ 22,382	\ 22,382	**$ 211,151**
Additional Paid-in Capital:				
Beginning balance	**\ 18,144**	\ 18,144	\ 18,144	**$ 171,170**
Ending balance	**\ 18,144**	\ 18,144	\ 18,144	**$ 171,170**
Revaluation Surplus (Note 4):				
Beginning balance	**\ —**	\ —	\ —	**$ —**
Land revaluation	**3,160**	—	—	**29,811**
Ending balance	**\ 3,160**	\ —	\ —	**$ 29,811**
Accumulated Deficit:				
Beginning balance	**\ (8,276)**	\ (11,470)	\ (13,128)	**$ (78,075)**
Adjustment to retained earnings for the adoption of deferred tax accounting method	**1,467**	—	—	**13,840**
Net income (loss)	**(1,017)**	3,734	1,680	**(9,595)**
Cash dividends paid	**(442)**	(442)	—	**(4,170)**
Transfer to employee welfare fund	**(12)**	—	(21)	**(113)**
Bonuses paid to directors and corporate auditors	**(118)**	(98)	(3)	**(1,113)**
Adjustment to retained earnings from consolidation of additional subsidiaries	**—**	—	2	**—**
Ending balance	**\ (8,398)**	\ (8,276)	\ (11,470)	**$ (79,226)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Kenwood Corporation and Consolidated Subsidiaries
For the Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	¥ **(1,190)**	¥ 5,688	¥ 2,045	$ **(11,226)**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Income taxes-paid	**(1,553)**	(904)	(438)	**(14,651)**
Depreciation and amortization	**10,194**	9,920	8,775	**96,170**
Provision for doubtful receivables	**74**	214	446	**698**
Loss (gain) on sales of property, plant and equipment, net	**303**	71	(82)	**2,858**
Increase (decrease) in employees' retirement allowances	**60**	(187)	314	**566**
(Gain) loss on sales of investment securities	**(3,494)**	(584)	74	**(32,962)**
Devaluation of investment securities	**3,141**	1,736	833	**29,632**
Devaluation of marketable securities	**—**	—	171	**—**
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	**1,769**	(402)	(8,361)	**16,689**
Decrease in inventories	**1,314**	5,948	1,699	**12,396**
Increase (decrease) in trade notes and accounts payable	**5,348**	666	(2,827)	**50,453**
Other, net	**826**	(196)	817	**7,792**
Net cash provided by operating activities	**16,792**	21,970	3,466	**158,415**
Cash Flows from Investing Activities:				
(Increase) decrease in time deposits, net	**157**	(2,234)	(1,587)	**1,481**
Proceeds from sales of marketable securities, net	**270**	680	14	**2,547**
Proceeds from sales of property, plant and equipment	**434**	1,976	1,092	**4,094**
Proceeds from sales of investment securities	**7,740**	1,643	204	**73,019**
Purchases of property, plant and equipment	**(6,547)**	(7,564)	(9,148)	**(61,764)**
Purchases of investment securities	**(7,291)**	(6,725)	(877)	**(68,783)**
Other, net	**(3,953)**	(3,351)	(1,828)	**(37,292)**
Net cash used in investing activities	**(9,190)**	(15,575)	(12,130)	**(86,698)**
Cash Flows from Financing Activities:				
(Decrease) increase in short-term bank borrowings, net	**(3,808)**	(12,266)	11,053	**(35,924)**
Proceeds from long-term debt	**10,419**	33,000	4,916	**98,292**
Repayments of long-term debt	**(7,903)**	(21,225)	(7,450)	**(74,557)**
Cash dividends paid	**(442)**	(442)	—	**(4,170)**
Other, net	**(8)**	7	(67)	**(75)**
Net cash (used in) provided by financing activities	**(1,742)**	(926)	8,452	**(16,434)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(1,076)**	(213)	1	**(10,151)**
Net Increase (decrease) in Cash Equivalents	**4,784**	5,256	(211)	**45,132**
Cash and Cash Equivalents at Beginning of Year	**13,712**	8,456	8,667	**129,359**
Cash and Cash Equivalents at End of Year	¥ **18,496**	¥ 13,712	¥ 8,456	$ **174,491**

See notes to consolidated financial statements.

