

## Promoting the strategy to expand corporate value based on the second mid-term business plan, the "Value Creation Plan"

Realizing a Seamless Entertainment World by taking advantage of business opportunities generated by the rising popularity of digital media content

The fiscal year ending March 2007 is the mid fiscal year of the mid-term business plan, "Value Creation Plan," which started in the fiscal year ended March 2006, and the Company will implement the following strategies, including the active execution of investments in strategic development, in order to achieve the plan.

The "Zero Net Debt," one of our goals, has already been achieved with debt falling to a sufficiently low level, so we have excluded this goal from our targets as we expect to make increased investments for future growth.

### Improving Competitiveness in Businesses

#### Improving competitiveness in businesses by investments in strategic development, and new organization systems

- ▶ Responding to technological innovation by investments in strategic development, and implementing new product strategies

The Company plans to focus on strategic development of new technologies and products in the fiscal year ending March 2007, and make investments in strategic development amounting to JPY4 billion per annum, in addition to research and development activities that we conduct each year, so that it can swiftly respond to rapid changes in management environments caused by technological innovations such as the rising popularity of digital media content and the progress of digital/network environments, and implement new product strategies of the next generation by looking at these changes as major business opportunities.

Such plan mainly consists of strategic development of car multimedia products, i.e., development of the core of global

navigation system, development and application of mobile multimedia tuners for ground-wave digital broadcasting, satellite digital broadcasting, construction of the "Seamless Entertainment World" for digital media integrating car electronics and home electronics that the Kenwood Group proposed for the first time at IFA (an international consumer electronics exhibition) held in Europe in September 2003, development of a new digital method for wireless radio equipment, and new consortium activities (joint development by the Company, Icom Inc. and Trident Microsystems, Inc.: announced on May 16 in the U.S. before IWCE\* (held on May 17, 2006 in the U.S.).

\* IWCE : International Wireless Communications Exposition, the largest scale exposition of wireless communication technology held in U.S.

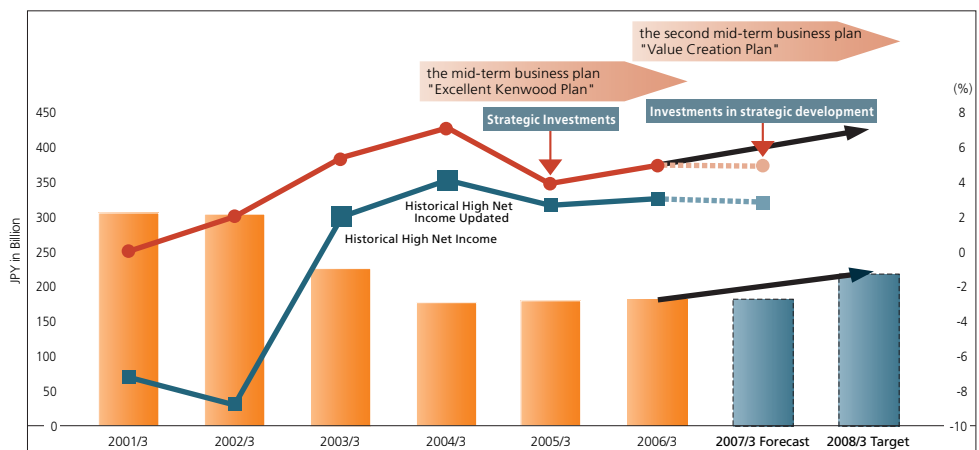
- ▶ Strengthening the business base under a new organization system

For rapidly changing consumer electronics, the Company reorganized its Consumer Business Sector, effective April 1, 2006, to form the "Consumer Business Sector" and "Car Electronics OEM Sector" in order to activate speedy organization activities, promote the realization of the "Seamless Entertainment World" for the strengthening of the business bases of the next generation, expand the OEM business further, and accelerate the growth strategies further based on the second mid-term business plan.

The Consumer Business Sector places the Car Electronics Consumer (Audio) Division, Car Electronics Consumer (Multimedia) Division and Home Electronics Division under its control, each of which handles consumer businesses, and seeks to enhance the competitiveness and growth of these businesses. With regard to the speaker system business, the Speaker System Division was reorganized to reinforce the structure for contributing to these three

