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# Earnings Briefing

## For Fiscal Year Ended March 2008

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President & CEO  
Kenwood Corporation

May 13, 2008

# AGENDA

- 1. Overview of Earnings Results for FYE'08/3**
- 2. Outlook of Earnings for FYE'09/3**
- 3. Management Strategies for FYE'09/3**

## Disclaimer

Forward-looking statements and charts contained in this report are based on information currently available to the Kenwood Group. Actual results may significantly differ from projected figures depending on various factors.

## Abbreviation in this report

CE: Car Electronics (Business)

COM: Communications Equipment (Business)

HE: Home Electronics (Business)

FY: Fiscal Year    FYE: Fiscal Year Ended or Ending    YoY: Year on Year



# **1. Overview of Earnings Results for FYE'08/3**

# 1. Overview of Earnings Results for FYE'08/3

## Consolidated Profit & Loss

### Net Sales

Decreased 2.3% (JPY3.9 billion) from FYE'07/3 due to appreciation of the yen started in the 4th quarter. On a local currency basis, increased 4.1% (JPY6.9 billion) from FYE'07/3.

### Operating Profit

Increased 11.4% (JPY0.6 billion) from FYE'07/3 thanks to improved earnings of CE and HE.

### Ordinary Income

Increased 65.7% (JPY1.5 billion) from FYE'07/3 due to improved non-operating earnings, in addition to increased operating profit.

### Net Income

Increased 100.5% (JPY1.6 billion) from FYE'07/3 due to improved extraordinary income, in addition to increased ordinary income.

## Consolidated Profit & Loss

(JPY in Billions)

|                  | FYE'07/3 |       | FYE'08/3 |       | YoY    |        | Initial Forecast |       |
|------------------|----------|-------|----------|-------|--------|--------|------------------|-------|
|                  | Amount   | Ratio | Amount   | Ratio | Amount | Ratio  | Amount           | Ratio |
| Net Sales        | 169.2    |       | 165.3    |       | -3.9   | -2.3%  | 183.0            |       |
| Operating Profit | 5.6      | 3.3%  | 6.3      | 3.8%  | 0.6    | 11.4%  | 8.3              | 4.5%  |
| Ordinary Income  | 2.3      | 1.4%  | 3.9      | 2.3%  | 1.5    | 65.7%  | 5.0              | 2.7%  |
| Net Income       | 1.6      | 0.9%  | 3.2      | 1.9%  | 1.6    | 100.5% | 4.0              | 2.2%  |

# 1. Overview of Earnings Results for FYE'08/3

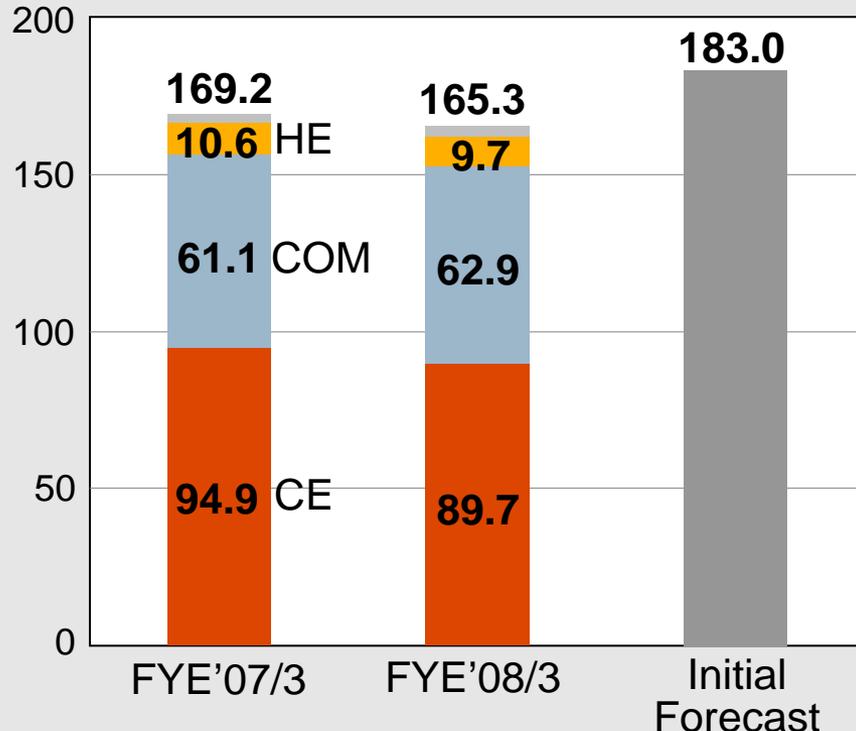
## Consolidated Net Sales

### Decrease of 2.3% from FYE'07/3

- \* Decreased 2.3% (JPY3.9 billion) due to adverse effects from appreciation of yen (decrease of JPY10.8 billion from the initial forecast).
- \* On a local currency basis, increased 4.1% (JPY6.9 billion) from FYE'07/3, with effects from conversion of Zetron into a subsidiary.

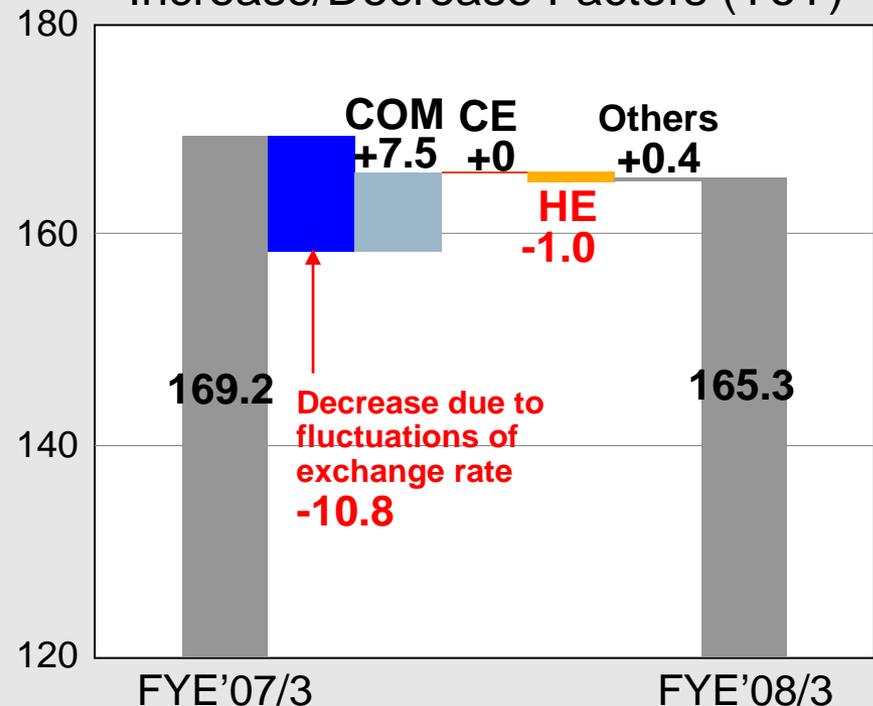
(JPY in Billions)

#### Consolidated Net Sales



(JPY in Billions)

#### Increase/Decrease Factors (YoY)



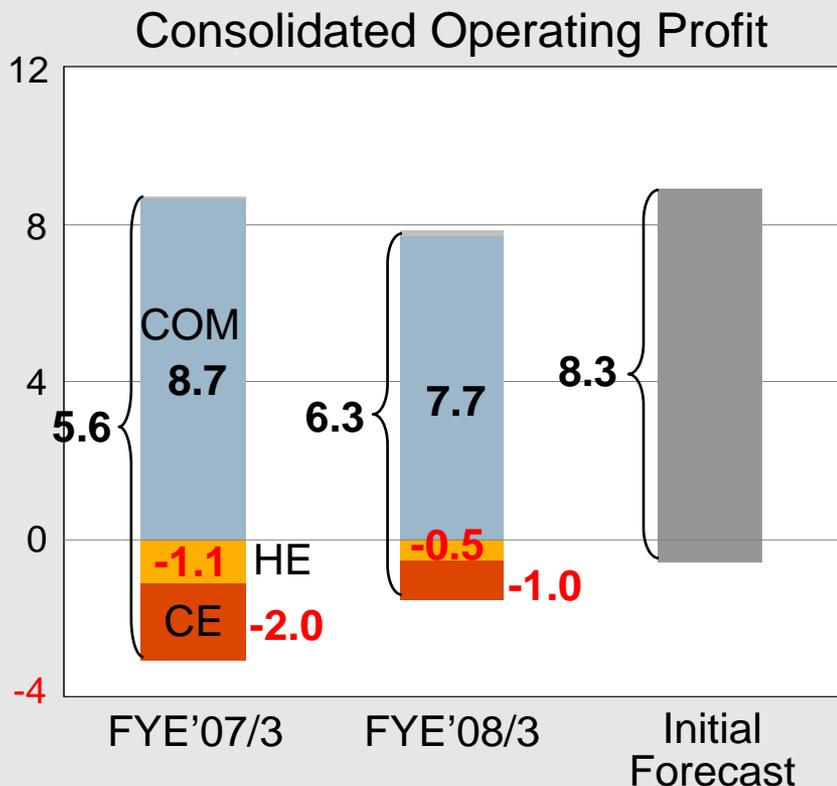
# 1. Overview of Earnings Results for FYE'08/3

