TRANSLATION - FOR REFERENCE ONLY -

JVCKENWOOD

January 31, 2017

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Accounting Report for the Third Quarter of Fiscal Year Ending March 2017 (April 1, 2016 – December 31, 2016)

Consolidated Financial Highlights for the Third Quarter of Fiscal Year Ending March 2017 (April 1, 2016 – December 31, 2016)

Operating Results

(Millions of yen, except net income per share)

	First Nine Months of FYE 3/2017 April 1, 2016 to December 31, 2016	First Nine Months of FYE 3/2016 April 1, 2015 to December 31, 2015
Net sales	215,812	214,540
Operating income (loss)	1,497	354
Ordinary income (loss)	(256)	(2,156)
Net income attributable to owners of parent	(10,742)	(5,453)
Net income (loss) per share	(77.31)yen	(39.31)yen

FYE: Fiscal year ended / ending

Net Sales and Operating Income by Customer industry sectors

(Millions of yen)

		First Nine Months of FYE 3/2017	First Nine Months of FYE 3/2016	Year-on-year comparison
Automotive Sector	Net sales	106,868	102,687	+4,181
	Operating income (loss)	(363)	(876)	+513
Public Service Sector	Net sales	52,076	58,049	(5,973)
	Operating income (loss)	(257)	163	(420)
Media Service Sector	Net sales	53,491	49,444	+4,047
	Operating income (loss)	1,729	696	+1,033
Others	Net sales	3,420	4,371	(951)
	Operating income (loss)	389	370	+19
Intersegment Sales or Transfer	Net sales	(44)	(13)	(31)
Total	Net sales	215,812	214,540	+1,272
	Operating income (loss)	1,497	354	+1,143
	Ordinary income (loss)	(256)	(2,156)	+1,900
	Net income attributable to owners of parent	(10,742)	(5,453)	(5,289)

1. Qualitative Information on 3Q Financial Results

(1) Description of Operating Results

JVCKENWOOD Group, as stated in “Notice Regarding Corrections to Earnings Results of the Company” released separately on Jan. 31, made corrections to the earnings results for the period from the third quarter of the fiscal year ended March 2012 (from April 1, 2011 to March 31, 2012) to the second quarter of the fiscal year ending March 2017 (from April 1, 2016 to March 31, 2017) effective on Jan. 31.

The qualitative information described below is based entirely on the corrected consolidated financial statements, etc.

(Overview of the Third Quarter of the Fiscal Year under Review)

Looking at the global economy during the first nine months of the fiscal year under review, the U.S. economy continued to grow at a moderate pace driven by increases in income. However, the election of Mr. Donald Trump as President-elect of the U.S. in November triggered uncertainty in the economy due to concerns about the policies his administration was going to pursue after taking the office. In Europe, the economy was propped up by the easy monetary policy implemented by the European Central Bank, while the region continued to experience sluggish growth due to lack of aggregate demand and face destabilizing factors such as the U.K.’s exit from the European Union. In Japan, consumer confidence declined due to the yen’s rapid appreciation in the first half of the fiscal year under review but the yen turned around and started depreciating in the third quarter. As a result, the Japanese economy showed a modest recovery.

Under these circumstances, for the first nine months of the fiscal year under review, net sales for the JVCKENWOOD Group increased from the same period a year earlier, despite the effects of foreign exchange fluctuations, due to higher sales in the Automotive Sector and the Media Service Sector. Profits and losses of the Group as a whole were affected by factors that were within our period-start projection such as foreign exchange fluctuations and higher retirement benefit expenses. However, profit and losses improved in the Automotive Sector and the Media Service Sector, and operating income/loss thus turned around to record a jump in operating income from the same period a year ago. Ordinary loss decreased substantially from the same period a year earlier, due to the increase in operating income and an improvement in non-operating income/loss. On the other hand, net loss attributable to owners of parent increased due primarily to recording extraordinary loss for the first nine months of the fiscal year under review.

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

		1st Quarter	2nd Quarter	3rd Quarter
Profit-and-loss exchange rate	U.S. dollar	About 108 yen	About 102 yen	About 109 yen
	Euro	About 122 yen	About 114 yen	About 118 yen
FY2015 (for reference)	U.S. dollar	About 121 yen	About 122 yen	About 121 yen
	Euro	About 134 yen	About 136 yen	About 133 yen

*Net Sales

Net sales for the first nine months of the fiscal year under review increased by about 1,300 million yen, or 0.6%, year-on-year to 215,812 million yen, despite the decrease in sales due to the effects of exchange rate fluctuations.

