



JVC KENWOOD Holdings, Inc.

January 30, 2009

Progress Report on Profitability Structural Reforms and Implementation of Additional Measures

JVC KENWOOD Holdings, Inc., was established as a joint holding company on October 1, 2008, following management integration of Victor Company of Japan, Limited (subsequently, JVC) and Kenwood Corporation (subsequently, Kenwood). While continuing to implement measures to realize synergies, JVC KENWOOD Holdings, Inc. (subsequently, the company) responded to the deteriorating economic environment by establishing a "Profitability Structural Reform Conference" and progressing with structural reforms based on the company's "Four Structural Reforms" approach, particularly at JVC.

The company resolved to implement additional measures to respond to further deterioration in the economic environment, however, specifically focusing on structural reforms in the Display business where profitability issues remain for JVC, in the Audio business where JVC and Kenwood carry out joint operations, and in the Car Electronics OEM business in Kenwood. Further, the company will simultaneously implement measures toward a future growth strategy by reassigning management resources created by these reforms.

The progress of profitability structural reforms that the company began in October 2008 and additional measures the company will implement are as follows.

The company plans through these efforts to realize cost reductions of ¥10 billion by the end of the current fiscal year and another ¥20 billion by the end of the next fiscal year, which will have the positive effect of improving operating profit.

The current series of additional measures will require approximately ¥20 billion expenses. Regarding the approximately ¥10 billion amount within this total that satisfies requirements to be recorded as an allowance, allowances recorded due to the changes in accounting procedures that accompanied management integration do not affect income and expenses. Meanwhile, the approximately ¥10 billion remaining amount was incorporated into the latest revised full year forecasts.

Please refer to the "Announcement of Earnings Forecast Revision for the Fiscal Year Ending March 2009" also released on January 30 for details of the latest revised forecasts.

1. Structural reforms at JVC

In addition to production system structural reforms that accompanied the reduced scale of the Japan domestic consumer electronics segment of the LCD TV business completed at the end of September 2008, and including reforms implemented at affiliates, JVC intends to realize cost reductions through profitability structural reforms including emergency measures that continued since October 2008. It will also, however, implement the following additional measures.

Structural reform of Display business

Key measures in the first half of the fiscal year ending March 2009 included reducing the scale of the Japan domestic consumer electronics segment of the LCD TV business. In addition, its U.K. plant was terminated at the end of July 2008 and replaced with electronics manufacturing services (EMS) in Eastern Europe. These measures achieved substantial cost reductions. In addition, JVC further improved earnings by continuing to develop its business tie-up with Funai Electric in areas such as joint production and development.

However, in the face of an environment characterized by further falling prices in overseas markets and significantly intensified competition, JVC will implement additional measures in the areas of development, production, and sales and marketing to achieve profitability in its Display business in the fiscal year ending March 2010.

Specific additional measures to be implemented

- JVC will significantly reduce the scale of in-company development of LCD TVs for the overseas consumer market, and increase the rate of external procurement significantly through outsourcing of development and ODM (Original Design Manufacturing: manufacturing at the plants of business partners, including at the design stage).
- In addition to reforming both the overall and domestic production system, JVC will concentrate substrate pre-production processes from throughout the world in its Thai plant and push forward the shift to EMS at overseas plants.
- JVC will reform the sales and marketing systems in Japan, the U.S., and Europe.
- JVC will reform distribution and service systems.
- JVC will reassign approximately 200 employees currently involved in LCD TV development and accelerate development in the future growth field of next generation network and 3D correspondent displays.

[1] Reform of the domestic production system

JVC will implement sweeping production reforms including reducing personnel to improve productivity at the Yokosuka plant and maintain total cost competitiveness, and also in response to substantial reduction in the scale of the Japan domestic Consumer electronics segment of the LCD TV business.

For the future, JVC will prioritize the categories of Camcorder, D-ILA Projectors, and Pro systems as production items; implement reforms in areas such as production technology and key device manufacturing technology in its position as the "Mother Plant" for the Group's global production system; and continue to develop human resources. As part of this series of measures, the company is investigating plans to centralize the current Hachioji plant Pro-system production department at the Yokosuka plant and concentrate JVC's Japan domestic production capabilities in one location.

