

JVCKENWOOD Financial Report 2020



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Financial Review

Overview of the Fiscal Year Ended March 2020

As described in "Impact on Consolidated Earnings from the Outbreak of the Novel Coronavirus ("COVID-19")" announced on April 27, 2020, the COVID-19 pandemic inflicted a significant impact on the Group's earnings for the fiscal year ended March 2020 because it occurred in the fourth quarter, the biggest sales season for the Group. An overview of the impact of the COVID-19 pandemic on consolidated earnings of JVCKENWOOD by sector is provided below.

● Automotive Sector

In the Aftermarket Business, revenue remained robust in the domestic market but declined mainly in the European and the U.S. markets, due to stagnant shipments of new products after a string of closures of distributors in the U.S. In the OEM Business, revenue decreased, reflecting sluggish sales of automobiles around the world as automobile manufacturers in various countries suspended plant operations. In addition, our production activities were also impacted adversely by plant shutdowns and delays in the supply of parts in China.

● Public Service Sector

In the Communications Systems Business, sales in the public safety market, such as police and fire departments and emergency medical services, at the Company's communication systems subsidiary in the U.S. remained strong. However, we observed a negative impact on projects including airports for which contracts had been awarded, such as postponement of delivery of certain products to April or thereafter. In Malaysia, where one of the Company's main plants is located, the government introduced a movement control order. As a result, our Malaysia Plant has been shut down, and this has adversely impacted the production and sales of radio communication systems. In the Professional Systems Business, sales at JVCKENWOOD Public & Industrial Systems Corporation ("JKPI") were roughly in line with the period-start projections. In the Healthcare Business, meanwhile, sales to domestic and overseas hospitals declined.

● Media Service Sector

In the Media Business, sales of devices for communication systems remained robust in the Imaging Device Business. Sales of professional projectors in the flight simulator market were impacted only slightly. But sales in the BtoC market declined overall, as a result of closures of distributors due to restrictions on going out implemented by governments around the world. Regarding professional video cameras, both production and sales activities were impacted, due to stagnant supply of parts produced in China. In the Entertainment Business, on the other hand, our business performance remained robust, despite the impact of cancellation, etc. of events including live performance events.

● Others

Sales of telematics solutions in the DX Business remained strong and achieved robust growth in revenue while achieving an improvement in profit and loss compared to the previous year.

Revenue for the fiscal year ended March 2020 based on the above declined from a year earlier, despite an increase in the revenue at the DX Business in Other supported by strong sales. This was due to the impacts of the aforementioned the COVID-19 pandemic and exchange rate fluctuations, coupled with the impacts of a decrease in revenue at the OEM Business in the Automotive Sector, reflecting lower sales of factory-installed products.

Operating profit of the JVCKENWOOD Group as a whole declined from a year earlier due to the decrease in revenue.

*Note: Digital Transformation

Profit-and-loss exchange rates used when preparing the financial statements for the fiscal year ended March 31, 2020 are as follows.

		1Q	2Q	3Q	4Q
Profit-and-loss exchange rates	U.S. \$	¥110	¥107	¥109	¥109
	Euro	¥124	¥119	¥120	¥120
FY2019 (Reference)	U.S. \$	¥109	¥111	¥113	¥110
	Euro	¥130	¥130	¥129	¥125

Revenue and Income

► Consolidated Operating Results

*Revenue

Revenue for the fiscal year ended March 2020 declined approximately 16,300 million yen, or 5.3%, from a year earlier to 291,304 million yen.

Revenue at the Automotive Sector decreased from a year earlier due to a decrease in revenue at the OEM Business, reflecting lower sales of factory-installed products, and because JVCKENWOOD Hong Kong Holdings Ltd. ("JKHL") was impacted by a slowdown in China's economy in addition to the impacts of the COVID-19 pandemic. Revenue at the Public Service Sector was at the same level as a year earlier due to the impacts of the COVID-19 pandemic, despite strong sales in the Professional Systems Business centering on JKPI and the Group's U.S. communication system subsidiaries. However, revenue increased on a local currency basis excluding exchange rate fluctuations. Revenue at the Media Service Sector decreased from a year earlier due to a decrease in revenue at the Media Business, reflecting lower sales of video cameras, in addition to the impacts of the COVID-19 pandemic. Revenue at the Other segment increased significantly due to strong sales of telematics solutions and related products at the DX Business Division, which is a new business division established during the fiscal year ended March 2020.

*Operating Profit

Operating profit for the fiscal year ended March 2020 declined approximately 3,200 million yen, or 43.8%, from a year earlier to 4,080 million yen, reflecting the aforementioned decrease in revenue as well as recording an impairment loss of approximately 1,400 million yen as stated in "Recording of Impairment Loss" announced on May 20.

Operating performance by business segment for the fiscal year ended March 2020 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 2020 declined approximately 2,900 million yen, or 33.6%, from a year earlier to 5,684 million yen. This happened because, although the Public Service Sector and Others achieved an increase in profit, profit fell at the Automotive Sector and the Media Service Sector.

In the Automotive Sector, core operating income declined from a year earlier due to a profit decrease at the OEM Business, reflecting lower sales of factory-installed products. In the Public Service Sector, revenue of the sector as a whole increased sharply. This was due to the Communications Systems Business recording profit growth reflecting strong sales in the Group's U.S. communication system subsidiaries and the effects of cost

reductions as well as the Professional Systems Business returning to profitability with strong sales by JKPI, which plays a central role. In the Media Service Sector, core operating income decreased, due to a profit decrease at the Media Business, reflecting the lower sales of professional video cameras and a profit decrease at the Entertainment Business due to the effects of upfront investments in new business fields. Revenue at the Other segment increased due to strong sales of telematics solutions and related products at the DX Business Division.

*Note: 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 2020 declined approximately 3,500 million yen, or 55.0%, from a year earlier to 2,877 million yen, reflecting a decline 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 2020 declined approximately 2,900 million yen, or 75.2%, from a year earlier to 954 million yen, reflecting a decline in profit before income taxes.

► Revenue and Earnings by Business Segment ※※※※※※※※

*Automotive Sector

Revenue of the Automotive Sector for the fiscal year ended March 2020 decreased approximately 19,700 million yen, or 11.6%, from a year earlier to 149,790 million yen. This was due to the impacts of the COVID-19 pandemic. Core operating income declined approximately 4,400 million yen, or 78.8%, from a year earlier to 1,190 million yen.

(Revenue)

In the Aftermarket Business, revenue decreased from a year earlier due to the impacts of a shrinkage of overseas market and the COVID-19 pandemic, although sales of Saisoku-Navi series car navigation systems and dashcams in the domestic market were strong.

In the OEM Business, revenue decreased from a year earlier. This was due to the impacts of lower sales of factory-installed products, JKHL being affected by the slowdown in China's economy, and lower sales of dealer-installed products resulting from a decrease in vehicle sales, in addition to the impacts of the COVID-19 pandemic.

(Core Operating Income)

In the Aftermarket Business, core operating income increased from a year earlier, reflecting an improvement in the product mix due to strong domestic market conditions and cost reductions.

In the OEM Business, core operating income decreased from a year earlier, due to the aforementioned decrease in revenue.

*Public Services Sector

Revenue at the Public Service Sector for the fiscal year ended March 2020 declined approximately 300 million yen, or 0.4%, from a year earlier to 70,676 million yen. However, revenue increased on a local currency basis excluding exchange rate fluctuations, despite the impacts of the COVID-19 pandemic. Core operating income increased sharply by approximately 2,300 million yen, or 366.1%, from a year earlier to 2,928 million yen.

(Revenue)

Revenue at the Communications Systems Business declined approximately 1,600 million yen from a year earlier, reflecting exchange rate fluctuations and the impacts of the COVID-19 pandemic, despite growth in sales of the Group's U.S. communication system subsidiaries.

Revenue at the Professional Systems Business increased approximately 1,400 million yen from a year earlier due to strong sales of video security systems at JKPI.

(Core Operating Income)

In the Communications Systems Business, core operating income increased sharply because of the positive effects of cost reductions, in addition to growth in sales of the Group's U.S. communication system subsidiaries.

In the Professional Systems Business, core operating income/loss of the business as a whole improved significantly due to the aforementioned increase in revenue and because JKPI, which plays a central role, returned to positive territory with the effects of cost reductions.

*Media Services Sector

Revenue of the Media Service Sector for the fiscal year ended March 2020 decreased approximately 3,400 million yen, or 5.8%, from a year earlier to 55,402 million yen due to the impacts of the COVID-19 pandemic. Core operating income declined approximately 1,400 million yen, or 62.0%, from a year earlier to 841 million yen.