Sales in the Automotive Sector increased from the same period a year earlier, reflecting higher sales in the OEM Business resulting from increased sales of dealer-installed option products, among other factors. Meanwhile, sales in the Public Service Sector decreased from the same period of the previous fiscal year due primarily to lower sales in the Communication Systems Business and the Professional Systems Business that is operated mainly by JVCKENWOOD Public & Industrial Systems Corporation (“JKPI”), compared with the same period of the previous fiscal year. In the meantime, sales in the Media Service Sector increased due mainly to higher sales in the Entertainment Business, reflecting strong sales of content.

Excluding the effects of foreign exchange fluctuations, net sales for the first nine months of the fiscal year under review grew by about 9% year-on-year.

*Operating Income

Operating income for the first nine months of the fiscal year under review surged sharply by about 1,100 million yen, or 322.9%, year-on-year to 1,497 million yen.

As we stated in “Notice Regarding Recording of Operating Loss and Extraordinary Loss” released separately on Jan. 31, an operating loss was recorded in the Automotive Sector but profit and loss improved. This is because the Consumer Business enjoyed strong sales of Saisoku-Navi, a SSD-type of AV car navigation system and dashcams in the domestic market and healthy sales of audio and multimedia products in overseas markets. In addition, the OEM Business saw growth in sales of dealer-installed option products. In the Public Service Sector, profits decreased from the same period of the previous fiscal year, reflecting lower sales recorded in both the Communication Systems Business and the Professional Systems Business. The Media Service Sector as a whole achieved increased profits due to higher profit recorded in the Entertainment Business.

*Ordinary Income

Ordinary income for the first nine months of the fiscal year under review improved by about 1,900 million yen year-on-year to record an ordinary loss of 256 million yen as non-operating income/loss improved due to higher net financial income, coupled with a sharp increase in operating income.

*Net Income Attributable to Owners of Parent

Net income attributable to owners of parent for the first nine months of the fiscal year under review declined by about 5,300 million yen year-on-year to a net loss of 10,742 million yen, despite the improvement in ordinary income/loss. This is because an extraordinary loss was posted for the third quarter of the fiscal year under review as stated in “Notice Regarding Recording of Operating Loss and Extraordinary Loss” released separately on Jan. 31.

(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 nine months of the fiscal year under review (from April 1, 2016 to December 31, 2016)

(Millions of yen)

Business Segment		First nine months of FYE3/’17	First nine months of FYE3/’16	Year-on-year comparison
Automotive Sector	Net sales	106,868	102,687	+4,181
	Operating income	(363)	(876)	+513
Public Service Sector	Net sales	52,076	58,049	(5,973)
	Operating income	(257)	163	(420)
Media Service Sector	Net sales	53,491	49,444	+4,047
	Operating income	1,729	696	+1,033
Others	Net sales	3,420	4,371	(951)
	Operating income	389	370	+19
Inter-segment elimination	Net sales	(44)	(13)	(31)
Total	Net sales	215,812	214,540	+1,272
	Operating income	1,497	354	+1,143
	Ordinary income	(256)	(2,156)	+1,900
	Net income attributable to owners of parent	(10,742)	(5,453)	(5,289)

*Automotive Sector

Net sales in the Automotive Sector for the first nine months of the fiscal year under review increased by about 4,200 million yen, or 4.1%, year-on-year to 106,868 million yen and operating income improved by about 500 million yen from the same period a year earlier to an operating loss of 363 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 a year ago.

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

(Operating Income)

In the Consumer Business, net sales for the first nine months of the fiscal year under review declined from the same period a year ago due mainly to the effects of foreign exchange fluctuations. However, sales of Saisoku-Navi series car navigation systems and dashcams were strong in the domestic market and product mix improved in overseas markets, notably in Europe and the U.S. Consequently, operating income in the Consumer Business grew from the same period a year ago.

