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Accounting Report for the Fiscal Year Ended March 2009 (April 1, 2008 - March 31, 2009)

Consolidated Financial Highlights for the Fiscal Year Ended March 2009 (April 1, 2008 - March 31, 2009)

Selected Operating Results (Millions of yen, except net income per share)

	FYE 2009	FYE 2008	Compared with the previous fiscal year (%)
	April 1, 2008 to March 31, 2009	April 1, 2007 to March 31, 2008	
Net sales	309,771	-	-
Operating profit	107	-	-
Ordinary income (loss)	(6,809)	-	-
Net income (loss)	(18,795)	-	-
Net income (loss) per share	(28.22) yen	-	-

FYE: Fiscal year end

Sales by Segments (Millions of yen)

	FYE 2009		Compared with the previous fiscal year (%)
	April 1, 2008 to March 31, 2009	April 1, 2008 to March 31, 2009 (Reference) Sum of both companies' results	
Car Electronics	92,237	120,800	-
Home & Mobile Electronics	103,885	247,800	-
Professional Systems	78,758	105,600	-
Entertainment	30,616	61,000	-
Others	4,274	14,300	-
Total	309,771	549,520	-

FYE: Fiscal year end

Note: The results for the fiscal year ended March 2009 (reference) are the sum of JVC Kenwood's operating results for the fiscal year under review and JVC's operating results for the first half of the said year and rounded off. The net sales in JVC's operating results for the first half are calculated using the net method (in which a portion of customer discounts is deducted from gross sales) in the same way as in the second half.

Major Products in Each Segment

Car Electronics	Car Audio, Car AV Systems and Car Navigation Systems
Home & Mobile Electronics	Video Cameras, LCD TVs, Projectors, Pure Audio and AV Accessories
Professional Systems	Land Mobile Radio Equipment, Video Surveillance Equipment, Video Equipment, Audio Equipment and Display Equipment
Entertainment	Music and video software, such as CDs and DVDs

Qualitative Information and Financial Statements

Operating Results

(1) Analysis of Operating Results

1. Consolidated operating results for the year ended March 2009

JVC KENWOOD Holdings, Inc. (JVC Kenwood) was established on October 1, 2008, as a joint holding company of Victor Company of Japan, Limited (JVC), and Kenwood Corporation (Kenwood), following the integration of their management.

When established, JVC Kenwood adopted the business-combination accounting method with Kenwood as the acquiring company. Hence, the consolidated operating results of JVC Kenwood for the fiscal year ended March 2009 (from April 1, 2008 to March 31, 2009) are the sum of Kenwood's consolidated operating results for the year under review and JVC's consolidated operating results for the second half of the year under review (from October 1, 2008 to March 31, 2009).

The JVC Kenwood Group, which reorganized the core businesses of JVC and Kenwood into four business segments, started its operations on October 1, 2008, as a new corporate group, and changed the calculation method for JVC's net sales to the net method (in which a portion of customer discounts is deducted from gross sales). Since the operating results of JVC Kenwood for the year under review cannot be compared simply with the combined operating results of JVC and Kenwood for the fiscal year ended March 2008, the operating results for the previous fiscal year are not stated in this report.

Overview of the fiscal year under review

In the fiscal year under review, the US-originated financial turmoil affected the real economy around the world in the second half, and the global economy further worsened toward the end of the period. The yen strengthened sharply against other currencies.

Under such circumstances, the Group, anticipating deterioration in the business environment, established the "Profit Structural Reform Conference" at the time of management integration to quickly realize synergies, while forcefully implementing profit structural reforms including emergency measures. In the fourth quarter of the year under review, however, the business environment of the Group became even worse due to the deteriorated real economy and the yen's further appreciation, which forced the Group to revise its earnings forecast announced at the time of the management integration. Against this backdrop, the Group implemented more thorough emergency measures as well as additional measures focusing on structural reforms in the display sector, the car electronics OEM sector and the home audio sector, where profitability issues remain, reforms of affiliated companies, and employment structural reforms including the adoption of early retirement preferential treatment programs.

The above structural reforms produced favorable effects, resulting in an operating profit of more than ¥10.0 billion for the second half, which exceeded our original projections, reducing fixed expenses on a Companywide basis, and improving earnings of the above business sectors. However, such restructuring effects were offset by the yen's sharp appreciation compared with the previous term and a fall in sales for the second half of the year under review. As a result, consolidated earnings results for the term under review were lower than the sum of earnings results of Kenwood for the previous term and the earnings results of JVC for the second half of the previous term, in terms of sales and profits.

In preparing consolidated operating results for the fiscal year under review, the exchange rates the Group uses (excluding those for forward exchange contracts) are as follows:

	1Q	2Q	3Q	4Q
U.S.$	¥105	¥108	¥96	¥94
Euro	¥163	¥162	¥127	¥122

*** Net sales**

Net sales for the fiscal year under review were ¥309,771 million. This reflects a change in the calculation method for JVC's net sales to the net method at the time of management integration, as well as transfer and cessation of non-core businesses and curtailment of unprofitable operations, which were carried out under the structural reforms before the management integration. In addition to these factors that we had expected would weigh down net sales, net sales were adversely affected by the yen's sharp rise and by a fall in sales of products.

