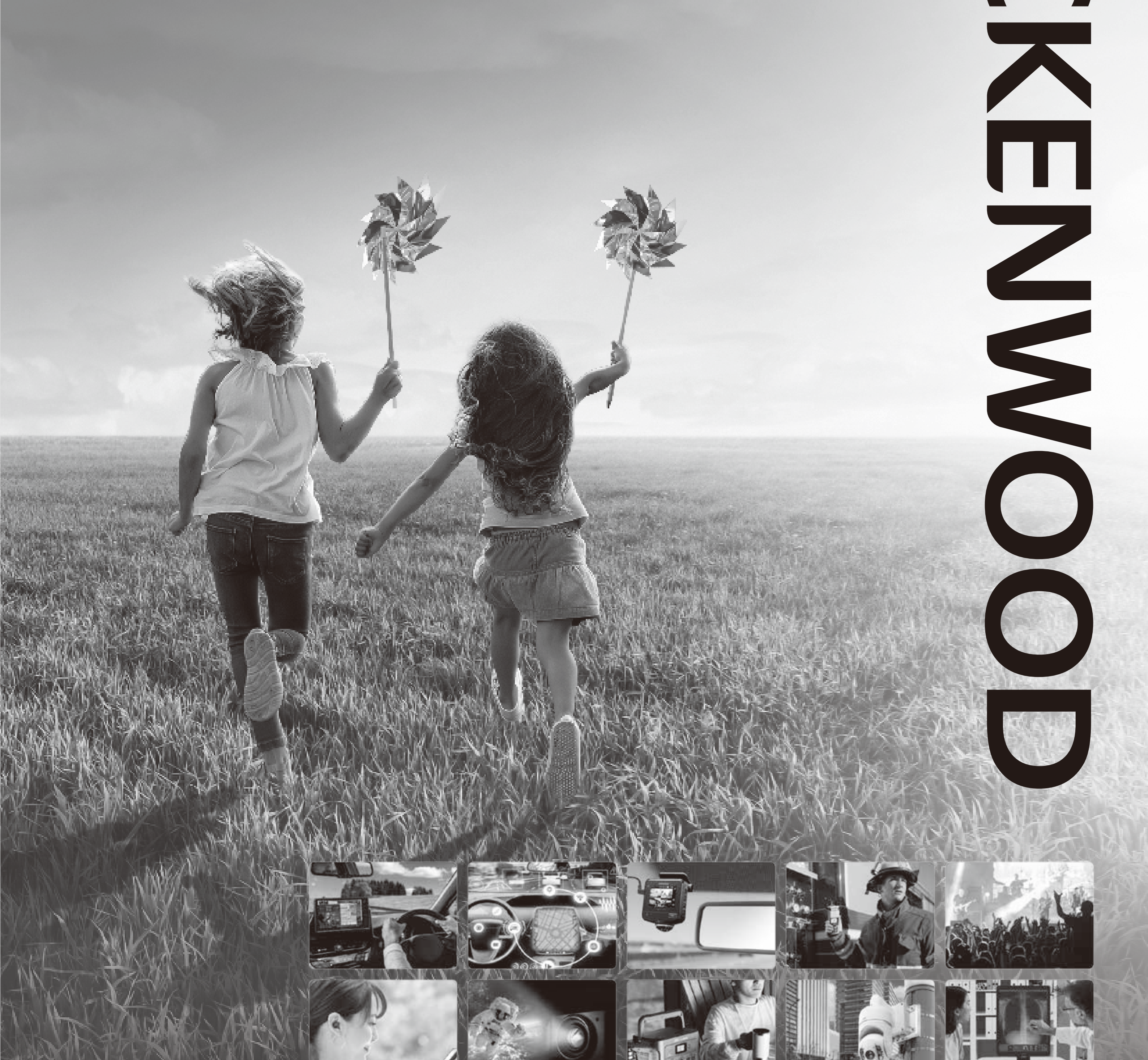
JVCKENWOOD
Financial Report 2022



Change for Growth

JVCKENWOOD Corporation

Contents

Financial Review

Overview of the Fiscal Year Ended March 31, 2022

On July 1, 2021, the Company incorporated the telematics service business of its DX Business, which had previously been included in “Others,” into the Automotive Sector, and restructured its organization as the Mobility & Telematics Services Sector. The results of the fiscal year ended March 31, 2022 will be explained with reference to the new sector following the reorganization.

Revenue of the JVCKENWOOD Group for the fiscal year ended March 31, 2022 increased from the same period a year earlier. This was mainly due to significant recoveries in production and sales in the fourth quarter of the fiscal year ended March 31, 2022 in addition to the weakened impact of COVID-19 compared with the previous fiscal year, although revenue particularly in the Mobility & Telematics Services Sector and the Public Service Sector was considerably affected by supply shortages of semiconductors and other components. Operating profit for the fiscal year ended March 31, 2022 significantly increased from the same period of the previous fiscal year. This was primarily due to the recording of a gain on sale of subsidiaries and gain on valuation of financial assets during the first quarter of the fiscal year ended March 31, 2022.

Profit-and-loss exchange rates used when preparing the financial statements for the fiscal year ended March 31, 2022 are as follows.

		1Q	2Q	3Q	4Q
Profit-and-loss exchange rates	U.S. $	¥110	¥110	¥114	¥116
	Euro	¥132	¥130	¥130	¥130
FY2021 (Reference)	U.S. $	¥108	¥106	¥105	¥106
	Euro	¥119	¥124	¥125	¥128

Revenue and Income

▶ Consolidated Operating Results

✻Revenue

Revenue for the fiscal year ended March 31, 2022 increased approximately 8,500 million yen, or 3.1%, from the same period a year earlier to 282,088 million yen. This was mainly due to significant recoveries in production and sales in the fourth quarter of the fiscal year ended March 31, 2022, resulting from design changes and the introduction of new products to cope with components in short supply in addition to the weakened impact of COVID-19 compared with the previous fiscal year. However, revenue particularly in the Mobility & Telematics Services Sector and the Public Service Sector was considerably affected by supply shortages of semiconductors and other components.

✻Operating Profit

Operating profit for the fiscal year ended March 31, 2022 increased considerably approximately 4,200 million yen, or 85.0%, to 9,054 million yen from the same period a year earlier. This was primarily due to an increase in other income as a result of the recording of a gain on sale of subsidiaries and gain on valuation of financial assets during the first quarter of the fiscal year. For the fiscal year ended March 31, 2022, government subsidies for employing employees, etc., were recognized as net profit or loss and subtracted from cost of sales and selling, general and administrative expenses.

Operating performance by business segment is explained using core operating income*, which is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue.

Core operating income for the fiscal year ended March 31, 2022 declined approximately 300 million yen, or 4.4%, to 7,144 million yen from the same period a year earlier. This was mainly attributed to shortages of semiconductors and other components and the strong impact of surges in distribution costs and other prices, despite a rapid recovery in core operating income in the fourth quarter ended March 31, 2022.

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

✻Profit before income taxes

Profit before income taxes for the fiscal year ended March 31, 2022 significantly increased approximately 4,000 million yen, or 87.8%, from a year earlier to 8,515 million yen due to an increase in operating profit despite a decrease in dividends income.

✻Profit attributable to owners of the parent company

Profit attributable to owners of the parent company for the fiscal year ended March 31, 2022 considerably increased approximately 3,700 million yen, or 172.6%, from a year earlier to 5,873 million yen. This was mainly due to newly recorded deferred tax assets as a result of a surge in order backlogs in a U.S. communications system subsidiary in addition to an increase in profit before income taxes.

▶ Revenue and Earnings by Business Segment

✻Mobility & Telematics Services Sector

Revenue of the Mobility & Telematics Services Sector for the fiscal year ended March 31, 2022 increased approximately 7,100 million yen, or 4.5%, from a year earlier to 164,251 million yen. Meanwhile, core operating income decreased approximately 3,400 million yen, or 60.0%, from a year earlier to 2,246 million yen.

(Revenue)

In the OEM Business, revenue increased from a year earlier. This was because although it was affected by supply shortages of semiconductors and other components, sales of speakers, amplifiers, cables and other products for automobile manufacturers remained strong throughout the fiscal year ended March 31, 2022 in association with a recovery in the market in China.

In the Aftermarket Business, revenue decreased from a year earlier. This was because although revenue recovered rapidly as a result of measures, such as design changes to cope with components in short supply, taken during the fourth quarter of the fiscal year ended March 31, 2022, it was severely affected by the impact of supply shortages of semiconductors and other components.

In the Telematics Service Business, revenue increased from a year earlier. This was mainly due to an increase in sales of products related to telematics solutions such as dashcams with communication capability for casualty insurance companies in and after the third quarter of the fiscal year ended March 31, 2022.

(Core operating income)

In the OEM Business, core operating income increased due to the revenue increase. In the Aftermarket Business, core operating income decreased due to the lower revenue. In the Telematics Service Business, core operatiing income decreased due to supply shortages of semiconductors and surges in component prices, but its income significantly increased from a year earlier for the second half in the wake of the sales increase.

*Public Service Sector

Revenue of the Public Service Sector for the fiscal year ended March 31, 2022 decreased approximately 2,800 million yen, or 4.6%, from a year earlier to 58,089 million yen. Meanwhile, core operating income increased approximately 600 million yen, or 32.3%, from a year earlier to 2,467 million yen.

(Revenue)

In the Communications Systems Business, despite strong demand in Japan and overseas markets including the United States, there was a decrease in revenue caused by the sale of a U.S. communications system subsidiary, which took place in the first quarter of the fiscal year ended March 31, 2022. There were also impacts from lockdowns in Asia triggered by COVID-19 and from production delays due to supply shortages of semiconductors and other components. As a result, revenue for the fiscal year ended March 31, 2022 fell approximately 4,100 million yen from a year earlier.

In the Professional Systems Business, revenue increased approximately 1,300 million yen from a year earlier. This was because sales of JVCKENWOOD Public & Industrial Systems Corporation recovered gradually, and sales of the image display business too stayed strong in the healthcare field in Japan and overseas even though it was affected by supply shortages of semiconductors and other components.

