2006.3

Management Policy
—Commencement of New Activities for Corporate Value Expansion Strategy

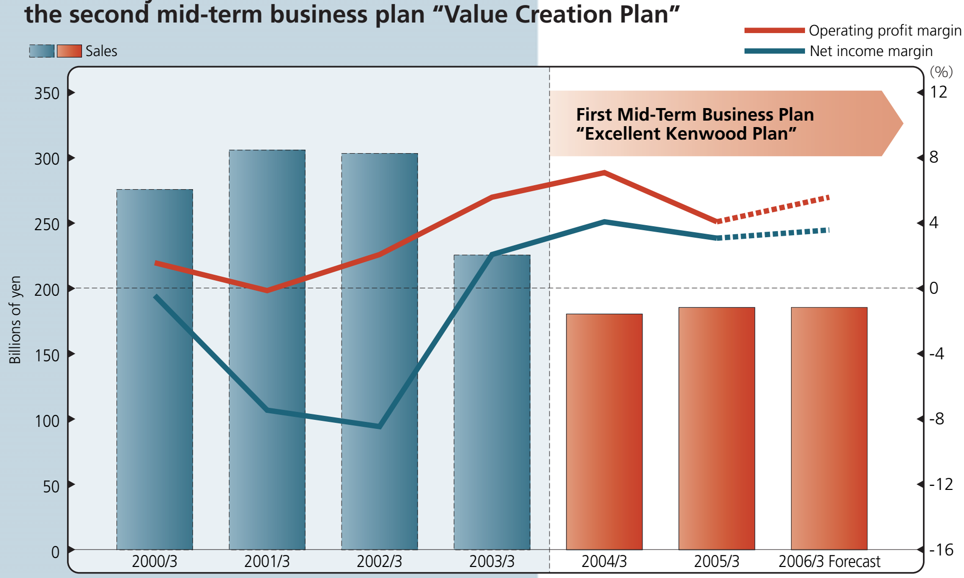
Commencement of new activities for corporate value expansion strategy by overall completion of profit base restructuring and capital structure reform during the final year of the first mid-term business plan, the "Excellent Kenwood Plan"

In May 2003, our corporate group formulated the first mid-term business plan, the "Excellent Kenwood Plan," for the rebirth of Kenwood and raised four management targets including "Resumption of Dividends," "Management with No Substantial Debts (Zero Net Debt)," "20% ROE" and "10% Operating Profit Margin." During the term ended March 2004, which was the first year of the plan, the consolidated business organization was enhanced as a part of our management restructuring efforts, promoting "Production Innovation" intended to drastically reform the profit and cash flow. During the term ended March 2005, which was the second year of the plan, we added efforts for drastically reforming our financial base and capital structure on top of activities that continued from the previous year while implementing a "Strategic Investment" for new growth and to significantly leap into the future to promote the enhancement of business competitiveness and growth strategy.

Of these four targets, from the first mid-term business plan, the "Resumption of Dividends" was attained one year ahead of schedule, while the prospect of attaining the "Zero Net Debt" and the "20% ROE" was established. As for the "10% Operating Profit Margin," however, adjustments had to be made due to the dramatic changes within the consumer electronics market environment, which were not foreseen at the time the plan was formulated, as well as a broad reorganization of the business structure 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 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 term ending March 2006. We started new activities for the expansion of our corporate value through overall completion of the following profit base reforms and capital structure reforms in the first year of the new plan.

Shift final year of the "Excellent Kenwood Plan" to the second mid-term business plan "Value Creation Plan"



Profit base reforms
—Aim for profitable growth by reforming profit structure for the growth business and overlaying it on top of that of the base business

We aim for profitable growth by expanding the stable profit base of the car electronics consumer (audio) business and wireless radio business and to attain excellence through profit structural reforms to aid dramatic growth in the two business areas of car electronics OEM business and car multimedia (consumer) business.

