

JVCKENWOOD

October 31, 2018

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Accounting Report for the First Half of Fiscal Year Ending March 2019 (April 1, 2018 – September 30, 2018)

Consolidated Financial Highlights for the First Half of Fiscal Year Ending March 2019
 (April 1, 2018 – September 30, 2018)

Operating Results

(JPY in Million, except Basic net income per share)

| | First Half of FYE 3/2018 April 1, 2017 to September 30, 2017 | First Half of FYE 3/2019 April 1, 2018 to September 30, 2018 |
|---|---|---|
| Revenue | 141,482 | 149,110 |
| Operating income | 2,357 | 3,516 |
| Profit before tax | 1,905 | 3,165 |
| Profit attributable to owners of parent | 835 | 1,771 |
| Comprehensive income | 3,760 | 6,419 |
| Basic net income per share | 6.01 yen | 12.24 yen |

FYE: Fiscal year ended / ending

Revenue and Core Operating Income by Customer industry sectors

(JPY in Million)

| | | First Half of FYE 3/2018 | First Half of FYE 3/2019 | Year-on-year comparison |
|-----------------------|---|-----------------------------|-----------------------------|----------------------------|
| Automotive Sector | Revenue | 80,957 | 86,052 | +5,095 |
| | Core Operating income | 3,183 | 4,182 | +999 |
| Public Service Sector | Revenue | 29,788 | 32,091 | +2,303 |
| | Core Operating income | -1,804 | -1,357 | +447 |
| Media Service Sector | Revenue | 28,242 | 28,171 | -71 |
| | Core Operating income | -99 | 686 | +785 |
| Others | Revenue | 2,493 | 2,794 | +301 |
| | Core Operating income | -67 | -138 | -71 |
| Total | Revenue | 141,482 | 149,110 | +7,628 |
| | Core Operating income | 1,211 | 3,372 | +2,161 |
| | Operating income | 2,357 | 3,516 | +1,159 |
| | Profit before tax | 1,905 | 3,165 | +1,260 |
| | Profit attributable to owners of parent | 835 | 1,771 | +936 |

1. Qualitative Information on 2Q Financial Results

(1) Description of Operating Results

(Overview of the Second Quarter of the Fiscal Year Under Review)

Revenue of the Company and its consolidated subsidiaries for the first six months of the fiscal year under review increased from the same period a year earlier, due to increased revenue in the Automotive Sector and the Public Service Sector. Operating income of the Group as a whole increased from the same period a year earlier, due to the growth in revenue.

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 | US Dollar | About 109 yen | About 111 yen |
| | Euro | About 130 yen | About 130 yen |
| FY2017 (For Reference) | US Dollar | About 111 yen | About 111 yen |
| | Euro | About 122 yen | About 130 yen |

Revenue

Revenue for the first six months of the fiscal year under review increased approximately 7,600 million yen, or 5.4%, year-on-year to 149,110 million yen.

Revenue in the Automotive Sector increased from the same period a year earlier, due to an increase in revenue in the OEM Business, reflecting higher sales of factory-installed option products. Revenue in the Public Service Sector increased from the same period a year earlier, due to an increase in revenue in the Communication Systems Business, reflecting higher sales of the Group's US communication system subsidiaries. Revenue in the Media Service Sector was on the same level as the same period a year earlier, despite a decrease in revenue in the Media Business, due to an increase in revenue in the Entertainment Business.

Operating Income

Operating income for the first six months of the fiscal year under review increased approximately 1,200 million yen, or 49.1%, from the same period a year earlier to 3,516 million yen, despite a decrease in gains on sales of assets.

Operating performance by customer industry sector for the first six months of the fiscal year under review, as with the operating results for the first three months of the fiscal year under review, is explained using core operating income*, which is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

Core operating income for the first six months of the fiscal year under review increased approximately 2,200 million yen, or 178.4%, from the same period a year earlier to 3,372 million yen, due to greater performance in all three operating segments—the Automotive Sector, the Public Service Sector, and the Media Service Sector.

In the Automotive Sector, operating income increased from the same period a year earlier, due to profit growth in the OEM Business, reflecting higher sales of factory-installed option products. In the Public Service Sector, operating loss decreased, reflecting increases in both revenue and profit in the Communication Systems Business. In the Media Service Sector, operating income increased from the same period a year earlier and returned to positive profit, due to a reduction of the loss in the Media Business, with its return to profitability during the second quarter of the fiscal year under review, and increases in both revenue and profit in the Entertainment Business.

