

**Translation - for Reference Only -**

**KENWOOD**  
Listen to the Future

# **Earnings Briefing**

## **For Year Ended March 2007**

Haruo Kawahara  
President & CEO  
Kenwood Corporation

May 16, 2007

# AGENDA

- 1. Overview of Earnings Results for FYE'07/3**
- 2. Management Strategies for FYE'08/3**
- 3. Outlook of Earnings for FYE'08/3**

## Disclaimer

Forward-looking statements and charts contained in our documents 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'07/3

# 1. Overview of Earnings Results for FYE'07/3

## Consolidated Profit & Loss

### Net Sales

Decreased 7.9% (JPY14.4 billion) from the previous FY due to decreased sales of CE and HE

### Operating Profit

Decreased 35.3% (JPY3.1 billion) from the previous FY due to worsened profit of CE

### Ordinary Income

Decreased 52.1% (JPY2.5 billion) from the previous FY due to decreased operating profit

### Net Income

Decreased 74.0% (JPY4.5 billion) from the previous FY due to decreased ordinary income and significantly decreased extraordinary income

## Consolidated PL

(JPY in Billions)

	FYE'06/3		FYE'07/3		YoY		Initial forecast	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Sales	183.6		169.2		-14.4	-7.9%	185.0	
Operating Profit	8.7	4.7%	5.6	3.3%	-3.1	-35.3%	9.0	4.9%
Ordinary Income	4.9	2.7%	2.3	1.4%	-2.5	-52.1%	6.0	3.2%
Net Income	6.1	3.3%	1.6	0.9%	-4.5	-74.0%	5.0	2.7%

# 1. Overview of Earnings Results for FYE'07/3

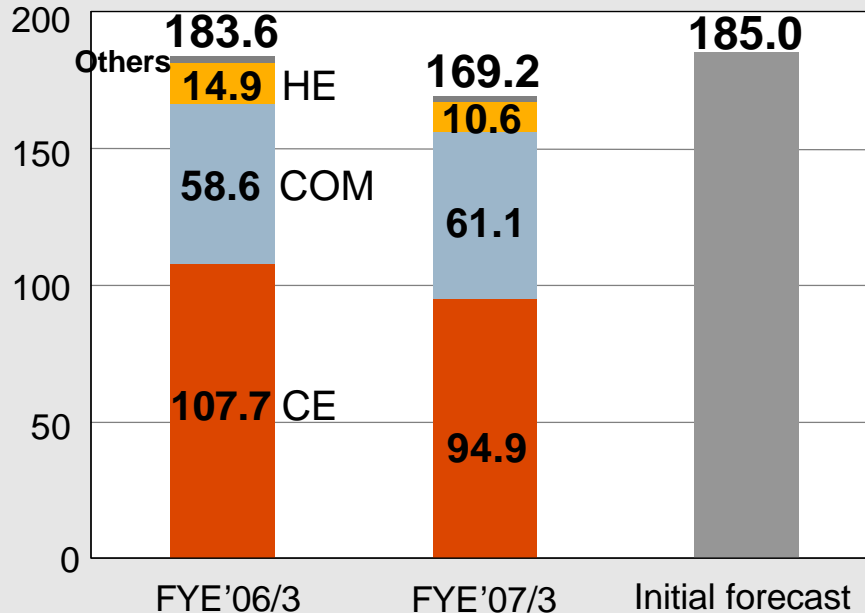
## Consolidated Net Sales

**Decrease of 7.9% from the previous FY**

- \* COM Sales continued to increase, as they did in the previous FY.
- \* CE Sales decreased due to the influences of deteriorated market conditions and trends in automobile sales.
- \* HE Sales dropped, albeit as initially planned, due to the influence of the strategy change.

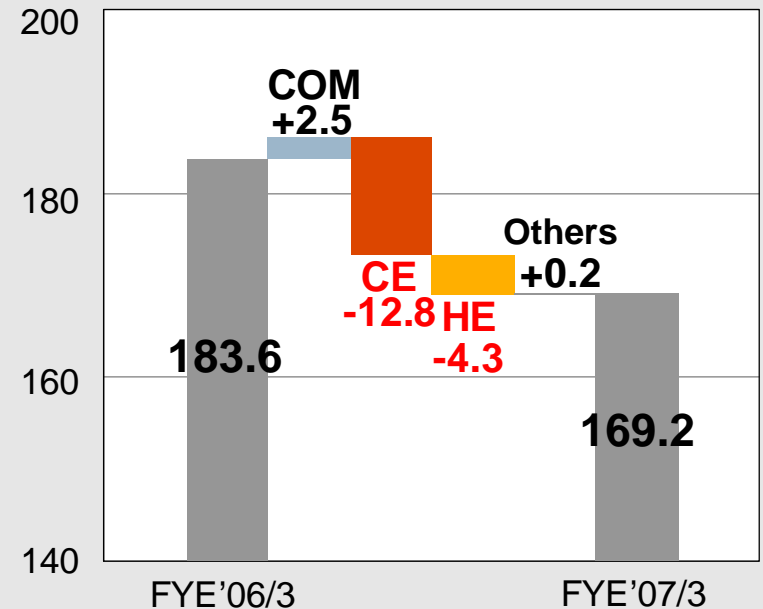
(JPY in Billions)

Consolidated Net Sales



(JPY in Billions)

Increase/Decrease Factors (YoY)



# 1. Overview of Earnings Results for FYE'07/3

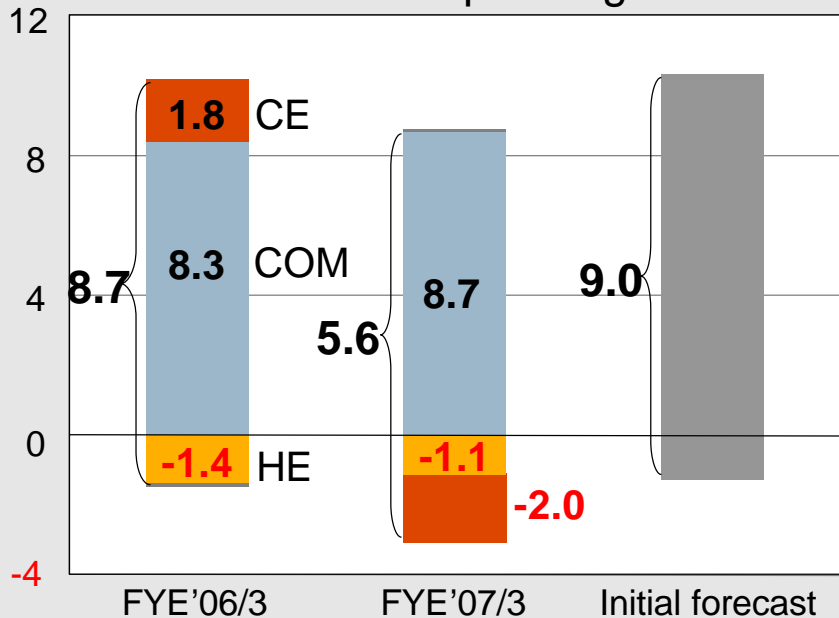
## Consolidated Operating Profit

Decrease of 35.3% from the previous FY

- \* COM Profit increased thanks to expansion of sales.
- \* HE Loss got smaller than the previous FY's thanks to the influence of the strategy change, despite reduced sales.
- \* CE Profit dropped, affected by: investments in strategic development in the **Consumer (Multimedia) business**; heightened competition and price declines in the **Consumer (Audio) business**; and the recording of expenses for up-front development costs in the **OEM business**.

