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## Accounting Report for the Third Quarter of Fiscal Year Ending March 2009 (October 1, 2008 - December 31, 2008)

### Consolidated Financial Highlights for the Third Quarter of Fiscal Year Ending March 2009 (October 1, 2008 - December 31, 2008)

#### 1. Selected Operating Results

	3 <sup>rd</sup> Quarter			1 <sup>st</sup> Quarter to 3 <sup>rd</sup> Quarter		
	Oct.1, 2008 to Dec.31, 2008	Oct.1, 2007 to Dec.31, 2007	YoY	April 1, 2008 to Dec.31, 2008	April 1, 2007 to Dec.31, 2007	YoY
Net sales	126,290	-	-	206,380	-	-
Operating profit (loss)	1,905	-	-	3,452	-	-
Ordinary income (loss)	(1,417)	-	-	(309)	-	-
Net income (loss)	(3,412)	-	-	(3,337)	-	-
Net income (loss) per share		-	-	-	-	-

Amounts indicated in millions of yen, except net income per share

#### 2. Sales by Segments

	3 <sup>rd</sup> Quarter			1 <sup>st</sup> Quarter to 3 <sup>rd</sup> Quarter		
	Oct.1, 2008 to Dec.31, 2008	Oct.1, 2007 to Dec.31, 2007	YoY	April 1, 2008 to Dec.31, 2008	April 1, 2007 to Dec.31, 2007	YoY
Car Electronics	23,437	19%	-	69,055	34%	-
Home & Mobile Electronics	58,360	46%	-	62,034	30%	-
Professional Systems	23,809	19%	-	53,414	26%	-
Entertainment	19,039	15%	-	19,039	9%	-
Others	1,642	1%	-	2,835	1%	-
Total	126,290	100%	-	206,380	100%	-

Amounts indicated in millions of yen

#### Major products of each segment

Car Electronics	Car Audio, Car AV System and Car Navigation System
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**

### **1. Qualitative information about consolidated operating results**

As a result of integrating management between Victor Company of Japan, Limited (JVC) and Kenwood Corporation (Kenwood), JVC KENWOOD Holdings, Inc. (JVC Kenwood) was established as a joint holding company for JVC and Kenwood (collectively, "both companies"). JVC Kenwood listed its shares on the Tokyo Stock Exchange as of October 1, 2008.

With this management integration regarded as an *acquisition* in business combination accounting, JVC Kenwood's consolidated earnings results for the period under review are obtained by adding the earnings results of JVC for the October - December 2008 period (third quarter) to earnings results for the April - December 2008 period (third quarter to date) of Kenwood, the acquiring company in accounting terms, representing the total of JVC Kenwood earnings results for this third quarter and Kenwood's earnings results for this first half.

The report on this third quarter earnings results for the JVC Kenwood Group marks its first earnings results report. However, no comparison with the corresponding period of the previous year is stated, because JVC Kenwood reorganized the core businesses of both companies into four business segments, and started a new corporate group, in this third quarter. Besides, JVC Kenwood changed the sales calculation method of JVC to the net method (in which a portion of customer discounts is deducted from gross sales) in this third quarter.

### **Overview of earnings for this third quarter**

During this third quarter, financial turmoil originating in the United States affected the world's real economy, and economic sluggishness became worse around the world toward the end of the period. The yen also strengthened.

Under such circumstances, and following management integration carried out on October 1, 2008, JVC Kenwood strove to produce good effects from integration while focusing on developing a new, sustainable infrastructure and quickly maximizing synergies. Besides, as the finishing touch to restructuring, JVC Kenwood reformed the earnings structure of JVC in particular, resulting in substantially reduced costs. Despite these efforts, however, sales decreased in major markets as the economic slump became even worse around the world, which had significant effects on sales, profits and losses.

Both net sales and profits were lower than JVC Kenwood's earlier projections, as the decline in sales was greater than expected due to a stagnant world economy.

JVC Kenwood assumed the U.S. dollar would average 100 yen and the euro 130 yen for this third quarter. JVC Kenwood actually, however, used exchange rates of about 96 yen per dollar and around 127 yen per euro for settlement of accounts for this third quarter, excluding settlement of forward contracts.

### **\*Net Sales**

Net sales were 126,290 million yen in this third quarter. This figure reflects negative factors that were forecast, including a change in the calculation method for JVC's sales following management integration; and sale and cessation of non-core businesses as well as curtailment of unprofitable businesses that resulted from structural reforms implemented before integration. On top of this, sales were affected by the yen's appreciation against other currencies from the previous year and the sluggishness of the global economy.

Combined with Kenwood's results for this first half, net sales for this third quarter to date totaled 206,380 million yen.

