Financial Section

Contents

Financial Review

Financial Summary

DENSO CORPORATION and its Consolidated Subsidiaries

< IFRS >

	Date of transition to IFRSs	2014	2015	2016
Revenue (Millions of yen)	—	4,094,960	4,309,787	4,524,522
Operating profit excluding other income and expenses (Millions of yen)	—	364,282	358,131	365,196
Operating profit including other income and expenses (Millions of yen)	—	371,440	331,376	315,728
Profit for the year (Millions of yen)	—	295,056	276,709	260,565
Profit for the year: attributable to owners of the parent company (Millions of yen)	—	277,196	258,382	244,251
Comprehensive income (Millions of yen)	—	486,381	634,988	(75,245)
Equity: attributable to owners of the parent company (Millions of yen)	2,402,229	2,799,915	3,327,938	3,123,578
Total assets (Millions of yen)	4,162,745	4,642,053	5,283,257	5,042,896
Equity per share: attributable to owners of the parent company (Yen)	3,019.82	3,512.06	4,171.93	3,939.97
Basic profit per share (Yen)	—	348.05	324.01	307.19
Diluted profit per share (Yen)	—	347.81	323.93	307.18
Equity attributable to owners of the parent ratio (%)	57.71	60.32	62.99	61.94
Return on equity attributable to owners of the parent company (%)	—	10.66	8.43	7.57
Price-to-earnings ratio (Times)	—	14.22	16.92	14.73
Net cash provided by operating activities (Millions of yen)	—	471,167	383,156	552,862
Net cash used in investing activities (Millions of yen)	—	(376,002)	(111,504)	(544,834)
Net cash used in financing activities (Millions of yen)	—	(175,970)	(135,686)	(104,663)
Cash and cash equivalents at end of year (Millions of yen)	707,330	641,694	792,414	672,482
Number of employees	132,276	139,842	146,714	151,775

(Note) DENSO CORPORATION and its subsidiaries in Japan and overseas (collectively referred to as the "Group") have adopted International Financial Reporting Standards ("IFRS") for the consolidated financial statements of the annual report from the fiscal year ending March 31, 2015. The date of transition to IFRSs was April 1, 2013.

< JGAAP >

	2012	2013	2014	2015
Net Sales (Millions of yen)	3,154,630	3,580,923	4,095,925	4,308,754
Ordinary income (Millions of yen)	180,754	296,017	419,571	397,431
Income before income taxes (Millions of yen)	163,483	281,890	418,637	427,238
Net income: attributable to owners of the parent company (Millions of yen) (Note)	89,298	181,682	287,388	293,099
Comprehensive income (Millions of yen)	94,847	385,161	464,855	615,611
Equity (Millions of yen)	2,117,201	2,426,861	2,823,346	3,341,439
Total assets (Millions of yen)	3,607,697	3,979,093	4,442,507	5,032,742
Equity per share (Yen)	2,492.92	2,891.39	3,376.06	4,006.62
Basic net income per share (Yen)	110.81	226.59	360.85	367.54
Diluted net income per share (Yen)	―	―	360.60	367.45
Equity-to-total capital ratio (%)	55.69	57.80	60.59	63.51
Return on equity (%)	4.50	8.43	11.51	9.96
Price-to-earnings ratio (Times)	24.95	17.59	13.71	14.92
Net cash provided by operating activities (Millions of yen)	176,682	374,775	462,799	374,181
Net cash used in investing activities (Millions of yen)	(271,239)	(269,183)	(390,318)	(112,618)
Net cash (used in) provided by financing activities (Millions of yen)	78,819	(98,519)	(154,976)	(125,606)
Cash and cash equivalents at end of year (Millions of yen)	665,409	707,330	641,694	792,414
Number of employees	126,036	132,276	139,842	146,714

(Note) In accordance with the adoption of the Accounting Standard for Business Combinations (Accounting Standards Board of Japan Statement No. 21, September 13, 2013) under Generally Accepted Accounting Principles in Japan ("JGAAP"), "Net income" is changed to "Net income: attributable to owners of the parent company" as of March 31, 2016.

Revenue by Segment

DENSO CORPORATION and its Consolidated Subsidiaries

For the Years ended March 31, 2012 to 2016

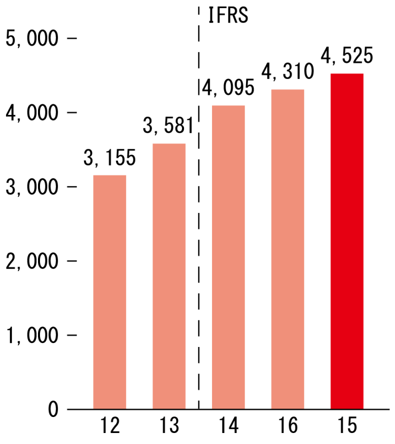
(Unit: Millions of yen)

		2012 (JGAAP)	2013 (JGAAP)	2014 (IFRS)	2015 (IFRS)	2016 (IFRS)
Japan	Customers	1,639,962	1,808,850	1,895,482	1,838,448	1,801,547
	Intersegment	557,670	654,775	821,182	826,077	845,023
	Total	2,197,632	2,463,625	2,716,664	2,664,525	2,646,570
North America	Customers	504,075	624,974	799,423	942,251	1,081,058
	Intersegment	8,042	10,424	17,179	24,206	31,625
	Total	512,117	635,398	816,602	966,457	1,112,683
Europe	Customers	373,214	348,769	470,515	524,754	568,183
	Intersegment	13,978	23,467	28,386	29,999	25,394
	Total	387,192	372,236	498,901	554,753	593,577
Asia	Customers	579,752	734,525	855,448	930,792	1,014,708
	Intersegment	46,969	59,516	87,674	118,933	146,525
	Total	626,721	794,041	943,122	1,049,725	1,161,233
Total	Customers	3,097,003	3,517,118	4,020,868	4,236,245	4,465,496
	Intersegment	626,659	748,182	954,421	999,215	1,048,567
	Total	3,723,662	4,265,300	4,975,289	5,235,460	5,514,063
Others	Customers	57,627	63,805	74,092	73,542	59,026
	Intersegment	101	123	255	261	474
	Total	57,728	63,928	74,347	73,803	59,500
Consolidated		3,154,630	3,580,923	4,094,960	4,309,787	4,524,522

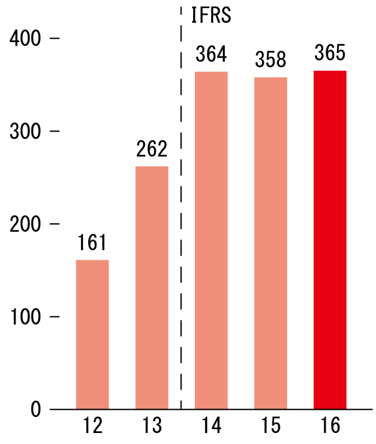
(Note) The Group has reported "Japan," "North America," "Europe" and "Asia" as the Group's reportable segments. The Group has been manufacturing and selling mainly automotive products in each reportable segment. "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

Financial Highlights

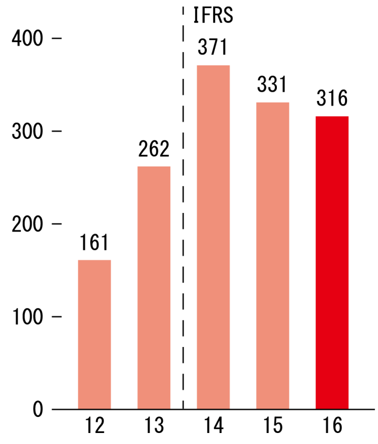
Net sales / Revenue
(¥Billion)



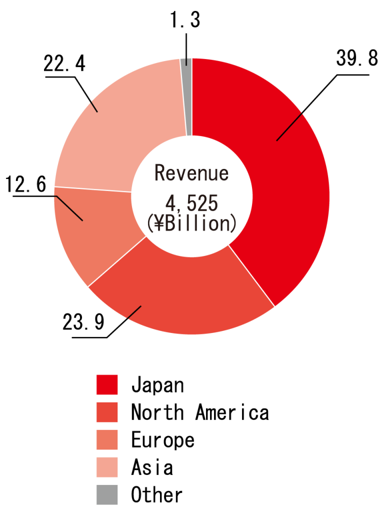
Operating income / Operating profit
excluding other income and expenses
(¥Billion)



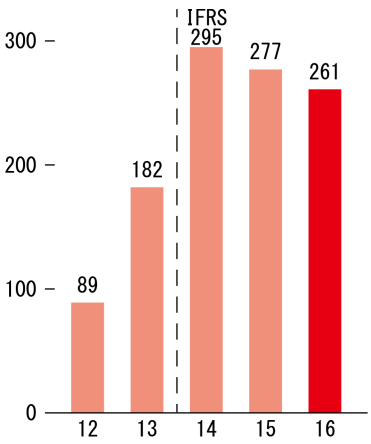
Operating income / Operating profit
including other income and expenses
(¥Billion)



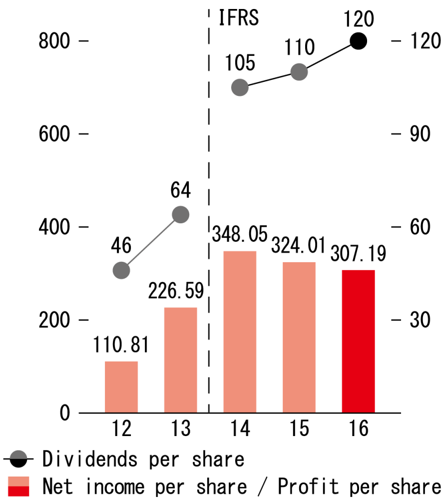
Revenue by segment
(For external customers only)
(%)



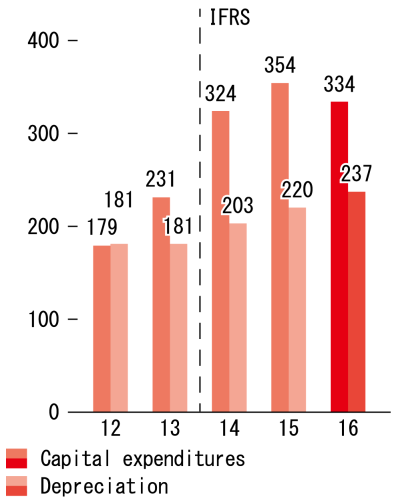
Net income: attributable to owners of the
parent company/ Profit for the year
(¥Billion)



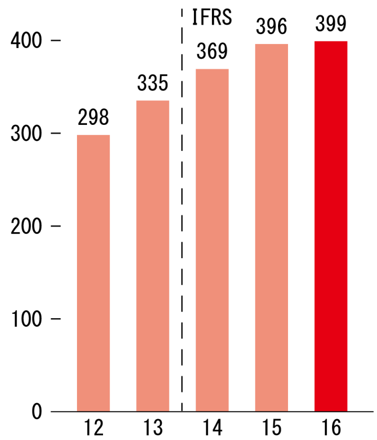
Basic net income per share / Basic profit
per share and Dividends per share (Yen)



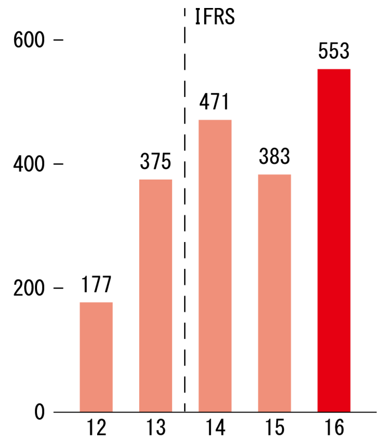
Capital expenditures and
Depreciation
(¥Billion)



R&D expenses
(¥Billion)



Net cash provided by
operating activities
(¥Billion)



Management's Discussion and Analysis

1. Business overview

During the fiscal year ended March 31, 2016, although the world economy showed gradual growth on the whole due to recoveries in the U.S. and European economies, the recovery pace slowed, considerably affected by the slowing economies of emerging countries centering on China. Meanwhile, the Japanese economy remained at a temporary standstill without achieving a full-fledged recovery in domestic demand while also experiencing sluggish external demand. In the global automobile industry, favorable sales in North America, in particular the highest sales on record in the United States, drove global sales, resulting in a year-on-year expansion of overall sales. However, the pace of expansion decreased, mainly due to the slowing Chinese economy and lower sales volume year on year in Japan, the ASEAN countries and Brazil.

With regard to the business of DENSO CORPORATION (hereinafter referred to as the "Company"), the effects of the decrease in the production of vehicles, especially compact vehicles, in Japan have nonetheless been offset by the Company's performance overseas. Compared with the previous fiscal year, increases in vehicle production volumes and sales expansion overseas have resulted in growth in overall production volumes.

2. Management strategy

In such a business climate, the Company and its subsidiaries in Japan and overseas (collectively referred to as the "Group") are making concerted efforts group-wide to achieve the targets and address the policies that are set forth in the DENSO Group's Mid-term Policy ("Mid-term Policy 2018").

In the fiscal year ended March 31, 2016, toward the growth in the "Environment, Security & Safety", "Aftermarket and New Business" and "Global Market" business fields, the Group's priority areas, the Group proactively addressed functional reinforcement including the start-up of new organizations toward further technological development with the advanced driver assistance system and the innovation of "MONOZUKURI", which takes advantage of the global deployment of the "DANTOTSU" factories and the Internet of Things (IoT) (*1), as well as enhanced product development in the "Environment, Security & Safety" field. Furthermore, the Group also strove to expand its businesses in the new business field by leveraging vehicle-based technologies such as research and development in the biological field and product development in the healthcare field.

*1 The Internet of Things (IoT) refers to the network of various physical objects that feature an IP address for internet connectivity, and the communication that occurs between these objects and other Internet-enabled devices and systems for automatic recognition, control, and other functions

During the consolidated fiscal year ended March 31, 2016, the following achievements were made mainly in the "Environment, Security & Safety" field.

The Company established the ADAS Business and Technology Department Division (*2) as a company-wide organization by integrating related internal business units to accelerate technological development in the ADAS and autonomous driving areas. By leveraging the reinforced functions of the Tokyo Office, which moved in January 2016, we will strive to recruit excellent human resources in the Kanto area and strengthen cutting-edge technological development and academia-industry collaboration with external organizations.

Under the slogan of "Everyday Confidence, Extraordinary Safety," the Company focuses on the development of danger-avoidance systems by assisting with the safe driving of vehicles, as well as for the prevention of grave traffic accidents and the reduction of physical damage. In the driving environment recognition field, the Company developed a millimeter wave radar and a vision sensor to realize high reliability in detecting not only vehicles but also pedestrians. These innovations have been adopted for the "Toyota Safety Sense P" collision avoidance assistance package of Toyota Motor Corporation. At present, these products are on new PRIUS and LAND CRUISER models and the types of mounted models are planned to be extended in the months to come. The Company will expand the targeted objects of the collision avoidance roughly by the end of 2018 and materialize the detection of bicycles and/or pedestrians at nighttime.

The need of safety products for collision avoidance assistance has been rising, and rapid popularization in the near future is projected. The Company aims to realize zero traffic accidents by offering a wide variety of quality products that reflect social needs.

*2 Advanced Driver Assistance System

In the environment field, collaborating with Toyota Motor Corporation, the Company has developed products to be mounted on the new PRIUS model. The new power control unit, which has a more efficient cooling structure and a more highly integrated semiconductor device, is about 33 percent smaller than that of the previous PRIUS. In addition, the new motor stator, which has been developed by the Company and Toyota, is made with a new, innovative coil winding technique and is about 20 percent lighter than that used in the previous PRIUS.

In the "Aftermarket & New Business" field, the Group has proactively entered new business fields by taking advantage of its sophisticated sensing technology and robot technology, which have been nurtured in the auto parts and industrial equipment areas. Recently, the Group developed iArmS, an automatic tracking robot for surgery assistance to reduce the shaking and strain of the hands of the surgeon during long operations. iArmS is a robot arm that supports the wrist and arm of surgeons during surgical operations. It smoothly follows the delicate moves of a surgeon's hands and arm and reduces the shaking and strain of the hands by firmly supporting the surgeon's arm. It features high safety and light operability. Its movements, without a motor, are ensured by the balance of gravity and the surgeon's hand movements. The built-in sensors can detect and automatically switch different movements such as "Place the arm," "Keep the arm still" and "Suspend the arm in the air."

iArmS received a high evaluation as an excellent product that can reduce a surgeon's burden by providing appropriate assistance during surgical operations in various circumstances based on a gravity-balancing structure without the concern of erroneous movements. It also received the Good Design Award and Design for the Future Award.

Although its coverage of medical practice is currently limited to the department of neurosurgery and otolaryngology, the Group will accelerate further development while anticipating extended application in other medical care departments and global deployment.

The Group has introduced, on a full-fledged basis, its original IoT to connect factories worldwide via Internet-based networking to strengthen its competitiveness in overseas markets. The Group intends to further evolve its "MONOZUKURI" (manufacturing) by sharing and fully taking advantage of all the assets, things and human (wisdom) information within the Group. For example, the Group intends to achieve "zero loss" status not only through minimized loss with swift actions by understanding and sharing production status in real time but also by analyzing enormous volumes of accumulated data/information on a real-time basis to predict phenomena that could happen subsequently. With these measures in place, the Group will strive to establish "DANTOTSU" factories globally that operate continuously, produce defect-free goods and reduce energy consumption.

The Group endeavors to create information systems that can be shared globally and instantly where various daily improvements ("Kaizen") as our strength are computerized according to this initiative, then timely delivered to people who engage in relevant operations beyond the framework of organizations and countries. Thus, the Kaizen cycle continues to rotate, thereby realizing an ever-evolving monozukuri.

3. Results of operations

(1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2016, increased by ¥214.7 billion, or 5.0%, year over year to ¥4,524.5 billion, supported by the increase in vehicle production volume and sales expansion overseas and the effect of yen depreciation. Operating profit excluding other income and expenses increased by ¥7.1 billion, or 2.0%, to ¥365.2 billion, due to the rationalization effects of cost reduction and productivity improvements, as well as the marginal advantage from improved capacity utilization owing to increased sales. Operating profit including other income and expenses decreased by ¥15.6 billion, or 4.7%, to ¥315.7 billion, and profit before income taxes decreased by ¥24.6 billion, or 6.6%, to ¥347.3 billion. Profit for the year attributable to owners of the parent company decreased by ¥14.1 billion, or 5.5%, to ¥244.3 billion.

