JVCKENWOOD

Financial Section
JVCKENWOOD Report 2018

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JVCKENWOOD Report 2018 Financial Section

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Financial Review

Overview of the Fiscal Year Ended March 2018

The JVCKENWOOD Group adopted International Financial Reporting Standards (hereinafter, "IFRS") from the fiscal year ended March 31, 2018, replacing Japanese GAAP, and also performed a comparative analysis after reclassifying amounts for the previous fiscal year in accordance with IFRS.
Revenue of the JVCKENWOOD Group for the fiscal year ended March 31, 2018 increased from the previous fiscal year due to a significant increase in revenue in the Automotive Sector, despite a decrease in revenue in the Public Service Sector due to the effects of business sell-offs and a decline in revenue in the Media Service Sector compared to the previous fiscal year when major works were released in the Entertainment Business. Operating income of the Group as a whole also increased from the previous fiscal year due to a sharp increase in profit in the Automotive Sector.

Profit-and-loss exchange rates used when preparing the financial statements for the fiscal year ended March31, 2018 are as follows.

		1Q	2Q	3Q	4Q
Profit-and-loss exchange rates	U.S. $	¥111	¥111	¥113	¥108
	Euro	¥122	¥130	¥133	¥133
FY2016 (Reference)	U.S. $	¥108	¥102	¥109	¥114
	Euro	¥122	¥114	¥118	¥121

Revenue and Income

▶ Consolidated Operating Results

∗Revenue

Revenue for the fiscal year ended March 31, 2018 increased approximately 2,800 million yen, or 0.9%, year-on-year to 300,687 million yen.
Revenue in the Automotive Sector increased sharply from the previous fiscal year, reflecting a steep increase in revenue of dealer-installed option products in the OEM Business. Revenue in the Public Service Sector, on the other hand, decreased from the previous fiscal year due to lower revenue in the Professional Systems Business, reflecting business sell-offs. Revenue in the Media Service Sector declined from the previous fiscal year due to lower revenue in the Media Business and the Entertainment Business compared to the previous fiscal year when major works were released.

∗Operating profit

Operating profit for the fiscal year ended March 31, 2018 increased approximately 7,100 million yen from the previous fiscal year to 6,942 million yen.
Upon adopting IFRS, in assessing segment performance for the fiscal year ended March 31, 2018, "core operating income,*" which is calculated by subtracting cost of sales and selling, general and administrative expenses from revenue, is used for reporting.
Core operating income for the fiscal year ended March 31, 2018, was 6,316 million yen, which is approximately the same as the previous fiscal year.
In the Automotive Sector, the OEM Business turned around a loss into a profit on a significant profit increase. As a result, the Automotive Sector recorded a sharp profit increase. In the Public Service Sector, on the other hand, profit significantly decreased from the previous fiscal year due to lower profits recorded in the Communication Systems Business and the Professional Systems Business. Losses in the Media Business decreased, despite a decrease in revenue, due to an improvement in the performance of professional video cameras and imaging devices, but profit in the Media Service Sector as a whole decreased due to a decrease in profit in the Entertainment Business.

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

∗Profit before income taxes

Profit before income taxes for the fiscal year ended March 31, 2018 significantly increased approximately 7,200 million yen year-on-year to 5,946 million yen, reflecting the increase in operating income.

∗Profit attributable to owners of the parent company

Profit attributable to owners of the parent company for the fiscal year ended March 31, 2018 increased sharply by approximately 5,500 million yen from the previous fiscal year to 2,393 million yen, achieving a turnaround from a loss to a profit. This is primarily due to a substantial increase in Profit before income taxes and a decrease in income tax expenses.

▶ Revenue and Profit by Business Segment

∗Automotive Sector

Revenue in the Automotive Sector for the fiscal year ended March 31, 2018 increased approximately 23,300 million yen, or 15.7%, year-on-year to 171,435 million yen. Core operating income grew sharply by approximately 5,700 million yen, or 297.0%, year-on-year to 7,601 million yen.
(Revenue)
In the Aftermarket Business, revenue in overseas markets were affected by lower revenue in the US market, but revenue of Saisoku-Navi series car navigation systems and dashcams were strong in the domestic market. As a result, revenue in the Aftermarket Business as a whole were approximately at the same level as the previous fiscal year.
In the OEM Business, revenue increased from the previous fiscal year due to a sharp increase in revenue of dealer-installed and factory-installed option products.
(Core Operating Income)
In the Aftermarket Business, core operating income decreased from the previous fiscal year due to a decline in revenue in the US market, despite robust performance in the domestic market.
In the OEM Business, core operating income grew substantially on a sharp increase in revenue. As a result, the OEM Business turned around the core operating loss recorded in the previous fiscal year and posted a positive core operating income.

∗Public Service Sector

Revenue in the Public Service Sector for the fiscal year ended March 31, 2018 declined approximately 8,300 million yen, or 11.4%, year-on-year to 65,035 million yen due to the effects of business sell-offs, and core operating income decreased approximately 3,300 million yen from the previous fiscal year to an core operating loss of 1,514 million yen.
(Revenue)
Revenue in the Communication Systems Business decreased approximately 800 million yen from the previous fiscal year, despite an increase in revenue at the Group's US communication system subsidiaries and in the domestic market, due to the effects of lower revenue of professional wireless systems in the Asian and Chinese markets.
Revenue in the Professional Systems Business, operated mainly by JVCKENWOOD Public & Industrial Systems Corporation, decreased approximately 7,600 million yen from the previous fiscal year due to factors such as the sell-off of a card printer business in the previous fiscal year.
(Core Operating Income)
In the Communication Systems Business, core operating income decreased from the previous fiscal year due to the effects of the aforementioned decrease in sales.
In the Professional Systems Business, core operating income decreased from the previous fiscal year due to the effects of the aforementioned decrease in sales.

∗Media Service Sector

Revenue in the Media Service Sector for the fiscal year ended March 31, 2018 declined approximately 12,400 million yen, or 17.4%, year-on-year to 58,972 million yen, and core operating income decreased approximately 2,200 million yen, or 85.6%, year-on-year to 374 million yen.
(Revenue)
In the Media Business, revenue decreased approximately 6,400 million yen

from the previous fiscal year, affected by lower sales of consumer video cameras and AV accessories.

In the Entertainment Business, revenue declined approximately 6,000 million yen from the previous fiscal year, reflecting lower sales of content compared to the previous fiscal year when major works were released.

(Core Operating Income)

In the Media Business, core operating income for the fiscal year ended March 31, 2018 was affected by the abovementioned decrease in revenue, but the performance of professional video cameras and imaging devices improved. As a result, a positive core operating income was recorded in the second half of the period, and the core operating loss for the fiscal year ended March 31, 2018 declined from the previous fiscal year.

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

Revenue, Core Operating Income and Losses by Business Segment

The total amount of core operating income by business segment is consistent with the core operating income on the consolidated statements of income.

Revenue by business segment include inter-segment sales or transfer.

Fiscal year ended March 2018 (April 1, 2017 to March 31, 2018) (Millions of yen)

Segment		FYE3/'17	FYE3/'18	YoY comparison
Automotive Sector	Revenue	148,123	171,435	+23,312
	Core operating income	1,914	7,601	+5,687
Public Service Sector	Revenue	73,382	65,035	(8,347)
	Core operating income	1,829	(1,514)	(3,343)
Media Service Sector	Revenue	71,397	58,972	(12,425)
	Core operating income	2,599	374	(2,225)
Others	Revenue	4,986	5.243	+257
	Core operating income	17	(145)	(162)
Total	Revenue	297,890	300,687	+2,797
	Core operating Income	6,360	6,316	(44)
	Operating profit (loss)	(128)	6,942	+7,070
	Profit (loss) before income taxes	(1,259)	5,946	+7,205
	Profit (loss) attributable to owners of the parent company	(3,114)	2,393	+5,507

Analysis of assets, liabilities and equity

✻Assets

Total assets decreased approximately 1,800 million yen from the end of the previous fiscal year to 239,877 million yen. This was mainly due to a decrease in net defined benefit assets caused by the transition to a defined contribution pension plan, despite an increase in current assets such as trade and other receivables.

✻Liabilities

Liabilities decreased approximately 10,400 million yen from the end of the previous fiscal year to 186,085 million yen, due to a decrease in borrowings from financial institutions and net defined benefit liabilities, despite an increase in trade and other payables.

✻Equity

During the fiscal year ended March 31, 2018, total equity attributable to owners of the parent company increased approximately 11,100 million yen from the end of the previous fiscal year to 50,638 million yen, which was mainly the result of recording a profit attributable to owners of the parent company of approximately 2,400 million yen.

Total equity increased approximately 8,600 million yen from the end of the previous fiscal year to 53,792 million yen, which was mainly due to an increase in equity attributable to owners of the parent company.

As a result, ratio of equity attributable to owners of the parent company to total assets rose 4.7 percentage points from the end of the previous fiscal year to 21.1%.

▶ Cash flow analysis

✻Cash flows from operating activities

Net cash provided by operating activities for the fiscal year ended March 31, 2018 was 18,379 million yen, which is a decrease of approximately 1,200 million yen from the previous fiscal year. This is mainly attributable to an increase in trade and other receivables, despite recording a profit before income taxes.

✻Cash flows from investing activities

Net cash used in investing activities for the fiscal year ended March 31, 2018 was 14,835 million yen, which is a decrease of approximately 2,900 million yen from the previous fiscal year. This mainly reflected a decrease in cash outflows for purchases of property, plant and equipment and an increase in proceeds from the sale of property, plant and equipment.

✻Cash flows from financing activities

Net cash used in financing activities for the fiscal year ended March 31, 2018 was 7,043 million yen, which is an increase of approximately 5,000 million yen from the previous fiscal year. This is mainly attributable to a decrease in proceeds from long-term borrowings and cash outflows for the additional acquisition of the shares of Shinwa International Holdings Ltd., a subsidiary of the Company.

Cash and cash equivalents at the end of the fiscal year ended March 31, 2018 decreased approximately 3,600 million yen from the end of the previous fiscal year to 37,162 million yen.

Basic Policies for the Payment of Dividends

JVCKENWOOD's most important management priorities include stable distribution of profits and ensuring the necessary management resources for future growth. The amount of dividend of surplus and other amounts appropriated are determined by giving comprehensive consideration to the Group's profitability and financial conditions.

For the fiscal year ended March 2018, JVCKENWOOD declared to distribute an annual dividend (year-end) of 6 yen per share based on its profit performance and above-mentioned dividend policy, as announced in the "Accounting Report for the Fiscal Year Ended March 2018" on April 26, 2018.

Subsequent Events

There are no applicable matters.

1 Consolidated financial statements

(1) Consolidated financial statements
1) Consolidated statement of financial position

JVC KENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2018

(Unit: Millions of yen)

	Notes	Date of transition to IFRS (as of April 1, 2016)	2017	2018
Assets				
Current assets				
Cash and cash equivalents	8	41,682	40,798	37,162
Trade and other receivables	9	57,262	56,854	59,160
Contract assets	28	1,084	1,365	1,930
Other financial assets	10, 34	1,677	2,004	861
Inventories	11	38,311	39,227	44,120
Right to recover products		530	692	536
Income taxes receivable		1,175	1,479	847
Other current assets	12	5,447	5,498	5,762
Subtotal		147,171	147,920	150,381
Assets classified as held for sale	13	1,044	1,535	—
Total current assets		148,216	149,456	150,381
Non-current assets				
Property, plant and equipment	14, 16	44,587	42,741	43,999
Goodwill	7, 15, 16	5,260	1,357	2,192
Intangible assets	15, 16	21,338	19,357	18,688
Net defined benefit assets	23	10,124	6,545	4,120
Investment property	17	2,064	2,071	2,055
Investments accounted for using the equity method	39	1,279	1,197	1,157
Other financial assets	10, 34, 40	7,360	10,415	10,649
Deferred tax assets	25	7,980	7,609	5,417
Other non-current assets	12	1,256	943	1,215
Total non-current assets		101,250	92,239	89,496
Total assets		249,467	241,696	239,877

Consolidated financial statements, etc. (continued)

JVC KENWOOD Corporation and its Consolidated Subsidiaries

As of March 31, 2018

(Unit: Millions of yen)

	Notes	Date of transition to IFRS (as of April 1, 2016)	2017	2018
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	19	42,975	41,559	47,035
Contract liabilities	28	3,602	3,078	3,643
Refund liabilities	28	3,866	4,133	4,673
Short-term borrowings	21, 34, 35	26,175	16,185	29,642
Other financial liabilities	18, 20, 34	2,606	1,536	1,993
Income taxes payable		2,444	1,968	1,667
Provisions	22	1,366	3,344	2,143
Other current liabilities	24	21,819	23,926	23,622
Subtotal		104,856	95,731	114,422
Liabilities directly associated with assets classified as held for sale	13	—	62	—
Total current liabilities		104,856	95,794	114,422
Non-current liabilities				
Long-term borrowings	21, 34, 35	45,849	54,811	38,204
Other financial liabilities	18, 20, 34	830	771	995
Net defined benefit liabilities	23	40,962	39,512	28,239
Provisions	22	1,934	1,782	1,695
Deferred tax liabilities	25	5,177	2,979	1,563
Other non-current liabilities	24	733	807	964
Total non-current liabilities		95,487	100,665	71,663
Total liabilities		200,344	196,460	186,085
Equity				
Capital stock	26	10,000	10,000	10,000
Capital surplus	26	45,628	45,628	38,466
Retained earnings	26	(12,285)	(16,611)	2,917
Treasury stock	26	(36)	(37)	(38)
Other components of equity	26	369	571	(707)
Equity attributable to owners of the parent company		43,675	39,551	50,638
Non-controlling interests		5,447	5,685	3,153
Total equity		49,123	45,236	53,792
Total liabilities and equity		249,467	241,696	239,877

Consolidated financial statements, etc. (continued)

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

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(Unit: Millions of yen)

	Notes	2017	2018
Revenue	6, 17, 28	297,890	300,687
Cost of sales	11, 14, 15, 17, 23	216,975	218,845
Gross profit		80,914	81,842
Selling, general and administrative expenses	7, 14, 15, 23, 29	74,553	75,526
Other income	13, 31	5,107	3,325
Other expenses	14, 15, 16, 31	10,839	2,388
Foreign exchange losses		757	310
Operating profit (loss)		(128)	6,942
Finance income	30, 34	263	249
Finance expenses	30, 34	1,432	1,346
Share of profit of investments accounted for using the equity method	39	38	100
Profit (loss) before income taxes		(1,259)	5,946
Income tax expenses	25	1,114	2,754
Profit (loss) for the year		(2,374)	3,192
Profit (loss) for the year attributable to:			
Owners of the parent company		(3,114)	2,393
Non-controlling interests		740	798
Net income		(2,374)	3,192
Earnings per share (attributable to owners of the parent company)			
Basic earnings per share	33	(22.42) yen	17.23 yen
Diluted earnings per share		- yen	- yen

Consolidated financial statements, etc. (continued)

Consolidated statement of comprehensive income

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(Unit: Millions of yen)

	Notes	2017	2018
Profit (loss) for the year		(2,374)	3,192
Other comprehensive income ("OCI")			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit plans	23, 32	(516)	9,853
Total of items that will not be reclassified subsequently to profit or loss		(516)	9,853
Items that may be reclassified subsequently to profit or loss			
Fair value gain on financial assets available for sale	32, 34	642	384
Exchange differences arising from translation of foreign operations	32	(2,072)	(725)
Cash flow hedges	32	1,563	(1,028)
Share of OCI of investments accounted for using the equity method	32, 39	0	(0)
Total of items that may be reclassified subsequently to profit or loss		133	(1,369)
OCI for the year, net of income tax		(382)	8,484
Comprehensive income for the year		(2,757)	11,676
Total comprehensive income for the year attributable to:			
Owners of the parent company		(3,428)	10,967
Non-controlling interests		671	708
Comprehensive income for the year		(2,757)	11,676

Consolidated financial statements, etc. (continued)

3) Consolidated statement of changes in equity

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(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, 2016		10,000	45,628	(12,285)	(36)
Loss for the year				(3,114)	
Other comprehensive income					
Comprehensive income for the year				(3,114)	
Acquisition of treasury stock	26				(0)
Disposal of treasury stock	26				0
Dividends paid	27			(694)	
Change in ownership interests in subsidiaries without loss of control					
Transfer from accumulated other comprehensive income to retained earnings				(516)	
Total transactions with the owners				(1,211)	(0)
Balance as of March 31, 2017		10,000	45,628	(16,611)	(37)
Profit for the year				2,393	
Other comprehensive income					
Comprehensive income for the year				2,393	
Transfer from capital surplus to retained earnings			(7,282)	7,282	
Acquisition of treasury stock	26				(1)
Disposal of treasury stock	26				0
Dividends paid	27		(694)		
Change in ownership interests in subsidiaries without loss of control			815		
Transfer from accumulated other comprehensive income to retained earnings				9,853	
Total transactions with the owners			(7,161)	17,135	(1)
Balance as of March 31, 2018		10,000	38,466	2,917	(38)

