JVCKENWOOD

October 31, 2016

Company:	JVCKENWOOD Corporation
Representative:	Takao Tsuji, President and CEO
	(Code: 6632; First Section of the Tokyo Stock Exchange)
Contact:	Satoshi Fujita, CFO
	(Tel: +81-45-444-5232)
	(E-mail: prir@jvckenwood.com)

Accounting Report for the First Half of Fiscal Year Ending March 2017 (April 1, 2016 – September 30, 2016)

Consolidated Financial Highlights for the First Half of Fiscal Year Ending March 2017
(April 1, 2016 – September 30, 2016)

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 3/2016 April 1, 2015 to September 30, 2015
Net sales	136,391	139,384
Operating income	(869)	(980)
Ordinary income	(1,725)	(3,093)
Net income attributable to owners of parent	(5,979)	(4,775)
Net income per share	(43.03) yen	(34.45) yen

FYE: Fiscal year ended / ending

Net Sales and Operating Income by Business Segment (Millions of yen)

		First Half of FYE 3/2017	First Half of FYE 3/2016	Year-on-year comparison
Automotive Sector	Net sales	68,637	66,349	+2,288
	Operating income	31	(747)	+778
Public Service Sector	Net sales	34,185	37,936	(3,751)
	Operating income	(654)	(616)	(38)
Media Service Sector	Net sales	31,387	32,192	(805)
	Operating income	(414)	128	(542)
Others	Net sales	2,197	2,914	(717)
	Operating income	166	254	(88)
Intersegment Sales or Transfer	Net sales	(15)	(9)	(6)
Total	Net sales	136,391	139,384	(2,993)
	Operating income	(869)	(980)	+111
	Ordinary income	(1,725)	(3,093)	+1,368
	Net income attributable to owners of parent	(5,979)	(4,775)	(1,204)

Major Products in Each Sector

Automotive Sector	Car AV Systems, Car Navigation Systems, Camera for Car-mounted Equipment, Home Audio, Optical Pickups for Car-mounted Equipment, CD and DVD Mechanism for Car-mounted Equipment
Public Service Sector	Safety Business: Land Mobile Radio Equipment, Video Surveillance Equipment, Audio Equipment Healthcare Business: Medical Display Equipment
Media Service Sector	Media Business: Consumer Video Cameras, Professional Video Cameras, Projectors, AV Accessories, Displays, Imaging Devices Entertainment Business: Planning / Production and Sales of Audio and Video Content including CDs and DVDs, Production and Sales of CDs and DVDs (prerecorded)
Others	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 economy during the first six months of the fiscal year under review, the U.S. economy grew at a moderate pace but a sense of uncertainty set in with the presidential election looming in early November, as represented by the decision by the Federal Reserve to keep the benchmark interest rate unchanged. In Europe, economic growth was underpinned by the easy monetary policy implemented by the European Central Bank, but the region continued to face destabilizing factors such as terrorist attacks by extremists, the immigrant issue and the U.K.'s exit from the European Union. There were concerns about a modest slowdown in the Chinese economy as well as growing geopolitical risks from the South China Sea disputes. Japan was fraught with a growing sense of stagnation in terms of the economic outlook due to factors including the reversal of the yen's depreciation against the U.S. dollar, a downturn in consumer confidence resulting from stagnation in growth of real income and slowing of inbound demand.

Under these circumstances, for the first six months of the fiscal year under review, net sales for the JVCKENWOOD Group decreased from a year earlier, affected by foreign exchange fluctuations and the Public Service Sector and the Media Service Sector recording lower sales. However, excluding the effects of foreign exchange, net sales for the period increased in real terms from a year earlier. Looking at profits and losses of the Group as a whole, operating loss decreased from a year ago due to higher operating income on higher sales in the Automotive Sector although there were negative factors that were within our period-start projection such as foreign exchange fluctuations and higher retirement benefit expenses. Ordinary loss for the first six months of the fiscal year under review improved by about 1,400 million yen from a year earlier due to an improvement in non-operating income/loss.

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 108 yen	About 102 yen
	Euro	About 122 yen	About 114 yen
FY2015 (for reference)	U.S. dollar	About 121 yen	About 122 yen
	Euro	About 134 yen	About 136 yen

*Net Sales

Net sales for the first six months of the fiscal year under review decreased by about 3,000 million yen, or 2.1%, year-on-year to 136,391 million yen.