1. Significant Accounting Policies

The following is a summary of the significant accounting policies adopted by Kenwood Corporation (the"Company") and its consolidated subsidiaries in the preparation of the accompanying consolidated financial statements.

(a) Basis of Presenting Consolidated Financial Statements
The accompanying consolidated financial statements have been prepared based on the consolidated financial statements filed with the Ministry of Finance as required by the Securities and Exchange Law of Japan, which are prepared in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and those for the years ended March 31, 2000, 1999 and 1998 are presented herein.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a from which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. Certain reclassifications have been made to the 1999 and 1998 consolidated financial statements to conform to the 2000 presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2000. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(b) Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its significant 42 (41 in 1999 and 39 in 1998) subsidiaries (together, the "Group").

Effective April 1, 1999, the Group changed its consolidated scope of subsidiaries and associated companies from the application of the ownership concept to the control or influence concept in accordance with the new accounting standard for consolidation. Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements for the year ended March 31, 1999 and 1998 are not retroactively adjusted.

Investments in 1 (none in 1999 and 1998) unconsolidated subsidiary and 1 (2 in 1999 and 1998) associated company are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The excess of the cost of the Company's investments in consolidated subsidiaries over its equity in the net assets until March 31, 1999, is being amortized over 5 years.

Effective April 1, 1999, the excess of the cost of an acquisition over the faire value of the net assets of the acquired subsidiary is being amortized over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material intercompany profit included in assets resulting from transactions within the Group is eliminated.

(c) Cash Equivalents
Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, and commercial paper, all of which mature or become due within three months of the date of acquisition.

(d) Foreign Currency Transactions
Foreign currency transactions are translated into Japanese yen using the exchange rates in effect at the time of the transactions; short-term receivables and payables denominated in foreign currencies are translated at the exchange rates prevailing as of the end of each fiscal year and long-term receivables and payables denominated in foreign currencies are translated at the exchange rates in effect at the time of the transactions. Where forward exchange contracts exist and are designated as an economic hedge of identifiable foreign currency assets and liabilities, the contract rates are used for translation.

In the case where there is significant fluctuation of currencies which could result in exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date.

(e) Foreign Currency Financial Statements
In translating the financial statements of foreign subsidiaries and associated companies into Japanese yen, all assets and liabilities and revenues and expenses are translated at the current exchange rates in effect at each balance sheet date, except for shareholders' equity which is translated at the historical exchange rates in effect at the time of the transactions.The resulting translation adjustments of the financial statements of foreign subsidiaries are reflected as a separate component in the accompanying consolidated balance sheet.

(f) Inventories
Inventories maintained by the Company and its domestic subsidiaries are principally stated at average cost. Inventories maintained by foreign subsidiaries are principally stated at the lower of cost, determined by the first-in, first-out method, or market.

(g) Depreciation
Depreciation of property, plant and equipment is principally computed on the declining-balance method for the Company and its domestic subsidiaries and on the straight-line method for foreign subsidiaries over their estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures	3 to 56 years
Machinery and equipment	2 to 15 years
Tools, furniture and fixtures	2 to 20 years

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and betterments are capitalized.

Software for company use is carried at cost less accumulated amortization, which is calculated by the straight-line method principally over their estimated useful lives (5 years). Software installed in products is carried at cost less accumulated amortization, which is calculated in proportion of the actual sales volume of the products during the current year to the estimated total sales volume over the estimated salable years of the products or by the straight-line method over the estimated salable years of the products (1 to 5 years), considering the nature of the products.

(h) Marketable and Investment Securities
Marketable and investment securities are stated at moving average cost.

(i)Employees' Retirement Allowances
The Company has an unfunded retirement allowance plan for regular employees having more than one year of service with the Company. The amounts of the retirement allowances are, in general, determined on the basis of length of service and basic salary at the time of retirement.