## Consolidated Operating Profit

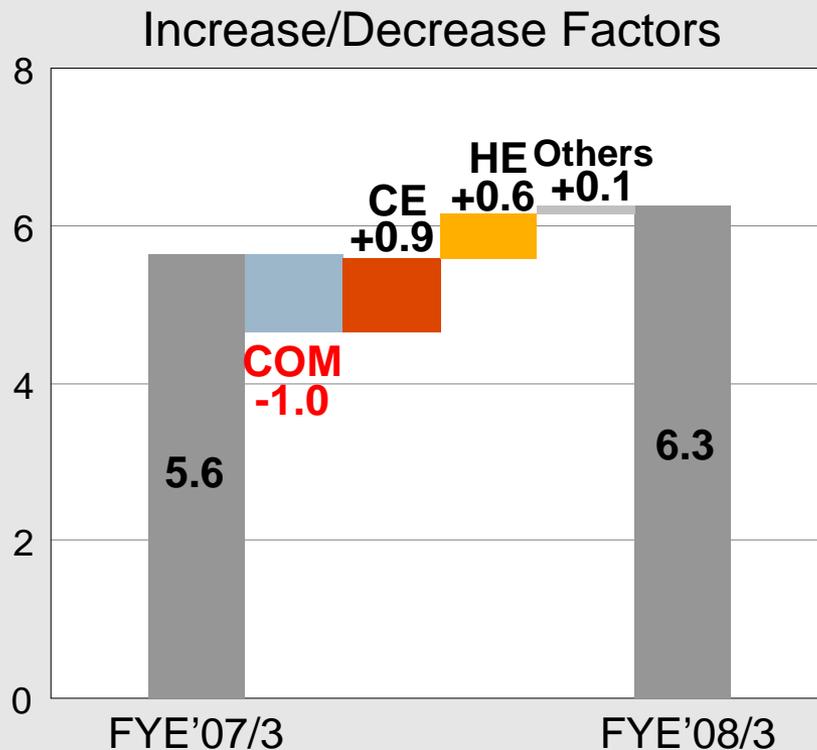
### Increase of 11.4% from FYE'07/3

- \* CE improved with growth in consumer business absorbing deterioration in OEM business.
- \* HE also improved with effects from change of strategies.
- \* Despite a decrease in COM, operating profit increased 11.4% (JPY0.6 billion) from FYE'07/3.

(JPY in Billions)



(JPY in Billions)



# 1. Overview of Earnings Results for FYE'08/3

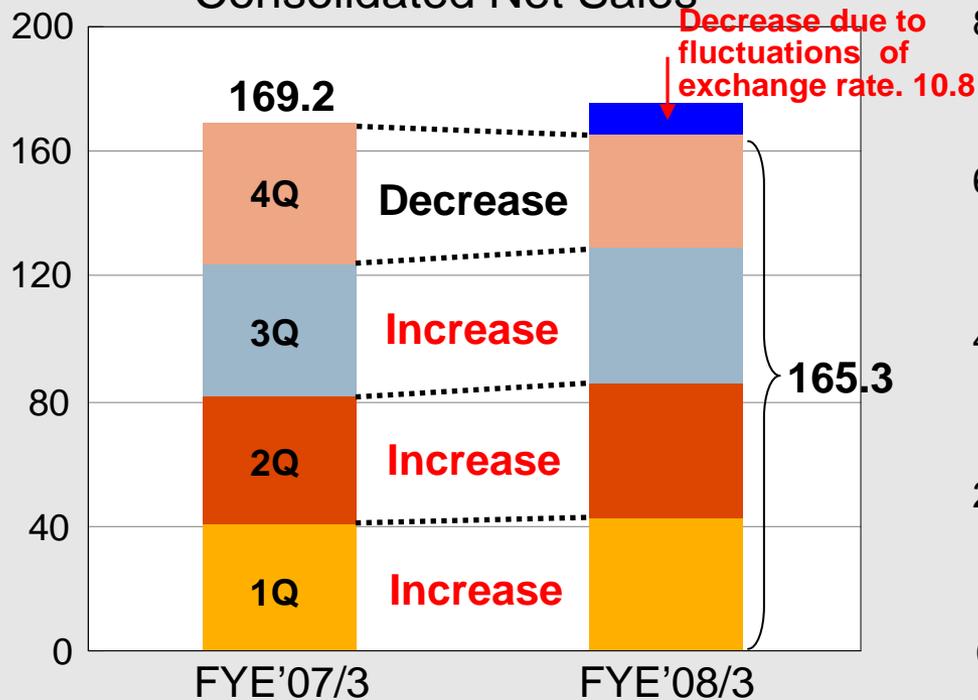
## Quarterly Profit & Loss

### Operating profit formed keynote of increase after the 2nd quarter

- \* Operating profit increased after the 2nd quarter due to actualized results of measures in FYE'07/3.
- \* Net sales decreased in the 4th quarter with adverse effects from appreciation of yen.
  - >> Using accounting method that converts overseas net sales in foreign currency to JPY based on exchange rate at the end of fiscal year.

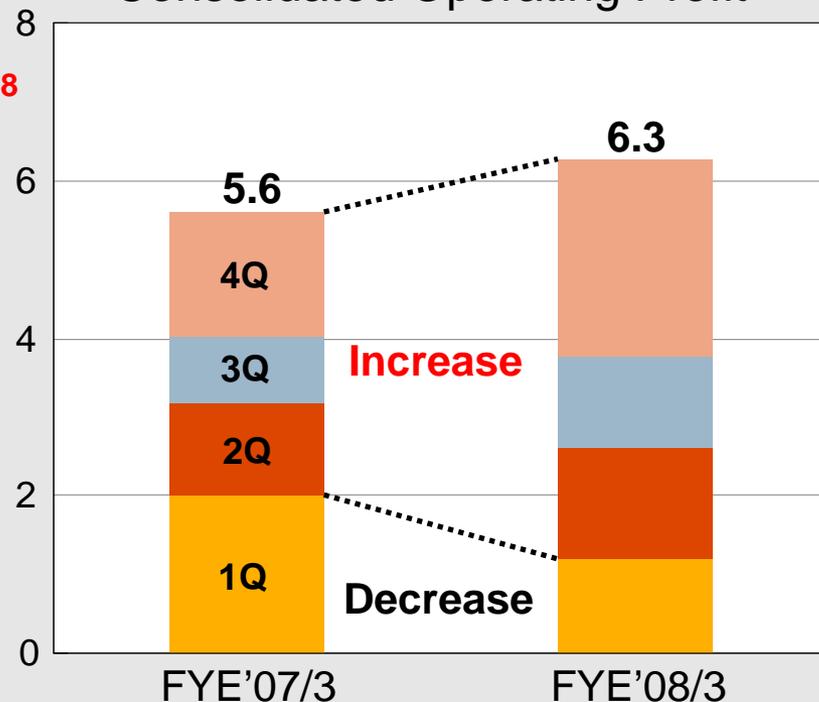
(JPY in Billions)

#### Consolidated Net Sales



(JPY in Billions)

#### Consolidated Operating Profit



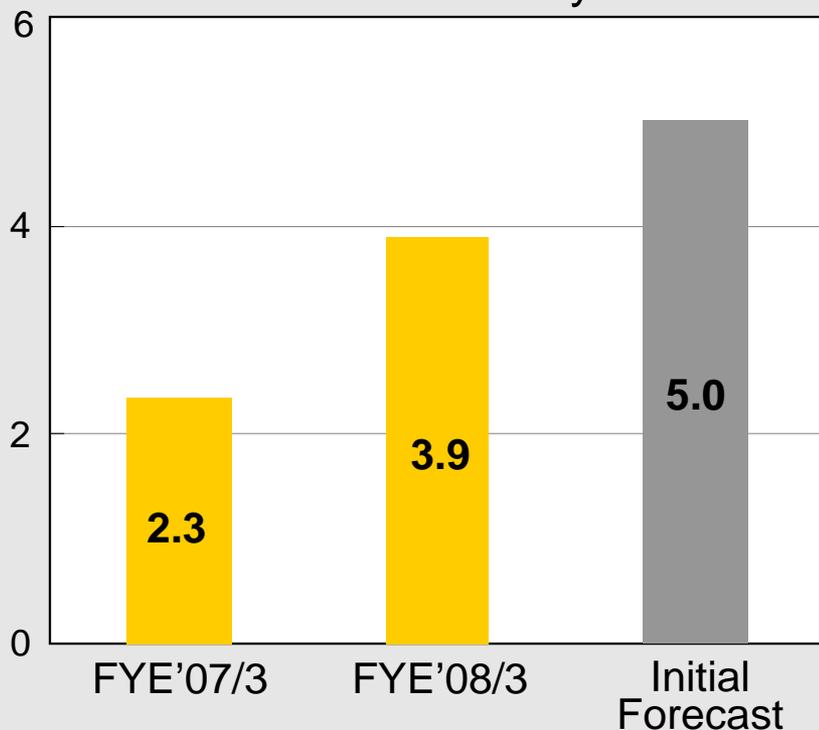
# 1. Overview of Earnings Results for FYE'08/3