Consolidated financial statements, etc. (continued)

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(Unit: Millions of yen)

		Equity attributable to owners of the parent company								
		Accumulated other comprehensive income								
	Notes	Remeasure-ment of defined benefit plans	Fair value gain on financial assets available for sale	Exchange differences arising on translation of foreign operations	Cash flow hedges	Fair value of investment property	Total	Total	Non-controlling interests	Total equity
Balance as of March 31, 2016		—	1,270	—	(1,124)	223	369	43,675	5,447	49,123
Profit (loss) for the year								(3,114)	740	(2,374)
Other comprehensive income		(516)	647	(2,007)	1,562		(314)	(314)	(68)	(382)
Comprehensive income for the year		(516)	647	(2,007)	1,562		(314)	(3,428)	671	(2,757)
Acquisition of treasury stock	26							(0)		(0)
Disposal of treasury stock	26							0		0
Dividends paid	27							(694)	(322)	(1,016)
Change in ownership interests in subsidiaries without loss of control									(112)	(112)
Transfer from accumulated other comprehensive income to retained earnings		516					516	—		—
Total transactions with the owners		516					516	(695)	(434)	(1,129)
Balance as of March 31, 2017		—	1,917	(2,007)	438	223	571	39,551	5,685	45,236
Profit for the year								2,393	798	3,192
Other comprehensive income		9,853	384	(635)	(1,028)		8,574	8,574	(90)	8,484
Comprehensive income for the year		9,853	384	(635)	(1,028)		8,574	10,967	708	11,676
Transfer from capital surplus to retained earnings								—		—
Acquisition of treasury stock	26							(1)		(1)
Disposal of treasury stock	26							0		0
Dividends paid	27							(694)	(653)	(1,348)
Change in ownership interests in subsidiaries without loss of control								815	(2,586)	(1,770)
Transfer from accumulated other comprehensive income to retained earnings		(9,853)					(9,853)	—		—
Total transactions with the owners		(9,853)					(9,853)	119	(3,240)	(3,120)
Balance as of March 31, 2018		—	2,301	(2,642)	(590)	223	(707)	50,638	3,153	53,792

Consolidated financial statements, etc. (continued)

4) Consolidated statement of cash flows

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(Unit: Millions of yen)

	Notes	2017	2018
Cash flows from operating activities			
Profit (loss) before income taxes		(1,259)	5,946
Depreciation and amortization		15,417	16,856
Impairment losses		6,909	1,553
Reversal of impairment losses		—	(404)
Increase in net defined benefit liabilities		725	236
Decrease in net defined benefit assets		621	355
Finance income		(263)	(249)
Finance expenses		1,432	1,346
Gain on sales of financial assets classified as available for sale		(50)	(708)
Gain on investments in partnership		—	(197)
Gain on sales of subsidiaries		(560)	—
Loss on liquidation of subsidiaries		158	—
Gain on sales of property, plant and equipment		(200)	(735)
Loss on disposal of property, plant and equipment		1,575	136
Gain on transfer of business		(3,677)	—
Gain on revision of retirement benefit plan		—	(429)
Increase in trade and other receivables		(798)	(2,251)
Increase in inventories		(1,876)	(4,544)
Increase in trade and other payables		2,538	4,587
Other, net		2,717	(20)
Sub-total		23,409	21,477
Interest received		201	173
Dividend received		61	75
Interest paid		(1,213)	(915)
Income taxes paid		(2,834)	(2,431)
Net cash provided by operating activities		19,624	18,379
Cash flows from investing activities			
Placement of time deposit with original maturity of more than three months		(509)	(106)
Withdrawal of time deposit with original maturity of more than three months		477	943
Purchases of property, plant and equipment		(9,801)	(7,846)
Proceeds from sales of property, plant and equipment		1,192	2,715
Purchase of intangible assets		(10,610)	(10,183)

Consolidated financial statements, etc. (continued)

JVC KENWOOD Corporation and its Consolidated Subsidiaries

For the year ended March 31, 2018

(Unit: Millions of yen)

	Notes	2017	2018
Purchases of financial assets available for sale		(1,956)	(338)
Proceeds from sales of financial assets available for sale		140	818
Proceeds from transfer of business	35	2,958	—
Payment for acquisition of control over subsidiaries	7	—	(1,147)
Proceeds from sales of subsidiaries resulting in change in scope of consolidation	35	476	—
Other, net		(56)	311
Net cash used in investing activities		(17,690)	(14,835)
Cash flows from financing activities			
Proceeds from short-term borrowings	35	4,764	11,200
Repayment of short-term borrowings	35	(11,338)	(13,800)
Proceeds from long-term borrowings	35	19,637	10,371
Repayment of long-term borrowings	35	(13,662)	(11,489)
Cash dividends paid	27	(694)	(694)
Payments from changes in ownership interests in subsidiaries without loss of control		—	(1,770)
Other, net		(758)	(859)
Net cash used in financing activities		(2,052)	(7,043)
Net decrease in cash and cash equivalents		(883)	(3,636)
Cash and cash equivalents at beginning of year	8	41,682	40,798
Effect of exchange rate changes on cash and cash equivalents		(765)	(137)
Cash and cash equivalents at end of year	8	40,798	37,162

Notes to consolidated financial statements

JVC KENWOOD Corporation and its Consolidated Subsidiaries
For the year ended March 31st, 2018

1. Reporting entity

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

2. Basis of preparation

(1) Compliance with IFRS and first-time adoption

The Group meets all of the requirements for a "Specified Company for the designated IFRS" as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (the "Ordinance"). According to Article 93 of the Ordinance, the Group's consolidated financial statements have been prepared in accordance with Internal Financial Reporting Standards ("IFRS").
The Group first adopted IFRS for the year ended March 31, 2018, and the date of transition to IFRS was April 1, 2016. The impact of transition to IFRS on the financial position, results of the operations, and cash flows of the Group as of the date of transition to IFRS and in the comparative fiscal year is stated in Note "43. First-time adoption of IFRS."
Except for the IFRS that were not early-adopted and exemptions stipulated in IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), the Group's accounting policies comply with IFRS, effective as of March 31, 2018.
The applied exemptions are indicated in Note "43. First-time adoption of IFRS."

(2) Approval of the consolidated financial statements

The Group's consolidated financial statements for the year ended March 31, 2018 were approved on June 22, 2018 by Takao Tsuji, Representative Director of the Board, and Chairman & Chief Executive Officer, and Masatoshi Miyamoto, Director, Senior Managing Executive Officer, and Chief Financial Officer.

(3) Basis of measurement

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

(4) Functional currency and presentation currency

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

(5) Early adoption of new accounting standards

The Company has early adopted IFRS 15, "Revenue from Contracts with Customers" (hereinafter "IFRS 15"), on the date of transition to IFRS (April 1, 2016).

3. Significant accounting policies

(1) Basis of consolidation

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

1) Subsidiaries

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

2) Associates

An associate is an entity over which the Group does not control solely or jointly but has significant influence over its financial and operating policies. It is presumed that the Group has significant influence if the Group holds, directly or indirectly, 20% to 50% of voting rights of the entity. Investments in associates are accounted for using the equity method from the date the Group has significant influence over the associate to the date the Group loses significant influence.

If the Group loses significant influence over an associate and ceases to apply the equity method, the Group recognizes a gain or loss from the sale of the equity interest in profit or loss, and remeasures the residual interest at fair value and recognizes the resulting valuation difference in profit or loss for the fiscal year in which the significant influence is lost.

For goodwill recognized in the acquisition of associates, the balance is included in the carrying amount of the investment.

(2) Business combination

Business combinations are accounted for using the acquisition method. Identifiable assets acquired, liabilities assumed, and non-controlling interests of an acquiree are measured at fair value at the time of acquisition (as for the assets acquired and liabilities assumed that should be measured with reference to items other than fair values in accordance with IFRS 3, "Business Combinations," the values specified in IFRS 3, "Business Combinations," are used). Goodwill is recognized and measured at the excess of the aggregate of the consideration transferred, the acquisition-date fair value of the acquirer's previously held equity interest, and the amount of any non-controlling interest over the net of the acquisition amounts of the identifiable assets acquired and liabilities assumed. However, if the aggregate of fair values of identifiable assets and liabilities assumed exceeds the sum of acquisition value, the value of preexisting equity interest after the remeasurement, and the fair value of non-controlling interest in the acquiree, such an excess is immediately recognized in profit as a gain.

Acquisition-related costs include finder's fees, legal, due diligence, and other professional fees recognized as expenses in the periods in which the costs are incurred.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination. In this case, acquired assets and liabilities are recognized as their carrying amounts.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts are retrospectively adjusted during the measurement period, which cannot exceed one year from the acquisition date, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at the date.

Additional acquisitions of non-controlling interests are accounted for as equity transactions, and no goodwill is recognized.

(3) Foreign currencies

1) Foreign currency transactions

Each company in the Group specifies its own functional currency, the currency of the primary economic environment in which the entity operates, and the consolidated financial statements of the Group are presented in Japanese yen which is the presentation currency of the Company.

Foreign currency transactions are translated into the functional currency of each company in the Group at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the end of each reporting period. Non-monetary assets that are denominated in foreign currencies are translated at the rates prevailing at the dates when the fair value was originally determined. Differences arising from the translation and settlement are recognized in profit or loss. However, differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen using exchange rates prevailing at the end of each reporting period.

Income and expenses of foreign operations are translated at the average exchange rates for the period, unless exchange rates significantly fluctuate during the period.

Foreign exchange differences arising from the translation are initially recognized as "Exchange differences on translating foreign operations" in other comprehensive income and accumulated in "Other components of equity," which are reclassified from equity to profit or loss on disposal or partial disposal of a foreign operation.

(4) Cash and cash equivalents

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

(5) Financial instruments

1) Financial assets

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

The Group classifies financial assets other than derivatives into loans, receivables, and financial assets available for sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value, plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method less any impairment losses.

Financial assets available for sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or are not classified as loans and receivables or designated as measured at fair value through profit or loss ("FVTPL"). At the time of initial recognition, they are measured at fair value, plus any directly attributable transaction costs. After the initial recognition, they are measured at fair value, and gains and losses that arise on changes in fair value are recognized in other comprehensive income, except:

- impairment losses recognized in profit or loss, or
- foreign exchange gains and losses on monetary assets

When available-for-sale financial assets are derecognized or determined to be impaired, the gains or losses accumulated in other comprehensive income are reclassified to profits or losses. Fair values of available-for-sale financial assets that are traded in an active market are measured at quoted market prices. Available-for-sale financial assets that are not traded in an active market are measured at fair value that is determined by applying appropriate valuation techniques, such as comparable peer company analysis.

(ii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the contractual rights to receive cash flows from the financial asset are transferred and substantially all the risks and rewards of ownership of the financial assets are transferred to another entity. If the transfer of financial assets, which satisfies the criteria for derecognition, results in the Group obtaining or retaining certain rights and responsibilities, the Group recognizes such items as separate financial assets or liabilities.

(iii) Impairment of financial assets other than derivatives

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are assessed for any objective evidence of impairment at the end of the reporting period. The financial assets are impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the financial assets. These events have an adverse effect on the estimated future cash flows of the financial assets that can be reliably estimated. Objective evidence of impairment of the financial assets include a default or delinquency of the borrower and indications of bankruptcy or other financial reorganization of the issuer or obligor.

Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Impairment losses are recognized by directly reducing the financial asset's carrying amount, with the exception of cases in which the loss indirectly reduces the asset's carrying amount through the allowance for doubtful accounts. The allowance for doubtful accounts is used for trade receivables, including receivables in which terms have been changed, that are considered uncollectible, and is reduced when receivables are subsequently waived or collected. A change in allowance for doubtful accounts is recognized as profit or loss, except for reduction due to use. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the receivable with impairment losses reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(b) Financial assets available for sale

In addition to the type of events in financial assets measured at amortized cost described above, objective evidence of impairment for available-for-sale equity instruments includes information about significant changes with an adverse effect that have taken place in the technological, market, economic, or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. For available-for-sale financial assets, cumulative losses recognized in the net change of the fair value of available-for-sale financial assets that are other components of equity are reclassified to profit or loss and recognized as impairment losses. Cumulative losses reclassified from other comprehensive income to profit or loss are the difference between the historical cost and current fair value, less impairment losses previously recognized in profit or loss. In addition, impairment losses for available-for-sale equity financial instruments previously recognized in profit or loss cannot be reversed. Changes in fair value after impairment are recognized through other comprehensive income.

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. These hedges are presumed to be highly effective in offsetting cash flow changes. Further, continuing assessments are made as to whether the hedges are highly effective over all of the reporting periods of such designation.

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

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

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

4) Offsetting financial instruments

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

(6) Inventories

The cost of inventories includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition, and is determined mainly using the weighted-average method. Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

(7) Property, plant and equipment

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

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

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

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

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

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

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

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

(8) Goodwill and intangible assets

1) Goodwill

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

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

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

2) Intangible assets

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

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

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

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

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

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

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

(9) Investment property

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

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

(10) Leases

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

1) As lessee

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

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

2) As lessor

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

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

(11) Impairment of non-financial assets

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

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

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

(12) Employee benefits

1) Post-employment benefits

(i) Defined benefit plans

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

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

(ii) Defined contribution plans

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

(iii) Multi-employer pension plan

Although certain consolidated subsidiaries in Japan have participated in a multi-employer defined benefit plan, sufficient information has not been available to use defined benefit accounting. Accordingly, the contribution amount is recognized as an expense similar to the contribution amounts under defined contribution plans.

2) Other employee benefits

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

(13) Provisions

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

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

1) Provision for warranty

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

2) Provision for loss-making contracts

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

3) Asset retirement obligations

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

(14) Equity

1) Capital stock and surplus

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

2) Treasury stock

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

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

(15) Revenue recognition

The Group recognizes and measures revenue by applying the following five steps in accordance with the principles of IFRS 15.

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

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

● Sales of products

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

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

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

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

● Rendering of services

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

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

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

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

● Financing components

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

(16) Borrowing costs

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

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

(17) Income taxes

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

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

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

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

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

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

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

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

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

(18) Earnings per share

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

Diluted earnings per share are calculated by adjusting profit or loss attributable to ordinary shareholders of the parent entity and the weighted-average number of shares outstanding adjusted by the number of treasury stocks, for the effects of all potentially dilutive ordinary shares. There are no potential ordinary shares of the Company.

(19) Dividends

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

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

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

4. Significant accounting estimates and judgments involving estimates

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

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

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

New or revised major standards and interpretations that were issued by the date of approval of the consolidated financial statement but were not yet adopted by the Group as of March 31, 2018, are as follows:

IFRS		Date of mandatory adoption (Fiscal year of commencement thereafter)	Reporting periods of application by the Group	Description of new and revised standards
IFRS 9	Financial instruments	January 1, 2018	Fiscal year ending March 31, 2019	Revision to classification and measurement of financial assets and liabilities, and impairment and hedge accounting
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revision to lease accounting

As a result of applying the classification and measurement requirements of IFRS 9, certain debt investments which have been classified as available-for-sale financial assets measured at fair value through other comprehensive income will be classified as FVTPL financial assets. Subsequent changes in the fair value of debt instruments will be presented in profit or loss. The application will have no material impact on the comprehensive income of the current fiscal year.
Also, as a result of applying the impairment requirement of IFRS 9, at each reporting date, the Group measures the loss allowance for financial instruments at amounts equal to the lifetime expected credit losses if the credit risks on those financial instruments have increased significantly since initial recognition. If there is no significant increase of credit risks, the Group measures the loss allowance for those financial instruments at amounts equal to 12-month expected credit losses. As a result of applying the simplified approach for trade receivables, contract assets, and lease receivables in IFRS 9, the Group always measures the loss allowance at amounts equal to lifetime expected credit losses for these receivables. These applications will have no material impacts on the consolidated financial statements.
As a result of applying IFRS 16, a lessee is required to account for lease contracts based on a right-of-use accounting model. The model requires lessees to recognize right-of-use assets that represents lessees' rights to use underlying assets for the lease term and lease liabilities representing payments made by lessees to lessors relating to the underlying right-of-use assets during the lease term at the commencement date, regardless of classification of finance or operating lease. In addition, while the lease payments for operating leases are included in rental expenses under International Accounting Standards ("IAS") 17, under IFRS 16, these will be recognized as depreciation costs of right-of-use asset and interest expenses of lease liability in the consolidated statement of income. The Group is currently assessing the potential impacts of adopting IFRS 16.

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 in each sector to formulate comprehensive strategies and engage in business activities for their products and services and conducts their worldwide operations.
The Group is taking a step forward and going from being a traditional manufacturing and sales company to being one that creates customer value by

providing solutions to their problems, and operates three business segments: the automotive sector, public service sector, and media service sector. The Group's reportable segments are consistent with these business segments.