*Note: Core operating income does not include nonrecurring items that mainly occur temporarily, such as other income included in operating income, other expenses, and foreign exchange losses (gains).

Income Before Income Taxes

Income before income taxes for the first six months of the fiscal year under review increased approximately 1,300 million yen, or 66.1%, from the same period a year earlier to 3,165 million yen, reflecting the growth in operating income.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent for the first six months of the fiscal year under review increased approximately 900 million yen, or 112.0%, from the same period a year earlier to 1,771 million yen, reflecting the growth in income before income taxes.

(Revenue and Core Operating Income by Customer Industry Sector)

Revenue and core operating income (loss) by customer industry sector are as follows.
Revenue by customer industry sector includes inter-segment revenue and transfers.

First six months of the fiscal year under review (from April 1, 2018 to September 30, 2018) (Million yen)

| Customer Industry Sector | | First Six Months of FYE3/18 | First Six Months of FYE3/19 | Year-on-Year Comparison |
|--------------------------|---|-----------------------------|-----------------------------|-------------------------|
| Automotive Sector | Revenue | 80,957 | 86,052 | +5,095 |
| | Core Operating Income | 3,183 | 4,182 | +999 |
| Public Service Sector | Revenue | 29,788 | 32,091 | +2,303 |
| | Core Operating Income | -1,804 | -1,357 | +447 |
| Media Service Sector | Revenue | 28,242 | 28,171 | -71 |
| | Core Operating Income | -99 | 686 | +785 |
| Others | Revenue | 2,493 | 2,794 | +301 |
| | Core Operating Income | -67 | -138 | -71 |
| Total | Revenue | 141,482 | 149,110 | +7,628 |
| | Core Operating Income | 1,211 | 3,372 | +2,161 |
| | Operating Income | 2,357 | 3,516 | +1,159 |
| | Income Before Income | 1,905 | 3,165 | +1,260 |
| | Profit Attributable to Owners of Parent | 835 | 1,771 | +936 |

Automotive Sector

Revenue in the Automotive Sector for the first six months of the fiscal year under review increased approximately 5,100 million yen, or 6.3%, year-on-year to 86,052 million yen. Core operating income grew approximately 1,000 million yen, or 31.4%, year-on-year to 4,182 million yen.

(Revenue)

In the Aftermarket Business, sales of Saisoku-Navi series car navigation systems and dashcams remained strong in the domestic market, but sales in overseas markets were affected by decreases mainly in the Europe, Middle East, and Africa (EMEA) region. As a result, revenue in the Aftermarket Business as a whole decreased from the same period a year earlier.

In the OEM Business, revenue increased from the same period a year earlier, due mainly to a sharp increase in sales of factory-installed option products.

(Core Operating Income)

In the Aftermarket Business, core operating income declined from the same period a year earlier, due to the aforementioned decrease in revenue.

In the OEM Business, core operating income increased based on the aforementioned revenue growth.

Public Service Sector

Revenue in the Public Service Sector for the first six months of the fiscal year under review increased approximately 2,300 million yen, or 7.7%, year-on-year to 32,091 million yen. Core operating loss was 1,357 million yen, but this marked an improvement of approximately 400 million yen from the same period a year earlier.

(Revenue)

Revenue in the Communication Systems Business increased approximately 2,000 million yen from the same period a year earlier, due mainly to the growth in sales of the Group's US communication system subsidiaries.

Revenue in the Professional Systems Business decreased from the same period a year earlier, reflecting decreased sales of JVCKENWOOD Public & Industrial Systems Corporation in some markets. However, revenue in the Professional Systems Business as a whole increased approximately 300 million yen from the same period a year earlier, due mainly to the effects of the consolidation of Rein Medical GmbH, which became a Group subsidiary in the healthcare field in May.

(Core Operating Income)

In the Communication Systems Business, core operating income turned positive, due to the aforementioned revenue growth.

In the Professional Systems Business, core operating income/loss deteriorated, due mainly to an increase in upfront investments in the healthcare field.

