JVCKENWOOD

JVCKENWOOD Financial Report 2019

JVCKENWOOD Corporation

Contents

Financial Review

Overview of the Fiscal Year Ended March 2019

Revenue of the JVCKENWOOD Group for the fiscal year ended March 31, 2019 increased from a year earlier, because revenue of the Public Service Sector and Others increased and revenue of the Media Service Sector was at the same level as the previous year, although revenue of the Automotive Sector decreased due to the impacts of a sales decline in the fourth quarter. Operating profit of the JVCKENWOOD Group increased from a year earlier, despite recognition of an impairment loss due to a significant profit growth in the Public Service Sector and the Media Service Sector.

Profit-and-loss exchange rates used when preparing the financial statements for the fiscal year ended March 31, 2019 are as follows.

		1Q	2Q	3Q	4Q
Profit-and-loss exchange rates	U.S. $	¥109	¥111	¥113	¥110
	Euro	¥130	¥130	¥129	¥125
FY2017 (Reference)	U.S. $	¥111	¥111	¥113	¥108
	Euro	¥122	¥130	¥133	¥133

Revenue and Income

▶ Consolidated Operating Results

✻Revenue

Revenue for the fiscal year ended March 31, 2019 increased approximately 6,900 million yen, or 2.3%, from a year earlier to 307,627 million yen.
Revenue of the Automotive Sector decreased from a year earlier, due to lower sales at JVCKENWOOD Hong Kong Holdings Ltd. (the former Shinwa International Holdings Limited), which were impacted by a slowdown in China's economy in the fourth quarter, and lower sales of the Aftermarket Business resulting from a supply problem at a parts supplier. Revenue of the Public Service Sector increased, due to increased revenue of the Communication Systems Business, reflecting higher sales of the Group's US communication system subsidiaries. Revenue of the Media Service Sector as a whole recorded approximately the same level, despite a revenue decrease of the Media Business as a result of a change in the scheme of the brand licensing business, due to increased revenue of the Entertainment Business.

✻Operating Profit

Operating profit for the fiscal year ended March 31, 2019 increased approximately 300 million yen, or 4.7%, from a year earlier, to 7,263 million yen, despite a decrease in gains on sales of assets and recognition of an impairment loss.
Operating performance by business segment for the fiscal year ended March 31, 2019 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 fiscal year ended March 31, 2019 increased sharply by 35.7% from a year earlier to 8,562 million yen, despite a profit decrease of the Automotive Sector reflecting the revenue decrease, due to a significant improvement in profit/loss of the Public Service Sector and a sharp profit growth of the Media Service Sector.
In the Automotive Sector, core operating income declined from a year earlier, due to the impacts of the aforementioned factors of the revenue decrease, as well as the impacts of an increase in upfront investments in dealer-installed option products in the OEM Business and increased costs resulting from a supply problem at a parts supplier. In the Public Service Sector, core operating income returned to positive territory, due to a significant improvement in profit/loss, with the Communication Systems Business achieving increases in both revenue and profit. In the Media Service Sector, core operating income increased significantly, with the Media Business returning to positive profit and the Entertainment Business achieving an increase in profit.

* Items mainly composed of temporary factors such as other income, other expenses, and foreign exchange losses (gains) are not included in core operating income.

✻Profit before income taxes

Profit before income taxes for the fiscal year ended March 31, 2019 increased approximately 500 million yen, or 7.7%, from a year earlier to 6,401 million yen, reflecting growth in operating profit.

✻Profit attributable to owners of the parent company

Profit attributable to owners of the parent company for the fiscal year ended March 31, 2019 surged approximately 1,500 million yen, or 61.0%, from a year earlier to 3,847 million yen, reflecting the growth in profit before income taxes and an improvement in tax expenses.

▶ Revenue and Earnings by Business Segment

✻Automotive Sector

Revenue of the Automotive Sector for the fiscal year ended March 31, 2019 decreased approximately 1,900 million yen, or 1.1%, from a year earlier to 169,532 million yen. Core operating income declined approximately 2,000 million yen, or 26.2%, from a year earlier to 5,607 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. Sales were also affected by a decrease resulting from a supply problem at a parts supplier. As a result, revenue in the Aftermarket Business as a whole decreased from a year earlier.
In the OEM business, revenue increased from a year earlier, despite a sales decrease in dealer-installed option products, reflecting a sales increase in factory-installed option products.
(Core Operating Income)
In the Aftermarket Business, core operating income decreased from a year earlier, due to the aforementioned decrease in revenue.
In the OEM Business, core operating income decreased from a year earlier, due to the impacts of the slowdown of China's economy, increase in upfront investments in dealer-installed option products, and increase in costs resulting from a supply problem at a parts supplier.

✻Public Services Sector

Revenue of the Public Service Sector for the fiscal year ended March 31, 2019 increased approximately 5,900 million yen, or 9.1%, from a year earlier to 70,944 million yen. Core operating income improved significantly by approximately 2,100 million yen from a year earlier and returned to positive profit at 628 million yen.
(Revenue)
Revenue in the Communication Systems Business increased approximately 3,700 million yen from a year earlier, reflecting the growth in sales of the Group's US communication system subsidiaries.
Revenue of the Professional Systems Business as a whole increased approximately 2,200 million yen from a year earlier, due to a recovery in sales of JVCKENWOOD Public & Industrial Systems Corporation ("JKPI") from the second half of the fiscal year, as well as the effects of the consolidation of Rein Medical GmbH ("Rein Medical"), which became a Group subsidiary in the healthcare field last May.
(Core Operating Income)
In the Communication Systems Business, core operating income increased significantly, due to the aforementioned revenue growth and strong sales of professional radio systems.
In the Professional Systems Business, core operating income/loss of the business as a whole improved, due to decreased losses reflecting a reduction in fixed costs of JKPI despite increase in upfront investment in healthcare business.

✻Media Services Sector

Revenue of the Media Service Sector for the fiscal year ended March 31, 2019 decreased approximately 200 million yen, or 0.3%, from a year earlier to 58,795 million yen. Core operating income jumped approximately 1,800 million yen, or 492.0%, from a year earlier to 2,217 million yen.
(Revenue)
In the Media Business, revenue decreased approximately 400 million yen

from a year earlier, despite solid sales of AV accessories and projectors, due to a decrease in revenue of the brand licensing business resulting from changes in the business scheme from the fiscal year ended March 31, 2019.
In the Entertainment Business, revenue increased approximately 200 million yen from a year earlier, despite a decrease in sales of the OEM Business, due to strong sales of the Content Business.
(Core Operating Income)
In the Media Business, income/loss improved significantly with a return to positive core operating income, which substantially improved profits, despite the revenue decrease, due mainly to a change in sales mix and the effects of cost improvements.
In the Entertainment Business, core operating income increased, due to the aforementioned revenue growth.

Revenue, Core Operating Income (Loss) by Business Segment

Revenue and core operating income (loss) by business segment are as follows.
Revenue by business segment includes inter-segment revenue or transfers.
The Company adopted the provisional accounting treatment for the business combination with Radio Activity S.r.l. conducted in the previous fiscal year. Following finalization of the allocation of acquisition cost during the fiscal year ended March 31, 2019, the results for the previous fiscal year have been adjusted retrospectively.

Fiscal year ended March 2019 (April 1, 2018 to March 31, 2019) (Millions of yen)

Segment		FYE3/'18	FYE3/'19	YoY comparison
Automotive Sector	Revenue	171,435	169,532	(1,903)
	Core operating income	7,601	5,607	(1,994)
Public Services Sector	Revenue	65,035	70,944	+5,909
	Core operating income	(1,519)	628	+2,147
Media Services Sector	Revenue	58,972	58,795	(177)
	Core operating income	374	2,217	+1,843
Others	Revenue	5,243	8,354	+3,111
	Core operating income	(145)	109	+254
Total	Revenue	300,687	307,627	+6,940
	Core operating Income	6,310	8,562	+2,252
	Operating profit	6,937	7,263	+326
	Profit before income taxes	5,940	6,401	+461
	Profit attributable to owners of the parent company	2,389	3,847	+1,458

Analysis of assets, liabilities and equity

✻Assets

Total assets increased approximately 10,700 million yen from the end of the previous fiscal year to 250,617 million yen. This was due to an increase in current assets, including cash and cash equivalents, as well as an increase in non-current assets as a result of an investment in Tait International Ltd. ("Tait International"), a New Zealand-based manufacturer of professional wireless products and systems.

✻Liabilities

Total liabilities decreased approximately 800 million yen from the end of the previous fiscal year to 185,296 million yen, despite an increase in bank borrowings, due to a decrease in trade and other payables.

✻Equity

Total equity attributable to owners of the parent company increased approximately 11,400 million yen from the end of the previous fiscal year to 62,009 million yen, due to an increase in capital stock and capital surplus from the exercise of subscription rights to shares, as well as an increase in retained earnings.
Total equity increased approximately 11,500 million yen to 65,321 million yen.
As a result, the ratio of equity attributable to owners of the parent company rose 3.6 percentage points from the end of the previous fiscal year to 24.7%.

▶ Cash flow analysis

✻Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2019 was 20,983 million yen, which is an increase of approximately 2,600 million yen from the previous fiscal year. This was mainly attributable to an increase in profit before income taxes and a decrease in income taxes, as well as a decrease in trade and other receivables.

✻Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2019 was 25,768 million yen, which is an increase of approximately 10,900 million yen from the end of the previous fiscal year. This was mainly attributable to a decrease in cash inflows from sales of non-current assets, an increase in development investments, the conversion of Rein Medical into a subsidiary, and the investment in Tait International.

✻Cash flows from financing activities

Net cash provided by financing activities for the fiscal year ended March 31, 2019 was 8,479 million yen, which is an increase of approximately 15,500 million yen from the end of the previous fiscal year. This was mainly attributable to proceeds from the exercise of subscription rights to shares.
Cash and cash equivalents at the end of the fiscal year ended March 31, 2019 increased approximately 3,700 million yen from the end of the previous fiscal year to 40,844 million yen.

Basic Policies for the Payment of Dividends

JVCKENWOOD's most important management priorities include stable distribution of profits and ensuring the necessary management resources for future growth. The amount of dividend of surplus and other amounts appropriated are determined by giving comprehensive consideration to the Group's profitability and financial conditions.
For the fiscal year ended March 2019, JVCKENWOOD declared to distribute an annual dividend (year-end) of 6 yen per share based on its profit performance and above-mentioned dividend policy, as announced in the "Accounting Report for the Fiscal Year Ended March 2019 (IFRS)" on April 26, 2019.

Subsequent Events

There are no applicable matters.

Consolidated financial statements

1 Consolidated statement of financial position

JVCKENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Assets			
Current assets			
Cash and cash equivalents	8	37,162	40,844
Trade and other receivables	9	59,160	59,138
Contract assets	28	1,930	2,022
Other financial assets	10, 34	861	1,517
Inventories	11	44,120	44,583
Right to recover products		536	349
Income taxes receivable		847	838
Other current assets	12	5,762	4,396
Subtotal		150,381	153,690
Assets classified as held for sale	13	—	203
Total current assets		150,381	153,894
Non-current assets			
Property, plant and equipment	14, 16	44,118	45,110
Goodwill	7, 15, 16	1,999	3,376
Intangible assets	15, 16	18,818	19,809
Net defined benefit assets	23	4,120	4,237
Investment property	17	2,055	2,221
Investments accounted for using the equity method	39	1,157	4,293
Other financial assets	10, 34, 40	10,649	11,183
Deferred tax assets	25	5,417	5,267
Other non-current assets	12	1,215	1,222
Total non-current assets		89,551	96,723
Total assets		239,933	250,617

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19	47,035	44,868
Contract liabilities	28	3,643	2,261
Refund liabilities	28	4,673	4,237
Short-term borrowings	21, 34, 35	29,642	24,447
Other financial liabilities	18, 20, 34	1,993	1,539
Income taxes payable		1,667	1,536
Provisions	22	2,143	1,784
Other current liabilities	24	23,622	23,410
Total current liabilities		114,422	104,085
Non-current liabilities			
Long-term borrowings	21, 34, 35	38,204	46,865
Other financial liabilities	18, 20, 34	995	1,595
Net defined benefit liabilities	23	28,239	28,236
Provisions	22	1,695	1,471
Deferred tax liabilities	25	1,623	1,843
Other non-current liabilities	24	964	1,196
Total non-current liabilities		71,722	81,210
Total liabilities		186,145	185,296
Equity			
Capital stock	26	10,000	13,645
Capital surplus	26	38,466	42,086
Retained earnings	26	2,913	6,634
Treasury stock	26	(38)	(38)
Other components of equity	26	(707)	(318)
Equity attributable to owners of the parent company		50,634	62,009
Non-controlling interests		3,153	3,311
Total equity		53,788	65,321
Total liabilities and equity		239,933	250,617

Consolidated financial statements, etc. (continued)

2 Consolidated statement of income and consolidated statement of comprehensive income
Consolidated statement of income

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Revenue	6, 17, 28	300,687	307,627
Cost of sales	11, 14, 15, 17, 23	218,845	223,332
Gross profit		81,842	84,294
Selling, general and administrative expenses	7, 14, 15, 23, 29	75,531	75,732
Other income	13, 31	3,325	1,775
Other expenses	14, 15, 16, 31	2,388	2,688
Foreign exchange gains (losses)		(310)	(386)
Operating profit		6,937	7,263
Finance income	30, 34	249	304
Finance expenses	30, 34	1,346	1,076
Share of profit (loss) of investments accounted for using the equity method	39	100	(90)
Profit before income taxes		5,940	6,401
Income tax expenses	25	2,752	2,099
Profit for the year		3,188	4,301
Profit for the year attributable to:			
Owners of the parent company		2,389	3,847
Non-controlling interests		798	454
Profit for the year		3,188	4,301
Earnings per share (attributable to owners of the parent company)			
Basic earnings per share	33	17.20 yen	25.00 yen
Diluted earnings per share	33	- yen	24.96 yen

Consolidated financial statements, etc. (continued)

Consolidated statement of comprehensive income

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Profit for the year		3,188	4,301
Other comprehensive income (“OCI”)			
Items that will not be reclassified subsequently to profit or loss			
Financial assets measured at fair value through OCI	32, 34	—	(861)
Remeasurement of defined benefit plans	23, 32	9,853	146
Changes in fair value of investment property		—	16
Share of OCI of investments accounted for using the equity method		—	4
Total items that will not be reclassified subsequently to profit or loss		9,853	(694)
Items that may be reclassified subsequently to profit or loss			
Fair value gain on financial assets available for sale	32, 34	384	—
Exchange differences arising from translation of foreign operations	32	(725)	575
Cash flow hedges	32	(1,028)	1,272
Share of OCI of investments accounted for using the equity method	32, 39	(0)	33
Total items that may be reclassified subsequently to profit or loss		(1,369)	1,881
OCI for the year, net of income tax		8,484	1,187
Comprehensive income for the year		11,672	5,488
Total comprehensive income for the year attributable to:			
Owners of the parent company		10,963	4,943
Non-controlling interests		708	545
Comprehensive income for the year		11,672	5,488

Consolidated financial statements, etc. (continued)