(Revenue)

In the Media Business, revenue decreased approximately 3,400 million yen from a year earlier, despite solid sales of communication imaging devices, reflecting lower sales of video cameras and the impacts of the COVID-19 pandemic.

In the Entertainment Business, revenue was at the same level as a year earlier, due to strong sales in the OEM Business reflecting an increase in orders from U.S. entertainment companies, despite the impacts of the COVID-19 pandemic and the fact there were sales increases last year due to release of major works.

(Core Operating Income)

In the Media Business, core operating income decreased from a year earlier, due to the aforementioned decrease in revenue.

In the Entertainment Business, core operating income declined due to the effects of upfront investments in new business fields, although revenue was at the same level as a year earlier.

The DX Business Division, which is included in Others, achieved significant growth in both revenue and core operating income, reflecting strong sales of telematics solutions and related products.

Revenue, Core Operating Income (Loss) by Business Segment

Revenue and core operating income (loss) by business segment are as follows.

Fiscal year ended March 2020 (April 1, 2019 to March 31, 2020) (Millions of yen)

Segment		FYE3/'19	FYE3/'20	YoY comparison
Automotive Sector	Revenue	169,532	149,790	(19,742)
	Core operating income	5,607	1,190	(4,417)
Public Services Sector	Revenue	70,944	70,676	(268)
	Core operating income	628	2,928	+2,300
Media Services Sector	Revenue	58,795	55,402	(3,393)
	Core operating income	2,217	841	(1,376)
Others	Revenue	8,354	15,434	+7,080
	Core operating income	109	724	+615
Total	Revenue	307,627	291,304	(16,323)
	Core operating income	8,562	5,684	(2,878)
	Operating profit	7,263	4,080	(3,183)
	Profit before income taxes	6,401	2,877	(3,524)
	Profit attributable to owners of the parent company	3,847	954	(2,893)

Analysis of assets, liabilities and equity

*Assets

Total assets declined approximately 1,000 million yen from the end of the previous fiscal year to 249,660 million yen. This was due to a decrease in trade and other receivables caused by a decrease in revenue, reflecting the impacts of the COVID-19 pandemic, despite an increase in property, plant and equipment, reflecting an increase in right-of-use assets following the application of IFRS 16 "Leases".

* Note: New accounting standards on leases applied from the fiscal year beginning on or after January 1, 2019.

*Liabilities

Total liabilities increased approximately 4,400 million yen from the end of the previous fiscal year to 189,661 million yen, due to an increase in other financial liabilities reflecting an increase in lease liabilities as a result of the application of IFRS 16 "Leases", despite a decrease in trade and other payables.

*Equity

Total equity decreased approximately 5,300 million yen from the end of the previous fiscal year to 59,999 million yen, despite posting profit. This was because of a decrease in retained earnings following the application of IFRS 16 "Leases" and a decrease in other components of equity, such as exchange differences arising on translation of foreign operations.

As a result, the ratio of equity attributable to owners of the parent company fell 2.1 percentage points from the end of the previous fiscal year to 22.6%.

► Cash Flow Analysis

*Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 2020 was 21,642 million yen, which is an increase of approximately 700 million yen from the previous fiscal year. This was mainly attributable to an increase in depreciation and amortization expenses and cash inflows from working capital.

*Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 2020 was 19,675 million yen, which is a decrease of approximately 6,100 million yen from the end of the previous fiscal year. This was mainly due to the absence of cash outflows for the investments accounted for using the equity method and the acquisition of subsidiaries.

*Cash flows from financing activities

Net cash used in financing activities for the fiscal year ended March 2020 was 1,665 million yen, which is an increase of approximately 10,100 million yen from the end of the previous fiscal year. This was mainly attributable to the absence of proceeds from new issuance of shares and to the repayments of lease liabilities.

Cash and cash equivalents at the end of the fiscal year ended March 2020 decreased approximately 900 million yen from the end of the previous fiscal year to 39,933 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 the dividend of surplus and other amounts appropriated are determined by giving comprehensive consideration to the Group's profitability and financial position.

For the fiscal year ended March 2020, JVCKENWOOD is scheduled to distribute a year-end dividend of 5 yen per share based on its profit performance and above-mentioned dividend policy, as announced in "Notice Regarding Appropriation of Surplus" on May 20.

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, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Assets			
Current assets			
Cash and cash equivalents	8	40,844	39,933
Trade and other receivables	9	59,138	51,892
Contract assets	28	2,022	1,617
Other financial assets	10, 34	1,517	861
Inventories	11	44,583	46,194
Right to recover products		349	255
Income taxes receivable		838	1,089
Other current assets	12	4,396	3,985
Subtotal		153,690	145,830
Assets classified as held for sale	13	203	—
Total current assets		153,894	145,830
Non-current assets			
Property, plant and equipment	14, 16	45,110	53,993
Goodwill	7, 15, 16	3,376	3,268
Intangible assets	15, 16	19,809	20,149
Net defined benefit assets	23	4,237	3,229
Investment property	17	2,221	2,274
Investments accounted for using the equity method	39	4,293	3,330
Other financial assets	10, 34, 40	11,183	11,406
Deferred tax assets	25	5,267	5,178
Other non-current assets	12	1,222	997
Total non-current assets		96,723	103,830
Total assets		250,617	249,660

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19	44,868	39,086
Contract liabilities	28	2,261	2,489
Refund liabilities	28	4,237	4,179
Short-term borrowings	21, 34, 35	24,447	24,460
Other financial liabilities	18, 20, 34	1,539	5,091
Income taxes payable	25	1,536	1,303
Provisions	22	1,784	1,309
Other current liabilities	24	23,410	23,123
Total current liabilities		104,085	101,043
Non-current liabilities			
Long-term borrowings	21, 34, 35	46,865	50,144
Other financial liabilities	18, 20, 34	1,595	7,983
Net defined benefit liabilities	23	28,236	26,008
Provisions	22	1,471	1,187
Deferred tax liabilities	25	1,843	1,878
Other non-current liabilities	24	1,196	1,415
Total non-current liabilities		81,210	88,617
Total liabilities		185,296	189,661
Equity			
Capital stock	26	13,645	13,645
Capital surplus	26	42,086	42,086
Retained earnings	26	6,634	5,547
Treasury stock	26	(38)	(39)
Other components of equity	26	(318)	(4,755)
Equity attributable to owners of the parent company		62,009	56,485
Non-controlling interests		3,311	3,513
Total equity		65,321	59,999
Total liabilities and equity		250,617	249,660

Note: Refer to notes to consolidated financial statements.

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, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Revenue	6, 17, 28	307,627	291,304
Cost of sales	11, 14, 15, 17, 23	223,332	212,217
Gross profit		84,294	79,087
Selling, general and administrative expenses	7, 14, 15, 23, 29	75,732	73,402
Other income	13, 31	1,775	1,741
Other expenses	14, 15, 16, 31	2,688	2,934
Foreign exchange gains (losses)		(386)	(410)
Operating profit		7,263	4,080
Finance income	30, 34	304	308
Finance expenses	30, 34	1,076	1,163
Share of profit (loss) of investments accounted for using the equity method	39	(90)	(348)
Profit before income taxes		6,401	2,877
Income tax expenses	25	2,099	1,540
Profit for the year		4,301	1,337
Profit for the year attributable to:			
Owners of the parent company		3,847	954
Non-controlling interests		454	382
Profit for the year		4,301	1,337
Earnings per share (attributable to owners of the parent company)			
Basic earnings per share	33	25.00 yen	5.82 yen
Diluted earnings per share	33	24.96 yen	- yen

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

Consolidated statement of comprehensive income

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Profit for the year		4,301	1,337
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)	(482)
Remeasurement of defined benefit plans	23, 32	146	414
Changes in fair value of investment property	32	16	—
Share of OCI of investments accounted for using the equity method	32, 39	4	(1)
Total items that will not be reclassified subsequently to profit or loss		(694)	(68)
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising from translation of foreign operations	32	575	(3,540)
Cash flow hedges	32	1,272	(53)
Share of OCI of investments accounted for using the equity method	32, 39	33	(498)
Total items that may be reclassified subsequently to profit or loss		1,881	(4,092)
OCI for the year, net of income tax		1,187	(4,161)
Comprehensive income for the year		5,488	(2,823)
Total comprehensive income for the year attributable to:			
Owners of the parent company		4,943	(3,098)
Non-controlling interests		545	274
Comprehensive income for the year		5,488	(2,823)