### **\*Operating profit**

Operating income for this third quarter was 1,905 million yen. This figure reflects negative factors, including the yen being stronger than it was in the same period of the previous year and a decrease in sales. Meanwhile, a favorable factor was the emergence of about 6.6 billion yen of the effects through structural

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reforms conducted before management integration and earnings structure reforms promoted after the integration. Effects of integration also contributed by about 1.3 billion yen, including effects from cost synergies produced through a mutual use of intellectual properties, joint purchase of parts and materials, as well as accounting effects generated from a decrease in the amortization of PBC (Projected Benefit Obligation) due to applying the purchase method of accounting.

Combined with Kenwood results for this first half, operating income for this third quarter to date was 3,452 million yen.

**\*Ordinary income**

Ordinary income was minus 1,417 million yen in this third quarter, reflecting a decrease in operating income, non-operating expenses such as foreign exchange loss of about 1.3 billion yen produced by the strong yen, and booking of accounting effects of around 1.1 billion yen such as amortization of negative goodwill, which occurred in relation to management integration as non-operating income.

Combined with Kenwood results for the first half, ordinary income for this third quarter to date was minus 309 million yen.

**\*Net income**

In this third quarter, net income was minus 3,412 million yen due to a decrease in ordinary income and the lack of gains on sales of securities at JVC, which were recorded in the same period of the previous year, despite a decline in restructuring expenses at JVC and accounting effects of about 0.5 billion yen created through the application of the purchase method of accounting.

Combining results of Kenwood for this first half with the above figure, net income for this third quarter to date was minus 3,337 million yen.

**(Sales and operating income by business segment)**

Consolidated sales and operating profit by business segment are as follows:

(Million yen)

Segment		3rd quarter	3rd quarter to date
Car Electronics Business	Net Sales	23,437	69,055
	Operating Profit	(937)	(1,251)
Home & Mobile Electronics Business	Net Sales	58,360	62,034
	Operating Profit	1,886	1,177
Professional System Business	Net Sales	23,809	53,414
	Operating Profit	453	3,036
Entertainment Business	Net Sales	19,039	19,039
	Operating Profit	681	681
Others	Net Sales	1,642	2,835
	Operating Profit	(178)	(190)
Total	Net Sales	126,290	206,380
	Operating Profit	1,905	3,452
	Ordinary Income	(1,417)	(309)
	Net Income	(3,412)	(3,337)

**\*Car Electronics Business**

The consumer segment, the mainstay of the car electronics business, is less sensitive to new car sales fluctuations than the OEM segment. In this third quarter JVC Kenwood introduced some of the new models for 2009 in the consumer car audio field, and promoted sales by taking advantage of both brands' strength. This resulted in a continuous increase in its market share in major markets worldwide. In the consumer car

multimedia field as well, sales of car navigation system units integrated with audio visual equipment remained relatively robust in overseas markets. These are developed in cooperation with Garmin Ltd., the top manufacturer of Portable/Personal Navigation Devices (PND). However, sales and prices fell further in the latter half of this third quarter, hurt by worsened real economy.

In the OEM segment on the other hand, overall sales fell sharply and losses increased due to a precipitous fall in new car sales and a decline in the equipment installation rate of genuine products for auto makers, despite a sharp rise in shipments of devices for car-mounted equipment.

As a result, net sales for this business were 23.4 billion yen for this third quarter, and operating profit was minus 0.9 billion yen.

For the third quarter to date, combined with Kenwood's Car Electronics business earnings results for this first half, net sales totaled 69.1 billion yen and operating profit was minus 1.3 billion yen.

#### **\*Home & Mobile Electronics Business**

In the display segment, where the major issue is to increase earnings, before management integration JVC Kenwood drastically narrowed down the business in the domestic market that was the most unprofitable, and switched from in-house production in the U.K. to outsourcing in Eastern Europe in the European market. These structural reforms came to fruition. In the audio segment, JVC Kenwood weeded out unprofitable products while strengthening profitable AV accessories, and enhanced its competitiveness through a company split of Kenwood's audio business. However, sales and prices fell further, affected by the worsened real economy.

In the profitable camcorder segment business, standard definition model sales were strong in the world market, and high-definition model market shares increased in the domestic market thanks to higher sales. However, both sales and prices fell in some areas, particularly in the European market.

As a result, JVC Kenwood posted net sales of 58.4 billion yen and an operating profit of 1.9 billion yen, for this third quarter.

For the third quarter to date, combined with Kenwood's Home Electronics business earnings results for this first half, net sales were 62 billion yen and operating profit was 1.2 billion yen.

#### **\*Professional System Business**

In the professional wireless equipment segment, products for private industry were influenced adversely by the economic downturn. This was offset, however, by strong sales of products for public safety for which digitalization is spreading. Demand remained relatively brisk in the U.S., Europe and China markets. Sales decreased, however, as they were affected substantially by the strong yen and slowed orders for products for public safety in the U.S. in the latter half of this third quarter prior to a new budget year under the new president.