3 Consolidated statement of changes in equity

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

		Equity attributable to owners of the parent company			
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock
Balance as of April 1, 2017		10,000	45,628	(16,611)	(37)
Profit for the year				2,389	
Other comprehensive income					
Comprehensive income for the year		—	—	2,389	—
Transfer from capital surplus to retained earnings			(7,282)	7,282	
Acquisition of treasury stock	26				(1)
Disposal of treasury stock	26				0
Dividends paid	27		(694)		
Change in ownership interests in subsidiaries without loss of control			815		
Changes in scope of consolidation					
Transfer from other components of equity to retained earnings				9,853	
Total transactions with the owners		—	(7,161)	17,135	(1)
Balance as of March 31, 2018		10,000	38,466	2,913	(38)
Cumulative effect of changes in accounting policies				414	
Restated balance		10,000	38,466	3,328	(38)
Profit for the year				3,847	
Other comprehensive income					
Comprehensive income for the year		—	—	3,847	—
Transfer from capital surplus to retained earnings					
Issuance of new shares		3,645	3,619		
Acquisition of treasury stock	26				(0)
Disposal of treasury stock	26				0
Dividends paid	27			(833)	
Change in ownership interests in subsidiaries without loss of control					
changes in scope of consolidation					
Transfer from other components of equity to retained earnings				292	
Total transactions with the owners		3,645	3,619	(541)	(0)
Balance as of March 31, 2019		13,645	42,086	6,634	(38)

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

	Notes	Equity attributable to owners of the parent company									
		Other components of equity									
		Remeasurement of defined benefit plans	Fair value gain on financial assets available for sale	Financial assets measured at fair value through other comprehensive income	Exchange differences arising on translation of foreign operations	Cash flow hedges	Fair value of investment property	Total	Total	Non-controlling interests	Total equity
Balance as of March 31, 2017		—	1,917	—	(2,007)	438	223	571	39,551	5,685	45,236
Profit for the year									2,389	798	3,188
Other comprehensive income		9,853	384		(635)	(1,028)		8,574	8,574	(90)	8,484
Comprehensive income for the year		9,853	384	—	(635)	(1,028)	—	8,574	10,963	708	11,672
Transfer from capital surplus to retained earnings								—	—		—
Acquisition of treasury stock	26							—	(1)		(1)
Disposal of treasury stock	26							—	0		0
Dividends paid	27							—	(694)	(653)	(1,348)
Change in ownership interests in subsidiaries without loss of control								—	815	(2,586)	(1,770)
Changes in scope of consolidation								—	—		—
Transfer from other components of equity to retained earnings		(9,853)						(9,853)	—		—
Total transactions with the owners		(9,853)	—	—	—	—	—	(9,853)	119	(3,240)	(3,120)
Balance as of March 31, 2018		—	2,301	—	(2,642)	(590)	223	(707)	50,634	3,153	53,788
Cumulative effect of changes in accounting policies			(2,301)	1,886				(414)	—		—
Restated balance		—	—	1,886	(2,642)	(590)	223	(1,122)	50,634	3,153	53,788
Profit for the year								—	3,847	454	4,301
Other comprehensive income		146		(857)	509	1,280	16	1,096	1,096	91	1,187
Comprehensive income for the year		146	—	(857)	509	1,280	16	1,096	4,943	545	5,488
Transfer from capital surplus to retained earnings								—	—		—
Issuance of new shares								—	7,265		7,265
Acquisition of treasury stock	26							—	(0)		(0)
Disposal of treasury stock	26							—	0		0
Dividends paid	27							—	(833)	(438)	(1,272)
Change in ownership interests in subsidiaries without loss of control								—	—		—
Changes in scope of consolidation								—	—	51	51
Transfer from other components of equity to retained earnings		(146)		(145)				(292)	—		—
Total transactions with the owners		(146)	—	(145)	—	—	—	(292)	6,431	(387)	6,044
Balance as of March 31, 2019		—	—	883	(2,132)	690	239	(318)	62,009	3,311	65,321

Consolidated financial statements, etc. (continued)

4 Consolidated statement of cash flows

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Cash flows from operating activities			
Profit before income taxes		5,940	6,401
Depreciation and amortization		16,862	17,794
Impairment losses		1,553	1,012
Reversal of impairment losses		(404)	(15)
Increase (decrease) in net defined benefit liabilities		236	(212)
Decrease in net defined benefit assets		355	497
Finance income		(249)	(304)
Finance expenses		1,346	1,076
Gain on sales of financial assets classified as available for sale		(708)	—
Gain on investments in partnership		(197)	—
Gain on valuation of financial assets measured at fair value through profit or loss		—	(491)
Gain on sales of property, plant and equipment		(735)	(69)
Loss on disposal of property, plant and equipment		136	401
Gain on revision of retirement benefit plan		(429)	—
Decrease (Increase) in trade and other receivables		(2,251)	1,000
Increase in inventories		(4,544)	(17)
Increase (decrease) in trade and other payables		4,587	(2,197)
Increase (decrease) in other current liabilities		183	(1,756)
Other, net		(204)	507
Subtotal		21,477	23,626
Interest received		173	229
Dividend received		75	74
Interest paid		(915)	(863)
Income taxes paid		(2,431)	(2,083)
Net cash provided by operating activities		18,379	20,983
Cash flows from investing activities			
Placement of time deposit with original maturity of more than three months		(106)	(324)
Withdrawal of time deposit with original maturity of more than three months		943	23
Purchases of property, plant and equipment		(7,846)	(7,860)
Proceeds from sales of property, plant and equipment		2,715	171
Purchase of intangible assets		(10,183)	(12,757)

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2019

(Unit: Millions of yen)

	Notes	2018	2019
Purchases of financial assets available for sale		(338)	—
Proceeds from sales of financial assets available for sale		818	—
Purchases of debt instruments		—	(401)
Purchases of equity instruments		—	(693)
Payment for acquisition of investments accounted for using the equity method	39	—	(2,389)
Payment for acquisition of control over subsidiaries	7	(1,147)	(1,240)
Other, net		311	(295)
Net cash used in investing activities		(14,835)	(25,768)
Cash flows from financing activities			
Proceeds from short-term borrowings	35	11,200	18,296
Repayment of short-term borrowings	35	(13,800)	(17,335)
Proceeds from long-term borrowings	35	10,371	16,210
Repayment of long-term borrowings	35	(11,489)	(13,905)
Cash dividends paid	27	(694)	(833)
Proceeds from issuance of new shares resulting from exercise of stock acquisition rights		—	7,258
Payments from changes in ownership interests in subsidiaries without loss of control		(1,770)	—
Other, net		(859)	(1,211)
Net cash used in (provided by) financing activities		(7,043)	8,479
Net decrease (increase) in cash and cash equivalents		(3,636)	3,682
Cash and cash equivalents at beginning of year	8	40,798	37,162
Effect of exchange rate changes on cash and cash equivalents		(137)	(12)
Cash and cash equivalents at end of year	8	37,162	40,844

Notes to consolidated financial statements

JVCKENWOOD Corporation and its Consolidated Subsidiaries
For the year ended March 31, 2019

1. Reporting entity

JVCKENWOOD Corporation (the "Company") is a business corporation located in Japan. The address of the Company's registered headquarters is disclosed on its website (https://www.jvckenwood.com/corporate/outline/). The closing date for the Company's consolidated financial statements is March 31. The consolidated financial statements consist of those of the Company and its consolidated subsidiaries ("the Group") and interests in associates of the Group. The Group manufactures and sells products in the automotive sector, public service sector, media service sector, and associated businesses within and outside Japan. The details of the main businesses are stated in Note "6. Segment information."

2. Basis of preparation

(1) Compliance with IFRS

The Group meets all of the requirements for a "Specified Company for the designated IFRS" as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (the "Ordinance"). According to Article 93 of the Ordinance, the Group's consolidated financial statements have been prepared in accordance with Internal Financial Reporting Standards ("IFRS").

(2) Approval of the consolidated financial statements

The Group's consolidated financial statements for the year ended March 31, 2019 were approved on June 20, 2019 by Shoichiro Eguchi, Representative Director of the Board, President, and Chief Executive Officer, and Masatoshi Miyamoto, Director, Senior Managing Executive Officer, and Chief Financial Officer.

(3) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis except for the financial instruments that are measured at fair value and post-employment benefit plans assets and liabilities indicated in Note "3. Significant accounting policies."

(4) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the functional currency of the Company. The units are in millions of yen, and figures less than one million yen are rounded down.

(5) Changes in accounting policies

The Group has applied the following standards from the current fiscal year. In applying IFRS 9, no retrospective adjustments were made and the cumulative effects by applying this standard were recognized as of the commencement date of application in accordance with the transitional provisions.

IFRS		Outline of the new/revised standards
IFRS 9	Financial Instruments (Released in July 2014)	Revisions concerning classification and measurement of financial assets and financial liabilities, impairment and hedge accounting

As a result of applying this standard, while changes in the fair value of debt instruments classified as financial assets available for sale were recognized as other comprehensive income until the previous fiscal year, they are classified as financial assets measured at fair value through profit or loss and changes in their fair value are recognized in profit or loss from the current fiscal year.
Due to this change, the cumulative effects as of the initial application date were recognized in equity at the beginning of the current fiscal year in accordance with the transitional provisions, resulting in an increase of 414 million yen in "Retained earnings" and a decrease of the same amount in "Other components of equity." Furthermore, "Profit for the year" increased by 38 million yen for the current fiscal year in the consolidated statement of income.

3. Significant accounting policies

(1) Basis of consolidation

The Group's consolidated financial statements include the financial statements of the Company and subsidiaries, and equity interests in associates.

1) Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an entity if the Group has exposure or rights to variable return from the Group's involvement with an entity and has the ability to affect those returns through its power over the entity.
A subsidiary's financial statements are consolidated from the date of acquisition of control to the date of loss of control by the Group.
Changes in the interest in a subsidiary that do not result in the Company losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary.
If the Group loses control over a subsidiary, the Group derecognizes assets and liabilities of the subsidiary and related non-controlling interests, and remeasures the residual interest remaining in the former subsidiary at its fair value as of the date of the loss of control. The gains or losses arising from loss of control are recognized in profit or loss.
Non-controlling interests are composed of the interest as of the first acquisition date and the changes in non-controlling interests from the first acquisition date.
In principle, comprehensive income of a subsidiary is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.
In cases where the accounting policies applied by subsidiaries are different from those applied by the Group, adjustments are made to the subsidiary's

financial statements, if necessary. If the fiscal year end of a subsidiary is different from that of the Company, the subsidiary prepares, for consolidation purposes, a provisional financial statement as of the same date as the financial statements of the Company.
All intra-Group balances, transactions, and unrealized gains and losses are eliminated on consolidation.

2) Associates
An associate is an entity over which the Group does not control solely or jointly but has significant influence over its financial and operating policies. It is presumed that the Group has significant influence if the Group holds, directly or indirectly, 20% to 50% of voting rights of the entity. Investments in associates are accounted for using the equity method from the date the Group has significant influence over the associate to the date the Group loses significant influence.
If the Group loses significant influence over an associate and ceases to apply the equity method, the Group recognizes a gain or loss from the sale of the equity interest in profit or loss, and remeasures the residual interest at fair value and recognizes the resulting valuation difference in profit or loss for the fiscal year in which the significant influence is lost.
For goodwill recognized in the acquisition of associates, the balance is included in the carrying amount of the investment.

(2) Business combination

Business combinations are accounted for using the acquisition method. Identifiable assets acquired, liabilities assumed, and non-controlling interests of an acquiree are measured at fair value at the time of acquisition (as for the assets acquired and liabilities assumed that should be measured with reference to items other than fair values in accordance with IFRS 3, “Business Combinations,” the values specified in IFRS 3, “Business Combinations,” are used). Goodwill is recognized and measured at the excess of the aggregate of the consideration transferred, the acquisition-date fair value of the acquirer’s previously held equity interest, and the amount of any non-controlling interest over the net of the acquisition amounts of the identifiable assets acquired and liabilities assumed. However, if the aggregate of fair values of identifiable assets and liabilities assumed exceeds the sum of acquisition value, the value of preexisting equity interest after the remeasurement, and the fair value of non-controlling interest in the acquiree, such an excess is immediately recognized in profit as a gain.
Acquisition-related costs include finder’s fees, legal, due diligence, and other professional fees recognized as expenses in the periods in which the costs are incurred.
A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination. In this case, acquired assets and liabilities are recognized as their carrying amounts.
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts are retrospectively adjusted during the measurement period, which cannot exceed one year from the acquisition date, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at the date.
Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized.

(3) Foreign currencies

1) Foreign currency transactions
Each company in the Group specifies its own functional currency, the currency of the primary economic environment in which the entity operates, and the consolidated financial statements of the Group are presented in Japanese yen which is the presentation currency of the Company.
Foreign currency transactions are translated into the functional currency of each company in the Group at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the end of each reporting period. Non-monetary assets that are denominated in foreign currencies are translated at the rates prevailing at the dates when the fair value was originally determined. Differences arising from the translation and settlement are recognized in profit or loss. However, differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Foreign operations
The assets and liabilities of foreign operations are translated into Japanese yen using exchange rates prevailing at the end of each reporting period.
Income and expenses of foreign operations are translated at the average exchange rates for the period, unless exchange rates significantly fluctuate during the period.
Foreign exchange differences arising from the translation are initially recognized as “Exchange differences on translating foreign operations” in other comprehensive income and accumulated in “Other components of equity,” which are reclassified from equity to profit or loss on disposal or partial disposal of a foreign operation.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term, highly liquid investments with maturities of three months or less from the date of acquisition which are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

(5) Financial instruments

1) Financial assets
(i) Initial recognition and measurement of financial assets other than derivatives
The Group classifies financial assets other than derivatives into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets measured at fair value through profit or loss. Non-derivative financial assets are initially recognized when they become the contractual parties to financial instruments.

Financial assets measured at amortized cost

The Group classifies financial assets as those measured at amortized cost, if both of the following criteria are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are initially measured at fair value (including transaction costs that are directly attributable to the acquisition). After initial recognition, the carrying amount is calculated by using the effective interest method.

Financial assets measured at fair value through other comprehensive income

The Group classifies financial assets as those measured at fair value through other comprehensive income, if both of the following criteria are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group has made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of equity instruments other than the financial assets held for trading. Financial assets measured at fair value through other comprehensive income are initially measured at fair value (including transaction costs that are directly attributable to the acquisition). Gains or losses on such financial assets are recognized in other comprehensive income until the financial assets are derecognized or reclassified excluding impairment gains or losses and foreign exchange gains and losses. Upon derecognition of the financial assets, the accumulated gains or losses previously recognized in other comprehensive income are reclassified from the other components of equity to retained earnings. However, dividends arising from the financial assets measured at fair value through other comprehensive income are recognized in profit or loss unless they clearly represent a recover of the part of the cost of the investment.

Financial assets measured at fair value through profit or loss

The Group classifies financial assets as those measured at fair value through profit or loss if they do not meet the criteria of those measured at amortized cost nor at fair value through other comprehensive income. Financial assets measured at fair value through profit or loss are initially measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(ii) Derecognition of financial assets other than derivatives

Financial assets are derecognized when the contractual right to cash flow from the financial assets expires or when the cash flow of the financial asset is transferred and almost all the risks and rewards of ownership of the financial asset are transferred. The rights and obligations created or held in the transfer are separately recognized as assets or liabilities.

(iii) Impairment of financial assets other than derivatives

The Group recognizes allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, contract assets and lease receivables.

At each reporting date, the Group evaluates whether there has been a significant increase in credit risks since the initial recognition. In addition, if it is determined that a specific financial asset has a low credit risk as of the reporting date, the Group considers that the credit risk on the financial instrument has not increased significantly since the initial recognition.

If a credit risk on financial assets has increased significantly since the initial recognition, or in case of credit-impaired financial assets, lifetime expected credit losses are recognized as allowance for doubtful accounts. If there is no significant increase, twelve month expected credit losses are recognized as allowance for doubtful accounts. Expected credit losses are measured in a way that reflects the followings:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

With regard to trade receivables, contract assets and lease receivables, the Group recognizes lifetime expected credit losses since initial recognition.

If the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof, the gross carrying amount of the financial asset is reduced directly.

The Group recognizes as "Other expenses" or "Other income" in profit or loss in the consolidated statement of net income the amount of provision or reversal of allowance for doubtful accounts on financial assets.