The Company also has a funded welfare pension plan (substantially non-contributory) for regular employees having more than 5 years of service with the Company to pay a portion (40% in principle) of the amounts of the retirement allowances.

The Company accrues a liability for the retirement allowances, except for the amounts to be paid from the funded welfare pension plan, equal to 40% of the amount payable if all regular employees had voluntarily terminated their employment at the end of each fiscal year.

Under the funded welfare pension plan, the employees are entitled to lump-sum payments or pension payments, as defined, in addition to the lump-sum payments under the unfunded plan.

Under the funded welfare pension plan, it is the Company's policy to charge to income the annual pension payments to the trustee, including the amortization of prior service costs which are being amortized over approximately 20 years.

The pension fund assets, including a government pension fund required by Japanese law, were \16,306 million at March 31, 1999, the most recent date of available information.

Certain of the Company's consolidated subsidiaries have funded or unfunded retirement plans. The benefits are determined on a similar basis as referred to above.

Retirement allowances to directors and corporate auditors are charged to income when paid subject to the approval of the shareholders.

The total provisions, including amortization of prior service costs, charged to income under the above plans for the years ended March 31, 2000, 1999 and 1998, were \1,167million ($11,009thousand), \1,253 million and \1,344 million, respectively.

(j) Income Taxes
Effective April 1 1999, the Group adopted an accounting method for interperiod allocation of income taxes based on the assets and liability method. The cumulative effect of the application of interperiod tax allocation in prior years in the amount of \1,467 million ($13,840 thousand) is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws of April 1, 1999.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws to the temporary differences.

(k) Leases
All leases of the Company and domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

2. Marketable and Investment Securities

Marketable securities include interest-bearing securities and other securities. Investment securities consist of non-current marketable equity securities and other securities.

Carrying values and aggregate market values of current and non-current marketable securities held by the Group at March 31, 2000 and 1999, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2000		1999		**2000**	
	Carrying value	Market value	Carrying value	Market value	Carrying value	Market value
Current	**\ 272**	**\ 453**	\ 393	\ 142	**$ 2,569**	**$ 4,272**
Non-current	**14,566**	**13,603**	15,565	12,408	**137,414**	**128,332**
Total	**\ 14,838**	**\ 14,056**	\ 15,958	\ 12,550	**$139,983**	**$132,604**

The differences between the above carrying amounts and respective amounts shown in the accompanying balance sheets principally consist of money management funds and non-marketable securities held by the Company and marketable and investment securities held by its consolidated subsidiaries for which there is no readily-available market information.

3. Leases

The Group leases certain machinery, computer equipment, office space and other assets. Total lease payments under finance leases were \2,104 million ($19,849 thousand) and \2,179 million for the years ended March 31, 2000 and 1999, respectively.
Obligations under finance leases as of March 31, 2000 and 1999 are due as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Due within one year	**\ 1,603**	\ 1,815	**$ 15,123**
Due after one year	**2,682**	3,459	**25,302**
Total	**\ 4,285**	\ 5,274	**$ 40,425**

Pro forma information of leased property on an "as if capitalized" basis, such as acquisition cost, accumulated depreciation, and net lease property under finance lease as of March 31, 2000 and 1999 are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2000			1999			**2000**		
	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property	Acquisition cost	Accumulated depreciation	Net leased property
Machinery and equipment	**\ 5,297**	**\ 2,955**	**\ 2,342**	\ 5,776	\ 2,973	\ 2,803	**$ 49,972**	**$ 27,877**	**$ 22,095**
Tools, furniture and fixtures	**3,215**	**1,640**	**1,575**	3,456	1,446	2,010	**30,330**	**15,472**	**14,858**
Others	**427**	**223**	**204**	659	383	276	**4,028**	**2,104**	**1,924**
Total	**\ 8,939**	**\ 4,818**	**\ 4,121**	\ 9,891	\ 4,802	\ 5,089	**$ 84,330**	**$ 45,453**	**$ 38,877**

