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JVCKENWOOD

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Accounting Report for the First Half of Fiscal Year Ending March 2018 (April 1, 2017 – September 30, 2017)

Consolidated Financial Highlights for the First Half of Fiscal Year Ending March 2018
(April 1, 2017 – September 30, 2017)

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

	First Half of FYE 3/2017 April 1, 2016 to September 30, 2016	First Half of FYE 3/2018 April 1, 2017 to September 30, 2017
Net sales	136,391	142,468
Operating income	(632)	1,126
Ordinary income	(1,488)	652
Net income attributable to owners of parent	(5,742)	(288)
Net income per share	(41.33) yen	(2.07)

FYE: Fiscal year ended / ending

Net Sales and Operating Income by Customer industry sectors (Millions of yen)

		First Half of FYE 3/2017	First Half of FYE 3/2018	Year-on-year comparison
Automotive Sector	Net sales	67,816	81,682	+13,866
	Operating income	210	3,104	+2,894
Public Service Sector	Net sales	34,185	29,716	(4,469)
	Operating income	(598)	(1,710)	(1,112)
Media Service Sector	Net sales	32,200	28,546	(3,654)
	Operating income	(411)	(256)	+155
Others	Net sales	2,197	2,523	+326
	Operating income	166	(10)	(176)
Intersegment Sales or Transfer	Net sales	(8)	-	+8
Total	Net sales	136,391	142,468	+6,077
	Operating income	(632)	1,126	+1,758
	Ordinary income	(1,488)	652	+2,140
	Net income attributable to owners of parent	(5,742)	(288)	+5,454

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 economy during the first six months of the fiscal year under review, the U.S. economy continued to grow at a moderate pace. In Europe, a sense of economic uncertainty remained due to the political risk that might arise after the UK's exit from the European Union, but the eurozone countries largely continued to enjoy modest economic growth. In China and other Asian countries, despite subsiding concerns about an economic slowdown, uncertainties arose due to geopolitical risks. In Japan, the economy remained on a gradual recovery track on the back of improved corporate earnings, driven by a further depreciation of the yen and export growth.

Under these circumstances, for the first six months of the fiscal year under review, net sales of the JVCKENWOOD Group increased from the same period a year earlier, due to a significant increase in sales in the Automotive Sector. Operating income of the Group as a whole increased sharply from the same period a year earlier, with a turnaround from loss to profit, due to a sharp increase in profit in the Automotive Sector.

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	About 111 yen	About 111 yen
	Euro	About 122 yen	About 130 yen
FY2016 (for reference)	U.S. dollar	About 108 yen	About 102 yen
	Euro	About 122 yen	About 114 yen

*Net Sales

Net sales for the first six months of the fiscal year under review increased by about 6,100 million yen, or 4.5%, year-on-year to 142,468 million yen.

Net sales in the Automotive Sector increased sharply from the same period a year earlier, reflecting a steep increase in sales in the OEM Business. Net sales in the Public Service Sector decreased from the same period of the previous fiscal year, due mainly to lower sales in the Professional Systems Business. Net sales in the Media Service Sector declined from the same period a year earlier, due to lower sales in the Media Business, reflecting a decline in sales of consumer video cameras and AV accessories.

*Operating Income

Operating income for the first six months of the fiscal year under review increased by about 1,800 million yen from the same period a year earlier to an operating income of 1,126 million yen, a turnaround from loss to profit.

In the Automotive Sector, the OEM Business turned around from a loss to a profit on a significant profit increase. As a result, the Automotive Sector recorded a sharp profit increase. In the Public Service Sector, operating loss increased from the same period a year earlier, due to lower profits recorded in the Communication Systems Business and the Professional Systems Business. The Media Service Sector recorded lower sales, but losses in the Sector as a whole decreased due to a decline in losses from professional video cameras and imaging devices.

*Ordinary Income

Ordinary income for the first six months of the fiscal year under review increased by about 2,100 million yen year-on-year to 652 million yen, a turnaround from loss to profit, reflecting the sharp increase in operating income.

*Net Income Attributable to Owners of Parent

Net income attributable to owners of parent for the first six months of the fiscal year under review improved to a net loss of 288 million yen because net loss declined by about 5,500 million yen from the same period a year earlier, due to the increase in ordinary income and an improvement in extraordinary profit/loss.

(Net Sales and Profits and Losses by Business Segment)

Following the change of organizational management classification implemented effective April 1, 2017, JVCKENWOOD transferred the Home Audio Business from the Automotive Sector to the Media Service Sector from the first quarter of the fiscal year under review.

Business segment information for the first six months of the previous fiscal year shown below has been restated according to the new reporting segment after the change of organizational management classification.