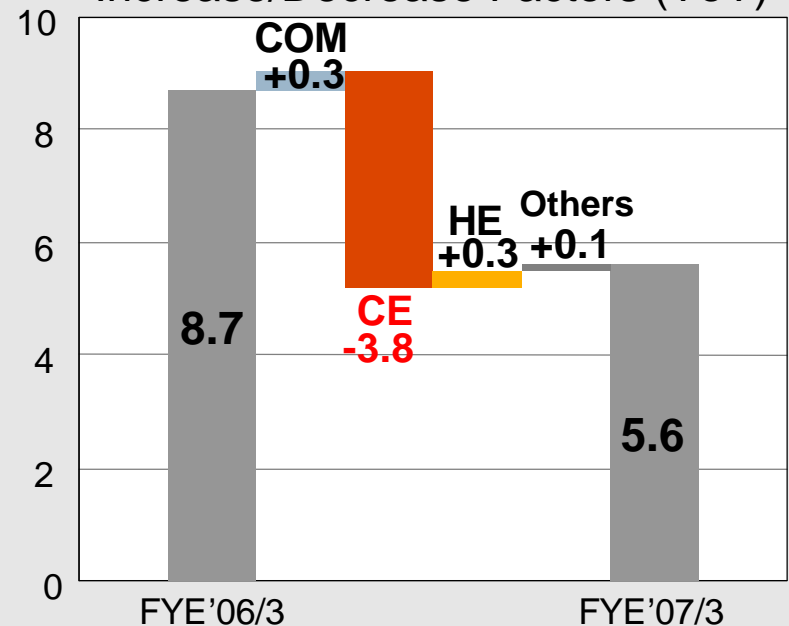
(JPY in Billion)

Consolidated Operating Profit



(JPY in Billion)

Increase/Decrease Factors (YoY)

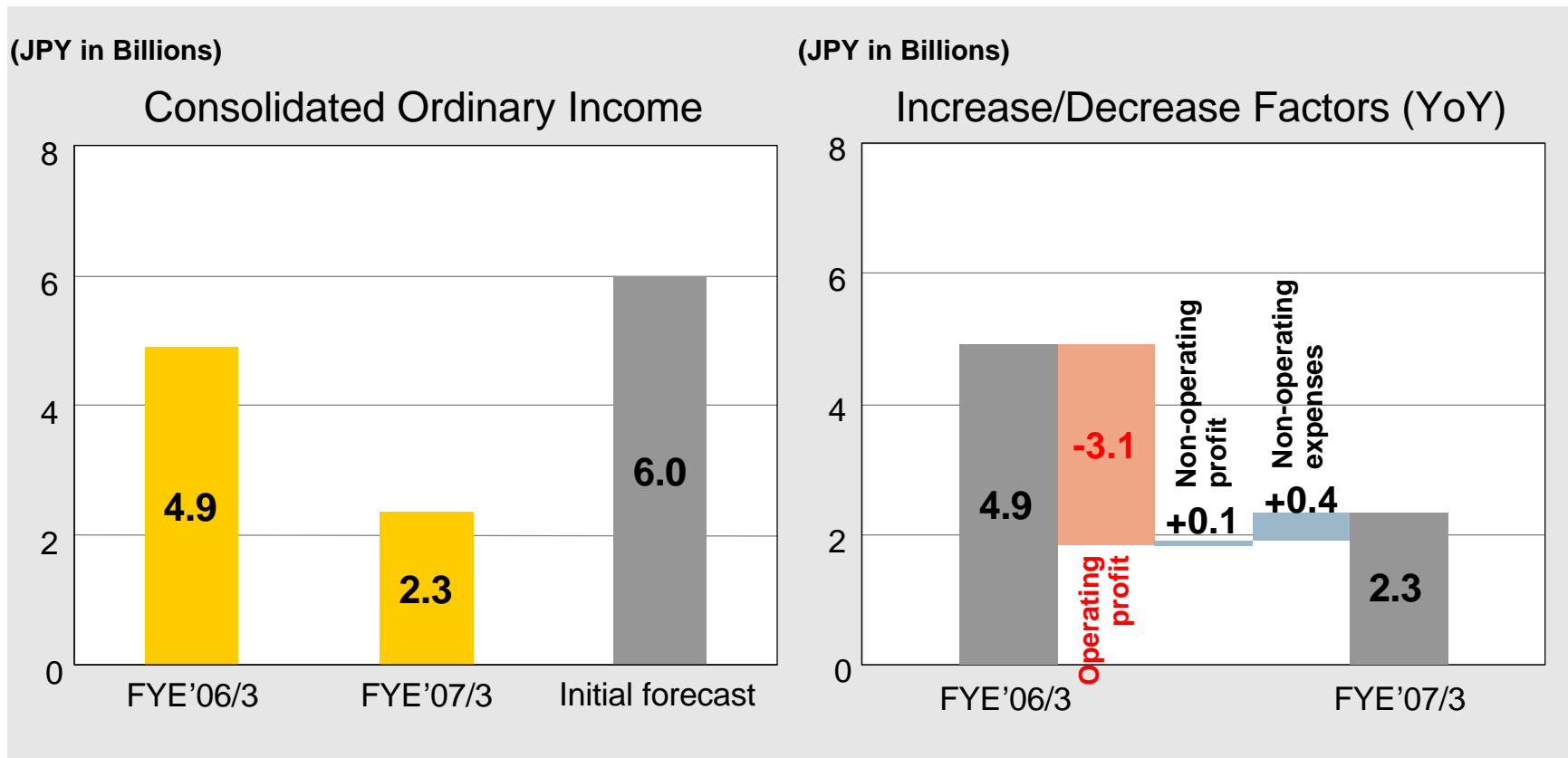


# 1. Overview of Earnings Results for FYE'07/3

## Consolidated Ordinary Income

Decrease of 52.1% from the previous FY

- \* Influence of decline in operating profit
- \* Non-operating expenses dropped as a result of the structural reform of assets in the previous FY.



# 1. Overview of Earnings Results for FYE'07/3

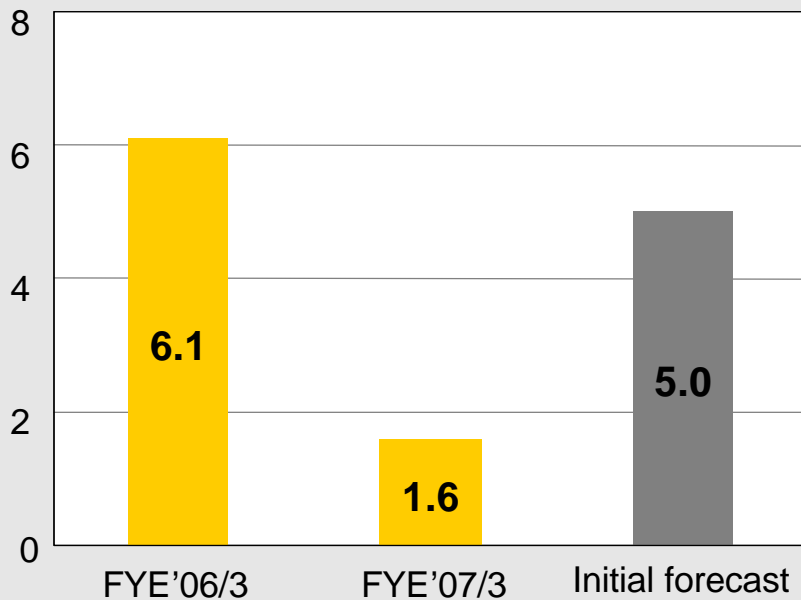
## Consolidated Net Income

### Decrease of 74.0% from the previous FY

- \* Affected by reduced ordinary income and a fall in the transient extraordinary profit to JPY0.6 billion from JPY6.7 billion posted in the previous FY.
- \* Extraordinary loss declined due to the structural reform of assets in the previous FY.

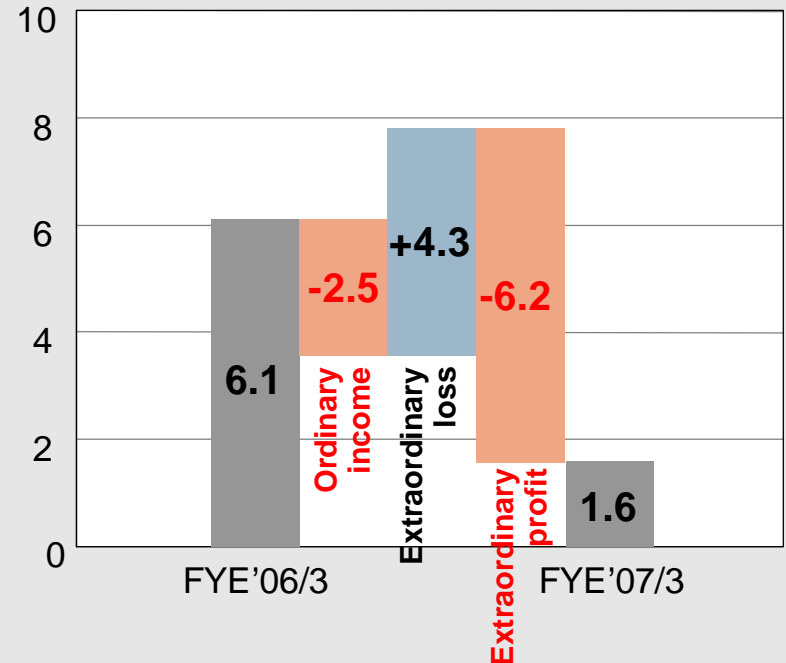
(JPY in Billions)

### Consolidated Net Income



(JPY in Billions)

### Increase/Decrease Factors (YoY)





# 1. Overview of Earnings Results for FYE'07/3

## Financial Position

### Balance Sheet

Balance sheet as of the end of FYE'07/3 became more substantial as did in the previous FY.