(2) Policy on allocation of earnings

Dividends

As for dividend from surplus, the Company intends to improve the dividend level stably on an ongoing basis by comprehensively taking into account the consolidated operating results, the payout ratio and the amount of dividends.

Moreover, the Company intends to allocate retained earnings not only to the capital investment and R&D investment required to maintain long-term business development but also to the acquisition of treasure stock in the pursuit of distributing its profits to the shareholders while paying attention to the status of funds.

The Company stipulates in its Articles of Incorporation that it may distribute dividends from surplus upon resolution of the Board of Directors without requiring resolution at a general meeting of shareholders, in accordance with Article 459 of the Companies Act.

Accordingly, the Company, at its Board of Directors meeting held on April 28, 2016, resolved that the fiscal year-end dividend for the fiscal year ended March 31, 2016, be ¥60 per share of the Company's common stock (for a total of ¥47.6 billion) and the date of commencement of dividend payment thereof be May 30, 2016. The annual dividend for the fiscal year ended March 31, 2016, including the interim dividend, is ¥120 per share.

Treasury Stock Repurchases

The Company repurchases its own shares as part of its strategy to increase ROE, return profits to shareholders and implement a flexible capital policy in response to changes in the operating environment. As of March 31, 2016, the Company had repurchased a total of 170 million shares at an aggregate cost of ¥404.2 billion since the introduction of the share buyback program in the year ended March 31, 1997. This represents 19% of all the Company's outstanding shares as of March 31, 2016. In the future, while giving consideration to cash flows, the Company will maintain this share repurchasing policy as an important tool in improving ROE and increasing shareholder value.

Source of Funds and Liquidity Risk Management

The Group's fundamental financial policy is designed to ensure efficient funding and management of funds for the operational activities of the entire Group, secure an optimum level of funds and liquidity, and maintain a sound financial position.

Capital Expenditures/Depreciation

The Group applies a number of benchmarks to ensure correct decisions are made with regard to capital expenditures. These benchmarks include projected cash flows, return on assets (ROA), the number of years to recover investments, and forecasts of profitability. As part of the drive to reduce medium-term fixed costs, the Group is minimizing the scale of its production lines, standardizing components, and using global procurement to reduce facilities costs.

Capital expenditures and depreciation during the fiscal year ended March 31, 2016 were ¥334.1 billion and ¥236.8 billion, respectively.

Capital Expenditures/Depreciation by Segment

In regard to capital expenditures by geographic segment, the Group focused investment on all regions to increase production, and mainly invested in new products and rationalization measures. As a result, capital expenditures in Japan were ¥191.0 billion.

In regions outside Japan, capital expenditures in North America, Europe, Asia and other areas were ¥45.6 billion, ¥30.9 billion, ¥64.9 billion and ¥1.7 billion, respectively.

Research and Development (R&D) Activities

In the DENSO Group Long-term Policy 2020, which was announced in April 2013, the Company declared that it will address the missions of "Preserve the Planet" and "Security and Safety" under the slogan of "Protecting lives, Preserving the Planet, and Preparing a Bright Future for Generations to Come." To achieve this long-term policy, the Group aims to strengthen our R&D activities centering on the "Environment, Security & Safety" field to deliver new products that contribute to society and new value to customers worldwide.

As an achievement in the environment field for the fiscal year ended March 31, 2016, the Company has developed a new smaller and lighter Power Control Unit and a motor stator for the new PRIUS model, through the collaboration with Toyota Motor Corporation.

A Power Control Unit is a product equipped with an inverter that adjusts the electric current which flows from the battery to the motor generator. Due to improved functionality and performance of vehicles, there is a greater demand for more compact and higher-output products. The latest Power Control Unit is 33% smaller in comparison to the conventional products mounted on PRIUS, as a result of improved cooling structure and integration of semiconductor device.

A stator is a key component of a motor and generates magnetic force and rotates the rotor by an electric current flow through the coil. Incorporating the latest proprietary winding configuration, the Company has developed a stator for high speed motors, which is over 20% lighter than the conventional products mounted on PRIUS.

In the "Security and Safety" field, the Group has developed products for PRIUS of Toyota Motor Corporation, including the millimeter-wave radar, the vision sensor, and the in-vehicle equipment which connects to the ITS Connect. A millimeter-wave radar detects the distance from and the direction of moving vehicles or objects ahead, whereas the vision sensor identifies lane-separating white lines and objects ahead by using a camera. The above equipment enables prompt and accurate detection, thereby enhancing safety features including collision avoidance (with vehicles and with pedestrians) assistance, support for full-scale ACC and lane keeping, as well as night-view driving support.

ITS Connect is a cooperative driving assistance system that features vehicle-to-infrastructure and vehicle-to-vehicle communication using the exclusive ITS frequency of 760MHz. Wireless communication initiated by the in-vehicle equipment helps avoid traffic accidents and enhance traffic efficiency. The equipment developed by the Company incorporates the features of (1) enabling exchange of real-time data transmitted by vehicles within a few hundred meters and by equipment installed on external infrastructures through wireless communication; (2) detecting the latitude and longitude of the vehicle and sharing the location to the surroundings; (3) providing corresponding driving assistance based on the actual situation through information obtained from wireless communication. These features contribute to realizing the idea of ITS Connect which emphasizes on both vehicle-to-infrastructure and vehicle-to-vehicle connection through wireless communication.

The Company established the ADAS Business and Technology Department Division as a company-wide organization by integrating related internal business units to accelerate technological development in the ADAS and autonomous driving areas. For pursuing further secure and safe driving, while responding to the drivers' needs, the Company is dedicated to the development and implementation of advanced driving support technologies to avoid traffic accidents, and hence contribute to the realization of a secure and safe driving community.

In the Aftermarket & New Business sector, the Group is committed to R&D projects on products and systems in the fields of agricultural support, healthcare and security by fully taking advantage of our sensing and control technology in the automotive field and robot system technology. Recently, the Group sold iArmS, an automatic tracking robot for surgery assistance to reduce the shaking and strain of the hands of surgeons during long operations.

The Company aims to contribute to a healthy, safe, secure, and environmentally friendly society by fully utilizing technologies accumulated in the automotive field.

The Group has established seven technical centers worldwide to develop optimum products that are adapted to regional circumstances and/or needs, strengthening our global development organization. In Japan, eSOL Co., Ltd., NEC Communication Systems, Ltd. and the Company have established a joint venture, namely AUBASS CO., LTD. Each of the three companies provides a particular specialty to the joint venture – the Company engages in developing in-vehicle electronic systems along with automated driving technologies; eSOL Co., Ltd. excels in the field of in-vehicle equipment and has a proven track record in developing related integration software; NEC Communication Systems, Ltd. concentrates on developing large-scale software for network systems and integration systems. AUBASS CO., LTD. specializes in the development and sale of basic software (BSW) for in-vehicle electronic systems. Specifically, the BSW supports high speed data communication and multicore microcomputers, resulting from substantial growth in the flow of information between cameras/sensors and the Electronic Control Unit (ECU) that controls them. In addition, it also carries cybersecurity credentials. The joint venture will also help automakers and ECU suppliers enhance their quality and efficiency of development by the provision of easy-to-use BSW for the users.

The Group aims to provide products and services that contribute to local communities anywhere in the world.

4. Risk Management

Economic Risk

Demand for auto parts, which accounts for the major part of the Group's operating revenue around the world, is easily affected by the economic situation in the countries and regions where the Group makes sales. Accordingly, an economic downturn and resulting decrease in demand for auto parts in the Group's major markets, including Japan, North America, Europe, Asia, may have an adverse effect on the Group's operating results and financial condition.

Further, Group operations can be indirectly affected by the economic situation in regions where competitors have their manufacturing bases. For example, if a competitor is able to employ local labor at lower cost and provide equivalent products at prices below those of the Group, this may adversely affect sales. Further, if the local currency of regions where parts and raw materials are sourced falls, there is a chance that the manufacturing cost not only for the Group, but also for other manufacturers, will fall. As a result of these trends, export and price wars may intensify and have an adverse effect on the Group's operating results and financial condition.

Exchange Rate Risk

Operations within the Group include the sale and manufacture of products around the world. All regional items in local currency including sales, costs and assets are converted to yen for the purpose of creating consolidated financial statements. Based on the exchange rate used in conversion, even though items have not changed as an amount of local currency, there is a possibility that the amount expressed in yen after the conversion has been changed. In general, a strong yen (in particular against the U.S. dollar and euro that constitute a major part of the Group's sales) has an adverse effect on the Group's operations, and a weak yen has a positive effect on the Group's operations.

For Group operations that manufacture in Japan and export, a strong yen against other currencies decreases the worldwide comparative price competitiveness of their products and can have an adverse effect on operating results. The Group performs currency hedging, and makes efforts to minimize the adverse effect of short-term fluctuations in the exchange rates of major currencies including the U.S. dollar, euro and yen. However, as a result of medium- and long-term movements in exchange rates, there are cases where procurement, manufacturing, distribution and sales cannot be performed exactly as planned and, as a result, exchange rate movements may have an adverse effect on the Group's operating results and financial condition.

Raw Materials and Component Supply Risk

The Group procures raw materials and components used to manufacture its products from numerous external vendors. Although basic business contracts have been executed with these external vendors, and transactions are generally stable, there is no guarantee that there will not be shortages or increased prices for raw materials and components due to fluctuations in market conditions, unforeseen accidents at vendors or other such events. In such cases, the Group could incur higher manufacturing costs or be forced to halt production, which may in turn have an adverse effect on the Group's operating results and financial condition.

New Product Development Risk

While the Group believes that it can continue to develop original and appealing new products, the product development and sales process is, by its nature, complex and uncertain, and is subject to the following risks:

- There is no guarantee of acquiring sufficient funds and resources for investment in new products and new technologies.
- There is no guarantee that long-term investment and allocation of large amounts of resources will lead to the development of successful new products and the creation of new technologies.
- It is not certain that the Group will be able to correctly predict which new products and new technologies will earn the support of the Group's customers, and there is no guarantee that the sales of these products will be successful.

・As a result of fast-paced technological advances and changes in market needs, there is a possibility that the Group's products will become outdated.
・As a result of delays in the commercialization of new technologies under development, there is a possibility that market demands might not be met.

Beginning with the risks outlined above, if the Group is unable to fully anticipate industry and market changes, and is unable to develop attractive new products, this may result in a drop in future growth and profitability and may have an adverse effect on the Group's operating results and financial condition.

Pricing Risk

Price competition in the automotive industry is fierce. In particular, demands for price reductions by automakers have increased in recent years.

Further, the Group expects that it will face intensified competition in the component fields and regional markets that it operates in. Competitors include other component manufacturers, some of which are providing products at lower prices than the Group. Also, in line with the evolution of the automotive electronics business, there has been a rise in new competitors, such as consumer-electronics manufacturers and tie-ups between existing competitors, therefore there is a chance that they will quickly gain a large share of the market.

While we believe that the Group is the leading component manufacturer in the world and continues to develop automotive parts that are technically advanced, of high quality and high added value, there is no guarantee that the Group will be able to compete effectively in the future. There is always a possibility that pricing pressure and ineffective competitive practices on the Group's part will lead to a decrease in customers, which may have an adverse effect on the Group's operating results and financial condition.

Potential Risks of International Activities and Overseas Expansion

The proportion of manufacturing and sales activities carried out in North America and Europe, as well as in developing and emerging markets in Asia, has been increasing in recent years.
Expansion into these overseas markets has the following inherent risks, which, if they materialize, may have an adverse effect on the Group's operating results and financial condition.
・Unforeseen change in laws or regulations.
・Unfavorable political or economic conditions.
・Difficulties in employing and retaining personnel.
・Inadequate social infrastructure that may adversely affect the Group's business activities.
・The potentially adverse impact of tax regulations.
・Social or economic turmoil caused by terrorist incidents, military conflict, epidemics and other events.

Intellectual Property Risk

The Group has accumulated technology and expertise that allows it to differentiate its products from those of its competitors. However, legal restrictions in certain regions and countries are inadequate to fully protect these technologies and expertise as intellectual property. Consequently, the Group may not be able to effectively prevent third parties from using its intellectual property to manufacture similar products. Additionally, because the Group's products employ a broad range of technologies, there is a possibility that these products may be judged to have infringed third-party intellectual property rights in the future.

OEM(*3) Customer Risk

The OEM business, which constitutes the majority of the Group's business, serves automobile manufacturers around the world and supplies a wide range of products, including air conditioning, engine, driving control and safety, and information and communication products. Sales to OEM customers may be affected by factors that the Group cannot control such as the operating results of OEM customers. In addition, demands for reduced prices from OEM customers may reduce the Group's profit margins. Further, there is a possibility that OEM customers' business downturns, unforeseen contract cancellations, changes in OEM customer procurement policies, and price cuts to satisfy large customers may have an adverse effect on the Group's operating results and financial condition.

Sales to the Toyota Group account for roughly half of the Group's sales. Such sales made to a specific client group can be significantly impacted by the operating results of the customer.

*3 Original Equipment Manufacturer

Product Defect Risk

The Group manufactures a variety of products to meet internationally recognized quality control standards at factories around the world. However, there is no guarantee that all the Group's products are defect-free and that there will be no product recalls in the future. Also, while the Group does have product liability insurance coverage, there is no guarantee that this insurance will completely cover any compensation that the Group may be forced to pay. Further, the Group may not be able to continue to subscribe to this insurance under conditions acceptable to the Group. Product defects that lead to large-scale product recalls or product liability compensation could have a significant cost and large impact on the Group's reputation, and this may lead to a decrease in sales and adversely affect the Group's operating results and financial condition.

Risks of Natural Disasters and Power Outages

In order to minimize the potential negative impact of manufacturing lines being shut down, the Group carries out disaster-prevention inspections and equipment checks on a regular basis.

However, there is no guarantee that the Group can totally prevent or reduce the impact of natural disasters, power outages or other stoppages of the Group's manufacturing lines and those of the Group's corporate customers and suppliers. For example, many of the Group's places of business are in the Tokai region, and if a disastrous earthquake were to hit this region, there is a possibility that the Group's production and delivery activities would be suspended.

Pension Liability Risk

Costs and liabilities for employees' retirement benefits are calculated based on actuarial assumptions such as the discount rate and the expected rate of return on pension assets. When actual results differ from the assumptions used for calculation, or when changes are made to the assumptions, the effect is accumulated and brought forward into future calculations, generally resulting in an impact on reported future costs and liabilities.

Legal Proceedings

The Group endeavors to ensure continual legal compliance in the course of its business activities. Nevertheless, it is possible that the Group may become party to legal proceedings due to judicial action or the actions of a regulating authority. Accordingly, such an event may have an adverse effect on the Group's operating results and financial condition.

Results of operations

1. Overview

We have adopted International Financial Reporting Standards ("IFRS") for the consolidated financial statements of the annual report from the fiscal year ended March 31, 2015. In addition, the following items are reported based on the consolidated financial statements based on IFRS.

(1) Results of operations

1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2016, increased by ¥214.7 billion, or 5.0%, year over year to ¥4,524.5 billion, supported by the increase in vehicle production volume and sales expansion overseas and foreign exchange gain due to yen depreciation. Operating profit excluding other income and expenses increased by ¥7.1 billion, or 2.0%, to ¥365.2 billion due to the rationalization effects of cost reduction and productivity improvements, as well as the marginal advantage from improved capacity utilization owing to increased sales. Operating profit including other income and expenses decreased by ¥15.6 billion, or 4.7%, to ¥315.7 billion. Profit before income taxes decreased by ¥24.6 billion, or 6.6%, to ¥347.3 billion. Profit for the year attributable to owners of the parent company decreased by ¥14.1 billion, or 5.5%, to ¥244.3 billion.

Revenue and profit by segment

By geographical segment, revenue in Japan decreased ¥18.0 billion, or 0.7% year over year to ¥2,646.6 billion, reflecting the decrease in vehicle production volume, mainly of light-vehicles. Operating profit decreased ¥42.3 billion, or 21.5% year over year to ¥154.5 billion due to R&D expenses for future growth, a production volume decrease owing to decreased production and an increase in other expenses.

Revenue in North America increased ¥146.2 billion, or 15.1% year over year to ¥1,112.7 billion, supported by the increase in production of vehicles due to the favorable economy. Operating profit increased ¥8.2 billion, or 20.8% year over year to ¥47.7 billion mainly due to a production volume increase owing to increased sales.

Revenue in Europe increased ¥38.8 billion, or 7.0% year over year to ¥593.6 billion, mainly due to the increase in vehicle production volume supported by the market recovery. Operating profit decreased ¥2.4 billion, or 14.3% year over year to ¥14.4 billion mainly due to the depreciation and start-up costs despite a production volume increase and sales expansion.

Revenue in Asia increased ¥111.5 billion, or 10.6% year over year to ¥1,161.2 billion, mainly due to the increase in production of vehicles. Operating profit increased ¥15.7 billion, or 19.4% year over year to ¥96.6 billion mainly due to production volume increase owing to increased sales and cost reduction.

Revenue in other region decreased ¥14.3 billion, or 19.4% year over year to ¥59.5 billion. Operating loss of ¥2.0 billion was recorded, compared with operating profit of ¥0.3 billion last year.

2) Financial position

Total assets as of March 31, 2016, stood at ¥5,042.9 billion, 4.5%, or ¥240.4 billion, less than the previous fiscal year-end.

Current assets increased 2.8%, or ¥65.0 billion, to ¥2,397.2 billion, primarily reflecting increases in other financial assets. Non-current assets decreased 10.3%, or ¥305.4 billion, to ¥2,645.7 billion, primarily reflecting decreases in other financial assets. Property, plant and equipment increased 2.1%, or ¥29.9 billion, to ¥1,425.6 billion, mainly due to aggressive capital investment.

The total of current and non-current liabilities decreased 1.2%, or ¥21.2 billion, to ¥1,787.9 billion, due to a decrease of deferred tax liabilities. Equity decreased 6.3%, or ¥219.2 billion, to ¥3,255.0 billion, primarily reflecting decreases in other components of equity.

3) Cash flows

In terms of cash flows for the fiscal year ended March 31, 2016, net cash provided by operating activities was ¥552.9 billion, net cash used in investing activities was ¥544.8 billion, and net cash used in financing activities was ¥104.7 billion. As a result, cash and cash equivalents decreased ¥119.9 billion to ¥672.5 billion.

