2006.3

Completed the final stage of our reforms on the financial base and capital structure, and enhanced the implementation of new strategies to expand corporate value through the promotion of growth strategies and the reforms of our profit structure.

The Kenwood Group completed the final stage of its reforms on the financial base and capital structure based on the Value Creation Plan, the Group's second mid-term business plan announced in May 2005, and has now begun implementing new strategies to expand corporate value through the promotion of growth strategies and the reforms of our profit structure.

These strategies that will expand corporate value, realize further growth and achieve higher profitability are aimed at reaching the goal of becoming a member of the Billion Dollar Club in the earliest possible timeframe.

More specifically, the new strategy consists of the following processes. First, the Kenwood Group plans to enhance stable sales and revenues in core businesses such as Car Electronics Consumer (Audio) and Communications Equipment businesses. At the same time, the profit structure of growing businesses such as Car Electronics OEM and Car Electronics Consumer (Multimedia) businesses will be reformed and overlapped on top of these core businesses. Finally, the structural reform of the Home Electronics business will be promoted to open up new frontiers in "Seamless Sound Entertainment," because the rising popularity of digital media content and the development of digital and network environments are considered to provide new business opportunities.

Promoting the growth strategies and reforms of profit structure

Aiming to profitable growth through reforming profit structure of growing businesses in addition to core businesses

The following measures were taken to reform the profit structure in the Car Electronics Consumer (Multimedia), Car Electronics OEM and Home Electronics businesses. By doing so, the Group was able to achieve the results it had forecast at the beginning of the fiscal year.

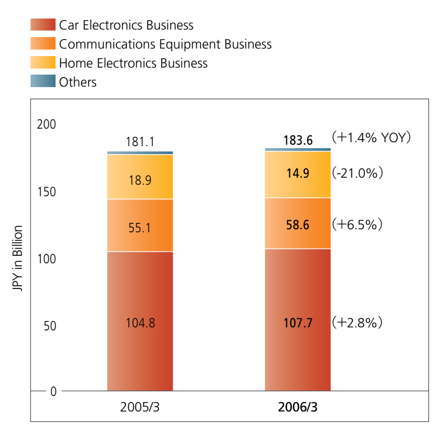
Growth strategy and profit structure reform by the strategy change of the Car Electronics Consumer (Multimedia) Business

Self development and added product lineups of car navigation systems, and reforming overseas business utilizing new concept car navigasion systems

Having completed the strategy change that was implemented to switch from joint development to self development of car navigation systems in the fiscal year ended March 2005, the Company started full scale operations for self developed on-dashboard type models, and conducted version upgrades in the fiscal year ended March 2006. The Company also improved its product lineups by introducing integrated AV models with high quality sound in February 2006. In addition, the Company introduced new concept products, which integrates the core portion of portable navigation systems and car multimedia systems, to overseas markets, and promoted its growth strategy for car navigation systems both domestically and globally.

Furthermore, the Company stepped up its efforts to strengthen its car multimedia products, including visual devices, which are currently showing strong global growth, and digital broadcast devices, which are anticipated to become more and more popular in the future, completed its strategy change of the Car Electronics Consumer (Multimedia) business as initially planned, significantly improved profitability, and started new growth strategy on a full scale basis.

Consolidated net sales by business segment



Car navigation systems that drive the growth of the Car Electronics Business

Self-developed car navigation systems, which expand product lineups (Compatible with iPod, Windows® Automotive installed)

New-concept navigation systems for overseas markets

Growth strategy and profit structure reform of the Car Electronics OEM Business

Growth strategy by the expansion of the Shanghai Plant and the acquisition of new orders, and the enhancement of cost reduction through the vertical integration of Japanese and overseas plants

In August 2005, the Company completed the construction of its new 11,000m^2 building at the Shanghai Plant (Shanghai Kenwood Electronics Co. Ltd.), one of the core manufacturing plants for car electronics products. This move allowed the Company to double its annual manufacturing capacity to one million car electronics units, primarily DVD mechanisms, acquire new orders, and transfer production from Japanese plant. As a result, the Company succeeded in increasing its production capacity and strengthening cost competitiveness.

In addition, the Company promoted vertical integration with the Nagano Plant (Kenwood Nagano Corporation) regarding OEM products and the Yamagata Plant (Kenwood Yamagata Corporation) regarding consumer products to aim for further cost reduction.

Reforming the Home Electronics Business

Fixed costs reduction by reducing the size of unprofitable overseas business and expansion of profitable Japanese businesses

Due to increasingly fierce competition and lower prices in the home theater market resulting from the rise of manufacturers in emerging countries, the Company conducted its strategy change that reduces its business size primarily in the overseas home theater market in the fiscal year ended March 2005. As a result, fixed costs decreased and the profit structure of the Home Electronics business significantly improved.

The Company took advantage of business opportunities generated by the rising popularity of new digital media content and a recovery in the demand for high-class audio products, and promoted new product strategies utilizing its high quality sound technologies and the proliferation of digital media content, in order to enhance the Japanese pure audio and portable audio businesses.

