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**JVC KENWOOD**



October 30, 2015

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**Accounting Report for the First Half of Fiscal Year Ending March 2016**  
**(April 1, 2015 – September 30, 2015)**

**Consolidated Financial Highlights for the First Half of Fiscal Year Ending March 2016**  
**(April 1, 2015 – September 30, 2015)**

**Operating Results**

(Millions of yen, except net income per share)

|  | First Half of FYE 3/2016<br>April 1, 2015 to September 30, 2015 | First Half of FYE 3/2015<br>April 1, 2014 to September 30, 2014 |
|--|---|---|
| Net sales                                      | 139,384   | 135,399   |
| Operating income (loss)                        | (980)   | 1,121   |
| Ordinary income (loss)                         | (3,093)   | (433)   |
| Net income attributable<br>to owners of parent | (4,775)   | (3,028)   |
| Net income (loss) per share                    | (34.45)yen  | (21.84)yen  |

FYE: Fiscal year ended / ending

**Net Sales and Operating Income by Customer industry sectors**

(Millions of yen)

|  |  | First Half of<br>FYE 3/2016            | First Half of<br>FYE 3/2015          | Year-on-year<br>comparison              |
|--|--|--|--------------------------------------|---|
| Automotive Sector<br>*Car Electronics                            | Net sales<br>Operating income (loss)   | 66,349<br>(747)                        | 57,981<br>621                        | +8,368<br>(1,368)                       |
| Public Service Sector<br>*Professional Systems                   | Net sales<br>Operating income (loss)   | 37,936<br>(616)                        | 38,021<br>303                        | (85)<br>(919)                           |
| Media Service Sector<br>*Optical & Audio, Entertainment Software | Net sales<br>Operating income (loss)   | 32,192<br>128                          | 36,111<br>274                        | (3,919)<br>(146)                        |
| Others   | Net sales<br>Operating income (loss)   | 2,914<br>254                           | 3,291<br>(77)                        | (377)<br>+331                           |
| Intersegment Sales or Transfer                                   | Net sales  | (9)                                    | (6)                                  | (3)                                     |
| Total  | Net sales<br>Operating income (loss)<br>Ordinary income (loss)<br>Net income attributable<br>to owners of parent | 139,384<br>(980)<br>(3,093)<br>(4,775) | 135,399<br>1,121<br>(433)<br>(3,028) | +3,984<br>(2,102)<br>(2,660)<br>(1,746) |

\*former business segment

**Major Products in Each Sector**

|                       |  |
|-----------------------|--|
| Automotive Sector     | Car Audio, Car AV Systems, Car Navigation Systems, CD and DVD Mechanism for Car-mounted Equipment, Home Audio, Optical Pickups for Car-mounted Equipment   |
| Public Service Sector | Land Mobile Radio Equipment, Video Surveillance Equipment, Audio Equipment, Video Equipment, Professional Display Equipment, Medical Display Equipment   |
| Media Service Sector  | Camcorders, AV Accessories, Projectors, Displays, Imaging Devices, Planning / Production and Sales of Audio and Video Content including CDs and DVDs, Production and Sales of CDs and DVDs (prerecorded) |
| Others                | Radio Frequency ID Systems, Other Electronic Devices, Recording Media, Interior Furniture, etc.  |

## 1. Qualitative Information on 2Q Financial Results

### (1) Description of Operating Results

#### (Overview of the Second Quarter of the Fiscal Year under Review)

Looking at the global economic conditions during the first six months of the fiscal year under review, the U.S. continued to enjoy firm economic growth, supported mainly by strong consumer spending with the upward trends in employment continuing. In Europe, the economy showed signs of a pickup, albeit at a moderate pace, despite concerns about the debt problem in Greece. In the meantime, the Chinese economy remained stagnant due to the slowdown in both exports and imports. Regarding the Japanese economy, exports in the corporate sector improved on the back of a weaker yen, while consumer spending remained flat. In addition, business confidence deteriorated due to sharp declines in stock prices around the world. As a result, the pace of economic recovery slowed.