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

Automotive sector	Manufactures and sells car AV systems, car navigation systems, camera devices for automobiles, optical pickups, etc.
Public service sector	Manufactures and sells professional wireless communications devices, video surveillance equipment, audio equipment, medical image display systems, etc.
Media service sector	Manufactures and sells professional video cameras, projectors, AV accessories, commercial video cameras, home audio equipment, etc.; plans, produces, and sells audio and video software, etc.; and manufactures CDs and DVDs (packaged software), etc.
Others	Service parts, etc.

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

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

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

Date of transition to IFRS: April 1, 2016

(Unit: Millions of yen)

	Reportable segments							
	Automotive sector	Public service sector	Media service sector	Total	Others	Total	Reconciliations	Consolidated financial statements
Segment assets	113,612	68,857	43,567	226,037	6,767	232,804	16,662	249,467

Note: Reconciliation is as follows:

Reconciliation of 16,662 million yen for segment assets is mainly composed of corporate assets such as cash and deposits and long-term investment assets (i.e., financial assets available for sale).

Previous fiscal year (from April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Reportable segments							
	Automotive sector	Public service sector	Media service sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	148,123	73,382	71,397	292,903	4,986	297,890	—	297,890
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	148,123	73,382	71,397	292,903	4,986	297,890	—	297,890
Segment profit (Note 2)	1,914	1,829	2,599	6,343	17	6,360	—	6,360
Other income	—	—	—	—	—	—	—	5,107
Other expenses	—	—	—	—	—	—	—	10,839
Exchange loss	—	—	—	—	—	—	—	757
Operating loss	—	—	—	—	—	—	—	(128)
Finance income	—	—	—	—	—	—	—	263
Finance expenses	—	—	—	—	—	—	—	1,432
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	38
Loss before income taxes	—	—	—	—	—	—	—	(1,259)
Segment assets	123,450	53,419	42,729	219,600	6,998	226,598	15,098	241,696
Other items								
Depreciation and amortization	8,628	4,821	1,913	15,363	54	15,417	—	15,417
Impairment losses	20	5,138	1,563	6,722	187	6,909	—	6,909
Increase in property, plant and equipment and intangible assets	11,853	5,128	2,616	19,598	40	19,639	—	19,639

Notes:

1. Reconciliation of 15,098 million yen for segment assets is mainly composed of corporate assets such as cash and deposits and long-term investment assets (i.e., financial assets available for sale).
2. Segment profit or loss is indicated with core operating income and calculated by deducting cost of sales and selling, general and administrative expenses from revenue.

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

(Unit: Millions of yen)

	Reportable segments							
	Automotive sector	Public service sector	Media service sector	Total	Others	Total	Reconciliations (Note 1)	Consolidated financial statements
Revenue								
Revenue from customers	171,435	65,035	58,972	295,444	5,243	300,687	—	300,687
Intersegment revenue or transfers	—	—	—	—	—	—	—	—
Total	171,435	65,035	58,972	295,444	5,243	300,687	—	300,687
Segment profit or loss (Note 2)	7,601	(1,514)	374	6,461	(145)	6,316	—	6,316
Other income	—	—	—	—	—	—	—	3,325
Other expenses	—	—	—	—	—	—	—	2,388
Exchange loss	—	—	—	—	—	—	—	310
Operating income	—	—	—	—	—	—	—	6,942
Finance income	—	—	—	—	—	—	—	249
Finance expenses	—	—	—	—	—	—	—	1,346
Share of profit/(loss) of investments accounted for using the equity method	—	—	—	—	—	—	—	100
Profit before income taxes	—	—	—	—	—	—	—	5,946
Segment assets	130,525	47,496	37,986	216,008	4,950	220,959	18,918	239,877
Other items								
Depreciation and amortization	10,894	4,591	1,331	16,817	39	16,856	—	16,856
Impairment losses	—	89	1,445	1,535	18	1,553	—	1,553
Increase in property, plant and equipment and intangible assets	12,130	4,713	1,569	18,413	60	18,474	—	18,474

Notes:

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

(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)

	2017	2018
Japan	121,994	130,810
Americas	74,816	68,128
Europe	54,058	58,805
Asia	41,940	38,072
Others	5,080	4,870
Total	297,890	300,687

Notes:

1. Country and region categories are based on geographical proximity.
2. Main countries or regions that belong to each category are as follows:
   (1) Americas: the USA, Canada, and Panama
   (2) Europe: Germany, France, and the United Kingdom
   (3) Asia: China, Singapore, and United Arab Emirates
   (4) Others: Australia and Africa
3. Revenue by region shows the revenue of the Company and the consolidated subsidiaries 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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Japan	44,178	42,319	41,564
Americas	9,023	3,142	3,109
Europe	7,981	7,916	10,393
Asia	14,588	14,273	14,224
Others	13	17	15
Total	75,786	67,669	69,307

Non-current assets are presented based on the physical location of assets. Financial instruments, 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

(1) Description of business combination

Previous fiscal year (From April 1, 2016 to March 31, 2017)
Not applicable.

Current fiscal year (From April 1, 2017 to March 31, 2018)
On January 19, 2018, the Company acquired all the shares issued by Radio Activity S.r.l., a developer and seller of digital radio relay systems that are compliant with Digital Mobile radio (DMR) standards, which are international digital radio standards, for the purpose of expanding the communications systems business in compliance with DMR standards and improving efficiency in integrated indirect operations.

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

(Unit: Millions of yen)

	Amount
Fair value of consideration paid	1,438
Total	1,438
Fair value of identified assets acquired and liabilities assumed	
Trade and other receivables	338
Inventories	62
Property, plant and equipment	178
Intangible assets	2
Trade and other payables	88
Fair value of identified assets acquired and liabilities assumed (net amount)	493
Goodwill arising on acquisition	945

(3) Amount of recognized goodwill

Goodwill generated from this business combination was attributable to the Public service sector segment. Goodwill primarily represented a synergy effect with existing businesses and the excess earning power expected from the acquisition. The benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. The assets acquired and the liabilities assumed were provisional as of March 31, 2018 because the allocation of consideration had not been completed. The provisional amount was calculated based on currently available information.
The goodwill was non-deductible for tax purposes.
Acquisition-related expenses for this business combination were 42 million yen and were recognized in "Selling, general and administrative expenses."

(4) Cash flows associated with acquisition

(Unit: Millions of yen)

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

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

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

The pro forma information is unaudited.

8. Cash and cash equivalents

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Cash and deposits of which maturity term is less than three months	41,682	40,798	37,162
Total	41,682	40,798	37,162

9. Trade and other receivables

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Notes receivable	4,380	3,557	3,303
Accounts receivable	51,008	52,083	54,847
Others	3,323	2,159	1,856
Less: Allowance for doubtful accounts	(1,450)	(945)	(847)
Total	57,262	56,854	59,160

10. Other financial assets

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Financial assets available for sale (Note 34)	5,996	8,627	9,195
Derivative assets (Note 34)	461	1,332	661
Others	2,580	2,459	1,654
Total	9,037	12,419	11,511
Current assets	1,677	2,004	861
Non-current assets	7,360	10,415	10,649
Total	9,037	12,419	11,511

11. Inventories

(1) Breakdown of inventories

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Merchandise and finished goods	23,805	24,369	26,761
Work in progress	4,493	4,607	4,826
Raw materials and supplies	10,012	10,250	12,532
Total	38,311	39,227	44,120

The amount of inventories expensed as cost of sales for the years ended March 31, 2017 and 2018 were 203,500 million yen and 210,691 million yen, respectively.

(2) Write-downs of inventories

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

(Unit: Millions of yen)

	2017	2018
Write-downs	1,702	1,608
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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Other current assets			
Prepaid expenses	2,026	2,734	2,324
Advance payments	537	463	576
Consumption taxes receivable	2,500	2,027	2,390
Others	382	273	471
Total	5,447	5,498	5,762
Other non-current assets			
Long-term prepaid expenses	1,034	643	593
Others	222	300	622
Total	1,256	943	1,215

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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Assets classified as held for sale			
Property, plant and equipment	1,044	1,535	—
Total	1,044	1,535	—
Liabilities directly associated with assets classified as held for sale			
Other non-current liabilities	—	62	—
Total	—	62	—

As of the date of transition to IFRS, the major assets classified as held for sale are associated with transfer land and buildings, owned by JKUSA and JVCKENWOOD France S.A.S. which are consolidated subsidiaries of the Company, for the purpose of restructuring for their locations. They are included in the automotive sector, public service sector, media service sector, and associated businesses.

These non-current assets held for sale were disposed of during the year ended March 31, 2017 and March 31, 2018.

As of March 31, 2017, the major assets classified as held for sale and liabilities directly associated with assets classified as held for sale in the transfer for effective utilization of Maebashi Office concerning land and buildings owned by the Company. They are included in the automotive sector, public service sector, and media service sector segments.

As for the assets, since the recovery of fair value was identified during the current fiscal year, the Company reversed the impairment loss recognized in the past by 404 million yen and recognized the amount in "Other income" in the consolidated statement of income.

These non-current assets held for sale were disposed of during the year ended March 31, 2018.

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

14. Property, plant and equipment

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

[Carrying amount]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2016	14,541	7,406	5,515	14,128	2,996	44,587
Acquisition	205	1,070	1,836	—	5,942	9,055
Acquisitions through business combinations	—	—	—	—	—	—
Depreciation	(1,317)	(1,787)	(3,290)	—	—	(6,395)
Impairment loss	(94)	(94)	(638)	(209)	—	(1,037)
Reversals of impairment loss	—	—	—	—	—	—
Disposal	(95)	(117)	(175)	(539)	(557)	(1,484)
Transfer from construction in progress	1,492	1,944	2,920	—	(6,357)	—
Transfer to non-current assets held for sale	(264)	—	—	(978)	—	(1,242)
Exchange differences arising on translation of foreign operations	(225)	(257)	(161)	(42)	(41)	(729)
Others	33	74	151	488	(759)	(11)
Balance, March 31, 2017	14,276	8,237	6,158	12,847	1,222	42,741
Acquisition	296	1,130	1,757	—	5,103	8,287
Acquisitions through business combinations	125	61	26	16	—	229
Depreciation	(1,263)	(1,924)	(3,195)	—	—	(6,383)
Impairment loss	(446)	(394)	(211)	(9)	(3)	(1,065)
Reversals of impairment loss	—	—	—	404	—	404
Disposal	(15)	(31)	(85)	(2)	(38)	(173)
Transfer from construction in progress	875	1,783	2,308	—	(4,967)	—
Transfer to non-current assets held for sale	—	—	—	—	—	—
Exchange differences arising on translation of foreign operations	181	15	192	53	1	443
Others	(59)	167	(175)	(355)	(61)	(485)
Balance, March 31, 2018	13,969	9,043	6,776	12,954	1,255	43,999

[Acquisition costs]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2016	57,839	49,365	68,467	15,198	3,068	193,939
Balance, March 31, 2017	50,228	45,273	67,118	13,917	1,227	177,765
Balance, March 31, 2018	51,404	46,879	65,569	14,034	1,264	179,151

[Accumulated depreciation and impairment losses]

(Unit: Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance, April 1, 2016	43,297	41,959	62,952	1,070	72	149,352
Balance, March 31, 2017	35,952	37,035	60,960	1,070	5	135,023
Balance, March 31, 2018	37,434	37,835	58,792	1,080	9	135,152

Notes:

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

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Machinery and vehicles	436	601	1,088
Tools, furniture and fixtures	192	210	85

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, 2016	5,260	1,838	15,159	4,340	21,338
Acquisition	—	666	—	289	956
Acquisitions through business combinations	—	—	—	—	—
Internal generation	—	—	9,627	—	9,627
Amortization	—	(838)	(7,603)	(579)	(9,021)
Impairment loss	(3,786)	(120)	(347)	(1,618)	(2,086)
Reversals of impairment loss	—	—	—	—	—
Disposal	—	(359)	(548)	(177)	(1,085)
Transfer to non-current assets held for sale	—	—	—	—	—
Exchange differences arising on translation of foreign operations	(116)	(6)	(138)	0	(144)
Others	—	299	(366)	(159)	(226)
Balance, March 31, 2017	1,357	1,478	15,783	2,095	19,357
Acquisition	—	485	—	237	723
Acquisitions through business combinations	945	2	—	4	6
Internal generation	—	—	9,463	—	9,463
Amortization	—	(607)	(9,529)	(335)	(10,472)
Impairment loss	—	(15)	(467)	—	(482)
Reversals of impairment loss	—	—	—	—	—
Disposal	—	(3)	(0)	(0)	(4)
Transfer to non-current assets held for sale	—	—	—	—	—
Exchange differences arising on translation of foreign operations	(109)	9	147	(25)	131
Others	—	28	(48)	(15)	(35)
Balance, March 31, 2018	2,192	1,379	15,348	1,960	18,688

[Acquisition costs]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2016	5,776	12,181	39,774	11,833	63,789
Balance, March 31, 2017	5,681	12,028	47,630	11,712	71,371
Balance, March 31, 2018	6,149	10,556	57,139	11,002	78,697

[Accumulated amortization and impairment losses]

(Unit: Millions of yen)

		Intangible assets			
	Goodwill	Internal-use software	Development costs	Other intangible assets	Total
Balance, April 1, 2016	516	10,343	24,615	7,492	42,451
Balance, March 31, 2017	4,324	10,550	31,847	9,616	52,013
Balance, March 31, 2018	3,956	9,176	41,791	9,041	60,009

Notes:

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

The amount of research and development expenses recognized as expenses during the periods ended by March 31, 2017 and 2018 is 18,644 million yen and 17,890 million yen, respectively, which are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Software	77	66	50

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)

		2017	2018
Automotive sector	Buildings and structures	10	—
	Tools, furniture and fixtures	1	—
	Land	8	—
	Subtotal	20	—
Public service sector	Buildings and structures	65	—
	Machinery and vehicles	8	—
	Tools, furniture and fixtures	24	39
	Land	27	—
	Goodwill	3,616	—
	Internal-use software	35	2
	Development costs	—	47
	Other intangible assets	1,358	—
	Subtotal	5,138	89
Media service sector	Buildings and structures	4	437
	Machinery and vehicles	83	394
	Tools, furniture and fixtures	611	171
	Land	3	—
	Construction in progress	—	3
	Goodwill	169	—
	Internal-use software	84	12
	Development costs	347	420
	Other intangible assets	259	—
	Long-term prepaid expenses	0	5
	Subtotal	1,563	1,445
Others	Buildings and structures	13	9
	Machinery and vehicles	2	—
	Tools, furniture and fixtures	0	—
	Land	170	9
	Other intangible assets	0	—
	Subtotal	187	18
Total		6,909	1,553

(1) Cash-generating units

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

(2) Impairment loss

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

In the public service sector, impairment losses were recognized in goodwill and other intangible fixed assets which were originally recognized when the Company acquired the shares of the US wireless subsidiary. As a result of a careful review of the future business plan and recoverability, these carrying amounts were written down to the recoverable amounts. The recoverable amount was measured at fair value less costs of disposal. The fair value less costs of disposal is measured based on valuation techniques (i.e., income approach and market approach), of which fair value hierarchy is Level 3. The fair value hierarchy is described in Note "34. Financial Instruments." In the media service sector, impairment losses were recognized for the whole amount of goodwill as well as property, plant and equipment of the US CMOS image sensor subsidiary. As a result of a careful review of the future business plan and recoverability, these carrying amounts were written down to the recoverable amounts. In addition, as for the other business assets, business performance of a part of the business asset group deteriorated. As a result of careful comparative review of the carrying amounts and the recoverable amounts based on the future cash flows, the entire carrying amount of these assets was recognized as an impairment loss. 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.

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

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

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

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

(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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Automotive sector	—	—	—
Public service sector	5,085	1,357	2,192
Media service sector	174	—	—
Total	5,260	1,357	2,192

The major goodwill in the public service sector was recognized when the Company acquired shares of a communication-related system subsidiary in the United States and professional wireless system subsidiary in Italy.

Goodwill is tested for impairment annually or whenever there is indication of impairment. The recoverable amount of goodwill is mainly measured at fair value less costs of disposal. The fair value less costs of disposal is determined based on the results of multiple valuation techniques such as income approach and market approach.

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

Under the income approach, the pretax discount rate applied to future cash flow projections is 11.0% (11.0% to 12.5% in the previous fiscal year), growth rate is 3.0% (2.0% to 3.0% in the previous fiscal year), and period of future cash flow projections is nine years (nine years in previous fiscal year).

Under the market approach, the EV/EBITDA ratio applied to the comparable peer company analysis ranged from 9.9 to 11.3 times (9.7 to 14.6 times in the previous fiscal year), and EV/Revenue ratio is 1.2 times (1.0 to 1.3 times in the previous fiscal year).

