Integrated Report 2018 Financial Section

DENSO CORPORATION

Contents

Financial Review

Financial Summary

DENSO CORPORATION and its Consolidated Subsidiaries

< IFRS >

	2014	2015	2016	2017	2018
Revenue (Millions of yen)	4,094,960	4,309,787	4,524,522	4,527,148	**5,108,291**
Operating profit (Millions of yen)	371,440	331,376	315,728	330,551	**412,676**
Profit for the year (Millions of yen)	295,056	276,709	260,565	273,895	**343,444**
Profit for the year: attributable to owners of the parent company (Millions of yen)	277,196	258,382	244,251	257,619	**320,561**
Comprehensive income (Millions of yen)	486,381	634,988	(75,245)	329,248	**435,494**
Equity: attributable to owners of the parent company (Millions of yen)	2,799,915	3,327,938	3,123,578	3,312,724	**3,598,321**
Total assets (Millions of yen)	4,642,053	5,283,257	5,042,896	5,150,762	**5,764,417**
Equity per share: attributable to owners of the parent company (Yen)	3,512.06	4,171.93	3,939.97	4,215.46	**4,614.87**
Basic profit per share (Yen)	348.05	324.01	307.19	326.32	**410.45**
Diluted profit per share (Yen)	347.81	323.93	307.18	—	**—**
Equity ratio attributable to owners of the parent (%)	60.32	62.99	61.94	64.32	**62.42**
Return on equity attributable to owners of the parent company (%)	10.66	8.43	7.57	8.01	**9.28**
Price-to-earnings ratio (Times)	14.22	16.92	14.73	15.01	**14.18**
Net cash provided by operating activities (Millions of yen)	471,167	383,156	552,862	467,779	**558,001**
Net cash used in investing activities (Millions of yen)	(376,002)	(111,504)	(544,834)	(108,037)	**(529,053)**
Net cash used in financing activities (Millions of yen)	(175,970)	(135,686)	(104,663)	(240,526)	**(40,312)**
Cash and cash equivalents at end of year (Millions of yen)	641,694	792,414	672,482	793,550	**783,338**
Number of employees	139,842	146,714	151,775	154,493	**168,813**

(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.

< JGAAP >

	2014	2015
Net Sales (Millions of yen)	4,095,925	4,308,754
Ordinary income (Millions of yen)	419,571	397,431
Income before income taxes (Millions of yen)	418,637	427,238
Net income: attributable to owners of the parent company (Millions of yen) (Note)	287,388	293,099
Comprehensive income (Millions of yen)	464,855	615,611
Equity (Millions of yen)	2,823,346	3,341,439
Total assets (Millions of yen)	4,442,507	5,032,742
Equity per share (Yen)	3,376.06	4,006.62
Basic net income per share (Yen)	360.85	367.54
Diluted net income per share (Yen)	360.60	367.45
Equity-to-total capital ratio (%)	60.59	63.51
Return on equity (%)	11.51	9.96
Price-to-earnings ratio (Times)	13.71	14.92
Net cash provided by operating activities (Millions of yen)	462,799	374,181
Net cash used in investing activities (Millions of yen)	(390,318)	(112,618)
Net cash used in financing activities (Millions of yen)	(154,976)	(125,606)
Cash and cash equivalents at end of year (Millions of yen)	641,694	792,414
Number of employees	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

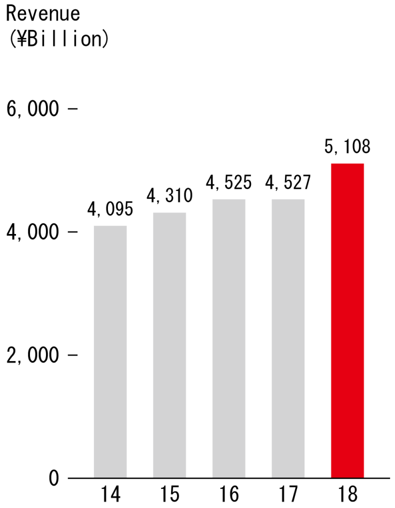
For the Years ended March 31, 2014 to 2018

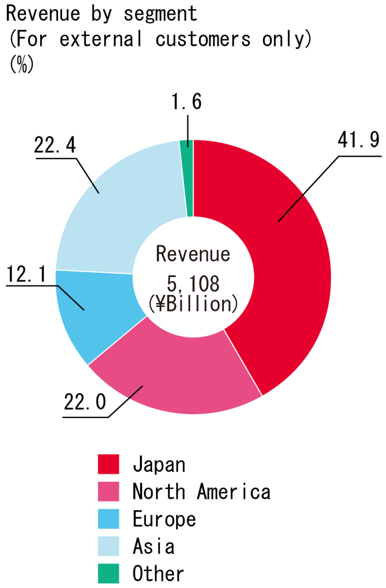
(Unit: Millions of yen)

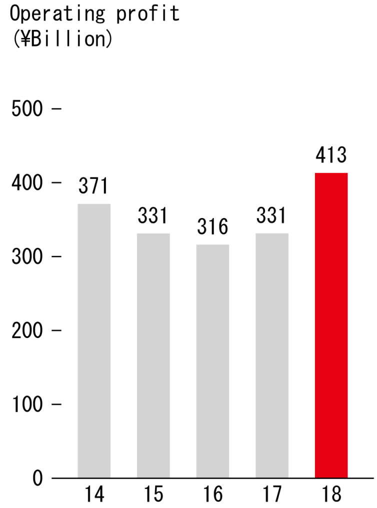
		2014 (JGAAP)	2015 (IFRS)	2016 (IFRS)	2017 (IFRS)	2018 (IFRS)
Japan	Customers	1,895,482	1,838,448	1,801,547	1,871,838	2,140,729
	Intersegment	821,182	826,077	845,023	814,166	943,073
	Total	2,716,664	2,664,525	2,646,570	2,686,004	3,083,802
North America	Customers	799,423	942,251	1,081,058	1,050,460	1,122,847
	Intersegment	17,179	24,206	31,625	26,743	33,405
	Total	816,602	966,457	1,112,683	1,077,203	1,156,252
Europe	Customers	470,515	524,754	568,183	550,244	620,193
	Intersegment	28,386	29,999	25,394	27,025	42,139
	Total	498,901	554,753	593,577	577,269	662,332
Asia	Customers	855,448	930,792	1,014,708	989,505	1,146,037
	Intersegment	87,674	118,933	146,525	149,770	176,786
	Total	943,122	1,049,725	1,161,233	1,139,275	1,322,823
Total	Customers	4,020,868	4,236,245	4,465,496	4,462,047	5,029,806
	Intersegment	954,421	999,215	1,048,567	1,017,704	1,195,403
	Total	4,975,289	5,235,460	5,514,063	5,479,751	6,225,209
Others	Customers	74,092	73,542	59,026	65,101	78,485
	Intersegment	255	261	474	715	513
	Total	74,347	73,803	59,500	65,816	78,998
Consolidated		4,094,960	4,309,787	4,524,522	4,527,148	5,108,291

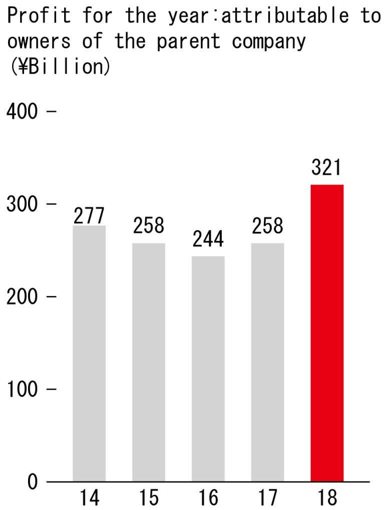
(Note) The Group has reported "Japan," "North America," "Europe," and "Asia" as the Group's reportable segments. The Group has been manufacturing and selling mainly automotive products in each reportable segment. "Others" is an operating segment that contains businesses not included in the reportable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

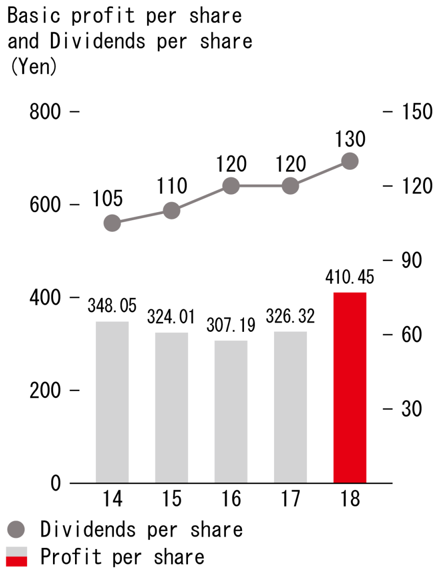
Financial Highlights

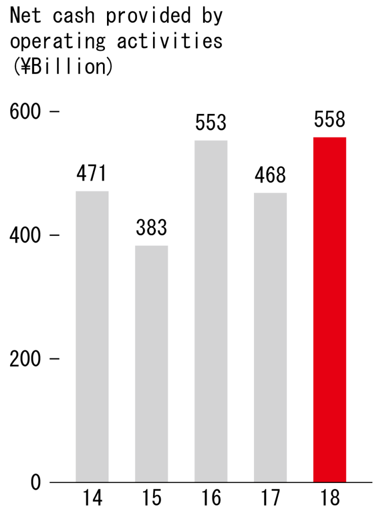


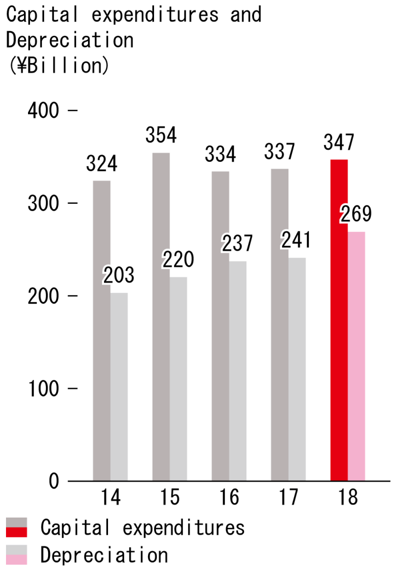


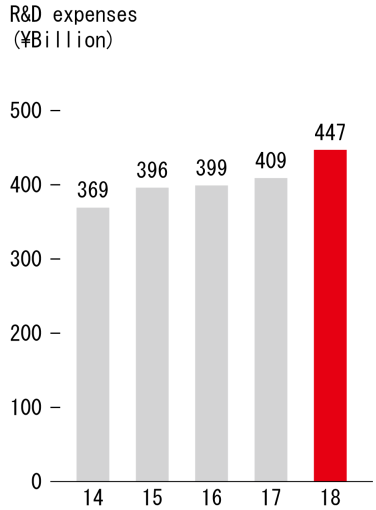












Management's Discussion and Analysis

1. Business overview

During the fiscal year ended March 31, 2018, whereas uncertainty increased in view of the emergence of the protectionist trade policy by the United States government, the world economy continued to show steady growth on the whole, backed by favorable personal consumption driven by improved employment and income environments mainly in the U.S. and China. The Japanese economy also remained firm with an increase in exports that benefited from the favorable U.S. and Chinese economies. The global automobile industry sustained growth overall. However, the growth rate showed a trend toward overall slowing, as seen by sales in the United States, which were a record-high for the previous fiscal year but showed a downturn for the first time since 2009. In Japan, sales continued to exceed those of the previous year due to the sales recovery of light vehicles and other factors.