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

3 Consolidated statement of changes in equity

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

(Unit: Millions of yen)

	Notes	Equity attributable to owners of the parent company			
		Capital stock	Capital surplus	Retained earnings	Treasury stock
Balance as of April 1, 2018		10,000	38,466	2,913	(38)
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	—
Issuance of new shares	26	3,645	3,619		
Acquisition of treasury stock	26				(0)
Disposal of treasury stock	26				0
Dividends paid	27			(833)	
Changes in scope of consolidation					
Increase in non-controlling interests due to capital increase of consolidated subsidiaries					
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)
Changes in accounting policies				(1,441)	
Restated balance		13,645	42,086	5,193	(38)
Profit for the year				954	
Other comprehensive income					
Comprehensive income for the year		—	—	954	—
Issuance of new shares					
Acquisition of treasury stock	26				(0)
Disposal of treasury stock	26				0
Dividends paid	27			(983)	
Changes in scope of consolidation					
Increase in non-controlling interests due to capital increase of consolidated subsidiaries					
Transfer from other components of equity to retained earnings				383	
Total transactions with the owners		—	—	(600)	(0)
Balance as of March 31, 2020		13,645	42,086	5,547	(39)

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

(Unit: Millions of yen)

	Notes	Equity attributable to owners of the parent company									
		Other components of equity						Total	Total	Non-controlling interests	Total equity
		Remeasure- ment 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				
Balance as of April 1, 2018		—	2,301	—	(2,642)	(590)	223	(707)	50,634	3,153	53,788
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
Issuance of new shares	26							—	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)
Changes in scope of consolidation								—	—	51	51
Increase in non-controlling interests due to capital increase of consolidated subsidiaries								—	—		—
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
Changes in accounting policies								—	(1,441)	(4)	(1,445)
Restated balance		—	—	883	(2,132)	690	239	(318)	60,568	3,307	63,875
Profit for the year								—	954	382	1,337
Other comprehensive income		414		(483)	(3,798)	(185)		(4,052)	(4,052)	(108)	(4,161)
Comprehensive income for the year		414	—	(483)	(3,798)	(185)	—	(4,052)	(3,098)	274	(2,823)
Issuance of new shares								—	—		—
Acquisition of treasury stock	26							—	(0)		(0)
Disposal of treasury stock	26							—	0		0
Dividends paid	27							—	(983)	(147)	(1,131)
Changes in scope of consolidation								—	—	57	57
Increase in non-controlling interests due to capital increase of consolidated subsidiaries								—	—	22	22
Transfer from other components of equity to retained earnings		(414)		30				(383)	—		—
Total transactions with the owners		(414)	—	30	—	—	—	(383)	(984)	(67)	(1,052)
Balance as of March 31, 2020		—	—	431	(5,930)	505	239	(4,755)	56,485	3,513	59,999

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

4 Consolidated statement of cash flows

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Cash flows from operating activities			
Profit before income taxes		6,401	2,877
Depreciation and amortization		17,794	20,199
Impairment losses		1,012	1,425
Decrease in net defined benefit liabilities		(212)	(1,560)
Decrease in net defined benefit assets		497	990
Finance income		(304)	(308)
Finance expenses		1,076	1,163
Gain on valuation of financial assets measured at fair value through profit or loss		(491)	(352)
Gain on sales of property, plant and equipment		(69)	(348)
Loss on disposal of property, plant and equipment		401	86
Decrease in trade and other receivables		1,000	6,101
Increase in inventories		(17)	(2,882)
Decrease in trade and other payables		(2,197)	(3,938)
Decrease in other current liabilities		(1,756)	(174)
Other, net		492	757
Subtotal		23,626	24,038
Interest received		229	243
Dividend received		74	65
Interest paid		(863)	(1,035)
Income taxes paid		(2,083)	(1,669)
Net cash provided by operating activities		20,983	21,642
Cash flows from investing activities			
Placement of time deposit with original maturity of more than three months		(324)	(0)
Withdrawal of time deposit with original maturity of more than three months		23	412
Purchases of property, plant and equipment		(7,860)	(8,170)
Proceeds from sales of property, plant and equipment		171	1,051
Purchase of intangible assets		(12,757)	(12,945)

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

(Unit: Millions of yen)

	Notes	2019	2020
Purchases of debt instruments		(401)	—
Purchases of equity instruments		(693)	(2)
Payment for acquisition of investments accounted for using the equity method	39	(2,389)	—
Payment for acquisition of control over subsidiaries	7	(1,240)	—
Other, net		(295)	(21)
Net cash used in investing activities		(25,768)	(19,675)
Cash flows from financing activities			
Proceeds from short-term borrowings	35	18,296	9,552
Repayment of short-term borrowings	35	(17,335)	(8,586)
Proceeds from long-term borrowings	35	16,210	21,964
Repayment of long-term borrowings	35	(13,905)	(19,197)
Repayment of lease liabilities	35	—	(3,714)
Cash dividends paid	27	(833)	(983)
Proceeds from issuance of new shares resulting from exercise of stock acquisition rights		7,258	—
Other, net		(1,211)	(700)
Net cash provided by (used in) financing activities		8,479	(1,665)
Net increase (decrease) in cash and cash equivalents		3,682	(910)
Cash and cash equivalents at beginning of year	8	37,162	40,844
Effect of exchange rate changes on cash and cash equivalents		(12)	(1,211)
Cash and cash equivalents at end of year	8	40,844	39,933

Note: Refer to notes to consolidated financial statements.

Notes to consolidated financial statements

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2020

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, 2020 were approved on June 19, 2020 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

(Application of IFRS 16 "Leases")

From the fiscal year ended March 31, 2020, the Group has adopted IFRS 16 "Leases" (hereinafter, IFRS 16). In accordance with the transition requirement under IFRS 16, the Group has retrospectively adopted IFRS 16 and recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the current fiscal year. The Group has elected the practical expedient detailed in IFRS 16 paragraph C3 about whether a contract is, or contains a lease and continuously utilizes a result of assessment applying IAS 17 "Leases" (hereinafter, IAS 17) and IFRIC 4 "Determining whether an Arrangement contains a Lease."

The Group recognized the right-of-use assets and lease liabilities at the date of initial application of IFRS 16 for leases previously classified as operating leases by applying IAS 17. The lease liabilities are measured at the present value of remaining lease payments discounted using the lessee's incremental borrowing rates at the date of initial application. Right-of-use assets and lease liabilities have not been recognized for short-term leases with a lease term of 12 months or less and leases of low-value assets. The weighted average of the lessee's incremental borrowing rates applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 1.9%. For the leases of land and buildings (excluding company housing), the right-of-use assets were measured on the assumption that IFRS 16 had been applied from the commencement of the lease contract. For the leases of other assets, the right-of-use assets were measured at the amount equal to lease liabilities adjusted by prepaid or accrued lease payments at the date of initial application.

The reconciliation of operating lease contracts disclosed by applying IAS 17 as of the end of the previous fiscal year and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows.

	Millions of yen
Operating lease contracts disclosed as of March 31, 2019	7,567
Operating lease contracts disclosed as of March 31, 2019 (discounted using the incremental borrowing rates)	7,073
Finance lease obligations (as of March 31, 2019)	1,396
Lease contracts accounted for as short-term lease expenses	(205)
Lease contracts accounted for as lease expenses of low-value assets	(1)
Cancellable operating lease contracts	3,590
Others	(4)
Lease liabilities as of April 1, 2019	11,849

The application of IFRS 16 reduced retained earnings by 1,441 million yen at the beginning of the fiscal year ended March 31, 2020 compared to the amounts under the previous accounting standard.

In the application of IFRS 16, the Group applies the following practical expedients.

- A single discount rate is applied to a portfolio of leases with reasonably similar characteristics.

- As an alternative to performing an impairment review, the Group relies on an assessment of whether the lease is onerous applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application.
- Leases with the remaining lease term of 12 months or less from the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- Hindsight is used, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(6) Changes in presentation

(Consolidated statement of cash flows)

The "Reversal of impairment losses," which was presented separately in the previous fiscal year, is included in "Other, net" of cash flows from operating activities from the current year, as the amount of the item became immaterial. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change.

As a result, in the consolidated statement of cash flows for the previous fiscal year, the amount of negative 15 million yen, which was shown as "Reversal of impairment losses," is reclassified as "Other, net."