## Consolidated Ordinary Income

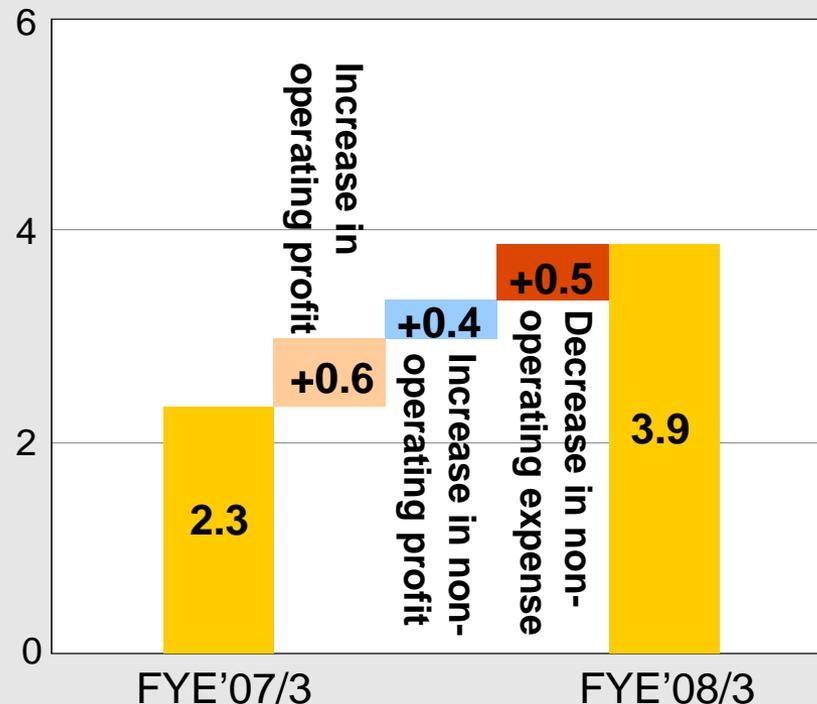
Increase of 65.7% from FYE'07/3

\* Improvement in non-operating balance due to increased operating profit and non-operating profit, etc.

(JPY in Billions)  
Consolidated Ordinary Income



(JPY in Billions)  
Increase/Decrease Factors



# 1. Overview of Earnings Results for FYE'08/3

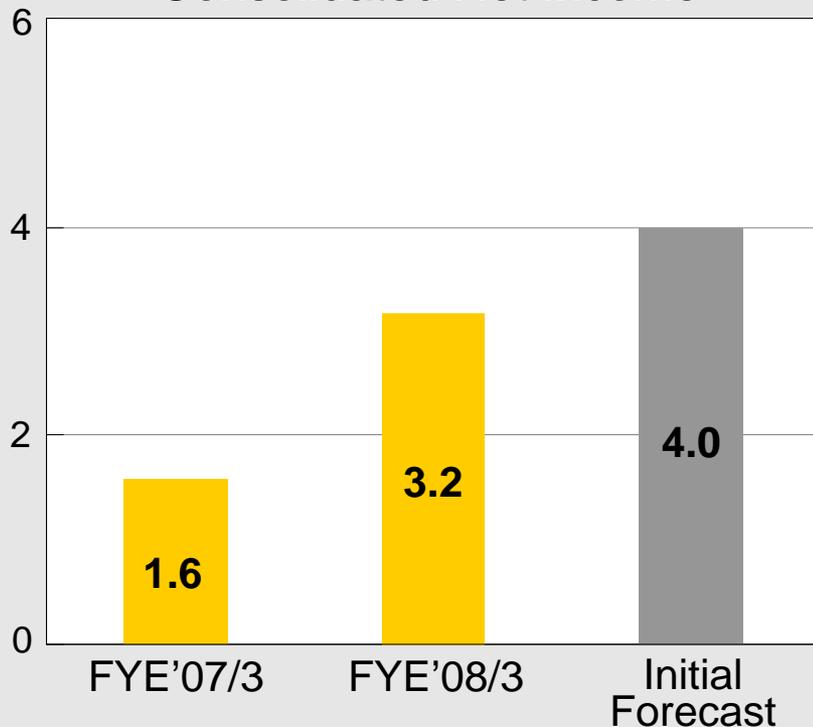
## Consolidated Net Income

**Increase of 100.5% from FYE'07/3**

\*Improvement in extraordinary balance due to increased ordinary income and absence of extraordinary loss (retirement allowance to directors) recorded temporarily in FYE'07/3.

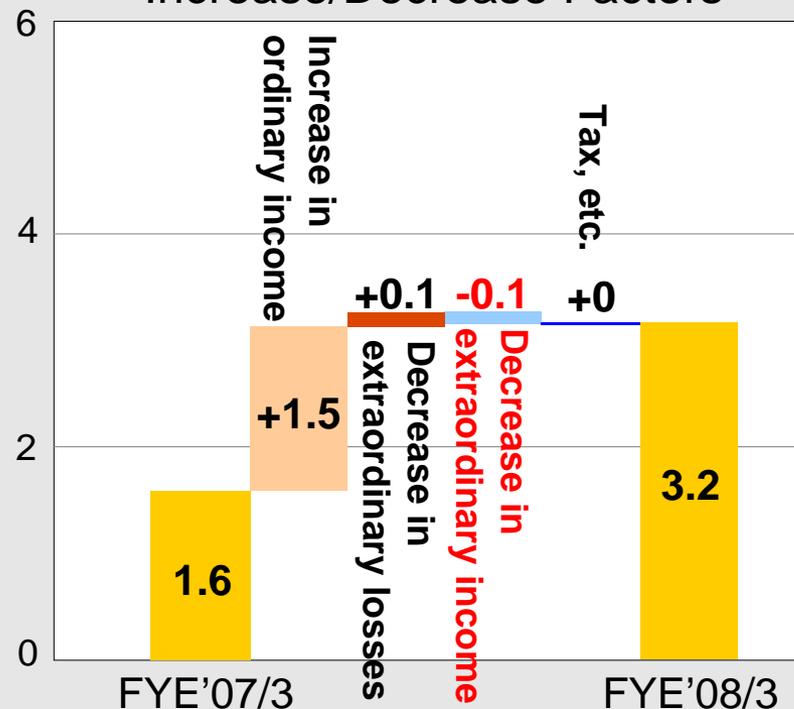
(JPY in Billions)

### Consolidated Net Income



(JPY in Billions)

### Increase/Decrease Factors



# 1. Overview of Earnings Results for FYE'08/3

## Financial Position

### Balance Sheets

- \* Total assets increased due to increases in intangible fixed assets and investment securities, etc.
- \* Net assets decreased with adverse effects from a fall in values of investment securities and appreciation of yen.
- \* Interest-bearing debts and net debts increased with fund raising from financial institutions.

### Major Management Indices

|   | FYE'05/3 | FYE'06/3 | FYE'07/3 | FYE'08/3     |
|---|----------|----------|----------|--------------|
| Total assets (JPY in Billion)           | 116.1    | 109.6    | 111.2    | <b>126.1</b> |
| Net assets (JPY in Billion)             | 33.1     | 37.5     | 39.1     | <b>29.9</b>  |
| Retained earnings (JPY in Billion)      | 13.2     | 18.3     | 19.1     | <b>21.5</b>  |
| Shareholders' equity ratio (%)          | 28.5     | 34.2     | 35.1     | <b>23.7</b>  |
| Interest-bearing debts (JPY in Billion) | 31.1     | 26.3     | 23.8     | <b>51.4</b>  |
| Net debts (JPY in Billion)              | 15.1     | 12.2     | 6.8      | <b>36.4</b>  |