Net cash provided by operating activities for the fiscal year ended March 31, 2016, totaled ¥552.9 billion, ¥169.7 billion more than in the previous year. Cash flows mainly reflected income taxes paid of ¥64.8 billion, a decrease of ¥87.2 billion from last year.

Investing activities used cash of ¥544.8 billion, ¥433.3 billion more than in the previous fiscal year. This mainly reflected the increased expenses related to purchases of investments in debt instruments in the amount of ¥574.6 billion, an increase of ¥234.5 billion compared to the previous year.

Net cash used in financing activities was ¥104.7 billion, a decrease of ¥31.0 billion from the previous fiscal year. This decrease mainly reflected proceeds from borrowings, an increase of ¥57.9 billion compared to the previous year.

(2) Parallel disclosure information

The consolidated financial statements have not been prepared in accordance with the the Ordinance on Consolidated Financial Statements (excluding Chapters 7 and 8; hereinafter the "Japanese GAAP" or "JGAAP"). With regard to the major items in the consolidated financial statements prepared in accordance with IFRS and the differences between the consolidated financial statements prepared in accordance with IFRS and with JGAAP, the difference in amount is therefore difficult to determine. Accordingly, qualitative information has been stated as follows.

1) Depreciation of property, plant and equipment

With regard to the depreciation method of property, plant and equipment, the Group mainly adopted the declining balance method under JGAAP; however, the Group has adopted the straight-line method under IFRS.

2) Defined benefit plans

Under JGAAP, actuarial gains or losses and past service cost were reported under equity through other comprehensive income at occurrence, and were amortized over a certain period that is shorter than the average remaining service period of employees; however, under IFRS, actuarial gains or losses were recognized under shareholders' equity through other comprehensive income then immediately transferred to retained earnings, and past service cost was recognized as other income or other expenses.

Net interest relevant to the defined benefit plans (i.e., expected return on assets and interest expense under JGAAP) was presented as part of cost of revenue or selling, general and administrative expenses, but has been reported as finance costs under IFRS.

Preparation of consolidated financial statements

1. Preparation of consolidated financial statements

The Company prepared consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS") pursuant to Article 93 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28, 1976).

2. Auditor's report

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, the consolidated financial statements have been audited by our independent auditor, Deloitte Touche Tohmatsu LLC.

3. Particular efforts to secure the appropriateness of the consolidated financial statements and the improvement of the system for appropriately preparing the consolidated financial statements in accordance with IFRS

The Company is engaged in particular efforts to secure the appropriateness of the consolidated financial statements and the improvement of the system for appropriately preparing the consolidated financial statements in accordance with IFRS. Specifically, to ensure the system which supports understanding and implementation of the accounting standards, the Company maintains membership in the Financial Accounting Standards Foundation. Furthermore, to prepare the appropriate consolidated financial statements in accordance with IFRS, the Company obtains publications issued by the International Accounting Standards Board in a timely manner and updates IFRS-based group accounting policies and guidelines to conduct accounting procedures based thereon.

Consolidated Statement of Financial Position

March 31, 2016

(Unit: Millions of yen)

	Note	2015	2016
Assets			
Current assets			
Cash and cash equivalents	6	792,414	**672,482**
Trade and other receivables	7	807,669	**826,687**
Inventories	8	479,527	**476,574**
Other financial assets	9	183,580	**356,815**
Other current assets		69,019	**64,654**
Total current assets		2,332,209	**2,397,212**
Non-current assets			
Property, plant and equipment	10	1,395,706	**1,425,567**
Intangible assets	11	19,637	**21,156**
Other financial assets	9	1,302,739	**1,037,672**
Investments accounted for using the equity method	30	71,819	**71,096**
Retirement benefit assets	16	92,676	**25,791**
Deferred tax assets	12	44,457	**40,464**
Other non-current assets	12	24,014	**23,938**
Total non-current assets		2,951,048	**2,645,684**
Total assets		5,283,257	**5,042,896**

(Unit: Millions of yen)

	Note	2015	2016
Liabilities and equity			
Current liabilities			
Bonds and borrowings	13	98,959	**261,973**
Trade and other payables	14	804,816	**812,936**
Other financial liabilities		11,695	**12,333**
Income tax payables		14,182	**36,494**
Provisions	15	51,737	**86,750**
Other current liabilities		47,299	**46,859**
Total current liabilities		1,028,688	**1,257,345**
Non-current liabilities			
Bonds and borrowings	13	348,241	**214,638**
Other financial liabilities		12,204	**10,099**
Retirement benefit liabilities	16	219,173	**231,120**
Provisions	15	1,066	**2,152**
Deferred tax liabilities	12	181,304	**54,417**
Other non-current liabilities		18,370	**18,090**
Total non-current liabilities		780,358	**530,516**
Total liabilities		1,809,046	**1,787,861**
Equity			
Capital stock	17	187,457	**187,457**
Capital surplus	17	268,611	**267,640**
Treasury stock	17	(218,942)	**(246,486)**
Other components of equity	17	699,938	**422,205**
Retained earnings	17	2,390,874	**2,492,762**
Equity attributable to owners of the parent company		3,327,938	**3,123,578**
Non-controlling interests		146,273	**131,457**
Total equity		3,474,211	**3,255,035**
Total liabilities and equity		5,283,257	**5,042,896**

Consolidated Statement of Income

Year ended March 31, 2016

(Unit: Millions of yen)

	Note	2015	2016
Revenue	5	4,309,787	**4,524,522**
Cost of revenue	8, 10, 11	(3,552,192)	**(3,747,311)**
Gross profit		757,595	**777,211**
Selling, general and administrative expenses	10, 11, 20	(399,464)	**(412,015)**
Other income	19	12,797	**12,453**
Other expenses	20	(39,552)	**(61,921)**
Operating profit	5	331,376	**315,728**
Finance income	21	27,446	**34,267**
Finance costs	21	(9,376)	**(8,797)**
Foreign exchange gains		16,513	**965**
Share of the profit of associates accounted for using the equity method		5,956	**5,130**
Profit before income taxes		371,915	**347,293**
Income tax expenses	12	(95,206)	**(86,728)**
Profit for the year		276,709	**260,565**
Attributable to:			
Owners of the parent company		258,382	**244,251**
Non-controlling interests		18,327	**16,314**

(Unit: Yen)

Earnings per share			
Basic	22	324.01	307.19
Diluted	22	323.93	307.18

Consolidated Statement of Comprehensive Income

Year ended March 31, 2016

(Unit: Millions of yen)

	Note	2015	2016
Profit for the year		276,709	**260,565**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain (loss) on equity instruments designated as FVTOCI	23, 25	227,663	**(192,717)**
Remeasurements of defined benefit pension plans	16, 23	33,997	**(43,659)**
Total		261,660	**(236,376)**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	23	96,710	**(99,150)**
Cash flow hedges	23	(91)	**(284)**
Total		96,619	**(99,434)**
Total other comprehensive income		358,279	**(335,810)**
Comprehensive income for the year		634,988	**(75,245)**
Attributable to:			
Owners of the parent company		605,906	**(77,720)**
Non-controlling interests		29,082	**2,475**

Consolidated Statement of Changes in Equity

Year ended March 31, 2016

(Unit: Millions of yen)

	Note	Equity attributable to owners of the parent company					
					Other components of equity		
		Capital stock	Capital surplus	Treasury stock	Stock acquisition rights	Net fair value gain on equity instruments designated as FVTOCI	Remeasurements of defined benefit pension plans
As of April 1, 2014		187,457	263,607	(220,120)	488	324,866	–
Profit for the year		–	–	–	–	–	–
Other comprehensive income		–	–	–	–	227,458	34,029
Comprehensive income for the year		–	–	–	–	227,458	34,029
Acquisition of treasury stock	17	–	–	(31)	–	–	–
Disposal of treasury stock (includes exercising stock options)	17	–	585	1,209	(290)	–	–
Dividends	18	–	–	–	–	–	–
Changes in the ownership interest in subsidiaries without loss of control		–	4,419	–	–	–	–
Transfer to retained earnings		–	–	–	–	–	(34,029)
Other		–	–	–	(50)	–	–
Total transactions with the owners		–	5,004	1,178	(340)	–	(34,029)
As of March 31, 2015		187,457	268,611	(218,942)	148	552,324	–
As of April 1, 2015		**187,457**	**268,611**	**(218,942)**	**148**	**552,324**	–
Profit for the year		–	–	–	–	–	–
Other comprehensive income		–	–	–	–	**(192,565)**	**(42,769)**
Comprehensive income for the year		–	–	–	–	**(192,565)**	**(42,769)**
Acquisition of treasury stock	17	–	–	**(27,829)**	–	–	–
Disposal of treasury stock (includes exercising stock options)	17	–	**133**	**285**	**(89)**	–	–
Dividends	18	–	–	–	–	–	–
Changes in the ownership interest in subsidiaries without loss of control		–	**(1,104)**	–	–	–	–
Transfer to retained earnings		–	–	–	–	**1,617**	**42,769**
Other		–	–	–	**(59)**	–	–
Total transactions with the owners		–	**(971)**	**(27,544)**	**(148)**	**1,617**	**42,769**
As of March 31, 2016		**187,457**	**267,640**	**(246,486)**	–	**361,376**	–

(Unit: Millions of yen)

	Note	Equity attributable to owners of the parent company					Non-controlling interests	Total equity
		Other components of equity			Retained earnings	Total		
		Exchange differences on translating foreign operations	Cash flow hedges	Total				
As of April 1, 2014		61,576	(147)	386,783	2,182,188	2,799,915	132,586	2,932,501
Profit for the year		—	—	—	258,382	258,382	18,327	276,709
Other comprehensive income		86,128	(91)	347,524	—	347,524	10,755	358,279
Comprehensive income for the year		86,128	(91)	347,524	258,382	605,906	29,082	634,988
Acquisition of treasury stock	17	—	—	—	—	(31)	—	(31)
Disposal of treasury stock (includes exercising stock options)	17	—	—	(290)	—	1,504	—	1,504
Dividends	18	—	—	—	(83,725)	(83,725)	(7,814)	(91,539)
Changes in the ownership interest in a subsidiary without a loss of control		—	—	—	—	4,419	(7,562)	(3,143)
Transfer to retained earnings		—	—	(34,029)	34,029	—	—	—
Other		—	—	(50)	—	(50)	(19)	(69)
Total transactions with the owners		—	—	(34,369)	(49,696)	(77,883)	(15,395)	(93,278)
As of March 31, 2015		147,704	(238)	699,938	2,390,874	3,327,938	146,273	3,474,211
As of April 1, 2015		**147,704**	**(238)**	**699,938**	**2,390,874**	**3,327,938**	**146,273**	**3,474,211**
Profit for the year		—	—	—	**244,251**	**244,251**	**16,314**	**260,565**
Other comprehensive income		**(86,353)**	**(284)**	**(321,971)**	—	**(321,971)**	**(13,839)**	**(335,810)**
Comprehensive income for the year		**(86,353)**	**(284)**	**(321,971)**	**244,251**	**(77,720)**	**2,475**	**(75,245)**
Acquisition of treasury stock	17	—	—	—	—	**(27,829)**	—	**(27,829)**
Disposal of treasury stock (includes exercising stock options)	17	—	—	**(89)**	—	**329**	—	**329**
Dividends	18	—	—	—	**(97,977)**	**(97,977)**	**(11,354)**	**(109,331)**
Changes in the ownership interest in a subsidiary without a loss of control		—	—	—	—	**(1,104)**	**(5,919)**	**(7,023)**
Transfer to retained earnings		—	—	**44,386**	**(44,386)**	—	—	—
Other		—	—	**(59)**	—	**(59)**	**(18)**	**(77)**
Total transactions with the owners		—	—	**44,238**	**(142,363)**	**(126,640)**	**(17,291)**	**(143,931)**
As of March 31, 2016		**61,351**	**(522)**	**422,205**	**2,492,762**	**3,123,578**	**131,457**	**3,255,035**

Consolidated Statement of Cash Flows

Year ended March 31, 2016

(Unit: Millions of yen)

	Note	2015	2016
Cash flows from operating activities			
Profit before income taxes		371,915	**347,293**
Depreciation		220,112	**236,845**
Impairment losses		1,712	**1,257**
(Decrease) Increase in retirement benefit liabilities		(637)	**1,165**
(Increase) Decrease in retirement benefit assets		(5,713)	**1,874**
Interest and dividend income		(26,955)	**(33,984)**
Interest expenses		7,626	**6,821**
Foreign exchange losses		1,700	**4,124**
Share of the profit of associates and joint ventures accounted for using the equity method		(5,956)	**(5,130)**
Losses on sales or disposal of property, plant and equipment		2,862	**4,706**
Increase in trade receivables		(3,956)	**(63,210)**
Increase in inventories		(43,120)	**(23,367)**
(Decrease) Increase in trade payables		(7,698)	**41,484**
(Decrease) Increase in provisions		(9,374)	**37,721**
Other		10,765	**28,067**
Subtotal		513,283	**585,666**
Interest received		7,991	**7,798**
Dividends received		21,422	**30,690**
Interest paid		(7,596)	**(6,515)**
Income taxes paid		(151,944)	**(64,777)**
Net cash provided by operating activities		383,156	**552,862**
Cash flows from investing activities			
Decrease (Increase) in time deposits		56,510	**(62,670)**
Purchases of property, plant and equipment		(356,085)	**(334,896)**
Proceeds from sales of property, plant and equipment		6,892	**5,627**
Purchases of intangible assets		(8,531)	**(9,484)**
Purchases of investments in equity instruments		(2,269)	**(64,263)**
Purchases of investments in debt instruments		(340,096)	**(574,611)**
Proceeds from sales and redemption of investments in equity instruments		—	**99**
Proceeds from sales and redemption of investments in debt instruments		528,520	**489,269**
Other		3,555	**6,095**
Net cash used in investing activities		(111,504)	**(544,834)**
Cash flows from financing activities			
Net decrease in short-term borrowings		(5,642)	**(489)**
Proceeds from borrowings		62,340	**120,250**
Repayments of long-term borrowings		(66,389)	**(104,865)**
Repayments of finance lease obligations		(9,182)	**(10,592)**
Issuance of bonds		20,000	**30,000**
Redemption of bonds		(40,000)	**—**
Dividends paid	18	(83,725)	**(97,977)**
Dividends paid to non-controlling interests		(8,522)	**(11,354)**
Purchases of treasury stock		(31)	**(27,829)**
Purchases of subsidiary's treasury stock		(4,583)	**(7,254)**
Other		48	**5,447**
Net cash used in financing activities		(135,686)	**(104,663)**
Foreign currency translation adjustments on cash and cash equivalents		13,902	**(23,403)**
Net increase (decrease) in cash and cash equivalents		149,868	**(120,038)**
Cash and cash equivalents at beginning of year		641,694	**792,414**
Cash and cash equivalents of a newly consolidated subsidiary		852	**106**
Cash and cash equivalents at end of year	6	792,414	**672,482**

Notes to Consolidated Financial Statements

Year ended March 31, 2016

1. Reporting entity

DENSO CORPORATION (hereinafter referred to as the "Company") is a business corporation located in Japan. The Company and its subsidiaries in Japan and overseas (collectively referred to as the "Group") manufacture and sell mainly automotive parts in each segment of Japan, North America, Europe, Asia and Others. The automotive parts are related to Powertrain Control systems, Electronic systems, Thermal systems, Information & Safety systems and Small Motors, as well as Industrial products and Consumer products. Please refer to the Appendix for a list of subsidiaries.

2. Basis of preparation

(1) Compliance with IFRS

The Group meets all of the requirements for a "Specified Company for the designated IFRS" to prepare its consolidated financial statements by applying the designated IFRSs as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements"
(Ministry of Finance of Japan Regulation No. 28, 1976, hereafter "the Regulation"). Hence, in accordance with Article 93 of the Regulation, the Group's consolidated financial statements have been prepared in accordance with IFRS.

The Group's consolidated financial statements for the year ended March 31, 2016, were approved on June 21, 2016 by Koji Arima, President of the Company.

(2) Basis of measurement

Except for the financial instruments that are measured at fair value stated in Note 3 "Significant accounting policies," the Group's consolidated financial statements have been prepared on the historical cost basis.

(3) 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 to the nearest million yen.

(4) Significant accounting judgements and estimates

In preparing the consolidated financial statements in accordance with IFRS, management established judgments, estimates and assumptions that have an effect on the application of accounting policies, as well as the reported amounts of assets, liabilities, revenues and expenses. Actual operating results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. The effects of revisions to the accounting estimates are recognized in the fiscal period where such estimates are revised and the future fiscal periods.

Of the items subject to the estimates and judgments, the following have a significant impact on the amounts stated in the consolidated financial statements for the fiscal year under review and subsequent fiscal years:

・Scope of consolidation: Note 3 "Significant accounting policies" (1) Basis of consolidation
・Revenue: Note 3 "Significant accounting policies" (16) Revenue
・Impairment loss on non-financial assets: Note 10 "Property, plant and equipment" and Note 11 "Intangible assets"
・Recoverability of deferred tax assets: Note 12 "Income taxes"
・Reserve for warranty: Note 15 "Provisions"
・Measurement of defined benefit obligation: Note 16 "Post-employment benefits"
・Measurement of fair value of financial instruments: Note 25 "Financial instruments"

(5) Changes in Accounting Policies

The Group adopted the standards and interpretations which were mandatorily effective from the year ended March 31, 2016. The adoption of the standards and interpretations had no significant impact on the consolidated financial statements for the fiscal year ended March 31, 2016.

3. Significant accounting policies

(1) Basis of consolidation

1) Subsidiaries

A subsidiary is an entity that is controlled by the Company and whose financial statements are included in the consolidated financial statements of the Group from the date of acquisition of the control to the date of loss of the control by the Group. 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. All intragroup balances, transactions, and unrealized gains have been eliminated on consolidation. Comprehensive income 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.

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year-end is different from that of the parent company and unification is impracticable as required by the local legal systems located in its jurisdictions. The difference between the fiscal year-end date of the subsidiaries and that of the parent company does not exceed three months.

In cases where the financial statements of subsidiaries are used for preparing the consolidated financial statements which have different fiscal year-ends, necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year-end of the subsidiaries and that of the Company.

2) Associates and joint ventures

An associate is an entity which the Group does not control but has significant influence over its financial and operating policies. Investments in associates are accounted for using the equity method from the date on which the Group has significant influence until the date on which it ceases to have significant influence.

