Overview of Fiscal Year Ended March 2007

Although some factors touching off a deflationary spiral were observed, the world economy during the fiscal year under review remained generally strong. The U.S. economy did slow down due to a slackened demand for housing demand, but the economies in Asia, notably China, continued to expand. The European economies generally remained on their recovery track.

In Japan, while consumer spending remained somewhat weak, the economy remained on a mild recovery path as private-sector capital investments expanded in step with improvements in corporate earnings.

The competition within the consumer electronics market became increasingly fierce. In the audio market, the business scale of both home-use and automobile-mounted products, except digital audio players, reduced in size. In the car electronics market, the visual/navigation field continued to expand on the rising popularity of terrestrial digital TV tuners and portable navigation systems. However, the audio field suffered price drops more than expected, owing to market contraction caused by the shift of customer focus to visual/navigation systems and stiffened competition.

Kenwood Group's business results in terms of both net sales and earnings for the fiscal year under review fell far below those of the previous fiscal year as its car electronics business was affected severely by these market conditions and the trends in automobile sales.

Sales and Income

Consolidated Operating Results

Net sales –Decreased 7.9% year-on-year, due to deteriorating market conditions, and influences of trends in automobile sales and strategy change

While net sales from the Communications Equipment business expanded as they had in the previous fiscal year, net sales from the Car Electronics business fell far below those of the previous fiscal year due to the deteriorating market conditions and effects of the trends in automobile sales, and net sales from the Home Electronics business, albeit as initially planned, dropped substantially below those of the previous fiscal year due to the influences of the strategy change. As a result, consolidated net sales decreased approximately JPY14.4 billion (or 7.9%) from the previous fiscal year to JPY169,194 million.

Operating profit – Decreased 35.3% year-on-year, due to a temporary increase in investment burdens resulting from strategic and up-front developments and price declines

Although investment burdens increased temporarily as a result of the strategic development which was among Kenwood's priority initiatives for the fiscal year under review, earnings from the Communications Equipment business exceeded those of the previous year as a result of expanded sales and, in the Home Electronics business, smaller losses than those of the previous year were incurred despite reduced sales thanks to the effects of the strategy change.

In the Car Electronics business, however, earnings fell substantially from the previous year, affected by: investments in strategic development in the Consumer (Multimedia) business; greater than expected price declines due to heightened competition in the Consumer (Audio) business; and booking in the fiscal year under review of up-front development costs of approximately JPY1.1 billion in the OEM business, for new products slated to be sold in and after the fiscal year ending March 2008.

As a result, consolidated operating profit decreased approximately JPY3.1 billion (or 35.3%) from the previous fiscal year to JPY5,617 million.

Ordinary income – Decreased 52.1% year-on-year, due to the decline in operating profit

Significant improvement of non-operating earnings following the loss reduction that resulted from structural reform of assets carried out in the previous period, but consolidated ordinary income decreased approximately JPY2.5 billion (or 52.1%) from the previous fiscal year to JPY2,339 million due to the decline in consolidated operating profit.

Net income – Decreased 74.0% year-on-year, due to the decline in ordinary income and the sharp decline in extraordinary income

Although extraordinary losses declined substantially as a result of the structural reform of assets which was implemented during the previous fiscal year, consolidated net income decreased approximately JPY4.5 billion (or 74.0%) from the previous fiscal year to JPY1,586 million not only due to the reduced ordinary income but also due to the fact that extraordinary gains of transient nature which had amounted to approximately JPY6.7 billion (comprised of about JPY4.9 billion in gains from the repayment of certain past service pension assets to the Japanese government and about JPY1.8 billion in gains from sale of investment securities) in the previous fiscal year stood at only approximately JPY0.6 billion in gains from sales of investment securities for the fiscal year under review.

Net Sales and Earnings by Segment

Car Electronics Business   Consumer (Audio) Business

Net Sales

Net sales fell far below those of the previous year as sales termination of older products was delayed throughout the entire markets until the midpoint of the fiscal year under review and sales from the third quarter onward were affected by the greater than expected deterioration of market conditions.

Earnings

Earnings fell far below those of the previous year as higher costs than usual were incurred in the third quarter, the usual season for sale termination of older products, in the wake of deteriorating market conditions, and new models, notably the low-priced models bound for the European and North American markets, were challenged by greater than expected price declines in the fourth quarter, the usual season for introduction of new products.