2) Financial liabilities

(i) Initial recognition and measurement of financial liabilities other than derivatives

The financial liabilities are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instrument. At the time of the initial recognition, financial liabilities are measured at fair value less transaction costs that are directly attributable to the issuance. After the initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

(ii) Derecognition

Financial liabilities are derecognized when contractual obligations are discharged, cancelled, or expired.

3) Derivatives and hedge accounting

The Group utilizes derivatives, such as forward foreign exchange contracts and interest rate swap contracts to hedge foreign exchange and interest rate risks, respectively. These derivatives are initially measured at fair value and are subsequently remeasured at fair value at each reporting period.

At the inception of a hedging relationship, an entity formally designates and documents the hedging relationship to which it applies hedge accounting and its risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. These hedges are presumed to be highly effective in offsetting cash flow changes. Further, continuing assessments are made as to whether the hedges are highly effective over all of the reporting periods of such designation.

The Group designates derivative financial instruments that satisfy the conditions for hedge accounting as hedging instruments and applies hedge accounting on them. The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss. The cumulative amounts of changes in fair values of hedging instruments recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods when the hedged items affect profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

The Group recognizes changes in fair value of derivative financial instruments that do not satisfy the conditions for hedge accounting in profit or loss.

4) Offsetting financial instruments

Financial assets are offset against financial liabilities and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize assets and settle liabilities simultaneously.

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition, and is determined mainly using the weighted-average method. Inventories are measured at the lower of cost or net realizable value. The difference between the costs and the net realizable values is recognized as expenses for the period of the current fiscal year.

(7) Property, plant and equipment

Property, plant, and equipment are measured by using the cost model and are stated at acquisition cost less any accumulated depreciation and impairment losses.

The cost includes any costs directly attributable to the acquisition of the assets, any costs related to their dismantlement, removal or restoration of site and any borrowing costs eligible for capitalization.

Subsequent costs are recognized in the carrying amount or a separate asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Subsequent costs that are not included in the carrying amounts are recognized in profit or loss as incurred.

Except for assets that are not subject to depreciation, such as land and construction in progress, property, plant, and equipment are mainly depreciated using the straight-line method over their estimated useful lives based on the depreciable amount of the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated useful lives of major property, plant and equipment are as follows:

- Buildings and structures: 2 to 60 years
- Machinery and vehicles: 2 to 16 years
- Tools, furniture and, fixtures: 1 year to 20 years

The depreciation method, the estimated useful lives, and the residual value for property, plant, and equipment are reviewed at the end of each fiscal year, and if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The profit or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized and included in “Other income” or “Other expenses” in the consolidated statement of income.

(8) Goodwill and intangible assets

1) Goodwill

Goodwill arising from the acquisition of subsidiaries is recognized in assets at the amount of the aggregate of fair values of consideration transferred, non-controlling interests and shareholders’ interests previously held by the acquirer in the acquiree exceeding the net amount of identifiable acquired assets and assumed liabilities on the acquisition date. Goodwill is not amortized, but initially recognized at cost in assets, and is tested for impairment each fiscal year.

Goodwill is allocated to cash-generating units (i.e., the smallest unit or group of units) that are expected to contribute to obtaining cash flows considering the synergies of the business combination. Cash-generating units to which goodwill was allocated are tested for impairment at the end of each fiscal year, or at any time when there is any indication of impairment. Goodwill is carried at cost, less any accumulated impairment losses in the consolidated statement of financial position. Impairment losses on goodwill are recognized in Other expenses in the consolidated statement of income and are not reversed in a subsequent period.

When a parent disposes of a subsidiary, any goodwill is included in profit or loss arising from the transaction.

2) Intangible assets

Intangible assets (i.e., software for internal use, development costs, and other intangible assets) other than goodwill are accounted for using the cost model, which is carried at its cost less any accumulated amortization and impairment losses. Separately acquired intangible assets are measured at acquisition cost at the initial recognition, including any directly attributable cost of preparing the asset for its intended use. The costs of intangible assets acquired through business combination are recognized at fair value at the acquisition date.

Internally generated intangible assets are recognized only if the Group can demonstrate all of the following:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete the intangible asset and use or sell it
- Its ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development

The cost of an internally generated intangible asset comprises the total expenditure of developing software and hardware incurred from the date when the intangible asset first meets the recognition criteria described above until the completion of the development.

Intangible assets, except for those with indefinite useful lives, are amortized using the straight-line method over their estimated useful lives. Estimated useful lives of major intangible assets are as follows:

- Software for internal use : 3 years to 5 years
- Development cost (Estimated life cycle of development products): mostly 1 year to 3 years

The amortization method, estimated useful lives, and residual value of intangible assets are reviewed at the end of each fiscal year, and if expectations differ from previous estimates, the change is accounted for as a change in an accounting estimate.

(9) Investment property

Investment property is property held to earn rental income and/or for capital appreciation.

Investment property is measured at its cost at the time of the initial recognition. After the initial recognition, it is measured at fair value on the basis of a discounted cash flow method or valuation by independent appraisers. The fluctuation in the fair value is recognized in profit or loss.

(10) Leases

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership are transferred to the lessee. All other leases are classified as operating leases.

1) As lessee

In finance lease transactions, lease assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are allocated to finance expenses, and the repayment amounts of lease obligations based on the interest method. Finance expenses are recognized in the consolidated statement of income. Lease assets are depreciated using the straight-line method over the shorter of the lease term or estimated useful life.

In operating lease transactions, lease payments are recognized as an expense over the lease terms using the straight-line method in the consolidated statement of income.

2) As lessor

In finance lease transactions, net investment in the finance lease is recognized as lease receivables, and total lease payment receivables are separated into the principal portion and interest portion of lease receivables. The amounts of lease payment receivables allocated to the interest portion are calculated using the interest method.

In operating lease transactions, lease income from operating leases is recognized in income on a straight-line basis over the lease term.

(11) Impairment of non-financial assets

The Group assesses, at the end of each reporting period, whether there is any indication that an asset may be impaired. Should any such indication exist or if the impairment test is performed for intangible assets with indefinite useful lives, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount is calculated at the higher of fair value less costs to sell or value in use of the cash-generating unit. In measuring fair value less costs to sell, appropriate valuation models evidenced by available fair value indicators are used. In calculating value in use, estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

If the carrying amount of the asset or the cash-generating unit exceeds its recoverable amount, impairment losses are recognized for the asset and the carrying amount is written down to the recoverable amount.

The Group assesses whether there is any indication that an impairment loss recognized in prior years for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed, up to the lower of the calculated recoverable amount or the carrying amount that would have been determined if no impairment loss had been recognized for the asset in prior years.

(12) Employee benefits

1) Post-employment benefits

(i) Defined benefit plans

The Company and its subsidiaries in Japan have defined benefit pension plans and lump-sum benefit plans. The liabilities and assets recognized in the consolidated statement of financial position related to defined benefit plans are the present value of the defined benefit obligation less the fair value of plan assets and vice versa at the end of the reporting period. When there are funding surpluses, net defined benefit assets are recognized up to the ceiling of the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The discount rate is calculated based on the market yield at the end of the reporting period of high-quality corporate bonds which have maturities corresponding to the future settlements in each year.

For components of defined benefit costs, service costs and the net interest in the net defined benefit liabilities are recognized in profit or loss. Measurements, which include actuarial gains and losses arising from differences between estimated costs and actual costs, and changes in actuarial assumptions, are recognized in other comprehensive income in the period in which they arise. Such amounts are recognized in other comprehensive income and immediately reclassified to retained earnings within equity. Past service costs are recognized in profit or loss.

(ii) Defined contribution plans

The Company and certain consolidated subsidiaries outside Japan have defined contribution plans in addition to defined benefit plans. Defined contribution plans are post-employment benefit plans in which the employer pays fixed contributions to separate entities and will have no legal or constructive obligation to make further contributions. The obligations for contributions to defined contribution plan are recognized as an expense during the period when the service is rendered by their employees.

2) Other employee benefits

Short-term employee benefits are recognized as expenses in the period in which the employee renders the related service without discounting. Bonus payments and paid leave are recognized as liabilities and measured at the estimated payment amount when there is a legal or constructive obligation to pay and the obligation can be estimated reliably.

(13) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligations. The present value is calculated by discounting estimated future cash flows at a pretax discount rate, reflecting risks inherent in the liabilities. Unwinding of the discount reflecting the passage of time is recognized as a financial cost.

1) Provision for warranty

Provision for product warranty is recognized based on a percentage of the warranty expenses incurred whereby the expenses can be covered for products sold in the period for which the Group provides the free warranty services stated in the contracts with customers.

2) Provision for loss-making contracts

Provision for loss-making contracts is recognized at the amount of losses expected to be incurred and reasonably estimated at the end of the reporting period.

3) Asset retirement obligations

The Group recognizes asset retirement obligations principally based on estimated future expenditures using historical trends when it has a legal obligation associated with the retirement of property, plant and equipment used in normal operation, such as obligations to restore the site in relation to lease agreements for plant facilities and premises.

(14) Equity

1) Capital stock and surplus

The amount of equity instruments issued by the Company is recognized in capital stock and capital surplus, and transaction costs directly attributable to the issuance are deducted from capital surplus.

2) Treasury stock

When treasury stocks are obtained, they are recognized at cost and deducted from equity. The transaction costs directly attributable to the acquisition are deducted from capital surplus.

When treasury stocks are disposed, any difference between the carrying amount and the consideration received is recognized as capital surplus.

(15) Revenue recognition

The Group recognizes and measures revenue by applying the following five steps.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The business of the Group is composed of automotive, public service, and media service sectors. Each sector sells products and offers services. The public service sector also offers the service of installing professional systems when selling products.

● Sales of products

As for sales of products, the performance obligation is determined to have been satisfied, and revenue is therefore recognized, upon delivery of the products because the customer obtains control over the products upon delivery. Revenue from the sales of goods is recognized when the following conditions are met:

- The entity has a present right to payment for the asset.
- The customer has legal title to the asset.
- The entity has transferred physical possession of the asset.

- The customer has the significant risks and rewards of ownership of the asset.

Some transactions for sales of products include rebates to customers for the purpose of sales promotion. In such cases, transaction prices are measured at the prices in contracts with customers less the rebates that are reasonably estimated based on historical experience and negotiation with customers. Revenues are recognized in the amounts of the transaction prices only to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

To account for sales of products with rights of return, the Group recognizes refund liabilities for the products expected to be returned by deducting revenues. Estimated amounts of the refund liabilities are calculated based on historical experience and available information at the end of each reporting period. The refund liabilities and adequacy for assumptions are reevaluated at the end of each reporting period for changes in circumstances. As the Group possesses rights to recover products from customers when products are returned, the rights are recognized as assets by the carrying amounts of the products less any expected costs to recover those products.

- Rendering of services

As for rendering of services, the Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following criteria is met;

(a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs.
(b) The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
(c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Some installation services for professional systems are distinct within the context of the contracts and are identified as separate performance obligations from sales of products. Revenues are recognized for the installation services that satisfy one of the above criteria over time by measuring the progress towards complete satisfaction of these performance obligations based on the costs incurred.

In addition, the Group offers fee-charging maintenance support services after the sales of products. When these services are identified as separate performance obligations and satisfy one of the above criteria, revenues are recognized over time by measuring the progress towards complete satisfaction of these performance obligations based on a lapse of time.

- Financing components

As the Group does not have contracts for which the period between the sales of products or rendering of services and the payments from customers is expected to exceed one year, the time value of money is not adjusted and no significant financing components are included in transaction prices.

(16) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period to prepare for their intended use or sale are added to the cost of those assets until the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized as expenses in the period in which they are incurred.

(17) Income taxes

Income taxes consist of current income taxes and deferred income taxes.

Current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and those arising from business combinations.

Current income tax is the expected tax payable or refund from the taxation authorities on taxable income or loss for the year, using tax rates and tax laws enacted or substantially enacted at end of the reporting period, with any tax adjustments to taxes payable or refund in respect of previous years.

Deferred income tax is calculated based on the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax bases, the tax losses, and the tax credits at end of the reporting period.

Deferred tax assets and liabilities are not recognized for the following:

- Temporary differences arising from initial recognition of assets and liabilities, and related transactions other than business combinations, that affect neither the accounting profit nor taxable profit; and
- Taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets are recognized for deductible temporary differences, unused tax losses, and tax credits carried forward only to the extent it is probable that there will be taxable profit against which the deferred tax asset may be utilized. Deferred tax assets are reviewed at the end of each reporting period, and the carrying amount of a deferred tax asset is reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured using the tax rates that are forecasted to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by end of the reporting period. An entity shall offset deferred tax assets and deferred tax liabilities if, and only if, the entity has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity or different taxable entities that intend to settle current tax assets and liabilities on a net basis or are planning to realize the assets and liabilities simultaneously.

The Company and its wholly owned subsidiaries in Japan have adopted the consolidated taxation system and file income tax returns on a consolidated taxation group basis.

(18) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury stocks.

Diluted earnings per share are calculated by adjusting profit or loss attributable to ordinary shareholders of the parent entity and the weighted-average number of shares outstanding adjusted by the number of treasury stocks, for the effects of all potentially dilutive ordinary shares.

(19) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which the Board of Directors approves the distribution.

(20) Non-current assets held for sale and discontinued operations

An asset or asset group for which the carrying amount is expected to be recovered through a sale transaction rather than through continuing use is classified as a non-current asset held for sale or disposal group when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs to sell. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate line of business or geographical area of operation, and is part of a single coordinated plan to dispose of a separate line of business or geographical area of operations.

4. Significant accounting estimates and judgments involving estimates

In the preparation of the consolidated financial statements, estimates and judgments of management are used. These estimates and judgments are based on management's best judgments through their evaluation of various factors that were considered reasonable as of the period-end, based on historical experience and by collecting available information. However, actual results in the future may differ from those projected estimates or judgments.
The key estimates and judgments that have a significant effect on the amounts recognized in the consolidated financial statements are as follows.
Significant items that required management to make estimates and judgments are as follows:

- Scope of consolidation: Note "3. Significant accounting policies" (1) Basis of consolidation
- Revenue recognition Note "3. Significant accounting policies" (15) Revenue recognition
- Impairment of non-financial assets: Note "3. Significant accounting policies" (11) Impairment of non-financial assets and Note "16. Impairment of non-financial assets"
- Useful life of non-financial assets: Note "3. Significant accounting policies" (7) Property, plant and equipment and Note "3. Significant accounting policies" (8) Goodwill and intangible assets
- Recoverability of deferred tax assets: Note "3. Significant accounting policies" (17) Income taxes and Note "25. Income taxes"
- Provisions: Note "3. Significant accounting policies" (13) Provisions
- Measurement of defined benefit plans: Note "3. Significant accounting policies" (12) Employee benefits and Note "23. Employee benefits"
- Fair value of financial instruments: Note "3. Significant accounting policies" (5) Financial instruments and Note "34. Financial instruments"
- Contingent liabilities: Note "36. Contingent liabilities"

5. New accounting standards and interpretations not yet adopted by the Group

New or revised major standards and interpretations that were issued by the date of approval of the consolidated financial statement but were not yet adopted by the Group as of March 31, 2019, are as follows:

IFRS		Date of mandatory adoption (Fiscal year of commencement thereafter)	Reporting periods of application by the Group	Description of new and revised standards
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revision to lease accounting

As a result of applying IFRS 16, a lessee is required to account for lease contracts based on a right-of-use accounting model. The model requires lessees to recognize right-of-use assets that represents lessees' rights to use underlying assets for the lease term and lease liabilities representing payments made by lessees to lessors relating to the underlying right-of-use assets during the lease term at the commencement date, regardless of classification of finance or operating lease. In addition, while the lease payments for operating leases are included in rental expenses under International Accounting Standards ("IAS") 17, under IFRS 16, these will be recognized as depreciation costs of right-of-use asset and interest expenses of lease liability in the consolidated statement of income.
As a result of this change, the total amount of right-of-use assets and other assets is expected to increase by about 4% of "Total assets" and the total amount of lease liabilities and other liabilities is expected to increase by about the same amount in the consolidated statement of financial position, when compared to the application of the previous accounting standard.