In addition, the company will transfer and concentrate warehouses held in all areas by its affiliated service company Victor Service & Engineering Co., Ltd., into the Yokosuka plant, and implement major reforms in areas including distribution of service parts.

[2] Reform of the sales and marketing system

i) Reforms to Japan domestic Sales and Marketing Department

JVC will respond to the significant reduction in scale of the Japan domestic consumer

TRANSLATION - FOR REFERENCE ONLY -

electronics segment of the LCD TV business by shifting its organizational structure to construct a consolidated operational system that is integrated from production through sales and marketing.

- Business discussion; sales promotion; sales and marketing planning; and production, sales, and inventory (PSI) management functions and personnel currently located in the Sales and Marketing Divisions will be transferred to the sales and marketing departments of the Manufacturing Divisions.
- The Sales and Marketing Divisions will specialize in sales to retail.
- Employee numbers and business locations will be reviewed.

ii) Structural reforms at U.S. sales companies

JVC will review the consumer electronics segment of its current LCD TV business in the U.S., and plan and implement reforms to respond to the economic environment deterioration.

- JVC will integrate its three U.S. sales companies and its service company and establish a sales headquarters with overall responsibility.
- Service bases and warehouses will be consolidated.

iii) Structural reforms at European sales companies

JVC will review the consumer electronics segment of its current LCD TV business in Europe, and plan and implement reforms to respond to the economic environment deterioration.

- Sales companies will be reformed by reorganizing buildings and warehouses, and reviewing organizational system and human resources.
- IT investment will be discontinued.
- Distribution will be reformed by expanding secondary distribution at European central warehouses.
- Service systems will be reformed by consolidating the service center.

[3] Reform of distribution and service systems in Japan

i) Structural reforms at distribution and service affiliate companies

- Distribution affiliate company Victor Logistics, Inc., will streamline its distribution bases, consolidate its warehouses, reduce employee numbers, and review its organizational system.
- Service affiliate Victor Service & Engineering Co., Ltd., (VSE) will eliminate its system of support companies and create a highly integrated system for all its bases, and in conjunction streamline its system of bases and reduce its total number of employees.
- The inventory management function for repaired parts and other functions carried out by Victor Parts & Technical Support, Inc., (VPT) will be transferred to and integrated with VSE at the end of March 2009.

2. Structural Reforms at Kenwood

Structural reform of Car Electronics OEM business

From April 2008 Kenwood reduced the scale of its development and production functions and reduced employee numbers at its domestic plant, Kenwood Nagano Corporation, due to

declining automotive sales and sluggishness in the installation rate of genuine products for car manufacturers.

However, global automotive production fell even further since the fall of 2008 and sales in the Car Electronics OEM business declined by a half, year on year. Kenwood resolved to carry out additional measures, including employment structural reforms, to respond to this situation and target profitability in this business by the next fiscal year.

Specific measures to be implemented

- Kenwood will review the scale of development and production functions so that they correspond to the level of sales, and reform these systems accordingly.
- Kenwood will progress the integration of development functions with JVC and thoroughly reconstruct its cost structure by reviewing its development functions, design methods, and manufacturing costs.

3. Structural Reforms Common to Both Companies

(1) Structural reforms of Audio business

- JVC reduced its lineup of unprofitable models substantially for both Japan domestic and overseas markets and shifted to a business structure centered on high-value-added products, such as the Wood Cone speaker system. In addition, it improved profitability by expanding its lineup of AV accessories and strengthening its sales and marketing capabilities. - Going forward, JVC targets increased sales of its home theater system equipped with a Blu-ray or DVD player by combining it with LCD TVs in overseas markets. Further, JVC will increase its external procurement ratio via outsourcing and ODM, including of mini-components.
- Further, Kenwood already identified unprofitable products and regions, implemented a company split in its Audio business in December 2008, and shifted to a fables system specializing in product planning and sales and marketing, targeting a return to profitability by the second half of the fiscal year.
- Also, in the same way as Car Electronics Business, Kenwood and JVC will accelerate joint development, production and procurement conducted by both companies, and target even greater synergies in Audio business. At the same time, they continue to investigate full-fledged integration of both companies' audio businesses.