The automobile industry is entering an era of a once-in-a-century paradigm shift represented by accelerating technological developments associated with electrification, automated driving, and connected cars, as well as with the emerging trend of car sharing. We therefore believe that it is necessary for us to anticipate and respond to customer and societal needs ahead of others to be at the forefront of trends and ensure sustainable growth.

2. Management strategy

In such a business climate, last autumn DENSO CORPORATION (hereinafter referred to as the "Company") formulated the DENSO Long-term Policy 2030 together with the slogan "Bringing hope for the future for our planet, society, and all people." Supported by the three core axioms of "Green," "Peace of Mind," and the newly added "Inspiring," the Company and its subsidiaries in Japan and overseas (collectively referred to as the "Group") will endeavor to create new value and contribute to ensuring a society filled with smiling faces.

In addition, as a road map to realizing the above policy, the Company formulated the Long-term Plan 2025. With the intent to reform our corporate organization into one that can fully compete with competitors in a radically changing business environment, the Company has established Fields of Focus—Electrification, Advanced Safety and Automated Driving, Connected, and Non-automotive Businesses (FA* and agriculture, etc.)—and Management Reform: Five Pillars to enhance our organizational power.

<Fields of focus>
(1) Electrification (hybrid and electric vehicles)
(2) Advanced Safety & Automated Driving
(3) Connected (connected car)
(4) Non-automotive businesses (FA* and agriculture, etc.)

<Management reform: Five Pillars>
(1) Enhancement of vehicle perspective and cross-sector functions
(2) Advanced R&D function to realize agile development globally
(3) Business Unit evolution and smaller but stronger headquarters
(4) Global management with optimal use of group and regional power
(5) Way of working with tremendous speed and efficiency

*FA: Factory automation: Automation of production lines through mechanization

<Fields of focus>

(1) Electrification (hybrid and electric vehicles)

1) A power element made from Silicon carbide (SiC) developed

When electricity for driving vehicles is converted from DC to AC, heat is emitted. To harness such energy loss, the Company has developed a power element using SiC, for which heat generation is low, as a core material, considerably reducing the energy loss to one third compared with conventional processes. In addition, to use SiC in the stringent operating environment inside vehicles, the Company has established a special material formation technology that enables the formation of high-quality SiC crystals.

2) A new company for joint technological development on electric vehicles (EVs) with Mazda and Toyota has been established

In October 2017, Mazda Motor Corporation, Toyota Motor Corporation, and the Company signed a contract to jointly develop basic structural technologies for EVs and established a new company (EV C.A. Spirit) to ensure the efficient implementation of the joint technological development projects. The three companies intend to focus their resources on fundamental vehicle value to enable the creation of appealing EVs that embody the unique identities of each brand by leveraging this joint development efficiently, as well as reinforcing their respective EV-related technology developments.

(2) Advanced Safety & Automated Driving

1) Development of a new vision sensor and millimeter-wave radar to improve perception at night and mountability in vehicles

The new type of vision sensor enables drivers to perceive bicycles and pedestrians walking at night, etc. that would previously have been difficult to see. Combined with the use of a new type of millimeter-wave radar, it prompts an automated braking response in the case of an emergency during the day or at night. In addition to increasing the types of objects perceived mountability has been improved by downsizing the new vision sensor and millimeter-wave radar by approximately 40% and 60%, respectively, compared to the conventional models.

2) Participating in the establishment of TRI-AD for sophisticated perception using AI

The Company has jointly participated with Aisin Seiki Co., Ltd. in the establishment of Toyota Research Institute-Advanced Development (TRI-AD), a new company through which Toyota Motor Corporation will accelerate technological development in the advanced development field for automated driving.

The Company also has set up an office specializing in research & development in Shinagawa (Minato-ku), Tokyo. The new office will be in charge of developing state-of-the-art technologies such as AI and enhancing recruitment of human resources specialized in software and AI.

In the future, the Company will further collaborate with a variety of global corporations to strengthen the development of automated-driving-related technologies.

(3) Connected (connected car)

1) Strengthening software development capability in collaboration with IT ventures

The Company is actively recruiting mid-career IT professionals. Moreover, the Company has keenly addressed developing cloud technology, as well as software development using advanced open-source and agile software development methods. The Company will strengthen our software development capabilities in collaboration with IT ventures that are specialized in these software development fields.

2) Investing in forward-thinking MaaS ventures

To anticipate capture market needs and search for new business domains in the MaaS market, the Company has also invested in venture companies within and outside Japan. These ventures are developing MaaS systems powered by AI. The Company thus intends to be a leader in mobility services through the integration of its leading-edge technologies in the automotive field and the expertise of these ventures in the MaaS field.

(4) Non-automotive businesses (FA* and agriculture, etc.)

1) Offering lean automation packages in FA

In late November 2017, the Company made a presentation of its flexible and economical LEAN AUTOMATION PACKAGES, which are compatible with onsite needs, at the INTERNATIONAL ROBOT EXHIBITION 2017 held at TOKYO BIG SIGHT. Its solution packages benefit from the know-how on process design and field management that has been long nurtured in automotive part manufacturing, including supportive measures for *Kaizen* (continuous improvement) utilizing IoT. Effective from the fiscal year ending March 31, 2019, the Company plans to start the lean automation package business on a full-fledged basis by proceeding with development and mass-production in collaboration with a broad range of in-house and external partners.

2) Expanding its agricultural business to provide innovation in food value chain

The Company newly established the AgTech Promotion Division intended for developing business by introducing its technology into the agriculture field. The Company will fully utilize its environmental control technology to grow vegetables in greenhouses and various technologies and know-how from the automotive field which the company has cultivated. Setting up partnerships with agricultural production corporations that possess advanced technologies, the Company will create new value via integration with partners' strengths. The Company thus intends to contribute to further efficiency improvements in the food value chain as a whole and providing a stable food supply while looking ahead to the future of the entire agricultural food field.

<Management reform: Five Pillars>

(1) Enhancement of vehicle perspective and cross-sector functions

The Group has reorganized and integrated business fields throughout the Company, including ECUs, semiconductors, sensors, and motors, to raise the competitiveness of key devices. Moreover, to accelerate cross-functional technological development activities, the Group established a new company in Thailand to develop ECUs and a new company in Tokyo to develop semiconductor IPs. With these measures, the Group intends to improve the earnings capability of the existing vehicle-related businesses and enhance competitiveness in the new field of mobility relative to software and hardware.

(2) Advanced R&D function to realize agile development globally

To promote the development of competitive products that meet customer needs, satellite facilities for advanced R&D functions will be established around the world. The Group is active in collaborating with various types of partners, such as universities, research institutes, and startup companies, to extend and reinforce our business partnerships. Technological development projects will be advanced in Finland, Israel, and elsewhere by leveraging the respective regional characteristics.

(3) Business Unit evolution and smaller but stronger headquarters

More discretion and autonomy will be given to business units to promote speedy business management and reinforce competitiveness so that sustainable growth can be accomplished in an era of rapid changes. The head office will be streamlined via zero-based thinking to pursue the formation of a team that can create new value at an extraordinarily high speed.

(4) Global management with optimal use of group and regional power

Directors of respective regional headquarters, who assume responsibility for achieving the earnings goals of their respective regions, operate businesses based on quick decision-making by taking regional characteristics into account to achieve truly independent management by region. With this initiative, earlier decision-making will be achieved globally, and our determination to be an early executing and agile organization will be realized.

(5) Way of working with tremendous speed and efficiency

The Group will put an optimum workplace environment in place for everyone to promote a culture of speed and efficiency and will also enhance information systems with measures such as the digitization of its paper-based approval process. The Group will enhance business processes for higher productivity and a better work-life balance in the pursuit of a corporation filled with smiling faces and extraordinary field capabilities.

3. Results of operations

(1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2018 increased by ¥581.1 billion, or 12.8% year over year, to ¥5,108.3 billion, supported by the increase in production volume, sales expansion, and the effects of newly consolidated subsidiaries of the Company. Operating profit increased by ¥82.1 billion, or 24.8%, to ¥412.7 billion, due to production volume increase associated with sales growth and the rationalization effects of cost reduction. Profit before income taxes increased by ¥89.0 billion, or 24.7%, to ¥449.9 billion. Profit for the year attributable to owners of the parent company increased by ¥62.9 billion, or 24.4%, to ¥320.6 billion.

(2) Policy on allocation of earnings

Dividends

As for dividends from surplus, the Company intends to stably improve the dividends level 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 treasury stock in the pursuit of distributing profits to 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 in accordance with Article 459 of the Companies Act.

Accordingly, the Company, at its Board of Directors meeting held on April 27, 2018 resolved that the fiscal year-end dividends for the fiscal year ended March 31, 2018 be ¥65 per share of the Company's common stock (for a total of ¥50.7 billion) and the date of commencement of the dividends payment thereof be May 28, 2018. The annual dividends for the fiscal year ended March 31, 2018, including the interim dividends, is ¥130 per share.

Acquisition of treasury stock

The Company stipulates in its Articles of Incorporation that it may acquire treasury stock upon resolution of the Board of Directors in accordance with Article 165, Paragraph 3 of the Companies Act.

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 appropriate 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, 2018 were ¥347.2 billion and ¥268.6 billion, respectively.

Capital expenditures/depreciation by segment

In regard to capital expenditures by geographic segment, the Group focused its investment on all regions to increase production, and mainly invests in new products and rationalization measures. As a result, capital expenditures spent in Japan were ¥217.7 billion.

In regions outside Japan, capital expenditures in North America, Europe, Asia, and other areas were ¥43.8 billion, ¥30.8 billion, ¥52.7 billion, and ¥2.2 billion, respectively.

Research and Development (R&D) activities

The Company formulated the DENSO Group Long-term Policy 2030 together with the slogan "Bringing hope for the future for our planet, society, and all people." Supported by the three core axioms of "Green," "Peace of Mind," and "Inspiring," which was added recently, the Company and its subsidiaries in Japan and overseas will endeavor to create new value and contribute to ensuring a society filled with smiling faces.

The Group's R&D expenses, including the amount recognized as assets for the fiscal year ended March 31, 2018, totaled ¥447.4 billion.

R&D expenses by segment

By geographic segment, R&D expenses in Japan were ¥395.1 billion.