(Core operating income)

The Communications Systems Business managed to limit the effect of a decline in revenue by slashing fixed costs and others to record a slight decline in income. In the Professional Systems Business, losses were reduced due to the effect of an increase in revenue.

*Media Service Sector

Revenue of the Media Service Sector for the fiscal year ended March 31, 2022 increased approximately 3,300 million yen, or 6.7%, from a year earlier to 53,432 million yen. Accordingly, core operating income dramatically increased approximately 2,200 million yen, or 437.0%, from a year earlier to 2,703 million yen.

(Revenue)

In the Media Business, revenue increased approximately 1,600 million yen from a year earlier. This was because BtoC sales including new models of home audio equipment, portable power sources and projectors were strong due to an increase in teleworking and demand for staying at home, and in BtoB as well, sales of remote cameras for professional use were robust in association with the recovery of the market.

In the Entertainment Business, revenue increased approximately 1,700 million yen from a year earlier due to strong performance in the content business.

(Core operating income)

As a result of the above increase in revenue, the Media Business posted significantly higher income and returned to profitability, and the Entertainment Business saw an increase in income.

Revenue, Core Operating Income (Loss) by Business Segment

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

Fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022) (Millions of yen)

Segment		FYE3/'21	FYE3/'22	YoY comparison
Mobility & Telematics Services Sector	Revenue	157,130	164,251	7,121
	Core operating income	5,610	2,246	(3,363)
Public Service Sector	Revenue	60,881	58,089	(2,792)
	Core operating income	1,865	2,467	602
Media Service Sector	Revenue	50,093	53,432	3,338
	Core operating income	503	2,703	2,200
Others	Revenue	5,503	6,315	812
	Core operating income	(505)	(273)	232
Total	Revenue	273,609	282,088	8,479
	Core operating Income	7,473	7,144	(329)
	Operating profit	4,893	9,054	4,162
	Profit before income taxes	4,533	8,515	3,981
	Profit attributable to owners of the parent company	2,154	5,873	3,719

Analysis of assets, liabilities and equity

*Assets

Total assets increased approximately 16,500 million yen from the end of the previous fiscal year to 280,807 million yen. This was due to an increase in current assets including trade and other receivables and inventories.

*Liabilities

Total liabilities increased approximately 1,000 million yen from the end of the previous fiscal year to 196,846 million yen. This was due to an increase in trade and other payables, despite a decrease in borrowings as a result of advancing repayment of bank borrowings.

*Equity

Total equity increased approximately 15,400 million yen from the end of the previous fiscal year to 83,961 million yen. This was due to an increase in other components of equity associated with the depreciation of the yen as well as the recording of profit attributable to owners of the parent company.

The ratio of equity attributable to owners of the parent company increased 3.8 points from the end of the previous fiscal year to 28.3% due to an increase in equity attributable to owners of the parent company.

▶ Cash Flow Analysis

✻Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2022 was 7,059 million yen, which was a decrease of approximately 28,800 million yen from the same period of the previous fiscal year. This was mainly caused by higher working capital due to an increase in trade and other receivables in addition to an increase in inventories, such as raw materials, as a result of production delays that stemmed from supply shortages of semiconductors and other components.

✻Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2022 was 9,804 million yen, which was a decrease of approximately 2,000 million yen from the same period of the previous fiscal year. This was mainly due to proceeds from sales of subsidiaries, which was occurred during the first quarter of the fiscal year ended March 31, 2022, although purchases of property, plant and equipment increased.

✻Cash flows from financing activities

Net cash used in financing activities for the fiscal year ended March 31, 2022 was 11,273 million yen, which was an increase of approximately 5,900 million yen from the same period of the previous fiscal year. This was mainly due to advancing repayment of bank borrowings.

Cash and cash equivalents at the end of the fiscal year ended March 31, 2022 decreased approximately 10,900 million yen from the same period of the previous fiscal year to 48,707 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 31, 2022, JVCKENWOOD declared to distribute a year-end dividend of 6 yen per share based on its profit performance and above-mentioned dividend policy, as announced in "Appropriation of Surplus" on May 13.

Subsequent Events

There are no applicable matters.

[Translation]

This is an English translation of the Financial Section of the Annual Securities Report ("Yukashoken Hokokusho"). The English translation of the other sections of the Annual Securities Report ("Yukashoken Hokokusho") is not included in this report.

Consolidated financial statements

1 Consolidated statement of financial position

JVCKENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Assets			
Current assets			
Cash and cash equivalents	8	59,644	48,707
Trade and other receivables	9	51,622	59,570
Contract assets	28	1,288	1,826
Other financial assets	10, 34	1,772	4,761
Inventories	11	42,574	55,585
Right to recover products		229	213
Income taxes receivable		885	748
Other current assets	12	3,781	5,386
Subtotal		161,799	176,799
Assets classified as held for sale	13	5,651	—
Total current assets		167,451	176,799
Non-current assets			
Property, plant and equipment	14, 16	52,127	56,249
Goodwill	15, 16	2,119	2,231
Intangible assets	15, 16	17,024	18,601
Net defined benefit assets	23	3,090	2,582
Investment property	17	2,961	3,626
Investments accounted for using the equity method	39	4,199	4,604
Other financial assets	10, 34, 40	9,957	10,072
Deferred tax assets	25	4,715	5,385
Other non-current assets	12	679	654
Total non-current assets		96,875	104,008
Total assets		264,326	280,807

Note: Refer to notes to consolidated financial statements.

Consolidated financial statements, etc. (continued)

JVCKENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19	43,387	49,431
Contract liabilities	28	2,402	2,852
Refund liabilities	28	4,363	4,416
Short-term borrowings	21, 34, 35	23,190	17,918
Other financial liabilities	18, 20, 34, 35	4,455	4,453
Income taxes payable	25	1,507	1,685
Provisions	22	1,958	1,838
Other current liabilities	24	23,117	23,617
Subtotal		104,383	106,213
Liabilities directly associated with assets classified as held for sale	13	2,158	—
Total current liabilities		106,541	106,213
Non-current liabilities			
Long-term borrowings	21, 34, 35	52,396	51,920
Other financial liabilities	18, 20, 34, 35	8,540	10,925
Net defined benefit liabilities	23	24,186	22,517
Provisions	22	1,156	1,167
Deferred tax liabilities	25	1,884	3,080
Other non-current liabilities	24	1,096	1,020
Total non-current liabilities		89,261	90,632
Total liabilities		195,803	196,846
Equity			
Capital stock	26	13,645	13,645
Capital surplus	26, 43	42,086	42,112
Retained earnings	26	7,574	13,346
Treasury stock	26, 43	(39)	(140)
Other components of equity	26	1,378	10,530
Equity attributable to owners of the parent company		64,645	79,495
Non-controlling interests		3,877	4,465
Total equity		68,523	83,961
Total liabilities and equity		264,326	280,807

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, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Revenue	6, 17, 28	273,609	282,088
Cost of sales	11, 14, 15, 17, 23, 42	199,049	206,298
Gross profit		74,560	75,790
Selling, general and administrative expenses	14, 15, 23, 29, 42	67,086	68,645
Other income	31, 42	2,056	4,104
Other expenses	14, 15, 16, 31	4,251	1,857
Foreign exchange gains (losses)		(385)	(337)
Operating profit		4,893	9,054
Finance income	30, 34	566	342
Finance expenses	30, 34	1,153	1,051
Share of profit (loss) of investments accounted for using the equity method	39	227	169
Profit before income taxes		4,533	8,515
Income tax expenses	25	1,829	2,146
Profit for the year		2,704	6,369
Profit for the year attributable to:			
Owners of the parent company		2,154	5,873
Non-controlling interests		549	496
Profit for the year		2,704	6,369
Earnings per share (attributable to owners of the parent company)			
Basic earnings per share	33	13.14 yen	35.89 yen
Diluted earnings per share	33	— yen	35.86 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, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Profit for the year		2,704	6,369
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	227	(323)
Remeasurement of defined benefit plans	23, 32	1,507	565
Changes in fair value of investment property	17, 32	346	(90)
Share of OCI of investments accounted for using the equity method	32, 39	1	3
Total items that will not be reclassified subsequently to profit or loss		2,083	153
Items that may be reclassified subsequently to profit or loss			
Exchange differences arising on translation of foreign operations	32	4,063	8,039
Cash flow hedges	32	438	1,848
Share of OCI of investments accounted for using the equity method	32, 39	550	283
Total items that may be reclassified subsequently to profit or loss		5,052	10,170
OCI for the year, net of income tax		7,135	10,324
Comprehensive income for the year		9,840	16,693
Total comprehensive income for the year attributable to:			
Owners of the parent company		8,980	15,743
Non-controlling interests		860	949
Comprehensive income for the year		9,840	16,693

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, 2022

(Unit: Millions of yen)

		Equity attributable to owners of the parent company			
	Notes	Capital stock	Capital surplus	Retained earnings	Treasury stock
Balance as of April 1, 2020		13,645	42,086	5,547	(39)
Profit for the year				2,154	
Other comprehensive income					
Comprehensive income for the year		—	—	2,154	—
Acquisition of treasury stock	26, 43				(0)
Disposal of treasury stock	26				0
Share-based payment transactions	43				
Dividends paid	27			(819)	
Changes in scope of consolidation					
Transfer from other components of equity to retained earnings				692	
Total transactions with the owners		—	—	(127)	(0)
Balance as of March 31, 2021		13,645	42,086	7,574	(39)
Profit for the year				5,873	
Other comprehensive income					
Comprehensive income for the year		—	—	5,873	—
Acquisition of treasury stock	26, 43				(100)
Disposal of treasury stock	26				
Share-based payment transactions	43		26		
Dividends paid	27			(819)	
Changes in scope of consolidation					
Transfer from other components of equity to retained earnings				718	
Total transactions with the owners		—	26	(101)	(100)
Balance as of March 31, 2022		13,645	42,112	13,346	(140)

Note: Refer to notes to consolidated financial statements.

JVCKENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2022

(Unit: Millions of yen)

		Equity attributable to owners of the parent company								
		Other components of equity								
	Notes	Remeasurement of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Exchange differences arising on translation of foreign operations	Cash flow hedges	Fair value of investment property	Total	Total	Non-controlling interests	Total equity
Balance as of April 1, 2020		—	431	(5,930)	505	239	(4,755)	56,485	3,513	59,999
Profit for the year							—	2,154	549	2,704
Other comprehensive income		1,507	229	4,274	607	206	6,825	6,825	310	7,135
Comprehensive income for the year		1,507	229	4,274	607	206	6,825	8,980	860	9,840
Acquisition of treasury stock	26, 43						—	(0)		(0)
Disposal of treasury stock	26						—	0		0
Share-based payment transactions	43						—	—		—
Dividends paid	27						—	(819)	(496)	(1,316)
Changes in scope of consolidation							—	—		—
Transfer from other components of equity to retained earnings		(1,507)	815				(692)	—		—
Total transactions with the owners		(1,507)	815	—	—	—	(692)	(820)	(496)	(1,316)
Balance as of March 31, 2021		—	1,475	(1,656)	1,113	445	1,378	64,645	3,877	68,523
Profit for the year							—	5,873	496	6,369
Other comprehensive income		565	(320)	7,832	1,846	(54)	9,870	9,870	453	10,324
Comprehensive income for the year		565	(320)	7,832	1,846	(54)	9,870	15,743	949	16,693
Acquisition of treasury stock	26, 43						—	(100)		(100)
Disposal of treasury stock	26						—	—		—
Share-based payment transactions	43						—	26		26
Dividends paid	27						—	(819)	(466)	(1,286)
Changes in scope of consolidation							—	—	105	105
Transfer from other components of equity to retained earnings		(565)	(153)				(718)	—		—
Total transactions with the owners		(565)	(153)	—	—	—	(718)	(893)	(361)	(1,255)
Balance as of March 31, 2022		—	1,002	6,176	2,960	391	10,530	79,495	4,465	83,961

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, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Cash flows from operating activities			
Profit before income taxes		4,533	8,515
Depreciation and amortization		19,316	17,120
Impairment losses		2,767	948
Increase (decrease) in net defined benefit liabilities		(429)	(1,637)
Decrease (increase) in net defined benefit assets		478	466
Finance income		(566)	(342)
Finance expenses		1,153	1,051
Gain on valuation of financial assets measured at fair value through profit or loss		(107)	(1,792)
Gain on sales of property, plant and equipment		(31)	(36)
Loss on disposal of property, plant and equipment		843	134
Gain on sales of subsidiaries		—	(1,494)
Decrease (increase) in trade and other receivables		212	(5,623)
Decrease (increase) in inventories		4,631	(9,596)
Increase (decrease) in trade and other payables		3,874	3,460
Increase (decrease) in other current liabilities		496	(41)
Other, net		731	(1,378)
Subtotal		37,904	9,754
Interest received		131	95
Dividend received		434	226
Interest paid		(958)	(923)
Income taxes paid		(1,683)	(2,092)
Net cash provided by operating activities		35,829	7,059
Cash flows from investing activities			
Purchases of property, plant and equipment		(4,519)	(6,257)
Purchase of intangible assets		(9,393)	(9,705)

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, 2022

(Unit: Millions of yen)

	Notes	2021	2022
Proceeds from sales of subsidiaries resulting in change in scope of consolidation		—	4,913
Proceeds from distribution of debt instruments		1,563	593
Proceeds from sales of equity instruments		682	812
Other, net		(138)	(161)
Net cash used in investing activities		(11,804)	(9,804)
Cash flows from financing activities			
Proceeds from short-term borrowings	35	8,147	10,820
Repayment of short-term borrowings	35	(7,411)	(13,804)
Proceeds from long-term borrowings	35	28,172	11,853
Repayment of long-term borrowings	35	(28,665)	(15,186)
Repayment of lease liabilities	35	(4,097)	(3,690)
Cash dividends paid	27	(819)	(819)
Other, net		(667)	(445)
Net cash used in financing activities		(5,342)	(11,273)
Effect of exchange rate changes on cash and cash equivalents		1,877	3,080
Net increase (decrease) in cash and cash equivalents		20,559	(10,937)
Cash and cash equivalents at beginning of year	8	39,933	59,644
Cash and cash equivalents included in assets classified as held for sale		(848)	—
Cash and cash equivalents at end of year	8	59,644	48,707

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, 2022

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 Mobility & Telematics Services 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 International Financial Reporting Standards ("IFRS").

(2) Approval of the consolidated financial statements

The Group's consolidated financial statements for the year ended March 31, 2022 were approved on June 24, 2022 by Shoichiro Eguchi, Representative Director of the Board, President, and Chief Executive Officer, and Masatoshi Miyamoto, Representative Director of the Board, 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 presentation

(Consolidated statement of cash flows)

The "Placement of time deposit with original maturity of more than three months," "Withdrawal of time deposit with original maturity of more than three months" and "Proceeds from sales of property, plant and equipment" which were presented separately in the previous fiscal year, are included in "Other, net" of cash flows from investing activities from the current fiscal year, as the amounts of the items became immaterial.

The consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes.

As a result, in the consolidated statement of cash flows for the previous fiscal year, the amount of negative 6 million yen, which was shown as "Placement of time deposit with original maturity of more than three months," the amount of 9 million yen, which was shown as "Withdrawal of time deposit with original maturity of more than three months," and the amount of 126 million yen, which was shown as "Proceeds from sales of property, plant and equipment," are reclassified as "Other, net" while the amount is negative 138 million yen.

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 arising on translation of 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 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, 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.

On the date of change in purpose for use from owner-occupied property to investment property, all increases in the carrying amount with respect to the difference between the carrying amount and its fair value are recognized in other comprehensive income, unless the increase would result in a reversal of the impairment of the property in the past.

(10) Leases

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.

If a contract is determined as a lease or including a lease, the Group recognizes the right-of-use assets and lease liabilities on the commencement date.

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 profit or loss.

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 certain consolidated subsidiaries 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 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 the Mobility & Telematics Services Sector, Public Service Sector, and Media Service Sector. 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 important 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.

(21) Share-based payment

The Company introduced a share-based payment plan that uses a trust in the current fiscal year. The compensation calculated under this plan is recognized as an expense and the corresponding amount is recognized as an increase in capital surplus.

4. Significant accounting estimates and judgements involving estimates

In the preparation of the consolidated financial statements, estimates and judgements of management are used. These estimates and judgements are based on management's best judgements 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 judgements.

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.

Regarding the COVID-19 pandemic, it is difficult to accurately predict the future spread and the timing of its containment, etc., but it will have limited effects on the business activities and performance of the Group. Accordingly, there are no significant effects on the accounting estimates and assumptions in the consolidated financial statements.

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 based on business plans, discount rate, growth rate, and others. Major important assumptions in the business plans are forecasted revenue based on the market growth rates by product and service category in each sector, prospective customer orders, the forecast of resolution of supply shortages of semiconductors, and estimated operating profits that take into account forecasted costs based on the cost increase such as material prices and distribution charges, as well as projection of price pass-through on its selling price. 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 in the future accounting periods against which these items can be utilized. The Group estimates the timing and amount of taxable income based on the business plan in determining if it is possible that the Group generates taxable income. Key assumptions of the business plans are forecasted revenue based on the market growth rates by product and service category in each sector, prospective customer orders, the forecast of resolution of supply shortages of semiconductors, and estimated operating profits that take into account forecasted costs based on the

cost increase such as material prices and distribution charges, as well as projection of price pass-through on its selling price.
These key assumptions are made based on the best estimates of management. However, deferred tax assets might be reduced in the next consolidated fiscal year if key assumptions are to be revised due to deterioration in future business conditions.

● Provisions: Note 3 “Significant accounting policies” (13) Provisions and Note 22 “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 considering 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 Mobility & Telematics Services Sector, Public Service Sector, and Media Service Sector. The Group’s reportable segments are consistent with these business segments.
From the first quarter of the current fiscal year, the Telematics Service Business of the DX Business, which was previously included in Others, has been incorporated into the Automotive Sector and it was renamed to the Mobility & Telematics Services Sector in accordance with the change in the scope of management of the Company.
The amounts of the previous fiscal year in the segment disclosure have been restated to conform to the current fiscal year’s presentation.
The major products, services, and business details of each segment are as follows:

Mobility & Telematics Services Sector	Manufactures and sales of car AV systems, car navigation systems, dashcams, in-vehicle devices, etc.; telematics solution
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, home audio equipment, portable power supplies, etc.; entrusted business of CDs and DVDs (packaged software), etc.; manufactures of CDs and DVDs (packaged software); content business of audio and video software, content distribution, etc.
Others	Service parts, etc.

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

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

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

Previous fiscal year (from April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

	Reportable segments							
	Mobility & Telematics Services Sector	Public Service Sector	Media Service Sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	157,130	60,881	50,093	268,105	5,503	273,609	—	273,609
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	157,130	60,881	50,093	268,105	5,503	273,609	—	273,609
Segment profit (loss) (Note 2)	5,610	1,865	503	7,979	(505)	7,473	—	7,473
Other income	—	—	—	—	—	—	—	2,056
Other expenses	—	—	—	—	—	—	—	4,251
Foreign exchange gains (losses)	—	—	—	—	—	—	—	(385)
Operating profit	—	—	—	—	—	—	—	4,893
Finance income	—	—	—	—	—	—	—	566
Finance expenses	—	—	—	—	—	—	—	1,153
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	227
Profit before income taxes	—	—	—	—	—	—	—	4,533
Segment assets	128,838	49,474	40,802	219,114	6,610	225,725	38,601	264,326
Other items								
Depreciation and amortization	12,517	3,513	3,117	19,148	167	19,316	—	19,316
Impairment losses	—	511	2,256	2,767	—	2,767	—	2,767
Increase in property, plant and equipment and intangible assets	10,500	3,141	5,552	19,194	330	19,525	—	19,525

Notes:

1. Reconciliation of 38,601 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 measured at fair value).
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, 2021 to March 31, 2022)

(Unit: Millions of yen)

	Reportable segments							
	Mobility & Telematics Services Sector	Public Service Sector	Media Service Sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	164,251	58,089	53,432	275,773	6,315	282,088	—	282,088
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	164,251	58,089	53,432	275,773	6,315	282,088	—	282,088
Segment profit (loss) (Note 2)	2,246	2,467	2,703	7,418	(273)	7,144	—	7,144
Other income	—	—	—	—	—	—	—	4,104
Other expenses	—	—	—	—	—	—	—	1,857
Foreign exchange gains (losses)	—	—	—	—	—	—	—	(337)
Operating profit	—	—	—	—	—	—	—	9,054
Finance income	—	—	—	—	—	—	—	342
Finance expenses	—	—	—	—	—	—	—	1,051
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	169
Profit before income taxes	—	—	—	—	—	—	—	8,515
Segment assets	151,657	48,594	47,540	247,793	5,783	253,576	27,231	280,807
Other items								
Depreciation and amortization	11,980	2,707	2,287	16,974	146	17,120	—	17,120
Impairment losses	—	526	145	671	276	948	—	948
Increase in property, plant and equipment and intangible assets	14,498	5,029	2,670	22,197	133	22,331	—	22,331

Notes:
1. Reconciliation of 27,231 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 measured at fair value).
2. Segment profit or loss is indicated with core operating income and calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

(3) Revenue from major products and services

See Note 28 "Revenue from contracts with customers."