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 retained 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 retained 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, which include finder's fees, legal, due diligence, and other professional fees, are 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 measurement of the amounts

recognized as of 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 measured. 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 give 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 give 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 incidental to 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 calculated 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

The Group has adopted IFRS 16 from April 1, 2019 (hereafter "the date of initial application"). IFRS 16 was retrospectively applied in accordance with the transitional requirements, and the cumulative effect at the date of initial application was recognized as an adjustment to the beginning balance of retained earnings for the fiscal year ended March 31, 2020. For comparative information, the previous standard of IAS 17 "Leases" was applied.

The accounting treatments for lessors in IFRS 16 are substantially the same as the ones in IAS 17. Therefore, there is no significant change in the Group's accounting policy for lessors before and after the application of IFRS 16.

(Lessee)

The accounting policy applied to comparative information is as follows.

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

classified as operating leases.

In finance lease transactions, lease assets and lease liabilities are measured 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 receivables 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.

The accounting policy for the current fiscal year is as follows.

The contract is determined as a lease or including a lease, if a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognizes right-of-use assets and lease liabilities at the date of initial application of IFRS 16.

1) As lessee

The right-of-use assets are measured at the cost at the commencement date of the lease, and the lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. The cost of the right-of-use assets is measured as the initial measurement of the lease liabilities, adjusted by any initial direct costs incurred by the lessee, prepaid lease payments, the cost of the obligation to restore the original condition required under the lease contract etc.

Right-of-use assets are depreciated using the straight-line method over the shorter of the lease term or estimated useful life. Lease payments are allocated to finance expenses, and the repayment amounts of lease liabilities based on the interest method. The finance expenses are recognized in the consolidated statement of income.

Lease liabilities are measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rates at the commencement date of the lease. The lease payments include fixed payments, variable lease payments that depend on an index or a rate, exercise price of purchase option, and payments of penalties for terminating the lease. After the commencement date of the lease, interest expense is recognized in profit or loss at a constant periodic rate on the remaining balance of the lease liabilities, and a measurement of the lease liability is made to reflect the interest expense and the lease payments.

Lease term is determined by the non-cancellable period of a lease, together with both periods covered by an option to extend the lease and periods covered by an option to terminate the lease, if those options are reasonably certain to be exercised.

For short-term leases with a lease term of 12 months or less and leases of low-value assets, the right-of-use assets and lease liabilities are not recognized, and the lease payments related to the lease are recognized as expenses by the straight-line method or other regular basis over the lease term.

2) As lessor

In finance lease transactions, net investment in the finance lease is recognized as lease receivables. Total lease payments are separated into the principal portion and interest portion and the amounts of lease payments 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 estimated. 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 product 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 profit 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 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. In addition, deferred tax assets and liabilities are not recognized for 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 estimates and underlying assumptions are continually reviewed and their effects are recognized in the period in which the estimates are reviewed and also in subsequent periods.

The information on the judgements made by the Group that might be significant to the consolidated financial statements is as follows:

- Scope of consolidation: Note "3. Significant accounting policies" (1) Basis of consolidation
- Revenue recognition: Note "3. Significant accounting policies" (15) Revenue recognition
- Useful life of non-current assets: Note "3. Significant accounting policies" (7) Property, plant and equipment and Note "3. Significant accounting policies" (8) Goodwill and intangible assets

The information on accounting estimates and assumptions that might be significant to the consolidated financial statements is as follows:

- Impairment of non-financial assets: Note "3. Significant accounting policies" (11) Impairment of non-financial assets and Note "16. Impairment of non-financial assets"

The Group performs impairment tests on property, plant and equipment, goodwill, intangible assets and other non-current assets in accordance with Note "3. Significant accounting policies." The recoverable amount in the impairment test is calculated mainly by the discounted cash flow model, and certain assumptions are made about the useful lives of assets, future cash flows, discount rate, growth rate, and others. These assumptions are determined based on the best estimates and judgements of management. However, they may be affected by changes in future business plans and economic conditions. If a revaluation is required, it may affect the amount to be recognized in the consolidated financial statements in subsequent periods.

The calculation of the recoverable amount of goodwill is described in Note "16. Impairment of non-financial assets."

- Recoverability of deferred tax assets: Note "3. Significant accounting policies" (17) Income taxes and Note "25. Income taxes"

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. In determining the probability of whether taxable profit is generated or not the timing and amount of taxable profit are estimated based on the business plan. These estimates are determined based on the best estimates of management. However, deferred tax assets might be reduced if it is determined that sufficient taxable profit will not be available due to deterioration of business conditions in the future. Also, if the statutory effective tax rate is changed as a result of tax reforms, deferred tax assets may increase or decrease.

Impairment of non-financial assets and recoverability of deferred tax assets are estimated and judged in consideration of deterioration in future profitability due to the COVID-19 pandemic.

Regarding the pandemic, there is no common view on the future spread and the timing of its end, etc., and the Group is not able to foresee its impact on the Group at this time. However, future cash flows and future taxable profit are estimated, based on the assumption that the economic activities will gradually resume in the second quarter of the next consolidated fiscal year and the economy will recover in the third quarter.

- Provisions: Note "3. Significant accounting policies" (13) Provisions

Provisions are measured based on the best estimate of the future expenditures expected to be required to settle the obligation as of the end of the period. The amount of expenditures expected to be required to settle the obligation is calculated by evaluating various possible outcomes. Assumptions used to calculate the provisions could be affected by changes in uncertain economic conditions and contain risks of material adjustments to the measurement of provisions.

- Measurement of defined benefit obligation: Note "3. Significant accounting policies" (12) Employee benefits and Note "23. Employee benefits"

Defined benefit cost and defined benefit obligations of current and former employees of the Group are estimated based on the actuarial base rate such as the discount rate, retirement rate and mortality rate. The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The management believes these actuarial assumptions are reasonable, but differences from actual performance and changes in assumptions will affect future defined benefit cost and defined benefit obligations.

The discount rate used to calculate the present value of defined benefit obligations and sensitivity analysis are described in Note "23. Employee benefits."

- Fair value of financial instruments: Note "3. Significant accounting policies" (5) Financial instruments and Note "34. Financial instruments"

Fair value of financial instruments is determined based on market information such as market prices and valuation technique such as market approach, income approach, and cost approach. The management determined that the fair value assessment is reasonable. However, since these valuations include unmanageable uncertainties, if the estimates related to valuation of financial instruments change due to unpredictable changes in assumptions, etc., the

fair value may change in the future.

The method of calculating fair value is described in Note "34. Financial instruments."

● Contingent liabilities: Note "36. Contingent liabilities"

Contingencies are disclosed when there is an event that could have a significant impact on future business, taking all available evidence into account at the reporting date and considering its likelihood and monetary impact.

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

No accounting standards and interpretations issued or revised by the date of approval of the consolidated financial statements had a material impact.

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	Telematics solutions, 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, 2018 to March 31, 2019)

(Unit: Millions of yen)

	Reportable segments				Others	Total	Reconciliations (Note 1)	Consolidated financial statements
	Automotive Sector	Public Service Sector	Media Service Sector	Total				
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 (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.

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

	Reportable segments				Others	Total	Reconciliations (Note 1)	Consolidated financial statements
	Automotive Sector	Public Service Sector	Media Service Sector	Total				
Revenue								
Revenue from customers	149,790	70,676	55,402	275,870	15,434	291,304	—	291,304
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	149,790	70,676	55,402	275,870	15,434	291,304	—	291,304
Segment profit (Note 2)	1,190	2,928	841	4,960	724	5,684	—	5,684
Other income	—	—	—	—	—	—	—	1,741
Other expenses	—	—	—	—	—	—	—	2,934
Foreign exchange gains (losses)	—	—	—	—	—	—	—	(410)
Operating profit	—	—	—	—	—	—	—	4,080
Finance income	—	—	—	—	—	—	—	308
Finance expenses	—	—	—	—	—	—	—	1,163
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	(348)
Profit before income taxes	—	—	—	—	—	—	—	2,877
Segment assets	120,191	53,632	40,896	214,720	9,339	224,059	25,600	249,660
Other items								
Depreciation and amortization	12,425	4,198	3,379	20,004	195	20,199	—	20,199
Impairment losses	—	—	1,425	1,425	—	1,425	—	1,425
Increase in property, plant and equipment and intangible assets (Note 3)	14,267	4,864	4,957	24,089	822	24,911	—	24,911

Notes:

1. Reconciliation of 25,600 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. Increase in property, plant and equipment and intangible assets does not include the adjustments to apply IFRS 16 at the beginning of the fiscal year.