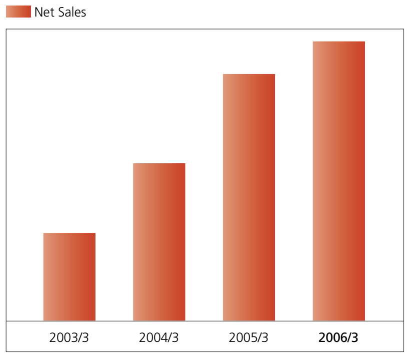
However, this business was not able to make any profit due to the effects of losses incurred as a result of the strategy change, which partially affected the first half of the fiscal year, and rapid changes in the digital audio market, although profitability significantly improved.

Structural reforms of the US sales system

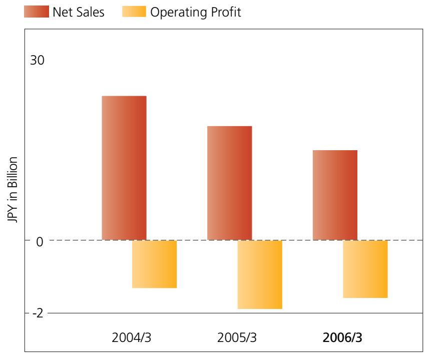
In the US, the Company shut down those firms affiliated with outlet sales operations because the Company judged them to be non-viable as business reforms continued. In June 2005, the Company established the Kenwood Americas Headquarters headed by the US sales subsidiary, and has begun full-fledged implementation of strategies by focusing on strengthening its business in the US and Canada, and expanding sales in emerging markets such as Mexico and other Central and South American countries.

With the effects of improved revenue including increased sales of Communications Equipment (wireless radio equipment) business, the revenue of the US sales subsidiary significantly increased, and the gain on reversal of allowance for investment losses on subsidiaries on a non-consolidated basis was significantly larger than expected.

Growth of CE OEM Business (Image)



Structural Reform of HE Business



Completing Reforms of Financial Base and Capital Structure

Completed the final stage of reforms on financial and capital structures that started in fiscal year ended March 2003 by fully redeeming preferred stocks

The Company conducted an onerous redemption of a half of its preferred stocks in the fiscal year ended March 2005, and redeemed the remaining preferred stocks in the current fiscal year ended March 2006. As a result, the Company became Japan's first company to fully redeem preferred stocks through a debt-for-equity swap, and completed the final stage of the reforms on financial and capital structures and also finished a series of its structural reforms.

These reforms on financial and capital structures contributed to the financial results for the current fiscal year. Compared to the previous fiscal year, financial results significantly improved. Specifically, consolidated shareholders' equity for the current fiscal year finished at JPY37.5 billion, shareholders' equity ratio settled at approximately 34.2%, consolidated retained earnings totaled approximately JPY18.3 billion, and net debt was approximately JPY12.2 billion.

Additionally, the Company returned to the national government past service pension assets that it had been managing within the employees' pension fund in July 2005, and generated an extraordinary profit of approximately JPY4.9 billion. As a result, the amount of retirement benefit liabilities fell by approximately half, and these measures are also projected to significantly reduce future liabilities.

Redemption of all preferred stocks due to elimination of all negative legacies, and reducing the dilution impact to shareholders

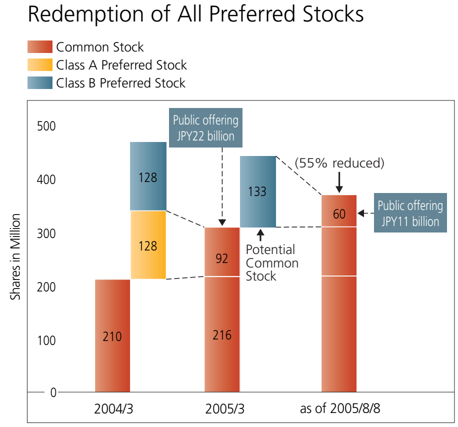
In August 2005, the Company completed the redemption of its Class B Preferred Stock by returning JPY15.0 billion to the preferred shareholder (Resona Bank). In order to do this, approximately JPY11.0 billion was raised through a public offering, and combined with approximately JPY4.0 billion of cash on hand. By doing so, the Company was able to return more than the book value of the stock (JPY12.5 billion) to its Class B Preferred Shareholder, similar to payments made to the Class A Preferred Shareholder in the previous fiscal year. Moreover, all of the preferred stocks issued as a result of the debt-for-equity swap carried out in December 2002 were redeemed, allowing the Company to reduce the dilution impact on shareholder value to 40% of the dilution that would have been seen if all of the preferred stocks had been converted to common stock.

As shown above, the Company succeeded in improving its financial base and capital structure, eliminating all negative legacies left behind from prior years, and completing the series of structural reforms that it has been implementing since the fiscal year ended March 2003. At this time, we would like to again thank all the shareholders and creditors, with a special thank you to financial institutions, for their support and patience through this transitional time.