For reference, when adding JVC's net sales for the first half of the fiscal year under review, combined net sales for both JVC and Kenwood were approximately ¥549.5 billion for the full fiscal year.

*** Operating profit**

Operating profit for the year under review decreased from a year ago due to the yen's steep rise and a drop in sales amid the economic deterioration. In the fourth quarter in particular, the Group, aiming to cope with excessive inventory in the entire consumer electronics market, reduced inventory substantially and achieved proper levels, by focusing on promoting the sale of products already on the market while adjusting production, for example, through reducing the number of workers at domestic and overseas plants. However, earnings worsened owing to further price declines. In addition, the launch of new products, such as car electronics for the consumer market and camcorders (video cameras), which we had pinned our hopes on, did not have an apparent effect until March 2009, due to the amount of products already on the market, resulting in a delay in the improvement of earnings.

However, the profit structural reform, which was launched at the same time as the management integration, generated cost reduction effects (about ¥9.0 billion) and cost synergy effects (around ¥1.4 billion), and the management integration produced accounting effects (approximately ¥1.4 billion). These effects totaled approximately ¥11.8 billion. Toward the end of the fiscal year, operating profit in the fourth quarter greatly improved. As a result, operating profit for the year under review was about ¥107 million.

For reference, when adding JVC's operating profit for the first half of the fiscal year under review, the combined operating profit of both JVC and Kenwood was about ¥1.4 billion for the full fiscal year.

*** Ordinary income**

Ordinary income for the fiscal year under review was minus ¥6,809 million. This mainly reflects a decrease in operating profit. However, non-operating income and expenses improved, despite our booking of temporary expenses and others in relation to the management integration, chiefly because of accounting effects (about ¥1.9 billion), such as the amortization of negative goodwill resulting from the management integration, and cost synergy effects (around ¥0.3 billion).

For reference, when adding JVC's ordinary income for the first half of the fiscal year under review, the combined ordinary income of both JVC and Kenwood was about minus ¥9.5 billion for the full fiscal year.

*** Net income**

Net income for the fiscal year under review was minus ¥18,795 million. This reflects a decrease in ordinary income, booking of extraordinary loss in association with expenses for additional measures implemented during the fourth quarter, such as business structure and employment structure reforms, and the lack of gains on sales of securities, which was seen in the previous term. Meanwhile, favorable factors include the provision of allowances for expenses for additional measures that can be recorded as allowance, and accounting effects (about ¥6.6 billion) which were generated through the adoption of the consolidated taxation system in relation to the management integration.

For reference, the combined net income of both JVC and Kenwood was about minus ¥26.9 billion for the full fiscal year due mainly to extraordinary losses resulting from a sharp decline in domestic sales of consumer LCD TVs by JVC in the first half of the fiscal year under review.

Net Sales, Profits and Losses by Business Segment

Net sales and operating profit by business segment are as follows: (Millions of yen)

Segment		FYE 2009	FYE 2009 (Reference) Sum of both companies' results
Car Electronics	Net sales	92,237	120,800
	Operating profit	(4,182)	(2,600)
Home & Mobile Electronics	Net sales	103,885	247,800
	Operating profit	74	1,200
Professional Systems	Net Sales	78,758	105,600
	Operating profit	4,552	4,100
Entertainment	Net sales	30,616	61,000
	Operating profit	33	(200)
Others	Net sales	4,274	14,300
	Operating profit	(370)	(1,100)
Total	Net sales	309,771	549,520
	Operating profit	107	1,416
	Ordinary income	(6,809)	(9,500)
	Net income	(18,795)	(26,890)

Note: The results for the fiscal year ended March 2009 (reference) are the sum of JVC Kenwood's operating results for the fiscal year under review and JVC's operating results for the first half of the said year. Net sales and operating profit figures below ¥100 million in this table are rounded off. The net sales in JVC's operating results for the first half are calculated using the net method (in which a portion of customer discounts is deducted from gross sales) the same way as in the second half.

*** Car Electronics Business**

The Car Electronics business, though susceptible to new car sales fluctuations, is a business sector that is most expected to realize integration effects. In the mainstay consumer car audio sector, we implemented sales activities by leveraging the strengths of JVC- and Kenwood-brand products while enhancing cost competitiveness with cost synergy effects, despite the deteriorating economy. As a result, our market shares increased in the world's principal markets from the previous fiscal year. Meanwhile, in the consumer car multimedia sector, sales of AV-integrated car navigation systems expanded largely in overseas markets through our collaboration with Garmin Ltd., a market leader of PNDs*, and sales of such systems rose sharply from the previous year in terms of volume.

In the fourth quarter, however, prices of products already on the market dropped steeply due to excessive inventory in the overall market. To cope with this, the Group focused on promoting sales of product lines for 2008 while adjusting production, which resulted in reducing inventory significantly and achieving a proper level of inventory. However, earnings worsened due to further price drops. Furthermore, the effect of the launch of new product lines for 2009 did not become apparent until March 2009, thus delaying an improvement in earnings. On top of this, sales slowed in the fast-growing markets, a result of both the financial crisis and the strong yen.