(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)

	2019	2020
Japan	136,940	136,984
Americas	69,782	63,981
Europe	56,391	48,551
Asia	38,683	36,155
Others	5,828	5,631
Total	307,627	291,304

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)

	2019	2020
Japan	44,440	48,695
Americas	3,191	4,291
Europe	12,941	15,173
Asia	15,449	15,830
Others	12	23
Total	76,035	84,014

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, 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).

Current fiscal year (From April 1, 2019 to March 31, 2020)

Not applicable.

8. Cash and cash equivalents

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

	(Unit: Millions of yen)	
	2019	2020
Cash and deposits of which maturity term is less than three months	40,844	39,933
Total	40,844	39,933

9. Trade and other receivables

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

	(Unit: Millions of yen)	
	2019	2020
Notes receivable	2,892	2,031
Accounts receivable	55,087	48,671
Others	2,192	2,009
Less: Allowance for doubtful accounts (Note 34)	(1,033)	(819)
Total	59,138	51,892

10. Other financial assets

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

	(Unit: Millions of yen)	
	2019	2020
Equity instruments (Note 34)	6,037	5,608
Debt instruments (Note 34)	3,503	3,856
Derivative assets (Note 34)	1,157	1,137
Others	2,002	1,665
Total	12,701	12,268
Current assets	1,517	861
Non-current assets	11,183	11,406
Total	12,701	12,268

11. Inventories

(1) Breakdown of inventories

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

	(Unit: Millions of yen)	
	2019	2020
Merchandise and finished goods	28,131	30,113
Work in progress	3,211	3,280
Raw materials and supplies	13,241	12,800
Total	44,583	46,194

The amount of inventories expensed as cost of sales for the years ended March 31, 2019 and 2020 was 213,194 million yen and 202,835 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)	
	2019	2020
Write-downs	2,102	1,663
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)	
	2019	2020
Other current assets		
Prepaid expenses	2,171	2,011
Advance payments	376	374
Consumption taxes receivable	1,579	1,335
Others	267	264
Total	4,396	3,985
Other non-current assets		
Long-term prepaid expenses	546	479
Others	676	518
Total	1,222	997

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)	
	2019	2020
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	—	—

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 previous 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.

There are no assets classified as held for sale and directly associated liabilities as of March 31, 2020.

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	Right-of-use assets	Total
Balance, April 1, 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
Adjustment on applying IFRS 16	(877)	(942)	(23)	—	—	10,460	8,616
Balance, April 1, 2019	12,910	8,921	7,476	12,777	1,181	10,460	53,726
Acquisition	371	1,200	1,024	—	5,168	4,205	11,969
Acquisitions through business combinations (Note 7)	—	—	—	—	—	—	—
Depreciation	(1,225)	(2,156)	(3,681)	—	—	(2,962)	(10,027)
Impairment loss	(31)	(14)	(67)	—	(4)	(5)	(123)
Reversals of impairment loss	—	—	—	—	—	—	—
Disposal	(77)	(92)	(76)	(23)	(86)	(179)	(536)
Transfer from construction in progress	1,248	1,144	2,285	—	(4,678)	—	—
Transfer to non-current assets held for sale	—	—	—	—	—	—	—
Exchange differences arising on translation of foreign operations	(215)	(207)	(223)	(267)	(38)	(403)	(1,356)
Others	(58)	12	134	—	(12)	264	340
Balance, March 31, 2020	12,921	8,807	6,870	12,486	1,529	11,379	53,993

[Acquisition costs]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance, April 1, 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
Balance, March 31, 2020	50,477	45,186	62,928	13,566	1,535	14,578	188,272

[Accumulated depreciation and impairment losses]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance, April 1, 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
Balance, March 31, 2020	37,555	36,378	56,058	1,080	6	3,199	134,279

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 breakdown of the carrying amounts of the right-of-use assets (finance lease assets in the previous fiscal year) is as follows:

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Total
Finance lease assets					
Balance, March 31, 2019	877	942	23	—	1,843
Right-of-use assets					
Balance, April 1, 2019	7,835	1,503	107	1,013	10,460
Balance, March 31, 2020	8,348	1,519	136	1,374	11,379

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				Total
	Goodwill	Internal-use software	Development costs	Other intangible assets	
Balance, April 1, 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	—	1,374	—	124	1,499
Acquisitions through business combinations (Note 7)	—	—	—	—	—
Internal generation	—	—	11,443	—	11,443
Amortization	—	(543)	(9,255)	(373)	(10,172)
Impairment loss	—	(295)	(1,002)	—	(1,298)
Disposal	—	(2)	(38)	(5)	(47)
Exchange differences arising on translation of foreign operations	(107)	(11)	(113)	(26)	(152)
Others	—	(53)	(85)	(793)	(931)
Balance, March 31, 2020	3,268	2,319	16,625	1,205	20,149

[Acquisition costs]

(Unit: Millions of yen)

	Intangible assets				Total
	Goodwill	Internal-use software	Development costs	Other intangible assets	
Balance, April 1, 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
Balance, March 31, 2020	7,309	11,540	79,268	10,643	101,452

[Accumulated amortization and impairment losses]

(Unit: Millions of yen)

	Intangible assets				Total
	Goodwill	Internal-use software	Development costs	Other intangible assets	
Balance, April 1, 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
Balance, March 31, 2020	4,040	9,221	62,642	9,438	81,302

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, 2019 and 2020 is 18,309 million yen and 17,445 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)	
	2019	2020
Software	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)	
		2019	2020
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	81	—
	Construction in progress	10	—
	Internal-use software	35	—
	Development costs	379	—
	Other intangible assets	30	—
	Long-term prepaid expenses	0	—
	Subtotal	646	—
Media Service Sector	Buildings and structures	39	31
	Machinery and vehicles	29	14
	Tools, furniture and fixtures	33	67
	Construction in progress	—	4
	Right-of-use assets	—	5
	Internal-use software	3	295
	Development costs	2	1,002
	Other intangible assets	—	0
	Long-term prepaid expenses	0	3
Subtotal		109	1,425
Total		1,012	1,425

(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 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 assessment of the recoverability in consideration of deteriorating profitability of the development plan. Those carrying amounts were reduced 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.

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

In the Media Service Sector, regarding property, plant and equipment and intangible assets of the Professional Video Camera Business, carrying amounts of those assets were reduced to the recoverable amounts as a result of careful assessment of future business plans and recoverability in consideration of deteriorating profitability of the business performance. Furthermore, as a result of careful assessment of future recoverability in consideration of the decrease in sales prospects after the release of certain internal-use software which were held by a subsidiary of content business including music and video software, carrying amounts of those assets were reduced to the recoverable amounts. In addition, business performance in other business asset group deteriorated. As a result of careful comparative review of the carrying amounts and the recoverable amounts based on the cash flows, carrying amounts of those assets were reduced to the recoverable amounts.

Value in use is used as the recoverable amount, and the estimated amount of future cash flows is discounted to the present value at a discount rate of 4.3% based on the pre-tax weighted average cost of capital.

(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)

	2019	2020
Public Service Sector	3,376	3,268
Total	3,376	3,268

Among the goodwill in the Public Service Sector in the fiscal year ended March 31, 2020, the main components were goodwill of 1,316 million yen (previous fiscal year: 1,343 million yen) recognized at the time of acquiring shares of the communication system subsidiary in the US and goodwill of 1,298 million yen (previous fiscal year: 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 9.8 to 10.5 times (8.0 to 8.6 times in the previous fiscal year), and EV/Revenue ratio is 0.9 to 1.0 times (0.9 times in the previous fiscal year).

If the significant assumptions used in the impairment test fluctuate 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: 9.4% (12.4% in the previous fiscal year), 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: 1.7% (2.7% in the previous fiscal year).

If the significant assumptions used in the impairment test fluctuate 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)

	2019	2020
Balance, beginning of year	2,055	2,221
Acquisition	—	3
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	38	(19)
Gain or loss due to fluctuation of fair value	67	68
Other	16	—
Balance, end of year	2,221	2,274

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)

	2019	2020
Rental income	145	145
Direct operating expenses	22	41

18. Lease transaction

As lessee, the Group mainly leases buildings and structures, machinery and vehicles, tools, furniture and fixtures, and land. As lessor, the Group rents out buildings and structures to third parties.