In regions outside Japan, R&D expenses in North America, Europe, Asia, and other areas were ¥26.8 billion, ¥12.3 billion, ¥12.1 billion, and ¥1.1 billion, respectively.

Approximately 88% of total R&D expenses arose in Japan. The Group continues to aim for the achievement of a society with global-advanced-mobility through the reinforcement of research function in other areas.

4. Risk management

Economic risk

Demand for auto parts, which account for the majority 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 a resulting decrease in demand for auto parts in the Group's major markets, including Japan, North America, Europe, and 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 a 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 preparing consolidated financial statements. Based on the exchange rate used in conversion, even though the value of items has not changed as denominated in local currency, there is a possibility that the amount expressed in yen after the conversion could change. In general, a strong yen (in particular against the U.S. dollar and euro, which 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 involving manufacturing in Japan for export, a strong yen against other currencies decreases the worldwide price competitiveness of its 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 investments in new products and new technologies.

・There is no guarantee that the long-term investments 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 ineffectively 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 changes 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 upon third-party intellectual property rights in the future.

OEM (Original Equipment Manufacturer) 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, engines, driving controls and safety equipment, 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 customers 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 Motor Corporation and its subsidiaries 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.

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 of 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 the business are in the Tokai region of Japan, 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

The Group has adopted International Financial Reporting Standards ("IFRS") for preparing its consolidated financial statements in the annual report since the fiscal year ended March 31, 2015. In addition, the following items are reported based on the consolidated financial statements prepared in accordance with IFRS.

(1) Results of operations

1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2018 increased by ¥581.1 billion, or 12.8% year over year, to ¥5,108.3 billion, supported by the increase in production volume, sales expansion, and the effects of newly consolidated subsidiaries of the Company. Operating profit increased by ¥82.1 billion, or 24.8%, to ¥412.7 billion, due to production volume increase associated with sales growth and the rationalization effects of cost reduction. Profit before income taxes increased by ¥89.0 billion, or 24.7%, to ¥449.9 billion. Profit for the year attributable to owners of the parent company increased by ¥62.9 billion, or 24.4%, to ¥320.6 billion.

Revenue and profit by segment

By geographical segment, revenue in Japan increased by ¥397.8 billion, or 14.8% year over year, to ¥3,083.8 billion, supported by the increase in production of vehicles. Operating profit increased by ¥70.5 billion, or 54.2% year over year, to ¥200.7 billion, mainly due to production volume increase and the rationalization effects of cost reduction.

Revenue in North America increased by ¥79.0 billion, or 7.3% year over year, to ¥1,156.3 billion, mainly due to sales expansion. Operating profit decreased by ¥17.4 billion, or 29.1% year over year, to ¥42.5 billion, mainly due to depreciation increase.

Revenue in Europe increased by ¥85.1 billion, or 14.7% year over year, to ¥662.3 billion due to increase in vehicle production volume and sales expansion. Operating profit decreased by ¥0.1 billion, or 0.5% year over year, to ¥20.1 billion, mainly due to depreciation increase.

Revenue in Asia increased by ¥183.5 billion, or 16.1% year over year, to ¥1,322.8 billion, supported by vehicle production volume increase and sales expansion. Operating profit increased by ¥24.0 billion, or 21.3% year over year, to ¥136.7 billion, mainly due to production volume increase associated with sales growth and the rationalization effects of cost reduction.

Revenue in other regions increased by ¥13.2 billion, or 20.0% year over year, to ¥79.0 billion. Operating profit increased by ¥6.5 billion, or 94.7% year over year, to ¥13.4 billion.

2) Financial position

Total assets as of March 31, 2018, stood at ¥5,764.4 billion 11.9% or ¥613.7 billion more than at the previous fiscal year-end.

Current assets increased by ¥231.8 billion, or 9.9%, to ¥2,563.8 billion due to trade and other receivable increases. Non-current assets increased by ¥381.9 billion, or 13.5%, to ¥3,200.6 billion, primarily reflecting increases in other financial assets.

The total for current and non-current liabilities increased by ¥286.4 billion, or 16.8%, to ¥1,990.1 billion due to increases of bonds and borrowings. Equity increased by ¥327.2 billion, or 9%, to ¥3,774.3 billion, primarily reflecting increases in retained earnings and an increase in mark-to-market of investment securities.

3) Cash flows

In terms of cash flows for the fiscal year ended March 31, 2018, net cash provided by operating activities increased by ¥558.0 billion, net cash used in investing activities decreased by ¥529.1 billion, and net cash used in financing activities decreased by ¥40.3 billion. As a result, cash and cash equivalents decreased by ¥10.2 billion, to ¥783.3 billion.

Net cash provided by operating activities for the fiscal year ended March 31, 2018 totaled ¥558.0 billion, ¥90.2 billion more than in the previous year. This mainly reflected an increase of profit before income taxes to ¥449.9 billion, an increase of ¥89.0 billion over the previous fiscal year.

Investing activities used cash of ¥529.1 billion, ¥421.0 billion more than in the previous fiscal year. This mainly reflected decreased proceeds from sales and a redemption of debt instruments of ¥74.1 billion, a decrease of ¥139.5 billion, and increased time deposits of ¥199.2 billion compared to the previous fiscal year.

Net cash used in financing activities was ¥40.3 billion, a decrease of ¥200.2 billion from the previous fiscal year. This decrease mainly reflected repayments of borrowings, a decrease of ¥91.9 billion, and redemption of bonds, a decrease of ¥50.0 billion compared to the previous fiscal year.

(2) Parallel disclosure information

The consolidated financial statements have not been prepared in accordance with the Ordinance on Consolidated Financial Statements (excluding Chapters 7 and 8; hereinafter "Japanese GAAP" or "JGAAP"). The major items in the consolidated financial statements prepared in accordance with IFRS, which are different from the consolidated financial statements prepared in accordance with JGAAP, are as follows. The estimated increasing/decreasing amounts were calculated to the extent that they can be recognized under certain assumptions.

1) Depreciation of property, plant and equipment

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

This resulted in an increase in operating profit for the fiscal year ended March 31, 2018 by ¥31.9 billion compared to the operating profit under JGAAP.

2) Defined benefit plans

Under JGAAP, actuarial gains or losses and past service costs were reported in equity through other comprehensive income, and are amortized over a certain period that is shorter than the average remaining service period of employees; however, under IFRS, actuarial gains or losses are recognized in shareholders' equity through other comprehensive income then immediately transferred to retained earnings, and past service costs are 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) is presented as part of cost of revenue or selling, general and administrative expenses; however, it is reported as finance costs under IFRS.

As a result, operating profit and finance costs increased by ¥6.6 billion and ¥1.3 billion, respectively, and other comprehensive income decreased by ¥16.5 billion in the fiscal year ended March 31, 2018 compared to under JGAAP.

Consolidated Statement of Financial Position

March 31, 2018

(Unit: Millions of yen)

	Note	2017	2018
Assets			
Current assets			
Cash and cash equivalents	7	793,550	**783,338**
Trade and other receivables	8	876,454	**993,549**
Inventories	9	485,867	**550,291**
Other financial assets	10	93,781	**151,122**
Other current assets		82,398	**85,533**
Total current assets		2,332,050	**2,563,833**
Non-current assets			
Property, plant and equipment	11	1,490,531	**1,591,207**
Intangible assets	12	22,451	**76,968**
Other financial assets	10	1,111,945	**1,330,820**
Investments accounted for using the equity method	31	92,198	**88,718**
Retirement benefit assets	17	43,868	**53,864**
Deferred tax assets	13	30,266	**35,020**
Other non-current assets		27,453	**23,987**
Total non-current assets		2,818,712	**3,200,584**
Total assets		5,150,762	**5,764,417**

(Unit: Millions of yen)

	Note	2017	2018
Liabilities and equity			
Current liabilities			
Bonds and borrowings	14	84,139	**170,003**
Trade and other payables	15	861,161	**923,272**
Other financial liabilities		14,484	**16,483**
Income tax payables		24,890	**53,609**
Provisions	16	70,549	**69,295**
Other current liabilities		48,588	**57,674**
Total current liabilities		1,103,811	**1,290,336**
Non-current liabilities			
Bonds and borrowings	14	266,116	**303,847**
Other financial liabilities		9,819	**10,119**
Retirement benefit liabilities	17	228,576	**245,387**
Provisions	16	1,529	**1,515**
Deferred tax liabilities	13	78,243	**121,272**
Other non-current liabilities		15,586	**17,648**
Total non-current liabilities		599,869	**699,788**
Total liabilities		1,703,680	**1,990,124**
Equity			
Capital stock	18	187,457	**187,457**
Capital surplus	18	265,985	**265,985**
Treasury stock	18	(31,191)	**(57,677)**
Other components of equity	18	454,445	**528,418**
Retained earnings	18	2,436,028	**2,674,138**
Equity attributable to owners of the parent company		3,312,724	**3,598,321**
Non-controlling interests		134,358	**175,972**
Total equity		3,447,082	**3,774,293**
Total liabilities and equity		5,150,762	**5,764,417**

Consolidated Statement of Income

Year ended March 31, 2018

(Unit: Millions of yen)

	Note	2017	2018
Revenue	5	4,527,148	**5,108,291**
Cost of revenue	9, 11, 12	(3,769,532)	**(4,254,598)**
Gross profit		757,616	**853,693**
Selling, general and administrative expenses	11, 12, 21	(431,192)	**(447,732)**
Other income	20	27,721	**34,275**
Other expenses	21	(23,594)	**(27,560)**
Operating profit	5	330,551	**412,676**
Finance income	22	35,487	**40,532**
Finance costs	22	(9,883)	**(9,495)**
Foreign exchange losses		(3,733)	**(328)**
Share of the profit of associates and joint ventures accounted for using the equity method		8,436	**6,518**
Profit before income taxes		360,858	**449,903**
Income tax expenses	13	(86,963)	**(106,459)**
Profit for the year		273,895	**343,444**
Attributable to:			
Owners of the parent company		257,619	**320,561**
Non-controlling interests		16,276	**22,883**

(Unit: Yen)

Earnings per share			
Basic	23	326.32	410.45
Diluted	23	—	—

Consolidated Statement of Comprehensive Income

Year ended March 31, 2018

(Unit: Millions of yen)

	Note	2017	2018
Profit for the year		273,895	**343,444**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain on equity instruments designated as FVTOCI	24, 26	59,994	**84,164**
Remeasurements of defined benefit pension plans	17, 24	21,660	**13,035**
Share of other comprehensive income of investments accounted for using the equity method	24	(12)	**10**
Total		81,642	**97,209**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	24	(24,987)	**(4,346)**
Cash flow hedges	24	477	**199**
Share of other comprehensive income of investments accounted for using the equity method	24	(1,779)	**(1,012)**
Total		(26,289)	**(5,159)**
Total other comprehensive income		55,353	**92,050**
Comprehensive income for the year		329,248	**435,494**
Attributable to:			
Owners of the parent company		314,074	**410,231**
Non-controlling interests		15,174	**25,263**