In the OEM Business, operating loss for the first nine months of the fiscal year under review increased compared with the year-earlier period despite the effects of growth in sales of dealer-installed option products. This is because an operating loss was recorded as stated in “Notice Regarding Recording of Operating Loss and Extraordinary Loss” released separately on Jan. 31

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***Public Service Sector**

Net sales in the Public Service Sector for the first nine months of the fiscal year under review declined by about 6,000 million yen, or 10.3%, year-on-year to 52,076 million yen, and operating income decreased by about 400 million yen from the same period a year earlier to an operating loss of 257 million yen.

(Net Sales)

Net sales in the Communication Systems Business decreased from the same period a year earlier due to the effects of foreign exchange fluctuations, as well as continued lower sales of professional wireless systems for the railroad and natural resource industries in the U.S. and decrease in sales at the Group's U.S. communication systems subsidiary as a result of change in the delivery period for a large-scale project.

Net sales in the Professional Systems Business, operated mainly by JKPI, decreased from the same period a year earlier due to the effects of a fall in demand in some markets and thorough implementation of a policy to focus on projects with high profitability.

(Operating Income)

Operating income decreased in both the Communication Systems Business and the Professional Systems Business due to the effects of the aforementioned decrease in sales.

***Media Service Sector**

Net sales in the Media Service Sector for the first nine months of the fiscal year under review grew by about 4,000 million yen, or 8.2%, year-on-year to 53,491 million yen, and operating income surged by about 1,000 million yen, or 148.3%, year-on-year to 1,729 million yen.

(Net sales)

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

In the Entertainment Business, net sales increased year-on-year as sales of content were strong, despite the effects of a decrease in sales resulting from the relocation of the subsidiary JVCKENWOOD Creative Media Corporation, 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 mainly to the effects of the above-mentioned drop in sales.

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

(2) Description of Financial Position
(Analysis of Assets, Liabilities and Net Assets, etc.)

***Assets**

Total assets increased by about 1,000 million yen from the end of the previous fiscal year to 257,296 million yen. This is because of increases in notes and accounts receivable-trade and inventories such as merchandise and finished goods, although cash and deposits decreased.

***Liabilities**

Total liabilities increased by approximately 7,900 million yen from the end of the previous fiscal year to 206,684 million yen. This was due to increases in long-term loans payable and notes and accounts payable-trade, although short-term loans payable and the current portion of long-term loans payable decreased as a result of refinancing of bank borrowings.

Interest-bearing debts increased by about 2,600 million yen from the end of the previous fiscal year to 71,819 million yen. Net debts (amount obtained by subtracting cash and deposits from interest-bearing debts) increased by approximately 10,400 million yen from the end of the previous fiscal year to 36,809 million yen.

***Net Assets**

During the first nine months of the fiscal year under review, retained earnings declined by approximately 11,400 million yen from the end of the previous fiscal year to 13,691 million yen, due mainly to the recording of a net loss attributable to owners of parent. Total shareholders' equity decreased by approximately 11,400 million yen from the end of the previous fiscal year to 69,227 million yen.

Total net assets decreased by about 7,000 million yen from the end of the previous fiscal year to 50,611 million yen. This was mainly due to the decline in total shareholders' equity, although the debit balance of other comprehensive income such as deferred gains or losses on hedges decreased. The capital adequacy ratio dropped by 3.0 percentage points from the end of the previous fiscal year to 17.4%, due to reasons similar to those for the decrease in total net assets.

(Cash Flow Analysis)

***Cash flow from operating activities**

Net cash provided by operating activities for the first nine months of the fiscal year under review was 5,257 million yen, which is a decrease of about 900 million yen from the corresponding period of the previous fiscal year. This was mainly attributable to the increase in working capital resulting from the higher net sales.

***Cash flow from investing activities**

Net cash used in investing activities for the first nine months of the fiscal year under review was 13,293 million yen, which is an increase of about 1,900 million yen from the corresponding period of the previous fiscal year. This mainly reflected an 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 nine months of the fiscal year under review was 195 million yen, which is an increase of about 10,900 million yen from the corresponding period of the previous fiscal year (net cash used of 10,700 million yen in the year-earlier period). This was mainly attributable to the absence of outflows of cash used for redemption of bonds and additionally acquiring shares of Shinwa that were implemented in the previous fiscal year.

Cash and cash equivalents at the end of the first nine months of the fiscal year under review decreased by about 4,200 million yen from the end of the previous fiscal year to 33,574 million yen.