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

(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)

	2019
Minimum lease payments	1,449
Within 1 year	472
1 year to 5 years	641
Over 5 years	335
Less amount representing interest charge	(52)
Present value of finance lease obligations	1,396

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

(Unit: Millions of yen)

	2019
Within 1 year	452
1 year to 5 years	617
Over 5 years	326
Present value of finance lease obligations	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)

	2019
Within 1 year	2,596
1 year to 5 years	4,652
Over 5 years	318
Total	7,567

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

(Unit: Millions of yen)

	2019
Minimum lease payments	3,933
Sublease payments	(4)
Total	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)
	2019
Within 1 year	148
1 year to 5 years	598
Over 5 years	232
Total	979

Current fiscal year (from April 1, 2019 to March 31, 2020)

(1) As lessee

Property, plant and equipment on the statement of financial position includes right-of-use assets from lease transactions.

For a breakdown of the carrying amounts of right-of-use assets at the end of the current fiscal year and the increase in right-of-use assets, refer to Note "14. Property, plant and equipment."

The conditions of lease contracts in the Group include various contract conditions as they are individually negotiated. The Group concludes lease contracts that include extension and termination options for the purpose of more flexible use of right-of-use assets.

When it is reasonably certain that the extension option will be exercised by the Group at the start of the lease, payments related to the lease term extended by the exercise of the option are included in the lease liabilities. Furthermore, when it is reasonably certain that the Group will not exercise the termination option, payments related to the lease term that are not cancelled by the exercise of the option are included in the lease liabilities.

In the event of a default on lease liabilities, the lessor is able to regain the right-of-use assets. Therefore, the lease liabilities are practically collateralized. There are no restrictions imposed by the lease contract.

The breakdown of the amount recognized in profit or loss for leases as lessee during the fiscal year ended March 31, 2020 is as follows:

	(Unit: Millions of yen)
	2020
Depreciation of right-of-use assets	
Buildings and structures	1,992
Machinery and vehicles	573
Tools, furniture and fixtures	69
Land	327
Subtotal	2,962
Interest expenses on lease liabilities	234
Expenses related to short-term leases	474
Expenses related to low-value asset leases that are not short-term leases	17
Less: Income from sublease of right-of-use assets	(279)
Other	296
Total	3,707

The total cash outflow of leases as lessee during the fiscal year ended March 31, 2020 was 3,949 million yen.

The maturity analysis of the lease liabilities is as follows:

	(Unit: Millions of yen)
	2020
Within 1 year	3,681
1 year to 5 years	6,289
Over 5 years	2,296
Less amount representing interest charge	(788)
Present value of lease liabilities	11,479

Note: For specific liquidity risk, refer to 2) Liquidity risk management of (2) Financial risk management policies in 34. Financial Instruments.

(2) As lessor

The Group leases part of right-of-use assets and investment properties to third parties. Because these leases do not transfer substantially all the risks and rewards incidental to ownership, they are classified as operating leases.

Operating lease contracts

The total lease payments received in relation to operating leases are as follows:

	(Unit: Millions of yen)
	2020
Within 1 year	317
1 year to 2 years	137
2 years to 3 years	112
3 years to 4 years	113
4 years to 5 years	113
Over 5 years	82
Total	877

Operating lease income for the fiscal year ended March 31, 2020 were 432 million yen.

19. Trade and other payables

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

	(Unit: Millions of yen)	
	2019	2020
Notes payable-trade	1,507	1,689
Accounts payable-trade	32,921	28,281
Accounts payable-other	10,439	9,114
Total	44,868	39,086

20. Other financial liabilities

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

	(Unit: Millions of yen)	
	2019	2020
Lease obligations (Note 18)	1,396	—
Lease liabilities (Note 18)	—	11,479
Derivative liabilities (Note 34)	101	208
Others	1,637	1,386
Total	3,134	13,074
Current liabilities	1,539	5,091
Non-current liabilities	1,595	7,983
Total	3,134	13,074

21. Borrowings

The breakdown of borrowings:

	(Unit: Millions of yen)			
	2019	2020	Average interest rate (%)	Maturity date
Short-term borrowings	5,917	6,611	1.74	—
Current portion of long-term borrowings	18,529	17,849	0.77	—
Borrowings (current liabilities)	24,447	24,460	—	—
Borrowings (non-current liabilities)	46,865	50,144	0.62	June 30, 2027

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)	
	2019	2020
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, 2020.

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

	(Unit: Millions of yen)	
	2019	2020
Pledged assets		
Cash and cash equivalents	262	112
Trade and other receivables	10,751	8,854
Inventories	6,927	7,950
Other current assets	581	395
Non-current assets held for sale	203	—
Property, plant and equipment	17,103	17,691
Intangible assets	141	127
Investment property	1,201	1,191
Other non-current financial assets	12	6
Other non-current assets	153	2,845
Total pledged assets	37,338	39,175
Liabilities with collateral		
Current portion of long-term borrowings	—	11,424
Long-term borrowings	23,146	11,352
Total liabilities with collateral	23,146	22,777

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, 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
Provision	663	—	132	24	819
Adjustment due to passage of time	—	—	1	—	1
Decrease—used	(588)	(251)	(4)	(37)	(881)
Decrease—reversed	(87)	—	(10)	(8)	(106)
Exchange differences arising on translation of foreign operations	(47)	—	(5)	(4)	(56)
Other changes	0	—	143	(680)	(536)
Balance, March 31, 2020	1,265	—	1,128	103	2,497
Current liabilities	1,265	—	—	43	1,309
Non-current liabilities	—	—	1,128	59	1,187

Note: The provision for compensation on lease contracts that was included in "Others" as of March 31, 2019 is deducted from the relevant right-of-use assets, due to the application of IFRS 16 in the fiscal year ended March 31, 2020.

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

Plan assets may be affected by the volatility of return on assets in the short term. 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.

(ii) Interest 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 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)	
	2019	2020
Present value of defined benefit obligations	97,090	92,787
Fair value of plan assets	82,270	76,712
Effect of asset ceiling (Note)	9,178	6,703
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	23,998	22,778
Net defined benefit liabilities	28,236	26,008
Net defined benefit assets	4,237	3,229
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	23,998	22,778

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)	
	2019	2020
Balance, beginning of year	97,925	97,090
Current service cost	2,697	2,302
Interest expenses	600	493
Changes due to remeasurement		
Actuarial gains and losses (demographic)	12	(248)
Actuarial gains and losses (financial)	1,165	(797)
Actuarial difference arising from modification of actual results	(199)	(124)
Benefits paid	(5,010)	(5,643)
Past service costs	—	(0)
Others	35	(115)
Exchange differences arising on translation of foreign operations	(135)	(168)
Balance, end of year	97,090	92,787

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

	(Unit: Millions of yen)	
	2019	2020
Balance, beginning of year	85,447	82,270
Interest income	472	377
Changes due to remeasurement		
Revenue on plan assets	(1,103)	(3,306)
Employer contributions	902	852
Benefits paid	(3,454)	(3,472)
Exchange differences arising on translation of foreign operations	4	(8)
Balance, end of year	82,270	76,712

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 821 million yen in the following fiscal year.

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

	(Unit: Millions of yen)	
	2019	2020
Balance, beginning of year	11,640	9,178
Interest income limit	62	39
Remeasurement		
Changes in the impact of the asset ceiling (excluding the amount included in the interest income limit)	(2,524)	(2,514)
Balance, end of year	9,178	6,703

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

	(Unit: Millions of yen)			
	2019		2020	
	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	18,357	—	14,869	—
Domestic stocks	4,028	—	3,390	—
Foreign stocks	14,329	—	11,478	—
Debt instruments	39,002	—	38,339	—
Domestic bonds	—	—	—	—
Foreign bonds	39,002	—	38,339	—
Other assets	2,959	—	2,177	—
Investments in life insurance company general accounts	—	10,503	—	10,690
Others	—	11,446	—	10,635
Total	60,319	21,950	55,386	21,326

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 10 years for the current fiscal year.

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

	2019	2020
Discount rate	Mainly 0.429%	Mainly 0.519%

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:

	2019	2020
In case of 0.5% increase	(4,764)	(4,248)
In case of 0.5% decrease	5,518	4,666

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)	
	2019	2020
Retirement benefits paid for defined contribution plan	1,295	1,202

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)	
	2019	2020
Other current liabilities		
Consumption taxes payable, etc.	1,251	1,419
Accrued bonuses	5,893	5,372
Accrued unused paid absences	4,643	5,036
Accrued expenses	10,411	10,104
Others	1,209	1,189
Total	23,410	23,123
Other non-current liabilities		
Long-term contract liabilities (Note) (Note 28)	473	704
Others	723	711
Total	1,196	1,415

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, 2018 to March 31, 2019)

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2018)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the previous 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.