In the professional system segment, JVC Kenwood strove to explore new demand by introducing new products, but sales remained sluggish due to the economic downturn.

As a result, net sales for this third quarter were 23.8 billion yen and operating profit was 0.5 billion yen.

For the third quarter to date, combined with Kenwood's Communication Equipment business earnings results for this first half, net sales were 53.4 billion yen and operating profit was 3 billion yen.

#### **\*Entertainment Business**

In the contents business, sales of old CDs decreased, while new CD sales were robust thanks to hits by some blockbuster and animation-related CDs. As for distribution businesses such as music software pressing, logistics and production, sales increased for this third quarter due to business expansion.

As a result, net sales were 19 billion yen for this third quarter and operating profit was 0.7 billion yen.

For the third quarter to date, both net sales and operating profit were similar to the above figures, as there is no business in Kenwood for which to combine earnings results with the above figures.

## **2. Qualitative Information about Consolidated Financial Position**

### **(1) Analysis of Assets, Liabilities and Net Assets**

#### **\*Changes 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 acquired JVC's assets and liabilities as of the end of October 1, 2008 at market value.

As a result, JVC Kenwood stated 3,640 million yen as negative goodwill, which will be written off in two years. For this write-off, JVC Kenwood will book about 455 million yen as non-operating profit every quarter from this third quarter.

JVC Kenwood's shares owned by Kenwood are treated as consolidated treasury stock following integration.

#### **\*Assets and liabilities for 3rd quarter under review**

At the end of this third quarter, total assets were 396,454 million yen, reflecting a decrease in foreign-currency denominated assets (such as trade notes and accounts receivable and inventories) due to the strong yen and a fall in market value of investment securities hurt by lower stock prices.

Total liabilities were 299,400 million yen, including interest-bearing debts of 133,700 million yen and net debts of 86,516 million yen.

Net assets totaled 97,053 million yen. Total shareholders' equity was 117,513 million yen, but the foreign currency translation adjustment account was minus 23,804 million yen due to the strong yen.

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

#### **\*Cash Flows from operating activities**

Cash flows from operating activities for the third quarter to date resulted in a net inflow of 846 million yen, despite a net loss before taxes of 1,689 million yen, as JVC Kenwood registered only a slight rise in necessary operating funds due to decreases in trade notes and accounts receivable and inventories.

#### **\*Cash Flows from investing activities**

For the third quarter to date, JVC Kenwood posted a net outflow of 7,981 million yen in cash flows from investing activities, in part because of JVC Kenwood's acquisition of tangible and intangible fixed assets, despite proceeds from sales of fixed assets.

#### **\*Cash Flows from financing activities**

Cash flows from financing activities for the third quarter to date represented a net inflow of 11,660 million yen, mainly because of an increase in short-term borrowings.

At the end of this third quarter, cash and cash equivalents totaled 47,161 million yen, owing to an increase in cash and cash equivalents of 32,760 million yen in relation to the management integration.

## **3. Qualitative Information about Consolidated Earnings Outlook for the Fiscal Year Ending March 2009**

Since management integration between JVC and Kenwood on October 1, 2008, JVC Kenwood strove to quickly materialize integration effects while reforming earnings structures mainly at JVC to cope with the worsened economic environment, as described earlier. However, given that the business climate deteriorated further, JVC Kenwood will implement additional measures for the whole group including JVC and Kenwood in this fourth quarter to cope with such an environment and secure profits in the said quarter and the next fiscal year onward. Accordingly, JVC Kenwood will revise its earnings forecast for the year ending

March 2009.

Specifically, JVC Kenwood changed assumed exchange rates to 90 yen per U.S. dollar and 120 yen per euro, compared with the original 100 yen and 130 yen, respectively. Furthermore, JVC Kenwood will take additional measures decisively before the next fiscal year, including restructuring the display, audio, and car electronics OEM segments, related changes in production and sales systems and affiliated companies' structures, and reforms of the employment structures of JVC, Kenwood and JVC Kenwood.

By promoting earnings structure reforms which were launched in October 2008 and implementing the above additional measures, JVC Kenwood plans to reduce costs by 10 billion yen by the end of the current fiscal year. Meanwhile, this time JVC Kenwood reflected effects of changes in assumed exchange rates and the worsened economy in the operating profit of this revised earnings forecast. Of about 20 billion yen expenses needed for these measures, those which meet requirements for an allowance of around 10 billion yen have little impact on profits and losses due to the accounting effect of management integration. However, JVC Kenwood reflected the effect in this time's earnings forecast of the remaining approximately 10 billion yen expenses, mainly in net income of the current revised earnings forecast.

For further details about the additional measures, please refer to the notice "Progress Report on Profitability Structural Reforms and Implementation of Additional Measures" which was also announced on January 30, 2009.

**Notes on earnings forecast**

<p>The earnings forecast provided here is a forecast for the future period based on the company's judgment derived from information that is available to the company group 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.</p>
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