### Trends of Major Management Indices

	FYE'03/3	FYE'04/3	FYE'05/3	FYE'06/3	<b>FYE'07/3</b>
Total assets (JPY in Billion)	142.1	135.8	116.1	109.6	<b>111.2</b>
Interest-bearing debt (JPY in Billion)	80.9	67.3	31.1	26.3	<b>23.8</b>
Net debts (JPY in Billion)	50.1	29.9	15.1	12.2	<b>6.8</b>
Net assets (JPY in Billion)	13.7	20.2	33.1	37.5	<b>39.1</b>
Shareholders' equity ratio (%)	9.6	14.9	28.5	34.2	<b>35.1</b>
Market value-based shareholders' equity ratio (%)	28.1	52.2	60.6	91.5	<b>59.1</b>
Net assets per share (JPY)	- 53.74	- 23.03	66.29	101.97	<b>106.46</b>
Retained earnings (JPY in Billion)	- 34.2	-9.8	13.2	18.3	<b>19.1</b>
Ratio of cash flows to interest-bearing debts (%)	780.6	244.6	200.1	207.4	<b>207.3</b>
Interest coverage ratio (times)	3.1	12.6	13.6	19.9	<b>22.4</b>

# Performance by Segment

# 1. Overview of Earnings Results for FYE'07/3

## Car Electronics Business

**Net Sales decreased 11.9% from the previous FY to JPY94.9 billion.**

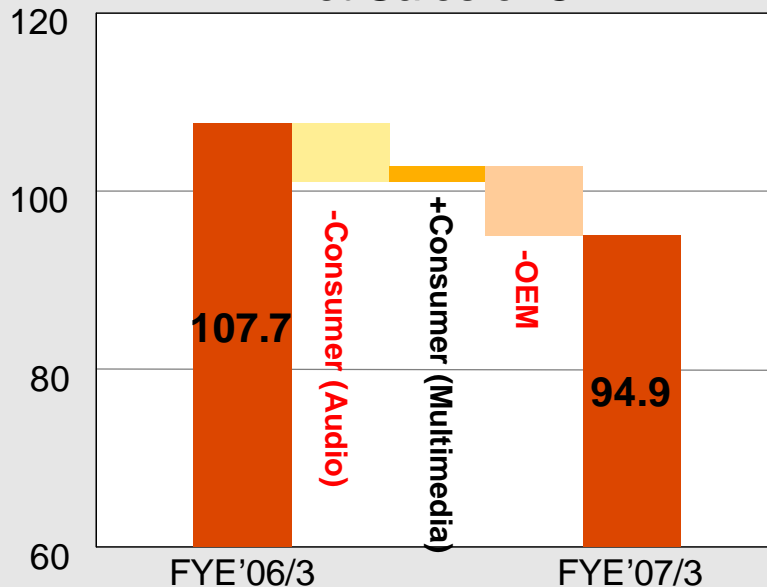
\* In the **Consumer (Audio) business**, net sales dropped sharply hurt due to delayed closing of older products and deteriorated market conditions. In the **OEM business**, net sales declined substantially, affected by the trends in automobile sales and sales termination of certain automobile types using such models.

**Operating Profit plunged 208.1% from the previous FY to minus JPY2.0 billion.**

\* In the **Consumer (Audio) business**, operating profit decreased significantly due to deteriorated market conditions and dropped prices. In the **OEM business**, operating profit fell sharply due to declined sales and the recording of expenses for up-front development costs of new products.

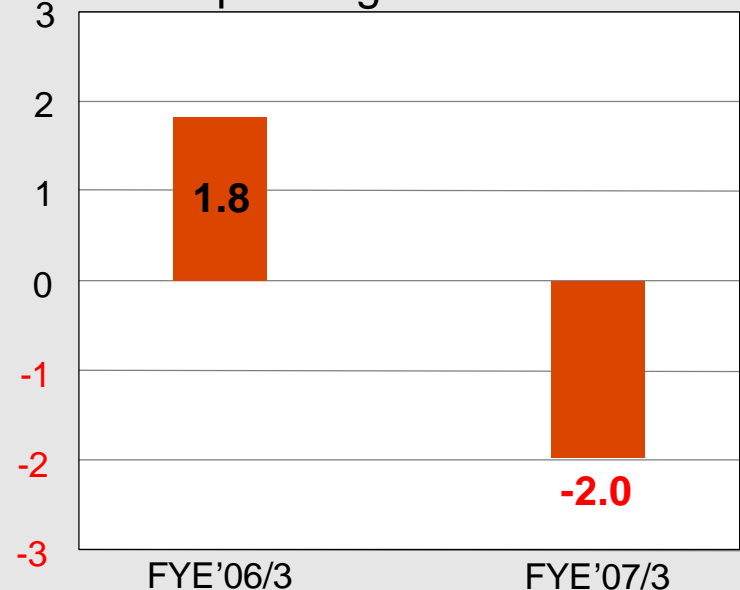
(JPY in Billions)

### Net Sales of CE



(JPY in Billions)

### Operating Profit of CE



# 1. Overview of Earnings Results for FYE'07/3

## Communications Equipment Business

**Net Sales increased 4.2% from the previous FY to JPY61.1 billion.**

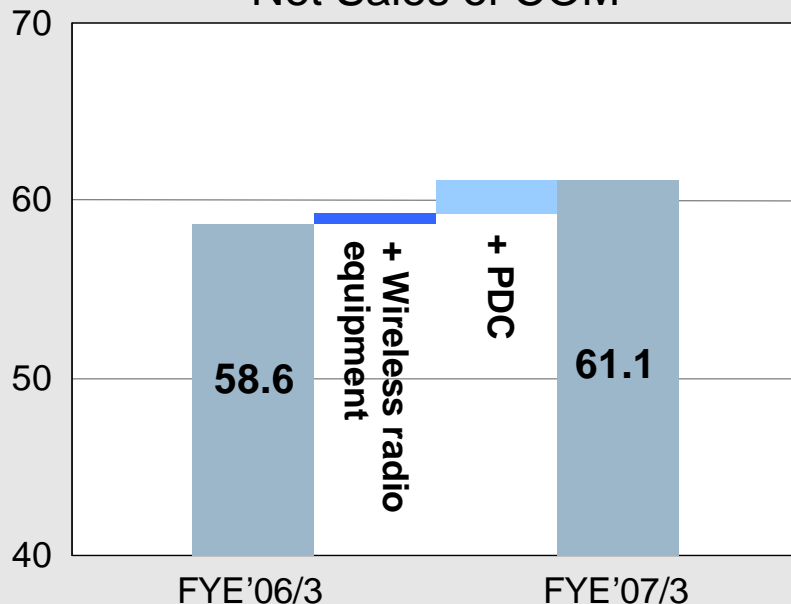
- \* In the wireless radio equipment, net sales expanded thanks to the robust U.S. market and increased sales in Europe and emerging markets.
- \* In the Personal Digital Cellular (PDC) phones business, net sales rose reflecting aggressive sales promotion by PDC carriers.

**Operating Profit advanced 4.0% from the previous FY to JPY8.7 billion.**

- \* Operating profit increased due to a rise in sales, despite the burden of strategic development investments in the wireless radio equipment.