Meanwhile, single-month sales in the consumer sector for March 2009 reached their highest level since the management integration. Although the sector posted an operating profit, this failed to offset earnings that continued to worsen until February.

In the OEM sector, shipments of CD/DVD mechanisms for onboard equipment increased sharply, while sales of genuine products decreased substantially due to a drop in new car sales and a decline in the use of genuine products by automakers. To cope with this, the Group reviewed its development and production systems, and implemented additional measures in the fourth quarter. Through these efforts, we managed to minimize the increase in losses.

As a result, net sales of this business for the fiscal year under review were ¥92,237 million, and operating loss was ¥4,182 million.

For reference, when adding JVC's consolidated earnings results for the first half, combined net sales of this business of both JVC and Kenwood for the full fiscal year were about ¥120.8 billion and the combined operating loss of the two companies for said period was around ¥2.6 billion.

** PND stands for "portable/personal navigation device."*

*** Home & Mobile Electronics Business**

In the display sector, the market environment deteriorated due mainly to price drops amid fierce competition. However, the most unprofitable operations in the domestic market were curtailed significantly before the management integration, and the effects of restructuring—in which we shifted in-house production at the UK plant (that was then closed) to outsourced production in Eastern Europe—and additional measures materialized. Consequently, earnings of this sector improved nearly as planned.

The home audio sector also suffered a fall in sales, affected by the economic downturn and a change in consumer demand. Against this backdrop, the Group curtailed unprofitable models and strengthened the profitable AV accessory operations, while implementing additional measures, such as spinning off the home audio sector of Kenwood, and shifting to a development and production system that utilizes JVC's factory in Malaysia. Consequently, earnings of this sector also improved nearly as planned.

Regarding the camcorder sector, sales of standard type models were strong in the worldwide market, and we focused on selling hi-vision type models in the domestic market. As a result, the lineup of camcorders increased in added value and our market share for camcorders expanded. In the fourth quarter, however, the Group focused on promoting sales of product lines for 2008 while adjusting production, as it did for consumer car electronics, which resulted in a reduction in inventories of product lines for 2008 and achievement of a proper level of inventory. Despite this, earnings worsened owing to further price falls. Furthermore, the effect of the launch of new product lines for 2009 did not become apparent until March 2009, and thus an improvement in earnings was delayed.

As a result, net sales of this business for the fiscal year under review were ¥103,885 million, and operating profit was ¥74 million.

For reference, when adding JVC's consolidated earnings results for the first half, the combined net sales of this business of both JVC and Kenwood for the full fiscal year were about ¥247.8 billion and the combined operating profit of the two companies for the said period was around ¥1.2 billion.

*** Professional Systems Business**

The professional wireless equipment sector—a key profit base—was affected by the yen's appreciation, and sales of equipment for private industries succumbed to the adverse effects of the slumping economy. In the latter half of the third quarter, orders received in the US for products for public safety communications, which had been strong thanks to the diffusion of digital, professional wireless equipment, slowed down prior to the new US fiscal year. However, such orders received recovered in March 2009, and single-month sales in local currency of the professional wireless equipment sector marked a record high.

In the professional systems sector, overall sales weakened due to the deteriorated economy. However, sales of new models of professional cameras were robust in the overseas markets, and orders received increased, centering on professional cameras for the electric installation industry in the domestic market in March 2009. Therefore, sales in this sector picked up.

As a result, net sales in this business for the fiscal year under review were ¥78,758 million, and operating profit was ¥4,552 million.

For reference, when adding JVC's consolidated earnings results for the first half, the combined net sales of this business of both JVC and Kenwood for the full fiscal year were about ¥105.6 billion and the combined operating profit of the two companies for the period was around ¥4.1 billion.

*** Entertainment Business**

In the content sector, sales of old releases fell while sales of new releases were steady thanks to the massive popularity of some blockbuster movies and animation. Sales in the businesses on consignment, such as pressing, distribution and production of music software, decreased, but earnings improved due to cost reduction effects.

As a result, net sales of this business for the fiscal year under review were ¥30,616 million, and operating profit was ¥33 million.

For reference, when adding JVC's consolidated earnings results for the first half, the combined net sales of this business of both JVC and Kenwood for the full fiscal year were about ¥61.0 billion and the combined operating loss of the two companies for the period was around ¥0.2 billion.

2. Outlook for Current Fiscal Year

The JVC Kenwood Group predicts that the business environment it experienced in the fourth quarter of the fiscal year under review will continue for the current term (the year ending March 2010), and has formulated a profit/loss plan for the current period with net sales and operating profit for the fourth quarter of the fiscal year under review as the basis, assuming exchange rates of ¥90 to the U.S. dollar and ¥120 to the euro. Our business began showing signs of improvement in the US from March 2009, although improvement in the European business is still slow. Given this, we project the business environment seen in the fourth quarter of the year under review will continue in the first half of the current term, and some of our businesses will fare slightly worse, more so in the first quarter than the fourth quarter of the term under review. We also forecast our business will bottom out in the second quarter of the current fiscal year.