Media Service Sector

Revenue in the Media Service Sector for the first six months of the fiscal year under review was on the same level as the same period a year earlier, declining approximately 100 million yen, or 0.2%, year-on-year to 28,171 million yen. Core operating income improved approximately 800 million yen and turned positive to record 686 million yen.

(Revenue)

In the Media Business, revenue decreased approximately 200 million yen from the same period a year earlier, despite solid sales of AV accessories, due to the effects of lower sales of commercial video cameras and other products.

In the Entertainment Business, revenue increased approximately 100 million yen from the same period a year earlier, reflecting strong sales in the Content Business.

(Core Operating Income)

In the Media Business, revenue decreased from the same period a year earlier. However, core operating income returned to profit during the second quarter of the fiscal year under review, due mainly to a change in sales mix and the effects of cost improvements, resulting in a decrease in the core operating loss.

In the Entertainment Business, core operating income increased, due to the effects of structural reforms in the OEM Business.

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

Assets

Total assets increased approximately 11,500 million yen from the end of the previous fiscal year to 251,412 million yen, despite a decrease in trade and other receivables as a result of seasonal factors, due to an increase in current assets, such as cash and cash equivalents and inventories.

Liabilities

Total liabilities increased approximately 500 million yen from the end of the previous fiscal year to 186,673 million yen, despite a decrease in trade and other payables, due mainly to an increase in borrowings.

Equity

Total equity attributable to owners of parent increased approximately 10,500 million yen from the end of the previous fiscal year to 61,133 million yen, due to an increase in capital stock and capital surplus resulting from the exercise of subscription rights to shares and an increase in retained earnings, as well as an increase in other components of equity.

Total equity increased approximately 11,000 million yen to 64,738 million yen, reflecting the increase in total equity attributable to owners of parent.

As a result, the ratio of equity attributable to owners of parent rose 3.2 percentage points from the end of the previous fiscal year to 24.3%.

(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 11,662 million yen, which is an increase of approximately 1,100 million yen from the same period a year earlier. This is mainly attributable to an increase in income before income taxes.

Cash Flow from Investing Activities

Net cash used in investing activities for the first six months of the fiscal year under review was 12,241 million yen, which is an increase of approximately 6,200 million yen from the same period a year earlier. This is mainly attributable to an increase in cash outflows for the acquisition of intangible assets, the conversion of Rein Medical GmbH into a subsidiary, and a decrease in proceeds from the sales of non-current assets.

Cash Flow from Financing Activities

Net cash provided by financing activities for the first six months of the fiscal year under review was 6,262 million yen, which is an increase of approximately 9,000 million yen from the same period a year earlier. This is mainly attributable to proceeds from the exercise of subscription rights to shares.

Cash and cash equivalents at the end of the second quarter of the fiscal year under review was on the same level as the same period a year earlier at 43,467 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 were solid and exceeded the period-start projections, due to strong performance in the Automotive Sector, the Public Service Sector, and the Media Service Sector.

Regarding the outlook for the third quarter of the fiscal year under review and thereafter, we expect sales growth from the Group's US communication system subsidiaries in the Public Service Sector and an earnings improvement due to the launch of new products in the Media Business in the Media Service Sector. At this time, however, JVCKENWOOD is not revising its consolidated earnings forecast for the fiscal year ending March 31, 2019, announced on April 26, 2018, as described in the following, in the light of uncertainty over the impacts of changes in the external environment. 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 FYE3/19 |
|---|---|
| Revenue | 310,000 million yen |
| Operating Income | 7,100 million yen |
| Income Before Income Taxes | 6,000 million yen |
| Profit Attributable to Owners of Parent | 2,700 million yen |

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated statement of financial position