Under these circumstances, net sales for the JVCKENWOOD Group for the first six months of the fiscal year under review increased from a year earlier, due largely to the effects of acquisition of businesses. Looking at profit and loss of the Group as a whole, profit declined in all segments, and as a result an operating loss was incurred. This is because the amount of unplanned advanced R&D investment increased in the Dealer-installed Option Business and Factory-installed Option Business in the Automotive Sector at the beginning of the period due in part to the winning of new orders that exceeded our plan, and there were effects of unfavorable exchange rate fluctuations.

During the second quarter of the fiscal year under review, domestic sales continued to be strong from the first quarter in the Consumer Business in the Automotive Sector, shipment of dealer-installed option products were launched for a new customer, and earnings of the communication systems subsidiary in the U.S. showed an improvement in the Public Service Sector. As a result, operating income returned to positive territory.

Profit-and-loss exchange rates used when preparing the financial statements for the first six months of the fiscal year under review are as follows.

|                               |                     | 1st Quarter                    | 2nd Quarter                    |
|-------------------------------|---------------------|--------------------------------|--------------------------------|
| Profit-and-loss exchange rate | U.S. dollar<br>Euro | About 121 yen<br>About 134 yen | About 122 yen<br>About 136 yen |
| FY2014 (for reference)        | U.S. dollar<br>Euro | About 102 yen<br>About 140 yen | About 104 yen<br>About 138 yen |

#### \*Net Sales

Net sales for the first six months of the fiscal year under review are increased by about 4,000 million yen, or 2.9%, year on year, to 139,384 million yen due to factors such as acquisition of businesses.

Sales in the Automotive Sector increased, due largely to the effects of the conversion of ASK Industries S.p.A. ("ASK") into a consolidated subsidiary effective April 1, 2015. While sales in the Professional Wireless Business decreased during the first six months of the current fiscal year, earnings in the communication systems subsidiary in the U.S. showed an improvement. As a result, sales in the Public Services Sector were on a par with the same period of the previous year. In the meantime, sales in the Media Service Sector decreased, due largely to the effects of transferring all of the shares of TEICHIKU ENTERTAINMENT, INC. ("TEICHIKU") effective April 28, 2015.

#### \*Operating Income

Operating income for the first six months of the fiscal year under review declined by about 2,100 million yen, year on year, to slip into an operating loss of 980 million yen.

Profit declined in the Automotive Sector, due primarily to the effects of a decrease in overseas sales in the Consumer Business and the increase in the amount of unplanned advanced R&D investment in the Dealer-installed Option Business and Factory-installed Option Business at the beginning of the period, due in part to the winning of new orders that exceeded our plan. Profit decreased in the Public Service Sector as a result of the fall in profits in the Professional Wireless Business. Profit decreased in the Media Service Sector due mainly to the effects of transferring all of the shares of TEICHIKU.

Operating income for the second quarter of the fiscal year under review returned to positive territory. This was primarily because domestic sales continued to be strong from the first quarter in the Consumer Business in the Automotive Sector, shipment of dealer-installed option products were launched for a new customer, and earnings of the communication systems subsidiary in the U.S. showed an improvement in the Public Service Sector.

#### \*Ordinary Income

Ordinary income for the first six months of the fiscal year under review declined by about 2,700 million yen, year on year, to an ordinary loss of 3,093 million yen. This was mainly attributed to the decline in operating income and deterioration in non-operating income and loss due to factors such as an increase in financial expenses.

#### \*Net Income Attributable to Owners of Parent

Net income attributable to shareholders of the parent company for the first six months of the fiscal year under review declined by about 1,700 million yen, year on year, to a net loss of 4,775 million yen, due largely to the increase in ordinary loss.

In the meantime, extraordinary loss and income for the first six months of the fiscal year under review improved from a year earlier. This was mainly due to the absence of a loss on sales of subsidiaries and affiliates following the

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transfer of shares in a U.S. communication systems subsidiary that was posted in the same period of the previous year and posting of gain on liquidation of subsidiaries and affiliates in the second quarter of the current fiscal year.

**(Net Sales and Profits and Losses by Business Segment)**

In accordance with "Vision 2020", a mid- to long-term business plan released on May 18, 2015, JVCKENWOOD is taking a step forward and going from being a traditional manufacturing and sales company to being a company that creates customer value by providing solutions to their problems. To this end, JVCKENWOOD reorganized the four business segments of Car Electronics, Professional Systems, Optical & Audio and Entertainment Software into three sectors based on customers' industries — Automotive Sector, Public Services Sector and Media Services Sector.