Under the above assumption, we have incorporated cost reduction effects of ¥20.0 billion per year, which we estimate will be generated by additional measures, into the earnings outlook for the current fiscal year. Therefore, we predict that consolidated net sales and operating profit will be ¥430.0 billion and ¥9.5 billion, respectively. Ordinary income and net income will be ¥3.0 billion and ¥0.0 billion, respectively, taking into account non-operating income and expenses, extraordinary profit and loss, taxes, etc.

Aiming to achieve the above earnings targets, the Group is implementing various measures to substantially improve earnings. These include completing structural reforms in sectors where profitability issues remain but earnings have improved, such as the display sector, and by boosting sales of new products and focus products in the professional wireless equipment sector, where orders received have recovered, and the car electronics consumer sector and the camcorder sector, where the launch of new products has begun on a full-scale basis.

For specific measures, please see "Issues to be Addressed" provided later.

(2) Analysis of Financial Position

1. Analysis of Assets, Liabilities and Net Assets

Change in assets and liabilities in relation to management integration

When the above-mentioned management integration was implemented on October 1, 2008, which falls under “acquisition” in business-combination accounting, in accounting terms it was considered that the acquiring company Kenwood took on JVC’s assets and liabilities as of October 1, 2008, at market value.

By adding the subsequent change in deferred tax assets to the above results, JVC Kenwood stated ¥3,244 million as “negative goodwill,” which will be written off in two years. For this write-off, JVC Kenwood began to book about ¥405 million as non-operating profit every quarter from the third quarter of the fiscal year under review, and wrote off ¥811 million of this negative goodwill in the period under review.

On March 23, JVC Kenwood acquired all of its shares, which were owned by Kenwood at the time of the management integration, in the form of property dividend from Kenwood, and converted these shares into treasury stock. After the acquisition of its shares, outstanding shares of JVC Kenwood totaled 966,886,000 shares, excluding treasury stock, an 11.29% decrease from the time of the management integration.

Assets and liabilities for the term under review

Total assets at the end of the fiscal year under review were ¥354,150 million, reflecting an aggressive reduction of inventory and a proactive sale of real estate, as part of profitability and business structural reforms, despite a decrease in trade notes and accounts receivable.

Total liabilities were ¥268,571 million, including interest-bearing debts of ¥132,661 million and net debts of ¥80,244 million.

Net assets totaled ¥85,579 million. Total shareholders’ equity was ¥102,055 million, but the foreign currency translation adjustment account amounted to a loss of ¥20,912 million due to the strong yen.

2. Cash Flow Analysis

Cash flows from operating activities

Cash flows from operating activities amounted to a net inflow of ¥9,765 million due to a decrease in necessary operating funds caused by a reduction in inventory, despite income before income taxes of ¥16,752 million.

Cash flows from investing activities

Cash flows from investing activities amounted to a net outflow of ¥11,288 million, owing to the acquisition of tangible and intangible fixed assets, despite proceeds from sales of fixed assets.

Cash flows from financing activities

Cash flows from financing activities amounted to a net inflow of ¥9,726 million, mainly because of an increase in short-term borrowings.

As of the end of the term under review, cash and cash equivalents totaled ¥52,393 million, due to a rise in cash and cash equivalents by ¥32,760 million in relation to the management integration.

Cash Flow-Related Indexes

	FYE 2009
Shareholders’ equity ratio (%)	23.6
Market value-based shareholders’ equity ratio (%)	9.6
Ratio of interest-bearing liabilities to cash flows (%)	-
Interest coverage ratio (times)	-

Calculation methods:

- Shareholders’ equity ratio = Net assets / Total assets
- Market value-based shareholders’ equity ratio = Stock market capitalization / Total assets
- Ratio of interest-bearing liabilities to cash flows = Interest-bearing liabilities / Operating cash flow

- Interest coverage ratio = Operating cash flow / Interest payments

Notes:

- All indexes are calculated using consolidated financial data.
- Stock market capitalization is obtained by multiplying the closing share price at the term end with the number of outstanding shares at the term end (excluding treasury stock).
- Cash flows for the fiscal year under review do not include cash flows of JVC for the first half, and “Ratio of interest-bearing liabilities to cash flows” and “Interest coverage ratio” are not stated.

(3) Basic Policies for Distribution of Profits and Dividends for Term Under Review and Next Term

JVC Kenwood considers it one of the most important managerial issues to provide shareholders with stable returns on their investments, and will decide on details such as the distribution of retained earnings by comprehensively taking into account profitability and financial conditions.

For the term under review (the fiscal year ended March 2009), Kenwood paid an interim dividend of two yen per share, the same amount as its annual dividend for the year through March 2008, with September 30, 2008 as the record date, prior to the management integration. In the second half of the term under review, the economic environment deteriorated more than had been expected, and this eliminated any restructuring and integration effects. Against this backdrop, we must concentrate our management resources to accomplish an earnings recovery in the future. Therefore, JVC Kenwood will refrain from paying term-end dividends.