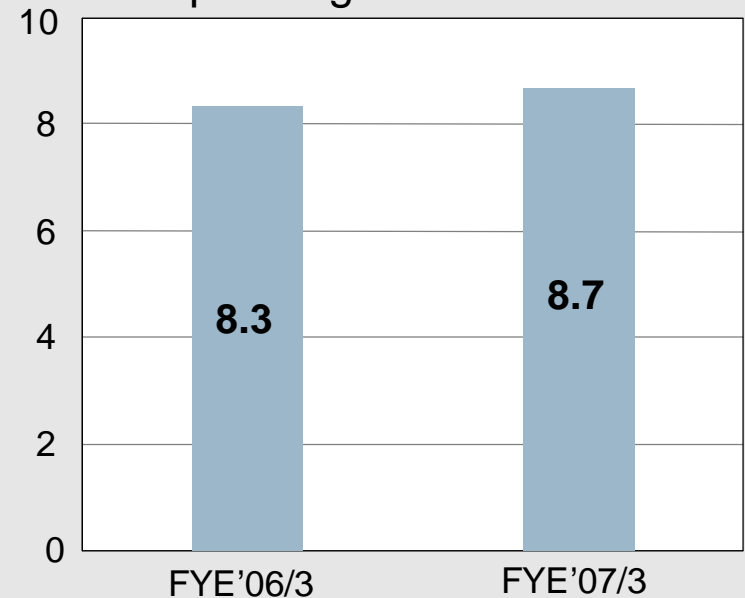
(JPY in Billions)

### Net Sales of COM



(JPY in Billions)

### Operating Profit of COM



# 1. Overview of Earnings Results for FYE'07/3

## Home Electronics Business

**Net Sales declined 29.0% from the previous FY to JPY10.6 billion.**

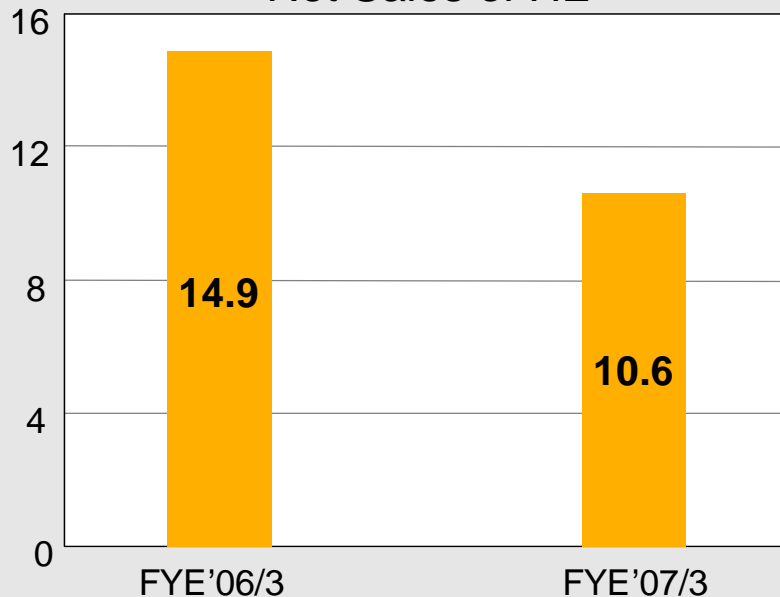
\* Impact of the shrinking of the home theater business and the squeezing out of conventional audio products, as a result of the strategy change (nearly as initially planned)

**Operating Losses decreased 20.8% from the previous FY to minus JPY1.1 billion.**

\* Despite the burden of strategic development investments, operating losses were reduced because of an improvement in earnings derived from the strategy change and enhanced line-up of new premium products.

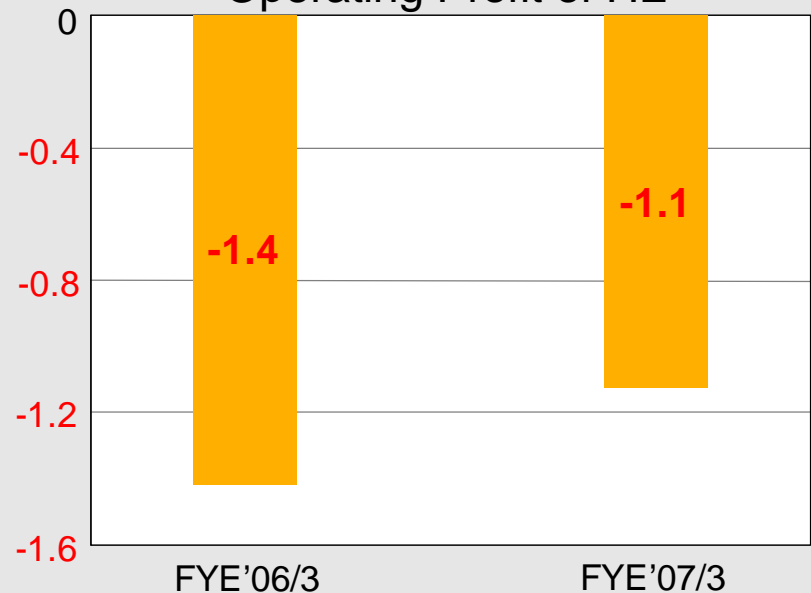
(JPY in Billions)

### Net Sales of HE



(JPY in Billions)

### Operating Profit of HE



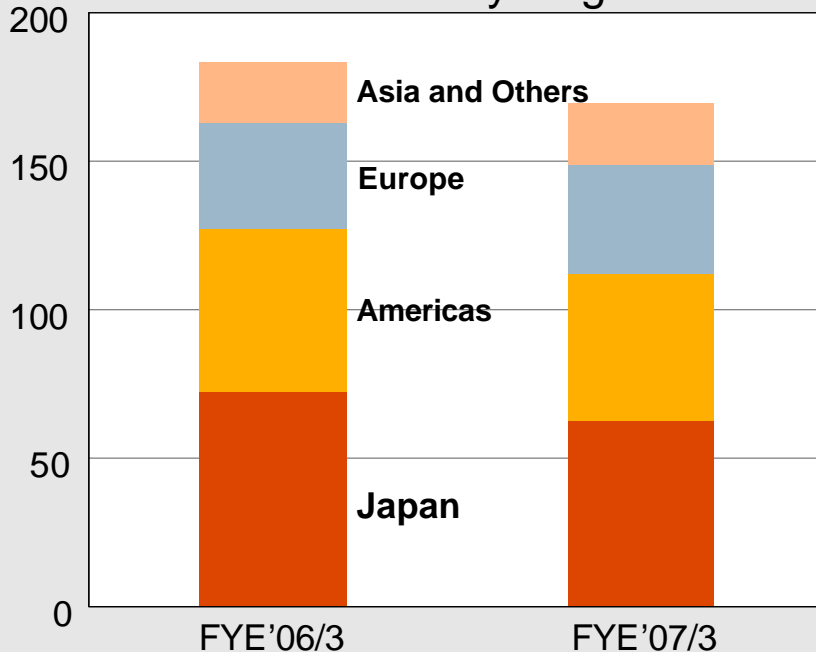
# 1. Overview of Earnings Results for FYE'07/3

## Net Sales and Operating Profit by Region

- Americas** Both net sales and operating profit decreased due to declined sales in the CE Consumer (Audio) business.
- Europe** Both net sales and operating profit increased, thanks to advanced sales in the COM business and the CE Consumer (Multimedia) business.
- Japan** Both net sales and operating profit decreased, affected by decreased sales in the CE OEM business and CE Consumer (Audio) business.