Car Electronics Business   Consumer (Multimedia) Business

Net Sales

Net sales from this business increased sharply from the previous year. Sales of new-concept car navigation systems launched in overseas markets, which combine the core of portable navigation devices with AV systems, remained robust. An increase in product line-up through commercialization for the Japanese market of terrestrial digital TV tuners and car navigation systems integrated with AV such tuners built in also contributed to increasing sales in this business.

Earnings

Losses in this business remained unchanged from the previous year, due to sluggish sales growth of existing models for the Japanese market, further price drops and large investments in strategic development.

Car Electronics Business   OEM Business

Net Sales

Net sales fell far below those of the previous fiscal year as sales of mainstay line-fitted products were affected by the trends in automobile sales and sales termination of certain automobile types using such models, sales of dealer-option models remaining sluggish both in Japan and overseas, and orders for components, such as DVD-/CD-drive mechanisms, decreasing temporarily in their drop-off period.

Earnings

Earnings in this business decreased substantially from the previous fiscal year. Although cost competitiveness strengthened through vertical integration of Japanese and overseas plants, Kenwood saw sales drop and also booked in the fiscal year under review advanced development expenses worth about JPY1.1 billion for new products scheduled to be sold in and after the fiscal year ending March 2008.

As a result, both consolidated net sales and consolidated operating profit for the entire car electronics business both fell far below the initially planned levels, with net sales decreasing approximately JPY12.8 billion (or 11.9%) from the previous fiscal year to JPY94,939 million and operating profit decreasing approximately JPY3.8 billion (or 208.1%) from the previous fiscal year to a negative JPY1,975 million.

Communications Equipment Business

Net Sales

In the mainstay business of Land Mobile Radio equipments, net sales continued to expand as the U.S. market as the business's main market remained robust and sales expanded in Europe and emerging markets such as Russia and China.

Full-term net sales of Personal Digital Cellular (PDC) phones business grew sharply as PDC carriers began implementing aggressive sales promotion measures from October 2006 onward.

As a result, consolidated net sales for the entire Communications Equipment business surpassed the initially planned level, increasing approximately JPY2.5 billion (or 4.2%) from the previous fiscal year to JPY61,096 million.

Earnings

Despite the burden of investments in strategic development for the Land Mobile Radio equipment business, increased sales caused consolidated operating profit for the entire Communications Equipment business to exceed the initially planned level and reach JPY8,670 million, up approximately JPY0.3 billion (or 4.0 %) from the previous fiscal year.

Home Electronics Business

Net Sales

While sales remained favorable for high-class pure audio products, which are high-quality sound digital audio players meant as flagship products for the Japanese market, overall net sales in this segment, albeit virtually on a par with the initially planned level, stood at JPY10,584 million, representing the previous fiscal year decrease of approximately JPY4.3 billion (or 29.0%). This decline was caused by the negative impacts of retrenching of the overseas market-bound home theater business, by the squeezing out some of the conventional audio products such as portable MD players and mass-market compact stereo systems whose markets are contracting remarkably quickly, and by a temporary suspension of purchases of set stereo systems bound for overseas markets.

Earnings

Despite the burden of investments in strategic development aimed at shifting Kenwood's strategic focus to pure audio and portable audio businesses for the purpose of establishing a "Seamless Entertainment World", and despite reduced net sales, consolidated operating losses were cut down as initially planned, by approximately JPY0.3 billion from the previous fiscal year, to stand at JPY1,125 million thanks to the favorable impact of retrenching of the overseas market-bound home theater business, the squeezing of some of the conventional audio products, and positive contributions of enhanced line-up of new premium products to earnings.

(JPY in Million)

Segment		Previous Fiscal Year	Current Fiscal Year	Increase or Decrease	
Car Electronics	Net Sales	107,723	94,939	△12,784	△11.9%
	Operating Profit	1,827	△1,975	△3,802	△208.1%
Communications Equipment	Net Sales	58,639	61,096	+2,457	+4.2%
	Operating Profit	8,336	8,670	+334	+4.0%
Home Electronics	Net Sales	14,897	10,584	△4,313	△29.0%
	Operating Profit	△1,420	△1,125	+295	—
Others	Net Sales	2,357	2,575	+218	+9.2%
	Operating Profit	△57	47	+104	—
Total	Net Sales	183,616	169,194	△14,421	△7.9%
	Operating Profit	8,686	5,617	△3,069	△35.3%
	Ordinary Income	4,886	2,339	△2,547	△52.1%
	Net Income	6,104	1,586	△4,518	△74.0%

Consolidated Financial Position

Analysis of Assets, Liabilities and Net Assets

Total assets as of the end of the fiscal year under review stood at JPY111,220 million, representing a increased approximately JPY1.7 billion from the previous fiscal year end, reflecting that fact that, while investments and other assets decreased approximately JPY1.8 billion from the previous fiscal year end, due to a partial sale of investment securities and a decrease in unrealized capital gains, the balance of cash and deposits increased approximately JPY2.9 billion from the previous fiscal year end, by virtue of the fact that the fiscal closing date fell on a holiday and the relevant settlement was carried forward to the next fiscal year.