Consolidated Statement of Changes in Equity

Year ended March 31, 2018

(Unit: Millions of yen)

	Note	Equity attributable to owners of the parent company				
					Other components of equity	
		Capital stock	Capital surplus	Treasury stock	Net fair value gain on equity instruments designated as FVTOCI	Remeasure-ments of defined benefit pension plans
As of April 1, 2016		187,457	267,640	(246,486)	361,376	–
Profit for the year		–	–	–	–	–
Other comprehensive income		–	–	–	59,970	21,206
Comprehensive income for the year		–	–	–	59,970	21,206
Acquisition of treasury stock	18	–	–	(30,020)	–	–
Disposal of treasury stock	18	–	14	65	–	–
Retirement of treasury stock	18	–	(1,683)	245,250	–	–
Dividends	19	–	–	–	–	–
Changes in the ownership interest in subsidiaries without a loss of control		–	14	–	–	–
Changes by business combinations		–	–	–	–	–
Transfer to retained earnings		–	–	–	(3,009)	(21,206)
Other		–	–	–	–	–
Total transactions with the owners		–	(1,655)	215,295	(3,009)	(21,206)
As of March 31, 2017		187,457	265,985	(31,191)	418,337	–
As of April 1, 2017		**187,457**	**265,985**	**(31,191)**	**418,337**	–
Profit for the year		–	–	–	–	–
Other comprehensive income		–	–	–	**84,195**	**12,895**
Comprehensive income for the year		–	–	–	**84,195**	**12,895**
Acquisition of treasury stock	18	–	–	**(26,486)**	–	–
Disposal of treasury stock	18	–	**0**	**0**	–	–
Retirement of treasury stock		–	–	–	–	–
Dividends	19	–	–	–	–	–
Changes in the ownership interest in subsidiaries without a loss of control		–	–	–	–	–
Changes by business combinations		–	–	–	–	–
Transfer to retained earnings		–	–	–	**(2,802)**	**(12,895)**
Other		–	–	–	–	–
Total transactions with the owners		–	**0**	**(26,486)**	**(2,802)**	**(12,895)**
As of March 31, 2018		**187,457**	**265,985**	**(57,677)**	**499,730**	–

(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, 2016		61,351	(522)	422,205	2,492,762	3,123,578	131,457	3,255,035
Profit for the year		―	―	―	257,619	257,619	16,276	273,895
Other comprehensive income		(25,198)	477	56,455	―	56,455	(1,102)	55,353
Comprehensive income for the year		(25,198)	477	56,455	257,619	314,074	15,174	329,248
Acquisition of treasury stock	18	―	―	―	―	(30,020)	―	(30,020)
Disposal of treasury stock	18	―	―	―	―	79	―	79
Retirement of treasury stock	18	―	―	―	(243,567)	―	―	―
Dividends	19	―	―	―	(95,001)	(95,001)	(12,262)	(107,263)
Changes in the ownership interest in subsidiaries without a loss of control		―	―	―	―	14	11	25
Changes by business combinations		―	―	―	―	―	―	―
Transfer to retained earnings		―	―	(24,215)	24,215	―	―	―
Other		―	―	―	―	―	(22)	(22)
Total transactions with the owners		―	―	(24,215)	(314,353)	(124,928)	(12,273)	(137,201)
As of March 31, 2017		36,153	(45)	454,445	2,436,028	3,312,724	134,358	3,447,082
As of April 1, 2017		36,153	(45)	454,445	2,436,028	3,312,724	134,358	3,447,082
Profit for the year		―	―	―	320,561	320,561	22,883	343,444
Other comprehensive income		(7,619)	199	89,670	―	89,670	2,380	92,050
Comprehensive income for the year		(7,619)	199	89,670	320,561	410,231	25,263	435,494
Acquisition of treasury stock	18	―	―	―	―	(26,486)	―	(26,486)
Disposal of treasury stock	18	―	―	―	―	0	―	0
Retirement of treasury stock		―	―	―	―	―	―	―
Dividends	19	―	―	―	(97,837)	(97,837)	(11,569)	(109,406)
Changes in the ownership interest in subsidiaries without a loss of control		―	―	―	―	―	(3,557)	(3,557)
Changes by business combinations		―	―	―	―	―	31,638	31,638
Transfer to retained earnings		―	―	(15,697)	15,697	―	―	―
Other		―	―	―	(311)	(311)	(161)	(472)
Total transactions with the owners		―	―	(15,697)	(82,451)	(124,634)	16,351	(108,283)
As of March 31, 2018		28,534	154	528,418	2,674,138	3,598,321	175,972	3,774,293

Consolidated Statement of Cash Flows

Year ended March 31, 2018

(Unit: Millions of yen)

	Note	2017	2018
Cash flows from operating activities			
Profit before income taxes		360,858	**449,903**
Depreciation		241,123	**268,626**
Impairment losses		—	**1,547**
Increase in retirement benefit liabilities		3,494	**4,372**
Decrease in retirement benefit assets		6,787	**11,167**
Interest and dividend income		(35,281)	**(39,944)**
Interest expenses		7,337	**7,042**
Foreign exchange gains		(2,153)	**(734)**
Share of the profit of associates and joint ventures accounted for using the equity method		(8,436)	**(6,518)**
Losses on sales or disposal of property, plant and equipment		6,477	**3,762**
Increase in trade receivables		(70,541)	**(4,167)**
Increase in inventories		(17,507)	**(31,257)**
Increase (Decrease) in trade payables		48,747	**(80,417)**
Decrease in provisions		(16,607)	**(4,785)**
Other		21,406	**13,223**
Subtotal		545,704	**591,820**
Interest received		7,654	**9,779**
Dividends received		30,390	**33,691**
Interest paid		(7,557)	**(7,259)**
Income taxes paid		(108,412)	**(70,030)**
Net cash provided by operating activities		467,779	**558,001**
Cash flows from investing activities			
Decrease (Increase) in time deposits		126,464	**(72,714)**
Purchases of property, plant and equipment		(334,978)	**(347,973)**
Proceeds from sales of property, plant and equipment		6,693	**8,686**
Purchases of intangible assets		(9,437)	**(20,017)**
Purchases of equity instruments		(18,830)	**(116,706)**
Purchases of debt instruments		(92,542)	**(52,264)**
Proceeds from sales and redemption of equity instruments		1,312	**395**
Proceeds from sales and redemption of debt instruments		213,597	**74,119**
Payments from acquisitions of control over subsidiaries		—	**(5,756)**
Proceeds from losses of control of subsidiaries		—	**674**
Other		(316)	**2,503**
Net cash used in investing activities		(108,037)	**(529,053)**
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	28	5,312	**(998)**
Proceeds from borrowings	28	76,744	**113,280**
Repayments of long-term borrowings	28	(163,643)	**(71,721)**
Repayments of finance lease obligations	28	(11,924)	**(12,636)**
Issuance of bonds	28	30,000	**70,000**
Redemption of bonds	28	(50,000)	**—**
Dividends paid	19	(95,001)	**(97,837)**
Dividends paid to non-controlling interests		(12,262)	**(11,569)**
Purchase of treasury stock		(30,020)	**(26,486)**
Other	28	10,268	**(2,345)**
Net cash used in financing activities		(240,526)	**(40,312)**
Foreign currency translation adjustments on cash and cash equivalents		1,852	**1,152**
Net increase (decrease) in cash and cash equivalents		121,068	**(10,212)**
Cash and cash equivalents at beginning of year		672,482	**793,550**
Cash and cash equivalents at end of year	7	793,550	**783,338**

Notes to Consolidated Financial Statements

Year ended March 31, 2018

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, Electrification systems, Electronic systems, Thermal systems, and Mobility systems, 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, 2018 were approved on June 20, 2018 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 judgments 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 in which such estimates are revised and in 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
- Fair value measurements of assets acquired and liabilities assumed by business combinations: Note 6 "Business Combinations"
- Impairment loss on non-financial assets: Note 11 "Property, plant and equipment" and Note 12 "Intangible assets"
- Recoverability of deferred tax assets: Note 13 "Income taxes"
- Reserve for warranty: Note 16 "Provisions"
- Measurement of defined benefit obligation: Note 17 "Post-employment benefits"
- Measurement of fair value of financial instruments: Note 26 "Financial instruments"

(5) Changes in accounting policies

The Group adopted the standards and interpretations which were mandatorily effective from the year ended March 31, 2018. The adoption of the standards and interpretations had no significant impact on the consolidated financial statements for the fiscal year ended March 31, 2018.

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 under which they are governed. 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 a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of parties sharing control. 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 as, primarily due to the involvement of other shareholders, it is impracticable to unify the fiscal year-ends. Necessary adjustments are made for the effects of significant transactions or events occurring between the fiscal year-ends of the associates and joint ventures and that of the Company.

Under the equity method, 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 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 that:

・ 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 a 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 as 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 the 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 loss 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 following classifications:

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 are 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 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 26 "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 of 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 following classifications:

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 hedge 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 to determine whether they 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 hedges as part of its hedge 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 the end of each 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 the end of each reporting period, and the effects of any changes in estimates are 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 internally generated intangible assets comprises the total expenditure incurred from the date when all the preceding conditions have been satisfied to the date when the developments are finished. Development costs are recognized as an expense as incurred if the internally generated intangible assets are not recognized.

After initial recognition, 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, 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
・ Customer-related assets: 8 years
・ Technology-based assets: 10 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 the 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 prepare for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized 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 where 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 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 a rented property group and an 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.

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 disposition costs 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 disposition costs, 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.

Main provisions are recorded as follows.

Reserve for warranty

The reserve for warranty is recognized based on the estimated amount of warranty expenses, 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 past transactions of specific automotive parts.

(15) Employee benefits

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 benefits that employees have earned in exchange for their service over 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 service due to revisions to the plan are recognized in profit or loss. The Group recognizes the increase/decrease in obligations due to remeasurements 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 benefits 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 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 cases where the government grants are compensation for expenses, they are recognized in profit or loss in the period in 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.

Deferred tax assets and 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 the 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 ventures 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.

The Company and its wholly owned subsidiaries in Japan have adopted the consolidated taxation system starting the fiscal year ended March 31, 2018.

(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 measurement 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, transitions of important indexes which impact on the changes of fair value are examined on an ongoing basis. In cases where the changes in the fair value of financial instruments are found to be significant as a result of examination, it is reported to the executive of finance and accounting division to obtain approval.

(21) Levies

The Group recognizes estimated payable amount as a liability when it is required to pay a levy.

(22) 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.

(23) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which each year-end dividend and interim dividend was resolved.

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, 2018, are as follows.

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

The effect of adopting of IFRS 9, "Financial Instruments," for the financial statements is expected to be immaterial .