(Calculation Method) Shareholders' equity ratio = Net assets / Total assets

# Performance by Segment

# 1. Overview of Earnings Results for FYE'08/3

## Car Electronics Business

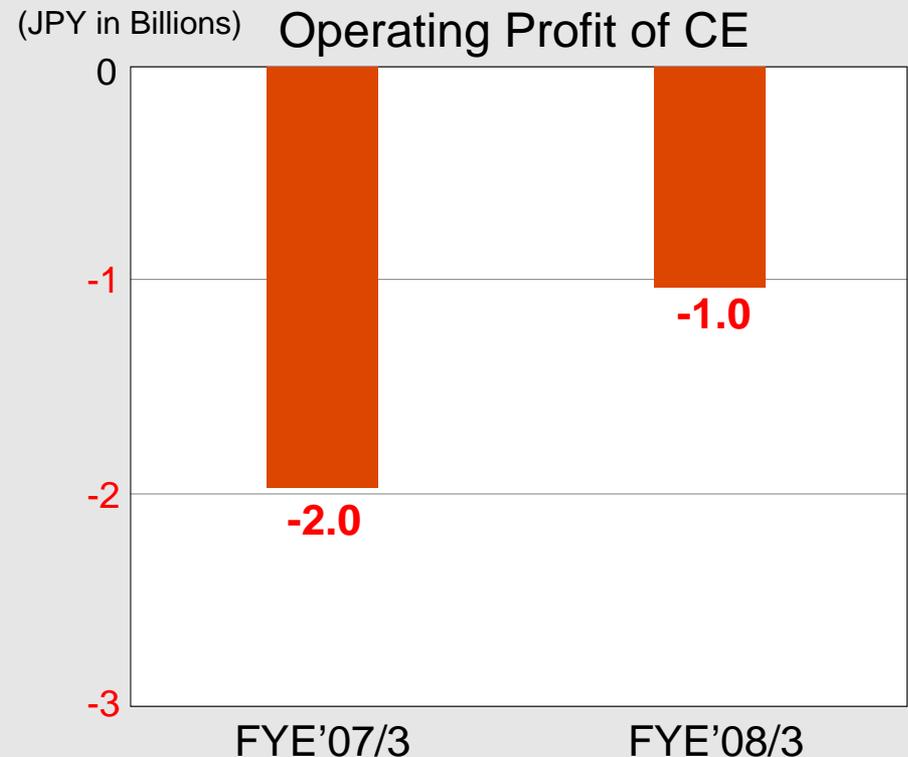
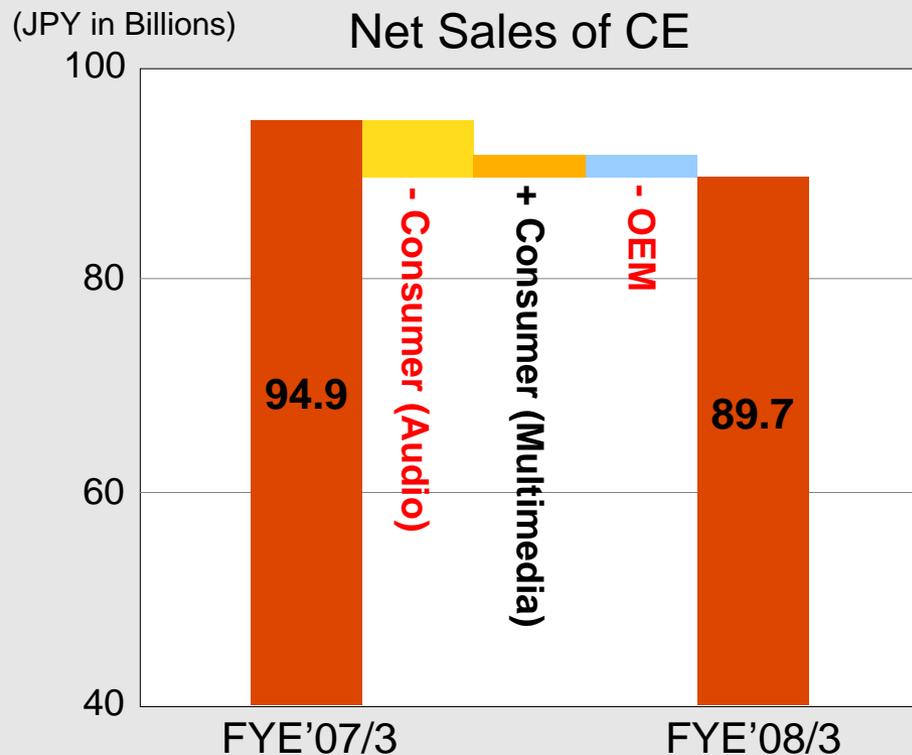
**Net Sales >> Decreased 5.6% from FYE'07/3 to JPY89.7 billion**

\* Net sales decreased with adverse effects from appreciation of yen in the Consumer business and sluggish growth in the OEM business.

\* On a local currency basis, net sales leveled off from FYE'07/3 due to the growth in overseas sales of navigation systems and new audio product lines.

**Operating losses >> Decreased JPY0.9 billion from FYE'07/3 to JPY1 billion**

\* Operating losses decreased by half from FYE'07/3, as deteriorated earnings in the OEM business were offset by increased profit in the Consumer business.



# 1. Overview of Earnings Results for FYE'08/3

## Communications Equipment Business

**Net sales >> Increased 3.0% from FYE'07/3 to JPY62.9 billion**

\* Net sales increased as adverse effects from appreciation of yen on the wireless radio equipment were offset by positive effects from conversion of Zetron into a subsidiary, and the increased sales of PDC sales.

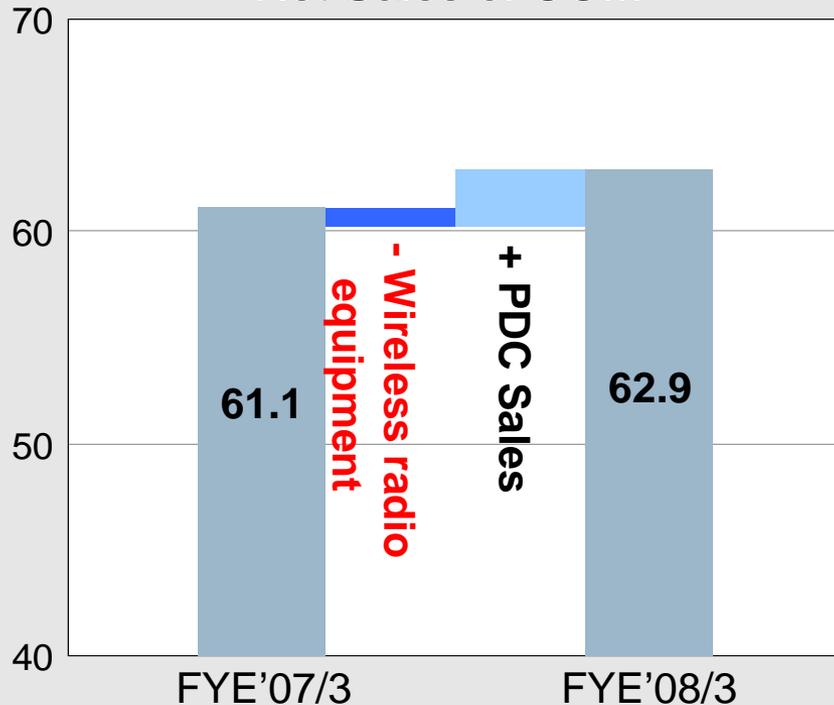
\* On a local currency basis, net sales increased as sales of the wireless radio equipment expanded.

**Operating profit >> Decreased 11.4% from FYE'07/3 to JPY7.7 billion**

\* Operating profit decreased, affected by fluctuations of exchange rate, temporary costs for making Zetron, a subsidiary, and depreciation costs.

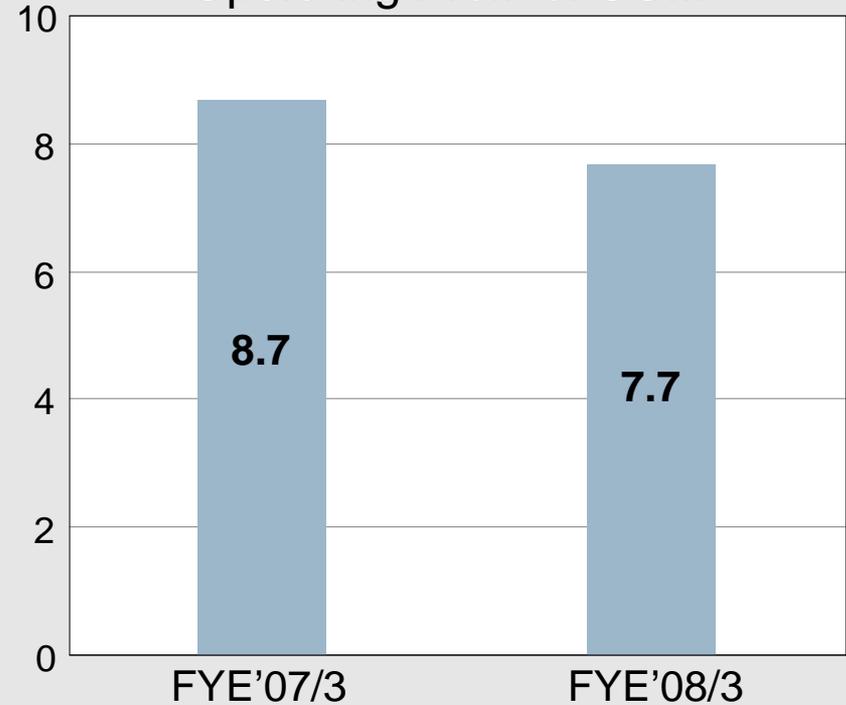
(JPY in Billions)

### Net Sales of COM



(JPY in Billions)

### Operating Profit of COM



# 1. Overview of Earnings Results for FYE'08/3

## Home Electronics Business

**Net sales >> Decreased 8.5% from FYE'07/3 to JPY9.7 billion**

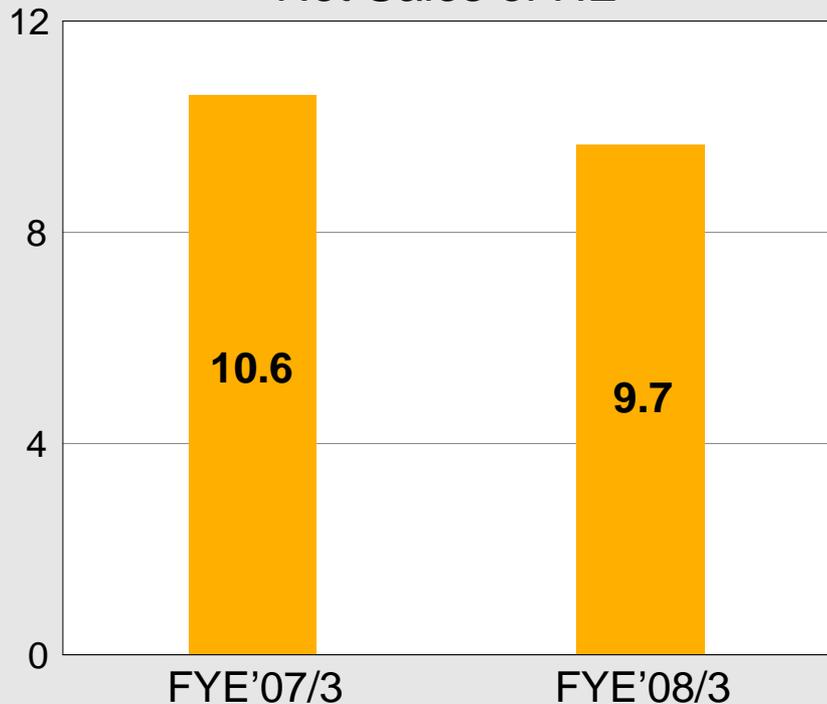
\* Net sales declined due to sluggish growth of sales of new products in a selling season affected by market trends.

