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JVCKENWOOD

January 31, 2018

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Accounting Report for the Third Quarter of Fiscal Year Ending March 2018
(April 1, 2017 – December 31, 2017)

Consolidated Financial Highlights for the Third Quarter of Fiscal Year Ending March 2018
(April 1, 2017 – December 31, 2017)

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 3/2018 April 1, 2017 to December 31, 2017
Net sales	215,812	217,669
Operating income	1,497	2,184
Ordinary income	(256)	1,718
Net income attributable to owners of parent	(10,742)	1,828
Net income per share	(77.31) yen	13.16 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 3/2018	Year-on-year comparison
Automotive Sector	Net sales	105,459	125,249	+19,790
	Operating income	(355)	4,624	+4,979
Public Service Sector	Net sales	52,076	45,743	(6,333)
	Operating income	(257)	(2,026)	(1,769)
Media Service Sector	Net sales	54,856	42,769	(12,087)
	Operating income	1,721	(415)	(2,136)
Others	Net sales	3,420	3,907	+487
	Operating income	389	1	(388)
Total	Net sales	215,812	217,669	+1,857
	Operating income	1,497	2,184	+687
	Ordinary income	(256)	1,718	+1,974
	Net income attributable to owners of parent	(10,742)	1,828	+12,570

1. Qualitative Information on 3Q Financial Results
(1) Description of Operating Results
(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 US economy continued to grow at a robust pace. In Europe, a sense of economic uncertainty remained due to the political risks that might arise after the UK's exit from the European Union, but the Eurozone countries largely continued to enjoy steady economic growth. In Asia, China's economy saw robust growth, underpinned mainly by strong personal consumption, but uncertainties arising from geopolitical risks remained. In Japan, the economy remained on a gradual recovery track on the back of improved corporate earnings and a strong employment and income situation.

Under these circumstances, for the first nine 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, despite a decrease in sales in the Public Service Sector, due to the effects of business sell-offs, and a decline in sales in the Media Service Sector compared to the previous corresponding period when major works were released in the Entertainment Business. Operating income of the Group as a whole increased from the same period a year earlier, 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 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 111 yen	About 111 yen	About 113 yen
	Euro	About 122 yen	About 130 yen	About 133 yen
FY2016 (for reference)	U.S. dollar	About 108 yen	About 102 yen	About 109 yen
	Euro	About 122 yen	About 114 yen	About 118 yen

*Net Sales

Net sales for the first nine months of the fiscal year under review increased about 1,900 million yen, or 0.9%, year-on-year to 217,669 million yen.

Net sales in the Automotive Sector increased sharply from the same period a year earlier, reflecting a steep increase in sales of dealer-installed option products in the OEM Business. Net sales in the Public Service Sector decreased from the same period of the previous fiscal year, due to lower sales in the Professional Systems Business, reflecting business sell-offs. Net sales in the Media Service Sector declined from the same period a year earlier, due to lower sales in the Media Business compared to the previous corresponding period when major works were released in the Entertainment Business.

*Operating Income

Operating income for the first nine months of the fiscal year under review increased about 700 million yen, or 45.9%, from the same period a year earlier to 2,184 million yen.

In the Automotive Sector, the OEM Business turned around a loss into 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. Losses in the Media Business decreased due to an improvement in the performance of professional video cameras and imaging devices, but the profit in the Media Service Sector as a whole decreased due to a decline in profit in the Entertainment Business.

*Ordinary Income

Ordinary income for the first nine months of the fiscal year under review increased about 2,000 million yen year-on-year to 1,718 million yen, a turnaround from a loss to a profit, reflecting the increase in operating income and an improvement in non-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 increased about 12,600 million yen from the same period a year earlier to 1,828 million yen, a turnaround from a loss to a profit. This is primarily due to an increase in ordinary income, recording of extraordinary income as a gain on a revision of retirement benefit plan as announced in the "Notice on the Recording of Extraordinary Income and Reversal of Deferred Tax Liabilities of JVCKENWOOD, and Reversal of Deferred Tax Assets and Liabilities of US Subsidiaries," published on January 24, 2018, and a decrease in extraordinary 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 nine months of the previous fiscal year shown below has been restated according to the new reporting segment since 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 in the quarterly consolidated statements of income.