(2) Reforms to Employment Structure by preferential treatment early retirement program, partial return of remuneration

[1] Preferential treatment early retirement

As previously mentioned, to achieve an optimal scale of employee numbers for the Group that corresponds to business structural reforms and cost structural reforms implemented by both JVC and Kenwood, JVC reduced its number of regular employees by 350 through a preferential treatment early retirement program. Combined with a further 130 employee reduction across the Group, this gives a total reduction of 480 employees. In addition, 200 employees were reassigned in a shift of human resources toward growth businesses areas.

In addition, in September 2008 Kenwood started reduction of its workforce by approximately 100 at its Nagano plant and is also considering plans to reduce the number of regular employees by a further 100.

[2] Partial return of remuneration

As part of emergency measures implemented in October 2008, directors and corporate officers already returned part of their remuneration, and the company also reduced overtime pay substantially. However the company will implement further measures for directors and managers to return part of their remuneration as one among the current series of additional measures that JVC KENWOOD Holdings is implementing until the company builds up sustainable corporate foundations, strong enough to cope with the rapidly deteriorating management environment.

4. Reductions in Inventory

The company prioritized cash flow and strives to reduce inventory through production innovations and other measures. But the company is implementing the following emergency measures additionally to respond to declining sales and increasing inventories created by the global economic environment deterioration.

(1) Adjustment of production and related emergency measures

According to the company's strategy to reduce inventory, it implemented major production adjustment measures, including some temporary work stoppages. From the third quarter of the current fiscal year the company adjusted production at a total of 12 production bases, specifically 6 JVC bases and 6 Kenwood bases.

(2) Enhancement of Production Innovation throughout the Group

Toward reducing the Group's consolidated inventory, the company will consolidate domestic and overseas product and part warehouses, and accelerate PSI management reforms toward a framework where decisions on production volume are based on distributor's demands.

5. Investing in Human Resources toward a Future Growth Strategy

(1) Establishing top strategic products with the support of all Group companies

Amid a market environment where competition is expected to become even more intense, JVC KENWOOD Group will leverage its technological capabilities to differentiate itself from its competitors and establish "top strategic products", namely powerful products, services, and business models that will serve as engines for future growth.

JVC KENWOOD Holdings and its subsidiaries (JVC, Kenwood, and J&K Technologies Corp.) will provide support for these top strategic products in areas such as development, sales and marketing. In this manner, the Group plans to increase the power of its product lineup and expand global sales, targeting increased strength and greater earnings capabilities as a group.

(2) A new organizational structure for strengthened growth strategies - JVC

Throughout the Group, the company will progress the commercialization of new product genres and accelerate the development of the next generation of displays by redeploying human resources to strengthen future growth strategies.

[1] To accelerate new product genre commercialization, JVC will establish an Advanced Marketing Dept., an Alliance Development Dept., and a BD System Dept. under the control of the Business Development Div. (approximately 100 staff).

[2] To strategically open up new, international consumer and B-to-B markets and also new sales channels, a JVC will establish a new Business Initiative Div. under the control of the President (approximately 50 staff).

[3] To strategically strengthen next-generation display operations, JVC will establish a Product Development Dept. under the control of Technology Div. (approximately 60 staff).

(3) Shifting to B to B businesses centered on the public safety market

The JVC KENWOOD Group product lineup includes Kenwood's Land Mobile Radio equipment and JVC's products and services for the public safety market, such as security cameras. In the future, amid a flow of government-promoted investment toward global public, safety, and environmental areas, JVC KENWOOD Holdings will develop businesses in areas such as these that are not easily affected by the economic environment. Also, by increasing the ratio of BtoB businesses within the Group as a whole, particularly those relating to the public safety market, the company will create an earnings foundation that is strong and stable regardless of economic changes.

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