**Operating losses >> Decreased JPY0.6 billion from FYE'07/3 to JPY0.5 billion**

\* Profitability was restored in the 2nd half of FYE'08/3 and operating losses decreased by half with the enhanced line-up of high value-added products and the development premium long tail strategy.

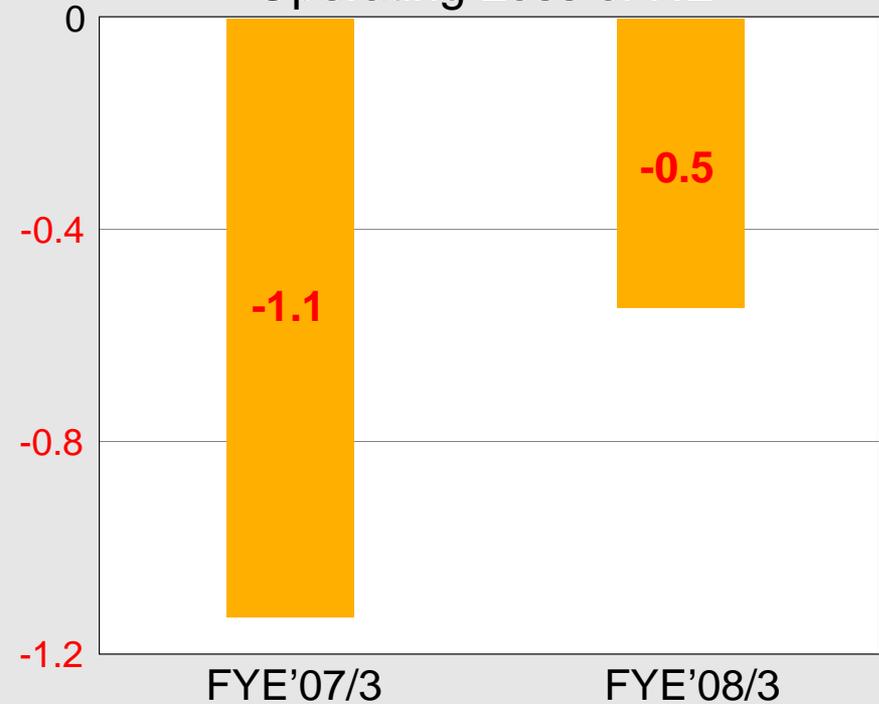
(JPY in Billions)

### Net Sales of HE



(JPY in Billions)

### Operating Loss of HE



# 1. Overview of Earnings Results for FYE'08/3

## Net Sales and Operating Profit by Region

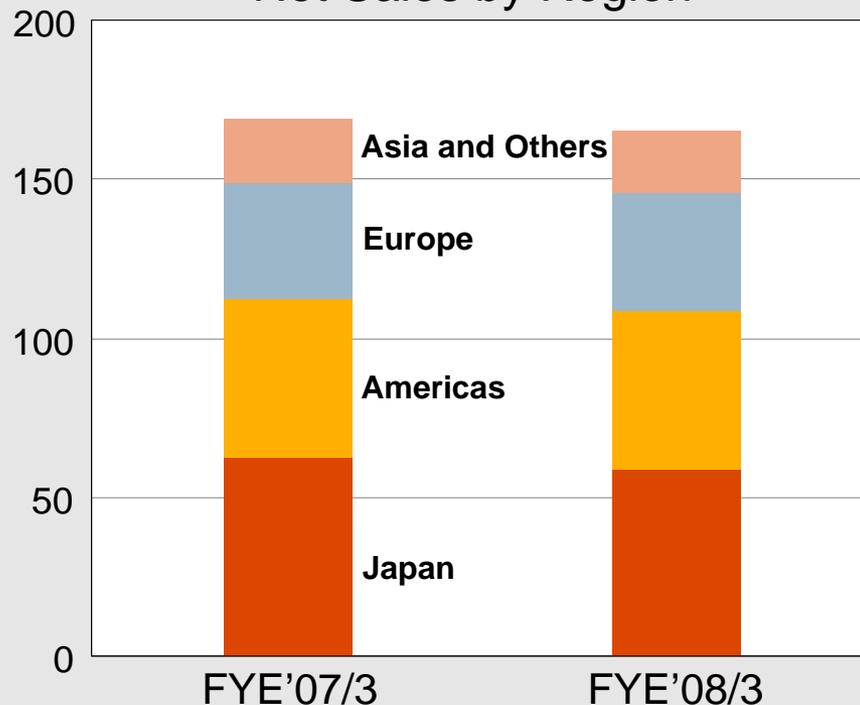
**Americas** Net sales increased with expansion of sales in the CE Consumer (Multimedia) business but operating profit decreased due to declined earnings in the COM business.

**Europe** Both net sales and operating profit increased, thanks to advanced sales in the COM and the HE business, as well as increased earnings in the CE Consumer (Multimedia) business.

**Japan** Both net sales and operating profit decreased, affected by decreased sales in the CE and OEM businesses despite expanded sales of PDC in the COM business

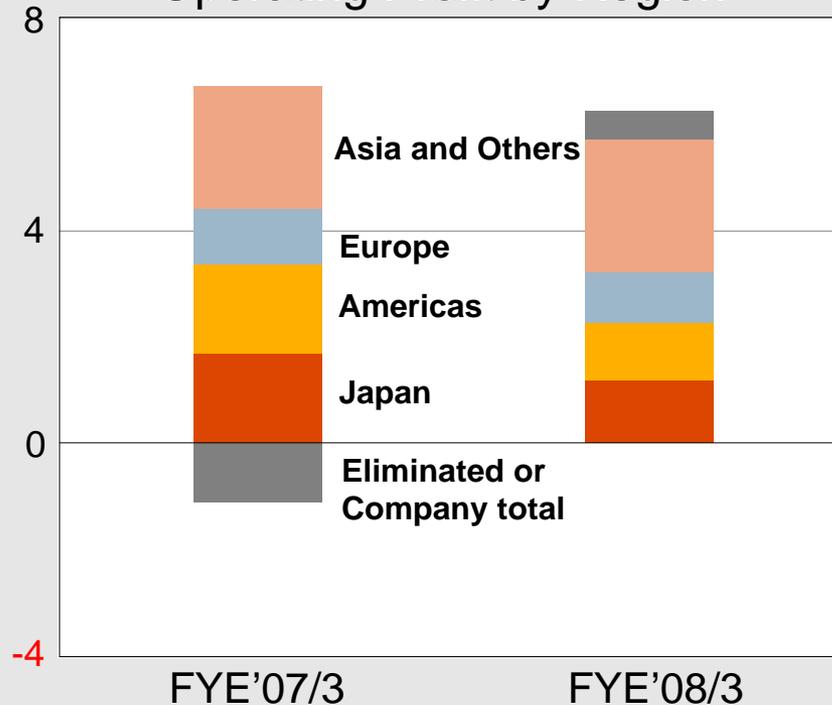
(JPY in Billions)

Net Sales by Region



(JPY in Billions)

Operating Profit by Region



## **2. Outlook of Earnings for FYE'09/3**

## 2. Outlook of Earnings for FYE'09/3

### Consolidated Profit & Loss

**Net sales** are expected to rise 5.9% from the FYE'08/3 to JPY175.0 billion even in consideration of influences from appreciation of yen, thanks to expansion in sales in the CE Consumer (Multimedia) and the wireless radio equipment businesses.

**Operating profit** is expected to increase 3.8% from FYE'08/3 to JPY6.5 billion, as investment burdens will be offset by the CE business to restore profitability and elimination of deficit in the HE business.

**Ordinary income and net income** are expected to decrease respectively 9.7% to JPY3.5 billion and 37.1% to JPY2.0 billion, taking temporary non-operating profit/loss and extraordinary profit/loss into account.