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

First nine months of the fiscal year under review (from April 1, 2017 to December 31, 2017) (Millions of yen)

Business Segment		First nine months of FYE3/'17	First nine months of FYE3/'18	Year-on-year comparison
Automotive Sector	Net sales	105,459	125,249	+19,790
	Operating income	(355)	4,624	+4,979
Public Service Sector	Net sales	52,076	45,743	(6,333)
	Operating income	(257)	(2,026)	(1,769)
Media Service Sector	Net sales	54,856	42,769	(12,087)
	Operating income	1,721	(415)	(2,136)
Others	Net sales	3,420	3,907	+487
	Operating income	389	1	(388)
Total	Net sales	215,812	217,669	+1,857
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	Ordinary income	(256)	1,718	+1,974
	Net income attributable to owners of parent	(10,742)	1,828	+12,570

***Automotive Sector**

Net sales in the Automotive Sector for the first nine months of the fiscal year under review increased about 19,800 million yen, or 18.8%, year-on-year to 125,249 million yen. Operating income grew sharply by about 5,000 million yen year-on-year to 4,624 million yen, turning around a loss into a profit.

(Net Sales)

In the Aftermarket Business, sales in overseas markets were affected by lower sales in the US 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 as a whole 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 sharp increase in sales of dealer-installed option products.

(Operating Profit)

In the Aftermarket Business, operating income decreased from the same period a year ago due to a decline in sales in the US market, although operating income grew steadily in the domestic market.

In the OEM Business, operating income grew substantially on a sharp increase in net sales. As a result, the OEM Business turned around 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 nine months of the fiscal year under review declined about 6,300 million yen, or 12.2%, year-on-year to 45,743 million yen, due to the effects of business sell-offs, and operating income decreased about 1,800 million yen from the same period a year earlier to an operating loss of 2,026 million yen.

(Net Sales)

Net sales in the Communication Systems Business decreased from the same period a year earlier, despite an increase in sales at the Group's US communication system subsidiaries, 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 sell-off of a 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 nine months of the fiscal year under review declined about 12,100 million yen, or 22.0%, year-on-year to 42,769 million yen, and operating income decreased about 2,100 million yen from the same period a year earlier to an operating loss of 415 million yen.

(Net Sales)

In the Media Business, net sales decreased from the same period a year earlier, affected by lower sales of AV accessories and consumer video cameras.

In the Entertainment Business, net sales declined from the same period a year earlier, reflecting lower sales of content compared to the previous corresponding period when major works were released.

(Operating Income)

In the Media Business, operating income for the third quarter of the fiscal year under review (three months ended December 31, 2017) increased from the same period a year earlier to record a positive operating income, due to the improved performance of professional video cameras and imaging devices, despite the effects of the aforementioned decline in sales. As a result, operating loss for the first nine months of the fiscal year under review decreased from the same period a year earlier.

In the Entertainment Business, operating income decreased due to the effects of the aforementioned decline in sales.

(2) Description of Financial Position

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

***Assets**

Total assets decreased about 7,400 million yen from the end of the previous fiscal year to 254,849 million yen. This was due to a decrease in net defined benefit assets caused by the transition to a defined contribution pension plan, despite an increase in inventories such as merchandise and finished goods.

***Liabilities**

Total liabilities decreased about 11,500 million yen from the end of the previous fiscal year to 189,260 million yen, due to decreases in borrowings from financial institutions and net defined benefit liability, despite an increase in notes and accounts payable-trade.

Net debts (amount obtained by subtracting cash and deposits from interest-bearing debts) decreased about 800 million yen from the end of the previous fiscal year to 27,672 million yen.

***Net Assets**

During the first nine months of the fiscal year under review, total shareholders' equity increased about 1,900 million yen from the end of the previous fiscal year to 75,206 million yen, as a result of recording net income attributable to owners of parent of about 1,800 million yen.

Total net assets increased about 4,100 million yen from the end of the previous fiscal year to 65,589 million yen due to decreases in the debit balance of foreign currency translation adjustments and non-controlling interests as a result of an additional acquisition of shares of Shinwa International Holdings Ltd. ("Shinwa"), a subsidiary of the Company.

As a result, the capital adequacy ratio rose 3.0 percentage points from the end of the previous fiscal year to 24.4%.

(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 10,368 million yen, which is an increase of about 5,100 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 nine months of the fiscal year under review was 5,731 million yen, which is a decrease of about 7,600 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 an increase in proceeds from the sale of property, plant and equipment.

***Cash flow from financing activities**

Net cash used in financing activities for the first nine months of the fiscal year under review was 7,107 million yen, which is an increase of about 7,300 million yen from the corresponding period of the previous fiscal year. This was mainly attributable to a decrease in proceeds from long-term borrowings and cash outflows for the additional acquisition of Shinwa's shares.

Cash and cash equivalents at the end of the first nine months of the fiscal year under review increased about 5,700 million yen from the end of the previous fiscal year to 39,245 million yen.

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

Consolidated earnings for the first nine months of the fiscal year under review progressed at a good pace against the period-start projections because the OEM Business in the Automotive Sector continued its run of strong sales, despite the effects of lower sales in the Public Service Sector and the Media Service Sector.