Net sales and operating income (loss) by business segment are as follows.

The total amount of operating income (loss) by business segment is consistent with the operating income (loss) of the quarterly consolidated statements of income.

Net sales by business segment include inter-segment sales or transfer.

First six months of the fiscal year under review (from April 1, 2015, to September 30, 2015) (Millions of yen)

| Business Segment  |   | First six months of FYE3/'16 | First six months of FYE3/'15 | Year-on-year comparison | (For reference) 2Q of FYE3/'16 |
|---|---|------------------------------|------------------------------|-------------------------|--------------------------------|
| Automotive Sector<br>(Former Car Electronics Segment)                                     | Net sales                                   | 66,349                       | 57,981                       | +8,368                  | 33,454                         |
|   | Operating income                            | (747)                        | 621                          | (1,368)                 | 61                             |
| Public Services Sector<br>(Former Professional Systems Segment)                           | Net sales                                   | 37,936                       | 38,021                       | (85)                    | 20,361                         |
|   | Operating income                            | (616)                        | 303                          | (919)                   | 124                            |
| Media Services Sector<br>(Former Optical & Audio Segment, Entertainment Software Segment) | Net sales                                   | 32,192                       | 36,111                       | (3,919)                 | 16,891                         |
|   | Operating income                            | 128                          | 274                          | (146)                   | (187)                          |
| Others  | Net sales                                   | 2,914                        | 3,291                        | (377)                   | 1,396                          |
|   | Operating income                            | 254                          | (77)                         | +331                    | 88                             |
| Inter-segment elimination   | Net sales                                   | (9)                          | (6)                          | (3)                     | (3)                            |
| Total   | Net sales                                   | 139,384                      | 135,399                      | +3,984                  | 72,100                         |
|   | Operating income                            | (980)                        | 1,121                        | (2,102)                 | 87                             |
|   | Ordinary income                             | (3,093)                      | (433)                        | (2,660)                 | (1,487)                        |
|   | Net income attributable to owners of parent | (4,775)                      | (3,028)                      | (1,746)                 | (2,460)                        |

**\* Automotive Sector**

Net sales in the Automotive Sector for the first six months of the fiscal year under review increased by about 8,400 million yen, or 14.4%, year on year to 66,349 million yen, while operating income decreased by about 1,400 million yen, year on year, to slip into an operating loss of 747 million yen. In the meantime, operating income in the Automotive Sector for the second quarter of the fiscal year under review moved slightly into positive territory.

(Net Sales)

In the Consumer Business, sales of Saisoku-Navi, an SSD-type AV car navigation system, were strong in the domestic market, but sales in overseas markets were negatively affected by an economic downturn in the Middle East and weak market conditions in Europe. As a result, net sales in the Consumer Business declined from the same period of the previous fiscal year.

In the Dealer-installed Option Business, sales increased due largely to the start of shipment of dealer-installed option products to new customers.

In the Factory-installed Option Business, net sales increased due largely to a contribution by ASK, which became a consolidated subsidiary effective April 1, 2015, despite a decrease in sales of SSD-type AV car navigation systems to automobile manufacturers.

(Operating Income)

In the Consumer Business, sales of Saisoku-Navi, an SSD-type AV car navigation system, were strong in Japan, but overseas sales were affected by weak market conditions in the Middle East and Europe. As a result, operating income in the Consumer Business declined from a year earlier.

In the Dealer-installed Option Business, operating income decreased from a year earlier, due largely to the increase in the amount of unplanned advanced R&D investment due in part to the winning of new orders that exceeded our plan.

In the Factory-installed Option Business, operating income declined from a year earlier, due largely to increases in R&D investment in next-generation businesses and resulting from winning of new orders, despite the profit increase as a result of the contribution from consolidation of sales of ASK.

