

# Kenwood advanced investments in strategic development along the lines of "Value Creation Plan," its mid-term business plan

During the fiscal year under review, which was the middle year for "Value Creation Plan," its mid-term business plan that was put in motion in the previous fiscal year, Kenwood advanced the following initiatives aimed at expanding its corporate value by focusing on growth strategies including strategic development of new technologies/new products and business partnering.

## Improving competitiveness in businesses by investments in strategic development

With a view to responding swiftly to the rapidly changing business environment brought about by technological innovations involving the progress of the digital/network environment and the diffusion of digital media, and to implement a next-generation product strategy by identifying such environments as major business opportunities, Kenwood has focused its resources on the strategic development of new technologies and products by advancing investments in strategic development in addition to its usual R&D activities.

The major initiatives of these investments included the following, and their positive results should become apparent in the fiscal year ending March 2008.

- Strategic development of car multimedia products intended for consumer markets in Japan and abroad
- Up-front development of car multimedia products intended for auto manufacturers
- Construction of a "Seamless Entertainment World" of digital media integrating car electronics and home electronics
- Business partnering in the field of Land Mobile Radio aimed at R&D for new digital systems and terminals as well as qualitative expansion from terminals to system solutions

## Improving competitiveness of the core businesses

### Car Electronics Business

**Kenwood has driven full-scale development and staging of new products in Consumer business, and has advanced earnings reform in the OEM business**

In the Car Electronics Consumer (Audio) business, Kenwood moved ahead with developing medium-/high-class models integrating seamless features with digital media equipments, new systems enabling feature enhancement of products that are installed in vehicles as line-fitted AV products and other proposal-oriented products that were capable of spurring new demand, and launched them to markets across the world in the fourth quarter.

In the Consumer (Multimedia) business, Kenwood pushed forward global staging of new-concept car navigation systems integrating core of portable navigation devices and AV systems that it had previously introduced to markets in Europe and North America, and completed enhancement of product line-up by developing and marketing terrestrial digital TV tuners and navigation system integrated with AV equipped with such tuners built in them for the Japanese market.

In the OEM business, in the wake of completion during the previous year under review of expansion works at the Shanghai Plant, Kenwood endeavored to enhance its cost competitiveness by shifting production of components such as DVD-/CD-drive mechanisms, etc. from its plant in Japan to Shanghai.

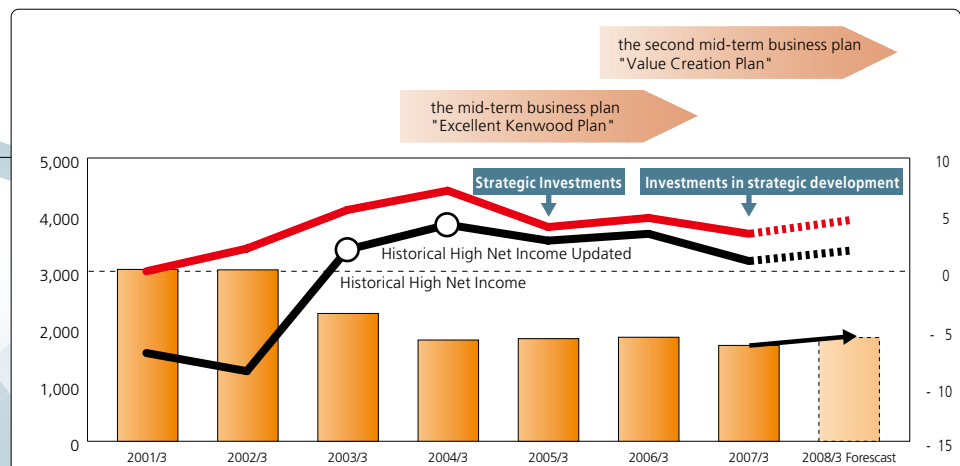
### Communications Equipment Business

**Kenwood drove closer coordination between sales/applied technology functions and development/design functions, and advanced its digitization-based growth strategy**

Kenwood sought to achieve closer coordination between the sales/applied technology functions possessed by its subsidiary in the U.S. which is the leading market for the Land Mobile Radio business and the development/design functions possessed by its units in Japan and, at the same time, upgraded and reinforced each of the sales/applied technology functions based in Europe. Kenwood also expanded sales and won new orders in emerging markets such as

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

- Net Sales
- Operating Profit margin
- Net Income margin



Russia and China. In anticipation of future business expansion and growth of the Chinese market, Kenwood accelerated its growth strategy by having the Shanghai Plant commence production of Land Mobile Radio equipment.