Sales in the Automotive Sector increased from a year ago, reflecting higher sales in the OEM Business resulting from increased sales of dealer-installed option products, among other factors. Meanwhile, sales in the Communications Systems Business, as well as Professional Systems Business, operated mainly by JVCKENWOOD Public & Industrial Systems Corporation ("JKPI"), decreased from a year ago. As a result, sales in the Public Service Sector declined from a year earlier. In the meantime, although sales in the Entertainment Business increased year-on-year, reflecting strong sales of content, sales in the Media Service Sector decreased due mainly to lower sales in the Media Business as a result of a decrease in sales of video cameras.

Excluding the effects of foreign exchange, net sales for the first six months of the fiscal year under review increased by about 6% year-on-year.

*Operating Income

Operating income for the first six months of the fiscal year under review improved by about 100 million yen year-on-year to an operating loss of 869 million yen.

In the Automotive Sector, operating income/loss improved significantly and returned to positive territory. This is because the Consumer Business enjoyed strong sales of Saisoku-Navi series car navigation systems equipped with audio-visual functions, as well as dashcams, in the domestic market. The Consumer Business also benefited from healthy sales of audio and multimedia products in overseas markets. The OEM Business saw growth in sales of dealer-installed option products. Meanwhile, operating income decreased in the Communications Systems Business, reflecting lower sales, but operating income/loss in the Professional Systems Business improved. As a result, operating loss in the Public Service Sector stood at the same level as the corresponding period of the previous fiscal year. The Media Service Sector recorded reduced profits, affected by lower profits that resulted from lower sales in the Media Business, although the Entertainment Business achieved increased profits.

Excluding the effects of foreign exchange and other factors, operating income improved in all segments.

*Ordinary Income

Ordinary income for the first six months of the fiscal year under review improved by about 1,400 million yen year-on-year to an ordinary loss of 1,725 million yen as non-operating income/loss improved due to an improving net financial income, coupled with the improvement in operating income/loss.

*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 declined by about 1,200 million yen year-on-year to a net loss of 5,979 million yen despite improving ordinary income. This is because an extraordinary loss was recorded in the Automotive Sector and the Media Service Sector as stated in "Notice on Recording of Extraordinary Loss" released separately October 31, 2016.

(Net Sales and Profits and Losses by Business Segment)

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

The total amount of operating income (loss) by business segment is consistent with operating income (loss) shown on 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, 2016 to September 30, 2016)

(Millions of yen)

Business Segment		First six months of FYE3/'17	First six months of FYE3/'16	Year-on-year comparison
Automotive Sector	Net sales	68,637	66,349	+2,288
	Operating income	31	(747)	+778
Public Service Sector	Net sales	34,185	37,936	(3,751)
	Operating income	(654)	(616)	(38)
Media Service Sector	Net sales	31,387	32,192	(805)
	Operating income	(414)	128	(542)
Others	Net sales	2,197	2,914	(717)
	Operating income	166	254	(88)
Inter-segment elimination	Net sales	(15)	(9)	(6)
Total	Net sales	136,391	139,384	(2,993)
	Operating income	(869)	(980)	+111
	Ordinary income	(1,725)	(3,093)	+1,368
	Net income attributable to owners of parent	(5,979)	(4,775)	(1,204)

*Automotive Sector

Net sales in the Automotive Sector for the first six months of the fiscal year under review increased by about 2,300 million yen, or 3.4%, year-on-year to 68,637 million yen and operating income grew by about 800 million yen year-on-year to 31 million yen.

(Net Sales)

In the Consumer Business, sales of Saisoku-Navi series car navigation systems and dashcams were strong in the domestic market. However, sales in overseas markets were negatively affected by foreign exchange fluctuations. As a result, net sales in the Consumer Business declined from the corresponding period of the previous fiscal year.

In the OEM Business, net sales increased year-on-year due to significant growth in sales of dealer-installed option products although the Chinese subsidiary Shinwa International Holdings Limited ("Shinwa") recorded lower sales of flagship CD/DVD mechanism systems.

(Operating Income)

In the Consumer Business, operating income/loss for the first six months of the fiscal year under review improved from a year ago. This was due to strong sales of Saisoku-Navi series car navigation systems and dashcams in the Japanese market, coupled with the improvement in product mix as a result of strong sales of new products in overseas markets, notably in Europe and the U.S.

In the OEM Business, operating income for the first six months of the fiscal year under review increased from a year ago, reflecting higher sales of dealer-installed option products.

