



Notice Regarding Formulation of the “Value Creation Plan” as the Second Mid-Term Business Plan

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Kenwood Corporation (President & CEO: Haruo Kawahara; Headquarters: Hachioji City, Tokyo) enters the final fiscal year of the First Mid-Term Business Plan, the “Excellent Kenwood Plan”, which has been in force since the fiscal term ending in March 2004. Radical reforms of the financial base and capital structure have been completed ahead of schedule, while activities for a growth strategy in response to strategic investments and market changes are already being implemented. The company, therefore, has already entered a stage of new growth and is leaping into the future, which prompted the formulation of the Second Mid-Term Business Plan, the “Value Creation Plan”. We are pleased to announce that this plan was approved at the meeting of the Board of Directors held earlier today.

1. Events Leading to the Formulation of the Second Mid-Term Business Plan, “Value Creation Plan”

The Kenwood Group of companies formulated the First Mid-Term Business Plan, the “Excellent Kenwood Plan” in May 2003 for the rebirth of Kenwood. Targets such as the “Resumption of Dividends” and “Management with No Substantial Debts” (Zero Net Debt) through radical financial and capital structural reforms, as well as “ROE 20%” and “10% Operating Earnings” were set. To significantly leap forward in business operations, with the intention of changing the company into an “Excellent Company of the World”.

Significant results, such as the updating of records for the best consolidated net income for two consecutive years, were attained in the previous fiscal term ending in March 2004, which was the first year of the plan, through such efforts as promoting the enhancement of a consolidated business operation organization and the promotion of “Production Reforms”, intended to radically reform the profit and loss, as well as the cash flow.

Other than these, the enhancement of business competitiveness and the promotion of growth strategies were sought during the second year of the plan and for the fiscal term that ended in March 2005, elimination of the “Negative Legacy” from the past by implementing a “New Financial Strategy”, was a bid to conduct radical financial and capital structural reforms while “Strategically Investing” approximately JY4 billion, for the purpose of new growth and to significantly leap into the future.

Of the four targets set by the First Mid-Term Business Plan, a “Resumption of Dividends” was attained as a resolution at the general meeting of shareholders one year ahead of schedule, while prospects were established for attaining a “Management with No Substantial Debts” (Zero Net Debt) and the “ROE 20%”. As for the “Operating Earning of 10%”, however, adjustments had

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to be made due to the dramatic changes within the consumer electronics market environment, which had not been foreseen at the time the plan was formulated, as well as a broad reorganization of business structures and large-scale “Strategic Investments” that were implemented in order to respond to such changes, on top of the impact of the progressive appreciation of the yen (with the US Dollar exchange rate rising from JY118 per US\$1 to JY105).

In response to the aforementioned course of events, we formulated our Second Mid-Term Business Plan, the “Value Creation Plan”, the first year of which coincides with the final year of the First Mid-Term Business Plan, the current fiscal term ending in March 2006. The following new activities have started under this new plan as a corporate value expansion strategy.

2 . Basic Policy of Management

- Aiming for Early Entry into the Billion Dollar Club through Significant Growth, with a Profit Earning Capacity that will Place Us in the Top of the Industry and through the Implementation of Activities for the Corporate Value Expansion Strategy -

We intend to enhance our stable revenue base by adding the excellent profitability and business growth of Car Electronics OEM business operations and car multimedia business operations to our key business operations, such of music media as the car electronics (car audio) sales business and Communications business. We shall also consider conversion to “Digital Media”, as a new business opportunity to pioneer us into a new realm in the “Entertainment of Sound”, with home electronics business operations at the core. All these efforts will be made to facilitate significant growth and to gain a top class earning capacity in the industry for our early entry into the Billion Dollar Club.

3. Setting of Targets

We shall start activities intended for the attainment of the targets set, such as the performance forecasts for the fiscal term ending in March 2006 (the 77th term), which is the first year for the Second Mid-Term Business Plan and targets for the fiscal term ending in March 2008 (the 79th term), which is the final year for the plan, as shown below.