Depreciation expense and interest expense, which are not reflected in the accompanying statement of operations, computed by straight-line method and the interest method are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2000		1999		2000	
Depreciation expense	\	**1,907**	\	1,963	$	**17,991**
Interest expense	\	**176**	\	210	$	**1,660**

4. Revaluation Surplus

Under the "Law of Land Revaluation", promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2000. The resulting land revaluation surplus represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2000 were as follows:

		Millions of yen
Land before revaluation	\	**4,924**
Land after revaluation	\	**10,372**
Land revaluation surplus, net of income taxes of \2,288 million	\	**3,160**

5. Short-Term Bank Borrowings

Short-term bank borrowings are due within one year. The interest rates on these borrowings ranged from 0.67% to 9.0% and 0.680% to 12.50% as of March 31, 2000 and 1999, respectively.

As of March 31, 2000, short-term bank borrowings and long-term debt in the amount of \148 million ($1,399 thousand) were collateralized by land and buildings having a net book value of \408 million ($3,849 thousand).

6. Long-Term Debt

Long-term debt as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen				Thousands of U.S. dollars	
	2000		1999		2000	
Unsecured loans———						
Banks, 1.128%-8.400%, due through 2006	\	**31,458**	\	22,663	$	**296,773**
Japanese government-sponsored agencies, 2.15%-2.75%, due through 2005		**22**		27		**208**
Japanese insurance companies, 1.96%-2.90%, due throgh 2004		**14,938**		16,756		**140,924**
Obligations under capital leases, 12.50%, due through 2000		**—**		155		**—**
Others		**4**		20		**38**
Total unsecured loans		**46,422**		39,621		**437,943**
Mortgage loans (Note 5)		**145**		163		**1,368**
Total		**46,567**		39,784		**439,311**
Less: Current portion included in current liabilities		**(10,700)**		(7,506)		**(100,943)**
	\	**35,867**	\	32,278	$	**338,368**

The aggregate annual maturities of long-term debt as of March 31, 2000, were as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars	
2001	\	**10,700**	$	**100,943**
2002		**13,445**		**126,840**
2003		**11,308**		**106,679**
2004		**7,767**		**73,274**
2005 and thereafter		**3,347**		**31,575**
	\	**46,567**	$	**439,311**

7. Shareholders' Equity

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at a price in excess of par value be included in common stock.

The Japanese Commercial Code provides that a portion of retained earnings in an amount equal to at least 10% of the aggregate amount of cash dividends and certain other items made as appropriations of retained earnings associated with cash outlays with respect to each fiscal or interim six-month period be appropriated as a legal reserve until such reserve equals 25% of the stated capital. The legal reserve and additional paid-in capital are not available for dividends, but may be used to reduce a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Cash dividends are approved by the shareholders after the end of each fiscal period or declared by the Board of Directors after the end of each interim six-month period. Such dividends are payable to shareholders of record at the end of each such fiscal or interim six-month period.

Under the Japanese Commercial Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. As of March 31, 2000, retained earnings recorded on the Company's books were \2,122 million ($20,019 thousand) which is available for future dividends subject to approval of the shareholders and legal reserve requirements.

8. Research and Development Cost

Research and development costs charged to income were \3,125 million ($29,481 thousand) for the year ended March 31, 2000.

9. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income with normal tax rates aggregating 42%, 48% and 51% for the years ended March 31, 2000, 1999, and 1998, respectively.

As of March 31, 2000, the Company and certain consolidated subsidiaries had tax loss carryforwards of approximately \19,222 million ($181,340 thousand), which are available to apply against future taxable income.

Tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred Tax Assets:		
Devaluation of marketable securities	\ **1,778**	$ **16,774**
Tax loss carryforwards	**7,860**	**74,151**
Deferred interest expense	**594**	**5,604**
Other	**2,354**	**22,208**
Less: valuation allowance	**(7,661)**	**(72,275)**
	\ **4,925**	$ **46,462**

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying consolidated statement of operations is as follows:

	Year ended March 31, 2000
Normal effective statutory tax rate	**42.0%**
Expenses not deductible for income tax purposes	**(4.7%)**
Tax benefits not recognized on operating losses of subsidiaries	**(57.3%)**
Reversal of deferred tax assets on unrealized profit included in assets resulting from transactions within the Group	**39.6%**
Other, net	**1.7%**
Actual effective tax rate	**21.3%**

The normal effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 1999 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

10. Per Share Data

Net income (loss) per share is based on the weighted average number of outstanding shares of common stock.

Average number of common shares used in the computation was 147,334 thousand for the years ended March 31, 2000, 1999, and 1998, respectively.

Cash dividends per share shown in the accompanying consolidated statements of operations have been presented on the accrual basis and include, in the years ended March 31, 2000, 1999 and 1998, dividends approved and paid after such dates, but which were applicable to those periods.

11. Commitments and Contingent Liabilities

The Company was contingently liable as of March 31, 2000, as a guarantor for borrowings of employees aggregating \29 million ($274 thousand) and for bank borrowings of non consolidated subsidiaries and affiliates for \278 million ($2,623 thousand).

At March 31, 1999, the Company had cancelable and non-cancelable long-term lease agreements, principally for office space, machinery and computer equipment. Rental expense for the years ended March 31, 2000, 1999 and 1998 was \4,404 million ($41,547 thousand), \5,707 million and \5,745 million, respectively.

One of company's subsidiaries, Kenwood Electronics Technologies (S) PTE LTD ("KETS") has an unresolved matter with the Inland Revenue Authority of Singapore with regard to profitability of KETS. No provision has been made in the financial statements because the likelihood of additional corporate tax and penalties is uncertain, and if any, they cannot be quantified.

12. Derivatives

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets, liabilities and future transactions denominated in foreign currencies. The Group also enters into interest rate swap agreements as a means of managing there interest rate exposures. Interest rate swaps effectively convert some fixed rate debts to a floating basis.

Because the counterparties to those derivatives are limited to major financial institutions, the Group dose not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors of the Company and execution and control of derivatives are controlled by the Company's Finance Department. Each derivative transaction is periodically reported to management, where evaluation and analysis of derivatives are made.

The Group had the following derivatives contracts outstanding at March 31, 2000 and 1999:

	Millions of yen			
	2000		1999	
	Contract or Notional Amount	FairValue	Contract or Notional Amount	FairValue
Forward Exchange Contract:				
Selling U.S. $	—	—	\ 300	\ 294
Selling Canada $	\ **186**	\ **181**	258	264
Selling UK Stg	**347**	**333**	499	496
Selling DM	—	—	340	329
Selling Australia $	**35**	**32**	106	107
Selling Italia Lit	—	—	68	66
Selling Spain Ptas	—	—	160	155
Total	\ **568**	\ **546**	\ 1,731	\ 1,711
Buying FFR	—	—	\ 693	\ 687
Total	—	—	\ 693	\ 687
Interest Rate Swaps:				
(fixed rate receipt, fixed rate payment or floating rate payment)	—	—	\ 500	\ 8
(fixed rate receipt, floating rate payment)	—	—	\ 1,987	\ (5)
(floating rate receipt, fixed rate payment)	**\3,500**	\ **(18)**	\ 500	\ (5)

Forward exchange contracted amounts which are assigned to associated assets or liabilities and are reflected on the balances at year-end are not subject to the disclosure of market value information.

The contract or notional amounts of derivatives do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

13. Segment Information

The Group manufactures and distributes audio and communications equipment. The company defines its major segments as:

Audio equipment segment:
Home, car, and general audio products and test and measuring instruments related to audio equipment.

Communications equipment segment:
Amateur radios, UHF CB transceivers, land mobile radios, telephones and personal digital cellular telephones.