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2019)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the current fiscal year (March 31, 2020)
Deferred tax assets					
Depreciation	1,336	(3)	—	(16)	1,316
Net defined benefit liabilities	1,914	414	(40)	(8)	2,279
Provision for inventory reserve	491	85	—	(10)	565
Unused tax losses	3,367	(660)	—	(48)	2,658
Accrued expenses	2,432	76	—	(13)	2,495
Others (Note)	1,505	21	—	(26)	1,499
Subtotal	11,046	(66)	(40)	(123)	10,815
Deferred tax liabilities					
Net defined benefit assets	1,308	(166)	(113)	—	1,029
Financial assets measured at fair value through other comprehensive income	1,330	—	132	(199)	1,263
Depreciation	2,267	187	—	(21)	2,433
Others (Note)	2,715	(108)	—	182	2,789
Subtotal	7,622	(88)	19	(38)	7,515
Net amount	3,423	21	(59)	(85)	3,300

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)

	2019	2020
Deductible temporary differences	15,900	14,630
Unused tax losses	20,846	18,472
Total	36,747	33,102

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 profit 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 profit 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 428 million yen for the previous fiscal year and 967 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 profit generation based on the characteristics of the business of the taxable entity and the maturity date of loss carried forward.

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

(Unit: Millions of yen)

	2019	2020
1st year	3,525	5,743
2nd year	5,730	242
3rd year	226	1,714
4th year	1,322	1,891
5th year and thereafter	10,042	8,880
Total	20,846	18,472

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized were 812 million yen for the previous fiscal year and 766 million yen for the current fiscal year on a tax-effected basis. The Group does not recognize deferred tax liabilities for these temporary differences as it is able to control the timing of the reversal of these temporary differences, and it is 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)

	2019	2020
Current tax expenses		
Current year	1,955	1,663
Prior years	(53)	(101)
Total	1,901	1,562
Deferred tax expense		
Origination and reversal of temporary differences	1,132	724
Recognition of previously unrecognized deferred tax assets	(934)	(746)
Change in tax rates, etc.	—	—
Total	197	(21)
Income tax expenses	2,099	1,540

(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.

	2019	2020
Statutory effective tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	5.5%	14.8%
Dividend and other income not taxable	(3.3%)	(4.8%)
Gain on liquidation of foreign subsidiaries not taxable	(0.0%)	—%
Loss on liquidation of foreign subsidiaries not deductible for income tax purposes	—%	0.2%
Foreign tax	3.9%	9.8%
Evaluation of recoverability of deferred tax assets	(4.3%)	12.1%
Effect of changes of income tax rates on deferred taxes	(0.2%)	(0.2%)
Lower income tax rates applicable to income in foreign subsidiaries	(6.7%)	(8.6%)
Undistributed earnings in foreign subsidiaries	1.5%	(4.0%)
Withholding tax of foreign subsidiaries	1.0%	1.8%
Others	4.8%	1.8%
Actual tax rate	32.8%	53.5%

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% (30.6% 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.

(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 (113 million yen converted at the exchange rate at the end of the current fiscal year) as income taxes payable in the previous 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 (millions of yen)	Capital surplus (millions of yen)
Balance, April 1, 2018	400,000,000	139,000,201	10,000	38,466
Change	—	25,000,000	3,645	3,619
Balance, March 31, 2019	400,000,000	164,000,201	13,645	42,086
Change	—	—	—	—
Balance, March 31, 2020	400,000,000	164,000,201	13,645	42,086

Note: Increase in the total number of outstanding shares for the previous 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, 2018	55,050	38
Change	1,593	0
Balance, March 31, 2019	56,643	38
Change	1,806	0
Balance, March 31, 2020	58,449	39

(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) 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.

3) Exchange difference on translation of foreign operations

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

4) 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.

5) 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 15, 2018	833	Retained earnings	6.00	March 31, 2018	May 30, 2018
Board of Directors' meeting held on May 14, 2019	983	Retained earnings	6.00	March 31, 2019	May 29, 2019

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 20, 2020	819	Retained earnings	5.00	March 31, 2020	June 5, 2020

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, 2018 to March 31, 2019)

(Unit: Millions of yen)

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

Current fiscal year (From April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

Reportable segment	Automotive Sector	Public Service Sector		Media Service Sector		Others	Total
	Aftermarket Business/OEM	Communications Systems	Professional Systems	Media	Entertainment	—	—
Major business							
Revenue from customers	149,790	44,967	25,708	30,454	24,948	15,434	291,304

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)	
	2019	2020
Contract assets		
Assets related to on-going installation services	2,022	1,617
Total contract assets	2,022	1,617
Contract liabilities (Note)		
Advances from customers	2,735	3,193
Total contract liabilities	2,735	3,193

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

	(Unit: Millions of yen)	
	2019	2020
Contract assets		
Increase due to new contracts	991	900
Decrease due to transfer to receivables	(976)	(1,268)
Contract liabilities		
Increase due to new contracts	4,757	6,194
Decrease due to revenue recognition	(5,890)	(5,609)
Decrease in the amount included in the balance at the beginning of the fiscal year	(3,407)	(1,651)

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)	
	2019	2020
Refund liability		
Returning goods	1,213	1,083
Expected rebates	3,024	3,095
Total refund liability	4,237	4,179

(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)	
	2019	2020
Long-term guarantee contracts on communications systems, etc.	896	858
Within 1 year	438	160
Over 1 year	458	697

29. Selling, general and administrative expenses

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

(Unit: Millions of yen)

	2019	2020
Personnel expenses	40,431	39,688
Advertisement and sales promotion expenses	7,288	6,674
Transportation expenses	5,461	5,244
Depreciation	2,490	4,345
Commission expenses	2,729	2,911
Rental expenses	2,452	653
Others	14,878	13,883
Total selling, general and administrative expenses	75,732	73,402

30. Finance income and finance expenses

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

(Unit: Millions of yen)

	2019	2020
Interest income		
Loans and receivables	229	243
Dividends income		
Equity instruments	74	65
Total finance income	304	308
Interest expenses		
Financial liabilities measured at amortized cost	867	1,031
Other finance expenses	208	132
Total finance expenses	1,076	1,163

31. Other income and expenses

(1) Other income

The breakdown of other income is as follows:

(Unit: Millions of yen)

	2019	2020
Gain on valuation of financial assets measured at fair value through profit or loss	491	352
Gain on sales of long-lived assets	69	367
Remeasurement of earn-out	14	268
Rental income	67	288
Income from compensation for damage	570	—
Others	561	463
Total other income	1,775	1,741

Note: Remeasurement of earn-out is the fair value revaluation of the earn-out provisions related to the acquisition of the shares of Tait International Ltd.

(2) Other expenses

The breakdown of other expenses is as follows:

(Unit: Millions of yen)

	2019	2020
Loss on disposal of long-lived assets	401	86
Impairment loss (Note 16)	1,012	1,425
Employment structural improvement expenses (Note)	242	738
Fire loss	436	—
Others	595	683
Total other expenses	2,688	2,934

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)

	2019	2020
Financial assets measured at fair value through other comprehensive income		
Arising during the year	(1,035)	(350)
Income tax effect	173	(131)
Financial assets measured at fair value through other comprehensive income	(861)	(482)
Remeasurement of defined benefit plan		
Arising during the year	337	341
Income tax effect	(190)	72
Remeasurement of defined benefit plan	146	414
Changes in fair value of investment properties		
Arising during the year	16	—
Income tax effect	—	—
Changes in fair value of investment properties	16	—
Exchange differences arising on translation of foreign operations		
Arising during the year	693	(3,511)
Reclassification adjustments	(117)	(29)
Before income tax effect	575	(3,540)
Income tax effect	—	—
Exchange differences arising on translation of foreign operations	575	(3,540)
Cash flow hedges		
Arising during the year	2,695	1,050
Reclassification adjustments	(1,242)	(1,103)
Before income tax effect	1,452	(52)
Income tax effect	(180)	(0)
Cash flow hedges	1,272	(53)
Share of OCI of investments accounted for using the equity method		
Arising during the year	48	(494)
Reclassification adjustments	(11)	(4)
Share of OCI of investments accounted for using the equity method	37	(499)
Total other comprehensive income	1,187	(4,161)

33. Earnings per share

(1) The basis of calculating basic earnings per share

	2019	2020
Profit attributable to ordinary shareholders of the parent company (millions of yen)	3,847	954
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)	3,847	954
Weighted average number of ordinary shares (thousands of shares)	153,898	163,942
Basic earnings per share (yen)	25.00	5.82

(2) The basis of calculating diluted earnings per share

	2019	2020
Profit for the year used in the calculation of basic earnings per share (millions of yen)	3,847	954
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)	3,847	954
Weighted average number of ordinary shares (thousands of shares)	153,898	163,942
Increase in number of ordinary shares		
Stock acquisition rights (thousands of shares)	262	—
Weighted average number of diluted ordinary shares (thousands of shares)	154,160	163,942
Diluted earnings per share (yen)	24.96	—

Note: There were no dilutive shares for the current 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:

	2019	2020
Cash and cash equivalents	40,844	39,933
Interest-bearing debt	71,312	74,605
Total equity	65,321	59,999

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 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	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, 2018	847	0	494	1,341
Increase/decrease during the period (provision/reversal)	271	—	—	271
Others	(85)	—	(32)	(117)
Balance as of March 31, 2019	1,033	0	461	1,495
Increase/decrease during the period (provision/reversal)	(132)	—	(10)	(142)
Decrease during the period-used	(33)	—	(132)	(165)
Others	(48)	—	1	(47)
Balance as of March 31, 2020	819	0	321	1,140

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, 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.