Consolidated	Midterm Plan Targets (vs. 76th Term)	<Actual>		<Targeted Value>
		Fiscal term ending March 2005 (76th Term)	<First Year Forecast> Fiscal term ending March 2006 (77th Term)	
Sales amount	Increase by 20%	JY181.1 billion	JY180.0billion	Fiscal term ending March 2008 (79th Term) JY220.0 billion
Operating earnings	Double	JY7.1billion	JY10.0 billion	JY15.0 billion
Operating earning rate		3.9%	5.6%	Approx. 7%
ROE	20% and over	18%	20% targeted	20% or more
Net Debt	Zero and below	JY15.1billion	0 targeted	0 or less
Interest-bearing liabilities		JY31.1 billion	JY30.0 billion	JY30.0 billion

The overall target for early entry into the Billion Dollar Club is sought by implementing a corporate value expansion strategy through the promotion of growth and top ranking earning

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capacity of the industry as described above as well as through the promotion of a growth strategy

Furthermore, with the complete elimination of preferred shares in the fiscal term ending March 2006, which is the first year of the plan and the halving of the liability to provide retirement benefits through the completion of the reversion of the substituting role for the execution of welfare annuity, combined with the overall finalization of the capital structural reorganization, the return to a sound balance sheet will be complete. Strategic developments will then be enhanced along with sales organizations in the emerging markets with BRICs as the central element to accelerate the implementation of the growth strategy and to further utilize the surplus funds in their entirety for reinvestment to business operations, including M&A, while aggressively expanding the corporate value.

(1) Numerical targets for the final year: Fiscal term ending March 2008 (79th Term)

*** Consolidated sales amount**

The home electronics business operations will be restructured based on the benefits gained through the expansion of the growth businesses car electronics OEM business operations and car multimedia business operations, as well as through the stable growth of the key businesses, car electronics consumer business operations and Communications business operations with the aim for a consolidated sales amount of JY 220 billion, which is a growth by 20% in comparison with the term ending March 2005.

*** Consolidated operating earnings**

We are aiming to achieve operating earnings of JY15 billion (an operating earning rate of approximately 7%), which would be double that of the term ending March 2005, by increasing the stable revenue base of the car electronics consumer (audio) business operations and wireless business operations, which are our key businesses, as well as through reforming the profit structures of the growth businesses car electronics OEM business operations and the car multimedia business operations and restructuring of the home electronics business operation.

*** Net debt**

We intend to proceed further with cash flow reforms by reducing inventory assets and other means to attain a "Zero Net Debt" and utilize surplus funds for M&A as well as other business reinvestment purposes.

Further, the borrowed funds of about JY 30 billion will be considered our operating funds and utilized as short-term revolving funds.

*** ROE**

A rate of 20% or more will be targeted for ROE in the final year of the plan by converting the financial base and capital structure into sound states, expanding the net income for the current term through a growth strategy and by expanding our share holder's equity.

4. Business Operations Strategy

- Aiming for Profitable Growth through adding Profit Structure Reforms of Our Growing Business Operations on top of Our key Business Operations -

We plan to facilitate significant growth and improvements in our earning capacity by reforming

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the profit structures of the two growing businesses, the car electronics OEM business operations and the car multimedia business operations, dynamically superposing it on top of the promotion of an increased and further stabilized revenue base of the car electronics consumer (audio) business operations and the Communications business operations, which are both positioned as our key businesses. Home electronics business operations will be positioned as a business subject for business restructuring amidst the onset of digital media conversions in the market.

(1) Car electronics business operations

We aim for a profitable growth in our major business operations that dominate 58% of our total sales (actual for fiscal term ending in March 2005)

*** Car electronics consumer (audio) business operation**

[Target]

We intend to make this key business the world's Number One in the field of car audio consumer sales.

[Strategy]

From the organizational changes that took place on April 1st, the Car Multimedia Division gained independence, enabling The Car Electronics Consumer(Audio) Division to concentrate on their car audio business operations, while seeking to increase the sales amount and a stable expansion of revenue as a key business with expansion into emerging markets, mainly BRICs, through the enhancement of our global sales network and highly value-added product strategies, utilizing high quality sound, digital and network technologies, as well as a user interface technology by taking advantage of opportunities from the conversion to digital media.

*** Car electronics OEM business operation**

[Target]

An increase in sales and improvements in profitability will be sought through direct deliveries to multiple customers, the restructuring of dealer option business operations and by enhancing competitiveness for this growing business.