### \* Public Services Sector

Net sales in the Public Services Sector for the first six months of the fiscal year under review were on the same level as in the same period of the previous fiscal year at 37,936 million yen, and operating income declined by about 900 million yen from a year earlier to slip into an operating loss of 616 million yen. In the meantime, operating income in the Public Services Sector for the second quarter of the fiscal year under review turned around to positive territory, due largely to the improvement in earnings of the communication systems subsidiary in the U.S.

(Net Sales)

Net sales in the Communications System Business (formerly Communications Business) increased from a year earlier, due largely to the improvement in earnings of the communication systems subsidiary in the U.S.

Net sales in the Professional Systems Business declined from a year earlier, due largely to the effects of narrowing our product line in overseas markets. Net sales in the Healthcare Business decreased year on year, due mainly to sales decreases in overseas markets.

(Operating Income)

In the Communication Systems Business, operating income decreased from a year earlier because product and sales strategies of the JVCKENWOOD Group, including its communication systems subsidiary in the U.S., are undergoing restructuring and reform. In the meantime, EF Johnson Technologies, Inc. ("EFJT"), the Group's communication systems subsidiary in the U.S., brought in a new CEO in May 2015 and has since been stepping up its sales activities. EFJT achieved an increase in both sales and profit on a year-on-year basis for the second quarter of the fiscal year under review.

In the Professional Systems Business, operating loss declined as the negative impact of the decrease in sales was offset mainly by a reduction in fixed costs. In the Healthcare Business, operating income declined due to the effects of decreased sales.

### \* Media Services Sector

Net sales in the Media Services Sector for the first six months of the fiscal year under review declined by about 3,900 million yen, or 10.9%, year on year, to 32,192 million yen, while operating income decreased by about 100 million yen to 128 million yen.

(Net Sales)

In the Media Business, net sales declined due largely to a decrease in sales of projectors, despite strong sales of AV accessories.

In the Entertainment Business, net sales decreased due primarily to the effects of transferring all of the shares of TEICHIKU.

(Operating Income)

In the Media Business, operating loss decreased. This is mainly attributed to the increase in operating income from AV accessories following the increase in sales, and profit and loss from professional cameras turned around to positive territory due to the effects of an improvement in the product mix.

Operating income in the Entertainment Business slipped into an operating loss due to the effects of the transferring all of the shares of TEICHIKU.

## (2) Description of Financial Position

### (Analysis of Assets, Liabilities, Net Assets, etc.)

#### \* Assets

Total assets decreased by about 7,100 million yen from the end of the previous fiscal year to 271,541 million yen, although merchandise and finished goods and property, plant and equipment increased as a result of converting ASK into a consolidated subsidiary effective April 1, 2015. This was mainly due to decreases in notes and accounts receivable-trade due to seasonal factors and decreases in cash and deposits as a result of redemption of unsecured bonds at maturity, acquisition of shares of ASK, and additional acquisition of shares of Shinwa International Holdings Limited ("Shinwa").

#### \* Liabilities

Total liabilities increased by approximately 3,200 million yen from the end of the previous fiscal year to 202,622 million yen, despite redemption of unsecured bonds at maturity and a decrease in other accounts payable. This was due to increases in notes and accounts payable-trade and bank borrowing as a result of converting ASK into a subsidiary.

Interest-bearing debts (sum of loans payable and bonds payable) increased by about 1,900 million yen from the end of the previous fiscal year to 75,549 million yen.

Net debts (amount obtained by subtracting cash and deposits from interest-bearing debts) increased by approximately 12,000 million yen from the end of the previous fiscal year to 30,573 million yen.

#### \* Net Assets

Retained earnings for the first six months of the fiscal year under review declined by approximately 5,500 million yen from the end of the previous fiscal year to 16,712 million yen, due mainly to the recording of a net loss attributable to shareholders of the parent company. Total shareholders' equity also decreased by approximately 5,300 million yen to 71,949 million yen.

Total net assets decreased by about 10,300 million yen from the end of the previous fiscal year to 68,918 million yen. This was mainly due to the decline in shareholders' equity, as well as decreases in non-controlling interest due to the additional acquisition of shares of Shinwa and in debit balance of foreign currency translation adjustments as a result of appreciation of the yen against Asian currencies from the end of the previous fiscal year. The capital adequacy ratio dropped by 2.5 percentage points from the end of the previous fiscal year to 23.3%, due largely to the decrease in net assets.