A joint venture is an entity based on contractual agreements in which two or more parties have been bounded to conduct significant economic activities through joint control thereby. Investments in joint ventures are accounted for using the equity method.

The accounting policies for associates and joint ventures are adjusted as required, in order to comply with the accounting policies adopted by the Group.

The consolidated financial statements include investments in associates and joint ventures with different fiscal year-ends from that of the Company since, primarily due to relationship with other shareholders, it is impracticable to unify the fiscal year-end. Necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year-end of the associates and joint ventures and that of the Company.

Under the equity method, the investments in an associate or a joint venture are initially recognized at acquisition cost and the carrying amount is increased or decreased to recognize the Group's share of the net assets of the associate or the joint venture after the date of acquisition. The Group's share of the net income of the associates or the joint ventures is recognized in the Group's profit or loss. Also, the Group's share of the other comprehensive income of the associates or the joint ventures is recognized in the Group's other comprehensive income. When the Group's share of losses of an associate or a joint venture equals or exceeds its investments in the associate or the joint venture, which include any long-term investments that, in substance, form part of the Group's net investment in the associate or the joint venture, the Group discontinues recognizing its share of further losses unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture. All significant intercompany profits have been eliminated in proportion to interests in the associate and the joint venture.

Any excess of consideration of acquisition over interests in the net fair value of assets, liabilities and contingent liabilities of associated companies and joint ventures has been recognized as the amount corresponding to goodwill, and has been included in the carrying amount of investments without any amortization.

3) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the contractual arrangement. For investments in joint operations, only the Group's share of assets, liabilities, revenues and expenses arising from its operating activities are recognized. All significant intercompany balances and transactions have been eliminated in proportion to its interests.

(2) Business combination and goodwill

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured at as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed and equity instruments issued by the Group in exchange for control over an acquiree. Acquisition-related costs incurred are recognized as expenses.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

The identifiable assets acquired and the liabilities assumed are measured at their fair values at the acquisition date, except:

- Deferred tax assets (or liabilities) and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with International Accounting Standard ("IAS") 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively;
- Assets or disposal groups that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are recognized and measured in accordance with the standard; and
- Liabilities or equity instruments related to share-based remuneration of the acquiree or share-based remuneration of the Company entered into to replace such arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment."

Any excess of the consideration of acquisition over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. If the consideration of acquisition is lower than the fair value of the identifiable assets and liabilities, the difference is immediately recognized as gain in the consolidated statement of income. The additional acquisition of non-controlling interests after obtaining control is accounted for as an equity transaction without recognition of goodwill.

Goodwill has been measured at the initially recognized value at the date of the business combination less accumulated impairment losses and included in "Intangible assets" in the consolidated statement of financial position. Goodwill is not amortized, but instead, tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of income and no subsequent reversal is made.

If the initial accounting of a business combination has not been completed by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for uncompleted accounting items. The Group will revise the provisional amounts during the measurement period (not exceeding one year) or recognize additional assets or liabilities in order to reflect new information obtained regarding the facts and circumstances that existed as of the date of acquisition and would have affected the amounts recognized on the date of acquisition, if such amounts have been ascertained.

(3) Foreign currency translation

Each company in the Group specifies its own functional currency, the currency of the primary economic environment in which the entity operates, and measures transactions based on the functional currency. The foreign currency transactions are translated into the functional currency at the rates of exchange prevailing at the dates of transactions or an approximation of the rate.

Monetary items denominated in foreign currencies are retranslated into each company's functional currency at the current exchange rates at the end of the reporting period. Non-monetary items denominated in foreign currencies that are measured at the acquisition cost are not retranslated. Other items denominated in foreign currencies that are measured at the fair value are translated at the rates prevailing at the date when the fair value was determined.

Differences arising from the translation and settlement are recognized in profit or loss during the period, as presented in "Foreign exchange gain or loss" in the consolidated statement of income.

The consolidated financial statements of the Group are presented in Japanese yen, which is the presentation currency of the Company. In order to present the consolidated financial statements, the assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange prevailing at the fiscal year-end, while revenue and expenses of foreign operations are translated into Japanese yen at the average exchange rates for the period, unless exchange rates significantly fluctuate during the period. The translation differences are recognized as "Exchange differences on translating foreign operations" in the other comprehensive income and its cumulative amount is classified as "Other components of equity." In the event of a loss of control due to the disposal of foreign operations, the relevant cumulative amount of translation differences is recognized in profit or loss during the period.

Goodwill and fair value adjustments resulting from the acquisition of foreign operations are retranslated as assets and liabilities of such foreign operations as at the end of the reporting period, and exchange differences are recognized in "Other components of equity."

(4) Financial instruments

The Group has early-applied IFRS 9 "Financial Instruments" (revised in October 2010) for the accounting treatment of financial instruments.

1) Financial assets

i) Initial recognition and measurement

Financial assets are classified into financial assets measured at amortized cost and financial assets measured at fair value based on their nature and holding purposes. The Group determines the classification at initial recognition. The sale or purchase of financial assets that occurred in the normal course of business are recognized or derecognized at the transaction date.

a) Financial assets measured at the amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

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

The financial assets measured at the amortized cost are measured initially at fair value plus transaction costs directly attributable to the acquisition.

b) Financial assets measured at fair value

If the financial assets do not meet the above conditions, they are classified as financial assets measured at fair value through profit or loss or other comprehensive income.

Equity instruments are measured at fair value. By its irrevocable designation, the financial assets held for trading are measured through profit or loss, meanwhile the other assets are measured through other comprehensive income. The designation has been applied continuously.

Financial assets other than equity instruments that do not meet the conditions in relation to the measurement of amortized cost are measured at fair value through profit or loss.

Financial assets measured at fair value through profit or losses are initially measured at fair value and transaction costs are recognized in profit or loss when they occur. Financial assets measured at fair value through other comprehensive income are initially measured at fair value plus transaction costs directly attributable to the acquisition.

ii) Subsequent measurement

After initial recognition, financial assets are measured based on the classification as follows;

a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of financial assets. Interest income is recognized in profit or loss, and included in "Finance income" in the consolidated statement of income. In cases where a financial asset measured at amortized cost is derecognized, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss.

b) Financial assets measured at fair value

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss.

However, gains or losses occurring from the disposal or remeasurement of fair value of the equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income and accumulated within "Other components of equity," and is not recognized in profit or loss. The amount is transferred to retained earnings when the equity instruments are derecognized. Dividends for equity instruments are recognized in profit or loss for the period when the right to receive dividends is established and included in "Finance income" in the consolidated statement of income. Net gains or losses arising from the equity instruments measured at fair value through profit or loss are recognized as "Finance income" or "Finance expenses" in the consolidated statement of income (Note 25 "Financial instruments"). The interest income from the debt instruments is also included in profit or loss above.

iii) Impairment of financial assets measured at amortized cost

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial assets measured at amortized cost are impaired. Objective evidence of impairment includes a default or delinquency of the borrower, granting the borrower a concession that the companies in the Group would not otherwise consider, indications for bankruptcy of the issuer or obligor and the disappearance of active markets.

If there is any objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial asset measured at amortized cost is reduced by an allowance for doubtful accounts and impairment losses are recognized as "Other expenses" in the consolidated statement of income. The carrying amount of financial assets is directly reduced for the impairment when they are expected to become uncollectible in the future and all collateral is implemented or transferred to the companies in the Group. If, in a subsequent period, the amount of the impairment loss provided changes due to an event occurring after the impairment was recognized, the previously recognized impairment losses are adjusted through the allowance for doubtful accounts.

iv) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Group transfers the contractual right to receive cash flows from financial assets in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor holds substantially all the risks and rewards of ownership of the asset and continues to control the transferred asset, the Group recognizes the retained interest on the assets and the relevant liabilities that might possibly be paid in association therewith.

2) Financial liabilities

i) Initial recognition and measurement

Financial liabilities are classified into financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss. The Group determines the classification at initial recognition, and all financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the issuance of financial liabilities.

ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on the classification as follows;

a) Financial liabilities measured at amortized cost

Financial liabilities held neither for trading nor measured at fair value through profit or loss are measured at amortized cost using the effective interest method. The interest cost is included in "Finance costs" in the consolidated statement of income. Amortization under the effective interest method and gains or losses on derecognition are recognized as "Finance income" or "Finance costs" in the consolidated statement of income.

b) Financial liabilities measured at fair value through profit or loss

Financial liabilities held for trading and those designated as measured at fair value through profit or loss at initial recognition are measured at fair value through profit or loss.

iii) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired.

3) Derivatives and hedge accounting

The Group utilizes derivatives, including currency swaps, interest rate swaps and foreign exchange forward contracts to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when the contract is entered into, and are subsequently remeasured at fair value at each reporting period.

The Group has derivatives that are held for hedging purposes but that do not qualify for hedging accounting. The fluctuation of the fair value of these derivatives is recognized in profit or loss immediately.

At the inception of the hedge, the Group formally designates and documents the hedging relationship between the hedging instruments and the hedged items by following the objectives of risk management and the strategies for undertaking the hedge. In addition, these hedges are expected to be highly effective in offsetting changes in cash flows. They are assessed on a quarterly basis and determined to have been highly effective throughout the reporting periods for which the hedges were designated. To qualify as a cash flow hedge of a forecast transaction, the transaction must be highly probable.

Cash flow hedge

The Group adopts only cash flow hedge as its hedging accounting.

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income in the consolidated statement of comprehensive income, while the ineffective portion is recognized immediately in profit or loss in the consolidated statement of income.

The amounts of hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss.

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting, or when the hedging instrument expires or is sold, terminated or exercised, or when the designation is revoked.

When hedge accounting is discontinued, the balances of other comprehensive income related to cash flow hedges remain until the forecast transaction affects profit or loss. When a forecast transaction is no longer expected to occur, the balance is recognized immediately in profit or loss.

4) Offsetting financial assets and financial liabilities

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.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

(6) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value. 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 the cost is determined mainly using the periodic average method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated applicable variable selling expenses.

(7) Property, plant and equipment

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

Except for assets that are not subject to depreciation such as land and construction in progress, property, plant, and equipment is mainly depreciated using the straight-line method over their estimated useful lives, as follows. The estimated useful lives and depreciation method are reviewed at each end of the reporting period.

- Buildings and structures: 6 to 50 years
- Machinery and vehicles: 3 to 10 years
- Other: 2 to 10 years

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of property, plant and equipment is recognized in profit or loss when the item is derecognized.

(8) Investment property

Investment property is measured by using the "Cost model," in which the depreciation method and useful lives are used for the property, plant and equipment for the Group.

(9) Intangible assets

1) Separately acquired intangible assets

Separately acquired intangible assets with finite useful lives are stated at acquisition cost less accumulated amortization and impairment losses. They are amortized using the straight-line method over their estimated useful lives.

The estimated useful lives and amortization method of intangible assets with finite useful lives are reviewed at each end of the reporting period, and the effect of any changes in estimate would be accounted prospectively.

Separately acquired intangible assets with indefinite useful live are not amortized, but tested for impairment, and are stated at acquisition cost less accumulated impairment losses. The impairment tests are performed individually or by cash-generating unit, annually or whenever there is any indication of impairment.

2) Internally generated intangible assets

Expenditures related to research activities are recognized as expenses as incurred.

The cost arising from development (or from the development phase of an internal project) shall be recognized if, and only if, the Group can demonstrate all of the following:

i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

ii) its intention to complete the intangible asset and use or sell it;

iii) its ability to use or sell the intangible asset;

iv) how the intangible asset will generate probable future economic benefits;

v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Initial recognition of the internally generated intangible assets is the total expenditure incurred from the date when all above conditions are satisfied to the date when the developments are finished. The development costs are recognized as an expense as incurred if the internally generated intangible assets are not recognized.

After initial recognition, the internally generated intangible assets are measured at cost, net of accumulated amortization and impairment losses.

3) Intangible assets acquired in business combinations

Intangible assets acquired in business combinations are initially recognized at fair value at the acquisition date. Subsequently, the intangible assets acquired in business combinations are measured at cost less any accumulated amortization and impairment losses.

4) Amortization of intangible assets

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

- Software: 3 to 5 years
- Development costs: 3 years

5) Derecognition of intangible assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition of intangible assets is included in profit or loss when the item is derecognized.

(10) Leases

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

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement in accordance with IFRIC 4 "Determining whether an Arrangement contains a Lease," even if the arrangement does not take the legal form of a lease.

1) As lessee

In finance lease transactions, leased 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. Leased assets are depreciated using the straight-line method over their estimated useful lives based on the accounting policies applied to the assets.

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

2) As lessor

As for lease receivables arising from finance lease transactions, net uncollected amounts of the investments in the relevant lease transactions are recognized as receivables.

(11) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready 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 in profit or loss in the period in which they are incurred.

(12) Impairment of non-financial assets

The Group assesses, for each fiscal year, whether there is any indication that an asset may be impaired. If any such indication exists, or in cases where the impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases that the recoverable amount cannot be estimated for each asset, it is estimated by the cash-generating unit to which the asset belongs. The grouping of assets in applying impairment accounting of the Group is determined by business group, which is the unit used in management accounting to understand profits and losses on an ongoing basis. In addition, assets are grouped into rented property group and idle property group, with each property as a minimum unit. Meanwhile, the headquarters and welfare facilities are categorized as corporate assets because they do not generate cash flows independently.

The impairment losses are included in "Other expenses" in the consolidated statement of income. Assessment for impairment is performed with respect to each asset, cash-generating unit or group of cash-generating units. The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs to sell or its value in use. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. In determining the fair value less costs to sell, the Group uses an appropriate valuation model supported by available fair value indicators. In determining the value in use, estimated future cash flows are calculated using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset.

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, such as any changes in assumptions used for the determination of the recoverable amount. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases that the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount (net of depreciation) that would have been determined if no impairment losses had been recognized in prior years.

(13) Non-current assets held for sale

An asset or asset group for which the value is expected to be recovered through a sale transaction rather than through continuing use is classified as a held-for-sale non-current asset 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.

(14) 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 obligations.

Provisions are measured at the present value by the estimated future cash flow that is discounted by a pre-tax rate that reflects the time value of money and the risks specific to the liability. The unwinding of the discount due to the passage of time is recognized as "Finance costs" in the consolidated statement of income.

The main provisions are recorded as follows.

Reserve for warranty

The reserve for warranty is recognized based on the estimated amount of warranty expenses and taking into account the timing of economic benefit outflows based on past experiences for after-sales service expenses incurred.

Provision for loss on antitrust issues

Provision for loss on antitrust issues is recognized at an estimated amount of potential future losses to prepare for payments of litigation settlements, etc. which the Company has accepted with regard to allegations of antitrust law infractions for several automotive components.

(15) Employee benefit

1) Post-employment benefits

i) Defined benefit plans

The Group has defined benefit pension plans and lump-sum benefit plans.

Defined benefit plans are post-employment benefit plans other than defined contribution plans (refer to ii) below). The Group's net defined benefit obligations are calculated respectively for each plan by estimating the future amount of benefit that employees have earned in exchange for their service for the previous years and the current year. The benefits are discounted to determine the present value. These calculations are performed annually by qualified actuaries using the projected unit credit method. The fair values of plan assets are deducted from the result of calculations.

The discount rates are equivalent to the market yields of AA credit-rated corporate bonds at the end of each reporting period that have maturity terms approximating those of the Group's obligations. Increase/decrease in benefit obligations for employees' past services due to the revision of the plan is recognized in profit or loss. The Group recognizes the increase/decrease in obligations due to the remeasurement of benefit obligations and plan assets of defined benefit plans in other comprehensive income and then immediately reclassifies them from other comprehensive income to retained earnings.

ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans in which the employer pays fixed contributions into 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.

2) Other long-term employee benefits

Long-term employee benefits, such as long-service employee awards, are recognized as a liability when the Group has present legal or constructive obligations to pay as a result of past employee service, and when reliable estimates of the obligation can be made. The Group's long-term employee benefits are calculated by discounting the estimated future amount of benefit to the present value.

The discount rates are equivalent to the market yields of AA credit-rated corporate bonds at the end of each reporting period that have maturity terms approximating those of the Group's obligations.

3) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered. Bonus accrual is recognized as a liability, when the Group has present legal or constructive obligations to pay as a result of past employee service, and when reliable estimates of the obligation can be made.

(16) Revenue

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods transfer to the buyers, the Group retains neither continuing managerial involvement nor effective control over the goods sold, it is probable that the future economic benefits will flow to the Group, and the amount of revenue and the corresponding costs can be measured reliably.

Sales-related tax, rebates and similar items are excluded from revenue as the amounts of economic benefit inflows.

In the sales of products and merchandise, if the Group has sold them as the principal obligor of a contract by assuming the general risk of inventory before receiving purchase orders from customers, the relevant revenue is recognized in a gross amount in the consolidated statement of income.

(17) Government grants

Government grants are recognized at fair value when there is a reasonable assurance that the Group will receive the grants subject to the conditions attached to them. In case that the government grants are compensation for expenses, they are recognized in profit or loss in the period which the related costs for which the grants are intended to compensate are recognized. With regard to government grants that are compensation for assets, the amount of the grants is deducted from the acquisition cost of the assets to measure the carrying amounts of the assets.

(18) Income taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes. The 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 taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated based on the temporary differences between the tax base for assets and liabilities and the carrying amounts at the end of each reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities in transactions that are not business combinations and at the time of transaction, affect neither accounting profit nor taxable profit or tax loss;
- deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is not probable that the reversal of the temporary difference in the foreseeable future will occur or it is not probable that future taxable profits will be available against which they can be utilized; or
- taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is not probable the temporary difference will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that there will be sufficient taxable profit against which all or part of the deferred tax assets can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized only to the extent that it is probable that the deferred tax assets can be recovered by future taxable profits.

The Group recognizes an asset or liability for the effect of uncertainty in income taxes which is measured at the amount of the reasonable estimate for uncertain tax positions when it is possible, based on the Group's interpretation of tax laws, in which the tax positions will be sustained.

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 the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(19) Equity

Common stock

The amount of equity instruments issued by the Company is recognized in "Common stock" and "Capital surplus," and direct issue costs (net of tax) are deducted from "Capital surplus."

Treasury stock

When the Company acquires treasury stock, the consideration paid, net of direct transaction costs and tax, is recognized as a deduction from equity. When the Company disposes treasury stock, gains or losses on disposal, including the exercise of stock options, are recognized in "Capital surplus."