[Strategy]

The Car Electronics OEM Division, which showed a great leap according to our growth strategy in the First Mid-Term Business Plan, will proceed with the expansion of our planning and developing capabilities, improving the quality assurance infrastructure and vertical integration of the Nagano Plant and Shanghai Plant in order to enhance our ability to make proposals to our customers in terms of supply chain, quality and costs for this growing business.

Further, in the field of components (DVD mechanisms, etc.) for car electronics, experiencing an increase in received orders, we will proceed with the transfer of production lines from our Nagano Plant to the Shanghai Plant, while extensive production capabilities are secured and costs are reduced to improve profitability through this organization that provides increased production to facilitate a profitable growth in the car electronics OEM business.

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*** Car multimedia business operations**

[Target]

We will restructure our global multimedia business operations into a profitable growing business by enhancing the visual field and become a part of the top group in the car navigational system Consumer sale field. .

[Strategy]

In order to enhance our competitiveness of in the car multimedia field, which is a growing market, we made the Car Multimedia Division an independent division as of April 1st this year. Core technologies for car navigational systems were transferred from joint development organizations to our own proprietary development organization. Full-scale development of the new car navigational system, launched into the market in March, will be promoted while further enhancements will be made for activities relating to visual products that are showing growth on a global scale and multimedia products including those supporting digital broadcasting, which are expected to become popular in the future. Through all such efforts, we will be reorganizing our profit structure for this business operation.

(2) Communications business operations

[Target]

Stable growth and an increased earning capacity will be sought for this key business through the enhancement of the analog wireless device business base and substantiation of the digital wireless device business.

[Strategy]

Digital wireless devices for professional use are the core of our communications business. With consideration for the digitization of wireless communications, we will concentrate our efforts in the development of digital wireless devices for professional use intended for the largest market, the United States. We will also promote a strategic partnership with Icom and expand our business into emerging markets with potential growth in the future, for stable growth and an enhanced revenue base of key business operations.

(3) Home electronics business operations

[Target]

We intend to capture the advent of a digital media era as a business opportunity for audio manufacturers, such as our company and implement the restructuring of the business to establish a top brand with a large earning capacity.

[Strategy]

We will concentrate on the added-value strategy in the home theater field, where a reduction in the market and intensification of competition are occurring. We intend to capture the popularization of digital media as a business opportunity and will be providing a lineup of cost-competitive products by utilizing our superior sound quality technology in the audio field. We shall, furthermore, promote the development of products that suit the characteristics of each regional market. For portable audio devices, following our flash memory players, we will be starting with the sale of HDD players in the market, to establish and promote the progress of

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the integrated concept of a “Mobile & Home Multimedia System”. We are the only manufacturer dedicated to sound involved in the three business areas of home electronics, car electronics and communications, and as such, we aim to be pioneers delving into new territories including the “Entertainment of Sound”, which is suitable for the digital and network era.

(4) Long-term strategic developments have commenced with consideration for events following the completion of the Midterm plan

- Activities have begun for long-term strategic developments, intended for the following three years, to capture conversions to digital media -

We will ensue the strengths of the only specialized manufacturer that possesses all three core businesses of car electronics business operation, home electronics business operation and communications business operation which are exhibited by enhancing the responsive abilities for the consumer business, in which there are rapid changes and by capturing business opportunities from the development of digital, network, wireless and multimedia technologies.

As part of such efforts, activities to develop businesses that can contribute new added value to markets in three years, which are appropriate for our target business of “Mobile & Home Multimedia System”, will be implemented with the Value Creation Division (VCD), an organization that was newly established as of April 1, 2005, at the core. Such efforts will involve the fusion of an audio-visual technology nurtured over many years as well as cutting-edge digital and network technologies to realize a seamless connection between car electronics, home audio and portable audio while promoting networking with personal computers and the internet.