(4) Information by region

Revenue by region

Revenue from customers by region is as follows:

(Unit: Millions of yen)

	2021	2022
Japan	124,410	127,236
Americas	61,532	56,445
Europe	46,381	47,848
Asia	33,899	45,728
Others	7,385	4,829
Total	273,609	282,088

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, the United Kingdom, and Italy
   (3) Asia: China, Indonesia, 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)

	2021	2022
Japan	46,948	47,871
Americas	1,715	5,397
Europe	16,059	14,524
Asia	14,360	17,510
Others	27	665
Total	79,112	85,968

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, 2020 to March 31, 2021)

Not applicable.

Current fiscal year (from April 1, 2021 to March 31, 2022)

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)

	2021	2022
Cash and deposits of which maturity term is less than three months	59,644	48,707
Total	59,644	48,707

9. Trade and other receivables

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

(Unit: Millions of yen)

	2021	2022
Notes receivable	2,146	2,514
Accounts receivable	48,168	55,318
Others	2,056	2,570
Less: Allowance for doubtful accounts (Note 34)	(748)	(832)
Total	51,622	59,570

10. Other financial assets

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

(Unit: Millions of yen)

	2021	2022
Equity instruments (Note 34)	5,604	4,336
Debt instruments (Note 34)	2,400	3,598
Derivative assets (Note 34)	2,382	5,109
Others	1,343	1,790
Total	11,729	14,834
Current assets	1,772	4,761
Non-current assets	9,957	10,072
Total	11,729	14,834

11. Inventories

(1) Breakdown of inventories

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

(Unit: Millions of yen)

	2021	2022
Merchandise and finished goods	24,037	28,812
Work in progress	4,286	5,496
Raw materials and supplies	14,250	21,275
Total	42,574	55,585

The amount of inventories expensed as cost of sales for the years ended March 31, 2022 was 189,577 million yen (previous fiscal year: 190,471 million yen).

(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)

	2021	2022
Write-downs	2,054	2,563
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)

	2021	2022
Other current assets		
Prepaid expenses	1,414	1,766
Advance payments	432	574
Consumption taxes receivable	1,117	2,503
Others	817	541
Total	3,781	5,386
Other non-current assets		
Long-term prepaid expenses	354	279
Others	325	375
Total	679	654

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)

	2021	2022
Assets classified as held for sale		
Cash and cash equivalents	848	—
Trade and other receivables	1,671	—
Contract assets	440	—
Inventories	698	—
Other current assets	116	—
Property, plant and equipment	423	—
Goodwill	1,339	—
Intangible assets	113	—
Total	5,651	—
Liabilities directly associated with assets classified as held for sale		
Trade and other payables	204	—
Contract liabilities	821	—
Other current financial liabilities	180	—
Provisions (current)	14	—
Other current liabilities	425	—
Other non-current financial liabilities	73	—
Other non-current liabilities	438	—
Total	2,158	—

The assets classified as held for sale and directly associated liabilities in the previous fiscal year represent the assets and liabilities of the former consolidated subsidiary Zetron, Inc. due to the transfer of all shares.
There are no assets classified as held for sale and directly associated liabilities as of March 31, 2022.

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, 2020	12,921	8,807	6,870	12,486	1,529	11,379	53,993
Acquisition	104	1,226	846	—	1,643	6,447	10,268
Depreciation	(1,217)	(1,901)	(3,348)	—	—	(3,057)	(9,525)
Impairment loss	(67)	(65)	(588)	—	(6)	(346)	(1,073)
Disposal	(37)	(73)	(58)	—	(29)	(1,284)	(1,483)
Transfer from construction in progress	185	557	1,303	—	(2,046)	—	—
Transfer to assets classified as held for sale	(5)	(72)	(125)	—	—	(220)	(423)
Exchange differences arising on translation of foreign operations	229	298	253	108	36	412	1,339
Others	(161)	(40)	10	—	(43)	(734)	(969)
Balance, March 31, 2021	11,950	8,738	5,163	12,594	1,083	12,596	52,127
Acquisition	179	1,792	1,335	384	3,065	5,596	12,354
Depreciation	(1,135)	(2,091)	(2,662)	—	—	(3,005)	(8,895)
Impairment loss	(277)	(8)	(120)	(83)	—	(119)	(609)
Disposal	(0)	(50)	(33)	—	(37)	(118)	(241)
Transfer from construction in progress	358	1,392	1,368	—	(3,120)	—	(1)
Transfer to assets classified as held for sale	—	—	—	—	—	—	—
Exchange differences arising on translation of foreign operations	305	778	408	77	74	797	2,441
Others	26	97	(109)	(384)	(39)	(516)	(926)
Balance, March 31, 2022	11,407	10,648	5,348	12,589	1,025	15,229	56,249

[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, 2020	50,477	45,186	62,928	13,566	1,535	14,578	188,272
Balance, March 31, 2021	50,481	46,160	63,852	13,674	1,089	17,876	193,135
Balance, March 31, 2022	51,658	50,363	64,540	13,756	1,055	22,294	203,668

[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, 2020	37,555	36,378	56,058	1,080	6	3,199	134,279
Balance, March 31, 2021	38,530	37,422	58,688	1,080	6	5,280	141,008
Balance, March 31, 2022	40,251	39,715	59,191	1,167	29	7,064	147,419

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 is as follows:

(Unit: Millions of yen)

Right-of-use assets	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Total
Balance, April 1, 2020	8,348	1,519	136	1,374	11,379
Balance, March 31, 2021	6,916	1,378	174	4,126	12,596
Balance, March 31, 2022	9,480	1,377	217	4,154	15,229

15. Goodwill and intangible assets

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

[Carrying amount]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2020	3,268	2,319	16,625	1,205	20,149
Acquisition	—	1,190	—	165	1,355
Internal generation	—	—	7,900	—	7,900
Amortization	—	(544)	(8,852)	(393)	(9,790)
Impairment loss	—	(709)	(983)	—	(1,693)
Disposal	—	(34)	(788)	(9)	(831)
Transfer to assets classified as held for sale	(1,339)	—	—	(113)	(113)
Exchange differences arising on translation of foreign operations	190	13	252	31	297
Others	—	(224)	(62)	36	(250)
Balance, March 31, 2021	2,119	2,008	14,092	923	17,024
Acquisition	—	522	—	431	954
Internal generation	—	—	9,022	—	9,022
Amortization	—	(622)	(7,267)	(335)	(8,225)
Impairment loss	—	(20)	(316)	—	(337)
Disposal	—	(11)	(101)	—	(113)
Transfer to assets classified as held for sale	—	—	—	—	—
Exchange differences arising on translation of foreign operations	112	19	260	23	303
Others	—	(1)	(62)	36	(27)
Balance, March 31, 2022	2,231	1,894	15,627	1,079	18,601

[Acquisition costs]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2020	7,309	11,540	79,268	10,643	101,452
Balance, March 31, 2021	6,221	12,732	86,964	5,398	105,096
Balance, March 31, 2022	6,717	11,667	96,483	6,188	114,338

[Accumulated amortization and impairment losses]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2020	4,040	9,221	62,642	9,438	81,302
Balance, March 31, 2021	4,102	10,723	72,872	4,474	88,071
Balance, March 31, 2022	4,485	9,772	80,856	5,108	95,737

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 for the year ended by March 31, 2021 and 2022 is 15,720 million yen and 15,871 million yen, respectively, which are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

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)

		2021	2022
Public Service Sector	Buildings and structures	4	0
	Machinery and vehicles	3	3
	Tools, furniture and fixtures	28	111
	Construction in progress	0	—
	Right-of-use assets	239	81
	Internal-use software	17	12
	Development costs	217	316
	Subtotal	511	526
Media Service Sector	Buildings and structures	62	—
	Machinery and vehicles	61	5
	Tools, furniture and fixtures	559	9
	Land	—	83
	Construction in progress	5	—
	Right-of-use assets	107	37
	Internal-use software	691	7
	Development costs	766	—
	Long-term prepaid expenses	0	1
	Subtotal	2,256	145
Others	Buildings and structures	—	276
	Subtotal	—	276
Total		2,767	948

(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, regarding property, plant and equipment and intangible assets which were held by our subsidiary of professional system business, carrying amounts of those assets were reduced to recoverable amounts as a result of careful assessment of future business plans and recoverability in consideration of deteriorating profitability of the business performance. 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.

In the Media Service Sector, regarding property, plant and equipment and intangible assets of the Projector Business and 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 future cash flows, carrying amounts of those assets 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 Public Service Sector, regarding property, plant and equipment and intangible assets which were held by our subsidiary of professional system business and the medical image display monitor business, carrying amounts of those assets were reduced to recoverable amounts as a result of careful assessment of future business plans and recoverability in consideration of deteriorating profitability of the business performance. 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.

In the Media Service Sector, following the commencement of liquidation proceedings and the termination of production activities of a manufacturing media equipment subsidiary in Thailand, carrying amounts of property, plant and equipment of the subsidiary, which is not expected to be utilized in the future, were reduced to recoverable amounts. The recoverable amount was measured at the fair value less cost of disposal. The fair value less cost of disposal was determined based on the disposal cost, and the hierarchy of such fair value is Level 3. 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 future cash flows, carrying amounts of those assets 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.