In addition, Kenwood drove formation of the industrial infrastructure in the field of Digital Land Mobile Radio by starting up a Memorandum of Understanding Group jointly with mobile radio companies in Europe in March 2007 in order to promote establishment of a standard for Digital Land Mobile Radio systems intended for private-sector companies in that region, and by entering into a tie-up with the EADS Group, a leading European aerospace and defense systems, with a view to expanding sales of Digital Land Mobile Radio equipments intended for the public safety sector in North America.

### Home Electronics Business

#### Kenwood drove its high value-added strategy through enhanced line-up of new premium products

In the wake of the rapid diffusion of digital media and the recovering demand for high-class audio products, Kenwood has completed selective removal of conventional models by the end of the first half of the fiscal year under review, and simultaneously made active efforts to enhance line-up of the digital audio players capable of reproducing the highest of sound quality with its independent technologies as well as high-class pure audio products intended for those users who attach high priority to sound quality.

Elsewhere, Kenwood began driving its high added-value strategy by commercializing pure audio products that made it possible to seamlessly integrate various media equipment and help realize the "Seamless Entertainment World."

### Initiatives for environmental preservation

Establishing a corporate policy to reduce the impact on the environment and make contributions to "coexistence with the global environment," Kenwood is promoting environmental preservation activities. Two major pillars of these activities are: creation of green products that have less impact on the environment; and environmental preservation campaigns (energy conservation, reduction of waste and reduction of office paper) in business activities. We achieved "zero waste emissions" at all major Japanese bases, including the head office and development/design bases, between July and September in 2006.

### Strengthening brand presence and business promotions through a campaign based around Kenwood's 60th anniversary

As part of its promotional campaigns and brand strategy commemorating Kenwood's 60<sup>th</sup> anniversary, Kenwood moved forward with commercialization of "TRIO Model" in both of the "sound" and "wireless communication" fields that inherit its business tradition. Kenwood released its limited-edition prestige radio equipment for amateur radio operators in July 2006, and released its limited-edition prestige pure audio systems last December. Also, as a new initiative, Kenwood commercialized and released limited-edition prestige car audio product, the first car electronics product under the "TRIO" brand in Japan, in April 2007.

For the strengthening of brand presence, Kenwood renewed its official supplier contract on supply of radio systems with the Team Vodafone McLaren Mercedes that was participating in the Formula One (F1) world championship race that reigns the world of motor sports, and began posting its brand logo in addition to the supports it has heretofore provided the team.

### Basic policy for distribution of profit and dividends for fiscal years ended March 2007 and ending March 2008

Kenwood considers it one of the most critical management challenges to ensure that its profit will be returned to its shareholders in a stable manner, and is committed to deciding upon dividends of surplus and other appropriations by giving due and comprehensive considerations to its earnings capabilities and financial position.

Based on this policy, and bearing in mind that surplus should be applied toward strategic investments aimed at its future growth, Kenwood decided to pay a year-end dividend of two yen per share, the same amount as in the previous fiscal year, from the perspective of paying stable dividends on an ongoing basis.

For similar reasons, Kenwood expects to pay a year-end dividend of two yen per share for the fiscal year ending March 2008.

### Result from investments in strategic development (an example)



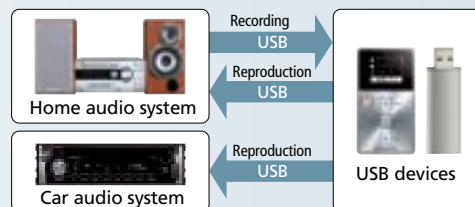
Navigation system integrated with AV system for Japanese market (with built-in One-Segment TV tuner)



Navigation system integrated with AV system for overseas markets (All-in-one type)



Digital Land Mobile Radio



"Seamless Entertainment World" by integrating Car Electronics and Home Electronics