6. Segment information

(1) Outline of reportable segments

Reportable segments are the Company's constituent business units for which separate financial information can be obtained and those which are periodically examined by the Board of Directors for the purposes of determining the allocation of resources and evaluating results of operations.
The Group appoints a chief operating officer ("COO") in each sector to formulate comprehensive strategies and engage in business activities for their products and services and conducts their worldwide operations.
The Group is taking a step forward and going from being a traditional manufacturing and sales company to being one that creates customer value by providing solutions to their problems, and operates three business segments: the automotive sector, public service sector, and media service sector. The Group's reportable segments are consistent with these business segments.

The major products, services, and business details of each segment are as follows:

Automotive sector	Manufactures and sales of car audio systems, car navigation systems, dashcams, in-vehicle devices, etc.
Public service sector	Manufactures and sales of professional wireless communications devices, video surveillance equipment, audio equipment, medical image display systems, etc.
Media service sector	Manufactures and sales of professional video cameras, projectors, headphones, commercial video cameras, home audio equipment, etc.; content business of audio and video software, etc.; and entrusted business of CDs and DVDs (packaged software), etc.
Others	Service parts, etc.

(2) Revenue, profit/loss, assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note "3. Significant accounting policies." Intersegment revenue or transfer is based on prevailing market prices.

Revenue, profit or loss, assets, and other items of each segment are as follows:

Previous fiscal year (from April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	Reportable segments							
	Automotive sector	Public service sector	Media service sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	171,435	65,035	58,972	295,444	5,243	300,687	—	300,687
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	171,435	65,035	58,972	295,444	5,243	300,687	—	300,687
Segment profit or loss (Note 2)	7,601	(1,519)	374	6,456	(145)	6,310	—	6,310
Other income	—	—	—	—	—	—	—	3,325
Other expenses	—	—	—	—	—	—	—	2,388
Foreign exchange gains (losses)	—	—	—	—	—	—	—	(310)
Operating profit	—	—	—	—	—	—	—	6,937
Finance income	—	—	—	—	—	—	—	249
Finance expenses	—	—	—	—	—	—	—	1,346
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	100
Profit before income taxes	—	—	—	—	—	—	—	5,940
Segment assets	130,525	47,552	37,986	216,064	4,950	221,015	18,918	239,933
Other items								
Depreciation and amortization	10,894	4,597	1,331	16,822	39	16,862	—	16,862
Impairment losses	—	89	1,445	1,535	18	1,553	—	1,553
Increase in property, plant and equipment and intangible assets	12,130	4,713	1,569	18,413	60	18,474	—	18,474

Notes:

1. Reconciliation of 18,918 million yen for segment assets is mainly composed of corporate assets such as cash and deposits and long-term investment assets (i.e., financial assets available for sale).
2. Segment profit or loss is indicated with core operating income and calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

Current fiscal year (from April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

	Reportable segments							
	Automotive sector	Public service sector	Media service sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	169,532	70,944	58,795	299,272	8,354	307,627	—	307,627
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	169,532	70,944	58,795	299,272	8,354	307,627	—	307,627
Segment profit or loss (Note 2)	5,607	628	2,217	8,453	109	8,562	—	8,562
Other income	—	—	—	—	—	—	—	1,775
Other expenses	—	—	—	—	—	—	—	2,688
Foreign exchange gains (losses)	—	—	—	—	—	—	—	(386)
Operating profit	—	—	—	—	—	—	—	7,263
Finance income	—	—	—	—	—	—	—	304
Finance expenses	—	—	—	—	—	—	—	1,076
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	(90)
Profit before income taxes	—	—	—	—	—	—	—	6,401
Segment assets	125,530	51,812	42,037	219,379	7,110	226,490	24,126	250,617
Other items								
Depreciation and amortization	11,844	4,261	1,646	17,753	41	17,794	—	17,794
Impairment losses	257	646	109	1,012	—	1,012	—	1,012
Increase in property, plant and equipment and intangible assets	13,447	4,446	3,288	21,182	271	21,454	—	21,454

Notes:
1. Reconciliation of 24,126 million yen for segment assets is mainly composed of corporate assets such as cash and deposits and long-term investment assets (i.e., financial assets available for sale).
2. Segment profit or loss is indicated with core operating income and calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

(3) Revenue from major products and services

See Note “28. Revenue from contracts with customers.”

(4) Information by region

Revenue by region

Revenue from customers by region is as follows:

(Unit: Millions of yen)

	2018	2019
Japan	130,810	136,940
Americas	68,128	69,782
Europe	58,805	56,391
Asia	38,072	38,683
Others	4,870	5,828
Total	300,687	307,627

Notes:
1. Country and region categories are based on geographical proximity.
2. Main countries or regions that belong to each category are as follows:
   (1) Americas: the USA, Canada, and Panama
   (2) Europe: Germany, France, and the United Kingdom
   (3) Asia: China, Singapore, and United Arab Emirates
   (4) Others: Australia and Africa
3. Revenue by region shows the Group’s revenue of in countries and regions other than Japan (excluding internal revenue of consolidated companies) by category of country or region of the sales destination.
4. In the previous and current fiscal years, excluding Japan, there are no single countries or regions where revenue from customers is significant.

Non-current assets

Carrying amounts of non-current assets by location of the Group companies are as follows:

(Unit: Millions of yen)

	2018	2019
Japan	41,564	44,440
Americas	3,109	3,191
Europe	10,449	12,941
Asia	14,224	15,449
Others	15	12
Total	69,363	76,035

Non-current assets are presented based on the physical location of assets. Other financial assets, deferred tax assets, and net defined benefit assets are not included.

(5) Information about major customers

There are no external customers whose revenue exceeds 10% of the Group's revenue.

7. Business combination

Previous fiscal year (From April 1, 2017 to March 31, 2018)

(1) Description of business combination

On January 19, 2018, the Company acquired all the shares issued by Radio Activity S.r.l., a developer and seller of digital radio relay systems that are compliant with Digital Mobile radio (DMR) standards, which are international digital radio standards, for the purpose of expanding the communications systems business in compliance with DMR standards and improving efficiency in integrated indirect operations.

(2) Fair value of the consideration paid, the previously held equity interest, the assets acquired, and the liabilities assumed recognized as of the acquisition date

(Unit: Millions of yen)

	Amount
Fair value of consideration paid	1,438
Total	1,438
Fair value of identified assets acquired and liabilities assumed	
Cash and cash equivalents	183
Trade and other receivables	150
Inventories	62
Property, plant and equipment	303
Intangible assets	142
Other assets	3
Trade and other payables	12
Other liabilities	139
Fair value of identified assets acquired and liabilities assumed (net amount)	694
Goodwill arising on acquisition	743

As the allocation of consideration was completed in the fiscal year ended March 31, 2019, the amount of "Goodwill" decreased by 201 million yen from the amount provisionally calculated in the previous fiscal year. As major changes in assets acquired and liabilities assumed, "Property, plant and equipment" and "Intangible assets" increased by 124 million yen and 140 million yen, respectively, and "Deferred tax liabilities" increased by 63 million yen.

The closing balances of the previous fiscal year in the consolidated statement of financial position and the opening balances of the current fiscal year in the consolidated statement of changes in equity are presented as if the allocation of consideration had been completed as of the acquisition date.

(3) Amount of recognized goodwill

Goodwill generated from this business combination was attributable to the public service sector segment. Goodwill primarily represented a synergy effect with existing businesses and the excess earning power expected from the acquisition. The benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill was non-deductible for tax purposes.

Acquisition-related expenses for this business combination were 42 million yen and were recognized in "Selling, general and administrative expenses" in the consolidated statement of income.

(4) Cash flows associated with acquisition

(Unit: Millions of yen)

	Amount
Acquisition consideration of a subsidiary	1,438
Other accounts payable	(106)
Cash and cash equivalents paid as consideration	1,331
Cash and cash equivalent balances acquired	(183)
Expenditure associated with acquisition of a subsidiary accompanying changes in scope of consolidation	1,147

(5) Impact on the business performance (pro forma information)

The Group's consolidated statement of income includes revenue of 55 million yen and loss of 0 million yen for the period after the date of the acquisition of Radio Activity S.r.l. Had the business combination been effected at April 1, 2017, the revenue of the Group from continuing operations would have been 301,164 million yen and the profit for the year from continuing operations would have been 3,318 million yen in the previous fiscal year.
The pro forma information is unaudited.

Current fiscal year (From April 1, 2018 to March 31, 2019)

(1) Description of business combination

On May 15, 2018, the Company acquired 100% shares of Rein Medical GmbH (“Rein Medical”).
Rein Medical has a track record of delivering Operating Room (OR) Solutions in Europe, the Middle East, and Asia, and is one of the few solution providers capable of delivering services from system software and hardware development and design to installation and implementation, as well as system maintenance.
The Company has been working to roll out the OR Solution business in the Japanese and North America markets in collaboration with Rein Medical. The Company has decided on the share acquisition based on the judgment that acquiring Rein Medical as a wholly-owned subsidiary would enable the Company to propose higher value-added and more advanced systems by totally integrating the technologies, know-how, and implementation service networks of the two companies.

(2) Fair value of the consideration paid, the previously held equity interest, the assets acquired, and the liabilities assumed recognized as of the acquisition date

(Unit: Millions of yen)

	Amount
Fair value of consideration paid	1,293
Total	1,293
Fair value of identified assets acquired and liabilities assumed	
Cash and cash equivalents	52
Trade and other receivables	188
Inventories	335
Property, plant and equipment	27
Intangible assets	359
Other assets	65
Trade and other payables	283
Other liabilities	869
Non-controlling interests	5
Fair value of identified assets acquired and liabilities assumed (net amount)	(129)
Goodwill arising on acquisition	1,423

(3) Amount of recognized goodwill

Goodwill generated from this business combination was attributable to the Public service sector segment. Goodwill primarily represented a synergy effect with existing businesses and the excess earning power expected from the acquisition. The benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.
The goodwill was non-deductible for tax purposes.
Acquisition-related cost for this business combination was 90 million yen and was recognized in “Selling, general and administrative expenses” in the consolidated statements of income.

(4) Cash flows associated with acquisition

(Unit: Millions of yen)

	Amount
Cash and cash equivalents paid as consideration	1,293
Cash and cash equivalent balances acquired	(52)
Expenditure associated with acquisition of a subsidiary accompanying changes in scope of consolidation	1,240

(5) Impact on the business performance (pro forma information)

The Group's consolidated statement of income includes revenue of 1,861 million yen and profit of 70 million yen for the period after the date of the acquisition of Rein Medical. The effect is immaterial on the consolidated financial statements of proforma information if the business combination occurred at the beginning of the current fiscal year (unaudited).

8. Cash and cash equivalents

The breakdown of cash and cash equivalents at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Cash and deposits of which maturity term is less than three months	37,162	40,844
Total	37,162	40,844

9. Trade and other receivables

The breakdown of trade and other receivables at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Notes receivable	3,303	2,892
Accounts receivable	54,847	55,087
Others	1,856	2,192
Less: Allowance for doubtful accounts (Note 34)	(847)	(1,033)
Total	59,160	59,138

10. Other financial assets

The breakdown of other financial assets at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Financial assets available for sale (Note 34)	9,195	—
Equity instruments (Note 34)	—	6,037
Debt instruments (Note 34)	—	3,503
Derivative assets (Note 34)	661	1,157
Others	1,654	2,002
Total	11,511	12,701
Current assets	861	1,517
Non-current assets	10,649	11,183
Total	11,511	12,701

11. Inventories

(1) Breakdown of inventories

The breakdown of inventories at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Merchandise and finished goods	26,761	28,131
Work in progress	4,826	3,211
Raw materials and supplies	12,532	13,241
Total	44,120	44,583

The amount of inventories expensed as cost of sales for the years ended March 31, 2018 and 2019 were 210,691 million yen and 213,194 million yen, respectively.

(2) Write-downs of inventories

The amounts of write-downs of inventories and reversals of write-downs that are recognized during the period and are included in "Cost of sales" in the consolidated statement of income were as follows:

(Unit: Millions of yen)

	2018	2019
Write-downs	1,608	2,102
Reversals of write-downs	—	—

12. Other current assets

The breakdown of other current assets at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Other current assets		
Prepaid expenses	2,324	2,171
Advance payments	576	376
Consumption taxes receivable	2,390	1,579
Others	471	267
Total	5,762	4,396
Other non-current assets		
Long-term prepaid expenses	593	546
Others	622	676
Total	1,215	1,222

13. Assets classified as held for sale and directly associated liabilities

The details of assets classified as held for sale and directly associated liabilities at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Assets classified as held for sale		
Property, plant and equipment	—	203
Total	—	203
Liabilities directly associated with assets classified as held for sale		
Other non-current liabilities	—	—
Total	—	—

There were no assets classified as held for sale and directly associated liabilities in the previous fiscal year.

As for the assets classified as held for sale at the beginning of the previous fiscal year, the sale was completed in the previous fiscal year and the recovery of fair value was recognized. Therefore, among the impairment losses recognized in the past in the automotive sector, public service sector, and media service sector, a reversal of 404 million yen was made and recognized in “Other income” in the consolidated statement of income.

The major assets classified as held for sale in the fiscal year ended March 31, 2019 is related to the transfer of the Company’s own land used as a parking lot in Nagano Prefecture in the automotive sector.

As for the part of the assets, since the recovery of fair value was identified during the current fiscal year, the Company reversed the impairment loss recognized in the past by 15 million yen and recognized the amount in “Other income” in the consolidated statement of income.

14. Property, plant and equipment

The breakdown and movement of carrying amount, acquisition costs, and accumulated depreciation and impairment losses of property, plant and equipment are as follows:

[Carrying amount]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2017	14,276	8,237	6,158	12,847	1,222	42,741
Acquisition	296	1,130	1,757	—	5,103	8,287
Acquisitions through business combinations (Note 7)	174	43	10	74	—	303
Depreciation	(1,264)	(1,924)	(3,195)	—	—	(6,384)
Impairment loss	(446)	(394)	(211)	(9)	(3)	(1,065)
Reversals of impairment loss	—	—	—	404	—	404
Disposal	(15)	(31)	(85)	(2)	(38)	(173)
Transfer from construction in progress	875	1,783	2,308	—	(4,967)	—
Transfer to non-current assets held for sale						
Exchange differences arising on translation of foreign operations	181	15	192	53	1	443
Others	(45)	184	(159)	(357)	(61)	(439)
Balance, March 31, 2018	14,032	9,043	6,776	13,010	1,255	44,118
Acquisition	800	1,917	1,856	—	4,126	8,700
Acquisitions through business combinations (Note 7)	2	5	20	—	—	27
Depreciation	(1,235)	(2,109)	(3,517)	—	—	(6,862)
Impairment loss	(52)	(166)	(117)	—	(10)	(346)
Reversals of impairment loss	15	—	—	—	—	15
Disposal	(31)	(43)	(25)	—	(21)	(122)
Transfer from construction in progress	328	1,054	2,706	—	(4,088)	—
Transfer to non-current assets held for sale	(15)	(0)	(0)	(188)	—	(203)
Exchange differences arising on translation of foreign operations	(71)	(34)	(56)	(44)	(10)	(218)
Others	16	196	(141)	—	(69)	2
Balance, March 31, 2019	13,787	9,863	7,500	12,777	1,181	45,110

[Acquisition costs]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2017	50,228	45,273	67,118	13,917	1,227	177,765
Balance, March 31, 2018	51,467	46,879	65,569	14,090	1,264	179,271
Balance, March 31, 2019	51,693	48,200	65,289	13,857	1,191	180,232

[Accumulated depreciation and impairment losses]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2017	35,952	37,035	60,960	1,070	5	135,023
Balance, March 31, 2018	37,434	37,835	58,792	1,080	9	135,152
Balance, March 31, 2019	37,906	38,336	57,789	1,080	10	135,121

Notes:

1. Construction in progress includes expenditures related to property, plant and equipment under construction.
2. Depreciation is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.
3. There are no borrowing costs included in acquisition cost.
4. Impairment losses are included in “Other expenses” in the consolidated statement of income.