In the Others segment, in connection with the planned demolition and reconstruction of part of a building in the Head Office & Yokohama Business Center, carrying amounts of the subject property, plant and equipment were reduced to recoverable amounts. The recoverable amount was measured at the fair value less cost for disposal. The fair value less cost of disposal was assumed to be zero because the asset is not readily salable or convertible to other use, and the hierarchy of such fair value is Level 3.

(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)

	2021	2022
Public Service Sector	2,119	2,231
Total	2,119	2,231

Among the goodwill in the Public Service Sector in the fiscal year ended March 31, 2022, the main components were goodwill of 1,484 million yen (previous fiscal year: 1,409 million yen) recognized at the time of acquiring equity interest of the Operating Room (OR) solution business subsidiary in Germany. Goodwill is tested for impairment annually or whenever there is indication of impairment.

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 based on the latest business plan approved by the Board of Directors or by terminal value based on growth rate after the business plan period 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: 11.3% (9.7% 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: 2.2% (0.5% 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)

	2021	2022
Balance, beginning of year	2,274	2,961
Acquisition	132	9
Increase due to expenditures after acquisitions	—	—
Sales or disposal	—	—
Transfer from property, plant and equipment	166	384
Exchange differences arising on translation of foreign operations	55	188
Gain or loss due to fluctuation of fair value	332	81
Other	—	—
Balance, end of year	2,961	3,626

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)

	2021	2022
Rental income	144	151
Direct operating expenses	35	27

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.

(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 at each fiscal year end is as follows:

(Unit: Millions of yen)

	2021	2022
Depreciation of right-of-use assets		
Buildings and structures	2,009	1,958
Machinery and vehicles	623	616
Tools, furniture and fixtures	94	73
Land	330	357
Subtotal	3,057	3,005
Interest expenses on lease liabilities	184	249
Expenses related to short-term leases	331	361
Expenses related to low-value asset leases that are not short-term leases	50	57
Expenses related to the variable lease payments not included in lease liabilities	35	36
Less: Income from sublease of right-of-use assets	(155)	(58)
Other	395	230
Total	3,900	3,884

The total cash outflow of leases as lessee during the fiscal year ended March 31, 2021 and 2022 was 4,282 million yen and 3,940 million yen, respectively.

The maturity analysis of the lease liabilities is as follows:

(Unit: Millions of yen)

	2021	2022
Within 1 year	3,121	3,214
1 year to 5 years	6,028	6,657
Over 5 years	3,089	5,588
Less amount representing interest charge	(723)	(1,592)
Present value of lease liabilities	11,516	13,867

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

	2021	2022
Within 1 year	126	178
1 year to 2 years	61	142
2 years to 3 years	47	35
3 years to 4 years	17	19
4 years to 5 years	14	13
Over 5 years	104	94
Total	372	482

Operating lease income during the fiscal year ended March 31, 2021 and 2022 was 320 million yen and 211 million yen, respectively.

19. Trade and other payables

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

(Unit: Millions of yen)

	2021	2022
Notes payable–trade	820	308
Accounts payable–trade	34,322	38,812
Accounts payable–other	8,244	10,311
Total	43,387	49,431

20. Other financial liabilities

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

(Unit: Millions of yen)

	2021	2022
Lease liabilities (Note 18)	11,516	13,867
Derivative liabilities (Note 34)	590	634
Others	889	876
Total	12,996	15,378
Current liabilities	4,455	4,453
Non-current liabilities	8,540	10,925
Total	12,996	15,378

21. Borrowings

The breakdown of borrowings:

(Unit: Millions of yen)

	2021	2022	Average interest rate (%)	Maturity date
Short-term borrowings	8,359	5,604	1.57	—
Current portion of long-term borrowings	14,830	12,314	0.63	—
Borrowings (current liabilities)	23,190	17,918	—	—
Borrowings (non-current liabilities)	52,396	51,920	0.57	April 8, 2028

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:

Agreements of commitment lines (in yen)

(Unit: Millions of yen)

	2021	2022
Maximum amount of the agreements of commitment lines	23,000	13,000
Outstanding borrowings	—	—
Unexecuted balance	23,000	13,000

Agreements of commitment lines (in foreign currency)

(Unit: Thousands of U.S. dollars)

	2021	2022
Maximum amount of the agreements of commitment lines	70,000	70,000
Outstanding borrowings	—	—
Unexecuted balance	70,000	70,000

Financial covenants

The Group's borrowings include financial covenants that require the Group to maintain a specified level of net assets, profit and cash flow as well as the ratio of interest-bearing debt to EBITDA.

To meet the financial covenants, the Group continuously monitors to maintain those required level. There are no violations of the covenants as of March 31, 2022.

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

(Unit: Millions of yen)

	2021	2022
Pledged assets		
Trade and other receivables	8,926	9,538
Inventories	5,472	5,887
Other current assets	158	154
Property, plant and equipment	66	702
Intangible assets	97	76
Other non-current financial assets	17	41
Other non-current assets	2,479	2,444
Total pledged assets	17,219	18,845
Liabilities with collateral		
Short-term borrowings	352	210
Total liabilities with collateral	352	210

Out of the above amount, 18,368 million yen in the fiscal year ended March 31, 2022 is an asset pledged as collateral by a U.S. subsidiary for the agreement of commitment lines (in foreign currency) with a financial institution for 70 million U.S. dollars.

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	Total
Balance, April 1, 2020	1,265	—	1,128	103	2,497
Provision	1,069	—	—	322	1,392
Adjustment due to passage of time	—	—	1	—	1
Decrease–used	(767)	—	(4)	(10)	(781)
Decrease–reversed	(83)	—	—	—	(83)
Exchange differences arising on translation of foreign operations	65	—	6	31	103
Other changes	(14)	—	—	—	(14)
Balance, March 31, 2021	1,534	—	1,132	448	3,115
Provision	647	—	37	2	687
Adjustment due to passage of time	—	—	1	—	1
Decrease–used	(684)	—	(7)	(10)	(702)
Decrease–reversed	(181)	—	(22)	(13)	(217)
Exchange differences arising on translation of foreign operations	91	—	5	23	120
Other changes	—	—	—	—	—
Balance, March 31, 2022	1,408	—	1,147	450	3,006
Current liabilities	1,408	—	—	430	1,838
Non-current liabilities	—	—	1,147	20	1,167

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)

	2021	2022
Present value of defined benefit obligations	88,471	82,823
Fair value of plan assets	81,137	76,198
Effect of asset ceiling (Note)	13,762	13,311
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	21,096	19,935
Net defined benefit liabilities	24,186	22,517
Net defined benefit assets	3,090	2,582
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	21,096	19,935

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)

	2021	2022
Balance, beginning of year	92,787	88,471
Current service cost	2,231	2,123
Interest expenses	579	576
Changes due to remeasurement		
Actuarial gains and losses (demographic)	(337)	(427)
Actuarial gains and losses (financial)	(20)	(1,367)
Actuarial difference arising from modification of actual results	372	(164)
Benefits paid	(5,534)	(6,725)
Transition to the defined contribution plans (Note)	(2,062)	—
Past service costs	—	(21)
Others	136	23
Exchange differences arising on translation of foreign operations	318	335
Balance, end of year	88,471	82,823

Note: JVCKENWOOD Public & Industrial Systems Corporation transferred part of the defined-benefit pension plan to the defined-contribution pension system on July 1, 2020. Through this transition, net defined benefit assets and liabilities decreased, and as a result, a gain on revision of retirement benefit plan of 99 million yen was recognized as other income in the consolidated statement of income for the year ended March 31, 2021.

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

(Unit: Millions of yen)

	2021	2022
Balance, beginning of year	76,712	81,137
Interest income	421	457
Changes due to remeasurement		
Revenue on plan assets	8,856	(1,914)
Employer contributions	687	633
Benefits paid	(3,591)	(4,156)
Transition to the defined contribution plans	(1,963)	—
Exchange differences arising on translation of foreign operations	13	41
Balance, end of year	81,137	76,198

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 588 million yen in the following fiscal year.

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

(Unit: Millions of yen)

	2021	2022
Balance, beginning of year	6,703	13,762
Interest income limit	34	73
Remeasurement		
Changes in the impact of the asset ceiling (excluding the amount included in the interest income limit)	8,987	(524)
Transition to the defined contribution plans	(1,963)	—
Balance, end of year	13,762	13,311

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

(Unit: Millions of yen)

	2021		2022	
	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	20,723	—	16,944	—
Domestic stocks	4,812	—	4,480	—
Foreign stocks	15,910	—	12,464	—
Debt instruments	37,554	—	36,134	—
Domestic bonds	—	—	—	—
Foreign bonds	37,554	—	36,134	—
Other assets	2,658	—	1,622	—
Investments in life insurance company general accounts	—	10,869	—	10,890
Others	—	9,331	—	10,605
Total	60,936	20,200	54,702	21,495

Notes:

1. Domestic stocks and foreign stocks in equity instruments 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 in debt instruments 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 10 years for the previous fiscal year and 9 years for the current fiscal year.

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

	2021	2022
Discount rate	Mainly 0.532%	Mainly 0.644%

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:

	2021	2022
In case of 0.5% increase	(4,076)	(3,192)
In case of 0.5% decrease	4,466	3,479

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 expenses 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 expenses for defined contribution plans are as follows:

(Unit: Millions of yen)

	2021	2022
Retirement benefits expenses for defined contribution plan	1,310	1,717

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)

	2021	2022
Other current liabilities		
Consumption taxes payable, etc.	1,869	1,072
Accrued bonuses	5,391	5,494
Accrued unused paid absences	4,407	4,262
Accrued expenses	10,366	11,432
Others	1,082	1,354
Total	23,117	23,617
Other non-current liabilities		
Long-term contract liabilities (Note) (Note 28)	229	228
Others	866	792
Total	1,096	1,020

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, 2020 to March 31, 2021)

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2020)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the previous fiscal year (March 31, 2021)
Deferred tax assets					
Depreciation	1,316	(267)	—	99	1,148
Net defined benefit liabilities	2,279	(241)	16	13	2,067
Provision for inventory reserve	565	(79)	—	12	499
Unused tax losses	2,658	(362)	—	(144)	2,151
Accrued expenses	2,495	(287)	—	—	2,207
Others	1,499	1,153	—	(191)	2,461
Subtotal	10,815	(85)	16	(211)	10,535
Deferred tax liabilities					
Net defined benefit assets	1,029	(324)	279	—	983
Financial assets measured at fair value through other comprehensive income	1,263	—	561	(23)	1,802
Depreciation	2,433	(221)	—	(190)	2,021
Others	2,789	169	—	(62)	2,896
Subtotal	7,515	(376)	841	(276)	7,703
Net amount	3,300	290	(824)	65	2,831

Note: Others includes the decrease due to the transfer to assets classified as held for sale and liabilities through the transfer of all shares of Zetron, Inc., which was a consolidated subsidiary, and exchange differences arising on translation of foreign operations.