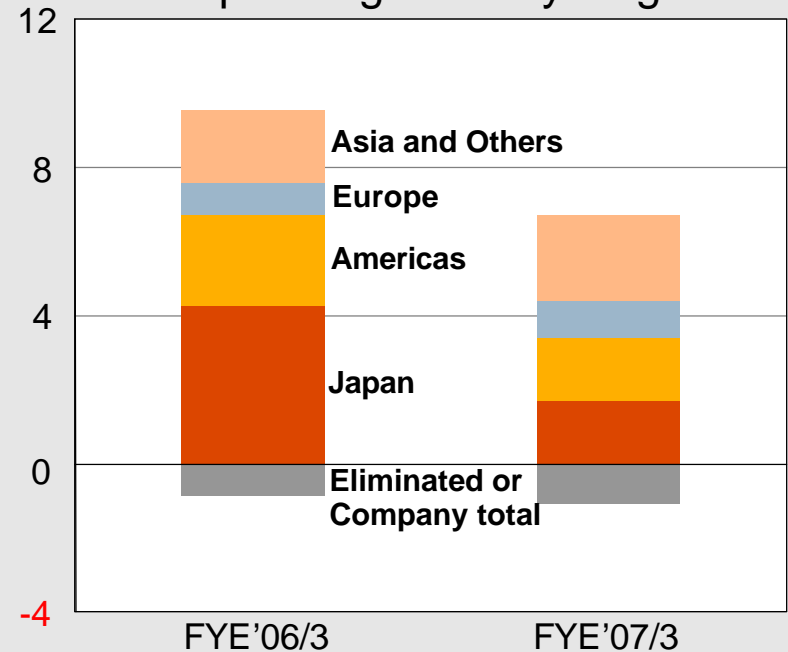
(JPY in Billions)

### Net Sales by Region



(JPY in Billions)

### Operating Profit by Region





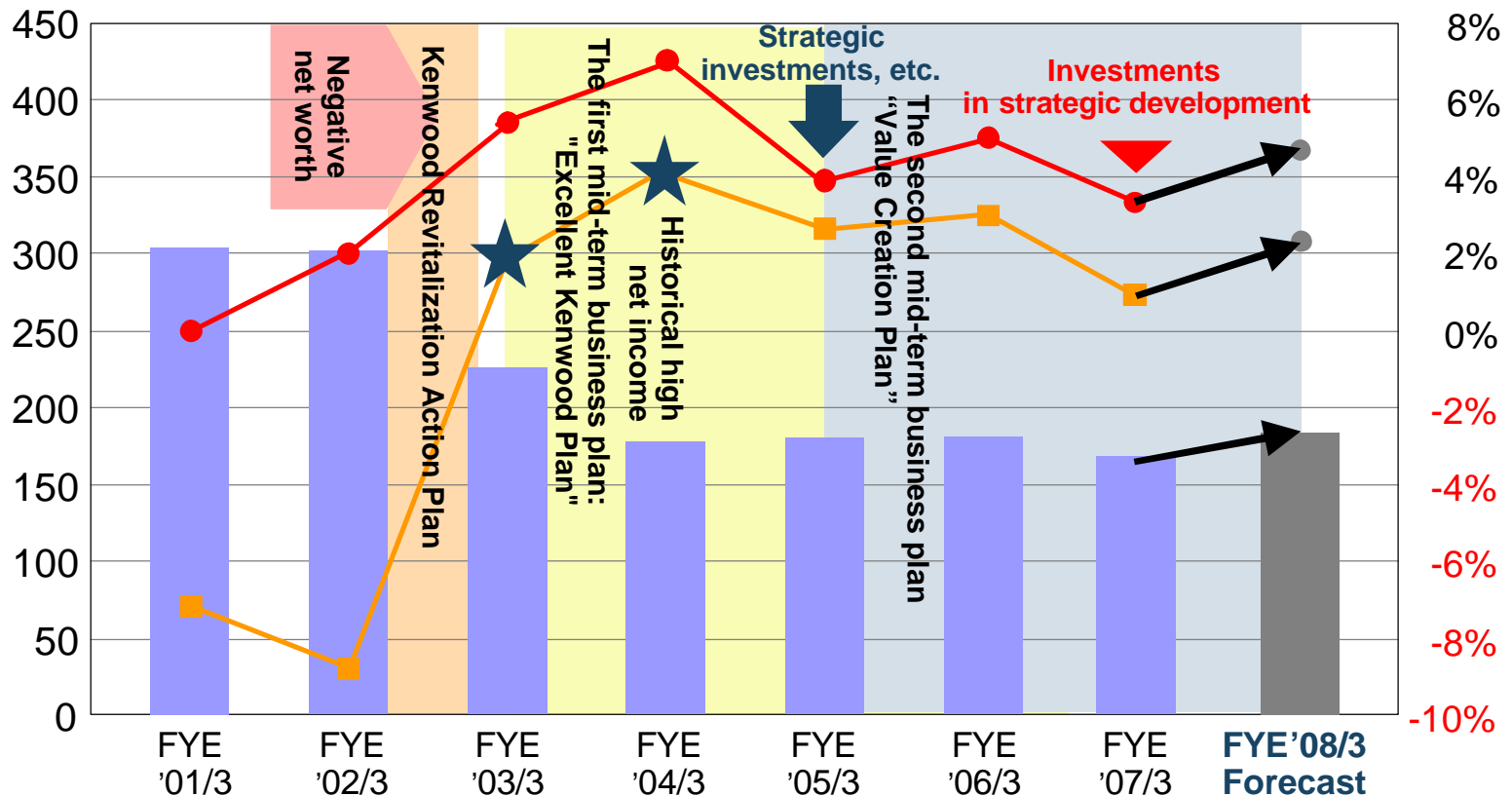
# **2. Management Strategies for FYE'08/3**

## 2. Management Strategies for FYE'08/3

**Favorable results of various measures such as strategic development, business alliances and M&A will become apparent. Having bottomed out in FYE'07/3, both sales and profits are expected to increase for FYE'08/3.**

(JPY in Billions)

Net Sales ● Operating profit margin ■ Net income margin





## 2. Management Strategies for FYE'08/3

**Favorable results from investments in strategic development spent in FYE'07/3 will become apparent.**

In FYE'07/3, Kenwood focused on investments in strategic development as well as to its usual R&D activities in order to implement the strategy for new products of next generation.

- \* Strategic development of car multimedia products intended for consumer markets in Japan and abroad
- \* Up-front development of car multimedia products intended for auto manufacturers
- \* Construction of a “Seamless Entertainment World” by integrating CE and HE
- \* Business alliances in the field of Land Mobile Radio aimed at R&D for new digital systems and terminals as well as qualitative expansion from radio terminals to system solutions

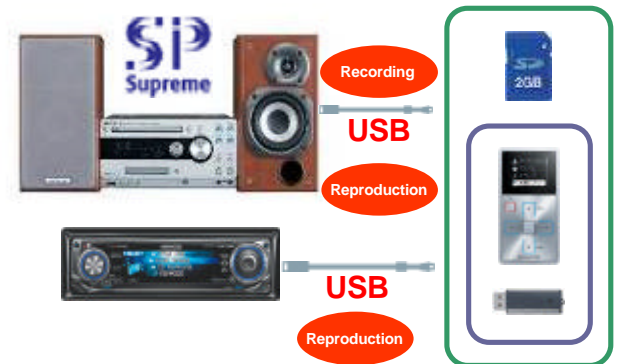


Left: Navigation system integrated with AV for Japanese market

Right: Navigation system integrated with AV for overseas markets



Digital Land Mobile Radio



Seamless Entertainment World

# **(1) Reform and Growth Strategy in Current Businesses**

# 2. Management Strategies for FYE'08/3

## Car Electronics - Consumer (Audio) Business

- \* Reform of earnings structure by comprehensive cost reduction
- \* Full-scale introduction of the line-up of proposal-oriented products into the global market
- \* Exploring emerging markets, including BRICs

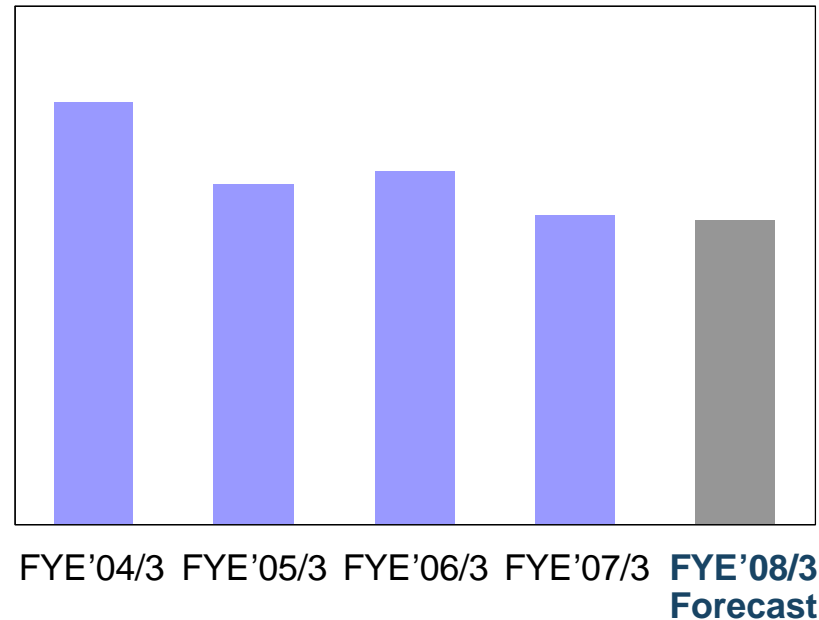
Medium- and high-class models featuring seamless integration with digital media equipment