The carrying amount of lease assets (after deducting the accumulated depreciation and impairment losses) by finance lease included in property, plant and equipment at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Buildings and structures	—	877
Machinery and vehicles	1,088	942
Tools, furniture and fixtures	85	23

15. Goodwill and intangible assets

The breakdown and movement of carrying amount, acquisition costs, and accumulated amortization and impairment losses of goodwill and intangible assets are as follows:

[Carrying amount]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2017	1,357	1,478	15,783	2,095	19,357
Acquisition	—	485	—	237	723
Acquisitions through business combinations (Note 7)	743	2	—	139	142
Internal generation	—	—	9,463	—	9,463
Amortization	—	(607)	(9,529)	(340)	(10,477)
Impairment loss	—	(15)	(467)	—	(482)
Disposal	—	(3)	(0)	(0)	(4)
Exchange differences arising on translation of foreign operations	(101)	9	147	(25)	131
Others	—	28	(48)	(15)	(35)
Balance, March 31, 2018	1,999	1,379	15,348	2,090	18,818
Acquisition	—	1,088	—	215	1,304
Acquisitions through business combinations (Note 7)	1,423	21	—	337	359
Internal generation	—	—	11,449	—	11,449
Amortization	—	(561)	(9,907)	(462)	(10,932)
Impairment loss	—	(39)	(595)	(30)	(665)
Disposal	—	(49)	(269)	(30)	(350)
Exchange differences arising on translation of foreign operations	(45)	(0)	(71)	10	(61)
Others	—	12	(275)	149	(113)
Balance, March 31, 2019	3,376	1,851	15,677	2,280	19,809

[Acquisition costs]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2017	5,681	12,028	47,630	11,712	71,371
Balance, March 31, 2018	5,955	10,556	57,139	11,137	78,832
Balance, March 31, 2019	7,488	11,476	68,213	12,221	91,910

[Accumulated amortization and impairment losses]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2017	4,324	10,550	31,847	9,616	52,013
Balance, March 31, 2018	3,956	9,176	41,791	9,046	60,014
Balance, March 31, 2019	4,111	9,624	52,535	9,940	72,100

Notes:

1. Amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.
2. There are no borrowing costs included in acquisition cost.
3. Impairment losses are included in “Other expenses” in the consolidated statement of income.

The amount of research and development expenses recognized as expenses during the periods ended by March 31, 2018 and 2019 is 17,890 million yen and 18,309 million yen, respectively, which are included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

The carrying amounts of finance lease assets less accumulated amortizations and impairment losses included in intangible assets at each fiscal year-end are as follows:

(Unit: Millions of yen)

	2018	2019
Software	50	33

16. Impairment of non-financial assets

The breakdown of assets that recognized impairment losses in each reportable segment is as follows:

(Unit: Millions of yen)

		2018	2019
Automotive sector	Machinery and vehicles	—	40
	Tools, furniture and fixtures	—	2
	Development costs	—	214
	Subtotal	—	257
Public service sector	Buildings and structures	—	13
	Machinery and vehicles	—	95
	Tools, furniture and fixtures	39	81
	Construction in progress	—	10
	Internal-use software	2	35
	Development costs	47	379
	Other intangible assets	—	30
	Long-term prepaid expenses	—	0
	Subtotal	89	646
Media service sector	Buildings and structures	437	39
	Machinery and vehicles	394	29
	Tools, furniture and fixtures	171	33
	Construction in progress	3	—
	Internal-use software	12	3
	Development costs	420	2
	Long-term prepaid expenses	5	0
	Subtotal	1,445	109
Others	Buildings and structures	9	—
	Land	9	—
	Subtotal	18	—
Total		1,553	1,012

(1) Cash-generating units

Non-financial assets are mainly grouped into operating business units based on the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(2) Impairment loss

Major impairment losses in the previous fiscal year are as follows:

In the media service sector, impairment losses were recognized on property, plant and equipment, intangible assets and long-term prepaid expenses which were held by the subsidiary whose main business is manufacturing of recorded optical disks. As a result of a careful review of the future business plan and recoverability, those carrying amounts were written down to the recoverable amounts. In addition, as for the other business assets, business performance of a part of the business asset group deteriorated. As a result of careful comparative review of the carrying amounts and the recoverable amounts based on the cash flows, the entire carrying amount of these assets was recognized as impairment loss. The recoverable amount was measured at value in use and the recoverable amount and was assumed to be zero because the future cash flow was negative.

Meanwhile, concerning the assets held for sale and the assets for which the purpose of use changed due to business structure reform, the carrying amounts were written down to the recoverable amount and the differences were recognized as impairment losses. The recoverable amount was measured at fair value less costs of disposal. The fair value less costs of disposal was measured based on the appraisal of an independent external real estate appraiser and the expected sales amounts, of which fair value hierarchy is Level 3.

Major impairment losses in the current fiscal year are as follows:

In the public service sector, impairment losses were mainly recognized on property, plant and equipment, intangible assets and long-term prepaid expenses which were held by a subsidiary of the professional system business because business performance of its asset group deteriorated. In the automotive sector, impairment losses were recognized on part of development costs as a result of careful review of the recoverability in consideration of deteriorating profitability of the development plan. Those carrying amounts were written down to the recoverable amounts.

The recoverable amount was measured at value in use and the recoverable amount was assumed to be zero because the future cash flow was negative.

(3) Impairment of goodwill

Goodwill is allocated to cash-generating units or groups of cash-generating units on acquisition dates based on the allocation of expected benefits from business combinations for the purpose of impairment testing.

The total carrying amounts of goodwill allocated to each cash-generating unit or cash-generating unit group at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Public service sector	1,999	3,376
Total	1,999	3,376

Among the goodwill in the Public Service Sector in the fiscal year ended March 31, 2019, the main components were goodwill of 1,343 million yen (previous fiscal year: 1,285 million yen) recognized at the time of acquiring shares of the communication system subsidiary in the US and goodwill of 1,352 million yen recognized at the time of acquiring equity interest of the OR solution business subsidiary in Germany. Goodwill is tested for impairment annually or whenever there is indication of impairment.

Goodwill recognized at the time of acquiring shares of the communication system subsidiary in the US

The recoverable amount of goodwill is mainly measured at fair value less costs of disposal. The fair value less costs of disposal is determined based on the results of multiple valuation techniques such as income approach and market approach. The fair value hierarchy is level 3.

The main assumptions used in calculating the fair value less costs of disposal are as follows:

Under the income approach, the pretax discount rate applied to future cash flow projections is 11.0% (11.0% in the previous fiscal year), growth rate used to calculate continuous value is 3.0% (3.0% in the previous fiscal year), and period of future cash flow projections based on the business plan is nine years (nine years in previous fiscal year).

Under the market approach, the EV/EBITDA ratio applied to the comparable peer company analysis ranged from 8.0 to 8.6 times (9.9 to 11.3 times in the previous fiscal year), and EV/Revenue ratio is 0.9 times (1.2 times in the previous fiscal year).

If the significant assumptions used in the impairment test fluctuates within a reasonable range, the Company assumes that the recoverable amount will not be lower than the carrying amount.

Goodwill generated at the acquisition of equity interest of the OR solution business subsidiary in Germany

The recoverable amount is measured at value in use. The value in use reflects past experience and external information and is calculated by discounting the estimated amount of future cash flow for five years based on the latest business plan approved by the Board of Directors to the present value.

The main assumptions underlying the calculation of value in use are as follows:

Discount rate based on pre-tax weighted average cost of capital of the cash-generating unit or cash-generating unit group: 12.4%; growth rate used to calculate continuous value determined with reference to the long-term average growth rate in the country to which the cash-generating unit or cash-generating unit group belongs: 2.7%

If the significant assumptions used in the impairment test fluctuates within a reasonable range, the Company assumes that the recoverable amount will not be lower than the carrying amount.

17. Investment property

(1) Table of movements

The movements of the carrying amounts of investment property are as follows:

(Unit: Millions of yen)

	2018	2019
Balance, beginning of year	2,071	2,055
Acquisition	—	—
Increase due to expenditures after acquisitions	—	5
Sales or disposal	—	—
Transfer from property, plant and equipment	—	38
Exchange differences arising on translation of foreign operations	(50)	38
Gain or loss due to fluctuation of fair value	33	67
Other	—	16
Balance, end of year	2,055	2,221

The fair value of investment property is measured based on the appraisal of an independent real estate appraiser with professional qualifications, and its valuation is based on the appraisal standards of the country where the investment property is located and based on market evidence of transaction prices for similar assets.

The fair value hierarchy of investment property is classified as level 3 because valuation techniques include inputs that are not based on observable market data.

The fair value hierarchy is indicated in Note "34. Financial Instruments."

(2) Revenue and expense from investment property

(Unit: Millions of yen)

	2018	2019
Rental income	141	145
Direct operating expenses	18	22

18. Lease transaction

The Group has lease contracts as lessee and uses tools, furniture and fixtures, software, and so on, under finance leases and operating leases.

(1) As lessee

1) Finance lease contracts

The breakdown of finance lease obligations at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Minimum lease payments	1,240	1,449
Within 1 year	354	472
1 year to 5 years	712	641
Over 5 years	172	335
Less amount representing interest charge	41	52
Present value of finance lease obligations	1,198	1,396

The breakdown of the present value of finance lease obligations is as follows:

(Unit: Millions of yen)

	2018	2019
Within 1 year	339	452
1 year to 5 years	695	617
Over 5 years	163	326
Present value of finance lease obligations	1,198	1,396

Some lease contracts include renewal options and purchase options. There are no restrictions imposed by the lease contracts.

2) Operating lease contracts

Future minimum lease payments associated with non-cancelable operating leases at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Within 1 year	1,429	2,596
1 year to 5 years	3,755	4,652
Over 5 years	1,290	318
Total	6,475	7,567

Operating lease payments and sublease payments recognized as expenses are as follows:

(Unit: Millions of yen)

	2018	2019
Minimum lease payments	1,899	3,933
Sublease payments	0	(4)
Total	1,899	3,928

Some lease contracts include renewal options and purchase options. There are no restrictions imposed by the lease contracts.

(2) As lessor

Operating lease contracts

Future minimum lease payments associated with non-cancelable operating leases at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Within 1 year	296	148
1 year to 5 years	626	598
Over 5 years	421	232
Total	1,344	979

19. Trade and other payables

The breakdown of trade and other payables at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Notes payable–trade	1,603	1,507
Accounts payable–trade	34,608	32,921
Accounts payable–other	10,823	10,439
Total	47,035	44,868

20. Other financial liabilities

The breakdown of other current financial liabilities at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Lease obligations (Note 18)	1,198	1,396
Derivative liabilities (Note 34)	1,017	101
Others	772	1,637
Total	2,988	3,134
Current liabilities	1,993	1,539
Non-current liabilities	995	1,595
Total	2,988	3,134

21. Borrowings

The breakdown of borrowings:

(Unit: Millions of yen)

	2018	2019	Average interest rate (%)	Maturity date
Short-term borrowings	5,182	5,917	1.03	—
Current portion of long-term borrowings	24,460	18,529	0.81	—
Total short-term borrowings	29,642	24,447	—	—
Long-term borrowings	38,204	46,865	0.72	Jan. 31, 2024

The average interest rate represents the weighted-average interest rate based on agreed-upon interest rates to the ending balance of borrowings.

The Group has entered into agreements of commitment line with financial institutions to finance its working capital requirements effectively. The agreements of commitment lines at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Maximum amount of the agreements of commitment lines	10,000	10,000
Outstanding borrowings	—	—
Unexecuted balance	10,000	10,000

Financial covenants

The Group's borrowings include financial covenants that require the Group to maintain a specified level of net assets and profit. To meet the financial covenants, the Group continuously monitors to maintain the required level of net assets and profit. There are no violations of the covenants as of March 31, 2019.

Secured borrowings and the assets pledged as collateral at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Pledged assets		
Cash and cash equivalents	210	262
Trade and other receivables	10,606	10,751
Inventories	6,427	6,927
Other current assets	839	581
Non-current assets held for sale	—	203
Property, plant and equipment	17,708	17,103
Intangible assets	52	141
Investment property	1,155	1,201
Other non-current financial assets	13	12
Other non-current assets	179	153
Total pledged assets	37,194	37,338
Liabilities with collateral		
Current portion of long-term borrowings	11,503	—
Long-term borrowings	11,574	23,146
Total liabilities with collateral	23,078	23,146

22. Provisions

The movement of provisions is as follows:

(Unit: Millions of yen)

	Provision for warranty	Provision for loss on order received	Asset retirement obligations	Others (Note)	Total
Balance, April 1, 2017	1,320	1,852	919	1,034	5,126
Provision	772	—	22	155	951
Adjustment due to passage of time	—	—	1	63	65
Decrease–used	(704)	(894)	—	(157)	(1,757)
Decrease–reversed	(61)	(279)	—	—	(341)
Exchange differences arising on translation of foreign operations	(2)	—	(1)	43	39
Other changes	1	—	0	(247)	(245)
Balance, March 31, 2018	1,325	678	942	892	3,839
Provision	862	—	0	71	934
Adjustment due to passage of time	—	—	1	61	63
Decrease–used	(793)	(427)	(72)	(176)	(1,469)
Decrease–reversed	(69)	—	(2)	(15)	(87)
Exchange differences arising on translation of foreign operations	2	—	0	(25)	(23)
Other changes	(1)	—	—	1	0
Balance, March 31, 2019	1,325	251	870	809	3,256
Current liabilities	1,325	251	—	208	1,784
Non-current liabilities	—	—	870	601	1,471

Note: “Others” includes provision for compensation on lease contracts.

The nature of the provisions recorded by the Group is indicated in Note “3. Significant accounting policies” (13) Provisions.

23. Employee benefits

(1) Defined benefit plans

1) Characteristics of the defined benefit plans and related risks

The Group has funded defined benefit pension plans and unfunded lump-sum benefit plans as defined benefit plans to provide retirement and severance benefits to employees. The main defined benefit plans in Japan are the funded pension plan and post-employment benefit plan operated by JVCKenwood Corporate Pension Fund (“the Fund”) participated in by the Company and some domestic subsidiaries. The Fund is a special corporation established under the approval of the Minister of Health, Labour and Welfare, and it is operated under the Defined-Benefit Corporate Pension Act. The Board of Directors of the Fund is required by law to act in the best interests of the plan participants, and is responsible for managing the plan assets in accordance with the designated policy.

Regarding the lump-sum benefit plans, the Group is obligated to pay directly to the beneficiaries.

The Group’s defined benefit plans are exposed to the following risks.

(i) Investment risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields on high-quality corporate bonds at the end of the reporting periods. When the yield on plan assets falls below the discount rate, there is a risk of reduction in equity due to deterioration of the funding status. Plan assets may be affected by the volatility of return on assets in the short term.

(ii) Interest risk

When a discount rate is adjusted downwards in line with the fallen market yields on high quality corporate bonds, the present value of defined obligations may increase and cause deterioration of the funding status, exposing the Group to a risk of reduction in equity.