For goodwill associated with each cash-generating unit or cash-generating group, even if the main assumption used in the impairment test fluctuates within a reasonable range, it is not probable that the recoverable amount will 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)

	2017	2018
Balance, beginning of year	2,064	2,071
Acquisition	0	—
Acquisition through business combination	—	—
Sales or disposal	—	—
Exchange differences arising on translation of foreign operations	(4)	(50)
Transfer to internal-use properties	—	—
Gain or loss due to fluctuation of fair value	11	33
Balance, end of year	2,071	2,055

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)

	2017	2018
Rental income	141	141
Direct operating expenses	25	18

18. Lease transaction

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

(1) As lessee

1) Finance lease contracts

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Minimum lease payments	925	961	1,240
Within 1 year	226	262	354
1 year to 5 years	490	533	712
Over 5 years	209	165	172
Less amount representing interest charge	65	34	41
Present value of finance lease obligations	860	926	1,198

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Within 1 year	219	249	339
1 year to 5 years	477	519	695
Over 5 years	163	157	163
Present value of finance lease obligations	860	926	1,198

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

2) Operating lease contracts

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Within 1 year	1,731	1,517	1,429
1 year to 5 years	7,252	4,180	3,755
Over 5 years	180	1,883	1,290
Total	9,163	7,581	6,475

Operating lease payments recognized as expenses are as follows:

(Unit: Millions of yen)

	2017	2018
Minimum lease payments	2,002	1,899
Total	2,002	1,899

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

(2) As lessor

Operating lease contracts

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Within 1 year	367	292	296
1 year to 5 years	855	722	626
Over 5 years	679	542	421
Total	1,902	1,558	1,344

19. Trade and other payables

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Notes payable–trade	2,267	1,507	1,603
Accounts payable–trade	30,372	29,723	34,608
Accounts payable–other	10,336	10,328	10,823
Total	42,975	41,559	47,035

20. Other financial liabilities

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Lease obligations	860	926	1,198
Derivative liabilities (Note 34)	1,626	562	1,017
Others	949	818	772
Total	3,436	2,307	2,988
Current liabilities	2,606	1,536	1,993
Non-current liabilities	830	771	995
Total	3,436	2,307	2,988

21. Borrowings

The breakdown of borrowings:

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018	Average interest rate (%)	Maturity date
Short-term borrowings	13,999	7,268	5,182	1.45	—
Current portion of long-term borrowings	12,175	8,916	24,460	0.99	—
Total short-term borrowings	26,175	16,185	29,642	—	—
Long-term borrowings	45,849	54,811	38,204	0.85	Mar. 31, 2023

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

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Maximum amount of the agreements of commitment lines	10,000	10,000	10,000
Outstanding borrowings	—	—	—
Unexecuted balance	10,000	10,000	10,000

Financial covenants

The Group's borrowings include financial covenants that require the Group to maintain a specified level of net assets and profit. To meet the financial covenants, the Group continuously monitors to maintain the required level of net assets and profit. There are no violations of the covenants as of March 31, 2018.

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Pledged assets			
Cash and cash equivalents	1,843	1,145	210
Trade and other receivables	10,559	11,329	10,606
Inventories	7,445	5,975	6,427
Other current assets	317	793	839
Non-current assets held for sale	—	1,180	—
Property, plant and equipment	19,040	18,026	17,708
Intangible assets	—	—	52
Investment property	1,185	1,170	1,155
Other non-current financial assets	23	18	13
Other non-current assets	15	182	179
Total pledged assets	40,432	39,825	37,194
Liabilities with collateral			
Short-term borrowings	6,000	1,750	—
Current portion of long-term borrowings	101	43	11,503
Long-term borrowings	25,026	24,885	11,574
Total liabilities with collateral	31,128	26,678	23,078

22. Provisions

The movement of provisions is as follows:

(Unit: Millions of yen)

	Provision for warranty	Provision for loss on order received	Asset retirement obligations	Others (Note)	Total
Balance, April 1, 2016	1,250	—	914	1,134	3,300
Provision	764	2,203	83	102	3,154
Adjustment due to passage of time	—	—	1	85	87
Decrease–used	(676)	(351)	(16)	(115)	(1,159)
Decrease–reversed	(22)	—	—	—	(22)
Exchange differences arising on translation of foreign operations	(22)	—	0	(143)	(166)
Other changes	26	—	(62)	(29)	(65)
Balance, March 31, 2017	1,320	1,852	919	1,034	5,126
Provision	772	—	22	155	951
Adjustment due to passage of time	—	—	1	63	65
Decrease–used	(704)	(894)	—	(157)	(1,757)
Decrease–reversed	(61)	(279)	—	—	(341)
Exchange differences arising on translation of foreign operations	(2)	—	(1)	43	39
Other changes	1	—	0	(247)	(245)
Balance, March 31, 2018	1,325	678	942	892	3,839
Current liabilities	1,325	678	8	130	2,143
Non-current liabilities	—	—	933	761	1,695

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

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

23. Employee benefits

(1) Defined benefit plans

1) Characteristics of the defined benefit plans and related risks

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

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

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

(i) Investment risk

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

(ii) Interest risk

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

2) Amounts on the financial statements

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Present value of defined benefit obligations	118,660	108,436	97,925
Fair value of plan assets	94,158	95,189	85,447
Effect of asset ceiling (Note)	6,336	19,719	11,640
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	30,838	32,966	24,118
Net defined benefit liabilities	40,962	39,512	28,239
Net defined benefit assets	10,124	6,545	4,120
Net defined benefit liabilities (assets) recognized in the consolidated statement of financial position	30,838	32,966	24,118

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)

	2017	2018
Balance, beginning of year	118,660	108,436
Current service cost	3,553	3,255
Interest expenses	745	693
Changes due to remeasurement		
Actuarial gains and losses (demographic)	(7,565)	(423)
Actuarial gains and losses (financial)	(1,727)	731
Actuarial difference arising from modification of actual results	225	40
Benefits paid	(5,045)	(4,512)
Effect of business combination and disposition	(231)	29
Transition to the defined contribution plans (Note)	—	(10,867)
Past service costs	—	114
Others	46	172
Exchange differences arising on translation of foreign operations	(224)	255
Balance, end of year	108,436	97,925

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

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

(Unit: Millions of yen)

	2017	2018
Balance, beginning of year	94,158	95,189
Interest income	545	552
Changes due to remeasurement		
Revenue on plan assets	2,971	2,328
Employer contributions	872	1,126
Benefits paid	(3,359)	(3,303)
Transition to the defined contribution plan	—	(10,438)
Exchange differences arising on translation of foreign operations	—	(7)
Balance, end of year	95,189	85,447

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 823 million yen in the following fiscal year.

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

(Unit: Millions of yen)

	2017	2018
Balance, beginning of year	6,336	19,719
Interest income limit	36	114
Remeasurement		
Changes in the impact of the asset ceiling (excluding the amount included in the interest income limit)	13,346	2,152
Transition to the defined contribution plan	—	(10,345)
Balance, end of year	19,719	11,640

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)		2017		2018	
	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	Plan assets with market prices in an active market	Plan assets without market prices in an active market
Cash and cash equivalents	—	—	—	—	—	—
Equity instruments	24,336	—	27,597	—	18,178	—
Domestic stocks	8,325	—	9,105	—	3,450	—
Foreign stocks	16,010	—	18,492	—	14,727	—
Debt instruments	43,457	—	40,987	—	38,752	—
Domestic bonds	17,859	—	15,750	—	—	—
Foreign bonds	25,597	—	25,236	—	38,752	—
Other assets	3,966	—	3,611	—	6,890	—
Investments in life insurance company general accounts	—	11,280	—	10,975	—	10,635
Others	—	11,118	—	12,017	—	10,990
Total	71,760	22,398	72,196	22,992	63,821	21,626

Note: 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 15 years for the IFRS transition date, 15 years for the previous fiscal year, and 11 years for the current fiscal year.

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

	Date of transition to IFRS (April 1, 2016)	2017	2018
Discount rate	Mainly 0.579%	Mainly 0.596%	Mainly 0.534%

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:

	Date of transition to IFRS (April 1, 2016)	2017	2018
In case of 0.5% increase	(8,024)	(5,189)	(4,828)
In case of 0.5% decrease	8,996	5,685	5,299

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

(2) Defined contribution plans

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

Retirement benefits paid for defined contribution plans are as follows:

(Unit: Millions of yen)

	2017	2018
Retirement benefits paid for defined contribution plan	864	1,134

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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Other current liabilities			
Consumption taxes payable, etc.	1,004	2,026	1,835
Accrued bonuses	4,398	4,966	5,675
Accrued unused paid absences	4,228	4,204	4,423
Accrued expenses	10,541	10,825	10,192
Others	1,645	1,903	1,494
Total	21,819	23,926	23,622
Other non-current liabilities			
Long-term contract liabilities (Note)	340	399	338
Others	392	408	626
Total	733	807	964

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, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the previous fiscal year (March 31, 2017)
Deferred tax assets					
Depreciation	757	335	—	(16)	1,076
Net defined benefit liabilities	1,145	274	5	(14)	1,411
Provision for inventory reserve	609	(70)	—	(6)	532
Unused tax losses	5,788	22	—	(24)	5,786
Accrued expenses	1,725	610	—	13	2,349
Others (Note)	3,002	(1,105)	—	(53)	1,844
Subtotal	13,028	67	5	(101)	13,000
Deferred tax liabilities					
Net defined benefit assets	3,102	(218)	(879)	—	2,005
Financial assets measured at fair value through other comprehensive income	936	(2)	495	—	1,428
Depreciation	1,420	316	—	(13)	1,724
Others (Note)	4,766	(1,527)	—	(25)	3,213
Subtotal	10,225	(1,431)	(384)	(38)	8,371
Net amount	2,803	1,499	389	(62)	4,629

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

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

(Unit: Millions of yen)

	At the end of the previous fiscal year (March 31, 2017)	Amount recognized in profit or loss	Amount recognized in other comprehensive income	Others (Note)	At the end of the current fiscal year (March 31, 2018)
Deferred tax assets					
Depreciation	1,076	113	—	(7)	1,182
Net defined benefit liabilities	1,411	308	19	(3)	1,734
Provision for inventory reserve	532	41	—	(3)	569
Unused tax losses	5,786	(2,247)	—	(152)	3,386
Accrued expenses	2,349	(9)	—	(7)	2,332
Others (Note)	1,844	(23)	—	(25)	1,795
Subtotal	13,000	(1,818)	19	(199)	11,001
Deferred tax liabilities					
Net defined benefit assets	2,005	(1,051)	316	—	1,269
Financial assets measured at fair value through other comprehensive income	1,428	—	(108)	—	1,319
Depreciation	1,724	87	—	11	1,823
Others (Note)	3,213	(498)	—	19	2,735
Subtotal	8,371	(1,461)	207	31	7,147
Net amount	4,629	(356)	(187)	(231)	3,853

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

(2) Unrecognized deferred tax assets

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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Deductible temporary differences	20,535	20,218	15,084
Unused tax losses	51,342	51,625	27,664
Total	71,877	71,843	42,749

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

For certain Group companies that have losses in the previous fiscal year or current fiscal year, the amount of deferred tax assets that exceeds the deferred tax liabilities were 285 million yen for the previous fiscal year and 464 million yen for the current fiscal year. These deferred tax assets are recognized based on the judgment of recoverability, taking into account the certainty of future taxable income generation based on the characteristics of the business of the taxable entity and the maturity date of loss carried forward.

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
1st year	716	20,335	8,461
2nd year	20,599	8,380	2,903
3rd year	8,576	3,027	5,386
4th year	3,048	5,267	315
5th year and thereafter	18,400	14,613	10,597
Total	51,342	51,625	27,664

(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)

	2017	2018
Current tax expenses		
Current year	2,555	2,175
Prior years	58	221
Total	2,613	2,397
Deferred tax expense		
Origination and reversal of temporary differences	(486)	(383)
Recognition of previously unrecognized deferred tax assets	(1,033)	(982)
Change in tax rates, etc.	20	1,722
Total	(1,499)	356
Income tax expenses	1,114	2,754

(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.

	2017	2018
Statutory effective tax rate	30.8%	30.8%
Expenses not deductible for income tax purposes	(142.4%)	6.7%
Dividend and other income not taxable	28.9%	(5.9%)
Gain on liquidation of foreign subsidiaries not taxable	0.5%	(0.1%)
Loss on liquidation of foreign subsidiaries not deductible	(4.4%)	—%
Foreign tax	(18.3%)	3.4%
Evaluation of recoverability of deferred tax assets	(34.0%)	(14.8%)
Effect of changes of income tax rates on deferred taxes	(1.6%)	29.0%
Lower income tax rates applicable to income in foreign subsidiaries	83.9%	(5.3%)
Undistributed earnings in foreign subsidiaries	(14.2%)	(1.1%)
Transfer pricing adjustments	(3.6%)	—%
Withholding tax of foreign subsidiaries	(7.1%)	1.0%
Others	(7.0%)	2.6%
Actual tax rate	(88.5%)	46.3%

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 30.8% (30.8% in the previous fiscal year). Overseas subsidiaries are subject to income tax and other taxes applicable in each location.

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

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

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

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

(5) Uncertain tax position

The Company's consolidated subsidiary JVC (Philippines), Inc. ("JPL") was charged approximately 600 million Philippine pesos (including interest and additional charges) in back taxes by the Philippines Bureau of Internal Revenue for corporate tax, value-added tax, and withholding tax for the fiscal year ended March 31, 2004, on December 2, 2008.

JPL viewed this claim as unreasonable, and appealed the entirety of the claim in the Philippine Court of Tax Appeals on April 30, 2009, but the court found the filing invalid, and on May 27, 2014, the case was dismissed.

JPL appealed to the Philippine Supreme Court on July 18, 2014. The total amount of back taxes with interest up until the consolidated fiscal years ended March 31, 2018 and 2017, were included will be approximately 1,100 million Philippine pesos and 1,200 million Philippine pesos, respectively (using the exchange rate as of the end of fiscal year ended March 31, 2018 and 2017, 2,400 million yen, and 2,500 million yen, respectively).

In addition, in accordance with the Philippines Special Measures Act, because JPL has already terminated its sales activities, the Company paid a fee to the Philippines Bureau of Internal Revenue in order to settle for 10% of the appraised value. JPL applied for the 10% settlement on January 9, 2015, and paid the settlement application fee of 69 million Philippines pesos (using the exchange rate as of the end of fiscal year ended March 31, 2015, 187 million yen) on February 9, 2015. The settlement application fee is not refundable even if the application for settlement is accepted, so it is recognized as a current tax expense at the time of payment.

Since JPL meets the requirements of the settlement application and the Company deems that JPL's settlement application will be accepted, the provision for the additional charges is not recognized at the end of the previous and current fiscal years.

26. Equity and other equity items

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

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

	Number of authorized shares (share)	Total number of outstanding shares (share)	Capital stock (million yen)	Capital surplus (million yen)
Balance, April 1, 2016	400,000,000	139,000,201	10,000	45,628
Change	0	0	0	0
Balance, March 31, 2017	400,000,000	139,000,201	10,000	45,628
Change	0	0	0	(7,161)
Balance, March 31, 2018	400,000,000	139,000,201	10,000	38,466

Outstanding shares mentioned above are fully paid and capital stocks have no par value.

The Companies Act of Japan (hereinafter "the Companies Act") states that upon issuance of new shares, at least 50% of the amount raised will be credited to common stock, unless otherwise specified in the Companies Act.

The Companies Act provides that upon payment of dividends, an amount equal to 10% of the paid dividends must be appropriated as additional legal capital surplus (a component of capital surplus) or as legal reserve (a component of retained earnings) if the payment of such dividends is charged to retained earnings, until the total aggregate amount of additional paid-in capital and legal reserve equals 25% of the common stock.

Under the Companies Act, in addition to year-end dividends, dividends of surplus can be made at any time during the fiscal year by resolution of the general meeting of shareholders. The Companies Act provides that companies may determine dividends (excluding dividends in kind) by resolution of the Board of Directors if the articles of incorporation so stipulate, when certain requirements are satisfied, such as having a Board of Corporate Auditors and a Board of Directors, appointing independent auditors, and the terms of service of the directors prescribed as one year. The Companies Act also provides that companies with a Board of Directors may pay dividends (only cash dividends) by resolution of the Board of Directors only once during a business year, if the articles of incorporation so stipulate.