❶Independence of Car Multimedia Division
—Taking action to reform profit structure

The Car Multimedia Division gained independence from the Car Electronics Consumer Division as of April 1, 2005, following the car electronics OEM business, which expanded business operations beyond the scope of the plan during the past term ended March 2005. As a result, the Car Electronics Consumer Division will concentrate on the consumer car audio business and make an effort to maintain this stable key business to sustain and increase profits. The Car Multimedia Division will take steps toward profit structure reforms by fully implementing new car navigation systems with proprietary developments and enhancing activities relating to multimedia products including visual products, which are growing on a global scale, and products that are compatible with digital broadcasting, which are expected to become popular in the future.

❷Innovation of profit structure in the Car Electronics OEM Business
—Complete additional construction of the Shanghai Factory and make improvements to increase production and promote cost reductions through vertical integration

We are proceeding with improving the foundation for enhancing market responsive capabilities and reducing costs in the car electronics OEM business, which is growing at a pace vastly exceeding the plan, by promoting a vertical integration of the Nagano factory and Shanghai factory in order to satisfy the requirements of OEM customers in all aspects of the supply chain, including quality and cost.

Prospects exist for increasing orders in the future particularly in the field of components for car electronics, which include DVD mechanisms and others. In order to respond to such increases, we started transferring production lines from the Nagano factory to the Shanghai factory, while construction of a new building was completed at the Shanghai factory in July 2005. We are seeking to improve profitability by increasing production and reducing costs to proceed with our reforms on profit structure, in addition to the rapid growth of the car electronics OEM business.

❸Restructuring of Home Electronics Business
—Restructure business operations and profit structures to reflect market changes and digital media innovations

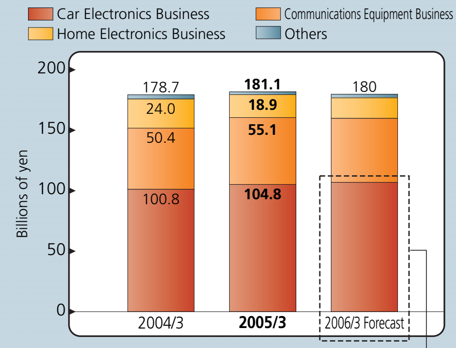
With prices falling continuously in the home theater systems market due to a reduction in market scale and the intensifying competition, we are seeing the emergence and sustained rapid growth of "digital media" in the home electronics market, such as flash memory and hard disks, replacing CDs and MDs, due to innovations with music media.

At the Kenwood Group, we see such a popularization of new media as a big business opportunity. Our MD player has been evaluated positively as a "Return to Made in Japan" model, which was then followed by the introduction of our flash memory audio system. Continuing with such efforts to capture business opportunities, we commercialized our HDD audio system, which has been achieving strong growth since being introduced to the market in June 2005.

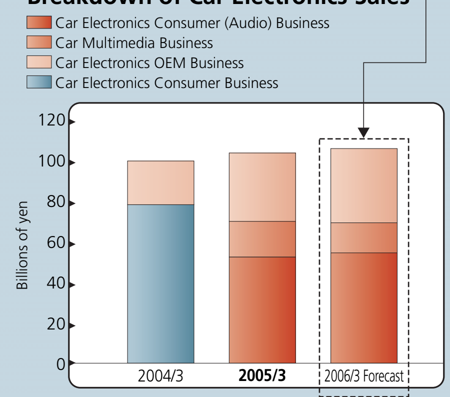
On the other hand, we will be concentrating on a highly value-added strategy in the existing home theater field, while in the pure audio field, we will be preparing a lineup of highly cost-competitive products by utilizing a high quality sound technology. We will seek to reform our profit structure through the aforementioned efforts, as well as through the promotion of product developments by taking preemptive action for the innovation of digital media.

In the future, we intend to pioneer into new realms of "Entertainment of Sound" that is appropriate for the digital and network era as the only manufacturer dedicated to sound that is involved in the three business areas of home electronics, car electronics and communications equipment.