The main changes in relation to the adoption of IFRS 15, "Revenue from Contracts with Customers," are accounting procedures of consideration payable to a customer and customer supplied parts with charge. In relation to the accounting procedures of consideration payable to a customer certain expenses previously recognized in "Cost of revenue" will be recognized as a reduction of "Revenue." Consolidated revenue is expected to decrease by approximately ¥50,000 million for the year ending March 31, 2019. Additionally, with regard to certain transactions of customer supplied parts with charge under the repurchase agreement, inventories will continue to be recognized as financial transactions, and the year-end inventories of supplied parts that remain with the receivers will be recognized as financial liabilities. As such, total assets and total liabilities in the consolidated statement of financial position for the first applicable fiscal year will increase. The total assets and total liabilities are expected to increase by approximately ¥20,000 million in the consolidated statement of financial position as of March 31, 2019. There will be immaterial impact on operating profit from these changes.

The Group is currently assessing the possible impacts of the application of IFRS 16, and "Leases," is not able to estimate reasonably at this moment.

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 for which separate financial information is available. 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 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 cooperating 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/loss of associates and joint ventures 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, 2017 (Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	1,871,838	1,050,460	550,244	989,505	4,462,047	65,101	−	4,527,148
Intersegment	814,166	26,743	27,025	149,770	1,017,704	715	(1,018,419)	−
Total	2,686,004	1,077,203	577,269	1,139,275	5,479,751	65,816	(1,018,419)	4,527,148
Segment profit or losses	130,154	59,959	20,168	112,740	323,021	6,893	637	330,551
Finance income								35,487
Finance costs								(9,883)
Foreign exchange gains								(3,733)
Share of the profit of associates and joint ventures accounted for using the equity method								8,436
Profit before income taxes								360,858

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

Other material items (Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	144,727	27,061	20,003	52,614	244,405	2,857	−	247,262
Impairment losses	−	−	−	−	−	−	−	−
Reversal of impairment losses	−	−	−	−	−	−	−	−
Investments accounted for using the equity method	68,640	7,464	376	15,906	92,386	−	(188)	92,198
Increase in non-current assets (Note 2)	222,802	52,090	24,156	44,501	343,549	2,176	−	345,725

(Note 1) "Others" is an operating segment that is not included in the 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, 2018 (Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	2,140,729	1,122,847	620,193	1,146,037	5,029,806	78,485	—	5,108,291
Intersegment	943,073	33,405	42,139	176,786	1,195,403	513	(1,195,916)	—
Total	3,083,802	1,156,252	662,332	1,322,823	6,225,209	78,998	(1,195,916)	5,108,291
Segment profit or losses	200,666	42,512	20,061	136,728	399,967	13,420	(711)	412,676
Finance income								40,532
Finance costs								(9,495)
Foreign exchange gains								(328)
Share of the profit of associates and joint ventures accounted for using the equity method								6,518
Profit before income taxes								449,903

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

Other material items (Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	167,692	33,143	23,169	57,887	281,891	2,835	—	284,726
Impairment losses	393	542	612	—	1,547	—	—	1,547
Reversal of impairment losses	—	—	—	—	—	—	—	—
Investments accounted for using the equity method	64,309	6,790	474	17,324	88,897	—	(179)	88,718
Increase in non-current assets (Note 2)	250,088	44,663	31,466	53,564	379,781	2,196	—	381,977

(Note 1) "Others" is an operating segment that is not included in the 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)

	2017	2018
Japan	3,021,943	3,519,068
North America	510,048	577,623
Europe	379,381	432,620
Asia	904,414	1,045,022
Others (Note 1)	58,365	56,465
Corporate assets (Note 2)	276,611	133,619
Consolidated	5,150,762	5,764,417

(Note 1) "Others" is an operating segment that is not included in the 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, 2017 and 2018

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)

	2017	2018
Japan	1,817,838	2,061,429
The United States	899,640	958,247
Others	1,809,670	2,088,615
Total	4,527,148	5,108,291

(Note) 1. Countries which have significant impact on the consolidated financial statements are individually presented.
2. Revenue is attributed to geographic areas based on customer locations.

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

	2017	2018
Japan	895,813	1,020,555
Others	617,168	647,620
Total	1,512,981	1,668,175

(Note) 1. Countries which have significant impact on 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 and its subsidiaries. Revenue from the major customer is recorded in all segments, such as Japan, North America, Europe, and Asia.

(Unit: Millions of yen)

2017	2018
2,128,244	2,341,657

6. Business Combinations

(1) TD MOBILE CORPORATION

The Company acquired TD MOBILE CORPORATION (hereinafter, "TD MOBILE") as a consolidated subsidiary as of July 1, 2017.

1) Description of business combination

TD MOBILE, an associate of the Company, which primarily conducts dealership operations for mobile phones, became the Company's subsidiary on July 1, 2017 as a result of TD MOBILE's acquisition of its own treasury stock. As a result of TD MOBILE acquiring its own treasury stock, the ownership ratio of TD MOBILE's voting rights held by the Company rose from 49% (as of June 30, 2017) to 51% (as of July 1, 2017), giving the Company the majority of TD MOBILE voting rights.

2) Reason for the business combination

In order to further expand the Company's business scale by collaborating with TD MOBILE in the key areas of automotive communications products and services, and non-automotive information distribution systems for local communities

3) Summary of the acquiree

Name	TD MOBILE CORPORATION
Business description	Dealership operations for mobile phones, development and distribution of content for mobile phones, etc.

4) Acquisition date

July 1, 2017

5) Consideration transferred and its components

(Unit: Millions of yen)

	2018
Fair value of equity interest in TD MOBILE already held at the time of the acquisition	16,656
Total of the consideration transferred	16,656

As a result of the remeasurement of equity interest already held at the time of the acquisition of control by the Company of TD MOBILE at fair value on the acquisition date, the Company recognized a gain on the acquisition of ¥11,646 million for the fiscal year ended March 31, 2018. This gain is included in "Other income" in the consolidated statement of income.

6) Fair values of assets, liabilities, non-controlling interests, and goodwill on the acquisition date

(Unit: Millions of yen)

	2018
Total of the consideration transferred for the acquired shares (A)	16,656
Assets	
Trade and other receivables	5,501
Other current assets	3,403
Intangible assets	14,549
Other non-current assets	2,900
Total assets	26,353
Liabilities	
Current liabilities	3,881
Non-current liabilities	5,086
Total liabilities	8,967
Equity (B)	17,386
Non-controlling interests (Note 1) (C)	8,519
Goodwill (Note 2) (A-(B-C))	7,789

(Note 1) Non-controlling interests

Non-controlling interests in an acquiree 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 measured based on the proportionate interests at the acquisition date in the identifiable net assets of the acquiree at the acquisition date.

(Note 2) Goodwill

Goodwill reflects excess earning power expected from future business development and the synergy between the Company and the acquiree.

7) Proceeds from acquisition of control over the subsidiary

(Unit: Millions of yen)

	2018
Cash and cash equivalents held by the acquiree at the time of the acquisition	87
Proceeds in cash from acquisition of control over the subsidiary	87

8) Revenue and profit of the acquiree

The acquiree's revenue and loss for the year before elimination of inter-company transactions after the acquisition date, which are recorded in the consolidated statement of income for the fiscal year ended March 31, 2018, were ¥82,713 million and ¥763 million, respectively.

The loss for the year referred to above includes amortization of intangible assets recognized at the acquisition date.

(2) FUJITSU TEN LIMITED

The Company acquired FUJITSU TEN LIMITED (hereinafter, "FUJITSU TEN") as a consolidated subsidiary as of November 1, 2017.

1) Description of business combination

FUJITSU TEN, an investee of the Company, became the Company's subsidiary on November 1, 2017 as a result of the Company obtaining a portion of shares from FUJITSU LIMITED (hereinafter, "FUJITSU"), its previous parent company. As a result of obtaining the portion of shares, the ownership ratio of FUJITSU TEN's voting rights held by the Company rose from 10% (as of October 31, 2017) to 51% (as of November 1, 2017), giving the Company the majority of FUJITSU TEN voting rights.

2) Reason for the business combination

FUJITSU TEN was established in 1972 as a spinoff of FUJITSU's radio division. Since Toyota Motor Corporation and the Company purchased stakes in 1973, FUJITSU TEN has offered various products and services as a manufacturer of automotive electronics products, including audio and multimedia. Recently, FUJITSU TEN has strengthened its Vehicle-ICT business to create new value, while accelerating collaboration with FUJITSU and its group companies to transform itself from a supplier of standalone products to a system manufacturer that proposes and provides connected in-vehicle information equipment and services.

In the automotive field, the interface between the driver and vehicle is becoming increasingly important due to remarkable technological innovations. Against this backdrop, the Company has made FUJITSU TEN a Group company to enhance cooperation between the two companies in developing in-vehicle ECUs, millimeter-wave radar, advanced driver assistance/automated driving technologies, and basic electronic technologies and to improve corporate value together.

3) Summary of the acquiree

Name	FUJITSU TEN LIMITED (Renamed DENSO TEN LIMITED)
Business description	Development, manufacture, and sales of infotainment equipment and automotive electronics equipment

4) Acquisition date

November 1, 2017

5) Consideration transferred and its components

(Unit: Millions of yen)

	2018
Payment by cash	16,511
Fair value of equity interest in FUJITSU TEN already held at the time of the acquisition	4,027
Total of the consideration transferred	20,538

Acquisition-related costs incurred from the business combination and recognized in "Selling, general and administrative expenses" in the consolidated statement of income for the years ended March 31, 2017 and 2018 were ¥228 million and ¥132 million, respectively.

6) Fair values of assets, liabilities, non-controlling interests, and goodwill on the acquisition date

(Unit: Millions of yen)

	2018
Total of the consideration transferred for the acquired shares (A)	20,538
Assets Trade and other receivables Other current assets Intangible assets Other non-current assets	 59,514 48,182 27,813 41,003
Total assets	176,512
Liabilities Current liabilities Non-current liabilities	 115,843 18,950
Total liabilities	134,793
Equity (B)	41,719
Non-controlling interests (C)	23,119
Goodwill (A-(B-C))	1,938

(Note) 1. Adjustment to the provisional amount

Consideration transferred is allocated to acquired assets and assumed liabilities based on the fair value on the acquisition date. Allocation of the consideration transferred was completed during the three-month period ended March 31, 2018. In terms of adjustments from the initial provisional amounts, after additional analysis on the fair value of FUJITSU TEN, other current assets, intangible assets, non-current liabilities, and non-controlling interests increased by ¥294 million, ¥13,662 million, ¥3,966 million, and ¥3,491 million, respectively, and other non-current assets decreased by ¥2,177 million. As a result, goodwill decreased by ¥4,322 million.

2. Non-controlling interests

Non-controlling interests in an acquiree 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 measured based on the proportionate interests at the acquisition date in the identifiable net assets of the acquiree at the acquisition date.

3. Goodwill

Goodwill reflects excess earning power expected from future business development and the synergy between the Company and the acquiree.