2) Amounts on the financial statements

The amounts of the defined benefit plans on the consolidated statement of financial position are as follows:

(Unit: Millions of yen)

	2018	2019
Present value of defined benefit obligations	97,925	97,090
Fair value of plan assets	85,447	82,270
Effect of asset ceiling (Note)	11,640	9,178
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	24,118	23,998
Net defined benefit liabilities	28,239	28,236
Net defined benefit assets	4,120	4,237
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	24,118	23,998

Note: If the fair value of the plan assets exceeds the present value of the defined benefit obligation, the defined benefit assets are adjusted for any effect of limiting them to the asset ceiling in accordance with IAS 19, "Employee benefits."

Changes in the present value of the defined benefit obligations are as follows:

(Unit: Millions of yen)

	2018	2019
Balance, beginning of year	108,436	97,925
Current service cost	3,255	2,697
Interest expenses	693	600
Changes due to remeasurement		
Actuarial gains and losses (demographic)	(423)	12
Actuarial gains and losses (financial)	731	1,165
Actuarial difference arising from modification of actual results	40	(199)
Benefits paid	(4,512)	(5,010)
Effect of business combination and disposition	29	—
Transition to the defined contribution plans (Note)	(10,867)	—
Past service costs	114	—
Others	172	35
Exchange differences arising on translation of foreign operations	255	(135)
Balance, end of year	97,925	97,090

Note: On October 1, 2017, the Company transferred a part of the defined benefit pension plans to the defined contribution pension plan. Consequently, both net defined benefit assets and net defined benefit liabilities decreased, resulting in a gain of 429 million yen on revision of retirement benefit plan. This gain is recognized in "Other income" (Note 31) in the consolidated statement of income in the previous fiscal year.

Changes in the fair value of the plan assets are as follows:

(Unit: Millions of yen)

	2018	2019
Balance, beginning of year	95,189	85,447
Interest income	552	472
Changes due to remeasurement		
Revenue on plan assets	2,328	(1,103)
Employer contributions	1,126	902
Benefits paid	(3,303)	(3,454)
Transition to the defined contribution plan	(10,438)	—
Exchange differences arising on translation of foreign operations	(7)	4
Balance, end of year	85,447	82,270

Note: The Company and some subsidiaries regularly conduct financial reviews and recalculate the contribution amount to maintain the equilibrium of pension finance in the event of allocation for future benefits or insufficient funds based on the rules of the defined benefit pension plans.
The Company and some subsidiaries plan to contribute 856 million yen in the following fiscal year.

Changes in the effect of the asset ceiling are as follows:

(Unit: Millions of yen)

	2018	2019
Balance, beginning of year	19,719	11,640
Interest income limit	114	62
Remeasurement		
Changes in the impact of the asset ceiling (excluding the amount included in the interest income limit)	2,152	(2,524)
Transition to the defined contribution plan	(10,345)	—
Balance, end of year	11,640	9,178

The composition of plan assets by asset category is as follows:

(Unit: Millions of yen)

	2018		2019	
	Plan assets with market prices in an active market	Plan assets without market prices in an active market	Plan assets with market prices in an active market	Plan assets without market prices in an active market
Equity instruments	18,178	—	18,357	—
Domestic stocks	3,450	—	4,028	—
Foreign stocks	14,727	—	14,329	—
Debt instruments	38,752	—	39,002	—
Domestic bonds	—	—	—	—
Foreign bonds	38,752	—	39,002	—
Other assets	6,890	—	2,959	—
Investments in life insurance company general accounts	—	10,635	—	10,503
Others	—	10,990	—	11,446
Total	63,821	21,626	60,319	21,950

Notes:

1. Domestic stocks and foreign stocks include investments through funds. Foreign stocks include investments through funds which hold a mixture of domestic and non-domestic stocks.
2. Domestic bonds and foreign bonds include investments through funds. Foreign bonds include investments through funds which hold a mixture of domestic and non-domestic bonds.
3. The Insurance Business Law Enforcement Regulations stipulate that the investment of assets in life insurance company general accounts be conducted in a manner that provides a specific assumed interest rate and a principal guarantee.

Information about the maturity profile of retirement benefits is as follows:

The defined benefit obligations are calculated based on the estimated amount of future benefits that have been incurred as of the present point in time. The amount of those future payments is discounted back from the expected time of future payment to the present. Accordingly, the timing of benefit payment influences the amounts of the projected benefit obligation and service costs, and consequently, the disclosure of information regarding benefits in the period in which they are earned is required under IAS 19, "Employee Benefits." The Company believes that it meets this requirement in an effective manner through the disclosure of the weighted-average duration of the defined benefit obligations, which takes into account the amount, timing, and discount rate. The weighted-average duration of the Company's defined benefit obligations is 11 years for the previous fiscal year and the current fiscal year.

Significant actuarial assumptions used in calculating the present value of the defined benefit obligations are as follows:

	2018	2019
Discount rate	Mainly 0.534%	Mainly 0.429%

The impact on the present value of the defined benefit obligations when the discount rate fluctuates 0.5% at the end of the reporting period is as follows:

	2018	2019
In case of 0.5% increase	(4,828)	(4,764)
In case of 0.5% decrease	5,299	5,518

This analysis is based on the premise that the actuarial assumptions other than the discount rate do not fluctuate and that only the discount rate fluctuates. This method of analysis is based on certain assumptions, and it is possible that the actual calculation could be influenced by fluctuations in other variables.

(2) Defined contribution plans

Retirement benefits paid for defined contribution plans are recognized as expenses in the period in which the employees render the related services, and contributions payable are recognized as liabilities.

Retirement benefits paid for defined contribution plans are as follows:

(Unit: Millions of yen)

	2018	2019
Retirement benefits paid for defined contribution plan	1,134	1,295

Retirement benefit expenses related to the defined contribution plans are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

24. Other liabilities

(Unit: Millions of yen)

	2018	2019
Other current liabilities		
Consumption taxes payable, etc.	1,835	1,251
Accrued bonuses	5,675	5,893
Accrued unused paid absences	4,423	4,643
Accrued expenses	10,192	10,411
Others	1,494	1,209
Total	23,622	23,410
Other non-current liabilities		
Long-term contract liabilities (Note) (Note 28)	338	473
Others	626	723
Total	964	1,196

Note: "Long-term contract liabilities" includes long-term deferred revenue such as sales from long-term fee-based guarantee agreements.

25. Income taxes

(1) Breakdown of the changes in deferred tax assets and liabilities

The breakdown of the changes in deferred tax assets and liabilities is as follows:

Previous fiscal year (from April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2017)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the previous fiscal year (March 31, 2018)
Deferred tax assets					
Depreciation	1,076	113	—	(7)	1,182
Net defined benefit liabilities	1,411	308	19	(3)	1,734
Provision for inventory reserve	532	41	—	(3)	569
Unused tax losses	5,786	(2,247)	—	(152)	3,386
Accrued expenses	2,349	(9)	—	(7)	2,332
Others (Note)	1,844	(23)	—	(25)	1,795
Subtotal	13,000	(1,818)	19	(199)	11,001
Deferred tax liabilities					
Net defined benefit assets	2,005	(1,051)	316	—	1,269
Financial assets measured at fair value through other comprehensive income	1,428	—	(108)	—	1,319
Depreciation	1,724	87	—	11	1,823
Others (Note)	3,213	(499)	—	81	2,795
Subtotal	8,371	(1,463)	207	92	7,207
Net amount	4,629	(355)	(187)	(292)	3,794

Note: Others includes the exchange differences arising on translation of foreign operations.

Current fiscal year (from April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2018)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the current fiscal year (March 31, 2019)
Deferred tax assets					
Depreciation	1,182	147	—	5	1,336
Net defined benefit liabilities	1,734	174	1	2	1,914
Provision for inventory reserve	569	(77)	—	(0)	491
Unused tax losses	3,386	(127)	—	108	3,367
Accrued expenses	2,332	95	—	3	2,432
Others (Note)	1,795	(283)	—	(7)	1,505
Subtotal	11,001	(70)	1	113	11,046
Deferred tax liabilities					
Net defined benefit assets	1,269	(152)	191	—	1,308
Financial assets measured at fair value through other comprehensive income	1,319	5	6	—	1,330
Depreciation	1,823	452	—	(8)	2,267
Others (Note)	2,795	(178)	—	98	2,715
Subtotal	7,207	127	198	89	7,622
Net amount	3,794	(197)	(196)	23	3,423

Note: Others includes the exchange differences arising on translation of foreign operations.

(2) Unrecognized deferred tax assets and liabilities

Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized are as follows. The amount is based on a tax basis.

(Unit: Millions of yen)

	2018	2019
Deductible temporary differences	15,084	15,900
Unused tax losses	27,664	20,846
Total	42,749	36,747

When evaluating the recoverability of the deferred tax assets, the Group examines the probability that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on whether there will be taxable income in the future accounting period when these temporary differences can be tax-deductible or creditable for the tax calculation in the respective tax jurisdictions. Although the recoverability is not conclusive, the Group examines the schedule of the reversal of the taxable temporary differences and expected future taxable income when evaluating the recoverability. Based on these factors, the Group determines it is probable that the deferred tax assets recognized as of the end of the current fiscal year will be realized.

For certain Group companies that have losses in the previous fiscal year or current fiscal year, the amount of deferred tax assets that exceeds the deferred tax liabilities were 464 million yen for the previous fiscal year and 437 million yen for the current fiscal year. These deferred tax assets are recognized based on the judgment of recoverability, taking into account the certainty of future taxable income generation based on the characteristics of the business of the taxable entity and the maturity date of loss carried forward.

The amounts of deductible temporary differences and unused tax losses for which no deferred tax assets are recognized are as follows：

(Unit: Millions of yen)

	2018	2019
1st year	8,461	3,525
2nd year	2,903	5,730
3rd year	5,386	226
4th year	315	1,322
5th year and thereafter	10,597	10,042
Total	27,664	20,846

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized for the current fiscal year were 169 million yen. The Group did not recognize deferred tax liabilities for these temporary differences because it was able to control the timing of the reversal of these temporary differences, and it was probable that these temporary differences will not reverse in the foreseeable future.

(3) Income taxes that are recognized through profit or loss

The breakdown of income taxes that were recognized through profit or loss is as follows:

(Unit: Millions of yen)

	2018	2019
Current tax expenses		
Current year	2,175	1,955
Prior years	221	(53)
Total	2,397	1,901
Deferred tax expense		
Origination and reversal of temporary differences	(384)	1,132
Recognition of previously unrecognized deferred tax assets	(982)	(934)
Change in tax rates, etc.	1,722	—
Total	355	197
Income tax expenses	2,752	2,099

(4) Reconciliation between the statutory effective tax rate and the actual tax rate

The reconciliation between the statutory effective tax rate and the actual tax rate is as follows. The actual tax rate shows the share of income tax expenses to income before income taxes.

	2018	2019
Statutory effective tax rate	30.8%	30.6%
Expenses not deductible for income tax purposes	6.7%	5.5%
Dividend and other income not taxable	(5.9%)	(3.3%)
Gain on liquidation of foreign subsidiaries not taxable	(0.1%)	(0.0%)
Foreign tax	3.4%	3.9%
Evaluation of recoverability of deferred tax assets	(14.8%)	(4.3%)
Effect of changes of income tax rates on deferred taxes	29.0%	(0.2%)
Lower income tax rates applicable to income in foreign subsidiaries	(5.3%)	(6.7%)
Undistributed earnings in foreign subsidiaries	(1.1%)	1.5%
Withholding tax of foreign subsidiaries	1.0%	1.0%
Others	2.6%	4.8%
Actual tax rate	46.3%	32.8%

The Group is subject to corporate tax, inhabitant tax, and enterprise tax that is included in deductible expenses, and the statutory effective tax rate for the current fiscal year calculated based on those taxes is 30.6% (30.8% in the previous fiscal year). Overseas subsidiaries are subject to income tax and other taxes applicable in each location.

"The act to amend a part of the laws, etc. such as amending a part of the Consumption Tax Act to fundamentally reform the tax system to secure stable financial resources for social security" (Act No. 85 of 2016) and "Act to amend a part of the laws, etc. such as amending a part of the Local Tax Act and Local Allocation Tax Act to fundamentally reform the tax system to secure stable financial resources for social security" (Act No. 86 of 2016) were enacted in the National Diet of Japan on November 28, 2016. The timing to raise the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019.

Along with this, the timing to implement the abolition of special local corporation tax, restoration of corporate enterprise tax associated with it, revision of the local corporation tax rate, and revision of the rate of the corporate inhabitant tax business levy were also postponed from the fiscal year starting on or after April 1, 2017 to the fiscal year starting on or after October 1, 2019.

There are no changes to the statutory effective tax rate used in Japan for calculating deferred tax assets and deferred tax liabilities, but tax rate reclassification occurred between national tax and local tax.

As the federal corporate tax rate was lowered from 35% to 21% on December 22, 2017 due to the establishment of the Tax Reform Act in the United State of America, a part of deferred tax assets and deferred tax liabilities were reversed, and deferred tax expenses of 1,722 million yen were reserved in the previous fiscal year.

(5) Uncertain tax position

The Company's consolidated subsidiary JVC(Philippines), Inc. ("JPL") was charged approximately 600 million Philippine pesos (including interest and additional charges) in back taxes by the Philippines Bureau of Internal Revenue for corporate tax, value-added tax, and withholding tax for the fiscal year ended March 31, 2004, on December 2, 2008. In November 2018, JPL was notified that the Supreme Court of the Philippines rejected their appeal. JPL has filed an application for reconsideration of the decision and is continuing the dispute.

Under these circumstances, in preparation for the case where the application for reconsideration is rejected, the Group reasonably estimated 52 million Philippine pesos (110 million yen converted at the exchange rate at the end of the current fiscal year) as income taxes payable in the current fiscal year, taking into account the possibility of future financial burden in addition to the settlement application fee of 69 million Philippine pesos (187 million yen converted at the exchange rate of that time) which was recorded in February 2015.

26. Equity and other equity items

(1) Capital stock, capital surplus, and retained earnings

Changes in the number of authorized shares, total number of outstanding shares, and the balance of common stock and capital surplus at each fiscal year end are as follows:

	Number of authorized shares (share)	Total number of outstanding shares (share)	Capital stock (million yen)	Capital surplus (million yen)
Balance, April 1, 2017	400,000,000	139,000,201	10,000	45,628
Change	0	0	0	(7,161)
Balance, March 31, 2018	400,000,000	139,000,201	10,000	38,466
Change	0	25,000,000	3,645	3,619
Balance, March 31, 2019	400,000,000	164,000,201	13,645	42,086

Note: Increase in the total number of outstanding shares for the current fiscal year is due to the exercise of stock acquisition rights with an exercise price revision clause.

Outstanding shares mentioned above are fully paid and capital stocks have no par value.
The Companies Act of Japan (hereinafter "the Companies Act") states that upon issuance of new shares, at least 50% of the amount raised will be credited to common stock, unless otherwise specified in the Companies Act.

The Companies Act provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional legal capital surplus (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.
Under the Companies Act, in addition to year-end dividends, dividends of surplus can be made at any time during the fiscal year by resolution of the general meeting of shareholders. The Companies Act provides that companies may determine dividends (excluding dividends in kind) by resolution of the Board of Directors if the articles of incorporation so stipulate, when certain requirements are satisfied, such as having a Board of Corporate Auditors and a Board of Directors, appointing independent auditors, and the terms of service of the directors prescribed as one year. The Companies Act also provides that companies with a Board of Directors may pay dividends (only cash dividends) by resolution of the Board of Directors only once during a business year, if the articles of incorporation so stipulate.