### **(Cash Flow Analysis)**

#### **\* Cash flow from operating activities**

Net cash provided by operating activities for the first six months of the fiscal year under review increased by about 2,500 million yen from a year earlier to 5,933 million yen, despite the posting of a loss before income taxes. This reflects a decrease in notes and accounts receivables-trade and a significant decline in payments of employment structural reform expenses included in increase or decrease in accounts payable-other.

#### **\* Cash flow from investing activities**

Net cash used in investing activities for the first six months of the fiscal year under review increased by approximately 3,600 million yen from the end of the previous fiscal year to 7,645 million yen. This mainly reflects cash used for acquisition of shares of a subsidiary accompanied by a change in the scope of consolidation in association with converting ASK into a consolidated subsidiary, and an increase in cash spent on acquiring property, plant and equipment and intangible assets.

#### **\* Cash flow from financing activities**

Net cash used in financing activities for the first six months of the fiscal year under review decreased by about 1,000 million yen from the end of the previous fiscal year to 7,544 million yen. This was mainly due to an increase in cash inflows from long-term loans payable, despite outflows of cash used for redemption of bonds (6,000 million yen) and for additionally acquiring shares of Shinwa.

Cash and cash equivalents at the end of the second quarter of the fiscal year under review decreased by about 2,700 million yen from the end of the previous fiscal year to 44,299 million yen.

### **(3) Description of forward-looking information such as consolidated earnings forecast**

During the first six months of the fiscal year under review, the amount of unplanned advanced R&D investment increased in the Dealer-installed Option Business and Factory-installed Option Business in the Automotive Sector at the beginning of the period due in part to the winning of new orders that exceeded our plan. In addition, there were negative effects of continuing sluggish domestic market conditions for light motor vehicles. Also, there were effects of a profit decline in the Communication Systems Business in the Public Services Sector.

As for the outlook for the third quarter of the current fiscal year and beyond, JVCKENWOOD expects to achieve earnings on the same level as in the previous year. This is because we expect to see an increase in sales in the Dealer-installed Option Business due to the start of shipment of dealer-installed option products for a new customer and recovery of earnings in our communication systems subsidiaries in the U.S. However, we expect the aforementioned increase in advanced R&D investment in the Automotive Sector and the impact of deterioration in the market conditions in various regions in which we operate will continue in the third quarter of the current fiscal year and beyond. After taking into account the earnings for the first six months of the current fiscal year, however, JVCKENWOOD decided to revise the consolidated earnings forecast for the fiscal year ending March 31, 2016 announced on April 28, 2015, as described in "Notice Regarding Revision of Consolidated Earnings Forecast for the Fiscal Year Ending March 2016" separately announced on October 30, 2015.

## 2. Quarterly Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

|  | Previous Fiscal Year<br>(as of Mar. 31, 2015) | End of current consolidated<br>second quarter<br>(as of Sep. 30, 2015) | (JPY in Million) |
|--|---|--|------------------|
| <b>Assets</b>                            |   |  |                  |
| <b>Current assets</b>                    |   |  |                  |
| Cash and cash equivalents                | 55,077  | 44,975   |                  |
| Trade notes and accounts receivable      | 57,944  | 50,976   |                  |
| Merchandise and finished goods           | 25,836  | 27,394   |                  |
| Work in process                          | 2,935   | 4,946  |                  |
| Raw materials and supplies               | 8,381   | 10,123   |                  |
| Deferred tax assets                      | 4,103   | 4,029  |                  |
| Other current assets                     | 8,374   | 8,703  |                  |
| Allowance for doubtful accounts          | (1,612)                                       | (1,669)  |                  |
| Total current assets                     | <u>161,039</u>                                | <u>149,480</u>   |                  |
| <b>Fixed assets</b>                      |   |  |                  |
| Property, plant and equipment            |   |  |                  |
| Buildings and structures, net            | 13,009  | 13,230   |                  |
| Machinery and equipment, net             | 6,870   | 7,540  |                  |
| Tools, furniture and fixtures, net       | 5,451   | 5,491  |                  |
| Land                                     | 27,703  | 28,100   |                  |
| Construction in progress                 | 400   | 1,436  |                  |
| Total property, plant and equipment, net | <u>53,435</u>                                 | <u>55,800</u>  |                  |
| Intangible fixed assets                  |   |  |                  |
| Goodwill                                 | 7,998   | 8,685  |                  |
| Software                                 | 9,818   | 10,744   |                  |
| Other intangible fixed assets            | 5,282   | 5,341  |                  |
| Total intangible fixed assets            | <u>23,099</u>                                 | <u>24,771</u>  |                  |
| <b>Investments and other assets</b>      |   |  |                  |
| Investment securities                    | 5,058   | 5,435  |                  |
| Net defined benefit asset                | 29,729  | 29,844   |                  |
| Other investments                        | 7,218   | 7,102  |                  |
| Allowance for doubtful accounts          | (911)   | (894)  |                  |
| Total investments and other assets       | <u>41,095</u>                                 | <u>41,488</u>  |                  |
| <b>Total fixed assets</b>                | <u>117,630</u>                                | <u>122,060</u>   |                  |
| <b>Total assets</b>                      | <u>278,669</u>                                | <u>271,541</u>   |                  |