Regarding the outlook for the fourth quarter of the fiscal year under review, although we expect sales to continue expanding in the OEM Business of the Automotive Sector, JVCKENWOOD is not revising its consolidated earnings forecast of net sales and operating income for the fiscal year ending March 31, 2018, announced on April 27, 2017 at this time. However, the Company is revising its forecast of ordinary income and net income attributable to owners of parent as follows, as described in the "Notice Regarding Revisions of Forecasts for Earnings and Dividend of Surplus" published separately today.

(Millions of yen)

	Consolidated earnings forecast for FYE3/'18 (A) (Announced on April 27, 2017)	Consolidated earnings forecast for FYE3/'18 (B) (Announced on January 31, 2018)	Amount of change (B−A)
Net sales	295,000	295,000	–
Operating income	6,400	6,400	–
Ordinary income	4,400	5,000	600
Net income attributable to owners of parent	1,400	2,500	1,100

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(JPY in Million)

	Previous Fiscal Year (as of March 31, 2017)	End of current consolidated third quarter (as of December 31, 2017)
Assets		
Current assets		
Cash and cash equivalents	41,806	39,564
Trade notes and accounts receivable	56,706	53,541
Merchandise and finished goods	26,417	31,472
Work in process	4,794	5,853
Raw materials and supplies	10,679	13,906
Deferred tax assets	3,609	3,745
Other current assets	9,849	10,403
Allowance for doubtful accounts	(1,305)	(1,280)
Total current assets	152,557	157,206
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	13,031	13,064
Machinery, equipment and vehicles, net	7,879	8,642
Tools, furniture and fixtures, net	6,107	6,271
Land	22,187	21,082
Construction in progress	1,222	1,740
Total property, plant and equipment, net	50,428	50,801
Intangible fixed assets		
Goodwill	3,868	3,704
Software	12,056	11,158
Other intangible fixed assets	2,573	2,574
Total intangible fixed assets	18,499	17,437
Investments and other assets		
Investment securities	8,064	8,528
Net defined benefit asset	24,741	14,165
Deferred tax assets	5,268	4,072
Other investments	3,261	3,142
Allowance for doubtful accounts	(524)	(504)
Total investments and other assets	40,811	29,404
Total fixed assets	109,739	97,643
Total assets	262,297	254,849

(JPY in Million)

	Previous Fiscal Year (as of March 31, 2017)	End of current consolidated third quarter (as of December 31, 2017)
Liabilities		
Current liabilities		
Trade notes and accounts payable	31,233	39,751
Short-term loans payable	6,208	6,570
Current portion of long-term loans payable	9,002	32,350
Other accounts payable	10,548	9,536
Accrued expenses	18,751	16,392
Income taxes payable	1,900	1,936
Warranty reserves	1,368	1,615
Sales return reserves	1,380	1,157
Reserves for loss on order received	1,852	1,182
Other current liabilities	9,630	10,990
Total current liabilities	91,878	121,483
Long-term liabilities		
Long-term loans payable	55,052	28,316
Deferred tax liabilities for land revaluation	1,516	1,461
Deferred tax liabilities	11,410	7,683
Net defined benefit liability	37,686	27,234
Other long-term liabilities	3,239	3,082
Total long-term liabilities	108,904	67,777
Total liabilities	200,783	189,260
Equity		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	45,573	38,285
Retained earnings	17,722	26,959
Treasury stock	(37)	(37)
Total shareholders' equity	73,258	75,206
Accumulated other comprehensive income		
Net unrealized gain on available-for-sale securities	1,007	1,297
Deferred loss on derivatives under hedge accounting	445	29
Land revaluation surplus	3,442	3,316
Foreign currency translation adjustment	(15,320)	(12,819)
Remeasurements of defined benefit plans	(6,794)	(4,945)
Total accumulated other comprehensive income	(17,219)	(13,121)
Non-controlling interests	5,474	3,504
Total equity	61,514	65,589
Total liabilities and equity	262,297	254,849

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

(JPY in Million)