Out of the above amount, the total deferred tax assets, total deferred tax liabilities, and net deferred tax assets regarding the Company and its 100% subsidiary in Japan at the end of the previous fiscal year are 6,042 million yen, 5,897 million yen, and 144 million yen, respectively.

Current fiscal year (from April 1, 2021 to March 31, 2022)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2021)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the current fiscal year (March 31, 2022)
Deferred tax assets					
Depreciation	1,148	(204)	—	18	962
Net defined benefit liabilities	2,067	186	3	31	2,288
Provision for inventory reserve	499	105	—	39	644
Unused tax losses	2,151	1,060	—	248	3,460
Accrued expenses	2,207	104	—	32	2,344
Others	2,461	(821)	—	75	1,715
Subtotal	10,535	430	3	446	11,415
Deferred tax liabilities					
Net defined benefit assets	983	(141)	(14)	—	828
Financial assets measured at fair value through other comprehensive income	1,802	—	641	(36)	2,406
Depreciation	2,021	283	—	29	2,334
Others	2,896	445	90	108	3,541
Subtotal	7,703	587	717	102	9,111
Net amount	2,831	(156)	(714)	344	2,304

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

Out of the above amount, the total deferred tax assets, total deferred tax liabilities, and net deferred tax liabilities regarding the Company and its 100% subsidiary in Japan at the end of the current fiscal year are 5,744 million yen, 6,881 million yen, and 1,137 million yen, respectively.

(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)

	2021	2022
Deductible temporary differences	12,785	11,036
Unused tax losses	13,874	15,732
Total	26,659	26,768

Out of the above amount, the deductible temporary differences and unused tax losses without recognizing the deferred tax assets regarding the Company and its 100% subsidiary in Japan at the end of the current fiscal year are 19,116 million yen (tax base).

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 1,082 million yen for the previous fiscal year and 2,496 million yen for the current fiscal year. These deferred tax assets are recognized based on the judgement of recoverability considering the certainty of future taxable profit generation based on the characteristics of the business of the taxable entity and the expiration date of loss carried forward.

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

(Unit: Millions of yen)

	2021	2022
1st year	254	1,951
2nd year	1,956	1,851
3rd year	1,944	701
4th year	664	631
5th year and thereafter	9,053	10,596
Total	13,874	15,732

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized were 766 million yen for the previous fiscal year and 686 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)

	2021	2022
Current tax expenses		
Current year	2,090	1,887
Prior years	29	101
Total	2,120	1,989
Deferred tax expense		
Origination and reversal of temporary differences	338	1,009
Recognition of previously unrecognized deferred tax assets	(633)	(852)
Change in tax rates, etc.	3	—
Total	(290)	156
Income tax expenses	1,829	2,146

(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.

	2021	2022
Statutory effective tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	9.1%	8.4%
Dividend and other income not taxable	(4.6%)	(2.7%)
Gain on liquidation of foreign subsidiaries not taxable	(0.0%)	—%
Foreign tax	5.8%	2.8%
Evaluation of recoverability of deferred tax assets	9.0%	(9.2%)
Effect of changes of income tax rates on deferred taxes	0.1%	—%
Lower income tax rates applicable to income in foreign subsidiaries	(15.5%)	(5.9%)
Undistributed earnings in foreign subsidiaries	0.1%	1.7%
Withholding tax of foreign subsidiaries	1.7%	0.6%
Others	4.1%	(1.1%)
Actual tax rate	40.4%	25.2%

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.

(5) Uncertain tax position

The Group's consolidated subsidiary JVC (Philippines), Inc. ("JPL") has been subjected to additional taxes related to corporate tax, value-added tax, and withholding tax by the Philippine taxation authorities, and the Company has lost the case. In light of this situation, the Company has recognized 52 million Philippine pesos (124 million yen converted at the exchange rate at the end of the current fiscal year), which was reasonably estimated considering the possibility of future financial burden, as income taxes payable, and has determined that there is no additional amount to be borne.

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 capital 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, 2020	400,000,000	164,000,201	13,645	42,086
Change	—	—	—	—
Balance, March 31, 2021	400,000,000	164,000,201	13,645	42,086
Change	—	—	—	26
Balance, March 31, 2022	400,000,000	164,000,201	13,645	42,112

Note: The increase of 26 million yen in capital surplus in the current fiscal year is due to a share-based payment plan that uses a trust.

Outstanding shares mentioned above are fully paid and common 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 capital 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) if the payment of such dividends is charged to 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 legal capital surplus and legal reserve equals 25% of the capital 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, 2020	58,449	39
Change	1,309	0
Balance, March 31, 2021	59,758	39
Change	455,342	100
Balance, March 31, 2022	515,100	140

Note: The increase in the number of treasury stock in the current fiscal year includes 454,200 shares of the Company's shares acquired by the trust in connection with the share-based payment plan.

(3) Other components of equity

1) Remeasurement of defined benefit plans

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 differences arising on translation of foreign operations

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

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 20, 2020	819	Retained earnings	5.00	March 31, 2020	June 5, 2020
Board of Directors' meeting held on May 14, 2021	819	Retained earnings	5.00	March 31, 2021	May 31, 2021

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 13, 2022	983	Retained earnings	6.00	March 31, 2022	May 30, 2022

Note: The total amount of dividends resolved by the Board of Directors on May 13, 2022 includes dividend payment of 2 million yen for the Company's shares held by the trust in connection with the share-based payment plan.

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 Mobility & Telematics Services Sector, Public Service Sector, and Media Service Sector.

Previous fiscal year (from April 1, 2020 to March 31, 2021)

(Unit: Millions of yen)

Reportable segment	Mobility & Telematics Services Sector	Public Service Sector		Media Service Sector		Others	Total
Major business	Aftermarket Business/OEM/ Telematics Service	Communications Systems	Professional Systems	Media	Entertainment	—	—
Revenue from customers	157,130	40,338	20,542	33,431	16,662	5,503	273,609

Current fiscal year (From April 1, 2021 to March 31, 2022)

(Unit: Millions of yen)

Reportable segment	Mobility & Telematics Services Sector	Public Service Sector		Media Service Sector		Others	Total
Major business	Aftermarket Business/OEM/ Telematics Service	Communications Systems	Professional Systems	Media	Entertainment	—	—
Revenue from customers	164,251	36,225	21,864	35,070	18,361	6,315	282,088

The main businesses in the Mobility & Telematics Services Sector are the Aftermarket Business, the OEM Business and Telematics Service Business. The Aftermarket Business and the OEM Business provide products through volume-sales retailers and distributors and automobile manufacturers. In these business sectors, 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. In the Telematics Service Business, revenues are generated from the sales of telecommunication-type dashcams and other products to casualty insurance companies, and contract assets are recognized for development projects in progress that have been contracted.

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 headphones, portable power supplies, home audio equipment, professional video cameras, projectors, etc. targeting volume-sales retailers and distributors, fee-charging after-sales services, and entrusted business of CDs and DVDs (packaged software), etc. The revenues of the Entertainment Business are generated from the content business of audio, video software and distribution 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)

	2021	2022
Contract assets		
Assets related to on-going installation services	1,288	1,826
Total contract assets	1,288	1,826
Contract liabilities (Note)		
Advances from customers	2,632	3,081
Total contract liabilities	2,632	3,081

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)

	2021	2022
Contract assets		
Increase due to new contracts	519	1,189
Decrease due to transfer to receivables	(529)	(742)
Transfer to assets classified as held for sale	(422)	—
Contract liabilities		
Increase due to new contracts	6,574	6,080
Decrease due to revenue recognition	(5,929)	(5,732)
Decrease in the amount included in the balance at the beginning of the fiscal year	(2,170)	(1,494)
Transfer to liabilities directly associated with assets classified as held for sale	(1,259)	—

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)

	2021	2022
Refund liability		
Returning goods	761	679
Expected rebates	3,601	3,736
Total refund liability	4,363	4,416

(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)

	2021	2022
Long-term guarantee contracts on communications systems, etc.	287	370
Within 1 year	71	129
Over 1 year	216	241

29. Selling, general and administrative expenses

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

(Unit: Millions of yen)

	2021	2022
Personnel expenses	37,355	38,331
Advertisement and sales promotion expenses	4,253	4,570
Transportation expenses	5,985	6,025
Depreciation	4,279	4,236
Commission expenses	2,743	4,141
Rental expenses	727	916
Others	11,741	10,422
Total selling, general and administrative expenses	67,086	68,645

30. Finance income and finance expenses

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

(Unit: Millions of yen)

	2021	2022
Interest income		
Loans and receivables	131	95
Dividends income		
Equity instruments	434	226
Other finance income	—	20
Total finance income	566	342
Interest expenses		
Financial liabilities measured at amortized cost	902	918
Other finance expenses	250	132
Total finance expenses	1,153	1,051

31. Other income and expenses

(1) Other income

The breakdown of other income is as follows:

(Unit: Millions of yen)

	2021	2022
Gain on valuation of financial assets measured at fair value through profit or loss	107	1,792
Gain on sales of long-lived assets	34	37
Gain on sales of subsidiaries	—	1,494
Gain from reversal of earn-out (Note 1)	419	—
Gain from cancellation of lease liabilities (Note 2)	812	—
Rental income	208	97
Insurance dividends	72	73
Others	401	610
Total other income	2,056	4,104

Notes:

1. Gain from reversal of earn-out is the reversal of other financial liabilities due to the cancellation of earn-out related to the acquisition of shares of Tait International Limited.
2. Gain from cancellation of lease liabilities is derived as the difference between the balance of lease liabilities and the balance of right-of-use assets less the expense of cancellation of the property when the long-term lease contracts of the office buildings were cancelled at a consolidated subsidiary.