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

During the first nine months of the fiscal year under review, operating income significantly exceeded our period-start projection to achieve an increase by about 1,100 million yen from the corresponding period of the previous fiscal year. This is 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, as well as the recording of an operating loss as stated in “Notice Regarding Recording Operating Loss and Extraordinary Loss” released separately on Jan. 31. In the Automotive Sector, sales of Saisoku-Navi series car navigation systems and dashcams were strong in the domestic market and sales of dealer-installed option products grew substantially. In the Media Service Sector, higher sales of content were recorded in the Entertainment Business. Meanwhile, as stated in “Notice Regarding Recording Operating Loss and Extraordinary Loss” released separately on Jan. 31, net income attributable to owners of parent declined by about 5,300 million yen from the corresponding period of the previous fiscal year.

As for the outlook for the fourth quarter of the fiscal year under review, we expect that sales will continue to expand in the Consumer Business and dealer-installed option products of the OEM Business in the Automotive Sector.

Accordingly, JVCKENWOOD, as stated in “Notice Regarding Revisions of Forecasts for Earnings and Dividend of Surplus” released separately on Jan. 31, has decided to revise its forecast for net sales, ordinary income and net income attributable to owners of parent for the fiscal year ending March 31, 2017 announced 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 third quarter (as of Dec. 31, 2016)
Assets		
Current assets		
Cash and cash equivalents	42,764	35,010
Trade notes and accounts receivable	55,517	58,757
Merchandise and finished goods	25,419	31,251
Work in process	4,573	5,415
Raw materials and supplies	10,094	11,524
Deferred tax assets	3,110	3,126
Other current assets	10,385	10,902
Allowance for doubtful accounts	(1,448)	(1,007)
Total current assets	150,417	154,981
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	13,103	13,366
Machinery and equipment, net	7,068	8,001
Tools, furniture and fixtures, net	5,463	6,724
Land	22,875	22,564
Construction in progress	2,996	1,144
Total property, plant and equipment, net	51,506	51,800
Intangible fixed assets		
Goodwill	8,087	3,985
Software	12,105	12,181
Other intangible fixed assets	4,785	2,696
Total intangible fixed assets	24,978	18,863
Investments and other assets		
Investment securities	5,966	7,154
Net defined benefit asset	14,955	15,357
Deferred tax assets	5,916	6,074
Other investments	3,276	3,658
Allowance for doubtful accounts	(683)	(593)
Total investments and other assets	29,431	31,651
Total fixed assets	105,916	102,315
Total assets	256,334	257,296

(JPY in Million)

	Previous Fiscal Year (as of Mar. 31, 2016)	End of current consolidated third quarter (as of Dec. 30, 2016)
Liabilities		
Current liabilities		
Trade notes and accounts payable	32,639	38,187
Short-term loans payable	10,660	9,018
Current portion of long-term loans payable	12,279	8,899
Other accounts payable	10,295	8,993
Accrued expenses	18,333	18,984
Income taxes payable	2,371	2,342
Warranty reserves	1,250	1,243
Sales return reserves	722	959
Reserves for loss on order received	—	2,004
Other current liabilities	11,234	9,351
Total current liabilities	99,787	99,985
Long-term liabilities		
Long-term loans payable	46,262	53,902
Deferred tax liabilities for land revaluation	1,523	1,523
Deferred tax liabilities	8,046	7,938
Net defined benefit liability	39,788	39,982
Other long-term liabilities	3,358	3,352
Total long-term liabilities	98,980	106,699
Total liabilities	198,768	206,684
Equity		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	45,573	45,573
Retained earnings	25,128	13,691
Treasury stock	(36)	(36)
Total shareholders' equity	80,665	69,227
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	445	666
Deferred loss on derivatives under hedge accounting	(1,075)	766
Land revaluation surplus	3,458	3,458
Foreign currency translation adjustments	(13,820)	(14,034)
Remeasurements of defined benefit plans	(17,349)	(15,277)
Total accumulated other comprehensive income	(28,341)	(24,420)
Non-controlling interests	5,241	5,804
Total equity	57,565	50,611
Total liabilities and equity	256,334	257,296