	Accumulated period for previous consolidated third quarter (April 1, 2016 – December 31, 2016)	Accumulated period for current consolidated third quarter (April 1, 2017 – December 31, 2017)
Net sales	215,812	217,669
Cost of sales	158,782	160,661
Gross profit	57,030	57,007
Selling, general and administrative expenses	55,533	54,822
Operating income	1,497	2,184
Non-operating income		
Interest income	111	127
Dividend income	181	119
Gain on investments in partnership	-	232
Other non-operating income	439	580
Total non-operating income	732	1,060
Non-operating expense		
Interest expense	692	662
Foreign exchange loss	651	147
Other non-operating expenses	1,141	717
Total non-operating expense	2,485	1,527
Ordinary income (loss)	(256)	1,718
Extraordinary profit		
Gain on sales of property, plant and equipment	110	825
Gain on sales of investment securities	-	716
Gain on sales of shares of subsidiaries and associated companies	560	-
Gain on liquidation of subsidiaries and associated companies	69	-
Gain on revision of retirement benefit plan	-	1,143
Other extraordinary profit	31	43
Total extraordinary profit	771	2,728
Extraordinary loss		
Loss on sales of property, plant and equipment	9	1
Loss on disposal of property, plant and equipment	1,379	79
Impairment loss	5,310	-
Business structural improvement expenses	262	8
Employment structural improvement expenses	231	-
Loss on liquidation of subsidiaries and associated companies	273	-
Provision for loss on order received	711	-
Other extraordinary loss	16	5
Total extraordinary loss	8,194	94
Income (loss) before income taxes	(7,679)	4,351
Income taxes - current	2,376	1,992
Income taxes - deferred	120	(135)
Total income taxes	2,497	1,857
Net income (loss)	(10,176)	2,494
Net income attributable to non-controlling interests	566	666
Net loss attributable to owners of parent	(10,742)	1,828

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

(JPY in Million)

	Accumulated period for previous consolidated third quarter (April 1, 2016 – December 31, 2016)	Accumulated period for current consolidated third quarter (April 1, 2017 – December 31, 2017)
Net income (loss)	(10,176)	2,494
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	217	289
Deferred gain (loss)on derivatives under hedge accounting	1,841	(415)
Land revaluation surplus	-	(126)
Foreign currency translation adjustments	(105)	2,605
Remeasurements of defined benefit plans	2,071	1,848
Total other comprehensive income	4,025	4,201
Comprehensive income	(6,151)	6,695
Total comprehensive income attributable to:		
Owners of the parent	(6,822)	5,925
Non-controlling interests	670	769

(3) Quarterly Consolidated Statement of cash flows

(JPY in Million)

	Accumulated period for previous consolidated third quarter (April 1, 2016 – December 31, 2016)	Accumulated period for current consolidated third quarter (April 1, 2017 – December 31, 2017)
Cash flows from operating activities		
Income (loss) before income taxes	(7,679)	4,351
Depreciation	9,266	9,940
Impairment loss	5,310	-
Amortization of goodwill	427	259
Increase (decrease) in net defined benefit liability	3,208	2,457
Increase (decrease) in net defined benefit asset	(1,606)	(2,220)
Increase (decrease) in allowance for doubtful accounts	(467)	(84)
Increase (decrease) in reserve for loss on order received	2,004	(669)
Interest and dividend income	(293)	(246)
Interest expenses	692	662
Loss (gain) on sales of investment securities	(31)	(716)
Loss (gain) on investments in partnership	-	(232)
Loss (gain) on sales of shares of subsidiaries and associated companies	(560)	-
Loss (gain) on liquidation of subsidiaries and associated companies	204	-
Loss (gain) on sales of property, plant and equipment	(100)	(823)
Loss on disposal of property, plant and equipment	1,379	79
Loss (gain) on revision of retirement benefit plan	-	(1,143)
Decrease (increase) in trade notes and accounts receivable	(3,776)	4,611
Decrease (increase) in inventories	(8,010)	(7,554)
Increase (decrease) in trade notes and accounts payable	5,960	7,002
Increase (decrease) in other accounts payable	202	(633)
Increase (decrease) in accrued expenses	732	(2,811)
Other, net	837	125
Sub-total	7,700	12,353
Interest and dividend received	293	246
Interest paid	(684)	(655)
Income taxes paid	(2,052)	(1,576)
Net cash provided by operating activities	5,257	10,368
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,578)	(5,506)
Proceeds from sales of property, plant and equipment	890	2,561
Purchase of intangible fixed assets	(5,404)	(4,469)

Purchase of investment securities	(1,438)	(307)
Proceeds from sales of investment securities	116	781
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	476	-
Other, net	(355)	1,209
Net cash used in investing activities	(13,293)	(5,731)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,622)	(234)
Proceeds from long-term loans payable	14,949	5,536
Repayment of long-term loans payable	(10,546)	(9,174)
Cash dividends paid	(694)	(694)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(1,770)
Other, net	(1,890)	(769)
Net cash used in financing activities	195	(7,107)
Effect of exchange rate change on cash and cash equivalents	(136)	1,034
Net increase (decrease) in cash and cash equivalents	(7,977)	(1,435)
Cash and cash equivalents at beginning of year	41,551	40,681
Cash and cash equivalents at end of quarter	33,574	39,245