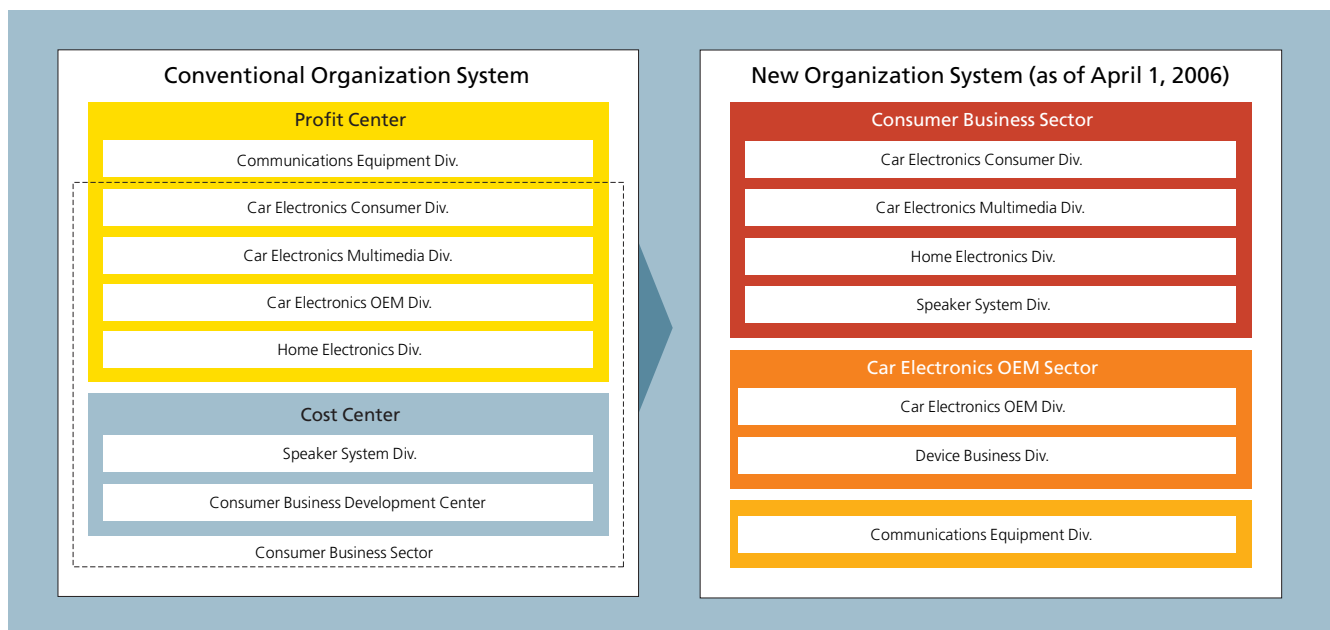
Illustrated progress of the second mid-term business plan "Value Creation Plan"

■ Net Sales  
— Operating Profit margin  
— Net Income margin

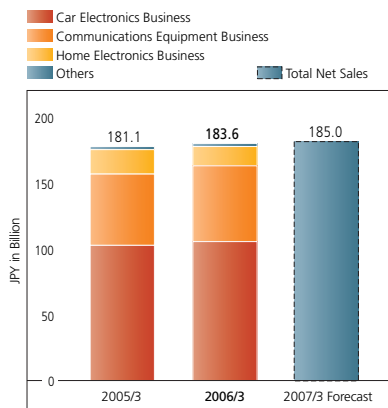


consumer divisions.

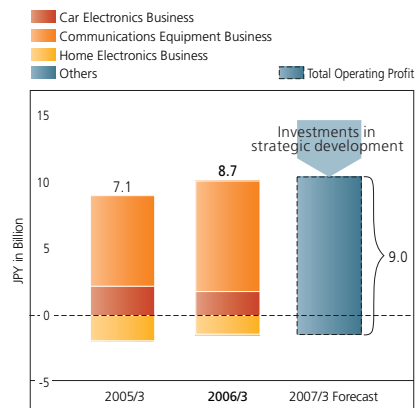
The Car Electronics OEM Sector places the Car Electronics OEM Division under its control, newly establish the Device Business Division, expand its mechanics and device businesses for DVDs, CDs, and the like, and aims to make a further leap forward.



Consolidated Net Sales



Consolidated Operating Profit



## Improving competitiveness of the core businesses

### Improving competitiveness of the Car Electronics Business

#### ▶ Fully-fledged operations for the new line-up of audio products in 2006 for the consumer market

Because the delay in the closing of former products in the entire consumer market has had lasting effects until the introduction of our new products, the Company has started its fully-fledged operations for the 2006 line-up of car audio products whose introduction to the global market has been delayed, aims to gain the top market share in the entire world as it did with the 2005 line-up, actively cultivate new emerging markets, with the emphasis on the BRICs markets, strengthen the sales system, and increase revenues of the Car Electronics Consumer (Audio) Division.

#### ▶ Improving the product line-ups of car multimedia systems for the consumer market

In Japanese market, the Company has started fully-fledged operations for self developed products, whose line-ups have been improved after the product launch in February 2006, and in the overseas market it will focus on mass-merchandised products, the shipment of which began in February 2006 under the Company's new concept. Through these measures, the Company plans to accelerate growth strategy by increasing sales and carrying out reform measures for profitability in the Car Electronics Consumer (Multimedia) business, in which the product line-ups have temporarily stalled due to strategy changes.