(20) Fair value measurements

Certain assets and liabilities are required to be recognized at fair value. The estimated fair values of those assets and liabilities have been determined using market information such as quoted market prices and valuation methodologies such as the market approach, income approach and cost approach. There are three levels of inputs that may be used to measure fair value.

1) Level 1

Quoted prices (unadjusted) in active markets in which transactions take place with sufficient frequency and transaction volume on an ongoing basis for identical assets or liabilities that the Group can access at the measurement date.

2) Level 2

Quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities, and market-corroborated inputs in which all significant inputs and significant value drivers are observable.

3) Level 3

Unobservable inputs for the assets or liabilities which reflect the assumptions that market participants would use when pricing the assets or liabilities. The Group develops unobservable inputs using the best information available in the circumstances, which might include the Group's own data.

The fair value is measured at the financial and accounting division by following the Company's evaluation policy and procedure, and the measurement is executed based on the valuation models which reflect nature, feature, and risks of each financial instrument most appropriately. In addition, the transition of important index which impacts on the changes of fair value is examined on going basis. In case that the changes in the fair value of financial instruments are significant as a result of examination, it is reported to the executive of finance and accounting division to obtain approvals.

(21) Stock-based compensation

Stock-based compensation cost is measured at the grant date, based on the estimated fair value of stock-based awards made to directors, managing officers and key employees, and recognized on a straight-line basis over the vesting period with a corresponding increase in equity. The fair values of stock options are estimated using the Black-Scholes option pricing model.

(22) Levies

The Group recognizes the estimated payable amount as a liability when its obligation is determined to pay a levy.

(23) Earnings per share

Basic earnings per share is 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 shares. Diluted earnings per share are calculated by adjusting the effects of dilutive potential ordinary shares.

(24) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which, for year-end dividends, the annual shareholders' meeting approves the distribution and, for interim dividends, the board of directors' meeting approves the distribution.

4. New accounting standards 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, 2016, are as follows. The Group is currently assessing the possible impacts that these applications will have on the consolidated financial statements.

Standards	Title	Date of mandatory adoption (Fiscal year of commencement thereafter)	Reporting periods of application by the Group	Description of new standards and amendments
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending March 31, 2019	Classification and measurement of debt instruments, Implementation of model of expected credit loss
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Accounting and disclosure requirements for revenue recognition
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Accounting and disclosure requirements for leases

5. Segment information

(1) Outline of reportable segments

The Group's reportable segments are operating segments, or aggregations of operating segments, which are components of an entity which separate financial information is available and which such information is evaluated regularly by the president of the Company for the purposes of making decisions on how to allocate resources and assessing performance.

The Group mainly manufactures and sells automotive parts and has directors in charge in Japan, North America, Europe and Asia. As independent management units, subsidiaries in each region have developed business activities, as exemplified by establishment or expansion of manufacturing companies, aiming for optimum production and supply for orders received through operating activities to regional customers.

The Company is in charge of the business activities in Japan. Meanwhile, DENSO INTERNATIONAL AMERICA, INC. and DENSO INTERNATIONAL EUROPE B.V. are in charge in the North America and Europe regions, respectively. In Asia, DENSO INTERNATIONAL ASIA CO., LTD (Thailand), DENSO INTERNATIONAL ASIA PTE. LTD. (Singapore), and DENSO (CHINA) INVESTMENT CO., LTD have been cooperated together as a management unit.

Since the Group is composed of regional segments based on manufacturing and selling systems, the Group determined that "Japan," "North America," "Europe" and "Asia" are its reportable segments. The Group has been manufacturing and selling mainly automotive parts in each reportable segment.

Accounting procedures are the same as those stated in Note 3 "Significant accounting policies."
Intersegment transactions are priced with reference to those applicable to transactions with external parties.

Reportable segment profit is measured on the basis of operating profit in the consolidated statement of income. Finance income, finance costs, foreign exchange gains/losses, share of profit of associates accounted for using the equity method and income tax expenses are excluded from the reportable segment profit, since they are not included in the financial information evaluated by the president of the Company.

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

For the year ended March 31, 2015 (Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	1,838,448	942,251	524,754	930,792	4,236,245	73,542	—	4,309,787
Intersegment	826,077	24,206	29,999	118,933	999,215	261	(999,476)	—
Total	2,664,525	966,457	554,753	1,049,725	5,235,460	73,803	(999,476)	4,309,787
Segment profit or losses	196,872	39,491	16,823	80,916	334,102	269	(2,995)	331,376
Finance income								27,446
Finance costs								(9,376)
Foreign exchange gains								16,513
Share of the profit of associates and joint ventures accounted for using the equity method								5,956
Profit before income taxes								371,915

(Note) "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

Other material items

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	137,116	23,458	17,528	43,291	221,393	3,591	—	224,984
Impairment losses	—	—	—	1,712	1,712	—	—	1,712
Reversal of impairment losses	—	—	—	—	—	—	—	—
Investments accounted for using the equity method	49,348	6,509	1,266	15,070	72,193	—	(374)	71,819
Increase in non-current assets (Note 2)	190,337	48,497	30,199	84,480	353,513	4,483	—	357,996

(Note 1) "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

(Note 2) Non-current assets are a total of property, plant and equipment and intangible assets.

For the year ended March 31, 2016 (Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	1,801,547	1,081,058	568,183	1,014,708	4,465,496	59,026	—	4,524,522
Intersegment	845,023	31,625	25,394	146,525	1,048,567	474	(1,049,041)	—
Total	2,646,570	1,112,683	593,577	1,161,233	5,514,063	59,500	(1,049,041)	4,524,522
Segment profit or losses	154,531	47,706	14,417	96,585	313,239	(2,005)	4,494	315,728
Finance income								34,267
Finance costs								(8,797)
Foreign exchange gains								965
Share of the profit of associates and joint ventures accounted for using the equity method								5,130
Profit before income taxes								347,293

(Note) "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

Other material items

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	138,669	28,101	19,887	52,998	239,655	3,104	—	242,759
Impairment losses	202	1,055	—	—	1,257	—	—	1,257
Reversal of impairment losses	—	—	—	—	—	—	—	—
Investments accounted for using the equity method	49,761	6,511	439	14,640	71,351	—	(255)	71,096
Increase in non-current assets (Note 2)	198,407	45,467	31,528	65,809	341,211	1,683	—	342,894

(Note 1) "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

(Note 2) Non-current assets are a total of property, plant and equipment and intangible assets.

(3) Assets for each reportable segment

(Unit: Millions of yen)

	2015	2016
Japan	2,999,440	2,822,407
North America	457,064	448,573
Europe	376,082	379,654
Asia	896,015	859,928
Others (Note 1)	60,202	48,202
Corporate assets (Note 2)	494,454	484,132
Consolidated	5,283,257	5,042,896

(Note 1) "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

(Note 2) Corporate assets mainly consist of funds which are not attributable to the reportable segments.

(4) Information about products and services

For the years ended March 31, 2015 and 2016

Revenue by products and services are not presented since the revenue of automotive products represented the majority of total revenue.

(5) Geographic information

1) Revenue (Unit: Millions of yen)

	2015	2016
Japan	1,772,550	1,744,241
The United States	816,282	932,003
Others	1,720,955	1,848,278
Total	4,309,787	4,524,522

(Note) 1. Countries which have significant impact on the consolidated financial statements are individually presented.

2. Revenue is attributed to geographic areas based on the customer locations.

2) Non-current assets (Unit: Millions of yen)

	2015	2016
Japan	773,622	824,940
Others	641,722	621,783
Total	1,415,344	1,446,723

(Note) 1. Countries which have significant impact to the consolidated financial statements are individually presented.

2. Non-current assets, a total of property, plant and equipment and intangible assets, are attributed to geographic areas based on locations of assets.

(6) Information about major customers

The major customer is Toyota Motor Corporation group. Revenue from the major customer is recorded in all segments, such as Japan, North America, Europe and Asia.

(Unit: Millions of yen)

2015	2016
2,009,730	2,077,584

6. Cash and cash equivalents

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

(Unit: Millions of yen)

	2015	2016
Cash and deposits	498,405	503,530
Short-term investments	294,009	168,952
Total	792,414	672,482

7. Trade and other receivables

The breakdown of "Trade and other receivables" at each fiscal year-end is as follows:

(Unit: Millions of yen)

	2015	2016
Notes and accounts receivable	688,670	699,377
Other	121,000	129,080
Less: Allowance for doubtful accounts	(2,001)	(1,770)
Total	807,669	826,687

(Note) "Trade and other receivables" are classified as financial assets which are measured at amortized cost.

When impairment of accounts receivables and other financial assets are recognized, the carrying amount of the financial asset is not directly reduced but reduced by an allowance for doubtful accounts. The increase and decrease of the allowance for doubtful accounts for each fiscal year were as follows.

(Unit: Millions of yen)

	2015	2016
Balance, beginning of year	1,527	2,001
Increase	929	219
Decrease - used	(7)	(14)
Decrease - reversed	(618)	(449)
Foreign exchange difference	170	13
Balance, end of year	2,001	1,770

Where recoverability is uncertain, the Group conducts ongoing monitoring of the credit status of customers, including receivables whose maturity date has been extended. Based on the credit facts covered by this monitoring, the Group assesses the recoverability of trade and other receivables, and recognizes allowances for doubtful accounts accordingly. In addition, there is not overly reliant on any specific counterparty and therefore faces minimal exposure to the impact of chain-reaction credit risk. Consequently, the Company has not recognized additional allowances for doubtful accounts due to credit risk concentration.

The age of trade and other receivables that are past due but not impaired as of each fiscal year-end was as follows.

Receivables disclosed below include amounts considered recoverable through credit insurance and collateral and are therefore not considered to be impaired as of each fiscal year-end .

(Unit: Millions of yen)

	2015	2016
Past due within 90 days	20,511	20,774
Past due over 90 days through one year	3,235	2,820
Past due over one year	825	545
Total	24,571	24,139

8. Inventories

The breakdown of "Inventories" at each fiscal year-end is as follows:

(Unit: Millions of yen)

	2015	2016
Merchandise and finished products	157,885	153,418
Work in process	187,091	187,243
Raw materials and supplies	134,551	135,913
Total (Note)	479,527	476,574

(Note) The amounts of write-down of inventories to net realizable value recognized as "Cost of revenue" for the years ended March 31, 2015 and 2016 were ¥8,778 million and ¥8,998 million, respectively.

9. Other financial assets

(1) The breakdown of "Other financial assets" as of each fiscal year-end is as follows:

(Unit: Millions of yen)

	2015	2016
Bank deposits (Note 1)	136,599	192,182
Certificates of deposit (Note 1)	15,000	12,050
Debt securities (Note 1)	56,985	144,977
Equity securities (Note 2)	1,208,650	993,821
Derivative assets (Note 3)	52,778	37,993
Other	16,307	13,464
Total	1,486,319	1,394,487

Current assets	183,580	356,815
Non-current assets	1,302,739	1,037,672
Total	1,486,319	1,394,487

(Note 1) Bank deposits, certificates of deposit, and debt securities are classified as financial assets measured at amortized cost.

(Note 2) Equity securities are classified as financial assets measured at fair value through other comprehensive income.

(Note 3) Derivative assets, excluding those hedge accounting is applied to, are classified as financial assets measured at fair value through profit or loss.

(2) Names of major securities held as financial assets measured at fair value through other comprehensive income and their fair values as of each fiscal year-end were as follows:

(Unit: Millions of yen)

Security name	2015	2016
Toyota Motor Corporation	694,797	517,001
TOYOTA INDUSTRIES CORPORATION	203,978	150,018
Towa Real Estate Co., Ltd.	74,060	64,499
Aisin Seiki Co., Ltd.	12,927	54,971
KOITO MANUFACTURING CO., LTD.	24,268	34,237
JTEKT CORPORATION	34,465	26,822
TOKAI RIKA CO., LTD.	24,796	18,830
TOYOTA BOSHOKU CORPORATION	15,329	18,692
KDDI CORPORATION	14,026	15,498
Honda Motor Co., Ltd.	17,169	13,575

Equity securities are held mainly for strengthening business relationships with investees. Therefore, they are designated as financial assets measured at fair value through other comprehensive income.

Dividend income related to the financial assets measured at fair value through other comprehensive income that the Group held through the years ended March 31, 2015 and 2016 were ¥18,934 million and ¥ 26,769 million, respectively.

In order to pursue the efficiency of assets held and to use them effectively, the Group has disposed of (derecognized) financial assets measured at fair value through other comprehensive income.

The fair value at the derecognition, cumulative gains and losses that have been previously recognized in equity as other comprehensive income and dividend income were as follows:

(Unit: Millions of yen)

	2015	2016
Fair value	—	118
Cumulative losses that have been previously recognized in equity as other comprehensive income - pre-tax (Note 4)	—	(1,617)
Dividend income	—	2

(Note 4) The cumulative gains and losses recognized in equity as other comprehensive income were transferred to retained earnings when equity instruments were disposed. The amounts of transfer to retained earnings were net of tax.

10. Property, plant and equipment

(1) The breakdown and movement of acquisition cost, accumulated depreciation and accumulated impairment losses and carrying amount of "Property, plant and equipment" are as follows:

(Unit: Millions of yen)

Acquisition cost	Buildings and structures	Machinery and equipment	Land	Construction in progress (Note 1)	Other	Total
Balance, April 1, 2014	811,118	2,376,785	176,269	126,511	604,783	4,095,466
Acquisition	25,791	114,996	4,532	171,014	33,521	349,854
Disposals	(5,218)	(86,965)	(1,107)	(1,343)	(20,609)	(115,242)
Foreign exchange differences	16,108	54,010	2,336	6,641	13,548	92,643
Other (Note 2)	24,487	128,254	432	(171,726)	27,811	9,258
Balance, March 31, 2015	872,286	2,587,080	182,462	131,097	659,054	4,431,979
Acquisition	15,801	128,474	860	155,173	34,236	334,544
Disposals	(5,025)	(95,523)	(388)	(335)	(26,570)	(127,841)
Foreign exchange differences	(20,328)	(72,934)	(3,118)	(5,683)	(19,020)	(121,083)
Other (Note 2)	12,770	120,979	114	(161,314)	24,326	(3,125)
Balance, March 31, 2016	875,504	2,668,076	179,930	118,938	672,026	4,514,474

(Note 1) Construction in progress includes the expenditures related to the property, plant and equipment under construction.

(Note 2) Other includes transfers from construction in progress to each item.

(Unit: Millions of yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and equipment	Land	Construction in progress	Other	Total
Balance, April 1, 2014	497,580	1,849,550	1,025	―	517,390	2,865,545
Depreciation (Note)	25,998	153,258	―	―	40,856	220,112
Impairment losses	―	189	―	―	21	210
Disposals	(3,631)	(82,030)	―	―	(18,969)	(104,630)
Foreign exchange differences	7,359	35,710	(9)	―	10,346	53,406
Other	235	412	―	―	983	1,630
Balance, March 31, 2015	527,541	1,957,089	1,016	―	550,627	3,036,273
Depreciation (Note)	26,818	161,496	―	―	48,531	236,845
Impairment losses	202	―	―	1,055	―	1,257
Disposals	(4,058)	(88,894)	―	―	(25,032)	(117,984)
Foreign exchange differences	(8,329)	(45,165)	(3)	―	(14,016)	(67,513)
Other	(142)	(1,619)	―	―	1,790	29
Balance, March 31, 2016	542,032	1,982,907	1,013	1,055	561,900	3,088,907

(Note) Depreciation on "Property, plant and equipment" was included in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Unit: Millions of yen)

Carrying amount	Buildings and structures	Machinery and equipment	Land	Construction in progress	Other	Total
Balance, April 1, 2014	313,538	527,235	175,244	126,511	87,393	1,229,921
Balance, March 31, 2015	344,745	629,991	181,446	131,097	108,427	1,395,706
Balance, March 31, 2016	333,472	685,169	178,917	117,883	110,126	1,425,567

(2) Carrying amount of assets pledged as collateral

Carrying amounts of assets pledged as collateral are not presented as they were immaterial.

(3) Commitments

Commitments for the acquisition of property, plant, and equipment were as follows:

(Unit: Millions of yen)

	2015	2016
Contractual commitments for the acquisition of property, plant and equipment	95,146	84,125

(4) Impairment losses

The impairment losses the Group recognized for each fiscal year were as follows:

For the year ended March 31, 2015

Business group	Segment	Types of assets	Class	Amount (millions of yen)
Information and safety	Asia	Productive facility for information and safety products	Machinery and equipment, etc.	210

For the year ended March 31, 2015, the Group recognized ¥210 million in impairment losses for productive facilities because the expected profit was not foreseen due to deterioration of a part of the business environment in certain regions. The undepreciated balances of the relevant assets were written down to zero. The impairment losses were included in "Other expenses" in the consolidated statement of income.

For the year ended March 31, 2016

Business group	Segment	Types of assets	Class	Amount (millions of yen)
Corporate assets	Japan	Unused	Buildings and structures	202
Small Motors	North America	Productive facility for small motor products	Construction in progress	1,055

For the year ended March 31, 2016, the Group recognized ¥202 million in impairment losses for unused corporate assets as a result of a change in the Group's capital investment plan.

The Group wrote down the undepreciated balances of its productive facilities to their recoverable amounts and recognized ¥1,055 million in impairment losses for relevant assets because the expected profit was not foreseen due to deterioration of a part of the business environment in certain regions. The recoverable amounts of the asset group were measured at fair value less costs to sell. Fair value is calculated based on valuation techniques which include inputs that are not based on observable market data and the fair value hierarchy is level 3.

The impairment losses were included in "Other expenses" in the consolidated statement of income.

