

# In pursuit of further value creation by integrality our three core business segments and establish “Mobile & Home Multimedia System” business

### Car Electronics Business



Advances in digital network technologies for automobiles have created significant possibilities in the car electronics market. Since its entry into this market in 1980, the Company, which has emphasized a consumer business, has launched many innovative and sophisticated products by leveraging its marketing power, its product planning ability, and its product development capability based on technology for high sound quality. In this way, the Company has built a high brand presence across the world.



In the consumer audio business, the Company is now expanding its product lineups to consolidate its global presence by using the latest digital network technologies. For example, it has developed models that can connect to the portable digital audio players and USB devices that are rapidly growing in popularity. Kenwood commercialized a high sound quality model in which it instilled the essence of the highest fidelity technology produced by its Sound Meister. In addition, the Company also commercialized tuners for satellite digital sound broadcast and a tuner for terrestrial digital broadcast for the first time for consumer use, to begin full-scale entry into the market. Furthermore, the Company has been focusing on the development of new markets, mainly in the BRIC nations, to enhance its revenue base.



In the growing consumer multimedia business, the Company has developed a user interface oriented merchandising strategy by adopting touch-sensitive panels and voice recognition systems earlier than its competitors. Kenwood established a unique plan to develop a car navigation system that incorporates Microsoft® Windows® Automotive Ver. 4.2 as a car operating system for the first time in Japan, and the Company is now delivering new types of products to the market, including commercialization of an HDD car navigation system directly connectable to Apple Computer's iPod for the first time in the industry, and a car navigation system with an AV system that delivers sophisticated sound quality. The Company has also developed a new concept car navigation system that combines a portable navigation system with a TV/DVD receiver, and is focusing on the development of multimedia products such as those compatible with terrestrial digital broadcast, which is expected to spread in the near future.



In the OEM business, Kenwood is further pursuing its advantage of high quality sound, while at the same time it is attracting new customers and rapidly expanding global operations by taking advantage of its advanced technologies, its product planning and development capabilities, its reliability, and its brand presence which are recognized in the consumer market. In addition, the Company has strengthened its presence not only in the finished product business but also in the component business and has enhanced its development and production system through aggressive up-front investments. For example, the Company increased its production capacity by expanding the Shanghai Plant, and it built a new test course at Nagano Plant. Furthermore, the Company is working hard to boost business competitiveness and to increase profitability by promoting vertical integration among Japanese plants and overseas plants, and by transferring the production lines for components to overseas plants.

### Communications Equipment Business



Since its foundation, the Company has operated the Communications Equipment (wireless radio equipment) business using the high-frequency technology, developing proprietary techniques and high know-how in the field of “wireless radio (= communication)”, which is not included in the Car Electronics and Home Electronics businesses.



The Company has increased its market share of commercial wireless radio equipment, becoming the world's second largest supplier. To achieve this, the Company has speedily complied not only with various countries' laws and regulations on radio waves but also with digitization of radio equipment, which requires cutting-edge technologies. The Company has supplied radio systems that require extremely high reliability, privacy and security, durability and operability to the Team McLaren Mercedes Formula One (F1) auto-racing team as an official supplier for 16 years.

The Company now focuses on the businesses of wireless radio equipment, including primarily commercial wireless radio systems as well as amateur wireless radios and specially-designated low power transceivers. In addition, the Company has reinforced its business base in the U.S., the largest market for Kenwood, where it is enhancing the cooperative system of marketing, sales, development and production and further shifting from being a manufacturer of terminals to becoming a provider of system solutions.



Kenwood is expanding its operations in Asia, particularly China, where spectacular growth is forecast, and the regions in which growth is projected, including East Europe, particularly Russia, the Middle East, Latin America and Africa. Meanwhile, the Company is actively carrying out a growth strategy through strategic alliances and M&As. As part of this strategy, the Company acquired the wireless radio operations of Toyo Communication Equipment Co., Ltd. in June 2004. With this acquisition, the Company can now supply a large number of products to public agencies and power utilities, as well as utilize networks and huge resources or technologies relating to radio equipment operations. It is now expanding its radio equipment business in Japan.



Meanwhile, the digitization of the wireless communication system has been promoted in the commercial wireless radio field. In response to this, Kenwood has been vigorously promoting R&D in digital wireless radio systems. For example, Kenwood completed the introduction of the digital wireless radio system for use in F1 races and produced commercial digital wireless radios in compliance with Project 25 (commercial digital wireless radio system for public safety institutions such as police and fire departments) that has already been commercialized. In addition, Kenwood will further accelerate digitization of commercial wireless radio systems through its technical alliance with Icom Inc. and the new consortium including Trident Microsystems, Inc. of the U.S. with respect to research and development on wide-ranging digital wireless radio systems establishing a position as number two in the world in this area.