#### ▶ Improving profits in the OEM and multimedia businesses through production increases at the Shanghai Plant

As previously mentioned, the expansion of the Shanghai Plant has

allowed fully-fledged production increases and strengthened cost competitiveness for car electronics components and OEM car audio products. As a result, the Car Electronics OEM business and the Car Electronics Consumer (Multimedia) business have both been able to increase productivity while significantly reducing processing costs, and the two businesses can engage in the implementation of growth strategies with a renewed level of competitiveness.

### Improving competitiveness of the Communications Equipment Business

#### ▶ Business expansion by strengthening communication between the marketing and design sections, and fully-fledged introduction of digital wireless radio equipment

The Company strengthens communication between the marketing and research sections headquartered in Atlanta, US, and the development and design sections in Japan, and promote business expansion in Europe, Asia, China, and other emerging countries, as well as in the main market of the U.S. The Company will also utilize technological and capital alliances with Icom Inc. in the increasingly digitized commercial wireless radio field, and accelerate the growth strategy of the Communications Equipment business by specifically promoting new consortiums including Trident Microsystems, Inc., and conducting research on digital wireless methods and development of digital wireless radio equipment and network systems in order to strengthen the network system business.

### Improving competitiveness of the Home Electronics Business

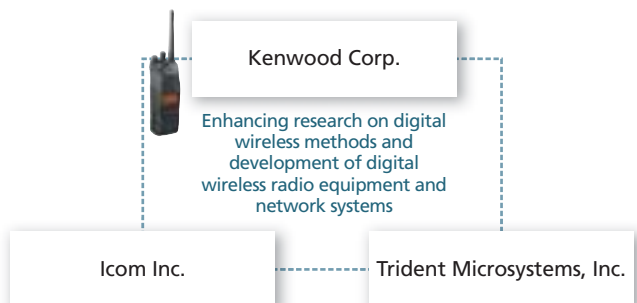
#### ▶ Improving high quality sound models that utilize high quality sound technologies

The Company will take advantage of the rising popularity of digital media content and a recovery in demand for high-class audio

Line-up of products for consumer market in Car Electronics Business



New Strategic Alliance in Communications Equipment Business



products as business opportunities, and implement product strategies that utilize Kenwood's own high quality sound technologies. More specifically, the Company increases its product lineups, mainly consisting of high value-added models, corresponding to the rapidly changing audio market in recent years, and promotes the structural reforms of the Home Electronics business. These products include high quality sound digital portable audio players and high-class Hi-Fi audio systems that have been produced by the "Sound Meister," Kenwood's sound officer, and the sales of the current models of these products have been strong.

**Strengthening cost competitiveness through design, procurement and "Production Innovation"**

▶ **Reducing processing costs at plants in France and Shanghai, and strengthening global procurement functions.**

Since February 2003, the Company has started to globally implement "Production Innovation" that was a significant success with regard to the reforms on profitability and cash flows, and realized a significant reduction in processing costs at plants in France (Kenwood Electronics Bretagne S.A.) and Shanghai, as well as in Japanese plants in Yamagata and Nagano.

The Company also reinforced IPO (International Procurement Office) functions of the Shanghai and Singapore Plants, and newly established an IPO in Hong Kong, in order to strengthen global procurement functions.

In addition, the entire Company conducts new operational innovation activities for designs related to planning, systems and products and for production technologies by focusing more on plant

operations, and strengthens cost competitiveness in order to respond to lower prices resulting from increasingly fierce market competition.

**Business and Capital Investments**

The Company has considered making several business investments and corporate mergers in the past, and will also be actively making various effective investments to increase its corporate value in the future.

As for capital investments, in the fiscal year ended March 2006 the Company made investments in the technology center development at the Nagano Plant and the construction of a test course with various road surfaces to be used for development purposes. The Company will purchase neighboring land (approximately 12,800 m<sup>2</sup>), establish experiment, research and customer service facilities, and improve environments for employees' activities in the fiscal year ending March 2007.

The Company will also take actions for new social environments including strengthened security measures.

**Greet the Company's 60th Anniversary Foundation**

**Strengthening brand presence and business promotions through a sales campaign**

The Kenwood Group will celebrate its 60th anniversary in December 2006 and the Company regards the period until December 21, the anniversary date, as the 60th anniversary campaign period. A campaign consisting of various business promotions focuses on expanding the Company's brand strategy to various parts of the globe.

High value-added models "Sound Meister Edition" in Home Electronics Business



High-quality sound, pure audio system "Kseries"



High-quality sound, portable HDD audio player "Media Keg"



Front Surround Home Theater Systems

The 60th Anniversary Mark