Current fiscal year (March 31, 2020)

	(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	39,086	39,086	39,086	—	—
Short-term borrowings	6,611	6,611	6,611	—	—
Current portion of long-term borrowings	17,849	17,849	17,849	—	—
Long-term borrowings	50,144	50,144	—	50,069	75
Others	12,866	12,866	4,882	5,120	2,863
Derivative liabilities					
Interest rate swaps	—	—	—	—	—
Foreign exchange forward contracts	208	208	208	—	—
Total	126,766	126,766	68,638	55,189	2,938

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:

	2019		2020	
	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	2,052	(5)	2,946	(1)
Euro	3,301	7	1,744	(60)
GB pound	289	(0)	159	(0)
Canadian dollar	280	(0)	221	(0)
Australian dollar	329	(0)	283	(0)
Hong Kong dollar	401	(0)	246	(0)
New Zealand dollar	—	—	51	(0)
Russian ruble	118	(1)	90	(1)
Thai baht	60	(0)	63	(0)
Polish zloty	713	(0)	—	—
Subtotal	7,547	(2)	5,807	(65)
(Buying)				
U.S. dollar	5,687	3	4,510	10
Euro	2,391	29	1,958	(0)
Canadian dollar	—	—	1,684	(1)
Singapore dollar	1,860	(0)	945	(0)
Thai baht	569	0	962	0
Subtotal	10,509	32	10,061	8
Total	18,056	30	15,868	(57)

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

	2019		2020	
	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)
(Selling)				
U.S. dollar	—	—	4,196	(67)
Euro	6,886	181	5,407	32
GB pound	2,203	(5)	2,065	51
Canadian dollar	1,835	23	1,678	90
Subtotal	10,925	198	13,348	106
(Buying)				
U.S. dollar	27,960	847	39,143	895
Thai baht	764	(8)	362	(12)
Subtotal	28,725	839	39,505	882
Total	39,651	1,037	52,853	989

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, 2019 and 2020 are as follows:

	(Unit: Millions of yen)	
	2019	2020
Impact on income before income taxes		
U.S. dollar	(163)	(42)
Euro	13	(0)

	(Unit: Millions of yen)	
	2019	2020
Impact on other comprehensive income		
U.S. dollar	(311)	(413)
Euro	66	53

(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 debts. 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, 2019 and 2020 are as follows:

	(Unit: Millions of yen)	
	2019	2020
Impact on income before income taxes	658	702

(3) Classification of financial instruments

	(Unit: Millions of yen)	
	2019	2020
Financial assets		
Cash and cash equivalents	40,844	39,933
Financial assets measured at amortized cost		
Trade and other receivables	59,138	51,892
Other current financial assets	2,002	1,665
Financial assets measured at fair value through other comprehensive income		
Equity instruments	6,037	5,608
Derivative assets	1,115	1,126
Financial assets measured at fair value through profit or loss		
Debt instruments	3,503	3,856
Derivative assets	42	11
Total financial assets	112,683	104,094
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade and other payables	44,868	39,086
Borrowings	71,312	74,605
Other current financial liabilities	3,033	12,866
Financial liabilities measured at fair value through other comprehensive income		
Derivative liabilities	77	137
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	23	71
Total financial liabilities	119,315	126,766

(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)			
	2019		2020	
Type	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings	71,312	71,315	74,605	74,605

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

Transfers between levels of the fair value hierarchy are recognized as they occurred at the beginning of each quarter. No transfers occurred between Levels 1, 2, and 3 during the fiscal year ended March 31, 2019. During the fiscal year ended March 31, 2020, no transfers occurred excluding transfers between Level 1 and Level 3.

	(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:

- Equity instruments, debt instruments and derivative assets are included in "Other financial assets" in the consolidated statement of financial position.
- Derivative liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

	(Unit: Millions of yen)			
2020	Level 1	Level 2	Level 3	Total
Financial assets				
Equity instruments	2,523	—	3,085	5,608
Debt instruments	—	—	3,856	3,856
Derivative assets	—	1,137	—	1,137
Total	2,523	1,137	6,941	10,602
Financial liabilities				
Derivative liabilities	—	208	—	208
Total	—	208	—	208

Notes:

- Equity instruments, debt instruments and derivative assets are included in "Other financial assets" in the consolidated statement of financial position.
- 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 60.0% (previous fiscal year: 14.0%), and the EBITDA ratio is 4.8 to 31.2 times (previous fiscal year: 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)

	2019	2020
Balance, beginning of year	5,960	7,106
Total gain or loss		
Profit or loss	491	352
Other comprehensive income	(416)	267
Purchase	1,091	—
Sales/settlement	(20)	(13)
Transfer from Level 3	—	(771)
Balance, end of year	7,106	6,941

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 "Financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income. The transfer from Level 3 recognized in the fiscal year ended March 31, 2020 is mainly due to the investee company being listed on the stock exchange.

(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)

	2019	2020
Cash flow hedge	1,037	989

35. Cash flows

(1) Changes in liabilities from financing activities

The changes in liabilities from financing activities are as follows:

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

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2018)	Cash flows	Non-cash changes					At the end of the previous fiscal year (March 31, 2019)
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Borrowings (current liabilities)	29,642	(5,044)	(337)	—	105	13	67	24,447
Borrowings (non-current liabilities)	38,204	8,311	(153)	—	57	(13)	459	46,865

Current fiscal year (from April 1, 2019 to March 31, 2020)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2019)	Adjustment in adopting IFRS 16	Cash flows	Non-cash changes					At the end of the current fiscal year (March 31, 2020)
				Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Borrowings (current liabilities)	24,447	—	(17,960)	(379)	—	23	18,329	—	24,460
Borrowings (non-current liabilities)	46,865	—	21,693	(53)	—	105	(18,329)	(136)	50,144
Lease liabilities (current liabilities)	—	3,266	(3,714)	(88)	—	—	3,823	236	3,523
Lease liabilities (non-current liabilities)	—	8,582	—	(323)	—	—	(3,823)	3,520	7,956

(2) Non-cash transactions

Non-cash transactions conducted during the fiscal year ended March 31, 2020 were mainly an increase of right-of-use assets of 4,205 million yen, due to the adoption of IFRS 16.

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:

Guarantee	(Unit: Millions of yen)	
	2019	2020
Employees (such as home loans)	164	129

37. Related-party transactions

(1) Related-party transactions

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

Not applicable.

Current fiscal year (from April 1, 2019 to March 31, 2020)

Not applicable.

(2) Remuneration of key managing officers

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

	(Unit: Millions of yen)	
	2019	2020
Basic remuneration and bonuses	416	395
Post-employment benefits	—	—
Other	—	—

38. Significant subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2020 are as follows:

Name	Location	Capital in million yen or thousands of local currency	Main business	Equity ownership percentage as of March 31, 2020
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 Holdings 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)	
	2019	2020
Carrying amount of investments	4,293	3,330

	(Unit: Millions of yen)	
	2019	2020
Net income	(90)	(348)
Other comprehensive income (after tax)	37	(499)
Total comprehensive income	(53)	(847)

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)	
	2019	2020
Total assets of unconsolidated structured entities	55,990	62,355
The carrying amount of the investments that the Company recognized in the consolidated statement of financial position	3,503	3,856
Commitments related to additional investments	—	—
Maximum loss exposure of the Company	3,503	3,856

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 provided 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.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of JVCKENWOOD Corporation:

Opinion

We have audited the consolidated financial statements of JVCKENWOOD Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Pelotte Touche Tohmatsu LLC

June 19, 2020

JVCKENWOOD

JVCKENWOOD Corporation

● For further information, please contact:

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