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) shown on the quarterly consolidated statements of income.

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

First six months of the fiscal year under review (from April 1, 2017 to September 30, 2017) (Millions of yen)

Business Segment		First six months of FYE3/'17	First six months of FYE3/'18	Year-on-year comparison
Automotive Sector	Net sales	67,816	81,682	+13,866
	Operating income	210	3,104	+2,894
Public Service Sector	Net sales	34,185	29,716	(4,469)
	Operating income	(598)	(1,710)	(1,112)
Media Service Sector	Net sales	32,200	28,546	(3,654)
	Operating income	(411)	(256)	+155
Others	Net sales	2,197	2,523	+326
	Operating income	166	(10)	(176)
Inter-segment elimination	Net sales	(8)	-	+8
Total	Net sales	136,391	142,468	+6,077
	Operating income	(632)	1,126	+1,758
	Ordinary income	(1,488)	652	+2,140
	Net income attributable to owners of parent	(5,742)	(288)	+5,454

*Automotive Sector

Net sales in the Automotive Sector for the first six months of the fiscal year under review increased by about 13,900 million yen, or 20.4%, year-on-year to 81,682 million yen. Operating income grew by about 2,900 million yen year-on-year to 3,104 million yen.

(Net Sales)

In the Aftermarket Business, sales in overseas markets were affected by lower sales in the U.S. market, but sales of Saisoku-Navi series car navigation systems and dashcams were strong in the domestic market. As a result, net sales in the Aftermarket Business were approximately at the same level as the same period of the previous year.

In the OEM Business, net sales increased year-on-year due to a surge in sales.

(Operating Income)

In the Aftermarket Business, operating income decreased from the same period a year ago, due to a significant decline in sales in the U.S. market.

In the OEM Business, operating income grew substantially on a sharp increase in net sales. As a result, the OEM Business turned around from the operating loss recorded in the previous corresponding period and posted an operating income.

*Public Service Sector

Net sales in the Public Service Sector for the first six months of the fiscal year under review declined by about 4,500 million yen, or 13.1%, year-on-year to 29,716 million yen, and operating income decreased by about 1,100 million yen from the same period a year earlier to an operating loss of 1,710 million yen.

(Net Sales)

Net sales in the Communication Systems Business decreased from the same period a year earlier, despite a recovery in sales at the Group's U.S. communication systems subsidiary, due to the effects of lower sales of professional wireless systems in the Asian and Chinese markets.

Net sales in the Professional Systems Business, operated mainly by JVCKENWOOD Public & Industrial Systems Corporation, decreased from the same period a year earlier due to factors such as the sale of the card printer business in the previous fiscal year.

(Operating Income)

In the Communication Systems Business, operating loss increased from the same period a year earlier due to the effects of the aforementioned decrease in sales.

In the Professional Systems Business, operating loss increased from the same period a year earlier due to the effects of the aforementioned decrease in sales.

***Media Service Sector**

Net sales in the Media Service Sector for the first six months of the fiscal year under review declined by about 3,700 million yen, or 11.3%, year-on-year to 28,546 million yen, and operating income improved by about 200 million yen from the same period a year earlier to an operating loss of 256 million yen.

(Net Sales)

In the Media Business, net sales decreased year-on-year, affected by lower sales of consumer video cameras and AV accessories.

In the Entertainment Business, net sales declined from the same period a year earlier, reflecting lower sales in the contract production business.

(Operating Income)

In the Media Business, the operating loss in the business as a whole decreased due to the decline in losses from professional video cameras and imaging devices, despite the effects of the aforementioned drop in sales.

In the Entertainment Business, both net sales and operating income decreased from the same period a year earlier.

(2) Description of Financial Position

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

***Assets**

Total assets increased by about 4,800 million yen from the end of the previous fiscal year to 267,105 million yen. This was because of an increase in inventories such as merchandise and finished goods, despite a decrease in notes and accounts receivable-trade due to seasonal factors.

***Liabilities**

Total liabilities increased by about 2,600 million yen from the end of the previous fiscal year to 203,359 million yen, due largely to an increase in notes and accounts payable-trade, despite a decrease in borrowings from financial institutions.

Net debts (amount obtained by subtracting cash and deposits from interest-bearing debts) decreased by about 2,500 million yen from the end of the previous fiscal year to 25,951 million yen.

***Net Assets**

During the first six months of the fiscal year under review, total shareholders' equity decreased by about 1,000 million from the end of the previous fiscal year to 72,275 million yen, as a result of recording a net loss attributable to owners of parent of about 300 million yen.

Total net assets increased by about 2,200 million yen from the end of the previous fiscal year to 63,745 million yen due to a decrease in the debit balance of foreign currency translation adjustments.