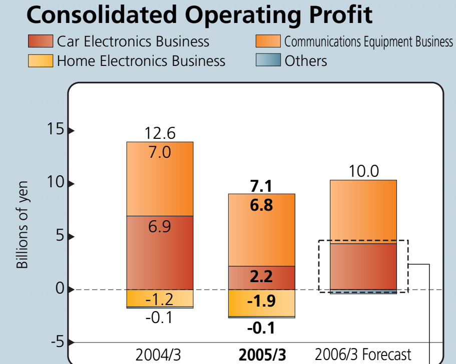
Consolidated Sales



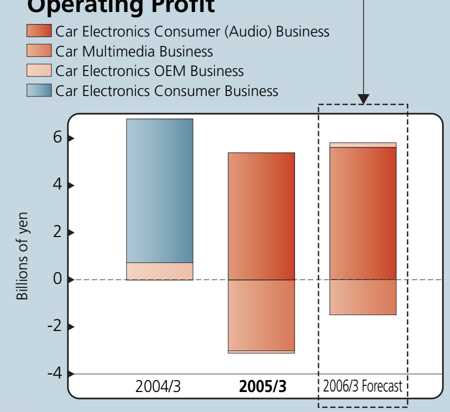
Breakdown of Car Electronics Sales



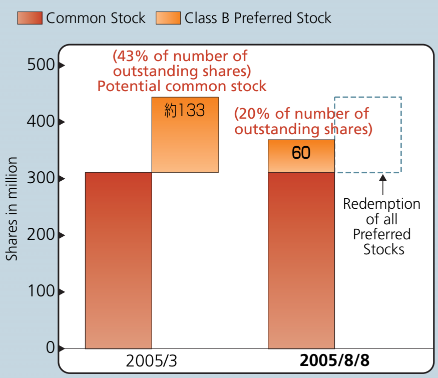
Consolidated Operating Profit



Breakdown of Car Electronics Operating Profit



Redemption of all Preferred Stocks



Overall completion of capital structure reforms
——Becoming the first company in Japan to completely redeem preferred stocks through the issuance of new shares and funds on hand

In terms of finances, we had a few critical issues that we needed to take care of, such as the possibility of dilution of shareholder value in the future because of the preferred stocks issued due to the debt-for-equity swap, which took place in December 2002, a financial agreement with a term of three years that was formed with a correspondent financial institutions, and the existence of cumulative loss. As mentioned above, we formulated our "New Financial Strategy" in May 2004 and completed the "elimination of cumulative loss, redemption of (first tranche class-A) preferred stocks, termination of financial agreements and dramatic reduction of interest-bearing liabilities."

Therefore, in order to redeem the rest of preferred stocks, we completed a capital reduction on August 8, 2005 by raising approximately JY11.1 billion through a public share offering, and combining the proceeds with funds on hand of about JY3.9 billion to redeem JY15.0 billion of the first tranche class-B preferred stock held by Resona Bank. As a result of this action, we completed the redemption with compensation of the first tranche class-B preferred stock held by the first tranche class-B preferred shareholder (Resona Bank) in a form that achieved redemption in excess of par value (12.5 billion yen), accomplished repayment of all preferred stocks issued by the company and substantially reduced the potential dilution of shareholder value in the future.

For details please refer to the press release "Kenwood Completes Capital Reduction with Compensation and Withdraws the Registration for Issuance of New Shares" dated August 8, 2005 for details.

Establishment of production organization that provides consistency through planning to design, production and quality control
——Establish a "fabricating" organization that offers superior cost competitiveness and speedy commercialization of high quality products

"Production Innovation" activities completed in the past term ended March 2005 have evolved further through the implementation of sustained enhancement of production innovation by the "Global Production Operation," which was newly established as of April 1, 2005. Business process reengineering (BPR) of the new supply chain management system under the "PSI Innovation Project" and IT system developments, along with the following activities were used to build an organization that performs concurrent technology developments and product commercialization from consistent planning to designing in production through to quality control, to establish a "Fabricating" organization that can commercialize products with a superior cost competitiveness and high quality in a speedy manner.

❶Construction of new building at Shanghai factory

In order to increase the available production space at the Shanghai factory, which became an asset as an independent entity in August 2003, a new building with approximately 11,000 square meters of floor space will be completed in July 2005. The quality level of the added production lines rivals those at Yamagata factory, which is our Best Practice with regards to activities relating to production innovation. The Shanghai factory will undergo a restructuring of the production organization through vertical integration with Nagano factory.