For the next term (the fiscal year ending March 2010), we will not make an interim-dividend payment for similar reasons, and will decide on year-end dividends later taking into account profits, losses and other financial conditions for the first half.

Management Policy

(1) Basic Management Policy

Regarding the management integration as the starting point of a new growth strategy, a basic policy of the JVC Kenwood Group is to develop corporate bases that JVC and Kenwood have built into a new sustainable business infrastructure to succeed in the digital era, enhance competitiveness and profitability, expand and create corporate value taking advantage of synergistic effects from management integration, and establish a position as a unique, specialized world-leading manufacturer.

To survive the ongoing worldwide economic crisis, the Group is striving to generate funds and complete structural reforms, to redistribute management resources to promising business fields in order to shift its business stage from survival to growth at an early date, and implement measures for future growth.

(2) Medium- to Long-Term Management Strategies

On October 1, 2008, the JVC Kenwood Group set management targets for the fiscal year ending March 2011 (net sales of ¥750.0 billion and operating profit of ¥39.0 billion) assuming exchange rates of ¥105 to the U.S. dollar and ¥155 to the euro. Since then, however, the economic environment has worsened rapidly, and we are now considering formulating a new medium-term management plan that takes into account these new developments. We will announce revised management targets as soon as a new medium-term management plan is drawn up.

(3) Issues to be Addressed

Since the management integration, the JVC Kenwood Group has pushed forward with profit structural reforms to contend with the deterioration of the economic climate, while making efforts to stimulate the early materialization of integration effects. In the fourth quarter of the fiscal year under review, however, our business environment worsened further due to the deteriorated real economy and the appreciation of the yen. In response, the Group carried out bold additional measures which it had mostly completed by the end of the term under review.

The Group has implemented measures for future growth by redistributing management resources created by these efforts.

For the next term (the fiscal year ending March 2010), to cope with the deteriorated business environment, we will accelerate business activities with an emphasis on cash management, as we did in the term under review, while also creating cost improvement effects of ¥20.0 billion or more through additional measures and promoting strategies that are expected to contribute to earnings in the early stages of the next term and also growth over the medium and long term.

1. Priority Measures

1) Increase and creation of cash

During the fiscal year under review, the JVC Kenwood Group implemented cash management-focused business activities on a Groupwide basis, producing cash (about ¥5.6 billion) through sales of fixed assets such as the Victor Shimbashi Building and the former site of JVC’s Moriya Plant, and increasing cash flows through a substantial reduction of inventory. Following the fiscal year under review, the Group will accelerate business activities focused on cash management for the next term by decreasing the number of inventory days through reforms in this area and innovating management of funds on a global basis, thereby creating free cash flows.

2) Completion of structural reforms

* Profit structural reform

With the integration of management on October 1, 2008, the Group launched a profit structural reform project, anticipating the deterioration of the economic climate. The project included cost structural reforms designed to overhaul the corporate and business divisions in terms of expenses, review development costs and IT-related investments, and the reform of transactions within the Group by strengthening consolidated management, as well as emergency measures such as the partial return of executives’ remuneration and a review of events. As a result, we produced cost reduction effects of about ¥9.0 billion at the stage of calculation of operating profit for the fiscal year under review.

For the next term, we will continue to enhance emergency measures, aiming to gain substantial effects from the additional measures summarized below.

* Additional measures

During the fourth quarter of the term under review, the Group implemented additional measures centering on: the restructuring of JVC’s display sector, Kenwood’s car electronics OEM sector and the home audio sector, a common business area of both companies, where profitability issues remain; structural reforms of related production/sales systems and affiliated logistics/services firms; employment structural reforms, including the cutback of approximately 2,950 Group employees (as of April 20, 2009), 12.8% of the total number of employees (23,089) at the time of management integration; and further emergency measures such as the partial return of executives’ remuneration. Of these measures, the most urgent were completed by the end of the term under review.

For the next term, the Group will aim to produce cost improvement effects of ¥20.0 billion or more by combining the cost reduction effects gained from the above-mentioned profit structural reform and by actualizing the effect of these additional measures.

In a series of reforms, we restructured the manufacturing system of Kenwood Nagano Corporation (“Kenwood Nagano”), the main domestic factory of the car electronics OEM sector, a process which included labor cutbacks. Accordingly, we decided not to reorganize Kenwood’s domestic production system through the merger between Kenwood Nagano and Kenwood Yamagata Corporation, announced on April 15, 2008.

3) Expansion of profitable sales

*** Revitalization of existing businesses through enhanced integration**

Centering on J&K Technologies Corp. (“J&K Technologies”), a join venture between JVC and Kenwood which capitalized on combined development and production functions in both companies’ car electronics businesses, the Group generated a cost synergy effect of about ¥1.7 billion in the second half of the fiscal year under review. This was achieved through joint development, joint procurement of parts and mutual use of intellectual property.

For the next term, we will integrate the remaining product planning and marketing functions of JVC and Kenwood into J&K Technologies, aiming to turn J&K Technologies into a virtually independent corporation.