New systems that enable the expansion of functions of line-fitted AV products



### Trends in Net Sales



# 2. Management Strategies for FYE'08/3

## Car Electronics - Consumer (Multimedia) Business

- \* Favorable results from the launch of new-concept car navigation systems intended for overseas consumer markets and the enhancement of product line-up (addition of all-in-one models)
- \* Favorable results from the enhancement of line-up of terrestrial digital and one-segment TV tuners and new car navigation systems integrated with AV (such as models with built-in one-segment TV tuner) for Japanese market
- \* Collaboration with the Bosch Group of Germany on the development of portable navigation devices intended for the global market (slated to be commercialized in 2008)



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

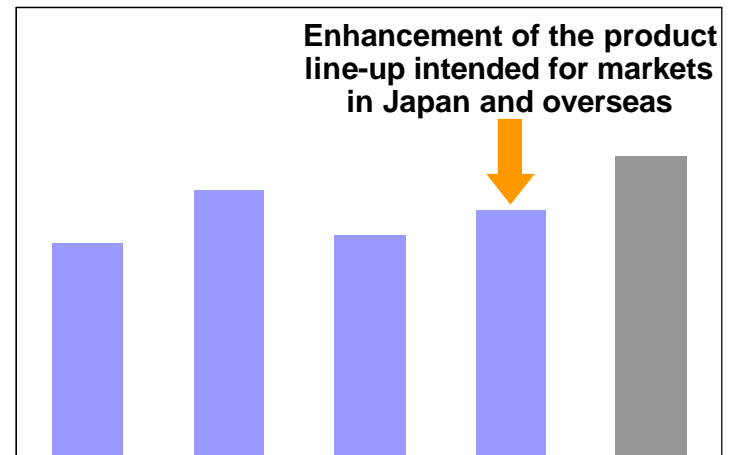


Terrestrial digital TV tuner for Japanese market



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

### Trends in Net Sales



FYE'04/3 FYE'05/3 FYE'06/3 FYE'07/3 FYE'08/3 Forecast

# 2. Management Strategies for FYE'08/3

## Car Electronics - OEM Business

- \* Launch of new line-fitted models
- \* Expansion of sales of dealer-option models
- \* Recovery of orders for components (such as DVD/CD drive mechanisms)



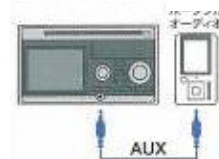
Line-fitted model



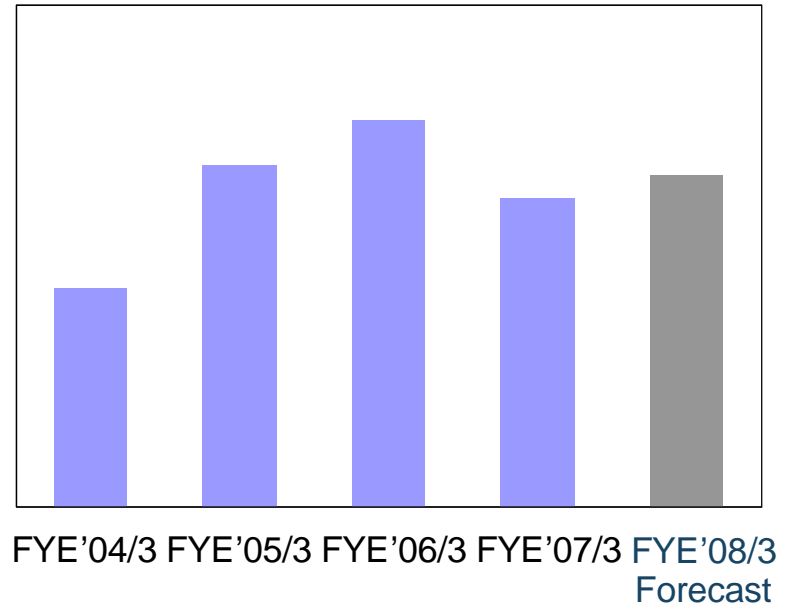
DVD mechanism



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



## Trends in Net Sales



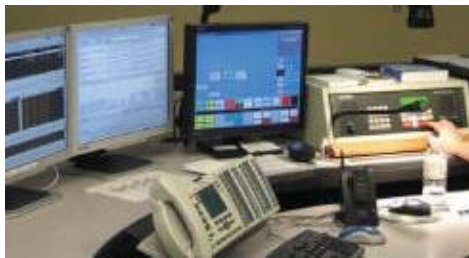
# 2. Management Strategies for FYE'08/3

## Communications Equipment Business

- \* Introduction of Digital Land Mobile Radio into the market
- \* Implementation of measures for qualitative expansion from radio terminals to system solutions
- \* R&D of new digital radio methods



Digital Land Mobile Radio



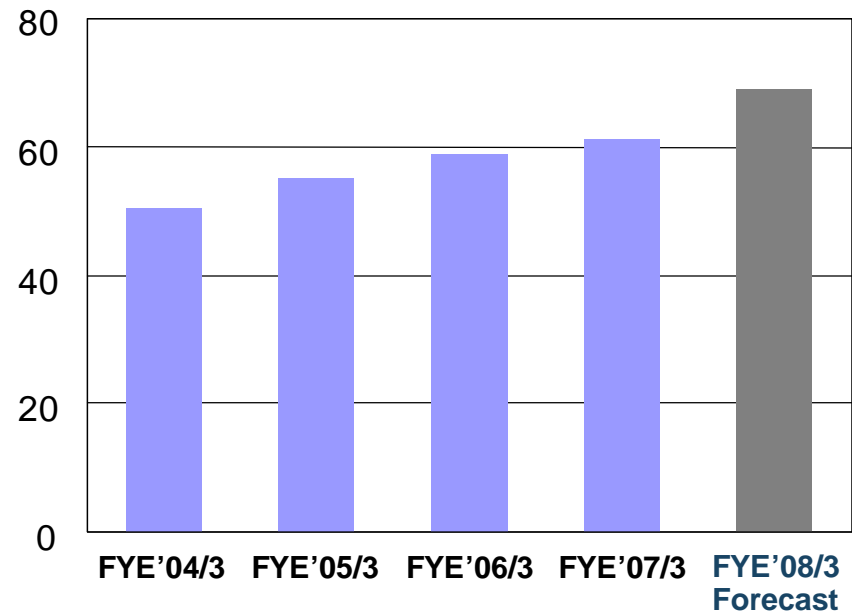
Console



Controller

(JPY in Billion)