(2) Treasury stock

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

	Number of shares (share)	Amount (millions of yen)
Balance, April 1, 2016	50,032	36
Change	1,817	0
Balance, March 31, 2017	51,849	37
Change	3,201	1
Balance, March 31, 2018	55,050	38

(3) Other components of equity

1) Remeasurement of defined benefit plan

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

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

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

3) Exchange difference on translation of foreign operations

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

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 13, 2016	694	Retained earnings	5.00	March 31, 2016	June 6, 2016
Board of Directors' meeting held on May 12, 2017	694	Capital surplus	5.00	March 31, 2017	May 31, 2017

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 15, 2018	833	Retained earnings	6.00	March 31, 2018	May 30, 2018

28. Revenue from contracts with customers

(1) Disaggregation of revenue from contracts with customers

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

Previous fiscal year (from April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

Reportable segment	Automotive sector	Public service sector		Media service sector		Others	Total
Major business	Consumer business/OEM	Communications systems	Professional systems	Media	Entertainment	—	—
Revenue from customers	148,123	43,644	29,738	40,700	30,697	4,986	297,890

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

(Unit: Millions of yen)

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

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

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

The main businesses of the media service sector are the media business and entertainment business. The revenues of the media business are generated mainly from manufacturing and sales of professional video cameras, projectors, AV accessories, commercial video cameras, home audio equipment, etc. targeting volume-sales retailers and distributors and fee-charging after-sales services. The revenues of the entertainment business are generated from planning, manufacturing, and selling of CD/DVD (packaged software) targeting consumers and volume-sales retailers and distributors, and from 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 "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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Contract assets			
Assets related to on-going installation services	1,084	1,365	1,930
Total contract assets	1,084	1,365	1,930
Contract liabilities (Note)			
Advances from customers	3,943	3,477	3,982
Total contract liabilities	3,943	3,477	3,982

Note: "Contract liabilities" includes long-term liabilities.

Significant changes in contract assets and contract liabilities

The significant changes in contract assets in the previous fiscal year are an increase of 1,098 million yen due to new contracts and a decrease of 854 million yen due to transfer to receivables. The significant changes in contract assets in the current fiscal year are an increase of 1,157 million yen due to new contracts and a decrease of 504 million yen due to transfer to receivables.
The significant changes in contract liabilities in the previous fiscal year are a decrease of 2,991 million yen due to revenue recognition, an increase of 2,414 million yen due to new contracts, and an increase of 182 million yen due to receiving cash. Among the decrease due to revenue recognition, the amount included in the balance as of the beginning of the previous fiscal year is 2,601 million yen.
The significant changes in contract liabilities in the current fiscal year are a decrease of 2,907 million yen due to revenue recognition, an increase of 2,897 million yen due to new contracts, and an increase of 448 million yen due to receiving cash. Among the decrease due to revenue recognition, the amount included in the balance as of the beginning of the current fiscal year is 2,409 million yen.

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

(3) Refund liability

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

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Refund liability			
Returning goods	1,220	1,905	1,923
Expected rebates	2,646	2,227	2,749
Total refund liability	3,866	4,133	4,673

(4) Transaction price allocated to the remaining performance obligation

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

(Unit: Millions of yen)

	2018
Long-term guarantee contracts on wireless communications systems, etc.	557

For the reporting period prior to April 1, 2017, the Company does not disclose the transaction price allocated to the remaining performance obligation, including partially unfulfilled, by applying the exemptions of IFRS 1.

As of March 31, 2018, 246 million yen out of the transaction price allocated to the remaining contracts is expected to be recognized as revenue in the following reporting period, and the remaining 310 million yen will be recognized in subsequent reporting periods.

29. Selling, general and administrative expenses

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

(Unit: Millions of yen)

	2017	2018
Personnel expenses	39,216	40,010
Advertisement and sales promotion expenses	7,396	7,821
Transportation expenses	5,277	5,654
Depreciation	2,437	2,295
Commission expenses	2,966	3,070
Rental expenses	2,175	2,318
Others	15,083	14,354
Total selling, general and administrative expenses	74,553	75,526

30. Finance income and finance expenses

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

(Unit: Millions of yen)

	2017	2018
Interest income		
Loans and receivables	201	173
Dividends income		
Financial assets available for sale	61	75
Total finance income	263	249
Interest expenses		
Financial liabilities measured at amortized cost	1,215	1,133
Other finance expenses	216	212
Total finance expenses	1,432	1,346

31. Other income and expenses

(1) Other income

The breakdown of other income is as follows:

(Unit: Millions of yen)

	2017	2018
Gain on investments in partnership	—	197
Gain on sales of long-lived assets	223	744
Gain on sales of financial assets available for sale	50	708
Gain on sales of subsidiaries (Note 35)	560	—
Gain on transfer of business (Note 35)	3,677	—
Gain on revision of retirement benefit plan (Note 23)	—	429
Reversal of impairment losses (Note 13)	—	404
Others	594	840
Total other income	5,107	3,325

(2) Other expenses

The breakdown of other expenses is as follows:

(Unit: Millions of yen)

	2017	2018
Loss on sales of long-lived assets	23	9
Loss on disposal of long-lived assets	1,575	136
Impairment loss (Note 16)	6,909	1,553
Business structural improvement expenses (Note)	525	14
Employment structural improvement expenses (Note)	1,019	235
Loss on liquidation of subsidiaries	178	—
Others	607	438
Total other expenses	10,839	2,388

Notes:

1. Business structural improvement expenses are costs accrued for the restructuring of the manufacturing and sales business in domestic and oversea areas. The main contents are the expenses related to transfer and integration of bases of operations.
2. 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)

	2017	2018
Remeasurement of defined benefit plan		
Arising during the year	(1,400)	10,150
Income tax effect	884	(296)
Remeasurement of defined benefit plan	(516)	9,853
Fair value gain on financial assets available for sale		
Arising during the year	927	1,222
Reclassification adjustments	(58)	(708)
Before income tax effect	869	514
Income tax effect	(226)	(130)
Fair value gain on financial assets available for sale	642	384
Exchange differences arising on translation of foreign operations		
Arising during the year	(2,231)	(703)
Reclassification adjustments	159	(21)
Before income tax effect	(2,072)	(725)
Income tax effect	—	—
Exchange differences arising on translation of foreign operations	(2,072)	(725)
Cash flow hedges		
Arising during the year	1,315	(1,970)
Reclassification adjustments	515	703
Before income tax effect	1,831	(1,267)
Income tax effect	(268)	239
Cash flow hedges	1,563	(1,028)
Share of OCI of investments accounted for using the equity method		
Arising during the year	0	(0)
Reclassification adjustments	—	—
Share of OCI of investments accounted for using equity method	0	(0)
Total other comprehensive income	(382)	8,484

33. Earnings per share

The basis of calculating basic earnings per share is as follows:

	2017	2018
Profit attributable to ordinary shareholders of the parent company (millions of yen)	(3,114)	2,393
Weighted-average number of outstanding ordinary shares (shares)	138,949,380	138,946,717
Basic earnings (loss) per share (yen)	(22.42)	17.23

Diluted earnings per share is not stated because there are no dilutive shares.

34. Financial instruments

(1) Capital management

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

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Cash and cash equivalents	41,682	40,798	37,162
Interest-bearing debt	72,024	70,996	67,847
Total equity	49,123	45,236	53,792

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

(2) Financial risk management policies

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

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

1) Credit risk management

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

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

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

Impairment loss is not recognized for financial assets that are not past due and with no significant default risks due to deterioration of customer's credit and finance. Also, amounts of finance assets that are past due but not impaired do not have a significant impact on the consolidated financial statements.

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:

Date of transition to IFRS (April 1, 2016)

(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 financial liabilities					
Trade and other payables	42,975	42,975	42,975	—	—
Short-term borrowings	13,999	13,999	13,999	—	—
Current portion of long-term borrowings	12,175	12,175	12,175	—	—
Long-term borrowings	45,849	45,849	—	45,849	—
Others	1,810	1,810	1,102	544	163
Derivative financial liabilities					
Interest rate swaps	48	48	36	12	—
Foreign exchange forward contracts	1,577	1,577	1,467	110	—
Total	118,437	118,437	71,757	46,516	163

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

Previous fiscal year (March 31, 2017)

(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 financial liabilities					
Trade and other payables	41,559	41,559	41,559	—	—
Short-term borrowings	7,268	7,268	7,268	—	—
Current portion of long-term borrowings	8,916	8,916	8,916	—	—
Long-term borrowings	54,811	54,811	—	54,811	—
Others	1,745	1,745	1,001	736	7
Derivative financial liabilities					
Interest rate swaps	6	6	2	3	—
Foreign exchange forward contracts	555	555	531	24	—
Total	114,863	114,863	59,281	55,575	7

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

Current fiscal year (March 31, 2018)

(Unit: Millions of yen)

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

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

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:

	Date of transition to IFRS (April 1, 2016)		2017		2018	
	Contractual amount (millions of yen)	Fair value (millions of yen)	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	7,032	5	3,194	1	2,308	16
Euro	1,148	1	2,012	(34)	3,143	69
GB pound	161	0	279	0	371	0
Canadian dollar	303	0	251	0	279	0
Australian dollar	129	0	299	0	366	0
Hong Kong dollar	181	0	209	0	256	0
Russian ruble	42	0	214	3	92	1
Thai baht	—	—	51	0	—	—
Subtotal	8,997	8	6,511	(27)	6,819	88
(Buying)						
U.S. dollar	8,052	(140)	3,501	(4)	6,280	(10)
Euro	2,934	3	3,516	(3)	3,167	109
GB pound	—	—	225	(16)	186	(0)
Canadian dollar	—	—	—	—	1,798	(1)
Hong Kong dollar	174	(0)	—	—	—	—
Singapore dollar	4,333	(2)	4,053	(1)	1,739	(1)
Thai baht	684	(3)	70	(0)	342	(1)
Subtotal	16,179	(143)	11,367	(25)	13,515	93
Non-deliverable forward						
(Selling)						
Brazilian real	76	0	20	0	4	0
Subtotal	76	0	20	0	4	0
(Buying)						
Malaysian ringgit	1,318	(6)	—	—	—	—
Subtotal	1,318	(6)	—	—	—	—
Total	26,571	(140)	17,899	(53)	20,340	182

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

	Date of transition to IFRS (April 1, 2016)		2017		2018	
	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)	Contractual amount (millions of yen)	Fair value (millions of yen)
(Selling)						
U.S. dollar	8,975	(9)	3,052	22	1,287	9
Euro	8,421	(266)	7,635	145	8,523	(63)
GB pound	2,263	(181)	1,905	92	2,475	14
Canadian dollar	—	—	1,679	53	1,898	(91)
Subtotal	19,659	(457)	14,272	314	14,184	(131)
(Buying)						
U.S. dollar	24,677	(1,380)	17,894	1,145	34,662	(571)
Polish zloty	582	5	—	—	—	—
Subtotal	25,260	(1,374)	17,894	1,145	34,662	(571)
Total	44,919	(1,832)	32,167	1,460	48,846	(702)

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, 2017 and 2018 are as follows:

(Unit: Millions of yen)

	2017	2018
Impact on income before income taxes		
U.S. dollar	(85)	(135)
Euro	0	(24)

(Unit: Millions of yen)

	2017	2018
Impact on other comprehensive income		
U.S. dollar	(198)	(373)
Euro	77	84

(ii) Interest rate risk

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

Interest rate sensitivity analysis

The financial impacts on profit before income taxes in the case of appreciation of interest rates by 1% on the interest-bearing debts held by the Group while all other variables, such as future changes in balances and effects of foreign exchange fluctuations, are held constant as of March 31, 2017 and 2018 are as follows:

(Unit: Millions of yen)

	2017	2018
Impact on income before income taxes	683	625

(3) Classification of financial instruments

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Financial assets			
Cash and cash equivalents	41,682	40,798	37,162
Trade and other receivables	57,262	56,854	59,160
Other current financial assets			
Financial assets available for sale	5,996	8,627	9,195
Others	3,041	3,792	2,315
Total financial assets	107,982	110,072	107,833
Financial liabilities			
Financial liabilities measured at amortized cost			
Trade and other payables	42,975	41,559	47,035
Borrowings	72,024	70,996	67,847
Other current financial liabilities	3,436	2,307	2,988
Total financial liabilities	118,437	114,863	117,871

(4) Fair value of financial instruments

1) Fair value hierarchy

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

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

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

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

2) Carrying amount and fair value of financial instruments

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

(Unit: Millions of yen)

Type	Date of transition to IFRS (April 1, 2016)		2017		2018	
Financial liabilities	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Borrowings	72,024	72,024	70,996	70,999	67,847	67,850
Total	72,024	72,024	70,996	70,999	67,847	67,850

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.

3) Financial instruments measured at fair value

Fair value of financial instruments that are measured at fair value on a recurring basis at each fiscal year end is as follows. No transfers occurred between Levels 1, 2, and 3 during the years ended March 31, 2017 and 2018.

(Unit: Millions of yen)

Date of transition to IFRS (April 1, 2016)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets available for sale	2,285	—	3,710	5,996
Derivative assets	—	461	—	461
Total	2,285	461	3,710	6,457
Financial liabilities				
Derivative liabilities	—	1,626	—	1,626
Total	—	1,626	—	1,626

(Unit: Millions of yen)

2017	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets available for sale	2,737	—	5,889	8,627
Derivative assets	—	1,332	—	1,332
Total	2,737	1,332	5,889	9,959
Financial liabilities				
Derivative liabilities	—	562	—	562
Total	—	562	—	562

(Unit: Millions of yen)

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

Notes:

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

The fair values included above are calculated as follows:

(a) Financial assets available for sale

Listed shares are based on the market prices and categorized as Level 1 of the fair value hierarchy. Unlisted shares are calculated by the valuation techniques based on the discounted future cash flows, the market prices of the comparative companies, the net asset values, and other valuation techniques and are categorized as Level 3 of the fair value hierarchy. Unobservable input such as discount rates (13.5%) and EBITDA ratio (in the range of 9.2 to 31.0) are used for fair value measurements of unlisted shares, adjusted for certain illiquidity discounts, if necessary.

Fair value measurements of unlisted shares are performed by the Company. Fair value measurements, including fair value models, are examined for adequacy by periodically evaluating the business descriptions and the availability of business plans of the companies issuing the shares as well as comparative listed companies.

(b) Derivatives financial 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 (i.e., equity investments) classified into Level 3 during the reporting periods are as follows:

(Unit: Millions of yen)

	2017	2018
Balance, beginning of year	3,710	5,889
Total gain or loss		
Profit or loss	—	—
Other comprehensive income	1,143	(164)
Purchase	1,180	330
Sales/settlement	(145)	(95)
Balance, end of year	5,889	5,960

Gains or losses recognized in profit or loss are included in finance income or finance expenses in the consolidated statement of income. Gains or losses recognized as other comprehensive income are included in fair value gain on financial assets available for sale in the consolidated statement of comprehensive income.

(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)

	2017	2018
Cash flow hedge	(837)	438

(6) Transfers of financial assets

The Group has sold certain trade receivables at discounts in exchange for cash. Such securitized receivables do not qualify for derecognition since the Group maintains the obligation to compensate the outstanding receivables balance. The liabilities associated with the transferred financial assets are included in short-term borrowings (current liabilities).

The carrying amounts of the transferred assets that are not derecognized and associated liabilities at each fiscal year end are as follows:

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Carrying amount of transferred assets	1,278	—	—
Carrying amount of associated liabilities	969	—	—

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, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	Cash flows	Non-cash changes					2017
			Foreign exchange differences	Fair value changes	Changes by amortized cost method	Long- and short-term transfer	Other	
Short-term borrowings	26,175	(11,916)	(90)	—	90	1,927	—	16,185
Long-term borrowings	45,849	11,316	(488)	—	59	(1,927)	—	54,811

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

(Unit: Millions of yen)

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

(2) Proceeds from sales of subsidiaries resulting in change in scope of consolidation

(Previous fiscal year)

The Group sold shares in JVCKENWOOD Arcs Corporation (hereinafter "JKAC"), which was a consolidated subsidiary. The breakdown of the assets and liabilities at disposal, the proceeds from the disposal of JKAC, and the proceeds from the disposal (net amount) are as follows:

(Unit: Millions of yen)

Current assets	698
Non-current assets	225
Current liabilities	(534)
Non-current liabilities	(234)
Non-controlling interests	(64)
Gain on sales of subsidiaries	560
Proceeds from the disposal of investments in JKAC	651
Cash and cash equivalents of JKAC	(175)
Proceeds from the disposal	476

(3) Proceeds from transfer of business

(Previous fiscal year)

The Group earned income by transferring its card printer business. The breakdown of the assets and liabilities concerning the business transfer, the proceeds from the transfer of the card printer business, and the proceeds from transfer of business (net amount) are as follows:

	(Unit: Millions of yen)
Current assets	1,472
Non-current assets	52
Current liabilities	(1,155)
Non-current liabilities	(454)
Expenses related to the business transfer	1
Gain on transfer of business	3,617
Proceeds from transfer of card printer business	3,533
Accounts receivable–other	(120)
Cash and cash equivalents of card printer business	(454)
Proceeds from transfer of business	2,958

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	Date of transition to IFRS (April 1, 2016)	2017	2018
Employees (such as home loans)	261	199	207

37. Related-party transactions

(1) Related-party transactions

Previous fiscal year (from April 1, 2016 to March 31, 2017)

Not applicable.

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

Not applicable.