(JPY in Million)

| | Note | Previous Fiscal Year (as of Mar. 31, 2018) | End of current consolidated second quarter (as of Sep. 30, 2018) |
|---|------|---|--|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 37,162 | 43,467 |
| Trade and other receivables | | 59,160 | 54,832 |
| Contract assets | | 1,930 | 1,679 |
| Other financial assets | | 861 | 2,228 |
| Inventories | | 44,120 | 47,390 |
| Right to recover products | | 536 | 434 |
| Income taxes receivable | | 847 | 750 |
| Other current assets | | 5,762 | 6,441 |
| Total current assets | | 150,381 | 157,225 |
| Non-current assets | | | |
| Property, plant and equipment | | 44,118 | 44,626 |
| Goodwill | | 1,999 | 3,759 |
| Intangible assets | | 18,818 | 19,354 |
| Net defined benefit assets | | 4,120 | 3,751 |
| Investment property | | 2,055 | 2,117 |
| Investments accounted for using the equity method | | 1,157 | 1,194 |
| Other financial assets | | 10,649 | 12,760 |
| Deferred tax assets | | 5,417 | 5,426 |
| Other non-current assets | | 1,215 | 1,195 |
| Total non-current assets | | 89,551 | 94,186 |
| Total assets | | 239,933 | 251,412 |

(JPY in Million)

| | Note | Previous Fiscal Year (as of Mar. 31, 2018) | End of current consolidated second quarter (as of Sep. 30, 2018) |
|---|------|---|--|
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 47,035 | 45,818 |
| Contract liabilities | | 3,643 | 2,215 |
| Refund liabilities | | 4,673 | 4,731 |
| Short-term borrowings | | 29,642 | 31,791 |
| Other financial liabilities | | 1,993 | 1,702 |
| Income taxes payable | | 1,667 | 1,453 |
| Provisions | | 2,143 | 2,043 |
| Other current liabilities | | 23,622 | 23,654 |
| Total current liabilities | | 114,422 | 113,411 |
| Non-current liabilities | | | |
| Long-term borrowings | | 38,204 | 39,517 |
| Other financial liabilities | | 995 | 688 |
| Net defined benefit liabilities | | 28,239 | 28,342 |
| Provisions | | 1,695 | 1,648 |
| Deferred tax liabilities | | 1,623 | 2,003 |
| Other non-current liabilities | | 964 | 1,060 |
| Total non-current liabilities | | 71,722 | 73,261 |
| Total liabilities | | 186,145 | 186,673 |
| Equity | | | |
| Capital stock | | 10,000 | 12,666 |
| Capital surplus | | 38,466 | 41,113 |
| Retained earnings | | 2,913 | 4,271 |
| Treasury stock | | -38 | -38 |
| Other components of equity | | -707 | 3,120 |
| Equity attributable to owners of the parent company | | 50,634 | 61,133 |
| Non-controlling interests | | 3,153 | 3,605 |
| Total equity | | 53,788 | 64,738 |
| Total liabilities and equity | | 239,933 | 251,412 |

(2) Quarterly Consolidated statement of financial position
 (Quarterly Consolidated Statement of Income)
 【Accumulated period for consolidated second quarter】

(JPY in Million)

| | Note | Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017) | Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018) |
|---|------|---|--|
| Revenue | | 141,482 | 149,110 |
| Cost of sales | | 104,232 | 108,595 |
| Gross profit | | 37,249 | 40,514 |
| Selling, general and administrative expenses | | 36,038 | 37,141 |
| Other income | | 1,668 | 1,230 |
| Other expenses | | 378 | 487 |
| Foreign exchange losses | | 144 | 599 |
| Operating profit | | 2,357 | 3,516 |
| Finance income | | 154 | 143 |
| Finance expenses | | 708 | 537 |
| Share of profit of investments accounted for using the equity method | | 102 | 43 |
| Profit before income taxes | | 1,905 | 3,165 |
| Income tax expenses | | 566 | 1,140 |
| Profit | | 1,339 | 2,024 |
| Profit attributable to: | | | |
| Owners of the parent company | | 835 | 1,771 |
| Non-controlling interests | | 503 | 253 |
| Net income | | 1,339 | 2,024 |
| Earnings per share (attributable to owners of the parent) | | | |
| Basic earnings per share | | 6.01yen | 12.24yen |
| Diluted earnings per share | | —yen | 12.19yen |

TRANSLATION - FOR REFERENCE ONLY -

(Quarterly Consolidated Statement of Comprehensive Income)