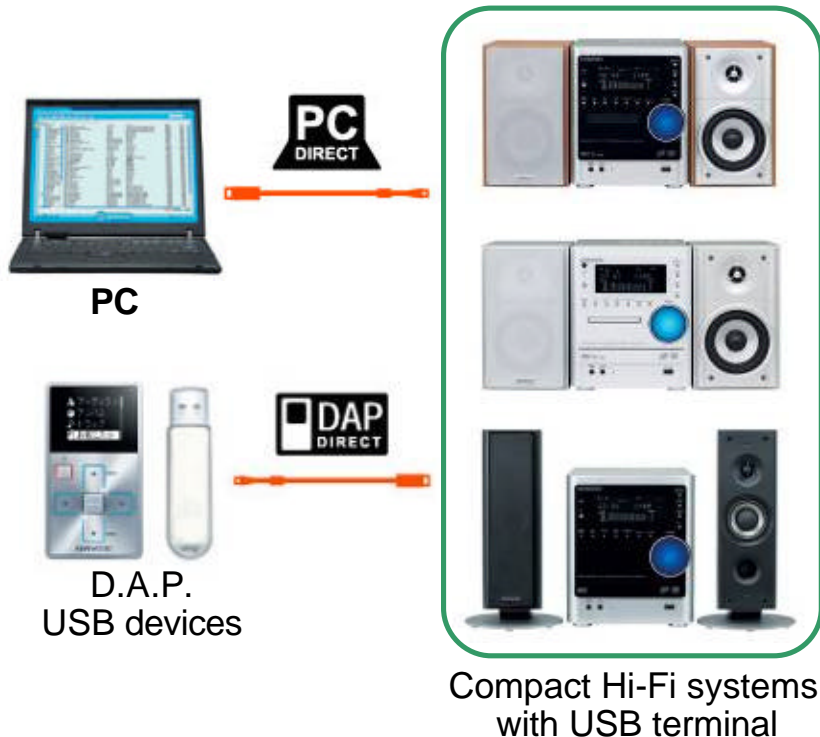
Trends in Net Sales



# 2. Management Strategies for FYE'08/3

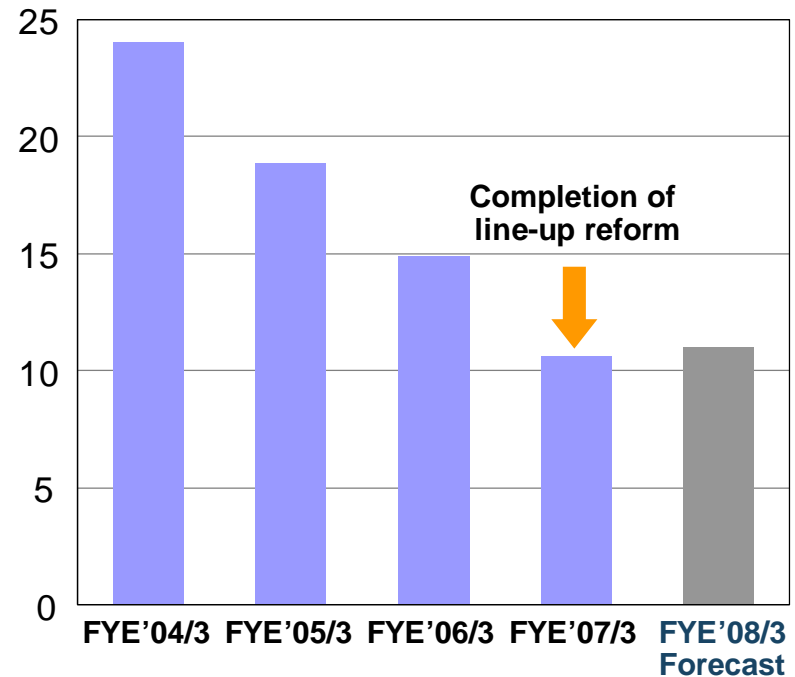
## Home Electronics Business

- \* Favorable results from the enhanced line-up of new premium products (a long-tail strategy)
- \* Realization of “Seamless Entertainment” through a seamless integration of portable, home-use and car-mounted equipment



(JPY in Billion)

### Trends in Net Sales



## **(2) Growth Strategy through Business Alliances and M&A**



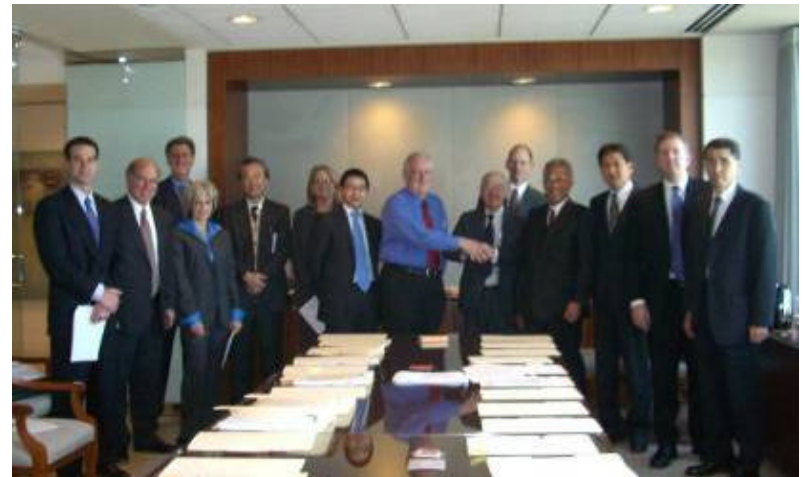
## 2. Management Strategies for FYE'08/3

### Communications Equipment Business - Completion of acquisition of Zetron

#### Qualitative expansion from radio terminals to system solutions

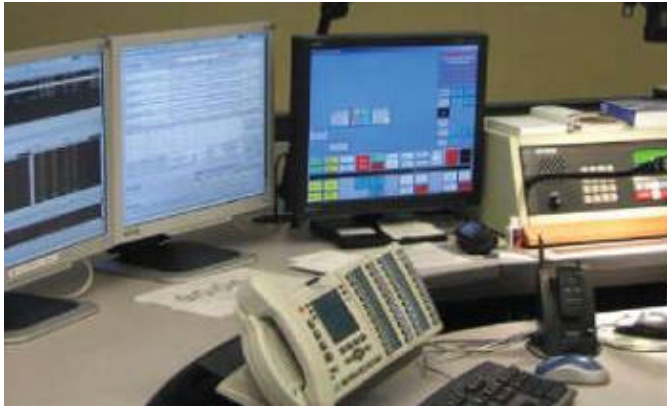
- \* Conversion of Zetron, Inc., a U.S. systems-based radio communications company, into a subsidiary (completed on May 10, '07)

Orders for turn-key systems (comprehensive communications systems) are expected to increase.



# An example of radio communication system (communication management system for public safety )

Zetron's Console system



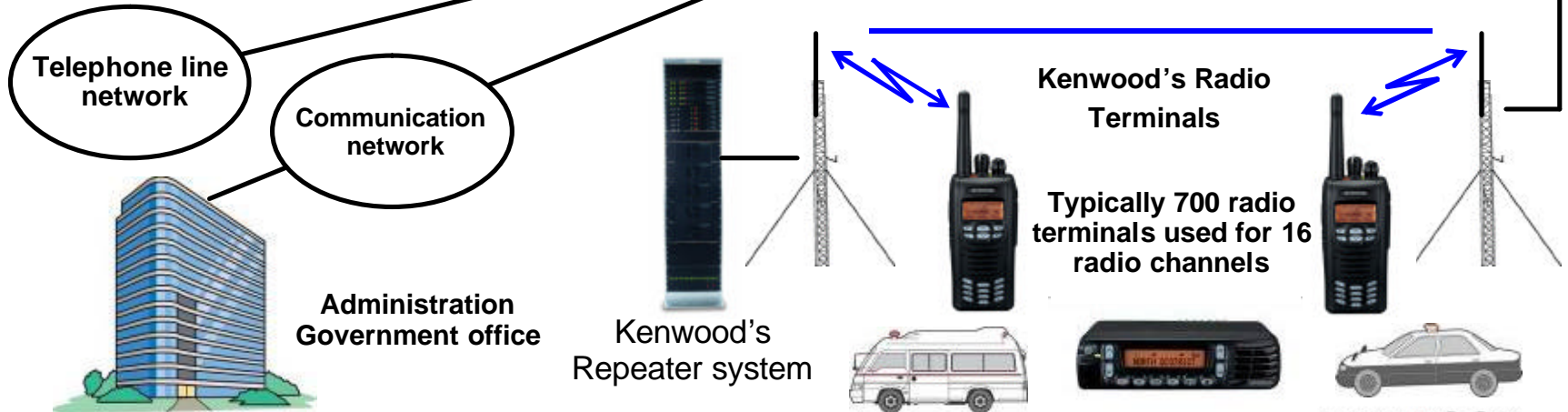
Zetron's Radio Controller



Kenwood's Radio System



**An example of base station system**



## 2. Management Strategies for FYE'08/3

### Communications Equipment Business

#### Gaining a footing in Digital Land Mobile Radio business

- \* Start-up of a Memorandum of Understanding Group with Icom Inc. and European mobile radio manufacturers (March '07)

Kenwood will promote the establishment of a new standard for digital radio systems intended for business & industry sector in Europe.

- \* Formation of an alliance with the group of EADS, the parent of Airbus and a leading European company specializing in aerospace and defense systems Group (March '07)

Kenwood will expand sales of Digital Land Mobile Radio (based on P25) intended for the public safety sector in North America.