(2) Other expenses

The breakdown of other expenses is as follows:

(Unit: Millions of yen)

	2021	2022
Loss on disposal of long-lived assets	843	134
Impairment loss (Note 16)	2,767	948
Employment structural improvement expenses (Note)	193	326
Others	447	448
Total other expenses	4,251	1,857

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)

	2021	2022
Financial assets measured at fair value through other comprehensive income		
Arising during the year	399	(504)
Income tax effect	(171)	181
Financial assets measured at fair value through other comprehensive income	227	(323)
Remeasurement of defined benefit plan		
Arising during the year	1,770	547
Income tax effect	(262)	17
Remeasurement of defined benefit plan	1,507	565
Changes in fair value of investment properties		
Arising during the year	346	—
Income tax effect	—	(90)
Changes in fair value of investment properties	346	(90)
Exchange differences arising on translation of foreign operations		
Arising during the year	4,058	7,924
Reclassification adjustments	4	114
Before income tax effect	4,063	8,039
Income tax effect	—	—
Exchange differences arising on translation of foreign operations	4,063	8,039
Cash flow hedges		
Arising during the year	468	3,694
Reclassification adjustments	360	(1,023)
Before income tax effect	829	2,670
Income tax effect	(390)	(822)
Cash flow hedges	438	1,848
Share of OCI of investments accounted for using the equity method		
Arising during the year	574	255
Reclassification adjustments	(22)	30
Share of OCI of investments accounted for using the equity method	551	286
Total other comprehensive income	7,135	10,324

33. Earnings per share

The basis of calculating basic earnings per share and diluted earnings per share are as follows:

	2021	2022
Profit attributable to ordinary shareholders of the parent company (millions of yen)	2,154	5,873
Reconciliation to net income (millions of yen)	—	—
Profit for the year used in the calculation of diluted earnings per share (millions of yen)	2,154	5,873
Weighted average number of ordinary shares (thousands of shares)	163,941	163,649
Effect of dilutive potential ordinary shares		
Share-based payment (thousands of shares)	—	125
Weighted average number of diluted ordinary shares (thousands of shares)	163,941	163,775
Basic earnings per share (yen)	13.14	35.89
Diluted earnings per share (yen)	—	35.86

Notes:

1. There were no dilutive shares for the previous fiscal year.
2. For the purpose of calculating basic earnings per share and diluted earnings per share, the Company's shares held by the trust in connection with the share-based payment plan are treated as treasury stock. Therefore, the Company's shares held by the trust in connection with the share-based payment plan are included in the treasury stock deducted in the calculation of the average number of shares during the 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 (excluding lease liabilities), and equity.

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

(Unit: Millions of yen)

	2021	2022
Cash and cash equivalents	59,644	48,707
Interest-bearing debt	75,587	69,838
Total equity	68,523	83,961

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, 2020	819	0	321	1,140
Increase/decrease during the period (provision/reversal)	(62)	—	106	43
Decrease during the period-used	(36)	—	(38)	(74)
Others	27	—	3	31
Balance as of March 31, 2021	748	0	392	1,141
Increase/decrease during the period (provision/reversal)	143	—	(133)	10
Decrease during the period-used	(62)	—	(4)	(66)
Others	2	—	10	13
Balance as of March 31, 2022	832	0	265	1,097

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, 2021)

(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	43,387	43,387	43,387	—	—
Short-term borrowings	8,359	8,359	8,359	—	—
Current portion of long-term borrowings	14,830	14,830	14,830	—	—
Long-term borrowings	52,396	52,396	—	52,285	111
Others	12,406	12,406	3,865	5,755	2,785
Derivative liabilities					
Foreign exchange forward contracts	590	590	590	—	—
Total	131,971	131,971	71,033	58,040	2,897

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

Current fiscal year (March 31, 2022)

(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	49,431	49,431	49,431	—	—
Short-term borrowings	5,604	5,604	5,604	—	—
Current portion of long-term borrowings	12,314	12,314	12,314	—	—
Long-term borrowings	51,920	51,920	—	51,890	29
Others	14,744	14,744	3,819	6,023	4,901
Derivative liabilities					
Foreign exchange forward contracts	634	634	634	—	—
Total	134,649	134,649	71,803	57,914	4,930

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:

	2021		2022	
	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	699	(2)	1,181	(32)
Euro	404	(13)	1,053	1
GB pound	273	0	272	0
Canadian dollar	193	0	342	0
Australian dollar	227	0	193	0
Hong Kong dollar	90	0	101	0
New Zealand dollar	30	0	42	0
Russian ruble	106	0	—	—
Subtotal	2,026	(16)	3,187	(30)
(Buying)				
U.S. dollar	7,036	13	12,532	(0)
Euro	1,117	0	—	—
Canadian dollar	—	—	2,248	0
Singapore dollar	1,290	0	1,599	0
Thai baht	1,234	0	1,525	0
Subtotal	10,678	13	17,904	(0)
Total	12,705	(2)	21,092	(30)

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

	2021		2022	
	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)
(Selling)				
U.S. dollar	2,498	(78)	3,347	(43)
Euro	5,382	(182)	5,608	(251)
GB pound	1,750	(161)	1,867	(78)
Canadian dollar	1,664	(149)	1,698	(143)
Australian dollar	—	—	671	(81)
Subtotal	11,296	(571)	13,193	(597)
(Buying)				
U.S. dollar	45,230	2,369	46,620	5,056
Thai baht	282	0	852	30
Subtotal	45,512	2,369	47,472	5,087
Total	56,808	1,797	60,666	4,490

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, 2021 and 2022 are as follows:

(Unit: Millions of yen)

	2021	2022
Impact on income before income taxes		
U.S. dollar	(40)	(17)
Euro	(1)	(11)

(Unit: Millions of yen)

	2021	2022
Impact on other comprehensive income		
U.S. dollar	(483)	(519)
Euro	55	58

(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 aims at reducing interest-bearing debt and considers fixing interest rates while monitoring the market conditions to mitigate interest rate fluctuation risk in respect to borrowings.

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, 2021 and 2022 are as follows:

(Unit: Millions of yen)

	2021	2022
Impact on income before income taxes	721	672

(3) Classification of financial instruments

(Unit: Millions of yen)

	2021	2022
Financial assets		
Cash and cash equivalents	59,644	48,707
Financial assets measured at amortized cost		
Trade and other receivables	51,622	59,570
Other current financial assets	1,343	1,790
Financial assets measured at fair value through other comprehensive income		
Equity instruments	5,604	4,336
Derivative assets	2,369	5,092
Financial assets measured at fair value through profit or loss		
Debt instruments	2,400	3,598
Derivative assets	12	16
Total financial assets	122,997	123,112
Financial liabilities		
Financial liabilities measured at amortized cost		
Trade and other payables	43,387	49,431
Borrowings	75,587	69,838
Other current financial liabilities	12,406	14,744
Financial liabilities measured at fair value through other comprehensive income		
Derivative liabilities	572	602
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	18	32
Total financial liabilities	131,971	134,649

(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)

	2021		2022	
Type	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Borrowings	75,587	75,588	69,838	69,841

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. During the fiscal year ended March 31, 2021, no transfers occurred between Levels 1, 2, and 3.

No transfers occurred during the fiscal year ended March 31, 2022 except for transfers between Level 1 and Level 3.

(Unit: Millions of yen)

2021	Level 1	Level 2	Level 3	Total
Financial assets				
Equity instruments	2,270	—	3,334	5,604
Debt instruments	—	—	2,400	2,400
Derivative assets	—	2,382	—	2,382
Total	2,270	2,382	5,734	10,386
Financial liabilities				
Derivative liabilities	—	590	—	590
Total	—	590	—	590

Notes:

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

(Unit: Millions of yen)

2022	Level 1	Level 2	Level 3	Total
Financial assets				
Equity instruments	1,756	—	2,579	4,336
Debt instruments	—	—	3,598	3,598
Derivative assets	—	5,109	—	5,109
Total	1,756	5,109	6,178	13,044
Financial liabilities				
Derivative liabilities	—	634	—	634
Total	—	634	—	634

Notes:

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

The fair values included above are calculated as follows:

(a) Equity instruments and debt instruments

Among equity instruments, listed stocks are priced in an active market, and they are classified in Level 1 of the fair value hierarchy. Among equity instruments, unlisted stocks and debt instruments are measured using valuation methodologies based on discounted future cash flows, valuation methodologies based on market prices of similar companies, valuation methodologies based on net asset value, and other valuation methodologies, and they are classified in Level 3 of the fair value hierarchy. Among equity instruments, fair value of the unlisted stocks and debt instruments are measured using unobservable inputs such as EBITDA ratio, and certain non-liquidity discounts are added as necessary. The EBITDA ratio used to measure fair value in the current fiscal year is 7.1 to 32.6 times (previous fiscal year: 9.6 to 34.8 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)

	2021	2022
Balance, beginning of year	6,941	5,734
Total gain or loss		
Profit or loss	107	1,792
Other comprehensive income	248	(272)
Purchase	—	—
Sales/settlement	—	(133)
Distribution	(1,563)	(593)
Transfer from Level 3	—	(348)
Balance, end of year	5,734	6,178

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, 2022 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)

	2021	2022
Cash flow hedge	1,797	4,490

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, 2020 to March 31, 2021)

(Unit: Millions of yen)

	At the beginning of the previous fiscal year (April 1, 2020)	Cash flows	Non-cash changes					At the end of the previous fiscal year (March 31, 2021)
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Borrowings (current liabilities)	24,460	(27,929)	827	—	151	25,680	—	23,190
Borrowings (non-current liabilities)	50,144	28,172	43	—	51	(25,680)	(334)	52,396
Lease liabilities (current liabilities)	3,523	(4,097)	104	—	—	3,088	387	3,005
Lease liabilities (non-current liabilities)	7,956	—	258	—	—	(3,088)	3,384	8,510

Current fiscal year (from April 1, 2021 to March 31, 2022)

(Unit: Millions of yen)

	At the beginning of the current fiscal year (April 1, 2021)	Cash flows	Non-cash changes					At the end of the current fiscal year (March 31, 2022)
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Borrowings (current liabilities)	23,190	(18,170)	398	—	122	12,377	—	17,918
Borrowings (non-current liabilities)	52,396	11,853	39	—	48	(12,377)	(40)	51,920
Lease liabilities (current liabilities)	3,005	(3,690)	100	—	—	3,101	463	2,980
Lease liabilities (non-current liabilities)	8,510	—	566	—	—	(3,101)	4,911	10,887

(2) Non-cash transactions

Non-cash transactions conducted during the fiscal year ended March 31, 2022 were mainly an increase of right-of-use assets of 5,596 million yen.