(5) Building a production organization, which offers a consistent organization that covers planning, design, production and quality control

- Establishing a “Fabricating” organization for the speedy commercialization of products with superior cost competitiveness and high quality -

The “Production Innovation” that was completed in the fiscal term ending March 2005. This together was developed even further with the implementation of a sustained enhancement of production innovation by the “Production Administration Department”, which was newly established on April 1, 2005, with the introduction of a new supply chain management system, Business Process Reengineering (BPR) by the “Production and Sales System Reformation Project” and IT system developments, along with the following activities, we will proceed to build an organization that performs concurrent technology developments and the commercialization of products with consistent planning from designing, production through to quality control, to establish a “Fabricating” organization, which can commercialize products with superior cost competitiveness and high quality in a speedy manner.

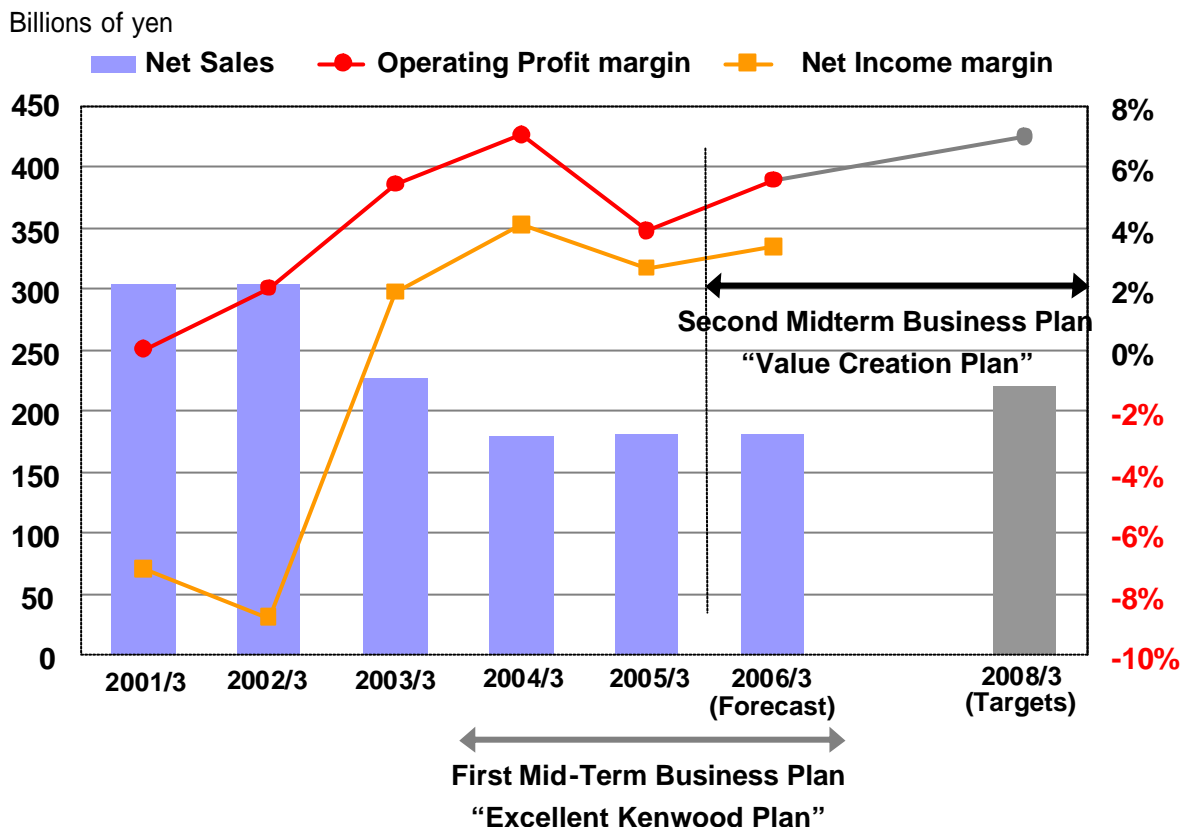
1. Completion of new building construction at the Shanghai Plant
2. New installation of a rough road test course at the Nagano Plant
3. Acceleration of quality innovations
4. Promotion of environmental steps

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[Reference]

Transition of consolidated sales and operating earning rates, and current term net income rates (from term ending in March 2001 to term ending in March 2008)

*The figures for the term ending March 2006 through to the term ending March 2008 are planned figures for the Second Mid-Term Business Plan, "Value Creation Plan"



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