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|  | (JPY in Million)                              |  |
|--|---|--|
|  | Previous Fiscal Year<br>(as of Mar. 31, 2015) | End of current consolidated<br>second quarter<br>(as of Sep. 30, 2015) |
| <b>Liabilities</b>                                   |   |  |
| <b>Current liabilities</b>                           |   |  |
| Trade notes and accounts payable                     | 30,033  | 32,558   |
| Short-term loans payable                             | 16,827  | 14,776   |
| Current portion of bonds payable                     | 5,946   | —  |
| Current portion of long-term loans payable           | 43,009  | 10,897   |
| Other accounts payable                               | 10,584  | 7,238  |
| Accrued expenses                                     | 19,196  | 18,955   |
| Income taxes payable                                 | 1,931   | 2,570  |
| Warranty reserves                                    | 1,505   | 1,518  |
| Sales return reserves                                | 1,418   | 682  |
| Other current liabilities                            | 8,906   | 9,586  |
| Total current liabilities                            | <u>139,358</u>                                | <u>98,782</u>  |
| <b>Long-term liabilities</b>                         |   |  |
| Long-term loans payable                              | 7,835   | 49,876   |
| Deferred tax liabilities for land revaluation        | 1,606   | 1,606  |
| Deferred tax liabilities                             | 14,548  | 14,290   |
| Net defined benefit liability                        | 33,357  | 34,698   |
| Other long-term liabilities                          | 2,742   | 3,368  |
| Total long-term liabilities                          | <u>60,090</u>                                 | <u>103,839</u>   |
| <b>Total liabilities</b>                             | <u>199,448</u>                                | <u>202,622</u>   |
| <b>Equity</b>  |   |  |
| <b>Shareholders' equity</b>                          |   |  |
| Common stock   | 10,000  | 10,000   |
| Capital surplus                                      | 45,574  | 45,272   |
| Retained earnings                                    | 22,181  | 16,712   |
| Treasury stock                                       | (538)   | (36)   |
| Total shareholders' equity                           | <u>77,217</u>                                 | <u>71,949</u>  |
| <b>Accumulated other comprehensive income</b>        |   |  |
| Net unrealized gain on available-for-sale securities | 569   | 511  |
| Deferred loss on derivatives under hedge accounting  | —   | (39)   |
| Land revaluation surplus                             | 3,375   | 3,375  |
| Foreign currency translation adjustments             | (6,383)                                       | (10,095)   |
| Remeasurements of defined benefit plans              | (3,000)                                       | (2,495)  |
| Total accumulated other comprehensive income         | <u>(5,437)</u>                                | <u>(8,743)</u>   |
| <b>Non-controlling interests</b>                     | <u>7,441</u>                                  | <u>5,713</u>   |
| <b>Total equity</b>                                  | <u>79,221</u>                                 | <u>68,918</u>  |
| <b>Total liabilities and equity</b>                  | <u>278,669</u>                                | <u>271,541</u>   |

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**(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income  
(Accumulated period for consolidated second quarter)**