*Public Service Sector

Net sales in the Public Service Sector for the first six months of the fiscal year under review declined by about 3,800 million yen, or 9.9%, year-on-year to 34,185 million yen, and operating income was at the same level as the corresponding period of the previous fiscal year, at an operating loss of 654 million yen.

(Net Sales)

Net sales in the Communications Systems Business decreased from a year earlier due to continued lower sales of professional radio devices for the railroad and natural resource industries in the U.S., which were affected by the lingering impact of low crude oil prices, and decrease in sales at the Group's U.S. communications systems subsidiary EF Johnson Technologies, Inc.

Net sales in the Professional Systems Business, operated mainly by JKPI, decreased from a year earlier due to the company's strategy of focusing on projects with high profitability.

(Operating Income)

Operating income in the Communications Systems Business was affected by lower sales of professional radio devices. However, operating income improved at Zetron, Inc., the Group's U.S. communications systems subsidiary.

As a result, operating loss stood at almost the same level as the corresponding period of the previous fiscal year.

In the Professional Systems Business, operating income improved from a year earlier despite lower sales, due to the focus on high-profitability projects.

***Media Service Sector**

For the first six months of the fiscal year under review, net sales in the Media Service Sector decreased by about 800 million yen, or 2.5%, year-on-year to 31,387 million yen. Operating income declined by about 500 million yen year-on-year to record an operating loss of 414 million yen.

(Net Sales)

In the Media Business, net sales decreased year-on-year, affected by a decrease in sales of consumer video cameras in the Japanese market as the series of earthquakes that hit Kumamoto from April 14, 2016 disrupted the supply of parts, as well as lower sales of professional video cameras in Europe and China.

In the Entertainment Business, net sales increased year-on-year as sales of content were strong despite the effects of reduced sales resulting from the relocation of the subsidiary JVCKENWOOD Creative Media Corporation ("JKCM"), a contract production service provider for package media such as CD, DVD and Blu-ray products.

(Operating Income)

In the Media Business, operating income decreased due to the effects of the above-mentioned drop in sales.

In the Entertainment Business, operating income increased due to strong sales of content.

(2) Description of Financial Position

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

***Assets**

Total assets decreased by about 15,300 million yen from the end of the previous fiscal year to 240,541 million yen. This is because of decreases in current assets such as notes and accounts receivable-trade due to seasonal factors and the yen's appreciation against other major currencies compared with the end of the previous fiscal year.

***Liabilities**

Total liabilities decreased by approximately 2,000 million yen from the end of the previous fiscal year to 197,048 million yen. This was due to decreases in current liabilities including short-term loans payable, the current portion of long-term loans payable and other accounts payable, despite an increase in long-term liabilities resulting from refinancing of bank borrowings.

Interest-bearing debts increased by about 2,900 million yen from the end of the previous fiscal year to 72,069 million yen. Net debts (amount obtained by subtracting cash and deposits from interest-bearing debts) increased by approximately 8,700 million yen from the end of the previous fiscal year to 35,166 million yen.

***Net Assets**

During the first six months of the fiscal year under review, retained earnings declined by approximately 6,700 million yen from the end of the previous fiscal year to 18,008 million yen, due mainly to recording of a net loss attributable to owners of parent. Total shareholders' equity decreased by approximately 6,700 million yen from the end of the previous fiscal year to 73,244 million yen.

Total net assets decreased by about 13,300 million yen from the end of the previous fiscal year to 43,493 million yen. This was mainly due to the decline in shareholders' equity and an increase of about 7,900 million yen in the debit balance of foreign currency translation adjustments as a result of the appreciation of the yen compared with the end of the previous fiscal year. The capital adequacy ratio dropped by 4.1 percentage points from the end of the previous fiscal year to 16.0%, 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 decreased by about 1,700 million yen from the corresponding period of the previous fiscal year to 4,232 million yen. This was mainly attributable to a decrease in cash inflow resulting from recovery 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 increased by about 900 million yen from the corresponding period of the previous fiscal year to 8,503 million yen. This mainly reflects the increase in cash outflow for the acquisition of property, plant and equipment.

***Cash flow from financing activities**

Net cash provided by financing activities for the first six months of the fiscal year under review was about 1,097 million yen, which is an increase of about 8,600 million yen from the corresponding period of the previous fiscal year (net cash used of 7,500 million yen a year ago). This was mainly attributable to the absence of outflows of cash used for redemption of bonds and additionally acquiring shares of Shinwa, implemented in the previous fiscal year.