(2) Remuneration of key managing officers

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

(Unit: Millions of yen)

	2017	2018
Basic remuneration and bonuses	357	300
Post-employment benefits	—	—
Other	—	—

38. Significant subsidiaries

Details of significant consolidated subsidiaries as of March 31, 2018 are as follows:

Name	Location	Capital in million yen or thousands of local currency		Main business	Equity ownership percentage as of March 31, 2018
JVCKENWOOD Public & Industrial Systems Corporation	Yokohama, Japan	JPY	300	Development, sales, manufacture, installation, maintenance, and repair of professional audio, imaging, and wireless communications equipment	100.0
JVCKENWOOD Victor Entertainment Corporation	Tokyo, Japan	JPY	5,595	Planning, production, and sales of audio and video, and software, etc.	100.0
JVCKENWOOD Creative Media Corporation	Yokosuka, Japan	JPY	1,207	Development, manufacture, and sales of recorded optical disks	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 car electronics equipment	100.0
JVCKENWOOD Europe B.V.	Uithoorn, Netherlands	EUR	13,084	Sales mainly in the Netherlands	100.0
PT. JVC Electronics Indonesia	Jawa Barat, Indonesia	USD	22,400	Manufacture and sales of car electronics equipment	100.0 (0.0)
Shanghai Kenwood Electronics Co., Ltd.	Shanghai, China	CNY	114,435	Manufacture and sales of car electronics and wireless communications equipment	100.0
Shinwa International Holdings Limited	Hong Kong, China	USD	29,090	Manufacture and sales of car electronics equipment and contract manufacturing service of electronic devices	100.0

Note: Shinwa International Holdings Limited (“Shinwa”) changed its name to JVCKENWOOD Hong Kong Holdings Ltd. on April 9, 2018.

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)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Carrying amount of investments	1,279	1,197	1,157

(Unit: Millions of yen)

	2017	2018
Net income	38	100
Other comprehensive income (after tax)	0	(0)
Total comprehensive income	38	100

40. Interests in unconsolidated structured entities

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

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

(Unit: Millions of yen)

	Date of transition to IFRS (April 1, 2016)	2017	2018
Total assets of unconsolidated structured entities	19,655	37,591	40,651
The carrying amount of the investments that the Company recognized in the consolidated statement of financial position	1,915	2,880	2,610
Commitments related to additional investments	1,126	420	398
Maximum loss exposure of the Company	3,042	3,301	3,008

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

The potential maximum exposure to loss resulting from the interests in the structured entities is limited to the sum of the carrying amount of the

Company's investments and commitments related to additional investments.

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

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

41. Discontinued operations

Not applicable.

42. Subsequent events

At the meeting of the Board of Directors held on May 31, 2018, the Company resolved to issue the second subscription rights to shares through third-party share allocation (hereinafter "the subscription rights to shares") as follows:

Outline of offering

(1) Date of allotment of shares	June 19, 2018
(2) Total No. of subscription rights to shares	250,000
(3) Issue price	¥134 per subscription right to shares (for a total of ¥33,500,000)
(4) No. of dilutive shares by the issuance	Number of dilutive shares: 25,000,000 (100 shares per subscription right to shares) There is no upper limit for the exercise price. Although the lowest exercise price is ¥289, the number of dilutive shares remains unchanged, which is 25,000,000, for the lower limit.
(5) Amount of procurement funds (amount of estimated net proceeds)	¥9,048,500,000 (Note)
(6) Exercise price and conditions for exercise price correction	Initial exercise price: ¥361 On and after June 20, 2018, the exercise price will be adjusted to the price corresponding to 92% of the closing price of regular ways of the Company's ordinary shares (hereinafter "the TSE closing price") at the Tokyo Stock Exchange (hereinafter "the TSE") on the transaction date immediately before the date when each request to exercise the subscription rights to shares is notified; provided, however, when the corrected price falls below the lowest exercise price, the adjusted exercise price shall be considered as the lowest exercise price.
(7) Method of offering or allotment (scheduled Allottee)	Third-party share allotment to Nomura Securities Co., Ltd.
(8) Exercise period	The exercisable period of the subscription rights to shares is about three years after the transaction day following the allotment day (from June 20, 2018 to June 18, 2021); provided, however, that, in respect of the Company's ordinary shares, any requests to exercise the rights cannot be submitted on the date of right allotment, a business day and two business days before the date of right allotment, and any other days that have been judged necessary by Japan Securities Depository Center, Inc.
(9) Purpose of use of funds	The funds raised through the subscription rights to shares are scheduled to be allotted to development and business investments in the automotive sector, public service sector, and media service sector.
(10) Other	In the subscription agreement scheduled to be entered into between the Company and Nomura Securities Co., Ltd., the allottee (hereinafter "the Allottee"), after the notification regarding offering of the subscription rights to shares based on the Financial Instruments and Exchange Act has taken effect, the Company plans to acknowledge and agree that the Company is entitled to specify that the Allottee should exercise the subscription rights to shares and the number of subscription rights to shares to exercise, that the Company is entitled to specify a period during which the Allottee cannot exercise all or part of the subscription rights to shares, that the Allottee is entitled to make a request for acquisition of the subscription rights to shares by notifying the Company to that effect in a certain case and the Company shall acquire the subscription rights to shares in accordance with the requirements for the subscription rights to shares upon receipt of the request, and that the Allottee shall not assign the subscription rights to shares to any third party without approval from the Company's Board of Directors.

Note: The amount of procurement funds is an amount calculated by subtracting the estimated amount of various expenses for issuing the subscription rights to shares from the amount calculated by adding the total value of assets to be contributed when the subscription rights to shares are exercised to the total amount of payments for the subscription rights to shares. Although the total value of the assets to be contributed when the subscription rights to shares are exercised is based on the assumption that all the subscription rights to shares have been exercised at the initial exercise price (the TSE closing price at the date of resolution on issuance), the actual amount of procurement funds will increase or decrease depending on the level of the exercise price. In addition, the amount of procurement funds will shrink when all or part of the subscription rights to shares have not been exercised within the exercise period relevant thereto or when the subscription rights to shares that the Company has acquired have been cancelled.

43. First-time adoption of IFRS

The consolidated financial statements of the current fiscal year are the first consolidated financial statements prepared in accordance with IFRS, and the date of transition to IFRS was April 1, 2016. Up to the year ended March 31, 2017, the Group prepared its consolidated financial statements in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”). The accounting policies applied in preparing the IFRS financial statements are described in Note 3. “Significant accounting policies.”

(1) Exemptions in IFRS 1

In principle, IFRS 1 requires that an entity adopting IFRS for the first time must apply the procedures required by IFRS retrospectively. However, IFRS 1 also provides that first-time adopters may apply optional exemptions to certain procedures required by IFRS. Stated below are the exemptions under IFRS 1 that the Group elected to apply in the transition from Japanese GAAP.

1) Business combination

IFRS 1 acknowledges application of IFRS 3, “Business Combinations” (“IFRS 3”) prospectively from a specific date before the date of transition to IFRS. The Group has decided to retrospectively apply IFRS 3 to business combinations taking place from May 10, 2007 onwards. Accordingly, the Group has not applied IFRS 3 retrospectively to any business combinations that took place on or before May 9, 2007.

2) Cumulative translation differences of foreign operations

The Group adopted the exemption set forth in IFRS 1, and the cumulative translation differences were deemed to be zero as of the date of transition to IFRS.

3) Designation of previously recognized financial instruments

The Group has designated investments in equity instruments as investments to be measured at fair value through other comprehensive income based on the facts and circumstances as of the date of transition to IFRS.

4) Adoption of deemed cost related to property, plant and equipment

For certain items of property, plant and equipment, the Group has used their fair values as of the date of transition to IFRS as their deemed costs.

5) Adoption of transitional measures of IFRS 15

IFRS 15 allows an entity adopting IFRS for the first time not to modify any contracts completed as of the beginning of the first reporting period and contracts for which modifications were made before the beginning of the period. The Group has adopted the practical expedient and has not modified any contracts completed as of April 1, 2017, the beginning of the first reporting period, and contracts for which modifications were made before that date.

The adoption of the expedient has no significant impact on the consolidated statement of financial position or consolidated statement of income.

(2) Mandatory exceptions in IFRS 1

IFRS 1 prohibits retrospective application of IFRS for estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, classification and measurement of financial assets, and impairment of financial assets. The Group has prospectively applied IFRS for these items from the date of transition.

(3) Reconciliations

Reconciliations required in first-time adoption of IFRS are as follows. "Reclassifications" of the reconciliations contain adjustments that do not affect retained earnings and comprehensive income, and "Reconciliations of recognition and measurement" include adjustments that have impact on retained earnings and comprehensive income.

1) Reconciliations of equity as of the date of transition to IFRS (April 1, 2016)

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and time deposits	42,764	(1,212)	130	41,682	(1)	Cash and cash equivalents
Notes and accounts receivable–trade	55,517	526	1,218	57,262	(2)	Trade and other receivables
		1,266	(182)	1,084	(3)	Contract assets
Inventories	40,088	(26)	(1,750)	38,311	(5)	Inventories
			530	530	(6)	Right to recover products
		1,175		1,175	(7)	Income taxes receivable
Deferred tax assets	3,110	(3,110)				
Other current assets	10,385	(8,707)		1,677	(4)	Other financial assets
		5,419	27	5,447	(9)	Other current assets
Allowance for doubtful accounts	(1,448)	1,448				
		1,044		1,044		Assets classified as held for sale
Total current assets	150,417	(2,176)	(24)	148,216		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	51,506	(2,273)	(4,645)	44,587	(10)	Property, plant and equipment
Intangible assets						
Goodwill	8,087		(2,827)	5,260	(11)	Goodwill
Other intangible assets	16,891	(322)	4,769	21,338	(12)	Intangible assets
Total intangible assets	24,978	(322)	1,942	26,598		
Investments and other assets						
Investment securities	5,966	(4,731)	43	1,279	(15)	Investments accounted for using the equity method
		1,567	496	2,064	(14)	Investment property
Net defined benefit assets	14,955		(4,831)	10,124	(13)	Net defined benefit assets
Deferred tax assets	5,916	2,813	(749)	7,980	(8)	Deferred tax assets
		6,122	1,237	7,360	(16)	Other financial assets
Other investments	3,276	(2,067)	48	1,256	(17)	Other non-current assets
Allowance for doubtful accounts	(683)	683				
Total investments and other assets	29,431	4,388	(3,754)	30,065		
Total fixed assets	105,916	1,792	(6,458)	101,250		Total non-current assets
Total assets	256,334	(383)	(6,483)	249,467		Total assets

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable–trade	32,639	10,057	279	42,975	(18)	Trade and other payables
Other accounts payable	10,295	(10,295)				
		3,537	65	3,602	(22)	Contract liabilities
Short-term loans payable	22,939	2,369	866	26,175	(19)	Short-term borrowings
Income taxes payable	2,371	55	17	2,444	(20)	Income taxes payable
		3,368	497	3,866	(23)	Refund liabilities
Other reserves	1,973	(584)	(23)	1,366	(24)	Provisions
Other current liabilities	29,568	(26,998)	36	2,606	(21)	Other financial liabilities
		18,254	3,564	21,819	(25)	Other current liabilities
Total current liabilities	99,787	(234)	5,303	104,856		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term loans payable	46,262		(412)	45,849	(26)	Long-term borrowings
Deferred tax liabilities	9,570	(183)	(4,210)	5,177	(30)	Deferred tax liabilities
Net defined benefit liabilities	39,788		1,173	40,962	(27)	Net defined benefit liabilities
		1,841	93	1,934	(28)	Provisions
Other long-term liabilities	3,358	(2,540)	12	830		Other financial liabilities
		733		733	(29)	Other non-current liabilities
Total long-term liabilities	98,980	(148)	(3,344)	95,487		Total non-current liabilities
Total liabilities	198,768	(383)	1,959	200,344		Total liabilities
Equity						Equity
Shareholders' equity						Equity attributable to owners of the parent company
Common stock	10,000			10,000		Capital stock
Capital surplus	45,573		54	45,628	(31)	Capital surplus
Retained earnings	25,128		(37,414)	(12,285)	(33)	Retained earnings
Treasury stock	(36)			(36)		Treasury stock
Accumulated other comprehensive income	(28,341)		28,710	369	(32)	Other components of equity
	52,324		(8,649)	43,675		Equity attributable to owners of the parent company
Non-controlling interests	5,241		206	5,447		Non-controlling interests
Total equity	57,565	—	(8,442)	49,123		Total equity
Total liabilities and equity	256,334	(383)	(6,483)	249,467		Total liabilities and equity

Notes on reconciliations as of the date of transition to IFRS (April 1, 2016)

The major reconciliations between Japanese GAAP and IFRS as presented in the statement of reconciliations of equity are described as follows:

(1) Cash and cash equivalents

Reclassifications

A time deposit of 1,212 million yen with a deposit term exceeding three months, which was included in cash and time deposits under Japanese GAAP, is presented in "Other financial assets" (current) under IFRS.

Reconciliations of recognition and measurement

Due to changes in the scope of consolidation in adopting IFRS, Speedstar Music, Inc. is newly included in the scope of consolidation under IFRS, resulting in an increase of 130 million yen in "Cash and cash equivalents."

(2) Trade and other receivables

Reclassifications

An allowance for doubtful accounts (current assets) of 1,450 million yen, which was separately stated under Japanese GAAP, and a receivable of 3,323 million yen, which was included in other current assets under Japanese GAAP, are included in “Trade and other receivables” under IFRS. Similarly, of the notes and accounts receivable (trade) under Japanese GAAP, 1,266 million yen for which the Group does not have any unconditional right to receive consideration is separately stated as “Contract assets” under IFRS.

Reconciliations of recognition and measurement

When trade receivables were transferred for transactions of liquidating receivables under Japanese GAAP, the Group derecognized the total amount of financial assets. Meanwhile, as they do not meet the requirements for derecognition of financial assets under IFRS, both trade receivables and borrowings are recognized. As a result, “Trade and other receivables” and “Short-term borrowings” increased respectively by 969 million yen.

(3) Contract assets

Reconciliations of recognition and measurement

For part of transactions to which the percentage-of-completion method was applied under Japanese GAAP, the Group changed its measurement of progress on the transactions in adopting IFRS, resulting in a decrease of 182 million yen in “Contract assets.”

(4) Other financial assets (current assets)

Reclassifications

A derivative asset of 461 million yen included in other current assets under Japanese GAAP is stated as “Other financial assets” (current assets).

(5) Inventories

Reconciliations of recognition and measurement

Research and development costs were capitalized to inventories under Japanese GAAP, the Group expensed them in the accounting period during which such expenses were mainly incurred, resulting in a decrease of 1,647 million yen in “Inventories.”

(6) Right to recover products

Reconciliations of recognition and measurement

A right to recover products of 530 million yen arising when products are returned from customers is recognized as “Right to recover products” in adopting IFRS.

(7) Income taxes receivable

Reclassifications

Income taxes receivable of 1,175 million yen included in other current assets under Japanese GAAP are presented as “Income taxes receivable.”

(8) Deferred tax assets

Reclassifications

Deferred tax assets of 3,110 million yen separately stated in current assets under Japanese GAAP are presented as “Deferred tax assets” in non-current assets.

(9) Other current assets

Reclassifications

Prepaid expenses and consumption taxes receivable of 5,419 million yen included in other current assets under Japanese GAAP are presented as “Other current assets.”

(10) Property, plant and equipment

Reclassifications

Assets held for sale of 1,044 million yen and real estate property held for rent of 1,244 million yen included in property, plant and equipment under Japanese GAAP are presented as “Assets classified as held for sale” and “Investment property,” respectively.

Reconciliations of recognition and measurement

- “Property, plant and equipment” increased by 2,719 million yen due to changes in depreciation methods and useful lives in adopting IFRS.
- While part of the lands for business use had been revalued in accordance with the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998) and the “Act on Partial Amendment on the Act on Revaluation of Land” (Act No. 24 of March 31, 1999) under Japanese GAAP, land revaluation surplus of 4,982 million yen is reversed under IFRS.
- With regard to part of the lands, as the Group adopted exemptions stipulated in IFRS 1, which considers the fair value as of the date of transition to IFRS to be the deemed cost as of the transition date, “Property, plant and equipment” decreased by 2,487 million yen. The carrying amount of property, plant and equipment to which the deemed cost was applied under Japanese GAAP was 8,945 million yen and its fair value was 6,456 million yen. The fair value is calculated based on valuation by an independent appraiser with appropriate qualifications as an expert and classified as Level 3.

(11) Goodwill

Reconciliations of recognition and measurement

The Group recognized part of the difference between the acquisition cost of the shares of Zetron, Inc. ("Zetron") in the United States, one of the consolidated subsidiaries, and the fair value of net assets of Zetron on May 10, 2007 as goodwill and recognized amortization of goodwill under Japanese GAAP. However, the Group adopted IFRS 3 retrospectively to business combinations occurring on or after May 10, 2007 and analyzed causes of goodwill, resulting in a recognition of intangible assets of 4,684 million yen, including existing technologies and customer networks, which are newly amortized over their useful lives as of the date of acquisition. Meanwhile, as the Group amortized goodwill using the straight-line method over 20 years under Japanese GAAP, the amortization of goodwill of 2,870 million yen recognized up to the date of transition to IFRS is reversed under IFRS. In addition, the acquisition-related costs of 126 million yen, which were included in goodwill under Japanese GAAP, are derecognized under IFRS. As a result, Zetron-related goodwill decreased by 2,012 million yen under IFRS.