❷New installation of a test course at Nagano factory

In order to meet the needs for quality innovation for the car electronics OEM business and overall consumer business, a test course, which plays a vital role in establishing the quality of car electronics products, will be built at Nagano factory, which is the major manufacturing factory of the car electronics business.

This will not only enhance the quality certification tests, under adverse conditions that are characteristic for car electronic products, but will also improve the organization for providing feedback from vehicle-mounted tests to the design stage in a speedy manner, thereby shortening the lead time for the development of products.

❸Acceleration of quality innovation

Activities for the innovation of quality for all products ranging from hardware to software will undergo an increased level of acceleration. The Quality Innovation Division, which was newly established as of June 1, 2004, will play a central role in doing this, by enhancing quality control functions that cover the entire range of processes from the certification of parts and components to design and production of car electronics products required to have high quality standards, particularly against vibration, temperature and dust.

❹Promotion of environmental steps

It has been sometime since we started undertaking activities for manufacturing environmentally friendly products. We are planning to complete the implementation of lead-free solders in all business divisions by the end of October 2005. Further, since RoHS instructions* will be applied to products that will be sold in nations of the European Union starting from July 1, 2006, we are in the process of preparing for complete compliance to these instructions by responding to regulations regarding environmental substances in all of our production processes, starting with the procurement of parts and components. We are also improving our infrastructure to respond to the recycling regulations that are being promoted in Europe.

* RoHS instruction: This is an abbreviation for the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which is implemented by the European Union and regulates harmful and toxic substances in electrical and electronics equipment products. The use of six substance groups of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB) and PBDE will be regulated for products to be sold in European Union member nations of the European Union from July 1, 2006.

Structural reforms of our sales company in the United States —Eliminate past “Negative Legacy” on consolidated base as well

In order to make the financial base and capital structure of our subsidiaries sounder, we have completed financial structure reforms with our sales companies in Germany and France during the past term ended March 2005. Continuing with these efforts, we plan to convert liabilities into shares (debt-for-equity swap) amounting to approximately JY4.8 billion, loaned from the parent company here in Japan to our sales company in the United States. Capital is enhanced and financial as well as capital structures will be drastically reformed.

Together with the aforementioned activities, we will also be closing a company that is related to selling products to outlets in the United States, which became financially non-viable as business structure reforms continue. Through such efforts, we will be eliminating the “negative legacy” of the past.

Due to these developments, the Kenwood Americas Headquarters Preparatory Office was established as of November 15, 2004, and was re-established as the Kenwood Americas Headquarters that will gain overall control of Kenwood USA as of June 1, 2005 aiming enhancement of business operations in the United States and Canada, as well as emerging markets in Mexico and Central and South America will be made.