(2) Treasury stock

Changes in the number of treasury stocks and balance of the treasury stocks are as follows:

	Number of shares (share)	Amount (millions of yen)
Balance, April 1, 2017	51,849	37
Change	3,201	1
Balance, March 31, 2018	55,050	38
Change	1,593	0
Balance, March 31, 2019	56,643	38

(3) Other components of equity

1) Remeasurement of defined benefit plan

Remeasurement of defined benefit plan consists of actuarial differences, return on plan assets (excluding amounts included in interest income), and changes in effects of asset ceiling (excluding amounts included in interest income).

2) Fair value gain (loss) on financial assets available for sale

Amounts consist of changes in fair value of financial assets available for sale.

3) Financial assets measured at fair value through other comprehensive income

The change in fair value of financial assets measured at fair value through other comprehensive income.

4) Exchange difference on translation of foreign operations

Amounts consist of exchange differences arising from consolidation of the financial statements of foreign operations denominated in a currency other than the functional currency of the Company.

5) Changes in fair value of cash flow hedges

The effective portion of changes in fair value of derivative transactions designated as cash flow hedges is used by the Group to avoid the risk of future cash flow fluctuation.

6) Fair value of investment property

If an owner-occupied property becomes an investment property that will be measured at fair value, the carrying amount of the investment property is adjusted to the revalued amount at the date of the revaluation.
Difference between the carrying amount and the revalued amount that results in an increase in the carrying amount is treated as follows:

- to the extent that the increase reverses a previous impairment loss for that property, the increase is recognized in profit or loss, and
- any remaining part of the increase is recognized in other comprehensive income

27. Dividends

Total annual dividends for each fiscal year are as follows:

Resolution	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Board of Directors' meeting held on May 12, 2017	694	Capital surplus	5.00	March 31, 2017	May 31, 2017
Board of Directors' meeting held on May 15, 2018	833	Retained earnings	6.00	March 31, 2018	May 30, 2018

Dividends whose record date is in the current fiscal year but are effective in the following fiscal year are as follows:

Resolution	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Board of Directors' meeting held on May 14, 2019	983	Retained earnings	6.00	March 31, 2019	May 29, 2019

28. Revenue from contracts with customers

(1) Disaggregation of revenue from contracts with customers

All revenues of the Group are revenue from contracts with customers, and based on the facts and circumstances unique to the contracts with customers, the revenues are categorized by reportable segment (refer to Note 6) including the automotive sector, public service sector, and media service sector.

Previous fiscal year (from April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

Reportable segment	Automotive sector	Public service sector		Media service sector		Others	Total
Major business	Aftermarket business/OEM	Communications systems	Professional systems	Media	Entertainment	—	—
Revenue from customers	171,435	42,874	22,160	34,270	24,702	5,243	300,687

Current fiscal year (From April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

Reportable segment	Automotive sector	Public service sector		Media service sector		Others	Total
Major business	Aftermarket business/OEM	Communications systems	Professional systems	Media	Entertainment	—	—
Revenue from customers	169,532	46,601	24,342	33,877	24,918	8,354	307,627

The main businesses in the automotive sector are the Aftermarket business, which provides products to consumers through volume-sales retailers and distributors, and the OEM business, which provides products through automobile manufacturers. In this business sector, revenues are generated from production and sales of car audio systems, car navigation systems, dashcams, in-vehicle devices, etc. as well as fee-charging after-sales services. Also, in transactions with volume-sales retailers and distributors, the rebates that occur based on contracts and the probability of returns are recognized as refund liabilities. In addition, prepayment from customers are recognized as contract liabilities.

The public service sector consists of the communications systems and professional systems businesses. The revenues of the communications systems business are mainly from manufacturing, sales and installation of land mobile radio equipment targeting corporations, and fee-charging after-sales service. The professional systems business offers services to establish business systems targeting corporations, and the revenues are generated from manufacturing, sales, and installation of video surveillance equipment, audio equipment, and medical image display systems and fee-charging after-sales service. In both businesses, contract assets are recognized for consideration for ongoing installation services. In addition, the rebates that occur based on contracts with customers and the probability of returns are recognized as refund liabilities. Furthermore, prepayment mainly from transactions for installation services are recognized as contract liabilities.

The main businesses of the media service sector are the media business and entertainment business. The revenues of the media business are generated mainly from manufacturing and sales of professional video cameras, projectors, headphones, commercial video cameras, home audio equipment, etc. targeting volume-sales retailers and distributors and fee-charging after-sales services. The revenues of the entertainment business are generated from the content business of audio and video software, entrusted business of CDs and DVDs (packaged software), and rights business such as copyrights. In both businesses, the rebates that occur based on contracts with customers and the probability of returns are recognized as refund liabilities. Furthermore, prepayment from customers are recognized as contract liabilities.
Recognition, measurement, and timing of these revenues are described in Note "3. Significant accounting policies" (15) Revenue recognition. There are no contracts with customers that include a significant financial component.

(2) Contract balance

The Group recognizes contract assets against consideration for ongoing installation services, and contract liabilities are recognized against prepayment received from customers. The main businesses that recognize them are described in (1) Disaggregation of revenue from contracts with customers.

The balances of contract assets and contract liabilities with customers at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Contract assets		
Assets related to on-going installation services	1,930	2,022
Total contract assets	1,930	2,022
Contract liabilities (Note)		
Advances from customers	3,982	2,735
Total contract liabilities	3,982	2,735

Note: "Contract liabilities" includes long-term liabilities, and is recognized in "Other non-current liabilities" in the consolidated statement of financial position.

Significant changes in contract assets and contract liabilities

The significant changes in contract assets in the previous fiscal year are an increase of 1,157 million yen due to new contracts and a decrease of 504 million yen due to transfer to receivables. The significant changes in contract assets in the current fiscal year are an increase of 991 million yen due to new contracts and a decrease of 976 million yen due to transfer to receivables.

The significant changes in contract liabilities in the previous fiscal year are a decrease of 2,907 million yen due to revenue recognition, an increase of 2,897 million yen due to new contracts, and an increase of 448 million yen due to receiving cash. Among the decrease due to revenue recognition, the amount included in the balance as of the beginning of the previous fiscal year is 2,409 million yen.

The significant changes in contract liabilities in the current fiscal year are a decrease of 5,890 million yen due to revenue recognition, an increase of 4,757 million yen due to new contracts. Among the decrease due to revenue recognition, the amount included in the balance as of the beginning of the current fiscal year is 3,408 million yen.

In the previous fiscal year and the current fiscal year, the amount of revenue recognized in the reporting period from performance obligations satisfied in previous periods is not significant.

(3) Refund liability

The Group recognizes refund liability against sales amounts that are granted a rebate or a return right based on contracts with customers and have the probability of returns. The main businesses that recognize them are described in (1) Disaggregation of revenue from contracts with customers.

The refund liability balance with customers at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Refund liability		
Returning goods	1,923	1,213
Expected rebates	2,749	3,024
Total refund liability	4,673	4,237

(4) Transaction price allocated to the remaining performance obligation

The remaining performance obligation of the contracts with the initial service period of more than one year at the end of the fiscal year is as follows:

(Unit: Millions of yen)

	2018	2019
Long-term guarantee contracts on wireless communications systems, etc.	557	896
Within 1 year	246	438
Over 1 year	310	458

29. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

(Unit: Millions of yen)

	2018	2019
Personnel expenses	40,010	40,431
Advertisement and sales promotion expenses	7,821	7,288
Transportation expenses	5,654	5,461
Depreciation	2,301	2,490
Commission expenses	3,070	2,729
Rental expenses	2,318	2,452
Others	14,354	14,878
Total selling, general and administrative expenses	75,531	75,732

30. Finance income and finance expenses

The breakdown of finance income and finance expenses is as follows:

(Unit: Millions of yen)

	2018	2019
Interest income		
Loans and receivables	173	229
Dividends income		
Financial assets available for sale	75	—
Equity instruments	—	74
Total finance income	249	304
Interest expenses		
Financial liabilities measured at amortized cost	1,133	867
Other finance expenses	212	208
Total finance expenses	1,346	1,076

31. Other income and expenses

(1) Other income

The breakdown of other income is as follows:

(Unit: Millions of yen)

	2018	2019
Gain on valuation of financial assets measured at fair value through profit or loss	—	491
Gain on investments in partnership	197	—
Gain on sales of long-lived assets	744	69
Gain on sales of financial assets available for sale	708	—
Gain on revision of retirement benefit plan (Note 23)	429	—
Income from compensation for damage	—	570
Reversal of impairment losses (Note 13)	404	15
Others	840	628
Total other income	3,325	1,775

(2) Other expenses

The breakdown of other expenses is as follows:

(Unit: Millions of yen)

	2018	2019
Loss on disposal of long-lived assets	136	401
Impairment loss (Note 16)	1,553	1,012
Employment structural improvement expenses (Note)	235	242
Fire loss	—	436
Others	462	595
Total other expenses	2,388	2,688

Note: Employment structural improvement expenses are the costs for severance payments in certain subsidiaries as a part of streamlining business operations.

32. Other comprehensive income

The reclassification, adjustments, and the income tax effect in other comprehensive income are as follows:

(Unit: Millions of yen)

	2018	2019
Financial assets measured at fair value through other comprehensive income		
Arising during the year	—	(1,035)
Income tax effect	—	173
Financial assets measured at fair value through other comprehensive income	—	(861)
Remeasurement of defined benefit plan		
Arising during the year	10,150	337
Income tax effect	(296)	(190)
Remeasurement of defined benefit plan	9,853	146
Changes in fair value of investment properties		
Arising during the year	—	16
Income tax effect	—	—
Changes in fair value of investment properties	—	16
Fair value gain on financial assets available for sale		
Arising during the year	1,222	—
Reclassification adjustments	(708)	—
Before income tax effect	514	—
Income tax effect	(130)	—
Fair value gain on financial assets available for sale	384	—
Exchange differences arising on translation of foreign operations		
Arising during the year	(703)	693
Reclassification adjustments	(21)	(117)
Before income tax effect	(725)	575
Income tax effect	—	—
Exchange differences arising on translation of foreign operations	(725)	575
Cash flow hedges		
Arising during the year	(1,970)	2,695
Reclassification adjustments	703	(1,242)
Before income tax effect	(1,267)	1,452
Income tax effect	239	(180)
Cash flow hedges	(1,028)	1,272
Share of OCI of investments accounted for using the equity method		
Arising during the year	(0)	48
Reclassification adjustments	—	(11)
Share of OCI of investments accounted for using equity method	(0)	37
Total other comprehensive income	8,484	1,187

33. Earnings per share

(1) The basis of calculating basic earnings per share

	2018	2019
Profit attributable to ordinary shareholders of the parent company (millions of yen)	2,389	3,847
Profit not attributable to the ordinary shareholders of the parent company (millions of yen)	—	—
Profit for the year used in the calculation of basic earnings per share (millions of yen)	2,389	3,847
Weighted average number of ordinary shares (thousands of shares)	138,946	153,898
Basic earnings per share (yen)	17.20	25.00

(2) The basis of calculating diluted earnings per share

	2018	2019
Profit for the year used in the calculation of basic earnings per share (millions of yen)	2,389	3,847
Adjustments to profit for the year (millions of yen)	—	—
Profit for the year used in the calculation of diluted earnings per share (millions of yen)	2,389	3,847
Weighted average number of ordinary shares (thousands of shares)	138,946	153,898
Increase in number of ordinary shares		
Stock acquisition rights (thousands of shares)	—	262
Weighted average number of diluted ordinary shares (thousands of shares)	138,946	154,160
Diluted earnings per share (yen)	—	24.96

Note: there were no dilutive shares for the previous fiscal year.

34. Financial instruments

(1) Capital management

The Group manages its equity by maintaining the confidence of investors, creditors, and the market, securing a firm capital base for continued future growth, and implementing strategic investments necessary to maximize corporate value while distributing consistent dividend payments. The Group's capital management focuses on the balance of cash and cash equivalents, interest-bearing debt, and equity.

The balance at the end of each fiscal year is as follows:

(Unit: Millions of yen)

	2018	2019
Cash and cash equivalents	37,162	40,844
Interest-bearing debt	67,847	71,312
Total equity	53,788	65,321

There is no significant capital restriction that applies to the Group (excluding general provisions of the Companies Act and other laws and regulations).

(2) Financial risk management policies

In the course of business activities, the Group is exposed to financial risks such as credit risks, liquidity risks, currency risks, and other financial risks and performs risk management activities in accordance with certain policies to avoid or reduce these risks.

In addition, the Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. In certain cases, the Group uses foreign exchange forward contracts to react to temporary regional cash demands or to stabilize cash flows for global business operations, in accordance with the Group's internal policy managed centrally by the financial department of the Company.

1) Credit risk management

The Group is exposed to credit risk, which is the risk of loss arising from the failure of counterparties to meet their obligations related to the financial assets held by the Group. To mitigate such risk, the Group sets the credit limit for each counterparty according to the credit management policy, regularly monitors the financial conditions of the counterparties, and properly manages due dates and balances of receivables due from each counterparty in order to allow for early detection of doubtful receivables.

These financial assets consist of a large number of customers across a diverse range of industries and geographical areas. The Group is not exposed to excessive credit risk associated with a particular customer that requires exceptional management.

The carrying amount of financial assets, net of accumulated impairment loss, presented in the consolidated financial statements represents the maximum exposure of the Group's financial assets to credit risks without taking account of any collateral obtained.

With regard to financial assets measured at amortized cost such as trade receivables, the Group measures future expected credit losses and recognizes allowance for doubtful accounts, taking into account recoverability and significant increases in credit risk. Whether credit risk has increased significantly or not is determined based on changes in the risk of default, taking into account the financial condition of the counterparty.

For trade receivables that do not contain a significant financing component, the Group measures an allowance for doubtful accounts at lifetime expected credit loss.

Changes in the allowance for doubtful accounts are as follows.

(Unit: Millions of yen)

	Trade receivables and contract assets	Other financial assets		
	Financial assets of which expected credit losses are always measured at its expected lifetime as allowance for doubtful accounts	Financial assets that are recognized at an amount equal to the expected credit losses for 12 months	Credit impaired financial assets	Total
Balance as of April 1, 2017	919	0	525	1,445
Increase during the period	13	—	19	32
Others	(85)	0	(50)	(135)
Balance as of March 31, 2018	847	0	494	1,341
Increase during the period	271	—	—	271
Others	(85)	0	(32)	(117)
Balance as of March 31, 2019	1,033	0	461	1,495

Notes:

1. There are no other financial assets whose credit risk has significantly increased since initial recognition.
2. There are no significant changes in the carrying amount of trade receivables and other financial assets.
3. There are no significant transfers to expected credit losses for the entire period and the expected credit losses for 12 months.

2) Liquidity risk management

The Group procures operating funds and capital investment funds through borrowing from financial institutions, and the Group is accordingly exposed to liquidity risk, which is the risk of failure to meet these payment obligations. Also, the Group manages such liquidity risk by continuously monitoring cash flow plans and actual results while obtaining appropriate amounts of funds to meet repayments and utilizing credit lines based on arrangements regarding credit lines with financial institutions.

The balance of the Group's financial liabilities by maturity at each fiscal year end is as follows:

Previous fiscal year (March 31, 2018)

(Unit: Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through five years	After five years
Non-derivative liabilities					
Trade and other payables	47,035	47,035	47,035	—	—
Short-term borrowings	5,182	5,182	5,182	—	—
Current portion of long-term borrowings	24,460	24,460	24,460	—	—
Long-term borrowings	38,204	38,204	—	38,204	—
Others	1,971	1,971	1,098	872	—
Derivative liabilities					
Interest rate swaps	1	1	1	—	—
Foreign exchange forward contracts	1,015	1,015	893	122	—
Total	117,871	117,871	78,671	39,199	—

Note: The receivables and payables arising from derivative transactions are shown on a net basis.