Operations by business segment and by geographic area for the years ended March 31, 2000, 1999 and 1998, were summarized as follows:

Operations by business segment:

	Millions of yen				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2000					
Net sales:					
Sales to customers	**\ 211,560**	**\ 62,957**	**\ 274,517**	**\ —**	**\ 274,517**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**\ 211,560**	**\ 62,957**	**\ 274,517**	**\ —**	**\ 274,517**
Operating income (loss)	**\ (16)**	**\ 5,160**	**\ 5,144**	**\ —**	**\ 5,144**
Identifiable assets	**\ 122,772**	**\ 41,807**	**\ 164,579**	**\ 47,893**	**\ 212,472**
Depreciation	**\ 7,159**	**\ 3,115**	**\ 10,274**	**\ —**	**\ 10,274**
Capital expenditures	**\ 7,179**	**\ 3,799**	**\ 10,978**	**\ —**	**\ 10,978**

Corporate assets as of March 31, 2000, amounted to \47,893 million ($451,821 thousand) and consisted primarily of the Company's investment securities and translation adjustments.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
1999					
Net sales:					
Sales to customers	\ 230,051	\ 79,774	\ 309,825	\ —	\ 309,825
Intersegment sales and transfers	—	—	—	—	—
Total	\ 230,051	\ 79,774	\ 309,825	\ —	\ 309,825
Operating income	\ 5,967	\ 7,777	\ 13,744	\ —	\ 13,744
Identifiable assets	\ 128,568	\ 42,990	\ 171,558	\ 41,695	\ 213,253
Depreciation	\ 7,525	\ 2,332	\ 9,857	\ —	\ 9,857
Capital expenditures	\ 7,383	\ 2,889	\ 10,272	\ —	\ 10,272

Corporate assets as of March 31,1999, amounted to \41,695 million and consisted primarily of the Company's investment securities and translation adjustments.

	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
1998					
Net sales:					
Sales to customers	\ 239,228	\ 72,947	\ 312,175	\ —	\ 312,175
Intersegment sales and transfers	—	—	—	—	—
Total	\ 239,228	\ 72,947	\ 312,175	\ —	\ 312,175
Operating income	\ 5,759	\ 5,871	\ 11,630	\ —	\ 11,630
Identifiable assets	\ 140,316	\ 44,200	\ 184,516	\ 32,625	\ 217,141
Depreciation	\ 6,871	\ 1,841	\ 8,712	\ —	\ 8,712
Capital expenditures	\ 8,606	\ 2,967	\ 11,573	\ —	\ 11,573

Corporate assets as of March 31, 1998, amounted to \32,625 million and consisted primarily of the Company's investment securities and translation adjustments.

	Thousands of U.S. dollars				
	Audio equipment	Communications equipment	Total	Corporate assets and eliminations	Consolidated
2000					
Net sales:					
Sales to customers	**$ 1,995,849**	**$ 593,934**	**$ 2,589,783**	**$ —**	**$ 2,589,783**
Intersegment sales and transfers	**—**	**—**	**—**	**—**	**—**
Total	**$ 1,995,849**	**$ 593,934**	**$ 2,589,783**	**$ —**	**$ 2,589,783**
Operating income (loss)	**$ (151)**	**$ 48,679**	**$ 48,528**	**$ —**	**$ 48,528**
Identifiable assets	**$ 1,158,226**	**$ 394,406**	**$ 1,552,632**	**$ 451,821**	**$ 2,004,453**
Depreciation	**$ 67,538**	**$ 29,387**	**$ 96,925**	**$ —**	**$ 96,925**
Capital expenditures	**$ 67,726**	**$ 35,840**	**$ 103,566**	**$ —**	**$ 103,566**

Operations by geographic area:

	Millions of yen							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2000								
Net sales:								
Sales to customers	**¥ 133,937**	**¥ 68,565**	**¥ 53,324**	**¥ 16,059**	**¥ 2,632**	**¥ 274,517**	**¥ —**	**¥ 274,517**
Intersegment sales	**110,608**	**932**	**10,562**	**62,421**	**—**	**184,523**	**(184,523)**	**—**
Total	**¥ 244,545**	**¥ 69,497**	**¥ 63,886**	**¥ 78,480**	**¥ 2,632**	**¥ 459,040**	**¥ (184,523)**	**¥ 274,517**
Operating income (loss)	**¥ (464)**	**¥ 1,448**	**¥ 1,228**	**¥ 679**	**¥ 75**	**¥ 2,966**	**¥ 2,178**	**¥ 5,144**
Identifiable assets	**¥ 115,659**	**¥ 24,643**	**¥ 26,339**	**¥ 24,711**	**¥ 1,188**	**¥ 192,540**	**¥ 19,932**	**¥ 212,472**
1999								
Net sales:								
Sales to customers	¥ 146,314	¥ 75,828	¥ 67,100	¥ 17,551	¥ 3,032	¥ 309,825	¥ —	¥ 309,825
Intersegment sales	127,602	938	3,986	69,342	—	201,868	(201,868)	—
Total	¥ 273,916	¥ 76,766	¥ 71,086	¥ 86,893	¥ 3,032	¥ 511,693	¥ (201,868)	¥ 309,825
Operating income	¥ 5,980	¥ 2,301	¥ 2,904	¥ 957	¥ 105	¥ 12,247	¥ 1,497	¥ 13,744
Identifiable assets	¥ 118,196	¥ 27,459	¥ 31,265	¥ 23,328	¥ 1,306	¥ 201,554	¥ 11,699	¥ 213,253
1998								
Net sales:								
Sales to customers	¥ 138,837	¥ 79,869	¥ 68,296	¥ 21,982	¥ 3,191	¥ 312,175	¥ —	¥ 312,175
Intersegment sales	121,080	1,205	736	71,453	11	194,485	(194,485)	—
Total	¥ 259,917	¥ 81,074	¥ 69,032	¥ 93,435	¥ 3,202	¥ 506,660	¥ (194,485)	¥ 312,175
Operating income	¥ 6,645	¥ 2,445	¥ 2,011	¥ 761	¥ 90	¥ 11,952	¥ (322)	¥ 11,630
Identifiable assets	¥ 122,453	¥ 27,582	¥ 32,610	¥ 30,540	¥ 1,743	¥ 214,928	¥ 2,213	¥ 217,141

	Thousands of U.S. dollars							
	Japan	America	Europe	Asia	Other	Total	Corporate assets and eliminations	Consolidated
2000								
Net sales:								
Sales to customers	**$ 1,263,557**	**$ 646,840**	**$ 503,057**	**$ 151,500**	**$ 24,829**	**$ 2,589,783**	**$ —**	**$ 2,589,783**
Intersegment sales	**1,043,472**	**8,792**	**99,642**	**588,877**	**—**	**1,740,783**	**(1,740,783)**	**—**
Total	**$ 2,307,029**	**$ 655,632**	**$ 602,699**	**$ 740,377**	**$ 24,829**	**$ 4,330,566**	**$ (1,740,783)**	**$ 2,589,783**
Operating income (loss)	**$ (4,377)**	**$ 13,660**	**$ 11,585**	**$ 6,406**	**$ 707**	**$ 27,981**	**$ 20,547**	**$ 48,528**
Identifiable assets	**$ 1,091,123**	**$ 232,481**	**$ 248,481**	**$ 233,123**	**$ 11,207**	**$ 1,816,415**	**$ 188,038**	**$ 2,004,453**

The geographic areas consist primarily of the following countries and regions: America ···· U.S., Canada and Panama; Europe ······ Germany, France and the United Kingdom; Asia ······· China, Singapore and Malaysia; Other ······ Australia

Overseas sales:

	Millions of yen				
	America	Europe	Asia	Other	Total
2000					
Overseas sales	**¥ 68,711**	**¥ 54,346**	**¥ 22,371**	**¥ 5,584**	**¥ 151,012**
Consolidated net sales					**¥ 274,517**
Ratios of overseas sales	**25.0%**	**19.8%**	**8.1%**	**2.0%**	**55.0%**