7) Payment for acquisition of control over the subsidiary

(Unit: Millions of yen)

	2018
Payment by cash	16,511
Cash and cash equivalent held by the acquiree at the time of the acquisition	10,668
Total of the consideration transferred	5,843

8) Revenue and profit of the acquiree

The acquiree's revenue and loss for the year before elimination of inter-company transactions after the acquisition date, which are recorded in the consolidated statement of income for the fiscal year ended March 31, 2018, were ¥161,783 million and ¥2,837 million, respectively.

The loss for the year referred to above includes amortization of intangible assets recognized at the acquisition date.

(3) Consolidated revenue and profit assuming that the business combinations were completed at the beginning of the fiscal year

The following is pro forma information (unaudited) of consolidated performance of the Group for the fiscal year ended March 31, 2018, assuming that the business combinations of TD MOBILE and FUJITSU TEN were completed and controls were acquired as of April 1, 2017.

(Unit: Millions of yen)

	2018
Revenue (pro forma)	5,349,081
Profit for the year (pro forma)	348,780

7. Cash and cash equivalents

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

(Unit: Millions of yen)

	2017	2018
Cash and deposits	682,077	754,290
Short-term investments	111,473	29,048
Total	793,550	783,338

8. Trade and other receivables

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

(Unit: Millions of yen)

	2017	2018
Notes and accounts receivable	740,048	822,963
Other	138,242	172,740
Less: Allowance for doubtful accounts	(1,836)	(2,154)
Total	876,454	993,549

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

When impairment of accounts receivable 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 increases and decreases of the allowance for doubtful accounts for each fiscal year were as follows.

(Unit: Millions of yen)

	2017	2018
Balance, beginning of year	1,770	1,836
Increase	862	1,461
Decrease—used	(58)	(108)
Decrease—reversed	(758)	(946)
Foreign exchange differences	20	(89)
Balance, end of year	1,836	2,154

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, it 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. It was determined that there was no impairment loss as of each fiscal year-end.

(Unit: Millions of yen)

	2017	2018
Past due within 90 days	23,843	25,230
Past due over 90 days through one year	3,200	5,303
Past due over one year	111	1,443
Total	27,154	31,976

9. Inventories

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

(Unit: Millions of yen)

	2017	2018
Merchandise and finished products	160,054	176,971
Work in process	189,079	218,706
Raw materials and supplies	136,734	154,614
Total (Note)	485,867	550,291

(Note) The amounts of write-down of inventories to net realizable value recognized as "Cost of revenue" for the years ended March 31, 2017 and 2018 were ¥6,422 million and ¥14,259 million, respectively.

10. Other financial assets

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

(Unit: Millions of yen)

	2017	2018
Bank deposits (Note 1)	64,864	135,003
Certificates of deposit (Note 1)	—	—
Debt securities (Note 1)	35,934	14,503
Equity securities (Note 2)	1,079,124	1,310,718
Derivative assets (Note 3)	10,357	4,550
Other	15,447	17,168
Total	1,205,726	1,481,942

Current assets	93,781	151,122
Non-current assets	1,111,945	1,330,820
Total	1,205,726	1,481,942

(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 to which hedge accounting is applied, 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	2017	2018
Toyota Motor Corporation	527,079	617,560
TOYOTA INDUSTRIES CORPORATION	163,953	190,932
Renesas Electronics Corporation	9,725	89,195
Towa Real Estate Co., Ltd.	71,605	78,899
Aisin Seiki Co., Ltd.	70,918	74,937
KOITO MANUFACTURING CO., LTD.	38,869	49,543
JTEKT CORPORATION	31,764	28,953
SUZUKI MOTOR COPORATION	18,082	22,537
TOYOTA BOSHOKU CORPORATION	26,326	22,260
TOKAI RIKA CO., LTD.	19,942	19,373

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 financial assets measured at fair value through other comprehensive income that the Group held through the years ended March 31, 2017 and 2018 were ¥27,670 million and ¥29,894 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)

	2017	2018
Fair value	3,487	3,233
Cumulative losses that have been previously recognized in equity as other comprehensive income—pre-tax (Note 4)	3,009	2,802
Dividend income	60	12

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

11. 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, 2016	875,504	2,668,076	179,930	118,938	672,026	4,514,474
Acquisition	22,714	129,345	3,878	148,866	32,339	337,142
Business combinations	—	—	—	—	—	—
Disposals	(4,477)	(102,024)	(1,633)	(874)	(34,740)	(143,748)
Foreign exchange differences	(7,028)	(23,533)	(526)	(2,423)	(7,005)	(40,515)
Other (Note 2)	14,224	99,239	423	(138,434)	26,440	1,892
Balance, March 31, 2017	900,937	2,771,103	182,072	126,073	689,060	4,669,245
Acquisition	21,301	126,639	670	169,988	34,675	353,273
Business combinations (Note 3)	10,177	8,235	6,838	737	9,324	35,311
Disposals	(9,805)	(105,899)	(58)	(446)	(31,552)	(147,760)
Foreign exchange differences	678	3,788	80	(661)	1,859	5,744
Other (Note 2)	14,769	95,062	272	(140,175)	23,299	(6,773)
Balance, March 31, 2018	938,057	2,898,928	189,874	155,516	726,665	4,909,040

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

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

(Note 3) The increase in "Business combinations" is due to the acquisition of TD MOBILE and FUJITSU TEN (See Note 6 "Business combinations").

(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, 2016	542,032	1,982,907	1,013	1,055	561,900	3,088,907
Depreciation (Note)	26,799	164,950	—	—	49,374	241,123
Impairment losses	—	—	—	—	—	—
Disposals	(3,735)	(92,404)	—	—	(32,539)	(128,678)
Foreign exchange differences	(2,551)	(13,334)	19	—	(4,795)	(20,661)
Other	(235)	(1,395)	—	—	(347)	(1,977)
Balance, March 31, 2017	562,310	2,040,724	1,032	1,055	573,593	3,178,714
Depreciation (Note)	28,677	185,935	—	—	54,014	268,626
Impairment losses	—	969	—	77	108	1,154
Disposals	(8,248)	(97,585)	—	—	(28,777)	(134,610)
Foreign exchange differences	232	4,647	80	—	1,335	6,294
Other	(66)	(1,716)	—	—	(563)	(2,345)
Balance, March 31, 2018	582,905	2,132,974	1,112	1,132	599,710	3,317,833

(Note) Depreciation on "Property, plant and equipment" is 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, 2016	333,472	685,169	178,917	117,883	110,126	1,425,567
Balance, March 31, 2017	338,627	730,379	181,040	125,018	115,467	1,490,531
Balance, March 31, 2018	355,152	765,954	188,762	154,384	126,955	1,591,207

(2) Carrying amount of assets pledged as collateral

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

(3) Commitments

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

(Unit: Millions of yen)

	2017	2018
Contractual commitments for the acquisition of property, plant and equipment	91,768	105,754

(4) Impairment losses

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

For the year ended March 31, 2017

No items to report.

For the year ended March 31, 2018

Business group	Segment	Types of assets	Class	Amount (Millions of yen)
Electrification systems	North America	Production facility for small motor products	Machinery and equipment, etc.	542
Electronics systems	Europe	Production facility for electronics products	Machinery and equipment	612

The Group wrote down the undepreciated balances of its production facilities to their recoverable amounts and recognized ¥542 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 of disposition. 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.

For the year ended March 31, 2018, the Group recognized ¥612 million in impairment losses for unused machinery and equipment as a result of a change in the Group's initial capital investment plan.

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

12. 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	Customer-related assets	Technology-based assets
Balance, April 1, 2016	47,372	1,308	3,528	－	－
Acquisition	5,049	－	－	－	－
Internally generated	309	1,726	－	－	－
Business combinations	－	－	－	－	－
Disposal	(1,107)	－	(1,502)	－	－
Foreign exchange differences	(368)	－	(171)	－	－
Other	(406)	－	－	－	－
Balance, March 31, 2017	50,849	3,034	1,855	－	－
Acquisition	8,501	－	－	－	－
Internally generated	3,139	1,516	－	－	－
Business combinations (Note)	9,510	－	9,727	21,745	6,445
Disposal	(674)	(1)	－	－	－
Foreign exchange differences	(17,285)	－	(24)	－	－
Other	16,513	－	－	－	－
Balance, March 31, 2018	70,553	4,549	11,558	21,745	6,445

(Unit: Millions of yen)

Acquisition cost	Other	Total
Balance, April 1, 2016	7,354	59,562
Acquisition	1,678	6,727
Internally generated	675	2,710
Business combinations	－	－
Disposal	(13)	(2,622)
Foreign exchange differences	(142)	(681)
Other	(1,370)	(1,776)
Balance, March 31, 2017	8,182	63,920
Acquisition	4,065	12,566
Internally generated	2,474	7,129
Business combinations (Note)	5,012	52,439
Disposal	(616)	(1,291)
Foreign exchange differences	(11,446)	(28,755)
Other	11,283	27,796
Balance, March 31, 2018	18,954	133,804

(Note) The increase in "Business combinations" is due to the acquisition of TD MOBILE and FUJITSU TEN (See Note 6 "Business combinations").

(Unit: Millions of yen)

Accumulated amortization and Accumulated impairment losses	Software	Development costs	Goodwill	Customer-related assets	Technology-based assets
Balance, April 1, 2016	33,958	304	1,502	—	—
Amortization (Note)	4,967	610	—	—	—
Impairment losses	—	—	—	—	—
Disposal	(1,087)	—	(1,502)	—	—
Foreign exchange differences	(181)	—	—	—	—
Other	(225)	—	—	—	—
Balance, March 31, 2017	37,432	914	—	—	—
Amortization (Note)	10,436	1,075	—	2,797	269
Impairment losses	—	—	393	—	—
Disposal	(602)	—	—	—	—
Foreign exchange differences	261	—	—	—	—
Other	(619)	—	—	—	—
Balance, March 31, 2018	46,908	1,989	393	2,797	269

(Unit: Millions of yen)

Accumulated amortization and Accumulated impairment losses	Other	Total
Balance, April 1, 2016	2,642	38,406
Amortization (Note)	561	6,138
Impairment losses	—	—
Disposal	(2)	(2,591)
Foreign exchange differences	(78)	(259)
Other	—	(225)
Balance, March 31, 2017	3,123	41,469
Amortization (Note)	1,523	16,100
Impairment losses	—	393
Disposal	(269)	(871)
Foreign exchange differences	131	392
Other	(28)	(647)
Balance, March 31, 2018	4,480	56,836

(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	Customer-related assets	Technology-based assets
Balance, April 1, 2016	13,414	1,004	2,026	—	—
Balance, March 31, 2017	13,417	2,120	1,855	—	—
Balance, March 31, 2018	23,645	2,560	11,165	18,948	6,176

(Unit: Millions of yen)

Carrying amount	Other	Total
Balance, April 1, 2016	4,712	21,156
Balance, March 31, 2017	5,059	22,451
Balance, March 31, 2018	14,474	76,968

The research and development expenditures recognized in profit or loss for the years ended March 31, 2017 and 2018 were ¥407,497 million and ¥445,862 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, 2017

No items to report.