### Consolidated Profit & Loss

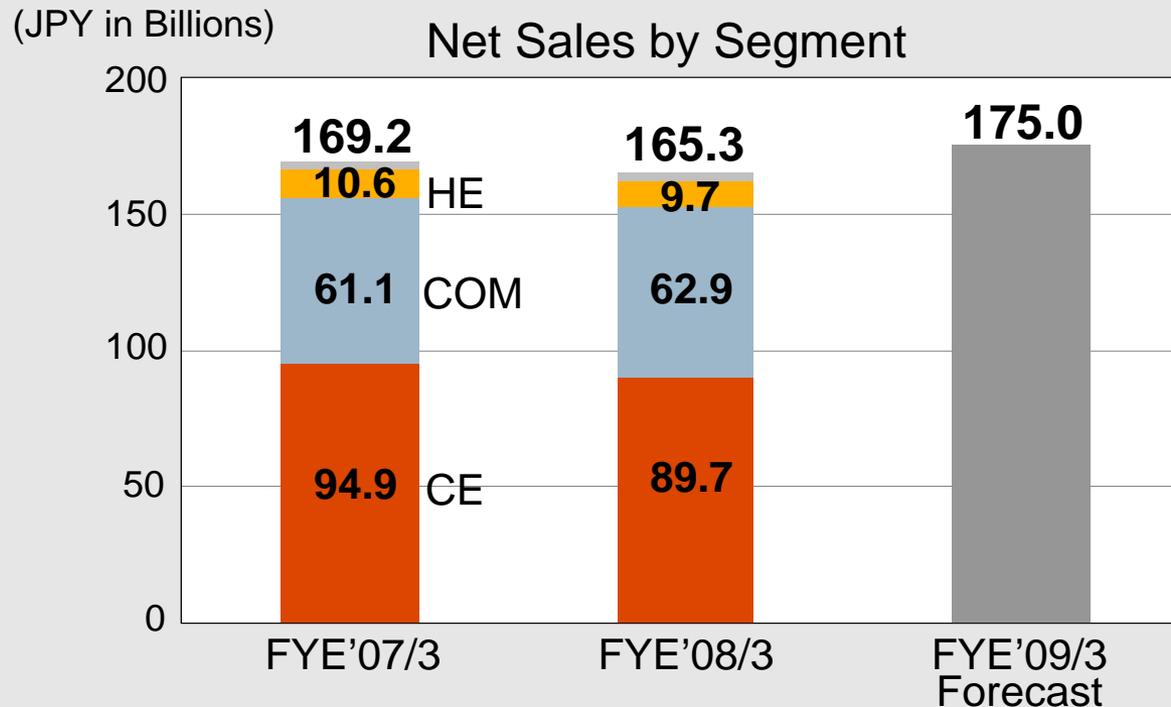
(JPY in Billions)

|                  | FYE'07/3 |       | FYE'08/3 |       | FYE'09/3 Forecast |       | YoY    |        |
|------------------|----------|-------|----------|-------|-------------------|-------|--------|--------|
|                  | Amount   | Ratio | Amount   | Ratio | Amount            | Ratio | Amount | Ratio  |
| Net sales        | 169.2    |       | 165.3    |       | 175.0             |       | 9.7    | 5.9%   |
| Operating profit | 5.6      | 3.3%  | 6.3      | 3.8%  | 6.5               | 3.7%  | 0.2    | 3.8%   |
| Ordinary income  | 2.3      | 1.4%  | 3.9      | 2.3%  | 3.5               | 2.0%  | -0.4   | -9.7%  |
| Net income       | 1.6      | 0.9%  | 3.2      | 1.9%  | 2.0               | 1.1%  | -1.2   | -37.1% |

## 2. Outlook of Earnings for FYE'09/3

### Consolidated Net Sales

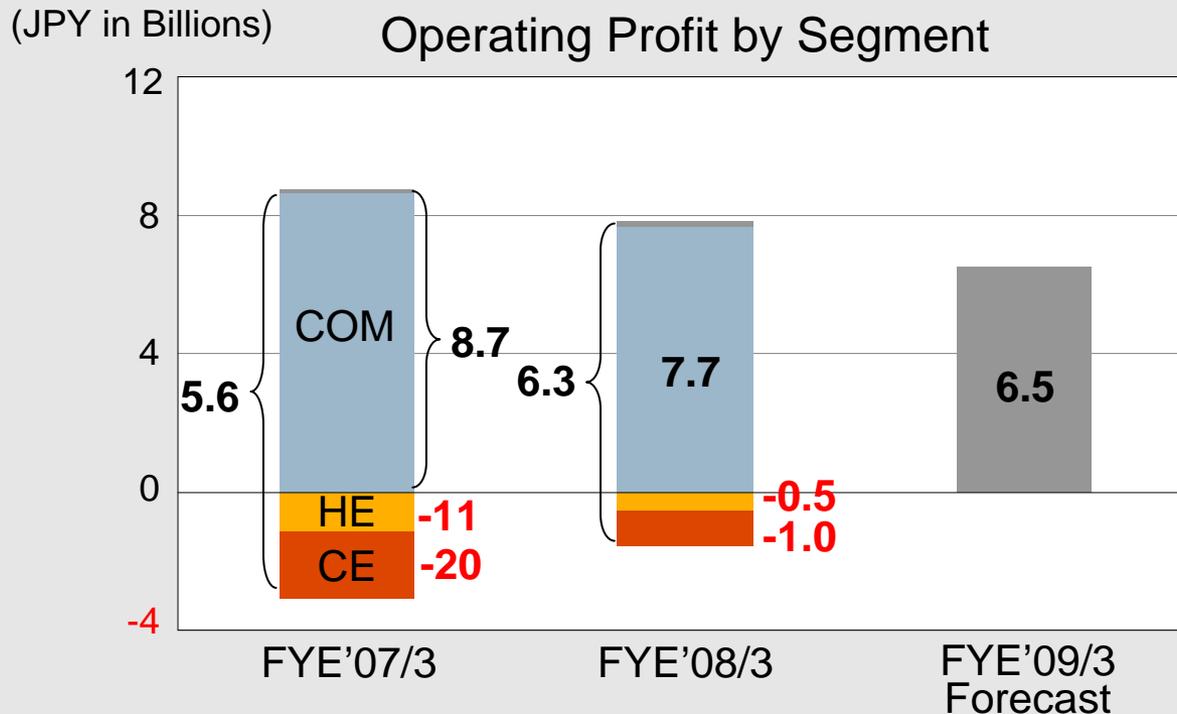
- CE** A decrease in sales in the OEM business and adverse effects from appreciation of yen will be covered by an expansion in sales in the Consumer (Multimedia) business.
- COM** Expansion of sales in the wireless radio equipment and PDC businesses in response to digitalization and systematization is forecasted.
- HE** Favorable outcomes from enhanced line-up of products and the premium long tail strategy that we focused on in FYE'08/3 are expected.



## 2. Outlook of Earnings for FYE'09/3

### Consolidated Operating Profit

- CE** Profitability is expected to be restored with the improvement in earnings due to expanding sales in the Consumer (Multimedia) business.
- COM** While stable earnings are expected mainly in the Wireless Radio Equipment business, operating profit is estimated to decrease due to an increase in investment burden to expand business in future and adverse effects from appreciation of yen.
- HE** The elimination of deficit is forecasted with outcomes from the profit structural reform.



# 3. Management Strategies for FYE'09/3

# **(1) Structural Reform to Improve Earnings Fundamentally**

# 3. Management Strategies for FYE'09/3

## Car Electronics - OEM Business

To improve earnings fundamentally toward making business profitable

- \* Reform of cost structure in the genuine products business
- \* Expansion in the dealer optional products and the device businesses



Genuine model



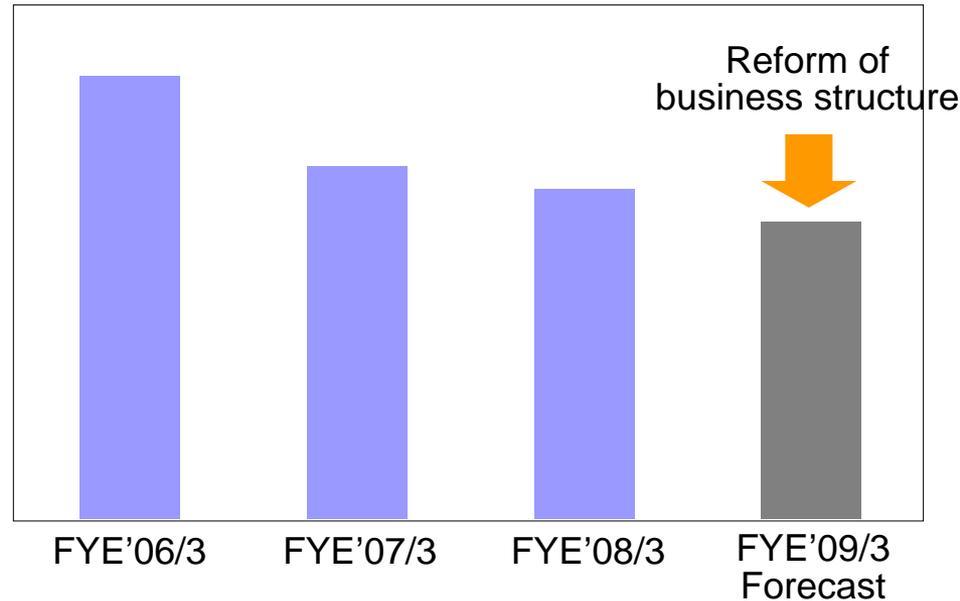
DVD mechanism



CD receiver with built-in memory navigation system for mini and subcompact cars (Dealer-option model)