Net assets increased approximately JPY1.6 billion from the previous fiscal year end to JPY39,066 million as a result of the increase in earned surplus and the increase in the foreign currency translation adjustment account attributable to exchange fluctuations, the shareholders' equity ratio improved 0.9 percentage points from the end of the previous fiscal year end to finish at 35.1%.

Short- and long-term interest-bearing debts decreased approximately JPY2.5 billion from the previous fiscal year to JPY23,754 million, and net debts decreased approximately 5.4 billion from the previous fiscal year to JPY6,782 billion, as Kenwood continued to repay its borrowings from financial institutions.

Cash Flow Analysis

Cash flow from operating activities under review stood at JPY11,456 million, down approximately JPY1.2 billion from the previous fiscal year. This was primarily attributable to the decrease in net income although trade payables did decrease modestly.

Cash flow from investing activities increased approximately JPY0.9 billion from the previous fiscal year to JPY5,218 million. This was primarily attributable to the reduced revenues from sale of tangible fixed assets and investment securities.

Cash flow from financing activities decreased approximately JPY0.7 billion from the previous fiscal year to JPY3,717 million. This was primarily attributable to the fact that Kenwood increased capital by public offering and redeemed preferred stocks with compensation during the previous fiscal year when the amount of expenditure with the redemption of preferred stocks with compensation exceeded that of revenue from issuance of new shares, whereas these events did not occur during the fiscal year under review.

(Ref.) Changes in Cash Flow-Related Indices

(JPY in Million)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total Assets (JPY in Million)	142,124	135,763	116,137	109,554	111,220
Interest-Bearing Debts (JPY in Million)	80,851	67,272	31,088	26,263	23,754
Net Debts (JPY in Million)	50,083	29,885	15,147	12,215	6,782
Net Assets (JPY in Million)	13,704	20,161	33,132	37,486	39,066
Shareholders' Equity Ratio (%)	9.6	14.9	28.5	34.2	35.1
Shareholders' Equity Ratio at Market Value (%)	28.1	52.2	60.6	91.5	59.1
Net Assets per Share (JPY)	△53.74	△23.03	66.29	101.97	106.46
Retained Earnings (JPY in Million)	△34,238	△9,777	13,199	18,316	19,096
Ratio of Cash Flow to Interest-Bearing Debts (%)	780.6	244.6	200.1	207.4	207.3
Interest Coverage Ratio (times)	3.1	12.6	13.6	19.9	22.4

(Calculation Method)
- Net debts = Interest-bearing debts – Cash and cash equivalents
- Shareholders' Equity Ratio = Net assets / Total assets
- Shareholders' Equity Ratio at market value = Market capitalization / Total assets
- Net assets per share = Net assets as of the end of the fiscal year under review available to common stocks / Number of outstanding shares as of the end of the fiscal year under review (after deducting the number of treasury shares)
- Ratio of interest-bearing debts to cash flows = Interest-bearing debts / Operating cash flows
- Interest coverage ratio = Operating cash flows / Interest payment

Notes
- Each index is calculated based on consolidated financial figures.
- Market capitalization is calculated by multiplying closing stock price at the end of the fiscal year under review by the number of outstanding shares at the end of the fiscal year under review (after deducting the number of treasury shares).
- Interest-bearing debts include all debts whose interests are paid in the consolidated balance sheet. As for cash and cash equivalents, "Cash and cash equivalents" in the consolidated balance sheet is used.
- As for operating cash flow and interest payment figures, "Cash flows from operating activities" and "Interest paid" of the Consolidated Statements of Cash Flows are used.

Earnings Outlook for Fiscal Year Ending March 2008

In the current fiscal year, Kenwood is expected to achieve significant results from strategic development worked on under the mid-term business plan "Value Creation Plan," as well as from the implementation of growth strategy through business alliances and M&A. Given this, consolidated earnings are considered to have bottomed out in the fiscal year under review, and both sales and profits will likely take an upward turn.