For the year ended March 31, 2018

Impairment losses on goodwill recognized along with the decrease in profit or the disposal, etc. of TD MOBILE's directly managed stores were ¥393 million.

(3) Material intangible assets

The material intangible assets recognized in the Consolidated Statement of Financial Position were as follows:

For the year ended March 31, 2017

No items to report.

For the year ended March 31, 2018

	Carrying amount (Millions of yen)	Average remaining amortization periods (Years)
Customer-related assets	18,948	7.4
Technology-based assets	6,176	9.6

Additions on material intangible assets for the year ended March 31, 2018 include customer-related assets for which the carrying amount is ¥12,103 million and the average remaining amortization periods are 7.3 years due to the acquisition of TD MOBILE. Material intangible assets also include customer-related assets for which the carrying amount is ¥6,845 million and the average remaining amortization periods are 7.6 years, as well as technology-based assets for which the carrying amount is ¥6,176 million and the average remaining amortization periods are 9.6 years due to the acquisition of FUJITSU TEN.

(4) Impairment test for goodwill

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

Goodwill acquired in business combinations is allocated to each of the cash-generating units or groups of cash-generating units that are expected to benefit from excess earning powers in the future from synergies resulting from the business combination. Allocations to each of the cash-generating units or groups of cash-generating units were as follows:

(Unit: Millions of yen)

	2017	2018
TD MOBILE (Note 1)	-	7,397
DENSO TEN group (Note 2)	-	1,938
Other	1,855	1,830
Total	1,855	11,165

(Note 1) Goodwill allocated to TD MOBILE was allocated to 122 directly managed stores run by TD MOBILE.

(Note 2) Goodwill allocated to the DENSO TEN group was allocated to DENSO TEN and its key subsidiaries.

Goodwill allocated to TD MOBILE is recognized as impairment losses when there is a decrease in profit or disposal, etc., of its directly managed stores.

DENSO TEN's recoverable amounts for each cash-generating unit or group of cash-generating units are calculated using the maximum value in use based on the five-year business plan prepared by reflecting past experiences and external evidence and approved by management. Cash flow projectons beyond the five-year period are extrapolated by using a steady or declining growth rate. They were discounted using the weighted-average cost of capital 6.70%-11.22% of cash-generating units or groups of cash-generating units. While the recoverable amounts exceeded carrying amounts for the year ended March 31, 2018, an increase in the discount rate of 1.4% would result in impairment losses.

13. Income taxes

(1) Income tax expenses

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

(Unit: Millions of yen)

	2017	2018
Current income tax expenses		
Current year	88,543	114,228
Prior years	(1,046)	754
Total	87,497	114,982
Deferred income tax expenses		
Occurrence and reversal of temporary differences	(415)	(5,426)
Change in tax rates	—	(3,450)
Recognition of previously unrecognized deferred tax assets	(213)	(564)
Reversal of deferred tax assets recognized in the prior year	94	917
Total	(534)	(8,523)
Total of income tax expenses	86,963	106,459
Income taxes recognized in other comprehensive income	(33,876)	41,021

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 30.29% for the year ended March 31, 2017 and 30.29% for the year ended March 31, 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.

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: %)

	2017	2018
Applicable statutory tax rate	30.29	30.29
Lower income tax rates applicable to income in certain foreign subsidiaries	(2.27)	(2.95)
Tax credit for R&D expenses	(2.31)	(3.18)
Recognition of previously unrecognized deferred tax assets	(0.06)	(0.13)
Reversal of deferred tax liabilities due to change in applicable tax rates	—	(0.77)
Other	(1.55)	0.40
Actual effective tax rate	24.10	23.66

(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, 2017 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets (Note 1)						
Accrued bonuses to employees	19,673	101	—	—	16	19,790
Reserve for warranty	9,277	5,326	—	—	(17)	14,586
Retirement benefit liabilities	62,165	13,735	(11,780)	—	(33)	64,087
Provision for accrued vacations paid	18,550	74	—	—	(3)	18,621
Other	104,580	(10,125)	(711)	—	(897)	92,847
Total deferred tax assets	214,245	9,111	(12,491)	—	(934)	209,931
Deferred tax liabilities						
Investment in equity instruments	158,148	—	23,794	—	—	181,942
Depreciation	28,799	7,586	—	—	(187)	36,198
Retirement benefit assets	33,761	8,085	(2,617)	—	—	39,229
Other	7,490	(7,094)	208	—	(65)	539
Total deferred tax liabilities	228,198	8,577	21,385	—	(252)	257,908
Net	(13,953)	534	(33,876)	—	(682)	(47,977)

For the year ended March 31, 2018 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations (Note 2)	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets (Note 1)						
Accrued bonuses to employees	19,790	508	—	341	(55)	20,584
Reserve for warranty	14,586	(5,211)	—	309	21	9,705
Retirement benefit liabilities	64,087	2,276	(203)	602	80	66,842
Provision for accrued vacations paid	18,621	625	—	92	(19)	19,319
Other	92,847	17,235	(644)	2,479	(3)	111,914
Total deferred tax assets	209,931	15,433	(847)	3,823	24	228,364
Deferred tax liabilities						
Investment in equity instruments	181,942	—	34,134	609	—	216,685
Depreciation	36,198	8,136	—	10	(596)	43,748
Retirement benefit assets	39,229	12,966	(6,360)	—	(8)	45,827
Other	539	2,854	86	5,130	(253)	8,356
Total deferred tax liabilities	257,908	23,956	27,860	5,749	(857)	314,616
Net	(47,977)	(8,523)	(28,707)	(1,926)	881	(86,252)

(Note 1) 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.

(Note 2) The increase in "Business combinations" is due to acquisition of TD MOBILE and FUJITSU TEN (See Note 6 "Business combinations").

"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)

	2017	2018
Deferred tax assets	30,266	35,020
Deferred tax liabilities	78,243	121,272
Net deferred tax assets (liabilities)	(47,977)	(86,252)

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)

	2017	2018
Deductible temporary differences	9,119	27,377

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)

	2017	2018
Within 1st year	298	1,089
2nd year	374	1,608
3rd year	87	16,816
4th year	1,579	4,109
5th year and thereafter	20,382	33,415
Total	22,720	57,037

As of March 31, 2017 and 2018, deferred tax liabilities were not recognized for taxable temporary differences associated with investments in subsidiaries, except for 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, 2017 and 2018 were ¥790,024 million and ¥884,488 million, respectively.

14. 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 years ended March 31, 2017 and 2018. In addition, the Company monitors each compliance status to maintain the level required by such financial covenants.

	2017 (Millions of yen)	2018 (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date
With collateral				
Short-term borrowings	—	—	—	—
Current portion of long-term borrowings	—	—	—	—
Long-term borrowings	—	—	—	—
Without collateral				
Short-term borrowings	81,594	64,845	1.92	—
Current portion of bonds (Note 2)	—	30,000	—	—
Current portion of long-term borrowings	2,545	75,158	0.82	—
Bonds (Note 2)	110,000	150,000	—	—
Long-term borrowings	156,116	153,847	0.22	From 2019 to 2024
Total	350,255	473,850	—	—

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

(Note 2) Bonds at each fiscal year end consisted of the following:

Issuer	Name of bond	Date of Issuance	2017 (Millions of yen)	2018 (Millions of yen)	Interest rate (%)	Collateral	Redemption period
DENSO Corporation	The 8th unsecured bonds	July 24, 2013	30,000	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	20,000	0.18	None	September 18, 2020
	The 11th unsecured bonds	September 8, 2015	10,000	10,000	0.27	None	September 20, 2022
	The 12th unsecured bonds	September 8, 2016	10,000	10,000	0.01	None	September 17, 2021
	The 13th unsecured bonds	September 8, 2016	20,000	20,000	0.14	None	September 18, 2026
	The 14th unsecured bonds	June 8, 2017	—	30,000	0.04	None	June 20, 2022
	The 15th unsecured bonds	June 8, 2017	—	40,000	0.25	None	June 18, 2027
Total	—	—	110,000	180,000 (30,000)	—	—	—

(Note) The amounts in parentheses under "2018 (Millions of yen)" indicate current portion of bonds.

15. Trade and other payables

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

(Unit: Millions of yen)

	2017	2018
Notes and accounts payable (Note 1)	562,580	584,189
Other (Note 2)	298,581	339,083
Total	861,161	923,272

(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.

16. Provisions

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

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

(Unit: Millions of yen)

	Reserve for warranties (Note 1)	Provision for loss on antitrust issues (Note 2)	Other	Total
Balance, April 1, 2016	34,541	45,930	8,431	88,902
Provisions made	25,395	15,169	1,480	42,044
Provisions used	(6,868)	(43,573)	(1,057)	(51,498)
Provisions reversed	(1,214)	(6,004)	(201)	(7,419)
Foreign exchange differences	(29)	—	78	49
Balance, March 31, 2017	51,825	11,522	8,731	72,078
Provisions made	18,681	10,494	4,717	33,892
Provisions used	(6,986)	(284)	(3,011)	(10,281)
Provisions reversed	(23,006)	(596)	(1,100)	(24,702)
Foreign exchange differences	(252)	—	74	(178)
Balance, March 31, 2018	40,262	21,136	9,411	70,809

(Note 1) A portion of the reserve for warranties is expected to be reimbursed by mutual agreement with the Group's suppliers. The estimated amounts of reimbursements were ¥3,414 million and ¥2,281 million as of March 31, 2017 and 2018, respectively. The amounts were included in "Trade and other receivables" in the consolidated statement of financial position.

(Note 2) Please see Note 30 "Contingencies."

17. 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 managed by a fund that is legally segregated from the Group in accordance with statutory requirements. The board of the pension fund and the trustees 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 the defined benefit obligation and fair value of plan assets were as follows:

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

	2017	2018
Balance, beginning of year	819,977	814,759
Service cost	37,263	37,407
Interest cost on obligation	5,792	7,164
Plan amendments	(317)	(210)
Actuarial gains (Demographic)	(1,867)	367
Actuarial losses (Financial)	(20,618)	(3,501)
Benefits paid	(25,124)	(24,641)
Business combinations (Note)	—	46,416
Foreign exchange differences	(347)	(645)
Balance, end of year	814,759	877,116

(Note) The increase in "Business combinations" is due to the acquisition of TD MOBILE and FUJITSU TEN (See Note 6 "Business combinations").

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

	2017	2018
Balance, beginning of year	614,648	630,051
Interest income on plan assets	4,176	5,420
Plan amendments	(45)	18
Income from plan assets other than interest	8,338	16,058
Employer contributions	18,613	15,597
Benefits paid	(15,615)	(16,462)
Business combinations (Note)	—	36,227
Foreign exchange differences	(64)	(1,316)
Balance, end of year	630,051	685,593

(Note) The increase in "Business combinations" is due to the acquisition of TD MOBILE and FUJITSU TEN (See Note 6 "Business combinations").