(3) Proceeds from sales of subsidiaries

The total consideration received for the sales of subsidiaries during the current fiscal year was 4,913 million yen. All proceeds received during the current fiscal year consisted of cash and cash equivalents.

The amount of assets and liabilities at the time of sales of shares of subsidiaries that the Company lost its control, is as follows.

These assets and liabilities were reclassified to assets classified as held for sale and directly associated liabilities, respectively, in the previous fiscal year.

(Unit: Millions of yen)

	2021	2022
Cash and cash equivalents	—	920
Other current assets	—	2,720
Non-current assets	—	1,872
Current liabilities	—	1,650
Non-current liabilities	—	558

36. Contingent liabilities

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

(Unit: Millions of yen)

Guarantee	2021	2022
Employees (such as home loans)	104	85

37. Related-party transactions

Remuneration of key managing officers

Remuneration of the Directors of the Board and Audit & Supervisory Board Members of the Group is as follows:

(Unit: Millions of yen)

	2021	2022
Basic remuneration and bonuses	334	349
Share-based payment	—	18
Other	—	—
Total	334	367

38. Significant subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2022 are as follows:

Name	Location	Capital in million yen or thousands of local currency		Main business	Equity ownership percentage as of March 31, 2022
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 mobility & telematics 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 mobility & telematics equipment	100.0 (0.0)
Shanghai Kenwood Electronics Co., Ltd.	Shanghai, China	CNY	114,435	Manufacture and sales of mobility & telematics equipment	100.0
JVCKENWOOD Hong Kong Holdings Limited	Hong Kong, China	USD	32,972	Manufacture and sales of mobility & telematics 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)

	2021	2022
Carrying amount of investments	4,199	4,604

(Unit: Millions of yen)

	2021	2022
Net income (loss)	227	169
Other comprehensive income (after tax)	551	286
Total comprehensive income	779	455

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, 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)

	2021	2022
Total assets of unconsolidated structured entities	42,503	67,594
The carrying amount of the investments that the Company recognized in the consolidated statement of financial position	2,400	3,598
Commitments related to additional investments	—	—
Maximum loss exposure of the Company	2,400	3,598

The Company recognizes investments in “Other financial assets (non-current 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. Government grants

The government grants are recognized when the reasonable assurance is obtained and both of the followings condition are met:

- the entity will comply with the condition attaching to the grants; and
- the grants will be received.

Government grants related to income are recognized in profit or loss over the periods in which expenses for which the grants are intended to compensate are recognized. The grants recognized as profit or loss are deducted from the related expenses.
In the fiscal year ended March 31, 2021, the government grants related to the employee's employment, etc. are recognized as profit or loss. 1,815 million yen and 1,253 million yen were deducted from “Cost of sales” and “Selling, general and administrative expenses,” respectively, and 3 million yen is recognized in “Other income.”
In the fiscal year ended March 31, 2022, the government grants related to the employee's employment, etc. are recognized as profit or loss. 900 million yen and 441 million yen were deducted from “Cost of sales” and “Selling, general and administrative expenses,” respectively.

43. Share-based payment

(1) Details of the share-based payment plan

In the current fiscal year, the Company introduced a share-based payment plan that uses a trust (the “Plan”) for directors (excluding external directors and directors who do not concurrently serve as executive officers) and executive officers (excluding non-residents of Japan; hereinafter collectively referred to as “Executives”).
Under the Plan, a trust (the “Trust”) established by monetary contributions from the Company acquires the Company's shares, and the Company's shares corresponding to the number of points granted by the Company to the Executives (1 point = 1 share) are delivered to the Executives through the Trust. The initial period of the Plan is from the fiscal year ended March 31, 2022 to the fiscal year ending March 31, 2024. In principle, the time when Executives receive the Company's shares is when they retire from their positions as directors and executive officers of the Company. The Shares of the Company held by the Trust are recognized as treasury stocks in the equity section of the consolidated statement of financial position.
The Plan is accounted for as an equity-settled share-based payment transaction.

(2) Number of points granted during the period and weighted average fair value of points

The fair value at the grant date was measured based on the market value of the Company's shares including the expected dividends based on the past dividends. The number of points granted during the current fiscal year and the weighted average fair value of the points are as follows.

	2022
Number of points granted during the period (shares)	128,049
Weighted average fair value (yen)	206

(3) Share-based payment expenses

The expenses recognized with respect to the Plan amounted to 26 million yen for the current fiscal year.

44. Subsequent events

Not applicable.

45. Others

(1) Quarterly Information for the Year ended March 31, 2022.

(Unit: Millions of yen)

	Q1 April 1, 2021 to June 30, 2021	Q2 April 1, 2021 to September 30, 2021	Q3 April 1, 2021 to December 31, 2021	Q4 April 1, 2021 to March 31, 2022
Revenue	64,510	124,433	194,626	282,088
Profit before income taxes for the period (year)	2,803	1,731	3,077	8,515
Profit (loss) attributable to owners of the parent company for the period (year)	1,470	(256)	503	5,873
Basic earnings (loss) per share for the period (year) (yen)	8.97	(1.56)	3.08	35.89

	Q1 April 1, 2021 to June 30, 2021	Q2 July 1, 2021 to September 30, 2021	Q3 October 1, 2021 to December 31, 2021	Q4 January 1, 2022 to March 31, 2022
Basic earnings (loss) per share for the quarter (yen)	8.97	(10.55)	4.65	32.84

(2) Significant Lawsuits

The significant lawsuits of the Group are as stated in “25. Income taxes (5) Uncertain tax position” in the notes to consolidated financial statements.

NOTE TO READERS:

The Internal Control Report has not been translated into English and is therefore not attached to this document.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

June 24, 2022

To the Board of Directors of
JVCKENWOOD Corporation:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Nobuo Son

Designated Engagement Partner,
Certified Public Accountant:

Takafumi Shimodaira

Designated Engagement Partner,
Certified Public Accountant:

Yohei Ono

Audit of Financial Statements

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of JVCKENWOOD Corporation and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated statement of financial position as of March 31, 2022, 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 fiscal year from April 1, 2021 to March 31, 2022, and a summary of significant accounting policies and other explanatory information, and the consolidated supplementary schedules.

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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements.

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.

(TRANSLATION)

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of deferred tax assets for the Japan consolidated national tax filing group	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As of March 31, 2022, the Group recorded deferred tax liability of 3,080 million yen on the consolidated statement of financial position, of which 1,137 million yen (net of 5,744 million yen deferred tax assets and 6,881 million yen deferred tax liabilities) was related to JVCKENWOOD Corporation (the "Company") and its wholly-owned domestic subsidiaries (the "Japan consolidated national tax filing group"). In addition, deductible temporary differences and unused tax losses of the Group for which no deferred tax assets were recognized amounted to 26,768 million yen (tax basis), of which 19,116 million yen was related to the Japan consolidated national tax filing group. This information is disclosed in Note 25 "Income taxes" to the consolidated financial statements. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and tax credits carried forward only to the extent that it is probable that there will be taxable profit in the future accounting periods against which these items can be utilized. The future taxable profit of the Japan consolidated national tax filing group is determined based on future business plans in the Mobility & Telematics Services Sector, the Public Service Sector, the Media Service Sector and other sectors. The Company, which comprises a large portion of the Japan consolidated national tax filing group, expects certain improvements in its projection of revenues and operating income in its future business plans. As disclosed in the Note 4 "Significant accounting estimates and judgments involving estimates" to the consolidated financial statements, key assumptions of the Company's future business plans are: forecasted revenue based on the market growth rates by product and service category in each sector, prospective customer orders, forecast of resolution of the shortage of semiconductor components, and estimated operating profits that take into account forecasted costs based on the cost increase such as material prices and distribution charges, as well as projection of price pass-through on its selling price. We determined that the valuation of deferred tax assets for the Japan consolidated national tax filing group is a key audit matter because these key assumptions involve a high degree of subjectivity, complexity and uncertainty and changes in these key assumptions could significantly affect the Group's consolidated financial statements.	Our audit procedures performed on the key assumptions of the Company's future business plans to assess the valuation of deferred tax assets included the following, among others: • We tested the design and operating effectiveness of the controls over the determination of future business plans. • We evaluated management's ability to achieve future business plans by comparing actual results with past business plans and investigating the difference. • We compared the market growth rates by product and service category in each sector used in the business plans with market forecast information from external research organizations. • We made an inquiry of management regarding the orders received and expected to be received from customers, and inspected relevant documents to evaluate the reasonableness of prospective customer orders. • We made an inquiry of management regarding the forecast of resolution of the shortage of semiconductor components and compared the forecast with recent purchase records. • We made an inquiry of management regarding forecasted costs based on the cost increase such as material prices and distribution charges, as well as projection of price pass-through on its selling prices. We also compared them with recent actual costs and recent actual shifted prices. • We evaluated whether management sufficiently considered the uncertainty about its ability to achieve future business plans when determining their revenue forecast and expected operating profits.

(TRANSLATION)

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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 International Financial Reporting Standards.

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.

- 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 International Financial Reporting Standards, 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.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit of Internal Control

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of the Group as of March 31, 2022.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of the Group as of March 31, 2022, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit 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 Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

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

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.

- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control 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 internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

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.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

JVCKENWOOD

JVCKENWOOD Corporation

● For further information, please contact:

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