Cash and cash equivalents at the end of the first six months of the fiscal year under review decreased by about 8,600 million yen from the end of the previous fiscal year to 35,716 million yen.

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

During the first six months of the fiscal year under review, operating income improved by about 100 million yen from a year ago, an improvement significantly above our period-start projection, despite the effects caused by factors within our expectations at the start of the period such as foreign exchange fluctuations and increase in retirement benefit expenses. In particular, operating income in the Automotive Sector exceeded the period-start projection significantly despite the effects of foreign exchange fluctuations in overseas markets, owing to strong sales of Saisoku-Navi series car navigation systems and dashcams as well as the sharp growth in sales of dealer-installed option products in the Japanese market.

As for the outlook for the third quarter of the fiscal year under review and beyond, we expect the sales expansion to continue for dealer-installed option products of OEM Business in the Automotive Sector. Meanwhile, we need to see the trends in earnings for the second half of the fiscal year under review. Accordingly, JVCKENWOOD does not revise its forecast for net sales, operating income and ordinary income for the fiscal year ending March 31, 2017 released at the beginning of the period.

As stated in “Notice on Recording of Extraordinary Loss” released separately October 31, 2016, JVCKENWOOD recorded an extraordinary loss in the Automotive Sector and the Media Service Sector for the first six months of the fiscal year under review. However, JVCKENWOOD does not change the forecast for net income attributable to owners of parent for the fiscal year ending March 31, 2017 released at the beginning of the period.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2016)	End of current consolidated second quarter (as of Sep. 30, 2016)
Assets		
Current assets		
Cash and cash equivalents	42,764	36,902
Trade notes and accounts receivable	55,517	48,097
Merchandise and finished goods	25,419	25,842
Work in process	4,573	4,899
Raw materials and supplies	10,094	11,348
Deferred tax assets	3,443	3,493
Other current assets	9,578	8,865
Allowance for doubtful accounts	△1,448	△985
Total current assets	149,943	138,462
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	13,103	12,347
Machinery and equipment, net	7,068	7,206
Tools, furniture and fixtures, net	5,463	5,786
Land	22,875	22,388
Construction in progress	2,996	2,248
Total property, plant and equipment, net	51,506	49,978
Intangible fixed assets		
Goodwill	8,087	7,318
Software	12,105	12,165
Other intangible fixed assets	4,785	4,006
Total intangible fixed assets	24,978	23,489
Investments and other assets		
Investment securities	5,966	5,737
Net defined benefit asset	14,955	15,115
Deferred tax assets	5,916	5,324
Other investments	3,276	3,031
Allowance for doubtful accounts	△683	△599
Total investments and other assets	29,431	28,610
Total fixed assets	105,916	102,078
Total assets	255,859	240,541

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2016)	End of current consolidated second quarter (as of Sep. 30, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	32,639	32,566
Short-term loans payable	10,660	9,308
Current portion of long-term loans payable	12,279	8,513
Other accounts payable	10,295	7,522
Accrued expenses	18,333	18,143
Income taxes payable	2,645	2,116
Warranty reserves	1,250	1,117
Sales return reserves	722	855
Reserves for loss on order received	—	711
Other current liabilities	11,234	10,072
Total current liabilities	100,060	90,927
Long-term liabilities		
Long-term loans payable	46,262	54,247
Deferred tax liabilities for land revaluation	1,523	1,523
Deferred tax liabilities	8,046	7,589
Net defined benefit liability	39,788	39,639
Other long-term liabilities	3,358	3,120
Total long-term liabilities	98,980	106,120
Total liabilities	199,041	197,048
Equity		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	45,272	45,272
Retained earnings	24,682	18,008
Treasury stock	△36	△36
Total shareholders' equity	79,918	73,244
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	445	311
Deferred loss on derivatives under hedge accounting	△1,075	△757
Land revaluation surplus	3,458	3,458
Foreign currency translation adjustments	△13,820	△21,762
Remeasurements of defined benefit plans	△17,349	△15,960
Total accumulated other comprehensive income	△28,341	△34,710
Non-controlling interests	5,241	4,959
Total equity	56,818	43,493
Total liabilities and equity	255,859	240,541