## Consolidated Net Sales



# 3. Management Strategies for FYE'09/3

## Home Electronics Business

To restore profitability with further reform of earnings structure

- \* Aiming to eliminate deficits with reorganization of the existing division system
- \* Allocating a part of development resources to new business fields
- \* Enhancing products competitiveness, taking advantage of business alliance with JVC



K1000 Series that realized separate-component-quality audio performance



AV control center that allows to enjoy both music and movies with high-quality sound



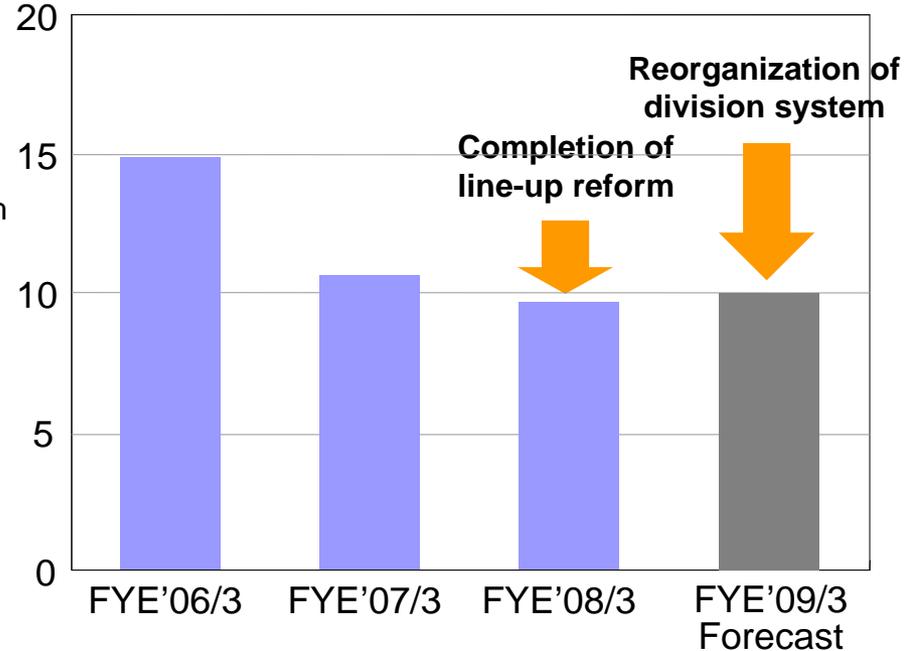
Digital audio recorder with high-quality sound



Digital wireless system that realized high-quality music transmission

(JPY in Billions)

### Consolidated Net Sales



# **(2) Enhancement of Business Competitiveness toward Expansion in Business Performance**

# 3. Management Strategies for FYE'09/3

## Car Electronics - Consumer (Audio) Business

### Exploration of emerging markets and Enhancement of competitiveness

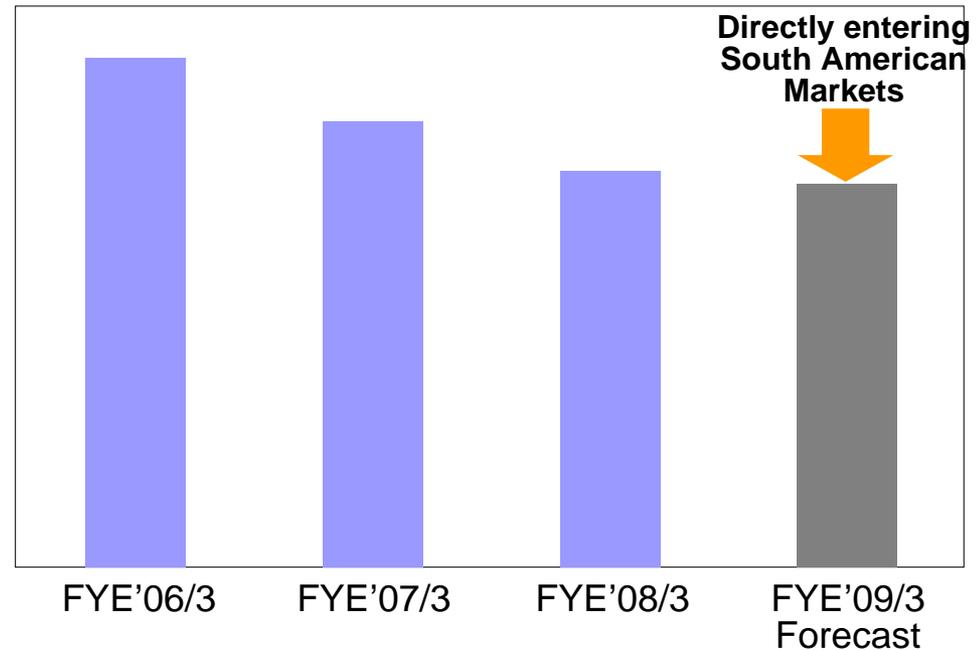
- \* Starting direct sales in Brazil consumer market to expand sales in South America
- \* Starting full-scale operation of a newly established sales company in Russia to promote development of emerging markets
- \* Enhancing products competitiveness taking advantages of business alliance with JVC



High value-added models featuring seamless integration with digital media equipment



### Consolidated Net Sales



New systems that enable the expansion of functions of genuine AV products

# 3. Management Strategies for FYE'09/3

## Car Electronics - Consumer (Multimedia) Business

Both sales and profits are expected to increase with expansion in sales of car navigation systems intended for overseas and Japanese markets

- \* Expanding sales of car navigation systems intended for overseas markets with exclusive sales agreement made with Garmin, the largest PND maker in U.S.
- \* Enhancing sales of car navigation systems intended for Japanese market



Navigation system integrated with AV for Japanese market (with built-in terrestrial TV tuner)

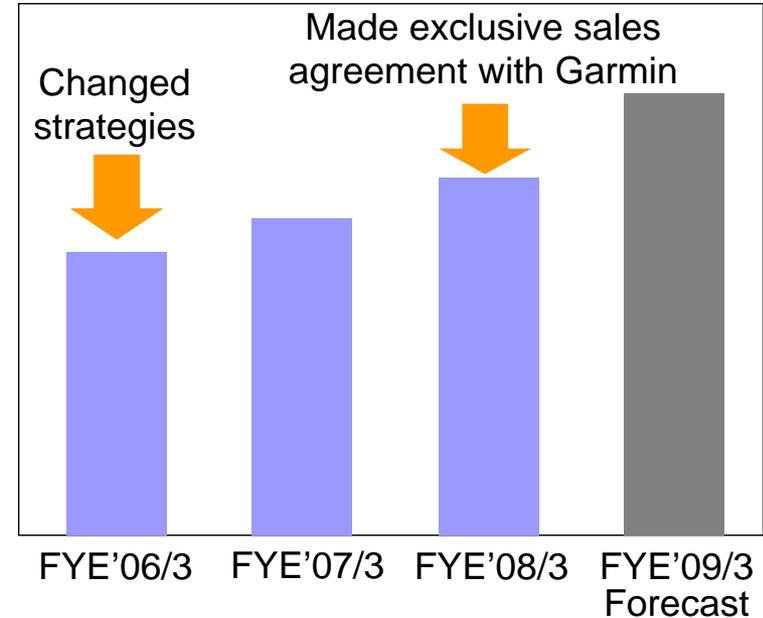


Navigation system integrated with AV for Japanese market (with terrestrial digital TV tuner)



Car navigation systems for overseas markets (Left: Add-on type; Right: All-in-one type)

### Consolidated Net Sales



# 3. Management Strategies for FYE'09/3

## Communications Equipment Business

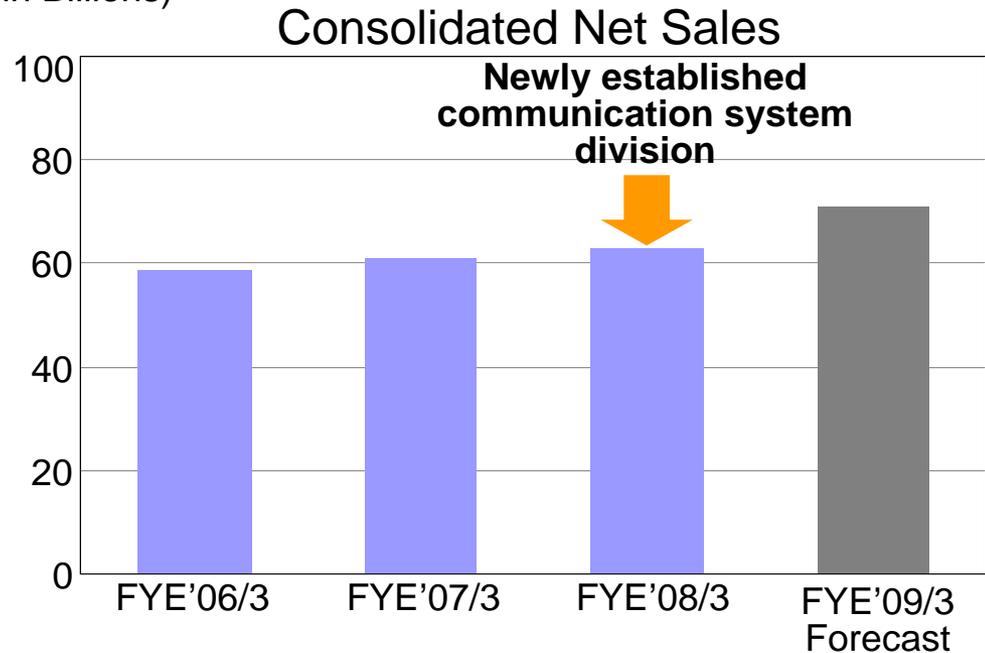
Working on digitalization and systematization toward business expansion