## Home Electronics Business

The Home Electronics business is another of our longstanding operations like the wireless radio equipment business. Since our commercialization of a high-class FM tuner using advanced high-frequency technology and honored as the world's best, Kenwood has expanded the business under



the concept of "high fidelity" and expanded its presence as an audio system manufacturer around the world. At the same time, the Company has produced many proprietary sound technologies that significantly improve quality, and continued to offer fresh, attractive sound entertainment for the market, at a time when media technology shifted from analog to digital. This concept remains meaningful even after the drastic restructuring due to market maturity and quickly changing trends.

Taking the spread of new digital media as a great business opportunity, Kenwood is now commercializing digital media products including portable digital audio players to realize the highest sound quality in a given product space. At the same time, the Company is proposing new seamless "sound entertainment" by connecting these players to home audio and car electronics products. The Company has newly established its "Sound Meister Edition," a product line for which its Sound Meister was engaged in a detailed process from product design to selection of components. This strategy was implemented in order to enhance product lines consisting of high value-added models, in line with the above significant changes in the market.



In the field of portable audio, the Company commercialized a flash memory audio product, followed by a portable HDD audio product that adopted digital amplification for the first time in the industry. Trying to reduce the sound degradation that is inevitable to the compressed music data, Kenwood is actively developing high sound quality technologies that are required in the new digital media era and applies them to its products. Such technologies include "Supreme," a patented technology for complementing deleted part in the high frequency range and original lossless compression method that enables us to directly record in HDD data with sound quality similar to CDs.

In the field of pure audio, Kenwood has enhanced its high fidelity audio product lines using traditional high fidelity technology fused with the latest digital technology. The Company has also commercialized a new entertainment system able to reproduce the high sound quality of hi-fi audio and front surround sound to create a sensation of realism.



Kenwood will continuously strive to open up new grounds for "sound entertainment" with higher fidelity and more entertainment, by leveraging cutting-edge digital media and networking environment, while focusing on its traditional high-fidelity reproduction.

## For further reinforcement of the Core Businesses —

### Strategic Technologies Development

The Company conducts research and development for advanced technologies on the cutting edge in anticipation of the full-scale arrival of the fully digitized and networked society.

The Company is developing competitive new technologies and products especially in the remarkably fast-growing technology fields of car electronics, home electronics, and communications electronics. Kenwood is striving to strengthen its development capabilities for next-generation technologies and for products in the following areas: technology development to realize a unique, seamless entertainment world for the arbitrary sharing of contents in car audio, home audio, and portable audio; car multimedia development responding to next-generation ITS service; technology development for terrestrial digital broadcast in Japan and abroad and for overseas satellite broadcast; technology development for sophisticated voice interaction, and development of terminal technology that enables the receipt of AV content over broadband connections.

### Speaker System Business

Despite the widespread progress of digital media, speaker systems remain a sensitive field as they rely on the physical phenomenon of air oscillation to convey sound. The Company has accumulated extensive proprietary analog technologies and relevant know-how through a painstaking process of trial and error in its high fidelity design as well as development of new materials for speaker system. The Company aims to offer added value that is more attractive to the market through the reproduction of high fidelity sound based on the above technologies and know-how. Contributing to both the Car Electronics business and the Home Electronics business, Kenwood will also establish a speaker business to further enhance the audio sector.



### Sound Quality Research

Kenwood has enhanced its presence as an audio manufacturer with the concept of "reproduction of original sound." Although the emergence of new media such as flash memory and HDD popularizes the compression of music data, the Company is always aiming to "reproduce the original sound" applicable to new media and software by taking advantage of its own sound quality technology, the know-how that it has gradually accumulated over a long time, and the latest digital technology. For this purpose, Kenwood has established a Sound Quality Research Office to seek the latest sound quality technology on a daily basis. The Company is making efforts to carry over its sound quality technology and know-how gradually accumulated through trial and error to these new markets in the future.

When commercializing audio products, the Company spares no effort in seeking the finest sound quality throughout the design process, including detailed tasks such as the selection of components under the strict control of the Sound Meister, the superintendent responsible for sound quality. These efforts are directed to enabling Kenwood to provide high quality sound product lines that are chosen with strict attention to quality.