	Thousands of U.S. dollars				
	America	Europe	Asia	Other	Total
2000					
Overseas sales	**$ 648,217**	**$ 512,698**	**$ 211,047**	**$ 52,679**	**$ 1,424,641**
Consolidated net sales					**$ 2,589,783**

The geographic areas consist primarily of the following countries and regions: America ····· U.S., Canada and Panama; Europe ······ Germany, France and the United Kingdom; Asia ······· China, Singapore and Malaysia; Other ······ Australia and Africa

The amount of overseas sales and the ratios thereof to consolidated net sales for the years ended March 31, 1999 and 1998, were ¥172,640 million and ¥184,881 million and 55.7% and 59.2%, respectively. Overseas sales consist of export sales by the Company and sales by consolidated foreign subsidiaries.

Independent Auditors' Report

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Deloitte Touche Tohmatsu

To the Board of Directors and Shareholders of
Kenwood Corporation:

We have examined the consolidated balance sheets of Kenwood Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2000, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Kenwood Corporation and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1, effective April 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidated financial statements and interperiod allocation of income taxes.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2000

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● **Kenwood Communications Corporation**
● **Kenwood Service Corporation**
● **Kenwood Americas Manufacturing Corporation**

● **Kenwood System Inc.**
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Established
December 21, 1946

Paid-in Capital
¥22,382 million
(As of March 31, 2000)

Number of Employees
2,579 (As of March 31, 2000)

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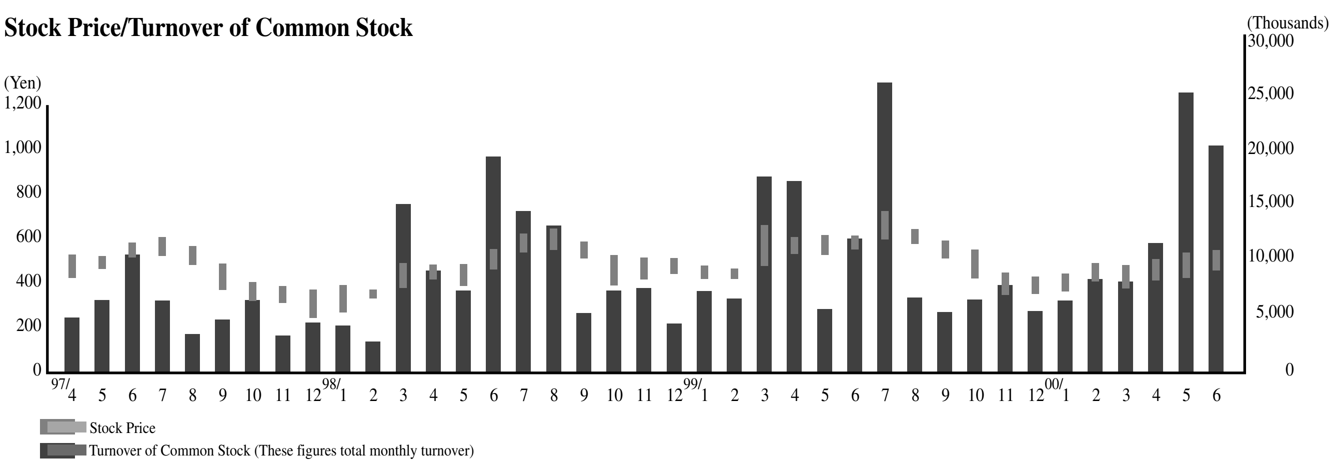
Hitoshi Ohnishi
Moriyuki Tamura

Standing Statutory Auditors
Akira Koyama
Hideaki Kato

Statutory Auditors
Motoaki Hirabayashi
Kyosuke Endo

(As of June 29, 2000)

Stock Price/Turnover of Common Stock



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