- \* Expanding sales of digital land mobile radio (LMR) equipments conforming to P25 intended for U.S. public safety sector
- \* Expanding LMR equipments conforming to new digital radio method intended for business & industry sector
- \* Expanding communication system business, centering on Zetron



Land mobile radio equipments conforming to new digital radio method

(JPY in Billions)



Console



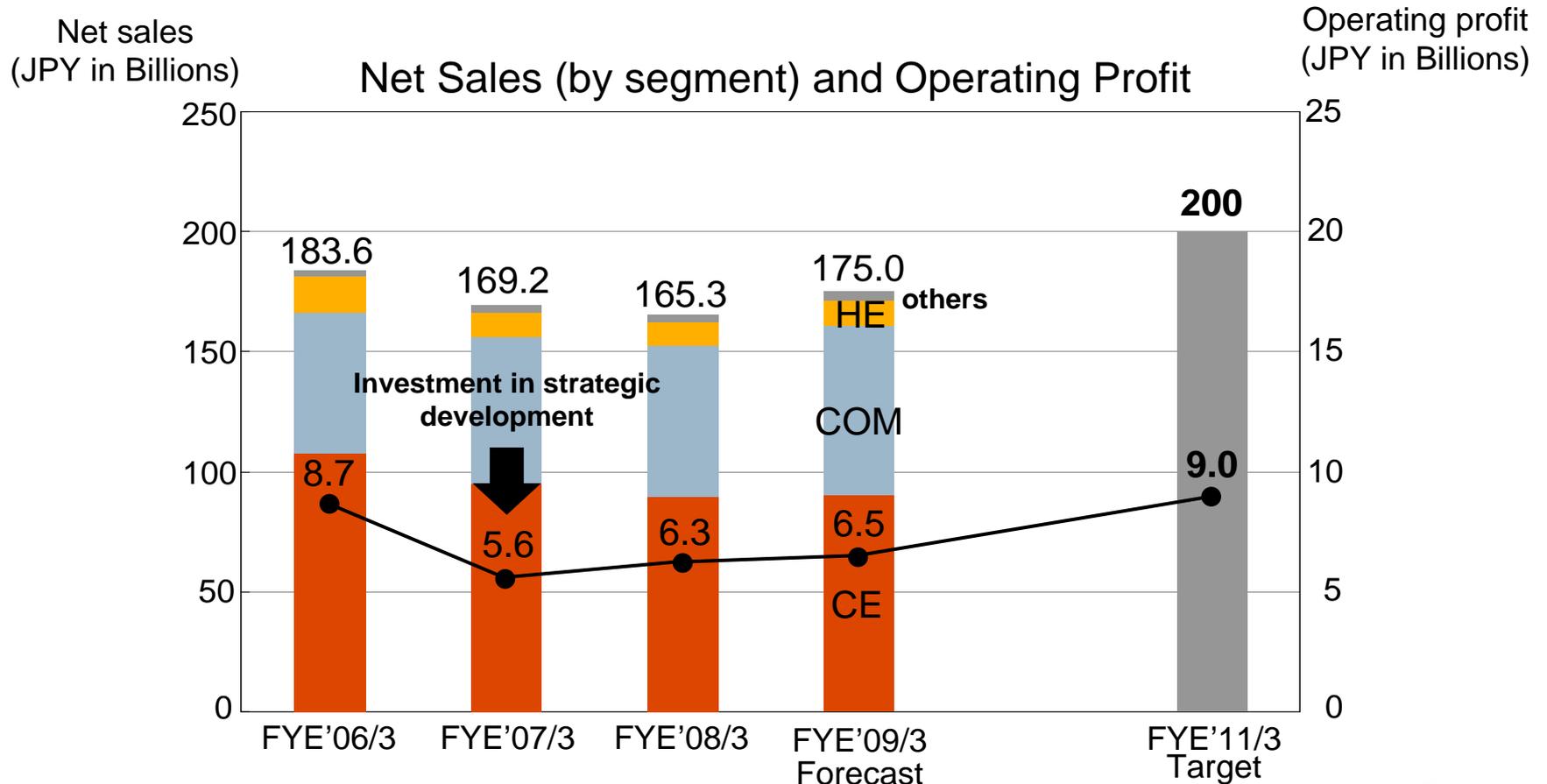
Controller

# **(3) Establishment of New Mid-term Business Plan**

# 3. Management Strategies for FYE'09/3

## Establishment of New Mid-term Business Plan

Revitalizing CE business and making HE business profitable with actualizing outcomes from measures such as strategic development, business alliance and M&A. Promoting investment to expand COM business in the future.



# **(4) Efforts to Restructure Japan's AV Specialty Manufactures - Management Integration with JVC**

# Management Integration Plan

## First step 1 (Aug '07)

Start of structural reforms at JVC  
Start of consideration and preparation for management integration  
Capital & business alliance (financing from KENWOOD to JVC)



## First step 2 (Oct '07 to May '08)

Establishment of J&K Technologies, a JV for technological development  
Agreement and announcement of management integration (May 12, '08)



## Second step (Jun '08 to Oct '08)

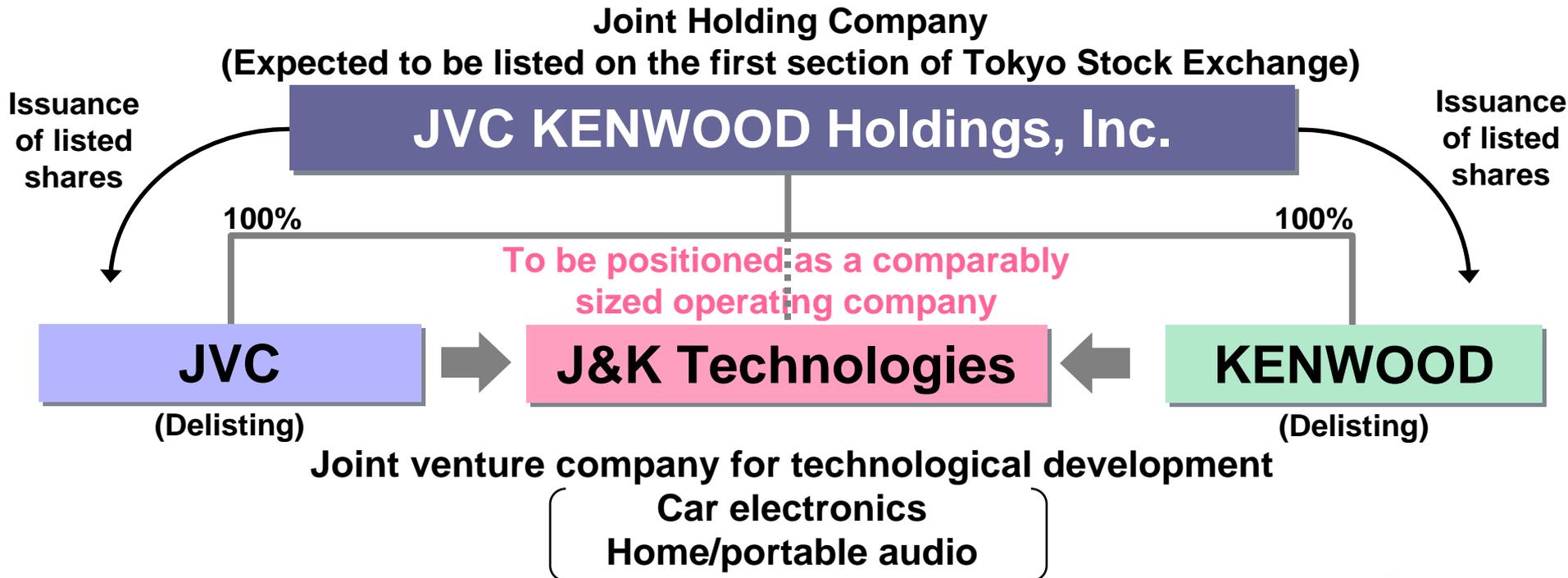
Approval at general meetings of shareholders  
Establishment of a Joint Holding Company and Share Transfer

# Management Integration Process

## Second Step - Management Integration

**Management integration plan:** Based on structural reform in both companies

- \* Upon its establishment, the Joint Holding Company will own a 100% stake of the shares of JVC and KENWOOD through the Share Transfer.  
(The Joint Holding Company will issue listed shares in exchange for shares of JVC and KENWOOD at the share transfer ratios)
- \* J&K Technologies' operations will be expanded to general procurement and manufacturing and will be positioned as an operating company standing shoulder to shoulder with JVC and KENWOOD.





# KENWOOD

Listen to the Future