In the home audio sector, another common business area, we also plan to unite both companies’ management resources to deepen business integration.

Regarding the professional systems business, the Group will accelerate measures for early maximization of integration effects, mainly by promoting sales activities of a new multimedia security system that combines Kenwood’s professional wireless terminal, a command and control system provided by Zetron Inc. (“Zetron”), Kenwood’s US subsidiary specializing in wireless communications systems, and JVC’s security system.

On April 1, 2009, we integrated JVC’s subsidiary Victor Kosan Co., Ltd., and Kenwood’s subsidiary Kenwood Admi Corporation, both engaged chiefly in welfare services, and established J&K Partners. For the next term, we will further promote integration of affiliated companies, through consolidation of domestic service bases and reorganization of overseas logistics bases.

*** Implementation of growth strategies with development investments**

With the market environment expected to worsen further in the short term, the JVC Kenwood Group has selected its most robust products and services—which provide differentiation from rivals by leveraging its technical capabilities and can thus serve as a growth engine for the Group—as top strategic products that can quickly contribute to its earnings.

JVC Kenwood and the companies under its umbrella, JVC, Kenwood and J&K Technologies, will do their utmost to support these products and services with funds, technical know-how and personnel to develop chosen products and technologies, and strengthen sales promotion. Through these efforts, we will expand sales globally and improve profitability.

In the medium to long term, the Group will accelerate the development of new, unconventional products in line with our Corporate Vision, centering on the New Business Development Center.

2. Priority Measures by Business Sector

*** Car Electronics Business—Turning J&K Technologies into a virtually independent corporation**

We will accelerate reform in the Car Electronic business, one of our main focuses during the fiscal year.

The Car Electronics business is the largest common business between JVC and Kenwood and this is where integration effects can be most expected to be produced. The JVC Kenwood Group will integrate the product planning and marketing functions of JVC and Kenwood into J&K Technologies, aiming to turn J&K Technologies into a virtually independent corporation, as well as strengthen the business structure by promoting wide-ranging personnel exchanges between both companies. According to these measures, the Group will develop the status of its management through cooperation into complete business integration, and endeavor to maximize integration effects at the earliest possible time through combination of the development, production, product planning and sales functions, including integration of platforms for car audio and car navigation systems. Based on these measures, in the consumer sector, we will further heighten cost synergy effects while expanding product lineups, centering on car navigation systems, pursuing the top global position. In the OEM sector, we will complete structural reforms and develop new car navigation systems and devices for car-mounted equipment by using both companies' management resources.

*** Home & Mobile Electronics Business**

In the display sector, we improved earnings by reducing in-house development and production of consumer LCD TVs for the overseas markets through the use of outsourcing, ODM (original design manufacturing: production outsourcing from the design phase onward) and EMS (electronics manufacturing service), reconstructing our domestic production system, concentrating the initial process for printed-wiring board production at our Thai plant, reforming sales structures in Japan, the Americas and Europe, and reorganizing the systems for logistics and services. Owing to these efforts, we cut development personnel for conventional types of consumer LCD TVs by about 70%, and assigned these employees to sectors engaged in, for example, development of next-generation displays. Taking advantage of such reforms, we will manufacture and sell full hi-vision 3D LCD monitors and slim-profile LCD monitors (7 mm at their thinnest part), for professional use, thereby accelerating improvement of earnings through optimization of product lineups.

Regarding the home audio sector, we split Kenwood's home audio division and shifted to a fabless structure specializing in the planning and sales of products while accelerating joint development, production and parts procurement by using JVC's plant in Malaysia, which boasts a robust development function. JVC also reduced unprofitable models and curtailed in-house development and production of commodity models. Looking forward, we will further deepen business integration by combining both companies' management resources, while increasing sales of value-added products, such as home theater systems with Blue-ray Disc players and other AV accessories. We will therefore accelerate improvement of earnings.

In the camcorder sector, the entire market suffered from excessive inventory and sales continued to be weak, especially in Europe. Under such circumstances, the JVC Kenwood Group focused on sales of product lineups for 2008 while adjusting production, which resulted in reducing inventory substantially by the end of the fiscal year under review. Moving forward, we will introduce new hi-vision models, which are selling well in the domestic market, in the worldwide market on a full-scale basis, and concurrently launch new concept products, aiming to heighten the added value of our product lineups.

*** Professional Systems Business**

Regarding the professional wireless sector, we boast the world's second largest market share with sales of products for the public safety market (police, fire department and public transportation, such as railways and buses) being especially robust in the overseas markets. Given that investments are expected to increase in the public, safety and environment fields worldwide, the JVC Kenwood Group will boost sales of digital professional wireless equipment, for which demand is on the rise due to advanced features such as high privacy functions, and expand business domains from supply of wireless terminals to supply of system solutions that feature the wireless communications command and control systems of Zetron.

In the professional systems sector, the Group will strive to win more orders for security cameras by introducing new product lineups, and will proactively implement sales activities of a new multimedia security system that combines a professional wireless terminal, a wireless communications command/control system and a security camera. Capitalizing on these initiatives, we will aim to raise the ratio of B to B business—particularly for the public safety market—through the entire Group, and to establish a stable earnings structure that is resistant to economic fluctuations.