Current fiscal year (March 31, 2019)

(Unit: Millions of yen)

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through five years	After five years
Non-derivative liabilities					
Trade and other payables	44,868	44,868	44,868	—	—
Short-term borrowings	5,917	5,917	5,917	—	—
Current portion of long-term borrowings	18,529	18,529	18,529	—	—
Long-term borrowings	46,865	46,865	—	46,865	—
Others	3,033	3,033	1,446	1,260	326
Derivative liabilities					
Interest rate swaps	0	0	0	—	—
Foreign exchange forward contracts	100	100	91	8	—
Total	119,315	119,315	70,854	48,134	326

Note: The receivables and payables arising from derivative transactions are shown on a net basis.

3) Market risk

(i) Foreign exchange risk

Due to the global scale of its operations, the Group has conducted certain transactions in foreign currencies. This results in exposure to foreign exchange risk regarding foreign currency receivables and payables. The Group uses forward foreign exchange contracts and other instruments to hedge foreign exchange risk related to forecast transactions or foreign currency-denominated receivables and payables, taking into account the effect of the risks to be offset in the future.

The breakdown of forward foreign exchange contracts by currency

The breakdown of forward foreign exchange contracts by currency to which hedge accounting is not applied, at each fiscal year end, is as follows:

	2018		2019	
	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)
Forward foreign exchange transaction				
(Selling)				
U.S. dollar	2,308	16	2,052	(5)
Euro	3,143	69	3,301	7
GB pound	371	0	289	(0)
Canadian dollar	279	0	280	(0)
Australian dollar	366	0	329	(0)
Hong Kong dollar	256	0	401	(0)
Russian ruble	92	1	118	(1)
Thai baht	—	—	60	(0)
Polish zloty	—	—	713	(0)
Subtotal	6,819	88	7,547	(2)
(Buying)				
U.S. dollar	6,280	(10)	5,687	3
Euro	3,167	109	2,391	29
GB pound	186	(0)	—	—
Canadian dollar	1,798	(1)	—	—
Singapore dollar	1,739	(1)	1,860	(0)
Thai baht	342	(1)	569	0
Subtotal	13,515	93	10,509	32
Non-deliverable forward				
(Selling)				
Brazilian real	4	0	—	—
Subtotal	4	0	—	—
Total	20,340	182	18,056	30

The breakdown of forward foreign exchange contracts by currency to which hedge accounting is applied, at each fiscal year end, is as follows:

	2018		2019	
	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)
(Selling)				
U.S. dollar	1,287	9	—	—
Euro	8,523	(63)	6,886	181
GB pound	2,475	14	2,203	(5)
Canadian dollar	1,898	(91)	1,835	23
Subtotal	14,184	(131)	10,925	198
(Buying)				
U.S. dollar	34,662	(571)	27,960	847
Thai baht	—	—	764	(8)
Subtotal	34,662	(571)	28,725	839
Total	48,846	(702)	39,651	1,037

Foreign exchange sensitivity analysis

The financial impacts on profit before income taxes and other comprehensive income in the case of appreciation of the Japanese yen against the U.S. dollar and Euro by 1% on the foreign currency-denominated financial instruments held by the Group while all other variables (such as the balance and interest rate) are held constant as of March 31, 2018 and 2019 are as follows:

(Unit: Millions of yen)

	2018	2019
Impact on income before income taxes		
U.S. dollar	(135)	(163)
Euro	(24)	13

(Unit: Millions of yen)

	2018	2019
Impact on other comprehensive income		
U.S. dollar	(373)	(311)
Euro	84	66

(ii) Interest rate risk

The Group pays interest on funds that are procured for working capital, capital expenditures, and other requirements in order to conduct business operations. The Group is exposed to interest rate risk from the variable interest rates on some of these interest-bearing debt. Changes in market interest rates will affect interest payments. This exposes the Group to interest rate risk due to possible changes in future interest payments. The Group utilizes interest rate swap contracts in respect to borrowings to mitigate interest rate fluctuation risk.

Interest rate sensitivity analysis

The financial impacts on profit before income taxes in the case of appreciation of interest rates by 1% on the interest-bearing debts held by the Group while all other variables, such as future changes in balances and effects of foreign exchange fluctuations, are held constant as of March 31, 2018 and 2019 are as follows:

(Unit: Millions of yen)

	2018	2019
Impact on income before income taxes	625	658

(3) Classification of financial instruments

(Unit: Millions of yen)

	2018	2019
Financial assets		
Cash and cash equivalents	37,162	40,844
Financial assets measured at amortized cost		
Trade and other receivables	59,160	59,138
Other current financial assets	1,654	2,002
Financial assets measured at fair value through other comprehensive income		
Financial assets available for sale	9,195	—
Equity instruments	—	6,037
Derivative assets	526	1,115
Financial assets measured at fair value through profit or loss		
Debt instruments	—	3,503
Derivative assets	135	42
Total financial assets	107,833	112,683
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade and other payables	47,035	44,868
Borrowings	67,847	71,312
Other current financial liabilities	1,971	3,033
Financial liabilities measured at fair value through other comprehensive income		
Derivative liabilities	968	77
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	48	23
Total financial liabilities	117,871	119,315

(4) Fair value of financial instruments

1) Fair value hierarchy

Fair values shall be categorized into the following three levels according to the extent to which the input information used in the measurement is observable from the outside:

Level 1: Fair value measured by unadjusted quoted prices in active markets

Level 2: Fair value measured directly or indirectly using inputs other than quoted prices included within Level 1 that are observable

Level 3: Fair value measured through valuation techniques which include inputs that are not based on observable market data

2) Carrying amount and fair value of financial instruments

The carrying amounts and the fair values of financial instruments, not measured at fair value in the statement of financial position but for which the fair value is disclosed, at each fiscal year end are as follows:

(Unit: Millions of yen)

Type	2018		2019	
Financial liabilities	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings	67,847	67,850	71,312	71,315

Note: The carrying amounts of financial assets and liabilities, which approximate the fair value of such financial assets and liabilities, is not included in the table above.

The fair values included above are calculated as follows:

Borrowings

Fair value of borrowings is measured by discounting future cash flows using interest rates offered for borrowings with the same remaining maturities and terms, except for the cases where the carrying amount is approximately the same as the fair value.

Borrowings are categorized as Level 2 of the fair value hierarchy.

3) Financial instruments measured at fair value

Fair value of financial instruments that are measured at fair value on a recurring basis at each fiscal year end is as follows. No transfers occurred between Levels 1, 2, and 3 during the years ended March 31, 2018 and 2019.

(Unit: Millions of yen)

2018	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets available for sale	3,235	—	5,960	9,195
Derivative assets	—	661	—	661
Total	3,235	661	5,960	9,856
Financial liabilities				
Derivative liabilities	—	1,017	—	1,017
Total	—	1,017	—	1,017

Notes:

1. Financial assets available for sale and derivative assets are included in “Other financial assets” in the consolidated statement of financial position.
2. Derivative liabilities are included in “Other financial liabilities” in the consolidated statement of financial position.

(Unit: Millions of yen)

2019	Level 1	Level 2	Level 3	Total
Financial assets				
Equity instruments	2,434	—	3,602	6,037
Debt instruments	—	—	3,503	3,503
Derivative assets	—	1,157	—	1,157
Total	2,434	1,157	7,106	10,698
Financial liabilities				
Derivative liabilities	—	101	—	101
Total	—	101	—	101

Notes:

1. Equity instruments, debt instruments and derivative assets are included in “Other financial assets” in the consolidated statement of financial position.
2. Derivative liabilities are included in “Other financial liabilities” in the consolidated statement of financial position.

The fair values included above are calculated as follows:

(a) Equity instruments and debt instruments

Among equity instruments, listed stocks are priced in an active market, and they are classified in Level 1 of the fair value hierarchy. Among equity instruments, unlisted stocks and debt instruments are measured using valuation methodologies based on discounted future cash flows, valuation methodologies based on market prices of similar companies, valuation methodologies based on net asset value, and other valuation methodologies, and they are classified in Level 3 of the fair value hierarchy. Among equity instruments, fair value of the unlisted stocks and debt instruments are measured using unobservable inputs such as discount rates and EBITDA ratio, and certain non-liquidity discounts are added as necessary. The discount rate used to measure fair value in the current fiscal year is 14.0%, and the EBITDA ratio are 6.5 to 28.8 times.

Among the equity instruments, the decisions on the policy and procedure for evaluating the fair value of unlisted stocks and debt instruments are made by the Company. With regard to fair value measurement including valuation models, the Company obtains information and business descriptions of individual issuers of stocks, etc. and regularly reviews similar listed companies, etc., to be used for comparison at the time of measurement.

The fair value increases (or decreases), as the discount rate declines (or rises) or the EBITDA ratio rise (or fall). The change in fair value that would occur if unobservable inputs are changed to reasonably possible alternative assumptions is immaterial.

(b) Derivatives assets and liabilities

Currency-related derivatives

The fair value of forward foreign exchange contracts is calculated based on market forward exchange rates at the end of each reporting period.

Interest rate-related derivatives

The fair value of interest rate swaps is the present value of future cash flows discounted by an interest rate that reflects time to settlement as well as market conditions.

Derivatives financial assets and liabilities are classified into Level 2 of the fair value hierarchy.

4) The changes in financial instruments classified into Level 3 of the fair value hierarchy

The changes in the financial assets classified into Level 3 during the reporting periods are as follows:

(Unit: Millions of yen)

	2018	2019
Balance, beginning of year	5,889	5,960
Total gain or loss		
Profit or loss	197	491
Other comprehensive income	(361)	(416)
Purchase	330	1,091
Sales/settlement	(95)	(20)
Balance, end of year	5,960	7,106

Gains or losses recognized in profit or loss are included in “Other income” or “Other expenses” in the consolidated statement of income. Gains or losses recognized as other comprehensive income were included in fair value gain on financial assets available for sale in the consolidated statement of comprehensive income in the previous fiscal year, and are included in “Financial assets measured at fair value through OCI” in the consolidated statement of comprehensive income in the current fiscal year.

(5) Derivatives and hedge accounting

The Group utilizes derivatives transactions, including forward foreign exchange contracts and interest rate swaps, to hedge foreign exchange and interest rate risks. These derivatives are initially recognized at fair value and are subsequently remeasured at fair value at each reporting period.

The Group has designated the derivatives that satisfy the requirements for hedge accounting as a hedging instrument and applied a cash flow hedge. In respect of the cash flow hedge, the periods in which cash flows are expected to arise and the periods that are projected to affect profit or loss are up to three years.

The fair value of the hedge instrument in respect of the cash flow hedge at each fiscal year end is as follows:

(Unit: Millions of yen)

	2018	2019
Cash flow hedge	438	1,037

35. Cash flows

Changes in liabilities from financing activities

The changes in liabilities from financing activities are as follows:

Previous fiscal year (from April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2017)	Cash flows	Non-cash changes					2018
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Short-term borrowings	16,185	(2,865)	581	—	14	15,726	—	29,642
Long-term borrowings	54,811	(851)	(221)	—	193	(15,726)	—	38,204

Note: Short-term borrowings include current portion of long-term borrowings.

Current fiscal year (from April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2018)	Cash flows	Non-cash changes					2019
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Short-term borrowings	29,642	(5,044)	(337)	—	105	13	67	24,447
Long-term borrowings	38,204	8,311	(153)	—	57	(13)	459	46,865

Note: Short-term borrowings include current portion of long-term borrowings.

36. Contingent liabilities

The Company has guaranteed liabilities as follows in respect of loans that its employees take out from financial institutions. When an employee is unable to pay back his or her loans, the Group is obliged to defray the amount that the employee cannot pay off. The balance of debt guarantees of each fiscal year is as follows:

(Unit: Millions of yen)

Guarantee	2018	2019
Employees (such as home loans)	207	164

37. Related-party transactions

(1) Related-party transactions

Previous fiscal year (from April 1, 2017 to March 31, 2018)

Not applicable.

Current fiscal year (from April 1, 2018 to March 31, 2019)

Not applicable.

(2) Remuneration of key managing officers

Remuneration of key managing officers of the Group is as follows:

(Unit: Millions of yen)

	2018	2019
Basic remuneration and bonuses	300	416
Post-employment benefits	—	—
Other	—	—

38. Significant subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2019 are as follows:

Name	Location	Capital in million yen or thousands of local currency		Main business	Equity ownership percentage as of March 31, 2019
JVCKENWOOD Public & Industrial Systems Corporation	Yokohama, Japan	JPY	300	Development, manufacture, sales, installation, construction and maintenance of professional imaging, audio and communications equipment and system solution	100.0
JVCKENWOOD Victor Entertainment Corporation	Tokyo, Japan	JPY	5,595	Planning, production, and sales of audio and video, and software, live business, game business, etc.	100.0
JVCKENWOOD Creative Media Corporation	Yokosuka, Japan	JPY	1,207	Development, manufacture, and sales of recorded optical disks, and manufacture and sales of medical devices	100.0
JVCKENWOOD USA Corporation	California, USA	USD	94,600	Sales mainly in the USA	100.0
EF Johnson Technologies, Inc.	Texas, USA	USD	0	Development, manufacture, and sales of wireless communications equipment	100.0
ASK Industries S.p.A.	Ancona, Italy	EUR	13,000	Development, manufacture, and sales of automotive equipment	100.0
JVCKENWOOD Europe B.V.	Uithoorn, Netherlands	EUR	48,367	Sales mainly in the Netherlands	100.0
PT. JVC Electronics Indonesia	Jawa Barat, Indonesia	USD	22,400	Manufacture and sales of automotive equipment	100.0 (0.0)
Shanghai Kenwood Electronics Co., Ltd.	Shanghai, China	CNY	114,435	Manufacture and sales of automotive equipment	100.0
JVCKENWOOD Hong Kong Holidings Ltd.	Hong Kong, China	USD	29,090	Manufacture and sales of automotive equipment and contract manufacturing service of electronic devices	100.0

39. Investments accounted for using the equity method

There are no equity investments that are individually significant to the Company. The carrying amounts of such equity investments, and the Company's share of comprehensive income of those investments, are as follows:

(Unit: Millions of yen)

	2018	2019
Carrying amount of investments	1,157	4,293

(Unit: Millions of yen)

	2018	2019
Net income	100	(90)
Other comprehensive income (after tax)	(0)	37
Total comprehensive income	100	(53)

40. Interests in unconsolidated structured entities

The Group has investment funds as unconsolidated structured entities mainly for the purpose of new business development and information collection. Those funds are formed as a limited partnership venture fund, or investment limited partnership, and the Company invests in the fund as a limited liability partner.

The size of the unconsolidated structured entity, the carrying amount of the Company's investments in the entity, and the potential maximum loss exposure of the Company at each fiscal year end are as follows:

(Unit: Millions of yen)

	2018	2019
Total assets of unconsolidated structured entities	40,651	55,990
The carrying amount of the investments that the Company recognized in the consolidated statement of financial position	2,610	3,503
Commitments related to additional investments	398	—
Maximum loss exposure of the Company	3,008	3,503

The Company recognizes investments in "Other financial assets" in the consolidated statement of financial position. The Company recognizes no liabilities for the unconsolidated structured entities.

The potential maximum exposure to loss resulting from the interests in the structured entities is limited to the sum of the carrying amount of the Company's investments and commitments related to additional investments.

The Company has neither provide nor intends to provide financial support or other significant support to the unconsolidated structured entities without a contractual obligation.

The Company's maximum exposure to loss indicates a possible maximum loss amount and does not represent the amount of loss expected from the interests in the structured entities.

41. Discontinued operations

Not applicable.

42. Subsequent events

Not applicable.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of JVCKENWOOD Corporation:

We have audited the accompanying consolidated statement of financial position of JVCKENWOOD Corporation and its consolidated subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JVCKENWOOD Corporation and its consolidated subsidiaries as of March 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 20, 2019

Member of
Deloitte Touche Tohmatsu Limited

JVCKENWOOD

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