The capital adequacy ratio rose by 0.3 percentage points from the end of the previous fiscal year to 21.7%, due to the increase 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 was 8,502 million yen, which is an increase of about 4,300 million yen from the corresponding period of the previous fiscal year. This was mainly attributable to recording net income before income taxes and an increase in proceeds from collection of notes and accounts receivable-trade.

***Cash flow from investing activities**

Net cash used in investing activities for the first six months of the fiscal year under review was 4,007 million yen, which is a decrease of about 4,500 million yen from the corresponding period of the previous fiscal year. This mainly reflected a decrease in cash outflows for the acquisition of property, plant and equipment and proceeds from sales of investment securities.

***Cash flow from financing activities**

Net cash used in financing activities for the first six months of the fiscal year under review was 2,594 million yen, which is an increase of about 3,700 million yen from the corresponding period of the previous fiscal year. This was mainly attributable to a decrease in proceeds from long-term borrowings.

Cash and cash equivalents at the end of the first six months of the fiscal year under review increased by about 7,700 million yen from the end of the previous fiscal year to 43,367 million yen.

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

Consolidated earnings for the first six months of the fiscal year under review exceeded the period-start projections because the OEM Business in the Automotive Sector continued its run of strong sales from the first three months of the current fiscal year, despite the effects of lower sales in the Public Service Sector.

As for the outlook for the first nine months of the fiscal year under review and thereafter, we expect that sales will continue to expand in the OEM Business in the Automotive Sector. In addition, we expect an improvement in earnings in other businesses through the second half of the fiscal year under review, including a recovery in sales at the Group's U.S. communication systems subsidiary in the Public Service Sector. At this time, however, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2018, announced on April 27, 2017, as described in the following. The Company will promptly announce any revisions to its consolidated earnings forecast should any be deemed necessary in view of future market trends and its earnings trends.

	Consolidated earnings forecast for FYE3/'18
Net sales	295,000 million yen
Operating income	6,400 million yen
Ordinary income	4,400 million yen
Net income attributable to owners of parent	1,400 million yen

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2017)	End of current consolidated second quarter (as of Sep. 30, 2017)
Assets		
Current assets		
Cash and cash equivalents	41,806	43,597
Trade notes and accounts receivable	56,706	52,395
Merchandise and finished goods	26,417	28,787
Work in process	4,794	5,827
Raw materials and supplies	10,679	12,996
Deferred tax assets	3,609	3,777
Other current assets	9,849	9,609
Allowance for doubtful accounts	△1,305	△1,285
Total current assets	152,557	155,707
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	13,031	12,757
Machinery and equipment, net	7,879	8,107
Tools, furniture and fixtures, net	6,107	6,143
Land	22,187	22,109
Construction in progress	1,222	1,818
Total property, plant and equipment, net	50,428	50,936
Intangible fixed assets		
Goodwill	3,868	3,779
Software	12,056	11,457
Other intangible fixed assets	2,573	2,542
Total intangible fixed assets	18,499	17,779
Investments and other assets		
Investment securities	8,064	9,055
Net defined benefit asset	24,741	25,447
Deferred tax assets	5,268	5,435
Other investments	3,261	3,303
Allowance for doubtful accounts	△524	△558
Total investments and other assets	40,811	42,682
Total fixed assets	109,739	111,398
Total assets	262,297	267,105

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2017)	End of current consolidated second quarter (as of Sep. 30, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	31,233	35,748
Short-term loans payable	6,208	5,935
Current portion of long-term loans payable	9,002	9,082
Other accounts payable	10,548	8,786
Accrued expenses	18,751	19,047
Income taxes payable	1,900	2,225
Warranty reserves	1,368	1,476
Sales return reserves	1,380	1,225
Reserves for loss on order received	1,852	1,398
Other current liabilities	9,630	9,429
Total current liabilities	91,878	94,355
Long-term liabilities		
Long-term loans payable	55,052	54,530
Deferred tax liabilities for land revaluation	1,516	1,516
Deferred tax liabilities	11,410	11,392
Net defined benefit liability	37,686	38,395
Other long-term liabilities	3,239	3,169
Total long-term liabilities	108,904	109,004
Total liabilities	200,783	203,359
Equity		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	45,573	37,596
Retained earnings	17,722	24,716
Treasury stock	△37	△37
Total shareholders' equity	73,258	72,275
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	1,007	1,742
Deferred loss on derivatives under hedge accounting	445	△169
Land revaluation surplus	3,442	3,442
Foreign currency translation adjustments	△15,320	△13,428
Remeasurements of defined benefit plans	△6,794	△5,880
Total accumulated other comprehensive income	△17,219	△14,292
Non-controlling interests	5,474	5,762
Total equity	61,514	63,745
Total liabilities and equity	262,297	267,105