*** Entertainment Business—Capital and business alliance with Toppan Printing Co., Ltd.**

Regarding the Entertainment business, the JVC Kenwood Group implemented restructuring reforms in January 2009 through the integration and reorganization of Victor Entertainment, Inc., and JVC Entertainment Company, LTD., to strengthen its base for creating hit content.

Under the new framework, we will create a diverse array of hit content on a Groupwide basis while developing the net media business centering on a newly established network/distribution company, aiming to improve profitability.

We will expand the media business by integrating the pressing processes for entertainment and non-entertainment CDs/DVDs. To this end, we will make the most of a capital and business alliance concluded recently among JVC, Victor Creative Media Co., Ltd., a subsidiary of JVC which engages in the pressing of CDs/DVDs, Toppan Printing Co., Ltd., and its subsidiary Toppan Seihon Co., Ltd.

Notes on earnings forecast

The earnings forecast provided here is a forecast for the future period based on the Company's judgment derived from information that is available at this time; please be advised that actual earnings may differ substantially from the earnings forecast. Consequently, please refrain from making any decisions based solely on this forecast.

Financial Statements

(1) Consolidated Balance Sheet

(JPY in Million)

	Current Fiscal Year (as of Mar. 31, 2009)
Assets	
Current Assets	
Cash and cash equivalents	52,417
Trade notes and accounts receivable	78,743
Merchandise and finished goods	48,843
Work in process	5,314
Raw materials and supplies	14,305
Other current assets	16,876
Allowance for doubtful receivables	(2,911)
Total Current Assets	213,588
Fixed Assets	
Tangible fixed assets	
Buildings and structures, net	22,765
Machinery and equipment, net	8,172
Tools, furniture and fixtures, net	10,514
Land	57,508
Construction in progress	4,172
Total Tangible Fixed Assets	103,134
Intangible fixed assets	
Software	9,015
Goodwill	5,580
Other intangible fixed assets	5,503
Total Intangible Fixed Assets	20,100
Investments and other assets	
Investment securities	4,468
Other investments	13,476
Allowance for doubtful receivables	(738)
Total Investments and Other Assets	17,206
Total Fixed Assets	140,441
Deferred Assets	
Bond issuance cost	463
Stock issuing expenses	158
Total Deferred Assets	622
Total Assets	354,652

(JPY in Million)

	Current Fiscal Year (as of Mar. 31, 2009)
Liabilities	
Current Liabilities	
Trade notes and accounts payable	30,391
Short term bank borrowings	91,101
Current portion of bond	20,960
Accrued expenses	48,731
Income taxes payable	1,457
Provision for product warranties	3,452
Provision for sales returns	1,401
Provision for structural reform	3,744
Other current liabilities	14,650
Total Current Liabilities	215,892
Long Term Liabilities	
Bonds payable	20,600
Liability for employees’ retirement benefits	17,422
Deferred tax liabilities	10,517
Negative goodwill	2,433
Other long term liabilities	2,208
Total Long Term Liabilities	53,181
Total Liabilities	269,073
Net Assets	
Shareholders’ Equity	
Paid-in capital	10,000
Capital surplus	111,143
Retained earnings	1,174
Treasury stock	(20,261)
Total Shareholders’ Equity	102,055
Valuation and Translation Adjustment	
Unrealized gain and loss on available-for-sale securities	(401)
Deferred hedge gain and loss	39
Land revaluation surplus	2,954
Foreign currency translation adjustment	(20,912)
Total Valuation and Translation Adjustment	(18,320)
Minority Interests	1,843
Total Net Assets	85,579
Total Liabilities and Net Assets	354,652

(2) Consolidated Statement of Income

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Net Sales	309,771
Cost of Sales	216,037
Gross Profit	93,734
Selling, General and Administrative Expenses	93,626
Operating Profit	107
Non-operating Profit	
Interest income	301
Dividends income	82
Amortization of negative goodwill	819
Other non-operating profit	1,775
Total Non-operating Profit	2,979
Non-operating Expense	
Interest expense	2,311
Sales discounts	846
Foreign exchange losses	2,578
Other non-operating expenses	4,159
Total Non-operating Expense	9,896
Ordinary Income	(6,809)
Extraordinary Profit	
Gain on sales of fixed assets	1,323
Gain on sales of investment securities	372
Other extraordinary profit	87
Total Extraordinary Profit	1,783
Extraordinary Loss	
Loss on disposal of fixed assets	661
Loss on valuation of inventories	740
Employment structural reform expenses	1,382
Loss on sales of fixed assets	3,332
Impairment loss	3,526
Other extraordinary loss	2,082
Total Extraordinary Loss	11,726
Income before Income Taxes	(16,752)
Corporate Tax, Corporate Inhabitant Tax and Corporate Enterprise Tax	2,073
Corporate Tax and Other Adjustment	35
Income Taxes	2,109
Minority Interests in Income	(66)
Net Income	(18,795)