(12) Intangible assets

Reclassifications

Rights to real estate property held for rent of 322 million yen, which were included in intangible assets under Japanese GAAP, are presented as "Investment property."

Reconciliations of recognition and measurement

Of the expenditures for research and development which were expensed under Japanese GAAP, development costs of 4,891 million yen that met the requirements of capitalization of assets under IFRS are recognized as "Intangible assets."

(13) Net defined benefit assets

Reconciliations of recognition and measurement

In adopting IFRS, a "Net defined benefit assets" decreased by 4,831 million yen due to the impact of recognition of assets up to the present value of available economic benefits.

(14) Investment property

Reconciliations of recognition and measurement

In adopting IFRS, "Investment property" increased by 496 million yen, as the fair value of investment property exceeded its carrying amount.

(15) Investments accounted for using the equity method

Reconciliations of recognition and measurement

In adopting IFRS, the shares of affiliates are newly accounted for by the equity method, resulting in an increase of 43 million yen in "Investments accounted for using the equity method."

(16) Other financial assets (non-current assets)

Reclassifications

The amounts of 4,731 million yen included in investment securities, 1,994 million yen included in other investments, and (608) million yen separately stated as allowance for doubtful accounts (non-current assets) under Japanese GAAP are presented as "Other financial assets" (non-current assets).

(17) Other non-current assets

Reclassifications

The amount of 1,208 million yen included in other investments under Japanese GAAP is presented as "Other non-current assets."

(18) Trade and other payables

Reclassifications

The amount of 10,057 million yen included in other accounts payable under Japanese GAAP is presented as "Trade and other payables."

(19) Short-term borrowings

Reclassifications

As a deposit received of 2,369 million yen included in other current liabilities under Japanese GAAP is a balance related to procurement of funds, it is presented as "Short-term borrowings."

(20) Income taxes payable

Reclassifications

Income taxes payable of 2,371 million yen separately stated under Japanese GAAP are presented as "Income taxes payable."

(21) Other financial liabilities (current liabilities)

Reclassifications

The amount of 2,570 million yen included in other current liabilities under Japanese GAAP is presented as "Other financial liabilities" (current liabilities).

(22) Contract liabilities

Reclassifications

A total of advances received and deferred income of 3,537 million yen included in other current liabilities under Japanese GAAP is presented as “Contract liabilities.”

(23) Refund liabilities

Reclassifications

Sales return reserves of 722 million yen and part of accrued expenses of 2,646 million yen, both of which were separately stated under Japanese GAAP, are presented as “Refund liabilities.”

Reconciliations of recognition and measurement

In adopting IFRS, a right to recover products of 497 million yen arising when products are returned from customers is recognized as “Right to recover products,” and the same amount is recognized as “Refund liabilities.”

(24) Provisions (current liabilities)

Reclassifications

Warranty reserves of 1,250 million yen separately stated under Japanese GAAP are presented as “Provisions” (current liabilities).

(25) Other current liabilities

Reclassifications

The amount of 15,687 million yen included in accrued expenses, which were separately stated under Japanese GAAP, is presented as “Other current liabilities.”

Reconciliations of recognition and measurement

In adopting IFRS, the Group recognized liabilities regarding unused paid absences of 3,300 million yen, which were not recognized under Japanese GAAP, in “Other current liabilities.” In addition, the Group expensed property taxes levied in Japan over the accounting period during which they were paid under Japanese GAAP; however, the Group recognizes liabilities in a bundled manner at a date for assessment in adopting IFRS, resulting in a recognition of 369 million yen in “Other current liabilities.”

(26) Long-term borrowings

Reclassifications

Long-term loans payable of 46,262 million yen separately stated under Japanese GAAP are presented as “Long-term borrowings.”

Reconciliations of recognition and measurement

“Long-term borrowings” decreased by 412 million yen as they are measured at amortized cost using the effective interest method in adopting IFRS.

(27) Net defined benefit liabilities

Reconciliations of recognition and measurement

While the actuarial gains and losses in post-employment benefit obligations related to the defined benefit plans were recognized as other comprehensive income when incurred and then recognized as expenses for a certain period (mainly 10 years) under Japanese GAAP, they are recognized as other comprehensive income when incurred and immediately transferred to retained earnings under IFRS. While prior service cost was recognized as an expense by the straight-line method over a certain period (10 years) within the average remaining service years of employees under Japanese GAAP, it is recognized as an expense when incurred under IFRS. As a result, “Net defined benefit liabilities” increased by 36 million yen.

Furthermore, under Japanese GAAP, part of the Group's subsidiaries calculated defined benefit plan obligations by the simplified method accepted by Japanese GAAP; however, in adopting IFRS, the Group changed it to the method specified by IFRS, in which an actuarial calculation is performed, resulting in an increase of 1,136 million yen in “Net defined benefit liabilities.”

(28) Provisions (non-current liabilities)

Reclassifications

Asset retirement obligations of 821 million yen and onerous lease obligations of 1,011 million yen, both of which were included in other long-term liabilities under Japanese GAAP, are presented as “Provisions” (non-current liabilities).

(29) Other non-current liabilities

Reclassifications

The amount of 733 million yen included in other long-term liabilities under Japanese GAAP is presented as “Other non-current liabilities.”

(30) Deferred tax liabilities

Reclassifications

As a result of presenting deferred tax assets in non-current assets instead of current assets, the items that meet the offsetting requirements were offset with "Deferred tax assets," and "Deferred tax liabilities" decreased by 297 million yen.

Reconciliations of recognition and measurement

"Deferred tax liabilities" decreased by 4,210 million yen due to changes in temporary differences in connection with the reconciliations of other items in the consolidated statement of financial position.

(31) Capital surplus

Reconciliations of recognition and measurement

The carrying amount of investment property held by Shinwa, one of the Group's subsidiaries, increased, resulting in an increase in non-controlling interests, in adopting IFRS. "Capital surplus" increased by 54 million yen through the transactions with non-controlling interests at the time of acquisition of additional shares of Shinwa in April 2015.

(32) Reconciliations to other components of equity

Reconciliations of recognition and measurement

1) The Group adopted the exemptions stipulated in IFRS 1 and transferred all the balance of accumulated foreign currency translation adjustments as of the date of transition to IFRS to retained earnings at the date of transition to IFRS. As a result, "Other components of equity" increased by 13,820 million yen.

2) While including the unrecognized actuarial gains and losses on post-employment benefit obligations related to the defined benefit plans in accumulated other comprehensive income under Japanese GAAP, the Group recognized them as other comprehensive income when incurred and immediately transferred them to retained earnings under IFRS. As a result, "Other components of equity" increased by 17,349 million yen.

3) While recognizing land revaluation surplus for part of property, plant and equipment under Japanese GAAP, the Group derecognizes it under IFRS. As a result, "Other components of equity" decreased by 3,458 million yen.

4) While unlisted stocks were recognized based on an acquisition cost and an impairment was recognized when their financial status deteriorated under Japanese GAAP, they are measured at fair value through other comprehensive income in adopting IFRS. As a result, "Other components of equity" increased by 825 million yen.

(33) Reconciliations to retained earnings

Reconciliations of recognition and measurement

The major items for reconciliations of recognition and measurement in respect of "retained earnings" are as follows:

	(Unit: Millions of yen)
Changes in the scope of manufacturing expenses included in inventories	(1,647)
Changes in depreciation method and useful life of property, plant and equipment	2,719
Adoption of deemed cost of property, plant and equipment	(2,487)
Amortization/impairment of goodwill and intangible assets	(2,827)
Capitalization of development costs	4,891
Actuarial gains and losses on defined benefit plan	(23,322)
Recognition of unused paid absences	(3,294)
Change in the method of recognizing levies	(369)
Measurement of borrowings by amortized cost	515
Cumulative translation differences of foreign operations	(13,820)
Changes in the scope of consolidation	126
Other	(246)
Subtotal	(39,763)
Reconciliations by tax effect	2,348
Total reconciliations to retained earnings	(37,414)

2) Adjustment of equity as of the end of the previous fiscal year (March 31, 2017)

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and time deposits	41,806	(1,125)	117	40,798	(1)	Cash and cash equivalents
Notes and accounts receivable–trade	56,706	(561)	709	56,854	(2)	Trade and other receivables
		1,204	160	1,365	(3)	Contract assets
Inventories	41,891	(27)	(2,636)	39,227	(5)	Inventories
			692	692	(6)	Right to recover products
		1,479		1,479	(7)	Income taxes receivable
Deferred tax assets	3,609	(3,609)				
Other current assets	9,849	(7,844)		2,004	(4)	Other financial assets
		5,465	32	5,498	(9)	Other current assets
Allowance for doubtful accounts	(1,305)	1,305				
		1,535		1,535		Assets classified as held for sale
Total current assets	152,557	(2,178)	(923)	149,456		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	50,428	(2,732)	(4,954)	42,741	(10)	Property, plant and equipment
Intangible assets						
Goodwill	3,868		(2,511)	1,357	(11)	Goodwill
Other intangible assets	14,630	(311)	5,038	19,357	(12)	Intangible assets
Total intangible fixed assets	18,499	(311)	2,526	20,714		
Investments and other assets						
Investment securities	8,064	(7,153)	286	1,197	(15)	Investments accounted for using the equity method
		1,526	544	2,071	(14)	Investment property
Net defined benefit assets	24,741		(18,196)	6,545	(13)	Net defined benefit assets
Deferred tax assets	5,268	3,526	(1,185)	7,609	(8)	Deferred tax assets
		8,978	1,437	10,415	(16)	Other financial assets
Other investments	3,261	(2,347)	29	943	(17)	Other non-current assets
Allowance for doubtful accounts	(524)	524				
Total investments and other assets	40,811	5,055	(17,083)	28,783		
Total fixed assets	109,739	2,011	(19,510)	92,239		Total non-current assets
Total assets	262,297	(167)	(20,433)	241,696		Total assets

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable–trade	31,233	10,190	135	41,559	(18)	Trade and other payables
Other accounts payable	10,548	(10,548)				
		3,078		3,078	(22)	Contract liabilities
Short-term loans payable	15,210	1,060	(86)	16,185	(19)	Short-term borrowings
Income taxes payable	1,900	51	16	1,968	(20)	Income taxes payable
		3,608	524	4,133	(23)	Refund liabilities
Other reserves	4,601	(1,220)	(37)	3,344	(24)	Provisions
Other current liabilities	28,382	(26,848)	2	1,536	(21)	Other financial liabilities
		20,327	3,598	23,926	(25)	Other current liabilities
		62		62		Liabilities directly associated with assets classified as held for sale
Total current liabilities	91,878	(237)	4,154	95,794		Total current liabilities
Long-term liabilities						Non-current liabilities
Long-term loans payable	55,052		(241)	54,811	(26)	Long-term borrowings
Deferred tax liabilities	12,926	41	(9,987)	2,979	(30)	Deferred tax liabilities
Net defined benefit liabilities	37,686		1,826	39,512	(27)	Net defined benefit liabilities
		1,692	89	1,782	(28)	Provisions
Other long-term liabilities	3,239	(2,471)	3	771		Other financial liabilities
		807		807	(29)	Other non-current liabilities
Total long-term liabilities	108,904	70	(8,310)	100,665		Total non-current liabilities
Total liabilities	200,783	(167)	(4,155)	196,460		Total liabilities
Equity						Equity
Shareholders' equity						Equity attributable to owners of the parent company
Common stock	10,000			10,000		Capital stock
Capital surplus	45,573		54	45,628	(31)	Capital surplus
Retained earnings	17,722		(34,334)	(16,611)	(33)	Retained earnings
Treasury stock	(37)			(37)		Treasury stock
Accumulated other comprehensive income	(17,219)		17,790	571	(32)	Other components of equity
	56,039		(16,488)	39,551		Equity attributable to owners of the parent company
Non-controlling interests	5,474		210	5,685		Non-controlling interests
Total equity	61,514	—	(16,277)	45,236		Total equity
Total liabilities and equity	262,297	(167)	(20,433)	241,696		Total liabilities and equity

Notes on reconciliations as of the end of previous fiscal year (March 31, 2017)

The major reconciliations between Japanese GAAP and IFRS as presented in the statement of reconciliations of equity are described as follows:

(1) Cash and cash equivalents

Reclassifications

A time deposit of 1,125 million yen with a deposit term exceeding three months, which was included in cash and deposits under Japanese GAAP, is presented in "Other financial assets" (current) under IFRS.

Reconciliations of recognition and measurement

Due to changes in the scope of consolidation in adopting IFRS, Speedstar Music, Inc. is newly included in the scope of consolidation under IFRS, resulting in an increase of 117 million yen in "Cash and cash equivalents."

(2) Trade and other receivables

Reclassifications

An allowance for doubtful accounts (current assets) of (945) million yen, which was separately stated under Japanese GAAP, and a receivable of 1,662 million yen, which was included in other current assets under Japanese GAAP, are included in "Trade and other receivables" under IFRS. Similarly, of the notes and accounts receivable (trade) under Japanese GAAP, 1,204 million yen for which the Group does not have any unconditional right to receive consideration is separately stated as "Contract assets" under IFRS.

(3) Contract assets

Reconciliations of recognition and measurement

Due to the transactions for which the requirements of revenue recognition are met under IFRS, “Contract assets” increased by 160 million yen.

(4) Other financial assets (current assets)

Reclassifications

Derivative assets of 876 million yen included in other current assets under Japanese GAAP are stated as “Other financial assets” (current assets).

(5) Inventories

Reconciliations of recognition and measurement

Research and development costs were capitalized to inventories under Japanese GAAP, the Group expensed them in the accounting period during which such expenses were mainly incurred, resulting in a decrease of 1,788 million yen in “Inventories.”

Furthermore, while parts of materials supplied by customers were recognized as inventories under Japanese GAAP, they are recognized as “Trade and other receivables” under IFRS, resulting in a decrease of 497 million yen in “Inventories.”

(6) Right to recover products

Reconciliations of recognition and measurement

A right to recover products of 692 million yen arising when products are returned from customers is recognized as “Right to recover products” in adopting IFRS.

(7) Income taxes receivable

Reclassifications

Income taxes receivable of 1,479 million yen included in other current assets under Japanese GAAP are presented as “Income taxes receivable.”

(8) Deferred tax assets

Reclassifications

Deferred tax assets of 3,609 million yen separately stated in current assets under Japanese GAAP are presented as “Deferred tax assets” in non-current assets.

(9) Other current assets

Reclassifications

Prepaid expenses and consumption taxes receivable of 5,465 million yen included in other current assets under Japanese GAAP are presented as “Other current assets.”

(10) Property, plant and equipment

Reclassifications

Assets held for sale of 1,535 million yen and real estate property held for rent of 1,215 million yen included in property, plant and equipment under Japanese GAAP are presented as “Assets classified as held for sale” and “Investment property,” respectively.

Reconciliations of recognition and measurement

- “Property, plant and equipment” increased by 2,328 million yen due to changes in depreciation methods and useful lives in adopting IFRS.
- While part of the lands for business use had been revalued in accordance with the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998) and the “Act on Partial Amendment on the Act on Revaluation of Land” (Act No. 24 of March 31, 1999) under Japanese GAAP, land revaluation surplus of 4,959 million yen is reversed under IFRS.
- With regard to part of the lands, as the Group adopted exemptions stipulated in IFRS 1, which considers the fair value as of the date of transition to IFRS to be the deemed cost as of the transition date, “Property, plant and equipment” decreased by 2,464 million yen.

(11) Goodwill

Reconciliations of recognition and measurement

The Group recognized intangible assets of 4,684 million yen under Japanese GAAP in the acquisition of shares of Zetron, one of the consolidated subsidiaries in the United States. Meanwhile, the amortization of goodwill of 3,174 million yen recognized under Japanese GAAP is reversed under IFRS. As a result, Zetron-related goodwill decreased by 1,715 million yen.

(12) Intangible assets

Reclassifications

Rights to real estate property held for rent of 311 million yen, which were included in intangible assets under Japanese GAAP, are presented as “Investment property.”

Reconciliations of recognition and measurement

Of the expenditures for research and development which were expensed under Japanese GAAP, development costs of 5,527 million yen that met the requirements of capitalization of assets under IFRS are recognized as “Intangible assets.”

(13) Net defined benefit assets

Reconciliations of recognition and measurement

In adopting IFRS, “Net defined benefit assets” decreased by 18,196 million yen due to the impact of recognition of assets up to the present value of available economic benefits.

(14) Investment property

Reconciliations of recognition and measurement

In adopting IFRS, “Investment property” increased by 544 million yen as the fair value of investment property exceeded its carrying amount.

(15) Investments accounted for using the equity method

Reconciliations of recognition and measurement

In adopting IFRS, the shares of affiliates are newly accounted for by the equity method, resulting in an increase of 286 million yen in “Investments accounted for using the equity method.”