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

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Dec. 31, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Dec. 31, 2016)
Net sales	214,540	215,812
Cost of sales	155,765	158,782
Gross profit	58,774	57,030
Selling, general and administrative expenses	58,420	55,533
Operating income	354	1,497
Non-operating income		
Interest income	152	111
Dividend income	139	181
Other non-operating income	589	439
Total non-operating income	880	732
Non-operating expense		
Interest expense	1,298	692
Foreign exchange loss	556	651
Borrowing costs	725	151
Other non-operating expenses	809	990
Total non-operating expense	3,391	2,485
Ordinary loss	(2,156)	(256)
Extraordinary profit		
Gain on sales of property, plant and equipment	128	110
Gain on sales of shares in subsidiaries and associated companies	407	560
Gain on liquidation of subsidiaries and associated companies	1,150	69
Other extraordinary profit	—	31
Total extraordinary profit	1,686	771
Extraordinary loss		
Loss on sales of property, plant and equipment	25	9
Loss on disposal of property, plant and equipment	20	1,379
Loss on impairment of long-lived assets	1,111	5,310
Business structural improvement expenses	145	262
Employment structural improvement expenses	537	231
Loss on liquidation of subsidiaries and associated companies	—	273
Provision for loss on order received	—	711
Other extraordinary loss	78	16
Total extraordinary loss	1,920	8,194
Loss before income taxes	(2,390)	(7,679)
Income taxes - current	2,529	2,376
Income taxes - deferred	32	120
Total income taxes	2,562	2,497
Net loss	(4,953)	(10,176)
Net income attributable to non-controlling interests	499	566
Net loss attributable to owners of parent	(5,453)	(10,742)

(Consolidated Statements of Comprehensive Income)

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Dec. 31, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Dec. 31, 2016)
Net loss	(4,953)	(10,176)
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	(39)	217
Deferred loss on derivatives under hedge accounting	86	1,841
Foreign currency translation adjustments	(3,548)	(105)
Remeasurements of defined benefit plans	750	2,071
Total other comprehensive income	(2,751)	4,025
Comprehensive income	(7,704)	(6,151)
Total comprehensive income attributable to:		
Owners of the parent	(8,144)	(6,822)
Non-controlling interests	439	670

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Dec. 31, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Dec. 31, 2016)
Cash flows from operating activities		
Loss before income taxes	(2,390)	(7,679)
Depreciation	8,747	9,266
Loss on impairment of long-lived assets	1,111	5,310
Amortization of goodwill	454	427
Increase in net defined benefit liability	2,594	3,208
Increase in net defined benefit asset	(2,637)	(1,606)
Decrease in allowance for doubtful accounts	(18)	(467)
Increase in reserves for loss on order received	-	2,004
Interest and dividend income	(291)	(293)
Interest expense	1,298	692
Gain on sales of shares in subsidiaries and associated companies	(407)	(560)
Loss (gain) on liquidation of subsidiaries and associated companies	(1,150)	204
Gain on sales of property, plant and equipment	(102)	(100)
Loss on disposal of property, plant and equipment	20	1,379
(Increase) decrease in trade notes and accounts receivable	8,349	(3,776)
Increase in inventories	(4,026)	(8,010)
Increase in trade notes and accounts payable	2,586	5,960
Increase (decrease) in other accounts payable	(690)	202
Increase (decrease) in accrued expenses	(2,148)	732
Other, net	(2,114)	805
Sub-total	9,184	7,700
Interest and dividend received	291	293
Interest paid	(1,280)	(684)
Income taxes paid	(2,009)	(2,052)
Net cash provided by operating activities	6,186	5,257
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,817)	(7,578)
Proceeds from sales of property, plant and equipment	718	890
Purchase of intangible fixed assets	(5,161)	(5,404)
Purchase of investment securities	(545)	(1,438)
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	476
Other, net	(543)	(239)
Net cash used in investing activities	(11,372)	(13,293)
Cash flows from financing activities		
Decrease in short-term loans payable, net	(6,031)	(1,622)
Proceeds from long-term loans payable	51,889	14,949

(JPY in Million)

	Accumulated period for current consolidated second quarter (Apr.1, 2015 - Dec. 31, 2015)	Accumulated period for current consolidated second quarter (Apr.1, 2016 - Dec. 31, 2016)
Repayment of long-term loans payable	(45,986)	(10,546)
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	(2,383)	(1,890)
Net cash used in financing activities	(10,728)	195
Effect of exchange rate changes on cash and cash equivalents	(744)	(136)
Net decrease in cash and cash equivalents	(16,659)	(7,977)
Cash and cash equivalents at beginning of year	54,452	41,551
Cash and cash equivalents at end of quarter	37,793	33,574