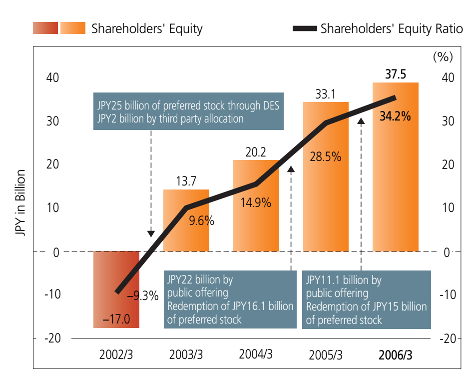
Extraordinary Profit due to returning to the national governmental past service pension assets and reduction of retirement benefit liabilities by half

Following on from the Company obtaining approval to be released from paying future portions of past service pension assets managed by the Kenwood Pension Fund on April 1, 2004, the Company received permission to return to the national government a certain portion of these assets on July 1, 2005. As expected, the Company generated an extraordinary profit of approximately JPY4.9 billion in the first half of the fiscal year as a result of this move. As a result, the amount of retirement benefit liabilities fell by approximately half from JPY38.4 billion at the end of the previous fiscal year to JPY18.6 billion at the end of the current fiscal year, and future related liabilities were also reduced significantly.

Redemption of All Preferred Stocks



Shareholders' Equity and Equity Ratio



Completed reforms on financial and capital structures at subsidiary firms

Following on from the completion of reforms on the financial base and capital structure at sales subsidiaries in France and Germany in the fiscal year ended March 2005, the Company carried out similar drastic reforms on its US sales subsidiary during the fiscal year ended March 2006. Specifically, a debt-for-equity swap was carried out for approximately JPY5.3 billion, the amount loaned to the subsidiary by the parent company, boosting the capital base of the subsidiary. In addition, the Company completed measures to boost capital for sales subsidiaries in Belgium and the Netherlands. As a result, we were able to eliminate our negative legacies from prior years on a consolidated basis.

Promotion of Environmentally Sustainable Measures

The Company made further inroads into green product development, and since RoHS instructions* will be applied to products that will be sold in the European Union starting from July 1, 2006, we have prepared for complete compliance to these rules by responding to all guidelines regarding environmental substances in all of our production processes, starting with the procurement of parts and components. We have also improved our infrastructure to respond to the WEEE instructions* related to the product recycling regulations that are being promoted in Europe.

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

* WEEE instructions: WEEE is an abbreviation of Waste Electrical and Electronic Equipment, and these instructions are recycling instructions for scrapped electrical and electronic equipment.

Actions to Strengthen Product Design Capability in Company's Three Major Locations in the World

The Kenwood Group has established design offices in Los Angeles and Paris, and started design and development activities in three major locations for the purpose of creating product design value that can provide customers with the enjoyment of life. In addition, the Kenwood Group plans to face these issues by focusing on students' fresh and free ideas and through partnerships and exchanges with designers, design students and educational institutions in the world as well as in Japan, and has started industry-university joint research cooperation with Tama Art University in Japan and Ecole Nationale Superieure de Creation Industrielle in Paris.

Basic Policy for Distribution of Profits

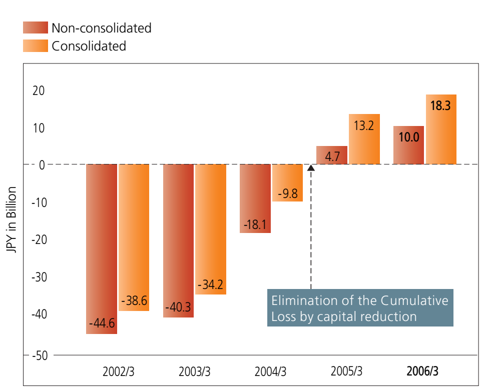
At Kenwood, we believe that providing stable dividends is one of the most important topics facing management, and we calculate the amount of earnings to appropriate after considering profitability and financial conditions in general.

Under this basic policy, the Company was able to achieve one of the key objectives of the first mid-term business plan, the "Excellent Kenwood Plan," one year ahead of schedule in June 2005. This objective, the resumption of dividend payments, was made possible because the Company generated its first retained earnings in ten fiscal years during the fiscal year ended March 2005. In addition, it marked the first time that the Company had distributed dividends in six fiscal years.

The Company plans to supplement its strategic investment funds by using certain cash on hand that increased in the fiscal year ended March 2006, in order to achieve growth in the future. The Company also plans to pay stable dividends on a continuous basis, and will pay an annual dividend of 2 yen as forecasted, which is the same amount as the previous fiscal year.

In addition, the Company changed the articles of incorporation related to dividends due to the enactment of the revised Corporation Law, but will not change its current policies for a while.

Retained Earnings (Cumulative Loss)



Interest-bearing Debts