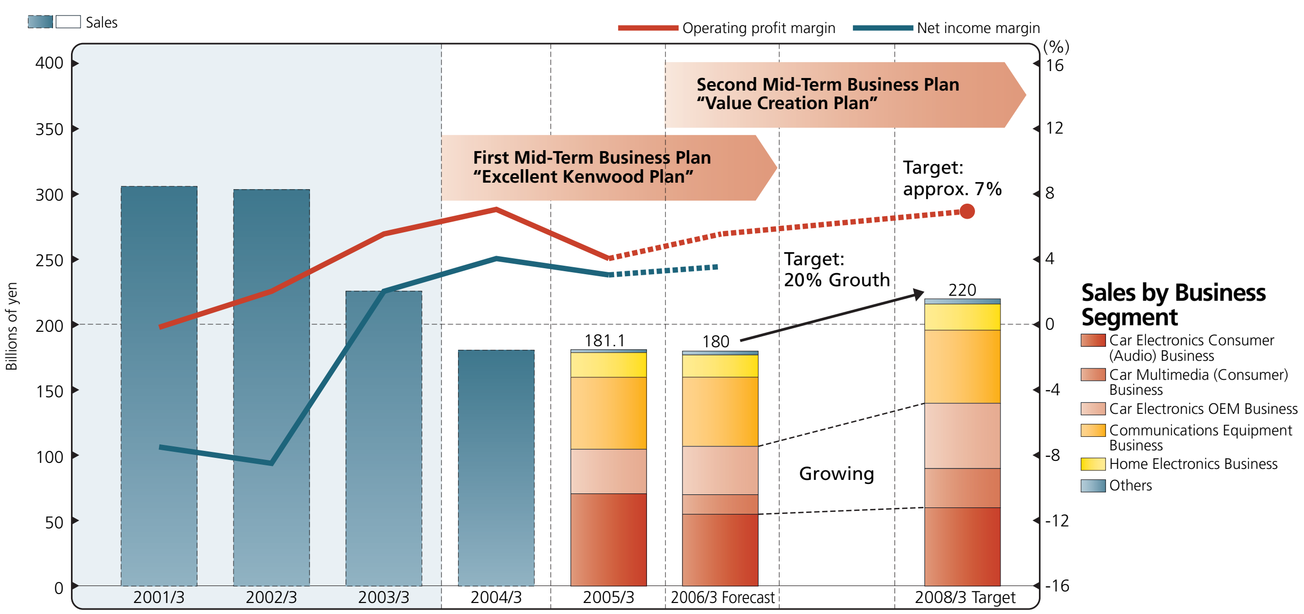
The Second Mid-Term Business Plan, "Value Creation Plan"

Aim to Join Billion Dollar Club at an Early Date through Dramatic Growth, as well as Top Level Earning Capacity in Industry and Implement Corporate Value Expansion Strategy

As mentioned above, the Kenwood Group has formulated the second mid-term business plan, the "Value Creation Plan," which spans three years starting from the term ending March 2006, which is also the final year of the first mid-term business plan, the "Excellent Kenwood Plan," to the term ending March 2008.

This is intended to take our key businesses of car electronics consumer (audio) business and wireless radio business, which dominate more than half of the sales of our entire group of companies, and further enhance their stable profit base by enhancing the organizations to cope with the growing markets such as BRICs, together with progress in M&A. Excellence will then be attained through the reform of profit structures of growing businesses, such as car electronics OEM business and car multimedia (consumer) business operations, and overlaying them on the top of that of the stable businesses. Also we will grasp the "Digitization of Media" for music media to be a new business opportunity. This will then lead us to the pioneering of a new realm in the "Entertainment of Sound" that integrates car electronics business with home electronics business. All these will result in dramatic growth and a top level earning power in the industry, and we shall undertake activities relating to the Corporate Value Expansion Strategy to expand our corporate value to enter the Billion Dollar Club at an early date.

Illustrated progress of "Value Creation Plan"



Setting of targets

We have started activities intended for the attainment of the targets set, such as the performance forecasts for the term ending March 2006, which is the first year of the second mid-term business plan and targets for the term ending March 2008, which is the final year of the plan.

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

Furthermore, with the complete redemption of preferred stocks in the 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.

Numerical targets for the final year: Fiscal year ending March 2008

●Consolidated sales amount

The home electronics business will be restructured based on the benefits gained through the expansion of the growing businesses, car electronics OEM business and car multimedia (consumer) business, as well as through the stable growth of the key businesses, car electronics consumer (audio) business and wireless radio business 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 profit

We are aiming to achieve operating profit of JY15 billion (an operating profit margin 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 and wireless radio business, which are our key businesses, as well as through reforming the profit structures of the growing businesses, car electronics OEM business and the car multimedia (consumer) business, and restructuring of the home electronics business.

●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 shareholders’ equity.

Commencement of long-term strategic development with consideration for events following completion of mid-term plan

——Activities have begun for long-term strategic development over three years, capturing digital media conversions

Exhibiting strengths of the only specialized manufacturer that contains three core businesses of car electronics business, home electronics business and communications equipment business by enhancing a responsive ability for consumer businesses, in which there are rapid changes and by capturing business opportunities from the developments of digital, network, wireless and multimedia technologies.

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