(3) Consolidated Statements of Changes in Shareholders' Equity

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Shareholders' equity	
Paid-in capital	
Balance as of March 31, 2008	11,059
Changes during the year	
Decrease by share transfers	(1,059)
Total changes during the year	(1,059)
Balance as of March 31, 2009	10,000
Capital surplus	
Balance as of March 31, 2008	13,373
Changes during the year	
Increase by share transfers	97,894
Retirement of treasury stock	(125)
Total changes during the year	97,769
Balance as of March 31, 2009	111,143
Retained earnings	
Balance as of March 31, 2008	21,534
Changes during the year	
Decrease in retained earnings in line with the amended accounting standard No.18	(96)
Payment of dividends	(1,467)
Net income	(18,795)
Total changes during the year	(20,360)
Balance as of March 31, 2009	1,174
Treasury stock	
Balance as of March 31, 2008	(118)
Changes during the year	
Acquisition of treasury stocks	(8)
Retirement of treasury stock	125
Increase by share transfers	(20,260)
Total changes during the year	(20,143)
Balance as of March 31, 2009	(20,261)
Total shareholders' equity	
Balance as of March 31, 2008	45,848
Changes during the year	
Decrease in retained earnings in line with the amended accounting standard No.18	(96)
Increase by share transfers	76,575
Payment of dividends	(1,467)
Net income	(18,795)
Acquisition of treasury stocks	(8)
Retirement of treasury stock	–
Total changes during the year	56,206
Balance as of March 31, 2009	102,055

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Valuation and translation adjustment	
Unrealized gain and loss on available-for-sale securities	
Balance as of March 31, 2008	(7,319)
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	6,918
Total changes during the year	6,918
Balance as of March 31, 2009	(401)
Deferred hedge gain and loss	
Balance as of March 31, 2008	-
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	39
Total changes during the year	39
Balance as of March 31, 2009	39
Land revaluation surplus	
Balance as of March 31, 2008	2,954
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	-
Total changes during the year	-
Balance as of March 31, 2009	2,954
Foreign currency translation adjustment	
Balance as of March 31, 2008	(11,558)
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	(9,354)
Total changes during the year	(9,354)
Balance as of March 31, 2009	(20,912)
Total valuation and translation adjustment	
Balance as of March 31, 2008	(15,923)
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	(2,396)
Total changes during the year	(2,396)
Balance as of March 31, 2009	(18,320)
Minority interests	
Balance as of March 31, 2008	-
Changes during the year	
Changes (net amount) of items other than shareholders' equity during the year	1,843
Total changes during the year	1,843
Balance as of March 31, 2009	1,843

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Total net assets	
Balance as of March 31, 2008	29,925
Changes during the year	
Decrease in retained earnings in line with the amended accounting standard No.18	(96)
Increase by share transfers	76,575
Payment of dividends	(1,467)
Net income	(18,795)
Acquisition of treasury stocks	(8)
Changes (net amount) of items other than shareholders' equity during the year	(553)
Total changes during the year	55,653
Balance as of March 31, 2008	85,579

(4) Consolidated Statements of Cash Flows

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Cash Flows from Operating Activities:	
Income before income taxes	(16,752)
Depreciation	15,430
Amortization of goodwill	404
Amortization of negative goodwill	(819)
Impairment loss	3,526
Increase(decrease) in allowance for doubtful accounts	(183)
Increase(decrease)in allowance for employees' retirement	(1,118)
Interest revenue and dividend income	(383)
Interest expense	2,311
Loss(gain) on sales of investment securities	(370)
Loss on disposal of fixed assets	661
(Gain) loss on sales of fixed assets	2,009
(Increase) decrease in trade notes and accounts receivable	17,919
(Increase) decrease in inventories	22,366
Increase (decrease) in accounts payable	(22,226)
Increase(decrease) in accrued expenses	12,115
Other	3,570
Sub-Total	14,230
Interest and dividends received	384
Interest paid	(2,471)
Income taxes paid	(2,377)
Net cash provided by operating activities	9,765
Cash Flows from Investing Activities:	
Capital investment (real estate, plants and equipment)	(9,768)
Proceeds from sales of property, plant and equipment	6,841
Purchase of intangible fixed assets	(6,690)

(JPY in Million)

	Current Fiscal Year (4/1/2008-3/31/2009)
Proceeds from sales of investment securities	1,196
Sales of subsidiaries' stocks accompanying change of scope of consolidation	(1,218)
Other	(1,648)
Net cash used in investing activities	(11,288)
Cash Flows from Financing Activities:	
Increase (decrease) in short-term bank borrowings, net	12,303
Redemption of bonds	(480)
Dividend payments	(1,452)
Other	(643)
Net cash used in financing activities	9,726
Effect of Exchange Rate Fluctuations on Cash and Cash Equivalents	(3,523)
Net Increase (decrease) in Cash and Cash Equivalents	4,680
Cash and Cash Equivalents at beginning of year	14,952
Increase in Cash and Cash Equivalents by share transfers	32,760
Cash and Cash Equivalents at end of year	52,393