11. Intangible assets

(1) The breakdown and movement of acquisition cost, accumulated amortization and accumulated impairment losses and carrying amount of "Intangible assets" were as follows:

(Unit: Millions of yen)

Acquisition cost	Software	Development costs	Goodwill	Other	Total
Balance, April 1,2014	39,785	6	2,002	5,972	47,765
Acquisition	5,377	–	651	1,253	7,281
Internally generated	376	1,068	–	428	1,872
Disposal	(338)	–	–	(1)	(339)
Foreign exchange difference	14	–	289	43	346
Other	(72)	–	–	(2,062)	(2,134)
Balance, March 31, 2015	45,142	1,074	2,942	5,633	54,791
Acquisition	5,153	–	712	2,266	8,131
Internally generated	340	234	–	803	1,377
Disposal	(2,261)	–	–	(10)	(2,271)
Foreign exchange difference	(847)	–	(126)	223	(750)
Other	(155)	–	–	(1,561)	(1,716)
Balance, March 31, 2016	47,372	1,308	3,528	7,354	59,562

(Unit: Millions of yen)

Accumulated amortization and Accumulated impairment losses	Software	Development costs	Goodwill	Other	Total
Balance, April 1, 2014	27,404	–	–	2,059	29,463
Amortization (Note)	4,593	–	–	279	4,872
Impairment losses	–	–	1,502	–	1,502
Disposal	(277)	–	–	–	(277)
Foreign exchange difference	(98)	–	–	(11)	(109)
Other	34	–	–	(331)	(297)
Balance, March 31, 2015	31,656	–	1,502	1,996	35,154
Amortization (Note)	5,047	304	–	563	5,914
Impairment losses	–	–	–	–	–
Disposal	(2,253)	–	–	–	(2,253)
Foreign exchange difference	(541)	–	–	286	(255)
Other	49	–	–	(203)	(154)
Balance, March 31, 2016	33,958	304	1,502	2,642	38,406

(Note) Amortization of intangible assets is included in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Unit: Millions of yen)

Carrying amount	Software	Development costs	Goodwill	Other	Total
Balance, April 1, 2014	12,381	6	2,002	3,913	18,302
Balance, March 31, 2015	13,486	1,074	1,440	3,637	19,637
Balance, March 31, 2016	13,414	1,004	2,026	4,712	21,156

The research and development expenditures recognized in profit or loss for the years ended March 31, 2015 and 2016 were ¥395,372 million and ¥399,004 million, respectively. These amounts were included in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of income.

(2) Impairment losses

The Group recognized impairment losses for the following assets:

For the year ended March 31, 2015

Business group	Segment	Type of assets	Amount (millions of yen)
Information and safety	Asia	Goodwill	1,502

The Group has written down the carrying amounts of the relevant goodwill to zero because the expected profit was not foreseen due to deterioration of a part of the business environment in certain regions. The written-down amount of ¥1,502 million was recognized as an impairment loss. The impairment losses were included in "Other expenses" in the consolidated statement of income.

For the year ended March 31, 2016

No items to report.

(3) Material intangible assets

Intangible assets recognized in the statement of financial position are not individually material as of March 31, 2015 and 2016.

(4) Impairment test for goodwill

Goodwill is allocated to cash-generating units, or group of cash-generating units, and tested for impairment annually or whenever there is any indication of impairment.

The recoverable amount of each cash-generating unit, or group of cash-generating units, is calculated by the value in use based on the five-year business plan at maximum that was prepared and approved by management by reflecting past experiences and external evidence.

Subsequent to the five-year business plan, the Group forecasts the recoverable amounts by using a steady or gradually-declining growth rate. The value in use sufficiently exceeds the carrying amount of the cash-generating units. Therefore, even in cases where the discount rate and growth rate used in calculating the value in use fluctuate within reasonable ranges, the Group believes that it is unlikely that the value in use will fall below the carrying amount.

12. Income taxes

(1) Income tax expenses

"Income tax expenses" for each fiscal year were as follows:

(Unit: Millions of yen)

	2015	2016
Current income tax expenses		
Current year	83,361	90,345
Prior years	(148)	1,080
Total	83,213	91,425
Deferred income tax expenses		
Occurrence and reversal of temporary differences	10,942	(9,737)
Change in tax rates	9,638	4,984
Recognition of previously unrecognized deferred tax assets	(8,630)	(268)
Reversal of deferred tax assets recognized in the prior year	43	324
Total	11,993	(4,697)
Total of income tax expenses	95,206	86,728
Income taxes recognized in other comprehensive income	94,442	(120,542)

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in an applicable tax rate of 34.94% for the year ended March 31, 2015 and 32.43% for the year ended March 31, 2016.

The "Act for partial amendment of the Income Tax Act, etc." and "Act for partial amendment of the Local Taxation Act, etc." were enacted in Japan on March 31, 2015. The applicable tax rates used to calculate deferred tax assets and liabilities of the Company, which will be reversed after April 1, 2015, were changed from 34.94% to 32.43% for temporary differences expected to reverse from April 1, 2015 to March 31, 2016 and changed to 31.65% for temporary differences expected to reverse after April 1, 2016.

The "Act for partial amendment of the Income Tax Act, etc." and "Act for partial amendment of the Local Taxation Act, etc." were enacted in Japan on March 29, 2016. The applicable tax rates used to calculate deferred tax assets and liabilities of the Company, which will be reversed after April 1, 2016, were changed from 31.65% to 30.29% for temporary differences expected to reverse from April 1, 2016 to March 31, 2018 and changed to 30.07% for temporary differences expected to reverse after April 1, 2018.

The current income tax charges outside of Japan are calculated on the basis of the tax laws enacted or substantively enacted in the jurisdictions where the company and its subsidiaries operate and generate taxable income.

On June 28, 2010 and June 22, 2012, the Company received reassessment notices of supplementary tax assessment for additional tax on the income of its subsidiary under the Anti-tax haven rules for the consecutive years ended March 31, 2008 to March 31, 2011, from the Nagoya Regional Taxation Bureau. They stated that the overseas subsidiaries of the Group did not satisfy the conditions for exemption from the application of the Anti-tax haven rules. The additional tax assessments including local taxes and others were ¥1,188 million for the years ended March 31, 2008 and 2009, and ¥6,101 million for the years ended March 31, 2010 and 2011. The Company, being unable to accept the verdicts, filed an appeal to have the action canceled. Regarding the cases for the fiscal year ended March 31, 2008 and 2009, after Nagoya District Court ruled in favor of the Company regarding its subsidiary subject to the exemptions to the anti-tax haven rules on September 4, 2014, the Nagoya High Court rejected the Company's assertions on February 10, 2016. Currently, the Company is in the procedure to appeal to the Supreme Court, by filing a final appeal and/or petitioning for acceptance of a final appeal. The Company strongly believes that the total amount of ¥7,289 million would be fully recovered and therefore, appealed to the Nagoya Regional Taxation Bureau by seeking withdrawal of the assessment in accordance with the relevant law and recognized the amount as "Other non-current assets."

The reconciliation between the applicable tax rates and the average effective tax rates reflected in the accompanying consolidated statements of income for each fiscal year was as follows:

(Unit: %)

	2015	2016
Applicable tax rate	34.94	32.43
Lower income tax rates applicable to income in certain foreign subsidiaries	(4.68)	(4.22)
Tax credit for R&D expenses	(3.14)	(3.80)
Recognition of previously unrecognized deferred tax assets	(2.32)	(0.08)
Reversal of deferred tax assets due to change in applicable tax rates	2.59	1.43
Other	(1.79)	(0.79)
Actual effective tax rate	25.60	24.97

(2) Deferred tax assets and liabilities

Changes in "Deferred tax assets" and "Deferred tax liabilities" for each fiscal year were as follows:

For the year ended March 31, 2015 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets					
Accrued bonuses to employees	20,961	94	－	130	21,185
Reserve for warranty	16,275	(2,032)	－	132	14,375
Retirement benefit liabilities	58,698	(8,651)	11,757	82	61,886
Provision for accrued vacation paid	17,168	1,643	－	33	18,844
Other	96,891	(6,548)	31	1,470	91,844
Total deferred tax assets	209,993	(15,494)	11,788	1,847	208,134
Deferred tax liabilities					
Investment in equity instruments	178,065	(1,227)	81,338	－	258,176
Depreciation	23,173	(1,183)	－	1,129	23,119
Retirement benefit assets	33,677	(6,220)	24,892	－	52,349
Other	5,817	5,129	－	391	11,337
Total deferred tax liabilities	240,732	(3,501)	106,230	1,520	344,981
Net	(30,739)	(11,993)	(94,442)	327	(136,847)

For the year ended March 31, 2016 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets					
Accrued bonuses to employees	21,185	(1,379)	－	(133)	19,673
Reserve for warranty	14,375	(4,907)	－	(191)	9,277
Retirement benefit liabilities	61,886	(4,708)	5,167	(180)	62,165
Provision for accrued vacation paid	18,844	(252)	－	(42)	18,550
Other	91,844	15,507	116	(2,887)	104,580
Total deferred tax assets	208,134	4,261	5,283	(3,433)	214,245
Deferred tax liabilities					
Investment in equity instruments	258,176	400	(100,428)	－	158,148
Depreciation	23,119	6,359	－	(679)	28,799
Retirement benefit assets	52,349	(3,757)	(14,831)	－	33,761
Other	11,337	(3,438)	－	(409)	7,490
Total deferred tax liabilities	344,981	(436)	(115,259)	(1,088)	228,198
Net	(136,847)	4,697	120,542	(2,345)	(13,953)

(Note) The recoverability of deferred tax assets was assessed based on sufficient amounts of taxable temporary differences and future taxable income, and feasibility of tax planning.

"Deferred tax assets" and "Deferred tax liabilities" reported in the consolidated statement of financial position as of each fiscal year-end were as follows:

(Unit: Millions of yen)

	2015	2016
Deferred tax assets	44,457	40,464
Deferred tax liabilities	181,304	54,417
Net deferred tax assets (liabilities)	(136,847)	(13,953)

The deductible temporary differences in which deferred tax assets were not recognized as of each fiscal year-end were as follows:

(Unit: Millions of yen)

	2015	2016
Deductible temporary differences	10,219	9,707

The unused tax losses for which deferred tax assets were not recognized as of each fiscal year-end were as follows:

(Unit: Millions of yen)

	2015	2016
Within 1st year	305	256
2nd year	1,324	1,489
3rd year	562	2,377
4th year	53	841
5th year and thereafter	25,494	19,637
Total	27,738	24,600

As of March 31, 2015 and 2016, deferred tax liabilities were not recognized for taxable temporary differences associated with investments in subsidiaries, except for the undistributed profits which are determined to be distributed. This was because the Company was able to control the timing of the reversal of the temporary differences and it was certain that the temporary differences would not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries in which deferred tax liabilities were not recognized as of March 31, 2015 and 2016 were ¥696,663 million and ¥689,866 million, respectively.

13. Bonds and borrowings

The breakdown of "Bonds and borrowings" at each fiscal year-end is as follows:

The Company is subject to financial covenants with respect to a portion of its borrowings from financial institutions and has complied with such covenants for the year ended March 31, 2016. In addition, the Company monitors each compliance status to maintain the level required by such financial covenants.

	2015	2016	Average interest rate (Note 1)	Maturity date
With collateral				
Short-term borrowings	—	—	—	—
Current portion of long-term borrowings (Note 2)	39	7	23.08	—
Long-term borrowings (Note 2)	14	—	—	—
Without collateral				
Short-term borrowings	73,262	56,068	3.21	—
Current portion of bonds (Note 3)	—	50,000	—	—
Current portion of long-term borrowings	25,658	155,898	0.61	—
Bonds (Note 3)	100,000	80,000	—	—
Long-term borrowings	248,227	134,638	0.59	From 2017 to 2023
Total	447,200	476,611	—	—

(Note 1) Average interest rate indicates the weighted-average interest rates applicable to borrowings at each fiscal year-end.

(Note 2) The borrowings are those by the subsidiaries in South America.

(Note 3) Bonds at each fiscal year end consisted of the following:

Issuer	Name of bond	The date of Issuance	2015 (Millions of yen)	2016 (Millions of yen)	Interest rate (%)	Collateral	Redemption period
DENSO Corporation	The 7th unsecured bonds	June 16, 2011	50,000	50,000 (50,000)	0.55	None	June 20, 2016
	The 8th unsecured bonds	July 24, 2013	30,000	30,000	0.35	None	June 20, 2018
	The 9th unsecured bonds	July 16, 2014	20,000	20,000	0.20	None	June 20, 2019
	The 10th unsecured bonds	September 8, 2015	—	20,000	0.18	None	September 18, 2020
	The 11th unsecured bonds	September 8, 2015	—	10,000	0.27	None	September 20, 2022
Total	—	—	100,000	130,000 (50,000)	—	—	—

(Note) The figures in parentheses represent the amounts of the current portion of the bonds.

14. Trade and other payables

The breakdown of "Trade and other payables" at each fiscal year-end is as follows:

(Unit: Millions of yen)

	2015	2016
Notes and accounts payable (Note 1)	518,244	525,589
Other (Note 2)	286,572	287,347
Total	804,816	812,936

(Note 1) "Trade and other payables" are classified as financial liabilities measured at amortized cost.

(Note 2) Other includes mainly accrued expenses and notes/accounts payable for equipment.

15. Provisions

"Provisions" were included in current liabilities and non-current liabilities in the consolidated statement of financial position.

The breakdown and movement in provisions for each fiscal year are as follows:

(Unit: Millions of yen)

	Reserve for warranty (Note 1)	Provision for loss on antitrust issues (Note 2)	Other	Total
Balance, April 1, 2014	55,025	–	6,780	61,805
Provisions made	15,676	–	1,426	17,102
Provisions used	(18,499)	–	(413)	(18,912)
Provisions reversed	(7,702)	–	(1,427)	(9,129)
Foreign exchange difference	1,244	–	693	1,937
Balance, March 31, 2015	45,744	–	7,059	52,803
Provisions made	13,373	45,930	3,400	62,703
Provisions used	(14,637)	–	(678)	(15,315)
Provisions reversed	(10,005)	–	(588)	(10,593)
Foreign exchange difference	66	–	(762)	(696)
Balance, March 31, 2016	34,541	45,930	8,431	88,902

(Note 1) A portion of the reserve for warranty is expected to be reimbursed by mutual agreement with the Group's suppliers. The estimated amounts of reimbursements were ¥2,863 million and ¥4,459 million as of March 31, 2015 and 2016, respectively. The amounts were included in "Trade and other receivables" in the consolidated statement of financial position.

(Note 2) Please see Note 29 "Contingencies".

16. Post-employment benefits

The Group has funded or unfunded defined benefit plans and defined contribution plans as employee retirement benefit plans. The benefits for defined benefit plans are provided based on conditions, such as points that employees acquired in compensation for each year of service, years of service, and others. The pension amounts that are actuarially calculated using certain ratios of relevant wages and salaries are accumulated as funds to prepare for the payment of future benefits. In addition, the Group may pay additional retirement grants for employees which do not meet the definition of defined benefit plans under IFRS.

The funded defined benefit plans are administrated by the fund that is legally segregated from the Group in accordance with statutory requirements. The board of pension fund and the trustee of the plan are required by law to act in the best interests of the plan participants and are responsible for managing the plan assets in accordance with the designated investment strategy.

(1) Defined benefit plans

The balance and changes in the present value of defined benefit obligation and fair value of plan assets were as follows:

1) Changes in the defined benefit obligation (Unit: Millions of yen)

	2015	2016
Balance, beginning of year	703,970	763,973
Service cost	30,355	34,377
Interest cost on obligation	12,393	8,521
Plan amendments	(1,178)	(504)
Actuarial gains (Demographical)	(31,960)	(8,698)
Actuarial losses (Financial)	72,956	53,920
Benefits paid	(26,355)	(27,903)
Foreign exchange differences	3,792	(3,709)
Balance, end of year	763,973	819,977

2) Changes in the plan assets (Unit: Millions of yen)

	2015	2016
Balance, beginning of year	630,492	637,476
Interest income on plan assets	10,761	6,750
Plan amendments	(399)	(9)
Income from plan assets other than interest	88,128	(18,435)
Employer contributions	26,651	22,844
Benefits paid	(15,521)	(17,138)
Redemption of part of the plan assets (Note)	(105,690)	(14,648)
Foreign exchange differences	3,054	(2,192)
Balance, end of year	637,476	614,648

(Note) During the years ended March 31, 2015 and 2016, the Company's plan assets exceeded the amount of defined benefit obligation, and the Company expects to continue such position in the near future. Therefore, the Company has redeemed a portion of shares that have been contributed as employees' retirement benefit trust among the plan assets.

3) Reconciliation of balances of defined benefit obligations and plan assets (Unit: Millions of yen)

	2015	2016
Defined benefit obligation, end of year	763,973	819,977
Plan assets, end of year	637,476	614,648
Net amount of defined benefit obligation and plan assets	126,497	205,329
Retirement benefit liabilities	219,173	231,120
Retirement benefit assets	92,676	25,791
Net amount of liabilities and assets recognized in the consolidated statement of financial position	126,497	205,329

Investment policy

The Group's investment policy for plan assets of its defined benefit pension plans is to procure an adequate return to provide future payments of pension benefits over the long term by optimizing risk tolerance and formulating a well-diversified portfolio including investments such as equity instruments, debt instruments and insurance contracts.

Considering the funded status of the pension plans and surrounding economic environment for investments, the Group's investment strategy may be revised as needed.

Moreover, the Group continuously monitors and pays extra attention to the diversification of risks relevant to strategies and investment managers for the purpose of risk control and, thereby, pursues efficient risk management.

Major components of plan assets

The fair values of plan assets for the years ended March 31, 2015 and 2016 were as follows:

As of March 31, 2015 (Unit: Millions of yen)

Category	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Equity instruments			
Japanese equity securities	78,889	37	78,926
Global equity securities	35	6	41
Commingled funds - Japanese equity securities	―	40,455	40,455
Commingled funds - global equity securities	―	51,357	51,357
Total - Equity instruments	78,924	91,855	170,779
Debt instruments			
Japanese debt securities	―	8,270	8,270
Global debt securities	26,257	5,174	31,431
Commingled funds - Japanese debt securities	―	150,410	150,410
Commingled funds - global equity securities	―	101,144	101,144
Other	5,630	3,476	9,106
Total - Debt instruments	31,887	268,474	300,361
Insurance contract (Note 1)	―	114,875	114,875
Other (Note 2)	15,073	36,388	51,461
Total	125,884	511,592	637,476

(Note 1) Insurance contract includes investments in life insurance company general accounts, which are guaranteed for principal amount and interest rate by life insurance companies.
(Note 2) Other includes mainly cash and cash equivalents.