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Comprehensive Income)

(Accumulated period for consolidated second quarter)

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2016 - Sep.30, 2016)	Accumulated period for current consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)
Net sales	136,391	142,468
Cost of sales	100,939	105,320
Gross profit	35,452	37,148
Selling, general and administrative expenses	36,085	36,021
Operating income (loss)	△632	1,126
Non-operating income		
Interest income	79	85
Dividend income	169	106
Other non-operating income	319	459
Total non-operating income	569	651
Non-operating expense		
Interest expense	483	456
Foreign exchange loss	264	144
Other non-operating expenses	677	524
Total non-operating expense	1,424	1,125
Ordinary income (loss)	△1,488	652
Extraordinary profit		
Gain on sales of property, plant and equipment	90	82
Gain on sales of investment securities	8	716
Gain on liquidation of subsidiaries and associated companies	69	—
Other extraordinary profit	—	41
Total extraordinary profit	167	840
Extraordinary loss		
Loss on sales of property, plant and equipment	5	1
Loss on disposal of property, plant and equipment	1,359	36
Business structural improvement expenses	68	6
Employment structural improvement expenses	213	—
Loss on liquidation of subsidiaries and associated companies	272	—
Provision for loss on order received	711	—
Other extraordinary loss	10	5
Total extraordinary loss	2,642	49
Income (loss) before income taxes	△3,963	1,443
Income taxes - current	1,448	1,494
Income taxes - deferred	△37	△256
Total income taxes	1,410	1,237
Net income (loss)	△5,373	205
Net income attributable to non-controlling interests	368	493
Net loss attributable to owners of parent	△5,742	△288

(Consolidated Statements of Comprehensive Income)

(Accumulated period for consolidated second quarter)

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2016 - Sep.30, 2016)	Accumulated period for current consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)
Net income (loss)	△5,373	205
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	△133	734
Deferred gain (loss) on derivatives under hedge accounting	318	△614
Foreign currency translation adjustments	△8,501	1,974
Remeasurements of defined benefit plans	1,389	913
Total other comprehensive income	△6,928	3,008
Comprehensive income	△12,302	3,213
Total comprehensive income attributable to:		
Owners of the parent	△12,111	2,638
Non-controlling interests	△190	574

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for previous consolidated second quarter (Apr.1, 2016 - Sep.30, 2016)	Accumulated period for current consolidated second quarter (Apr.1, 2017 - Sep.30, 2017)
Cash flows from operating activities		
Income (loss) before income taxes	△3,963	1,443
Depreciation	5,883	6,513
Amortization of goodwill	284	175
Increase in net defined benefit liability	2,356	1,882
Increase in net defined benefit asset	△1,090	△1,743
Decrease in allowance for doubtful accounts	△383	△26
(Decrease) increase in reserves for loss on order received	711	△453
Interest and dividend income	△249	△191
Interest expense	483	456
Gain on sales of investment securities	△8	△716
Loss on liquidation of subsidiaries and associated companies	203	—
Gain on sales of property, plant and equipment	△84	△81
Loss on disposal of property, plant and equipment	1,359	36
Decrease in trade notes and accounts receivable	3,798	5,534
Increase in inventories	△5,219	△4,306
Increase in trade notes and accounts payable	2,331	3,459
Decrease in other accounts payable	△1,076	△1,355
(Decrease) increase in accrued expenses	762	△72
Other, net	△79	△803
Sub-total	6,019	9,751
Interest and dividend received	249	191
Interest paid	△476	△456
Income taxes paid	△1,560	△984
Net cash provided by operating activities	4,232	8,502
Cash flows from investing activities		
Purchases of property, plant and equipment	△5,350	△3,300
Proceeds from sales of property, plant and equipment	801	522
Purchase of intangible fixed assets	△3,725	△2,900
Purchase of investment securities	△2	△7
Proceeds from sales of investment securities	7	769
Other, net	△235	908
Net cash used in investing activities	△8,503	△4,007
Cash flows from financing activities		
Decrease in short-term loans payable, net	△981	△767
Proceeds from long-term loans payable	13,418	4,536

Repayment of long-term loans payable	△8,739	△5,166
Cash dividends paid	△694	△694
Other, net	△1,905	△502
Net cash used in financing activities	1,097	△2,594
Effect of exchange rate changes on cash and cash equivalents	△2,661	785
Net decrease in cash and cash equivalents	△5,835	2,685
Cash and cash equivalents at beginning of year	41,551	40,681
Cash and cash equivalents at end of quarter	35,716	43,367