(JPY in Million)

|  | Accumulated period for previous consolidated second quarter<br>(Apr.1, 2014 - Sep. 30, 2014) | Accumulated period for current consolidated second quarter<br>(Apr.1, 2015 - Sep. 30, 2015) |
|--|--|---|
| Net sales  | 135,399  | 139,384   |
| Cost of sales  | 95,937   | 100,972   |
| Gross profit   | 39,462   | 38,411  |
| Selling, general and administrative expenses                     | 38,340   | 39,391  |
| Operating income/(loss)  | 1,121  | (980)   |
| Non-operating income   |  |   |
| Interest income  | 83   | 116   |
| Dividend income  | 204  | 79  |
| Other non-operating income                                       | 553  | 417   |
| Total non-operating income                                       | 841  | 613   |
| Non-operating expense  |  |   |
| Interest expense   | 983  | 982   |
| Foreign exchange loss  | 514  | 433   |
| Borrowing costs  | 97   | 700   |
| Other non-operating expenses                                     | 801  | 609   |
| Total non-operating expense                                      | 2,396  | 2,726   |
| Ordinary loss  | (433)  | (3,093)   |
| Extraordinary profit   |  |   |
| Gain on sales of property, plant and equipment                   | 112  | 33  |
| Gain on sales of investment securities                           | 21   | —   |
| Gain on sales of shares in subsidiaries and associated companies | —  | 407   |
| Gain on liquidation of subsidiaries and associates               | —  | 1,150   |
| Gain on reversal of stock acquisition rights                     | 806  | —   |
| Other extraordinary profit                                       | 20   | —   |
| Total extraordinary profit                                       | 962  | 1,591   |
| Extraordinary loss   |  |   |
| Loss on sales of property, plant and equipment                   | 9  | 13  |
| Loss on disposal of property, plant and equipment                | 18   | 15  |
| Loss on impairment of long-lived assets                          | —  | 834   |
| Loss on sales of shares in subsidiaries and associated companies | 1,105  | —   |
| Business structural improvement expenses                         | 54   | 98  |
| Employment structural improvement expenses                       | 243  | 447   |
| Other extraordinary loss   | 8  | 3   |
| Total extraordinary loss   | 1,440  | 1,413   |
| Loss before income taxes and minority interests                  | (911)  | (2,915)   |
| Income taxes - current   | 1,718  | 1,534   |
| Income taxes - deferred  | (69)   | 35  |
| Total income taxes   | 1,649  | 1,569   |
| Net loss   | (2,561)  | (4,485)   |
| Net income attributable to non-controlling interests             | 467  | 289   |
| Net loss attributable to owners of parent                        | (3,028)  | (4,775)   |

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**(Consolidated Statements of Comprehensive Income)**

|   | Accumulated period for<br>previous consolidated second<br>quarter<br>(Apr.1, 2014 - Sep. 30, 2014) | Accumulated period for<br>current consolidated second<br>quarter<br>(Apr.1, 2015 - Sep. 30, 2015) | (JPY in Million) |
|---|--|---|------------------|
| Net loss  | (2,561)  | (4,485)   |                  |
| Other comprehensive income                              |  |   |                  |
| Unrealized gain (loss) on available-for-sale securities | 335  | (57)  |                  |
| Deferred loss on derivatives under hedge accounting     | —  | (39)  |                  |
| Foreign currency translation adjustments                | 3,926  | (3,769)   |                  |
| Remeasurements of defined benefit plans                 | 1,013  | 505   |                  |
| Total other comprehensive income                        | <u>5,275</u>   | <u>(3,361)</u>  |                  |
| Comprehensive income                                    | 2,713  | (7,846)   |                  |
| Total comprehensive income attributable to:             |  |   |                  |
| Owners of the parent                                    | 1,867  | (8,081)   |                  |
| Non-controlling interests                               | 846  | 234   |                  |