Consolidated Net Sales

In the Car Electronics business, the market environment of the Consumer (Audio) business is assumed to continue to be severe in the current fiscal year. However, sales from this business are projected to remain strong throughout the current fiscal year, thanks to higher sales of: medium- and high-class models featuring seamless integration with digital media equipment; new systems enabling expansion of functions for cars with line-fitted AV products; and proposal-oriented product line-up, which has aroused new demand among consumers since their introduction in the fourth quarter of the fiscal year under review. In addition, results of the exploration of emerging markets, through a further extension of partnership with Visteon Corp. of Brazil and enhancement of sales structure in Russia, are expected to become apparent.

In the Consumer (Multimedia) business, the market share for car navigation systems commercialized by investments in strategic development, which were introduced in Japanese and overseas markets during the fourth quarter, increased substantially. These systems have been sold well. Hence, enhanced product line-up of these systems and expanded sales districts will likely contribute to increasing sales in this field throughout the current fiscal year.

In the OEM business, new line-fitted and dealer-option products for new automobile types to be launched in the current fiscal year should contribute to sales and earnings, and orders for components such as DVD-/CD-drive mechanisms should recover by the end of the current fiscal year.

In the Communications Equipment business, both the wireless radio equipment and PDC phones sales are expected to continue posting favorable results. At the same time, Kenwood expects to put into the marketplace a greater volume of Digital Land Mobile Radio equipments that it advanced during the fiscal year under review through investments in strategic development, as well as to expand sales by converting Zetron, Inc. into its subsidiary, as informed in its "Announcement of Completion of Acquisition of the U.S. Systems-Based Communications Company (Conversion to Subsidiary)" dated May 10, 2007.

With respect to the Home Electronics business, Kenwood completed revitalization of business and products in the fiscal year under review, and strengthened the line-up of premium products created by investments in strategic development. This is likely to contribute to boosting sales of this business.

As described above, the results of various measures, which have been promoted, are forecast to become explicit from the current fiscal year, the final fiscal year of the present mid-term business plan. Consequently, Kenwood believes that sales hit their bottom in the fiscal year under review, and will turn upward in the current fiscal year, posting JPY183 billion on a group-wide basis.

Consolidated Earnings

In the Car Electronics business, the above-mentioned new proposal-oriented products are expected to contribute to sales and earnings in the Consumer (Audio) business as core business. In addition, positive results of development of emerging markets and cost reduction that Kenwood has already begun working on would become explicit, thereby driving Kenwood further along its path toward earnings recovery.

In the Consumer (Multimedia) business, which is a growing business for Kenwood, positive results of enhancement of car navigation systems both in Japan and abroad and of efforts to expand sales territories in the overseas markets are expected to contribute to sales and earnings on a full-year basis. Meanwhile, Kenwood expects to see its earnings position improved as its investments in strategic development will run their course.

In the OEM business that Kenwood has focused its resources on as a similarly growing business, earnings should be boosted by improved profit resulting from expanded sales of its new line-fitted and dealer-option products, by a reduced burden of up-front development cost for new products required for the current fiscal year by virtue of the fact that it was partially deployed ahead of schedule during the fiscal year under review, and by Shanghai Plant's shipments which should go into full swing in step with the anticipated recovery in orders placed for components such as DVD-/CD-drive mechanisms.

In the Communications Equipment business, the Kenwood's largest fundamental business, the above-mentioned placement of a larger volume of Digital Land Mobile Radio equipments in the marketplace and anticipated sales expansion by means of conversion of Zetron, Inc. into a subsidiary would help boost earnings. In addition, the PDC phones sakes should also continue to perform favorably.

In the Home Electronics business, positive results of selective squeeze-out of conventional models and initiatives to enhance line-up of premium products should contribute to earnings on a full-year basis.

As described above, in each business segment, earnings should either expand or improve from the bottom recorded during the fiscal year under review, and consolidated operating profit for Kenwood is expected to reach JPY8,300 million.

Given the fact that structural reform of assets was completed in the previous fiscal year, and in the absence of anticipated major non-operating or extraordinary gains or losses, Kenwood expects to post consolidated ordinary income and net income of JPY5 billion and JPY4 billion, respectively.

Consolidated earnings outlook

(JPY in Million)

	Results for FY2006	Outlook for FY 2007	Increase or Decrease	
Net Sales	169,194	183,000	+13,806	+8.2%
Operating Profit	5,617	8,300	+2,683	+47.8%
Ordinary Income	2,339	5,000	+2,661	+113.8%
Net Income	1,586	4,000	+2,414	+152.2%