#### New businesses intended to be expanded under new organizational structure

- \* Communications business acquired from the former Toyo Communication Equipment Co.
- \* System businesses such as the RFID business operated by Kenwood Core Corp.

## 2. Management Strategies for FYE'08/3

### Car Electronics Business

Kenwood aims to increase sales and profits in the Consumer (Multimedia) and OEM business.

- \* Joint development of line-fitted car navigation systems, with Denso Corp.
- \* Co-development of new-concept car navigation systems with Garmin International Inc. of the U.S.
- \* Joint development of portable navigation devices with Blaupunkt of Germany (a Bosch Group company)



## 2. Management Strategies for FYE'08/3

Putting conventional businesses on a new growth track,  
centering on the core business

Kenwood will leave its future management to the next-generation while establishing a new position of Chairman, and under the new framework, we will enhance strategic initiatives for raising corporate value over the medium to long term, aiming to accelerate corporate growth.



Change of Representative Director (slated for June 28, 2007)

Chairman & Representative Director:

Haruo Kawahara

(Present position: President & CEO, Representative Director)

President & CEO, Representative Director

Kazuo Shiohata

(Present position: Director)

# 3

## **3. Outlook of Earnings for FYE'08/3**

# 3. Outlook of Earnings for FYE'08/3

## Consolidated Profit & Loss

### Net Sales

We expect net sales will rise 8.2% from the FYE'07/3 to JPY183.0 billion due to the achievement of excellent results from such measures as strategic development, business alliances and M&A.

### Operating Profit

We forecast operating profit to jump 47.8% to JPY8.3 billion as the results of the above measures become apparent and contribute to increasing or improving earnings.

### Ordinary Income and Net Income

Ordinary income and net income are projected to surge 113.8% to JPY5.0 billion and 152.2% to JPY4.0 billion, respectively, in the absence of anticipated non-operating and extraordinary gains and losses of transient nature.

## Consolidated Profit & Loss

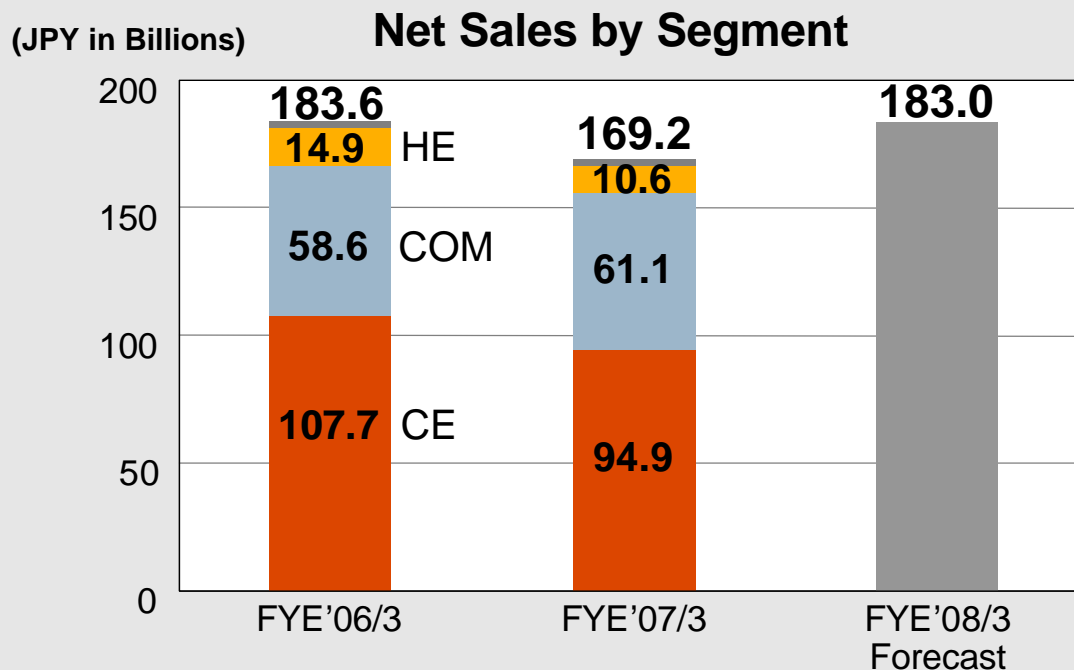
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	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Net Sales	183.6		169.2		183.0		+13.8	+8.2%
Operating Profit	8.7	4.7%	5.6	3.3%	8.3	4.5%	+2.7	+47.8%
Ordinary Income	4.9	2.7%	2.3	1.4%	5.0	2.7%	+2.7	+113.8%
Net Income	6.1	3.3%	1.6	0.9%	4.0	2.2%	+2.4	+152.2%

# 3. Outlook of Earnings for FYE'08/3

## Consolidated Net Sales

- CE** **Consumer (Audio) business**; the increased line-up of new proposal-oriented products and favorable results of exploration of emerging markets  
**Consumer (Multimedia) business**; the enhanced product line-up and expanded sales areas  
**OEM business**; the new products
- COM** Strong sales of both the radio equipment and mobile phone sales businesses, the introduction of Digital Land Mobile Radio into the market and a rise in sales resulting from the conversion of Zetron, Inc. into a subsidiary
- HE** Enhanced line-up of new premium products

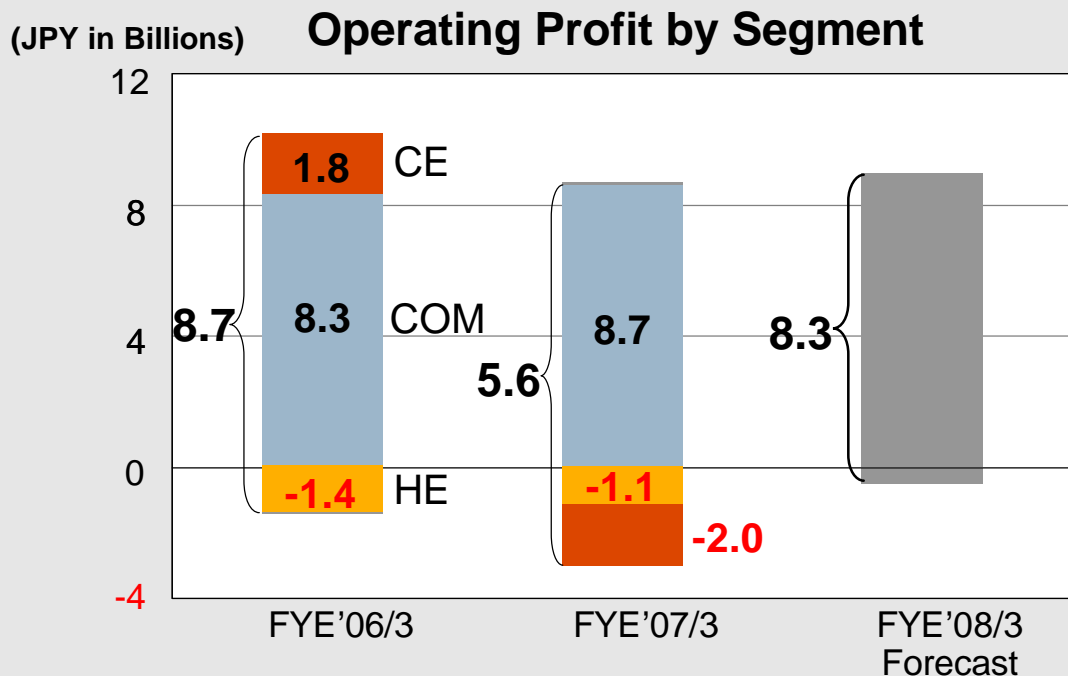




# 3. Outlook of Earnings for FYE'08/3

## Consolidated Operating Profit

- CE** **Consumer (Audio) business**; the increased line-up of new proposal-oriented products, reduced costs and favorable results of the exploration of emerging markets  
**Consumer (Multimedia) business**; the positive result of expanded sales and decrease of investments in strategic development  
**OEM business**; the launch of new products and decrease of advanced development expenses
- COM** Positive results from the introduction of Digital Land Mobile Radio into the market and the conversion of Zetron, Inc. into a subsidiary
- HE** Favorable results of the squeezing out of conventional models and the enhanced line-up of new premium products





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