**(3) Quarterly Consolidated Statement of Cash Flows**

(JPY in Million)

|  | Accumulated period for<br>previous consolidated second<br>quarter<br>(Apr.1, 2014 - Sep. 30, 2014) | Accumulated period for<br>current consolidated second<br>quarter<br>(Apr.1, 2015 - Sep. 30, 2015) |
|--|--|---|
| <b>Cash flows from operating activities</b>  |  |   |
| Loss before income taxes and minority interests  | (911)  | (2,915)   |
| Depreciation   | 5,184  | 5,808   |
| Amortization of goodwill   | 255  | 303   |
| Loss on impairment of long-lived assets  | —  | 834   |
| Increase in net defined benefit liability  | 2,422  | 1,978   |
| Increase in net defined benefit asset  | (1,175)  | (1,792)   |
| Decrease in allowance for doubtful accounts  | (65)   | 7   |
| Interest and dividend income   | (288)  | (195)   |
| Interest expense   | 983  | 982   |
| Gain on sales of investment securities   | (21)   | —   |
| Loss (gain) on sales of shares in subsidiaries<br>and associated companies                             | 1,105  | (407)   |
| Gain on liquidation of subsidiaries and associates   | -  | (1,150)   |
| Gain on reversal of stock acquisition rights   | (806)  | —   |
| Loss on disposal of property, plant and<br>equipment   | 18   | 15  |
| Gain on sales of property, plant and equipment   | (102)  | (19)  |
| Decrease in trade notes and accounts<br>receivable   | 9,229  | 11,110  |
| Increase in inventories  | (3,932)  | (1,961)   |
| Decrease in trade notes and accounts payable   | (979)  | (1,489)   |
| Decrease in other accounts payable   | (6,518)  | (2,781)   |
| Decrease in accrued expenses   | 1,089  | 123   |
| Other, net   | (448)  | (233)   |
| <b>Sub-total</b>   | <b>5,037</b>   | <b>8,214</b>  |
| Interest and dividend received   | 288  | 195   |
| Interest paid  | (894)  | (912)   |
| Income taxes paid  | (984)  | (1,563)   |
| <b>Net cash provided by operating activities</b>   | <b>3,446</b>   | <b>5,933</b>  |
| <b>Cash flows from investing activities</b>  |  |   |
| Purchases of property, plant and equipment   | (2,174)  | (2,919)   |
| Proceeds from sales of property, plant and<br>equipment  | 539  | 217   |
| Purchase of intangible fixed assets  | (1,927)  | (3,345)   |
| Purchase of investment securities  | (657)  | (544)   |
| Proceeds from sales of investment securities   | 22   | —   |
| Purchases of investments in subsidiaries<br>resulting in change of scope of consolidation              | —  | (2,080)   |
| Proceeds from sales of investments in<br>subsidiaries resulting in change of scope of<br>consolidation | 567  | 1,057   |
| Other, net   | (368)  | (30)  |
| <b>Net cash used in investing activities</b>   | <b>(3,999)</b>   | <b>(7,645)</b>  |

TRANSLATION - FOR REFERENCE ONLY -

|   | (JPY in Million)   |   |
|---|--|---|
|   | Accumulated period for<br>previous consolidated second<br>quarter<br>(Apr.1, 2014 - Sep. 30, 2014) | Accumulated period for<br>current consolidated second<br>quarter<br>(Apr.1, 2015 - Sep. 30, 2015) |
| <b>Cash flows from financing activities</b>   |  |   |
| Decrease in short-term loans payable, net   | (3,233)  | (4,802)   |
| Proceeds from long-term loans payable   | 2,500  | 51,874  |
| Repayment of long-term loans payable  | (7,552)  | (44,315)  |
| Redemption of bonds   | —  | (6,000)   |
| Cash dividends paid   | —  | (693)   |
| Payments from changes in ownership interests<br>in subsidiaries that do not result in change in<br>scope of consolidation | —  | (1,523)   |
| Other, net  | (250)  | (2,083)   |
| <b>Net cash used in financing activities</b>  | <b>(8,537)</b>   | <b>(7,544)</b>  |
| <b>Effect of exchange rate changes on cash and<br/>cash equivalents</b>   | <b>1,352</b>   | <b>(896)</b>  |
| Net decrease in cash and cash equivalents   | (7,737)  | (10,153)  |
| <b>Cash and cash equivalents at beginning of year</b>   | <b>54,737</b>  | <b>54,452</b>   |
| <b>Cash and cash equivalents at end of quarter</b>  | <b>46,999</b>  | <b>44,299</b>   |