

# The final stage of the mid-term business plan, the “Value Creation Plan” —Reconstruction in current businesses and promotion of growth strategies through business alliances and M&A

In May 2005, Kenwood formulated its “Value Creation Plan,” the mid-term business plan, under which it set the goals of consolidated net sales of JPY220 billion, consolidated operating profit of JPY15 billion (with operating profit ratio of 7%), zero net debt (effectively debt-free management), and an ROE of 20% or higher.

Of these goals, Kenwood achieved the goal of an ROE of 20% or higher during the previous fiscal year, and effectively achieved zero net debt as of the end of the previous fiscal year.

With respect to net sales and earnings, the Communications Equipment business has achieved results far exceeding the initial plans. However, the Car Electronics and Home Electronics businesses were severely affected by the rapid changes in the consumer electronics market environment characterized by increasing tendencies toward digitization and multimedia and the intensified competition that came with such changes. These circumstances have made it difficult for Kenwood to expect to achieve the goals of consolidated net sales of JPY220 billion and consolidated operating profit of JPY15 billion (with operating profit ratio of 7%) and resulting by current businesses.

However, investments in strategic development in its current businesses and alliances with other companies, which Kenwood poured its efforts and resources into, and the implementation of growth strategy through M&A are producing favorable results. In the fiscal year ending March 2008, we will strive to make these results more obvious. Furthermore, we will promote steady growth of current businesses and accelerate our growth strategy through business alliances and M&A.

## Reconstruction and growth strategy in current businesses

### | Car Electronics Business

As for the Consumer business, given the market focus has shifted from audio to multimedia for car electronics, Kenwood is forced to make great efforts on the multimedia business, particularly car navigation systems for overseas markets, for the growth strategy. We will enhance our product line-up of new-concept car navigation systems in overseas markets, make the results of such global expansion apparent and implement a plan for putting this business on a growth track.

In the OEM business, demand for components such as DVD-/CD-drive mechanisms is expected to recover toward the end of the fiscal year ending March 2008. Therefore, Kenwood will focus on achieving excellent results from the launch of new line-fitted models, selling dealer-option models and implementing a plan for putting this business on a growth track.

### | Communications Equipment Business

The Communications Equipment business has achieved the goals of the mid-term business plan one year ahead of schedule. Kenwood will strive to achieve steady growth of this business by boosting market introduction of Digital Land Mobile Radio equipments.

In addition, we will focus more on growth and development in the PDC phones sales business.

### | Home Electronics Business

In the Home Electronics business, Kenwood will launch new premium products, make the results of enhanced line-up become explicit by employing a long-tail strategy, and will implement a plan

## Results from investments in strategic development in Car Electronics business

### Consumer (Audio) Business



Medium- and high-class models featuring seamless integration with digital media equipments

### Consumer (multimedia) business

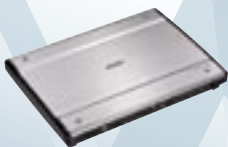


New-concept car navigation systems for overseas markets (All-in-one type)

### OEM Business



CD receiver with built-in memory navigation system for mini and subcompact cars



New systems that can expand the functions of line-fitted AV products



Terrestrial digital TV tuner for Japanese market



Line-fitted car navigation system

## Results from investments in strategic development in Communications Equipment business



Digital Land Mobile Radio

for putting sales and profits from this business on a growth track aimed at turning a profit for the full term.

## Growth strategy through business alliances and M&A

In the fiscal year under review, Kenwood faced several changes in its business environment, including substantial price declines in the car electronics market, particularly in the consumer fields, the fierce competition in mature markets that intensified more than expected, and contraction of the home electronics market. To cope with this, we implemented business alliances and M&A as described below to further accelerate the growth of our businesses, by exceeding the limits of growth on our own through conventional businesses.

In the fiscal year ending March 2008, Kenwood will make the results of these initiatives more obvious and add new projects, aiming to accelerate its growth strategy.

### | Communications Equipment Business

In the Land Mobile Radio business, the Kenwood's largest fundamental business, where it boasts the second largest global market share, we strove to expand the qualitative scope of its business from terminals to system solutions and to further form consortium for digitization. To this end, we converted Zetron, Inc. into a subsidiary as well as established alliances with EADS Group, Icom Inc. and other companies for business and joint development on a global basis, and thus we built the basis for a major leap forward. In the fiscal year ending March 2008, Kenwood will make the results from these initiatives become explicit and generate even greater synergies.

In the overall Communications Equipment business, Kenwood will endeavor to develop a new organizational structure with a view to

expanding new businesses based on such system businesses as Zetron's highly reliable radio communications systems, the Japanese radio equipment operations that it acquired from the former Toyo Communication Equipment Co., Ltd. in June 2004, the RFID business operated by Kenwood Core Corp., a wholly owned subsidiary.

### | Car Electronics Business

Kenwood aims to expand its sales and profits in the growing businesses of multimedia and OEM by strengthening its partnerships with business partners, including Denso Corp., Garmin International Inc. of the U.S. and Blaupunkt of Germany, a Bosch Group company.

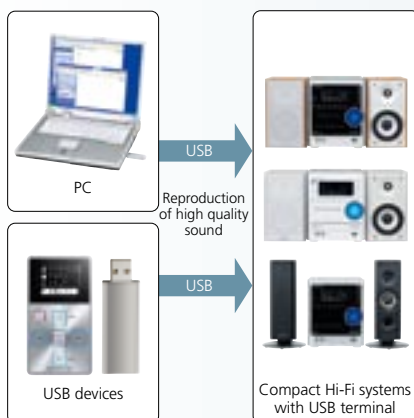
In the Consumer (Audio) business, we will accelerate the exploration of Latin American markets, which are expected to grow from now on, from the perspectives of both production and sales by enhancing our partnership with Visteon Corp. of Brazil.

### | Peripheral Businesses

Kenwood will develop new businesses related to its existing businesses through strategic initiatives.

As described above, Kenwood completed its preparations for investments in strategic development and advanced technology, sales expansion and earnings turnaround, and the time has finally come to put its existing businesses on track for new growth, focusing on its core business areas by managers of the next generation. At the same time Kenwood has started to accelerate its growth beyond the limit of its own with the Chairman being responsible for strategic initiatives aimed at the medium- and long-term creation and enhancement of the corporate value.

### Results from investments in strategic development in home electronics business



Realization of seamless entertainment by connecting PC and USB devices

### An example of radio communication system (communication management system for public safety)