As of March 31, 2016 (Unit: Millions of yen)

Category	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Equity instruments			
Japanese equity securities	49,399	20	49,419
Global equity securities	42	6	48
Commingled funds - Japanese equity securities	―	30,283	30,283
Commingled funds - global equity securities	―	46,692	46,692
Total - Equity instruments	49,441	77,001	126,442
Debt instruments			
Japanese debt securities	2,794	―	2,794
Global debt securities	19,597	5,155	24,752
Commingled funds - Japanese debt securities	―	30,483	30,483
Commingled funds - global equity securities	―	89,945	89,945
Other	115	430	545
Total - Debt instruments	22,506	126,013	148,519
Insurance contract (Note 1)	―	117,870	117,870
Other (Note 2)	52,828	168,989	221,817
Total	124,775	489,873	614,648

(Note 1) Insurance contract includes investments in life insurance company general accounts, which are guaranteed for principal amount and interest rate by life insurance companies.
(Note 2) Other includes mainly cash and cash equivalents.

The major items of actuarial assumptions as of each fiscal year end were as follows: (Unit: %)

	2015	2016
Discount rate	0.95	0.51

Changes in the key assumptions may affect the measurement of defined benefit obligations as follows. In addition, this analysis shows the sensitivity to the key assumptions without taking into account all information of projected cash flow.

(Unit: Millions of yen)

	Increase (decrease) of defined benefit obligations as of March 31, 2016
Discount rate: Decreased by 0.5%	66,472
Discount rate: Increased by 0.5%	(61,104)

The Group expects ¥22,578 million of the contribution to be paid from April 1, 2016 to March 31, 2017.

The weighted-average duration of the defined benefit obligations for the years ended March 31, 2015 and 2016 was 16 years.

(2) Defined contribution plans

The amounts recognized as expenses related to the defined contribution plans for the years ended March 31, 2015 and 2016 were ¥9,235 million and ¥9,698 million, respectively.

17. Equity and other equity items

(1) Capital stock and Capital surplus

Under the Companies Act of Japan (the "Companies Act"), at least 50% of the proceeds of certain issues of common shares shall be credited to "Capital stock." The remainder of the proceeds shall be credited to "Capital surplus." The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from "Capital surplus" to "Capital stock."

Number of authorized shares as of each fiscal year end were 1,500 million shares.

Number of fully paid issued shares and increase/decrease in each fiscal year-end were as follows:

	Number of shares (Share)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
2015	884,068,713	187,457	268,611
Decrease	—	—	(971)
2016	884,068,713	187,457	267,640

The shares issued by the Company are non-par value ordinary shares that have no restriction on any content of rights.

(2) Retained earnings

The Companies Act provides that a 10% dividend of retained earnings shall be appropriated as "Capital surplus" or as a legal reserve until the aggregate amount of the "Capital surplus" and the legal reserve equals to 25% of "Capital stock." The legal reserve may be used to eliminate or reduce a deficit or be transferred to "Retained earnings" upon approval at the general meeting of shareholders.

(3) Treasury stock

The Companies Act allows Japanese companies to purchase and hold treasury stock. Japanese companies are allowed to decide the number, amount and other aspects of the treasury stock to be acquired, not exceeding the amount available for distribution, upon resolution at the shareholders' meeting. The Companies Act also allows Japanese companies to purchase treasury stock through market transactions or tender offer by resolution of the board of directors, as long as it is allowed under the articles of incorporation, subject to limitations imposed by the Companies Act.

The increase/decrease of treasury stock as of each fiscal year-end was as follows:

	Number of shares (Share)	Amount (Millions of yen)
2015	86,371,777	218,942
Increase	4,905,327	27,544
2016	91,277,104	246,486

(4) Other components of equity

1) Stock acquisition rights

Stock acquisition rights are those issued for stock option remunation plan.

2) Net fair value gain on equity instruments designated as FVTOCI

Net fair value gain on equity instruments designated as FVTOCI is the accumulated gains and losses related to financial instruments measured at the fair value through other comprehensive income.

3) Remeasurements of defined benefit pension plans

Remeasurements of defined benefit pension plans are the amount affected by the difference between the actuarial assumption and actual result and by the change of the actuarial assumption. The amount is recognized through other comprehensive income as incurred, then immediately transferred from other components of equity to retained earnings.

4) Exchange differences on translating foreign operations

Exchange differences on translating foreign operations are the foreign exchange differences which are recognized when translating the results and financial position of a foreign operation of the Group into a presentation currency of the Group.

5) Cash flow hedges

Cash flow hedges are the accumulated amounts of the effective portion of gains and losses, arising from changes in the fair value of hedging instruments for cash flow hedges.

18. Dividends

Total annual dividends for each fiscal year were as follows:

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual shareholders' meeting held on June 19, 2014	Ordinary shares	46,241	58	March 31, 2014	June 20, 2014
Board of directors' meeting held on October 31, 2014	Ordinary shares	37,484	47	September 30, 2014	November 26, 2014
Annual shareholders' meeting held on June 19, 2015	Ordinary shares	50,257	63	March 31, 2015	June 22, 2015
Board of directors' meeting held on October 30, 2015	Ordinary shares	47,720	60	September 30, 2015	November 26, 2015

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

Resolution	Class of shares	Source of dividends	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of directors' meeting held on April 28, 2016	Ordinary shares	Retained earnings	47,569	60	March 31, 2016	May 30, 2016

19. Other income

The breakdown of "Other income" for each fiscal year is as follows:

(Unit: Millions of yen)

	2015	2016
Rental income -property, plant and equipment	2,460	2,518
Gain on sales -property, plant and equipment	2,974	2,778
Other	7,363	7,157
Total	12,797	12,453

20. Selling, general and administrative expenses and other expenses

The breakdown of "Selling, general and administrative expenses" for each fiscal year is as follows:

(Unit: Millions of yen)

	2015	2016
Freight expenses	40,419	42,221
Employee benefit expenses	164,790	170,398
Provision for warranty reserve	10,201	482
Depreciation	18,683	20,732
Welfare expenses	26,956	28,359
Other	138,415	149,823
Total	399,464	412,015

The breakdown of "Other expenses" for each fiscal year is as follows: (Unit: Millions of yen)

	2015	2016
Loss on sales or disposal - property, plant and equipment	5,836	7,484
Impairment losses	1,712	1,257
Other (Note)	32,004	53,180
Total	39,552	61,921

(Note) Other for the year ended March 31, 2015 included loss on antitrust issues which was settled for violation of the antitrust laws in the amount of ¥21,890 million and ¥2,783 million of loss on liquidation of the manufacturing business in Australia, which would cause possible payments of retirement benefit expenses.
Other for the year ended March 31, 2016 included loss on antitrust issues which was settled for violation of the antitrust laws in the amount of ¥45,930 million (Reference to Note 29 "Contingencies").

21. Income and expenses pertaining to financial instruments

The breakdown of "Finance income" for each fiscal year is as follows: (Unit: Millions of yen)

	2015	2016
Interest income		
Financial assets measured at amortized cost (i.e., deposits and other)	8,021	7,215
Financial assets measured at fair value through profit or loss (i.e., interest rate derivatives)	―	―
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note)	18,934	26,769
Other	491	283
Total	27,446	34,267

(Note) Dividend income from the financial assets measured at fair value through other comprehensive income which was recognized in each fiscal year included the dividend income from the the financial assets measured at fair value through other comprehensive income which were derecognized in each fiscal year (Reference to Note 9 "Other financial assets").

The breakdown of "Finance costs" for each fiscal year is as follows: (Unit: Millions of yen)

	2015	2016
Interest expenses		
Financial liabilities measured at amortized cost (i.e., bonds, borrowings and other)	5,335	5,599
Financial liabilities measured at fair value through profit or loss (i.e., interest rate derivatives)	2,291	1,222
Interest on defined benefit liabilities, net	1,632	1,771
Other	118	205
Total	9,376	8,797

22. Earnings per share

(1) Basis of calculating basic earnings per share

1) Profit for the year attributable to owners of the parent company (Unit: Millions of yen)

	2015	2016
Profit attributable to owners of the parent company	258,382	244,251

2) Average number of shares - basic (Unit: Thousands of shares)

	2015	2016
Average number of shares -basic	797,459	795,105

(2) Basis of determination of profit used to determine diluted earnings per share

1) Profit available to owners of the parent company – diluted (Unit: Millions of yen)

	2015	2016
Profit attributable to owners of the parent company - diluted	258,382	244,251

2) Average number of shares - diluted (Unit: Thousands of shares)

	2015	2016
Average number of shares - basic	797,459	795,105
Effect of dilutive shares	193	24
Average number of shares - diluted	797,652	795,129

23. Other comprehensive income

The breakdown of "Other comprehensive income" including that attributable to non-controlling interests for each fiscal year is as follows:

(Unit: Millions of yen)

	2015	2016
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net fair value gain (loss) on equity instruments designated as FVTOCI		
Arising during the year	309,001	(293,145)
Income taxes	(81,338)	100,428
Total	227,663	(192,717)
Remeasurements of defined benefit pension plans		
Arising during the year	47,132	(63,657)
Income taxes	(13,135)	19,998
Total	33,997	(43,659)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Arising during the year	96,710	(99,214)
Reclassification to profit or loss	—	64
Total	96,710	(99,150)
Cash flow hedges		
Arising during the year	130	130
Reclassification to profit or loss	(252)	(530)
Before income taxes	(122)	(400)
Income taxes	31	116
Total	(91)	(284)
Total other comprehensive income	358,279	(335,810)

The breakdown of other comprehensive income attributable to non-controlling interests (net of tax) for each fiscal year is as follows:

(Unit: Millions of yen)

	2015	2016
Net fair value gain (loss) on equity instruments designated as FVTOCI	205	(152)
Remeasurements of net defined benefit pension plans	(32)	(890)
Exchange differencies on translating foreign operations	10,582	(12,797)
Cash flow hedges	—	—
Total	10,755	(13,839)

24. Non-financial transactions that are material

The description contents of non-financial transactions that are material

(1) The amounts of assets and liabilities related to finance lease transactions were as follows:

(Unit: Millions of yen)

	2015	2016
The amounts of assets and liabilities related to finance lease transactions	11,647	12,054

(2) The amounts of stocks acquired by return of a part of employee retirement benefit trust were as follows:

(Unit: Millions of yen)

	2015	2016
The amounts of stocks acquired by return of a part of employee retirement benefit trust	105,690	14,648

25. Financial instruments

(1) Capital Management

To achieve sustainable growth, the Group aims to ensure financial health while continuing stable and lasting returns to shareholders by managing its resources through activities such as facility investment in business, research and development, and mergers and acquisitions. Generally, the operating cash flows cover such funding by maintaining and strengthening the Group's profitability and cash-generating ability, with additional interest-bearing debt, such as debts and borrowings, if necessary. In addition, the Group secures funds to maintain stable financial health in the long term.

The Group is not exposed to capital restrictions by external parties as of March 31, 2016.

(2) Description and extent of financial risks

1) Financial risk management policy

In the course of its business activities, the Group is exposed to financial risks, such as credit risks, market risks and liquidity risks, and performs risk management activities in accordance with certain policies to avoid or reduce these risks. The policy of funding, including derivative transactions at the Company, is approved by the board of directors at the beginning of each fiscal year and governs internal regulations, which stipulate the internal control for derivative transactions and relevant risk management.

The Group policy limits derivative transactions for the purpose of mitigating risks arising from transactions on actual demand. Therefore, the Group does not enter into derivative transactions for speculation purposes.

i) Credit risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk. The Group manages its credit risks from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of each customer to identify the default risk of customers at an early stage. 28% of total receivables are from the group of Toyota Motor Corporation as of March 31, 2016.

The Group utilizes financial instruments in accordance with internal credit management regulations to minimize its risk on short-term investment trust on debt securities, bonds and debentures. In line with the internal asset management regulations, the Group transacts with highly-rated financial institutions, securities and issuing entities, therefore credit risk is deemed as immaterial.

The counterparties to derivative transactions are limited to highly-rated financial institutions to minimize credit risks arising from counterparties.

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

ii) Market risk

Foreign exchange risk

The Group operates globally and is exposed to foreign currency risks related to transactions in currencies other than the local currencies in which the Group operates. Such foreign exchange risk is economically hedged principally by forward foreign currency contracts related to the foreign currency trade receivables and payables. Currency swaps are used for the borrowings in foreign currency as derivative transactions. Risk management is performed by the Company's accounting division based on the internal guidelines which prescribe the authority and the limits for each transaction. The actual results of such transactions are reported monthly to the executive supervising the accounting division. The subsidiaries conduct the management of their derivative transactions based on the similar guidelines.

The details of currency derivatives are as follows:

Derivative transactions to which hedge accounting is not applied (Unit: Millions of yen)

	2015			2016		
	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value
Forward exchange contracts						
Buying	28,684	—	44	18,828	—	(1,405)
Selling	77,093	—	(30)	56,950	—	443
Currency swaps						
Buying	113,538	68,568	17,927	119,170	66,723	8,545
Selling	24,727	14,534	(1,548)	13,406	7,383	(620)
Total	244,042	83,102	16,393	208,354	74,106	6,963

The Group has no derivative transactions to which hedge accounting is applied under IFRS.

Foreign exchange sensitivity analysis

Foreign exchange sensitivity analysis shows the effect on profit or loss and equity of 1% changes in the Japanese yen to the Company's balances of foreign currency as of the end of each fiscal year. This analysis is calculated by adjusting fluctuation by 1% on foreign exchange rates at the end of each reporting period. Also, the analysis is based on the assumption that other factors, such as balance or interest rate, are constant.

(Unit: Millions of yen)

	2015	2016
Net profit or loss	539	630
Equity	539	630

Interest-rate risks

Since the Group borrows funds at both fixed interest rates and variable interest rates, the Group's borrowings and bonds are exposed to interest rate fluctuation risk. The Group's interest-bearing borrowings mainly consist of bonds and borrowings with fixed interest rates, and the borrowings at the variable interest rate are practically equivalent to fixed interest rate borrowings by using corresponding interest-rate swap agreement.

In accordance with the Group's internal policy for derivative transactions which prescribes the authorities and limited amounts, the Company's accounting department conducts its financial management activities and reports the actual results of such transactions monthly to the executive supervising the accounting division. The subsidiaries conduct the management of their derivative transactions based on the similar guidelines.

The details of Interest derivatives were as follows:

Derivative transactions to which hedge accounting is not applied

(Unit: Millions of yen)

	2015			2016		
	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value
Interest rate swap						
Floating rate receipt, fixed rate payment	45,955	45,095	(972)	49,382	34,633	(841)
Floating rate receipt, floating rate payment	58,026	33,026	1,175	31,902	15,000	1,693
Cross currency swap						
Floating rate receipt, fixed rate payment	1,091	1,091	213	1,091	―	345
Fixed rate receipt, fixed rate payment	28,161	17,738	(2,440)	22,023	15,367	689
Total	133,233	96,950	(2,024)	104,398	65,000	1,886

Derivative transactions to which hedge accounting is applied

(Unit: Millions of yen)

	2015			2016		
	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value	Contractual or notional amounts	Contractual or notional amounts due after one year	Fair value
Cross currency swap						
Floating rate receipt, fixed rate payment	69,605	69,605	28,754	84,109	32,001	21,478
Total	69,605	69,605	28,754	84,109	32,001	21,478

The cross currency swap, the contract which exchanges its floating rate to a fixed rate, is designated as a hedging instrument for cash flow hedge because it reduces the fluctuation of cash flows of floating rate borrowings. The payment/receipt terms of the interest swap is agreed with those of the relevant borrowings designated as hedged items. The accumulated amounts in equity are reclassified to profit or loss in the period or periods during which the payment of floating rate affects profit or loss.

Interest rate sensitivity analysis

The table below shows the effect on the Group's profit or loss and equity arising from financial instruments affected by interest rate fluctuations, assuming the interest rate increases by 1% at the end of each fiscal year. This analysis is calculated by multiplying the net balance of floating-rate financial instruments held by the Group as of the fiscal year-end by 1% with neither future changes in the balances nor effects of foreign exchange fluctuations taken into account. The analysis assumes that all other variables remain constant.

(Unit: Millions of yen)

	2015	2016
Net profit or loss	5,052	5,476
Equity	5,899	6,316

iii) Liquidity risk

The Group raises funds through borrowings and bonds; however, such liabilities are exposed to the liquidity risk that the Group would not be able to repay liabilities on the due date due to the deterioration of the financing environment. The Group manages its liquidity risk by holding adequate volumes of assets with liquidity to cover the amounts of one month's consolidated revenue of the Group, along with adequate financial planning developed and revised by the Group's accounting department based on the reports from each business unit.

The Group's remaining contractual maturities for financial liabilities as of each fiscal year-end were as follows:

(Unit: Millions of yen)

2015	Due in one year or less	Due after one year through five years	Due after five years	Total
Non-derivative financial liabilities				
Bonds and borrowings	98,959	332,036	16,204	447,199
Trade and other payables	580,078	4,759	468	585,305
Derivative financial liabilities				
Derivatives	2,693	6,835	174	9,702

(Unit: Millions of yen)

2016	Due in one year or less	Due after one year through five years	Due after five years	Total
Non-derivative financial liabilities				
Bonds and borrowings	261,973	200,363	14,275	476,611
Trade and other payables	589,535	4,772	679	594,986
Derivative financial liabilities				
Derivatives	2,087	4,389	242	6,718

iv) Price risks of equity instruments

The Group is exposed to equity price risks arising from equity instruments. These investments are held mainly for strengthening business relationships with investees, not for trading purpose. The Group does not sell these investments frequently and the Group periodically reviews the fair value of these instruments as well as the financial condition and relationships with investees.

Assuming that the share price rose or fell by 1% at each fiscal year-end, increase or decrease in total equity amounted to approximately ¥7,636 million and ¥6,381 million for the years ended March 31 2015 and 2016, respectively. As most marketable securities held by the Group are classified as financial assets measured at FVTOCI, a 1% rise or fall in share price would result in an immaterial impact on profit or loss.

The significant unobservable input used in measuring the fair value of non-marketable shares and other equity securities is the non-liquid discount rate. Substantial increase or decrease in such inputs causes material increase or decrease to the fair value.

(3) Fair value of financial instruments

1) Financial instruments measured at amortized cost

The fair value hierarchy of financial instruments measured at amortized cost is shown as follows:

(Unit: Millions of yen)

2015	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	74,647	74,785	—	—	74,785
Financial liabilities					
Long-term borrowing (Note)	273,938	—	—	274,079	274,079
Bonds (Note)	100,000	100,444	—	—	100,444

(Note) The amounts to be paid or redeemed within a year are included.

(Unit: Millions of yen)

2016	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	49,925	50,165	—	—	50,165
Financial liabilities					
Long-term borrowing (Note)	290,544	—	—	290,528	290,528
Bonds (Note)	130,000	130,411	—	—	130,411

(Note) The amounts to be paid or redeemed within a year are included.