【Accumulated period for consolidated second quarter】

(JPY in Million)

| | Note | Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017) | Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018) |
|--|------|---|--|
| Net income (loss) | | 1,339 | 2,024 |
| Other comprehensive income (“OCI”) | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Net changes in financial assets measured at fair value through OCI | | — | -20 |
| Remeasurement of defined benefit plans | | — | 4 |
| Share of OCI of investments accounted for using the equity method | | — | 5 |
| Total of items that will not be reclassified subsequently to profit or loss | | — | -10 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Fair value gain on financial assets available for sale | | 907 | — |
| Exchange differences arising on translation of foreign operations | | 2,124 | 2,673 |
| Cash flow hedges | | -612 | 1,731 |
| Share of OCI of investments accounted for using the equity method | | 0 | — |
| Total of items that may be reclassified subsequently to profit or loss | | 2,421 | 4,404 |
| OCI, net of income tax | | 2,421 | 4,394 |
| Comprehensive income | | 3,760 | 6,419 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent company | | 3,189 | 6,019 |
| Non-controlling interests | | 570 | 400 |
| Comprehensive income | | 3,760 | 6,419 |

TRANSLATION - FOR REFERENCE ONLY -

(3) Quarterly Consolidated Statement of Cash Flows

(JPY in Million)

| | Note | Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017) | Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018) |
|--|------|---|--|
| Cash flows from operating activities | | | |
| Profit before income taxes | | 1,905 | 3,165 |
| Depreciation and amortization | | 8,019 | 8,527 |
| Impairment losses | | — | 214 |
| Reversal of impairment losses | | -392 | — |
| Decrease in net defined benefit liabilities | | -114 | -27 |
| Decrease in net defined benefit assets | | 234 | 359 |
| Finance income | | -154 | -143 |
| Finance expenses | | 708 | 537 |
| Gain on sales of financial assets available for sale | | -674 | — |
| Gain on revaluation of financial assets measured at fair value through profit and loss | | — | -851 |
| Loss on disposal of property, plant and equipment | | 36 | 44 |
| Decrease in trade and other receivables | | 5,412 | 6,306 |
| Increase in inventories | | -4,179 | -1,781 |
| (Decrease) increase in trade and other payables | | 1,806 | -1,571 |
| Decrease in other current liabilities | | -1,451 | -1,907 |
| Other, net | | 756 | 344 |
| Sub-total | | 11,913 | 13,218 |
| Interest received | | 91 | 100 |
| Dividend received | | 63 | 42 |
| Interest paid | | -456 | -421 |
| Income taxes paid | | -1,004 | ^1,278 |
| Net cash provided by operating activities | | 10,606 | 11,662 |
| Cash flows from investing activities | | | |
| Placement of time deposit with original maturity of more than three months | | -24 | -323 |
| Withdrawal of time deposit with original maturity of more than three months | | 943 | 23 |
| Purchases of property, plant and equipment | | -3,331 | -3,685 |
| Proceeds from sales of property, plant and equipment | | 522 | 108 |
| Purchase of intangible assets | | -4,872 | -6,023 |
| Proceeds from sales of financial assets available for sale | | 769 | — |
| Purchases of debt instruments | | — | -401 |
| Purchases of equity instruments | | — | -581 |
| Payment for acquisition of control over subsidiaries | | — | -1,240 |
| Other, net | | -17 | -117 |
| Net cash used in investing activities | | -6,010 | -12,241 |
| Cash flows from financing activities | | | |
| Proceeds from short-term borrowings | | 6,361 | 11,583 |
| Repayment of short-term borrowings | | -7,242 | -8,807 |
| Proceeds from long-term borrowings | | 4,536 | 5,500 |
| Repayment of long-term borrowings | | -5,166 | -5,571 |
| Cash dividends paid | | -694 | -833 |

TRANSLATION - FOR REFERENCE ONLY -

| | Note | Accumulated period for previous consolidated second quarter (Apr.1, 2017 - Sep.30, 2017) | Accumulated period for current consolidated second quarter (Apr.1, 2018 - Sep.30, 2018) |
|---|------|---|--|
| Proceeds from issuance of shares resulting from exercise of subscription rights to shares | | — | 5,312 |
| Other, net | | -502 | -921 |
| Net cash used in financing activities | | -2,708 | 6,262 |
| Net increase in cash and cash equivalents | | 2,673 | 6,305 |
| Cash and cash equivalents at beginning of year | | 40,798 | 37,162 |
| Effect of exchange rate changes on cash and cash equivalents | | 785 | 622 |
| Cash and cash equivalents at end of quarter | | 43,471 | 43,467 |