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

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Sep. 30, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Sep. 30, 2016)
Net sales	139,384	136,391
Cost of sales	100,972	100,939
Gross profit	38,411	35,452
Selling, general and administrative expenses	39,391	36,322
Operating loss	△980	△869
Non-operating income		
Interest income	116	79
Dividend income	79	169
Other non-operating income	417	319
Total non-operating income	613	569
Non-operating expense		
Interest expense	982	483
Foreign exchange loss	433	264
Borrowing costs	700	124
Other non-operating expenses	609	552
Total non-operating expense	2,726	1,424
Ordinary loss	△3,093	△1,725
Extraordinary profit		
Gain on sales of property, plant and equipment	33	90
Gain on sales of shares in subsidiaries and associated companies	407	—
Gain on liquidation of subsidiaries and associated companies	1,150	69
Other extraordinary profit	—	8
Total extraordinary profit	1,591	167
Extraordinary loss		
Loss on sales of property, plant and equipment	13	5
Loss on disposal of property, plant and equipment	15	1,359
Loss on impairment of long-lived assets	834	—
Business structural improvement expenses	98	68
Employment structural improvement expenses	447	213
Loss on liquidation of subsidiaries and associated companies	—	272
Provision for loss on order received	—	711
Other extraordinary loss	3	10
Total extraordinary loss	1,413	2,642
Loss before income taxes	△2,915	△4,200
Income taxes - current	1,534	1,448
Income taxes - deferred	35	△37
Total income taxes	1,569	1,410
Net loss	△4,485	△5,610
Net income attributable to non-controlling interests	289	368
Net loss attributable to owners of parent	△4,775	△5,979

(Consolidated Statements of Comprehensive Income)

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Sep. 30, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Sep. 30, 2016)
Net loss	△4,485	△5,610
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	△57	△133
Deferred loss on derivatives under hedge accounting	△39	318
Foreign currency translation adjustments	△3,769	△8,501
Remeasurements of defined benefit plans	505	1,389
Total other comprehensive income	△3,361	△6,928
Comprehensive income	△7,846	△12,539
Total comprehensive income attributable to:		
Owners of the parent	△8,081	△12,348
Non-controlling interests	234	△190

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Sep. 30, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Sep. 30, 2016)
Cash flows from operating activities		
Loss before income taxes	△2,915	△4,200
Depreciation	5,808	5,883
Loss on impairment of long-lived assets	834	—
Amortization of goodwill	303	284
Increase in net defined benefit liability	1,978	2,356
Increase in net defined benefit asset	△1,792	△1,090
(Decrease) increase in allowance for doubtful accounts	7	△383
Increase in reserves for loss on order received	—	711
Interest and dividend income	△195	△249
Interest expense	982	483
Gain on sales of shares in subsidiaries and associated companies	△407	—
Loss (gain) on liquidation of subsidiaries and associated companies	△1,150	203
Gain on sales of property, plant and equipment	△19	△84
Loss on disposal of property, plant and equipment	15	1,359
Decrease in trade notes and accounts receivable	11,110	3,798
Increase in inventories	△1,961	△5,219
Increase (decrease) in trade notes and accounts payable	△1,489	2,331
Decrease in other accounts payable	△2,781	△1,076
Increase in accrued expenses	123	762
Other, net	△233	149
Sub-total	8,214	6,019
Interest and dividend received	195	249
Interest paid	△912	△476
Income taxes paid	△1,563	△1,560
Net cash provided by operating activities	5,933	4,232
Cash flows from investing activities		
Purchases of property, plant and equipment	△2,919	△5,350
Proceeds from sales of property, plant and equipment	217	801
Purchase of intangible fixed assets	△3,345	△3,725
Purchase of investment securities	△544	△2
Purchases of investments in subsidiaries resulting in change of scope of consolidation	△2,080	—
Proceeds from sales of investments in subsidiaries resulting in change of scope of consolidation	1,057	—
Other, net	△30	△227
Net cash used in investing activities	△7,645	△8,503
Cash flows from financing activities		

Decrease in short-term loans payable, net	△4,802	△981
Proceeds from long-term loans payable	51,874	13,418
Repayment of long-term loans payable	△44,315	△8,739
Redemption of bonds	△6,000	—
Cash dividends paid	△693	△694
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	△1,523	—
Other, net	△2,083	△1,905
Net cash used in financing activities	△7,544	1,097
Effect of exchange rate changes on cash and cash equivalents	△896	△2,661
Net decrease in cash and cash equivalents	△10,153	△5,835
Cash and cash equivalents at beginning of year	54,452	41,551
Cash and cash equivalents at end of quarter	44,299	35,716