The fair value of short-term financial assets and short-term financial liabilities, which are measured by amortized cost, approximates carrying amount, and they are not disclosed above.

The fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the sum of the principal and interest by the interest rate assumed in a case where the same loan would be newly made.

2) Fair value of financial assets and liabilities that are measured at fair value on a recurring basis

The fair value hierarchy of financial instruments measured at fair value is as follows:

(Unit: Millions of yen)

2015	Level 1	Level 2	Level 3	Total
Derivative assets	—	52,778	—	52,778
Shares				
Listed shares	1,117,261	—	—	1,117,261
Unlisted shares	—	—	91,389	91,389
Other equity securities	—	—	2,806	2,806
Total	1,117,261	52,778	94,195	1,264,234
Derivative liabilities	—	9,655	—	9,655
Total	—	9,655	—	9,655

(Unit: Millions of yen)

2016	Level 1	Level 2	Level 3	Total
Derivative assets	—	37,993	—	37,993
Shares				
Listed shares	912,529	—	—	912,529
Unlisted shares	—	—	81,292	81,292
Other equity securities	—	—	2,446	2,446
Total	912,529	37,993	83,738	1,034,260
Derivative liabilities	—	6,736	—	6,736
Total	—	6,736	—	6,736

Derivatives used by the Group primarily consist of foreign exchange forward contracts, interest rate swaps and currency swaps.

The fair values of foreign exchange forward contracts are determined based on quoted market prices for similar contracts with similar terms. With respect to interest rate swaps and currency swaps, the fair values are determined by reference to prices offered by financial institutions.

The fair values of unlisted shares and other equity securities are determined by using the adjusted market value method with adjustments to the market value using the PBR, price book-value ratio, if necessary. In addition, immaterial items are measured at book value of net assets. The significant unobservable input used in measuring the fair value of unlisted shares and other equity securities is the non-liquid discount of 30%.

The increase or decrease of financial instruments that are classified in Level 3 is as follows:

(Unit: Millions of yen)

	2015	2016
Balance, beginning of year	76,757	94,195
Total recognized gains and losses		
Losses recognized in profit or loss (Note 1)	(26)	—
Gains (losses) recognized in other comprehensive income (Note 2)	17,108	(8,860)
Purchases	356	70
Sales or Disposal	—	(1,667)
Balance, end of year	94,195	83,738

(Note 1) Gains and losses recognized in profit or loss for the year ended March 31, 2015 are related to financial assets measured at fair value through profit or loss as of the fiscal year-end. These gains and losses are included in "Financial income" and "Financial costs" in the consolidated statement of income.

(Note 2) Gains and losses recognized in other comprehensive income are related to financial assets measured at fair value through other comprehensive income as of the fiscal year-end. These gains and losses are included in "Net fair value gain (loss) on equity instruments designated as FVTOCI" in the statement of comprehensive income.

(4) Offsetting of financial assets and financial liabilities

The Group has financial derivative transactions under master netting arrangements or similar arrangements. These arrangements provide the Group, in the event of default by the counterparty, the right to offset receivables and payables with the same counterparty. The following table provides offsetting information of financial assets and financial liabilities with the same counterparty as of each fiscal year-end.

(Unit: Millions of yen)

	2015	2016
Financial assets presented in the consolidated statement of financial position	52,778	37,993
The amount to be offset under master netting arrangement or similar arrangements	(2,872)	(3,079)
Cash collateral received	—	—
Net	49,906	34,914

(Unit: Millions of yen)

	2015	2016
Financial liabilities presented in the statement of financial position	9,655	6,736
The amount to be offset under master netting arrangement or similar arrangements	(2,872)	(3,079)
Cash collateral paid	—	—
Net	6,783	3,657

(Note) The amount which was offset in accordance with the requirements for offsetting financial assets and financial liabilities in the consolidated statement of financial position was not material.

26. Leases

(1) As Lessee

1) Finance lease obligation

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

(Unit: Millions of yen)

	Minimum lease payments	
	2015	2016
Due within one year	9,179	10,410
Due after one year through five years	4,759	4,772
After five years	468	679
Total	14,406	15,861

The balance of lease obligation was included in "Trade and other payables" and "Other financial liabilities" in the consolidated statement of financial position. The lease obligation refers mainly to molds and its payment period is mainly two years. Sublease contracts are conducted for such mold-related transactions, and the total minimum lease payments under such sublease contracts are equal to the balance of finance lease receivables as lessor, disclosed in the following table of (2) As lessor.

The Group does not have lease contracts which contain a renewal or purchase option, contingent lease, escalation clauses, or further restictions imposed by the lease contracts such as those for dividends, additional debt or leases.

2) Non-cancellable operating lease transaction

Future minimum lease payments under non-cancellable operating leases were as follows:

(Unit: Millions of yen)

	Minimum lease payments	
	2015	2016
Due within one year	2,005	1,934
Due after one year through five years	2,994	2,064
After five years	2	341
Total	5,001	4,339

The Group mainly leases as lessee cars and information equipment. Certain lease contracts contain a renewal option. The Group does not have any purchase options, sublease contracts, escalation clauses which prescribe the increase of the amount of lease contract, nor further restrictions imposed by the lease contracts such as those for dividends, additional debt or leases.

3) Lease payments recognized as expenses under operating leases

Lease payments recognized as expenses under operating leases for each fiscal year were as follows:

(Unit: Millions of yen)

2015	2016
7,883	8,081

(2) As lessor

Finance lease receivables

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

(Unit: Millions of yen)

	Minimum lease payments receivable	
	2015	2016
Due within one year	9,034	9,092
Due after one year through five years	4,223	3,050
After five years	—	—
Total	13,257	12,142

The balance of lease receivables was included in "Trade and other receivables" and "Other financial assets" in the consolidated statement of financial position. The Group leases, as lessor, mainly tools and molds and its receipt period is mainly two years. There is no residual value after the end of lease period. Also, there is neither unearned finance income, unguaranteed residual value which is recognized as profit for a lessor, the accumulated allowance for uncollectible minimum lease payments receivable, nor contingent rent recognized as income in the reporting periods.

27. Related parties

(1) Related-party transactions

For the year ended March 31, 2015 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company who has significant influence over the Group	Group of Toyota Motor Corporation	Sale of automotive components	2,009,730
		Purchase of automotive components	44,854
Corporate pension fund for employees	DENSO Pension Fund	Redeeming part of the shares that have been contributed as employees' retirement benefit trust	105,690

For the year ended March 31, 2016 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company who has significant influence over the Group	Group of Toyota Motor Corporation	Sale of automotive components	2,077,584
		Purchase of automotive components	36,945
Corporate pension fund for employees	DENSO Pension Fund	Redeeming part of the shares that have been contributed as employees' retirement benefit trust	14,648

Outstanding balance and allowance for doubtful accounts of the above transactions as of each fiscal year-end were as follows:

(Unit: Millions of yen)

	2015	2016
Trade accounts receivable	186,305	172,050
Electronically recorded monetary claims	40,158	35,375
Accounts receivable - others	83	170
Allowance for doubtful accounts	—	—
Accounts payable	4,073	3,915
Accrued expenses	319	324

(2) Remuneration of key managing officers

For the year ended March 31, 2015 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	883	538	—	345

For the year ended March 31, 2016 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	906	555	—	351

28. Share-based payment

The Group adopts the stock option remuneration plans as described below. However, no new stock options have been granted after August 1, 2009 and all stock options have been vested before the date of transition to IFRSs.

Eligible personnel	Directors, managing officers, key employees of the Company, directors of subsidiaries, etc.
Vesting condition	Personnel shall remain in the company's employment after granted by the vesting date. However, in the case that the employee retires/leaves the Group before the vesting date, its exercising is allowed only within one year after retirement/leaving during the exercise period.
Service period	Two years from the grant date
Exercise period	Within four years after vested. However, in the case that the employee retires/leaves the Company before the vesting date, its exercising is allowed only within one year after retirement/leaving during the exercise period.

The stock options outstanding as of March 31, 2015 and 2016 were as follows:

For the year ended March 31, 2015

	Number of options (Share)	Weighted-average stock price (Yen)
April 1, 2014 - Outstanding	794,500	3,141
Forfeited	132,900	3,438
Exercised	474,800	3,145
March 31, 2015 - Outstanding	186,800	2,920
March 31, 2015 Options exercisable, end of year	186,800	2,920

(Note 1) The weighted-average stock price of options, exercised in the reporting period, as of the date of exercising was ¥5,090.

(Note 2) The exercise price of outstanding options at the end of year was ¥2,920 and the weighted-average life was four months.

For the year ended March 31, 2016

	Number of options (Share)	Weighted-average stock price (Yen)
April 1, 2015 - Outstanding	186,800	2,920
Forfeited	74,500	2,920
Exercised	112,300	2,920
March 31, 2016 - Outstanding	—	—
March 31, 2016 Options exercisable, end of year	—	—

(Note 1) The weighted-average stock price of options, exercised in the reporting period, as of the date of exercising was ¥6,207.

29. Contingencies

The Group had the following contingent liabilities for the year ended March 31, 2016.

Antitrust Law related

(1) Investigations by Countries and Competition Authorities

The Company is coping with the authorities' investigations in certain jurisdictions.

(2) Handling of the Class Actions and Suits by State Attorney Generals

The Company and certain subsidiaries of the Group are currently among the defendants in several class action lawsuits in the United States and Canada wherein damages are claimed on suspicion of violation of the antitrust law or competition law in connection with certain transactions concerning certain auto parts.

In the United States, depending upon the particular auto part, lawsuits have been filed against the Company and certain subsidiaries of the Group on behalf of putative classes of (a) direct purchasers (e.g., automobile manufacturers and their tier one suppliers), (b) automobile dealerships, (c) commercial/heavy duty truck and equipment dealerships, and (d) end payors, who purchased vehicles for their own use. In addition, several state attorneys general have filed similar lawsuits on behalf of government entities and/or citizens within their states. All but one of these cases (a state attorney general action filed in Mississippi state court) have been consolidated into a multi-district litigation* in the U.S. District Court for the Eastern District of Michigan.

Discovery (a procedure where the parties to the litigation mutually disclose evidence, such as documents, relating to the litigation) is in process in the first four sets of product cases (automotive wire harness systems, instrument panel clusters, fuel senders, and heater control panels). With respect to many of the later filed cases, the court has ruled on certain of the defendants' motions to dismiss or the cases are still in the earlier procedural stages. Once discovery concludes in the class action cases, the court will consider the plaintiffs' motions for class certification in each of these cases before proceeding to any trial on the merits of the plaintiffs' claims in the particular case. It is possible for the Company to start settlement discussions with certain plaintiffs in certain stages.

In Canada, a number of putative class actions have been commenced in the Provinces of Ontario, Quebec, British Columbia, Manitoba and Saskatchewan. Similar to the United States class actions, separate cases have been commenced for each auto part. All of these putative class actions have been filed against the Company (and, depending on the case, certain subsidiaries of the Company) on behalf of both direct purchasers (e.g., automobile manufacturers) and indirect purchasers (e.g., automobile dealerships and end payors, who purchased vehicles for their own use). All of the actions are still in their early stages. For some of those cases, the certification hearing is expected to take place in late 2016 or early 2017.

(*) Multi-District Litigation means a proceeding in which multiple lawsuits are consolidated before a single judge for the sake of efficiency for pretrial purposes, including discovery and rulings on common legal issues.

(3) Individual Settlement Negotiations

The Company has been engaged in negotiations with the Company's major customers (certain automobile manufacturers), individually concerning the alleged violation of the antitrust law or competition law in connection with certain transactions regarding certain auto parts.

In relation to some of the above matters, the Company estimated potentially payable amounts and reserved 45,930 million yen in the "Other expenses" category (see Note 15 "Provisions" and Note 20 "Selling, general and administrative expenses, and other expenses").

Please note that pursuant to IAS 37, the Company has not disclosed the overall content of these disputes because the disclosure of such information could be expected to prejudice the position of the Company.

30. Subsidiaries, associates and others

Please refer to the Appendix for a list of the major consolidated subsidiaries.

There are no subsidiaries, associates or joint ventures that have material non-controlling interests at the end of fiscal years ended March 31, 2015 and 2016.

Although the Group holds less than 20% of the shares of ADVICS CO., LTD., and therefore the voting rights held thereby are also less than 20%, ADVICS is included in the category of associates as the Group has significant influence over ADVICS by attending the meetings of its board of directors.

The effects on capital surplus of changes in the ownership interest in subsidiaries without a loss of control were as follows:

(Unit: Millions of yen)

	2015	2016
Increase (Decrease) in capital surplus	4,419	(1,104)

There were no gains (losses) associated with the losses of control of subsidiaries in each fiscal year.

31. Subsequent events

The Group has evaluated subsequent events through June 21, 2016. There are no subsequent events to be disclosed as of June 21, 2016.

Appendix

List of subsidiaries

The parent's subsidiaries as of March 31, 2016 were as follows.

Segment	Company Name	Voting rights (%)
Japan	KYOSAN DENKI CO., LTD.	62.9
	ANDEN CO., LTD.	100.0
	HAMANAKODENSO CO., LTD.	76.7
	DAISHINSEIKI CO., LTD.	99.4
	GAC CORPORATION	100.0
	DENSO AIR SYSTEMS CO., LTD.	100.0
	DENSO SALES JAPAN CORPORATION	100.0
	ASMO CO., LTD.	92.4 (12.6)
	DENSO WAVE INC.	75.2
	DENSO TECHNO CO., LTD.	100.0
	DENSO FINANCE&ACCOUNTING CENTER CO., LTD.	100.0
	DENSO KYUSHU CORPORATION	100.0
	DENSO HOKKAIDO CORPORATION	100.0
	Other 49 companies	—
North America	DENSO INTERNATIONAL AMERICA, INC.	100.0
	DENSO PRODUCTS AND SERVICES AMERICAS, INC.	100.0 (100.0)
	DENSO MANUFACTURING MICHIGAN, INC.	100.0 (100.0)
	DENSO MANUFACTURING TENNESSEE, INC.	100.0 (100.0)
	DENSO MANUFACTURING ATHENS TENNESSEE, INC	100.0 (100.0)
	ASMO NORTH AMERICA, LLC.	100.0 (100.0)
	ASMO NORTH CAROLINA, INC.	100.0 (100.0)
	ASMO GREENVILLE OF NORTH CAROLINA, INC.	100.0 (100.0)
	DENSO MANUFACTURING ARKANSAS, INC.	100.0 (100.0)
	KYOSAN DENSO MANUFACTURING KENTUCKY, LLC	100.0 (100.0)
	DENSO SALES CANADA, INC.	100.0
	DENSO MANUFACTURING CANADA, INC.	100.0
	DENSO MEXICO S.A. DE C.V.	95.0 (95.0)
	Other 15 companies	—

Segment	Company Name	Voting rights (%)
Europe	DENSO INTERNATIONAL EUROPE B.V.	100.0
	DENSO EUROPE B.V.	100.0 (100.0)
	DENSO FINANCE HOLLAND B.V.	100.0
	DENSO INTERNATIONAL UK, LTD.	100.0 (100.0)
	DENSO MANUFACTURING UK, LTD.	100.0 (100.0)
	DENSO BARCELONA S.A.	100.0 (100.0)
	DENSO MANUFACTURING ITALIA S.p.A.	100.0 (100.0)
	DENSO THERMAL SYSTEMS S.p.A.	100.0 (100.0)
	DENSO MANUFACTURING HUNGARY, LTD.	100.0 (100.0)
	DENSO MANUFACTURING CZECH s.r.o.	100.0 (100.0)
	DENSO THERMAL SYSTEMS POLSKA Sp.zo.o.	100.0 (100.0)
	Other 23 companies	—
Asia	DENSO INTERNATIONAL ASIA CO., LTD.	100.0
	DENSO SALES (THAILAND) CO., LTD.	100.0 (100.0)
	DENSO (THAILAND) CO., LTD.	51.3 (51.3)
	DENSO INTERNATIONAL ASIA PTE., LTD.	100.0 (100.0)
	SIAM DENSO MANUFACTURING CO., LTD.	90.0 (90.0)
	SIAM KYOSAN DENSO CO., LTD.	100.0 (100.0)
	PT.DENSO INDONESIA	68.3 (68.3)
	PT. DENSO SALES INDONESIA	100.0 (100.0)
	PT. ASMO INDONESIA	100.0 (100.0)
	DENSO (MALAYSIA) SDN. BHD.	72.7 (72.7)
	DENSO MANUFACTURING VIETNAM CO., LTD.	95.0 (95.0)
	DENSO HARYANA PVT., LTD.	100.0
	DENSO (CHINA) INVESTMENT CO., LTD.	100.0
	TIANJIN DENSO ELECTRONICS CO., LTD.	93.5 (93.5)
	TIANJIN FAWER DENSO AIR-CONDITIONER CO., LTD.	60.0 (60.0)
	TIANJIN DENSO ENGINE ELECTRICAL PRODUCTS CO., LTD.	95.0 (95.0)
	TIANJIN ASMO AUTOMOTIVE SMALL MOTOR CO., LTD.	60.5 (60.5)
	GUANGZHOU DENSO CO., LTD.	60.0 (60.0)
	DENSO (GUANGZHOU NANSHA) CO., LTD.	100.0 (74.9)
	DENSO (TIANJIN) THERMAL PRODUCTS CO., LTD.	100.0 (100.0)

Segment	Company Name	Voting rights (%)
Asia	DENSO TAIWAN CORPORATION	80.0 (80.0)
	DENSO KOREA AUTOMOTIVE CORPORATION	100.0 (29.2)
	DENSO KOREA ELECTRONICS CORPORATION	100.0
	Other 35 companies	—
Others	DENSO DO BRASIL LTDA.	90.6
	Other 5 companies	—

(Notes) 1. The percentages in parentheses under "Voting rights (%)" indicates indirect ownership out of the total ownership noted above.

2. The Group has reported "Japan," "North America," "Europe" and "Asia" as its reportable segments. "Others" is an operating segment that is not included in reportable segments, such as business activities of subsidiaries in South America.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
DENSO CORPORATION:

We have audited the accompanying consolidated financial statements of DENSO CORPORATION and its subsidiaries, which comprise the consolidated statement of financial position as of March 31, 2016, and the 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.

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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DENSO CORPORATION and its subsidiaries as of March 31, 2016, and the consolidated 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 21, 2016

Member of
Deloitte Touche Tohmatsu Limited