(16) Other financial assets (non-current assets)

Reclassifications

The amounts of 7,153 million yen included in investment securities, 2,344 million yen included in other investments, and (521) million yen separately stated as allowance for doubtful accounts (non-current assets) under Japanese GAAP are presented as “Other financial assets” (non-current assets).

(17) Other non-current assets

Reclassifications

The amount of 914 million yen included in other investments under Japanese GAAP is presented as “Other non-current assets.”

(18) Trade and other payables

Reclassifications

The amount of 10,190 million yen included in other accounts payable under Japanese GAAP is presented as “Trade and other payables.”

(19) Short-term borrowings

Reclassifications

As a deposit received of 1,060 million yen included in other current liabilities under Japanese GAAP is a balance related to procurement of funds, it is presented as “Short-term borrowings.”

(20) Income taxes payable

Reclassifications

Income taxes payable of 1,900 million yen separately stated under Japanese GAAP are presented as “Income taxes payable.”

(21) Other financial liabilities (current liabilities)

Reclassifications

The amount of 1,534 million yen included in other current liabilities under Japanese GAAP is presented as “Other financial liabilities” (current liabilities).

(22) Contract liabilities

Reclassifications

A total of advances received and deferred income of 3,078 million yen included in other current liabilities under Japanese GAAP is presented as “Contract liabilities.”

(23) Refund liabilities

Reclassifications

Sales return reserves of 1,380 million yen and part of accrued expenses of 2,228 million yen, both of which were separately stated under Japanese GAAP, are presented as “Refund liabilities.”

Reconciliations of recognition and measurement

In adopting IFRS, a right to recover products of 524 million yen arising when products are returned from customers is recognized as “Right to recover products,” and the same amount is recognized as “Refund liabilities.”

(24) Provisions (current liabilities)

Reclassifications

Warranty reserves of 1,368 million yen separately stated under Japanese GAAP are presented as “Provisions” (current liabilities).

(25) Other current liabilities

Reclassifications

The amount of 16,523 million yen included in accrued expenses, which were separately stated under Japanese GAAP, is presented as "Other current liabilities."

Reconciliations of recognition and measurement

In adopting IFRS, the Group recognized liabilities regarding unused paid absences of 3,283 million yen, which were not recognized under Japanese GAAP, in "Other current liabilities." In addition, the Group expensed property taxes levied in Japan over the accounting period during which they were paid under Japanese GAAP; however, the Group recognizes liabilities in a bundled manner at a date for assessment in adopting IFRS, resulting in a recognition of 363 million yen in "Other current liabilities."

(26) Long-term borrowings

Reclassifications

Long-term loans payable of 55,052 million yen separately stated under Japanese GAAP are presented as "Long-term borrowings."

Reconciliations of recognition and measurement

"Long-term borrowings" decreased by 241 million yen as they are measured at amortized cost using the effective interest method in adopting IFRS.

(27) Net defined benefit liabilities

Reconciliations of recognition and measurement

While the actuarial gains and losses in post-employment benefit obligations related to the defined benefit plans were recognized as other comprehensive income when incurred and then recognized as expenses for a certain period (mainly 10 years) under Japanese GAAP, they are recognized as other comprehensive income when incurred and immediately transferred to retained earnings under IFRS. While prior service cost was recognized as an expense by the straight-line method over a certain period (10 years) within the average remaining service years of employees under Japanese GAAP, it is recognized as a expense when incurred under IFRS. As a result, "Net defined benefit liabilities" increased by 825 million yen.

Furthermore, under Japanese GAAP, part of the Group's subsidiaries calculated defined benefit plan obligations by the simplified method accepted by Japanese GAAP; however, in adopting IFRS, the Group changed it to the method specified by IFRS, in which an actuarial calculation is performed, resulting in an increase of 1,020 million yen in "Net defined benefit liabilities."

(28) Provisions (non-current liabilities)

Reclassifications

Asset retirement obligations of 857 million yen and onerous lease obligations of 854 million yen, both of which were included in "Other long-term liabilities" under Japanese GAAP, are presented as "Provisions" (non-current liabilities).

(29) Other non-current liabilities

Reclassifications

The amount of 807 million yen included in other long-term liabilities under Japanese GAAP is presented as "Other non-current liabilities."

(30) Deferred tax liabilities

Reclassifications

As a result of presenting deferred tax assets in non-current assets instead of current assets, the items that meet the offsetting requirements were offset with "Deferred tax assets," and "Deferred tax liabilities" decreased by 83 million yen.

Reconciliations of recognition and measurement

"Deferred tax liabilities" decreased by 9,987 million yen due to changes in temporary differences in connection with the reconciliations of other items in the consolidated statement of financial position.

(31) Capital surplus

Reconciliations of recognition and measurement

The carrying amount of investment property held by Shinwa, one of the Group's subsidiaries, increased, resulting in an increase in non-controlling interests, in adopting IFRS. "Capital surplus" increased by 54 million yen through the transactions with noncontrolling interests at the time of acquisition of additional shares of Shinwa in April 2015.

(32) Reconciliations to other components of equity

Reconciliations of recognition and measurement

1) The Group adopted the exemptions stipulated in IFRS 1 and transferred all the balance of accumulated foreign currency transaction adjustments as of the date of transition to IFRS to retained earnings at the date of transition to IFRS. As a result, "Other components of equity" increased by 13,820 million yen.

2) While including the unrecognized actuarial gains and losses on post-employment benefit obligations related to the defined benefit plans in "Accumulated other comprehensive income" under Japanese GAAP, the Group recognized them as other comprehensive income when incurred and immediately transferred them to retained earnings under IFRS. As a result, "Other components of equity" increased by 6,794 million yen.

3) While recognizing land revaluation surplus for part of the property, plant and equipment under Japanese GAAP, the Group derecognizes it under IFRS. As a result, "Other components of equity" decreased by 3,442 million yen.

4) While unlisted stocks were recognized based on an acquisition cost and an impairment was recognized when their financial status deteriorated under Japanese GAAP, they are measured at fair value through other comprehensive income in adopting IFRS. As a result, "Other components of equity" increased by 917 million yen.

(33) Reconciliations to retained earnings

Reconciliations of recognition and measurement

The major items for reconciliations of recognition and measurement in respect of "retained earnings" are as follows:

	(Unit: Millions of yen)
Change in the scope of manufacturing expenses included in inventories	(1,788)
Changes in depreciation method and useful life of property, plant and equipment	2,328
Adoption of deemed cost of property, plant and equipment	(2,464)
Amortization/impairment of goodwill and intangible assets	(2,511)
Capitalization of development costs	5,338
Actuarial gains and losses on defined benefit plan	(26,811)
Recognition of unused paid absences	(3,291)
Change in the method of recognizing levies	(363)
Measurement of borrowings by amortized cost	327
Cumulative translation differences of foreign operations	(13,820)
Changes in the scope of consolidation	397
Other	713
Subtotal	(41,944)
Reconciliations by tax effect	7,610
Total reconciliations to retained earnings	(34,334)

Reconciliations of profit and loss, and comprehensive income for the previous fiscal year (from April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Net sales	299,278		(1,388)	297,890	(1)	Revenue
Cost of sales	218,506	772	(2,302)	216,975	(2)	Cost of sales
Gross profit	80,772	(772)	914	80,914		Gross profit
Selling, general and administrative expenses	74,990	147	(584)	74,553	(3)	Selling, general and administrative expenses
		757		757		Foreign exchange loss
		5,069	37	5,107	(4)	Other income
		11,057	(218)	10,839	(4)	Other expenses
Operating income	5,781	(7,666)	1,755	(128)		Operating income
Non-operating income	873	(873)				
Non-operating expense	3,038	(3,038)				
Extraordinary profit	4,505	(4,505)				
Extraordinary loss	10,864	(10,864)				
		333	(70)	263	(4)	Finance income
		1,194	238	1,432	(4)	Finance expenses
		3	35	38	(4)	Investment income by equity method
Loss before income taxes	(2,742)	—	1,482	(1,259)		Loss before income taxes
Total income taxes	3,252	—	(2,137)	1,114	(5)	Income tax expenses
Net loss	(5,994)	—	3,619	(2,374)		Net loss
Net income attributable to non-controlling interests	733	—	7	740		Non-controlling interests
Net loss attributable to owners of parent	(6,727)	—	3,612	(3,114)		Owners of the parent company

(Unit: Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassifications	Reconciliations of recognition and measurement	IFRS	Notes	Accounts under IFRS
Consolidated statement of comprehensive income						
Net loss	(5,994)	—	3,619	(2,374)		Net loss
Other comprehensive income						Other comprehensive income
Unrealized gain on available-for-sale securities	559		83	642		Fair value gain on financial assets available for sale
Land revaluation surplus	(15)		15			
Deferred loss on derivatives under hedge accounting	1,520		42	1,563		Cash flow hedges
Foreign currency translation adjustments	(1,576)		(495)	(2,072)		Exchange differences arising on translation of foreign operations
Remeasurements of defined benefit plans	10,555		(11,071)	(516)		Remeasurement of defined benefit plan
Amount equivalent to equity to companies accounted for by equity method	—		0	0		Comprehensive income of investments accounted for using the equity method
Total other comprehensive income	11,042	—	(11,425)	(382)		Total other comprehensive income
Comprehensive income	5,048	—	(7,805)	(2,757)		Comprehensive income

Notes on reconciliations to profit and loss, and comprehensive income

(1) Revenue

Reconciliations of recognition and measurement

- While the total amount of transactions that the Group was involved in as a principal and an agent was recognized in net sales under Japanese GAAP, the net amount of transactions for which it is determined that the Group was involved as an agent is recognized as revenue under IFRS, resulting in a decrease of 762 million yen in "Revenue."
- While parts of materials supplied by customers were recognized as net sales and cost of sales when they were resold to the customers under Japanese GAAP, the net amount equivalent to processing costs is recognized as revenue under IFRS, resulting in a decrease of 869 million yen in "Revenue."
- While parts of the rebates, etc. were recognized in selling, general and administrative expenses under Japanese GAAP, they are deducted from revenue under IFRS, resulting in a decrease of 407 million yen of "Revenue."
- While the completed contract method was adopted when a total cost necessary for completing a contract could not be reliably estimated under Japanese GAAP, parts of the costs incurred, which are judged probably recoverable, are recognized as revenue by the same amount of costs under IFRS, resulting in a decrease of 42 million yen in "Revenue."
- While profits and losses related to provision for sales returns were accounted for as reconciliation items of gross profit under Japanese GAAP, the same amount as refund liabilities is deducted from revenue when "Refund liabilities" are recognized under IFRS, resulting in a decrease of 451 million yen in "Revenue."
- In adopting IFRS, "Revenue" increased by 454 million yen due to the impact of transactions for which the recognition of revenue was different from that in Japanese GAAP in construction contracts.
- Due to changes in the scope of consolidation in adopting IFRS, subsidiaries are newly included in the scope of consolidation, and "Revenue" increased by 647 million yen.

(2) Cost of sales

Reconciliations of recognition and measurement

- While the total amount of transactions that the Group was involved in as a principal and an agent was recognized in cost of sales under Japanese GAAP, the net amount of transactions for which it is determined that the Group was involved as an agent is recognized as revenue and no cost of sales is recognized under IFRS, resulting in a decrease of 762 million yen in "Cost of sales."
- While parts of materials supplied by customers were recognized as net sales and cost of sales when they were resold to the customers under Japanese GAAP, the net amount equivalent to processing costs is recognized as revenue under IFRS, resulting in a decrease of 869 million yen in "Cost of sales."
- While profits and losses related to provision for sales returns were accounted for as reconciliation items of gross profit under Japanese GAAP, the same amount as right to returned goods asset is deducted from cost of sales when "Right to recover products" is recognized under IFRS, resulting in a decrease of 451 million yen in "Cost of sales."
- In adopting IFRS, "Cost of sales" increased by 157 million yen due to the impact of transactions for which timing of meeting requirements for recognizing revenue was considered to be different from Japanese GAAP in construction contracts.
- While expenditures related to research and development were expensed when incurred under Japanese GAAP, development costs that meet the requirements for capitalization are capitalized and amortized over a certain period under IFRS, resulting in a decrease of 795 million yen in "Cost of sales."
- As a result of a partial change in the scope of cost related to manufacturing expenses in adopting IFRS, "Cost of sales" increased by 166 million yen.
- Due to changes in the scope of consolidation in adopting IFRS, subsidiaries are newly included in the scope of consolidation, and "Cost of sales" increased by 491 million yen.

(3) Selling, general and administrative expenses

Reconciliations of recognition and measurement

- While goodwill was amortized under Japanese GAAP, it is not amortized under IFRS and "Selling, general and administrative expenses" decreased by 482 million yen.
- "Selling, general and administrative expenses" increased by 398 million yen due to changes in depreciation methods and useful lives in adopting IFRS.
- While the actuarial gains and losses in post-employment benefit obligations related to the defined benefit plans were recognized as other comprehensive income when incurred and then recognized as expenses for a certain period of time (mainly 10 years) under Japanese GAAP, they are recognized as other comprehensive income when incurred and immediately transferred to retained earnings under IFRS. While prior service cost was recognized as an expense by the straight-line method over a certain period (10 years) within the average remaining service years of employees under Japanese GAAP, it is recognized as expenses when incurred under IFRS. As a result, "Selling, general and administrative expenses" decreased by 148 million yen.
- Parts of rebates, etc. are deducted from revenue in adopting IFRS, and "Selling, general and administrative expenses" decreased by 407 million yen.
- Due to changes in the scope of consolidation in adopting IFRS, subsidiaries are newly included in the scope of consolidation, and "Selling, general and administrative expenses" increased by 105 million yen.

(4) Other income, Other expenses, Finance income, Finance expenses, and Share of profit of investments accounted for using the equity method

Reclassifications

With respect to the items that were stated in non-operating income, non-operating expenses, extraordinary income and losses under Japanese GAAP, financial gains and losses are presented in "Finance income" and "Finance expenses" and the other items are presented in "Foreign exchange losses," "Other income," "Other expenses," and "Share of profit of investments accounted for using the equity method."

The major items of extraordinary losses reclassified to "Other expenses" under IFRS include losses on disposal of property, plant and equipment, impairment losses of long-lived assets, business structural improvement expenses, employment structural improvement expenses, and losses on liquidation of subsidiaries.

Reconciliations of recognition and measurement

- Impairment losses of goodwill increased under IFRS, and “Other expenses” increased by 253 million yen.
- Impairment tests are performed in accordance with IFRS on computer software for sale in the market under Japanese GAAP and impairment losses are recognized, resulting in an increase of 322 million yen in “Other expenses.”
- In adopting IFRS, the equity method is newly adopted to part of the shares on the date of transition to IFRS. “Share of profit of investments accounted for using the equity method” increased by 35 million yen, and “Finance income” and “Other expenses” decreased by 120 million yen and 327 million yen, respectively.
- While accumulated foreign currency translation adjustments were reversed and recognized as gains and losses when foreign subsidiaries were liquidated under Japanese GAAP, the Group adopted the exemptions stipulated in IFRS 1 and the total balance of cumulative translation differences of foreign subsidiaries as of the date of transition to IFRS was transferred to retained earnings under IFRS and the cumulative translation differences recognized as gains and losses at the time of liquidation decreased. As a result, “Other income” and “Other expenses” decreased by 80 million yen and 485 million yen, respectively.

(5) Income tax expenses

Reclassification

3,252 million yen presented as income taxes under Japanese GAAP is presented as “Income tax expenses.”

Reconciliations of recognition and measurement

“Income tax expenses” decreased by 2,137 million yen as a result of examining, based on IFRS, the possibility of generating taxable income which can realize the benefits of deductible temporary differences in relation to temporary differences associated with the reconciliation of other accounts in the consolidated statement of financial position and the recoverability of deferred tax assets.

Reconciliations to cash flows for the previous fiscal year (From April 1, 2016 to March 31, 2017)

The major impacts to the consolidated statement of cash flows due to the transition from Japanese GAAP to IFRS are as follows:

While expenditures related to development costs were classified in cash flows from operating activities under Japanese GAAP, expenditures related to capitalized development costs are classified in cash flows from investing activities under IFRS, resulting in an increase of 3,300 million yen in cash flows from operating activities and a decrease of the same amount in cash flows from investing activities.

Furthermore, while income from liquidation of notes receivable was classified in cash flows from operating activities under Japanese GAAP, it is classified in cash flows from financing activities under IFRS when the requirements for derecognition of financial assets are not met, resulting in an increase of 969 million yen in cash flows from operating activities and a decrease of the same amount in cash flows from financing activities.

There also is an impact arising from changes in the scope of consolidation, etc. additionally. However, there is no materiality in the amount of reconciliations.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of JVC KENWOOD Corporation:

We have audited the accompanying consolidated statement of financial position of JVC KENWOOD Corporation and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JVC KENWOOD Corporation and its consolidated subsidiaries as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu LLC

June 22, 2018

JVCKENWOOD

JVCKENWOOD Corporation

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