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

	2017	2018
Defined benefit obligation, end of year	814,759	877,116
Plan assets, end of year	630,051	685,593
Net amount of defined benefit obligation and plan assets	184,708	191,523
Retirement benefit liabilities	228,576	245,387
Retirement benefit assets	43,868	53,864
Net amount of liabilities and assets recognized in the consolidated statement of financial position	184,708	191,523

Investment policy

The Group's investment policy for the 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, 2017 and 2018 were as follows:

As of March 31, 2017 (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	47,359	25	47,384
Global equity securities	82	—	82
Commingled funds—Japanese equity securities	—	45,301	45,301
Commingled funds—global equity securities	—	59,867	59,867
Total—Equity instruments	47,441	105,193	152,634
Debt instruments			
Japanese debt securities	3,797	—	3,797
Global debt securities	23,145	26	23,171
Commingled funds—Japanese debt securities	—	30,845	30,845
Commingled funds—global equity securities	—	118,892	118,892
Other	156	677	833
Total—Debt instruments	27,098	150,440	177,538
Insurance contracts (Note 1)	—	121,467	121,467
Other (Note 2)	142,039	36,373	178,412
Total	216,578	413,473	630,051

(Note 1) Insurance contracts includes investments in life insurance company general accounts, which are guaranteed for the principal amount and interest rate by life insurance companies.

(Note 2) Other includes mainly cash and cash equivalents.

As of March 31, 2018 (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	45,488	25	45,513
Global equity securities	392	—	392
Commingled funds—Japanese equity securities	—	65,071	65,071
Commingled funds—global equity securities	—	46,775	46,775
Total—Equity instruments	45,880	111,871	157,751
Debt instruments			
Japanese debt securities	14,519	1,859	16,378
Global debt securities	92,837	24	92,861
Commingled funds—Japanese debt securities	—	67,138	67,138
Commingled funds—global equity securities	—	81,167	81,167
Other	152	1,685	1,837
Total—Debt instruments	107,508	151,873	259,381
Insurance contracts (Note 1)	—	135,407	135,407
Other (Note 2)	92,760	40,294	133,054
Total	246,148	439,445	685,593

(Note 1) Insurance contracts includes investments in life insurance company general accounts, which are guaranteed for the 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: %)

	2017	2018
Discount rate	0.67	0.70

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, 2018
Discount rate: Decreased by 0.5%	70,887
Discount rate: Increased by 0.5%	(62,419)

The Group expects ¥23,625 million of the contribution to be paid from April 1, 2018 to March 31, 2019.

The weighted-average durations of the defined benefit obligations were 16 years and 19 years for the years ended March 31, 2017 and 2018, respectively.

(2) Defined contribution plans

The amounts recognized as expenses related to the defined contribution plans for the years ended March 31, 2017 and 2018 were ¥10,365 million and ¥11,420 million, respectively.

18. 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."

The number of authorized shares as of each fiscal year end was 1,500 million shares.

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

	Number of shares (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
2017	794,068,713	187,457	265,985
Decrease	—	—	0
2018	794,068,713	187,457	265,985

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 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 (Shares)	Amount (Millions of yen)
2017	8,217,171	31,191
Decrease	6,128,693	26,486
2018	14,345,864	57,677

(4) Other components of equity

1) 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.

2) 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.

3) 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.

4) 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.

19. 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
Board of Directors' meeting held on April 28, 2016	Ordinary shares	47,569	60	March 31, 2016	May 30, 2016
Board of Directors' meeting held on October 28, 2016	Ordinary shares	47,432	60	September 30, 2016	November 25, 2016
Board of Directors' meeting held on April 28, 2017	Ordinary shares	47,153	60	March 31, 2017	May 29, 2017
Board of Directors' meeting held on October 31, 2017	Ordinary shares	50,684	65	September 30, 2017	November 27, 2017

Dividends for which the record date is in the current fiscal year, yet the 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 27, 2018	Ordinary shares	Retained earnings	50,684	65	March 31, 2018	May 28, 2018

20. Other income

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

(Unit: Millions of yen)

	2017	2018
Rental income—property, plant and equipment	2,335	2,261
Gain on sales—property, plant and equipment	3,577	5,146
Other (Note)	21,809	26,868
Total	27,721	34,275

(Note) Other for the year ended March 31, 2017 included insurance income of ¥12,868 million which was related to plant shut-downs by the Company and its subsidiaries in Japan.
Other for the year ended March 31, 2018 included a gain of ¥11,646 million as a result of the remeasurement of equity interest previously held at the time of the acquisition of control by the Company of TD MOBILE at fair value on the acquisition date (See Note 6 "Business combinations").

21. 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)

	2017	2018
Freight expenses	39,747	42,712
Employee benefit expenses	174,201	196,599
Provision (Reversal) for warranty reserve	20,041	(12,506)
Depreciation	20,354	25,798
Welfare expenses	27,656	31,552
Other	149,193	163,577
Total	431,192	447,732

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

	2017	2018
Loss on sales or disposal—property, plant and equipment	8,054	8,908
Impairment losses	—	1,547
Other (Note)	15,540	17,105
Total	23,594	27,560

(Note) Other for the years ended March 31, 2017 and 2018 included losses on antitrust issues, which were settlement amounts, etc., with regard to the alleged violation of antitrust law or competition law in connection with certain past transactions regarding specific auto parts in the amount of ¥9,508 million and ¥10,424 million, respectively (See Note 30 "Contingencies").

22. Income and expenses pertaining to financial instruments

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

	2017	2018
Interest income		
Financial assets measured at amortized cost (i.e., deposits and other)	7,611	10,050
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)	27,670	29,894
Other	206	588
Total	35,487	40,532

(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 financial assets measured at fair value through other comprehensive income which were derecognized in each fiscal year (See Note 10 "Other financial assets").

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

	2017	2018
Interest expenses		
Financial liabilities measured at amortized cost (i.e., bonds, borrowings, and other)	6,020	6,330
Financial liabilities measured at fair value through profit or loss (i.e., interest rate derivatives)	1,317	712
Interest on defined benefit liabilities, net	1,616	1,744
Other	930	709
Total	9,883	9,495

23. 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)

	2017	2018
Profit attributable to owners of the parent company	257,619	320,561

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

	2017	2018
Average number of shares—basic	789,465	781,002

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

Earnings per share-diluted is not presented since shares with a dilutive effect do not exist.

24. 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)

	2017	2018
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net fair value gain on equity instruments designated as FVTOCI		
Arising during the year	84,499	118,942
Income taxes	(24,505)	(34,778)
Total	59,994	84,164
Remeasurements of defined benefit pension plans		
Arising during the year	30,823	19,192
Income taxes	(9,163)	(6,157)
Total	21,660	13,035
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(12)	10
Total	(12)	10
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Arising during the year	(24,987)	(4,044)
Reclassification to profit or loss	—	(302)
Total	(24,987)	(4,346)
Cash flow hedges		
Arising during the year	1,343	1,271
Reclassification to profit or loss	(658)	(986)
Before income taxes	685	285
Income taxes	(208)	(86)
Total	477	199
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(1,779)	(1,012)
Total	(1,779)	(1,012)
Total other comprehensive income	55,353	92,050

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)

	2017	2018
Net fair value gain (loss) on equity instruments designated as FVTOCI	12	(21)
Remeasurements of net defined benefit pension plans	454	140
Exchange differencies on translating foreign operations	(1,568)	2,261
Cash flow hedges	—	—
Total	(1,102)	2,380

25. Non-financial transactions that are material

Details of non-financial transactions that are material

Assets and liabilities related to finance lease transactions were as follows:

(Unit: Millions of yen)

	2017	2018
The amounts of assets and liabilities related to finance lease transactions	13,355	11,307

In addition to the above, the Company made TD MOBILE a subsidiary in the fiscal year ended March 31, 2018. The business combination was conducted through TD MOBILE acquiring its own treasury stock and is therefore regarded as a non-cash transaction (See Note 6 "Business combinations").

26. 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, 2018.

(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 notes 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. Of total receivables 29% are from the Toyota Motor Corporation group as of March 31, 2018.

The Group utilizes financial instruments in accordance with internal credit management regulations to minimize its risk on short-term investment trusts 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 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 foreign currency trade receivables and payables. Currency swaps are used for 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 limits for each transaction. The actual results of such transactions are reported monthly to the executive supervising the accounting division. The subsidiaries manage their derivative transactions based on similar guidelines.

The details of currency derivatives are as follows:

Derivative transactions to which hedge accounting is not applied

(Unit: Millions of yen)

	2017			2018		
	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	5,367	―	(136)	46,018	―	502
Selling	78,744	―	451	83,511	―	610
Currency swaps						
Buying	112,221	61,893	3,578	109,363	64,137	(5,808)
Selling	12,859	3,687	(288)	5,282	4,132	(73)
Total	209,191	65,580	3,605	244,174	68,269	(4,769)

Derivative transactions to which hedge accounting is applied

(Unit: Millions of yen)

	2017			2018		
	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	―	―	―	7,385	1,507	(203)
Total	―	―	―	7,385	1,507	(203)

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 and interest rate, are constant.

(Unit: Millions of yen)

	2017	2018
Net profit or loss	839	512
Equity	839	512

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 essentially equivalent to fixed interest rate borrowings by using corresponding interest-rate swap agreements.

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 manage their derivative transactions based on similar guidelines.

The details of Interest derivatives were as follows:

Derivative transactions to which hedge accounting is not applied

(Unit: Millions of yen)

	2017			2018		
	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	47,199	46,950	(383)	50,614	46,803	(229)
Floating rate receipt, floating rate payment	15,000	15,000	468	15,000	15,000	274
Cross currency swap						
Floating rate receipt, fixed rate payment	—	—	—	—	—	—
Fixed rate receipt, fixed rate payment	47,650	13,421	(3,105)	40,119	11,916	(564)
Total	109,849	75,371	(3,020)	105,733	73,719	(519)

Derivative transactions to which hedge accounting is applied

(Unit: Millions of yen)

	2017			2018		
	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	47,001	47,001	2,567	54,001	54,001	(151)
Total	47,001	47,001	2,567	54,001	54,001	(151)

The cross currency swap, a contract which changes its floating rate to a fixed rate, is designated as a hedging instrument for cash flow hedges because it reduces the fluctuation of cash flows of floating rate borrowings. The payment/receipt terms of the interest swap are 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 rates 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)

	2017	2018
Net profit or loss	5,016	5,517
Equity	6,034	6,370

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 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)

2017	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	84,139	228,309	37,807	350,255
Trade and other payables	629,418	5,774	627	635,819
Derivative financial liabilities				
Derivatives	4,038	3,222	203	7,463

(Unit: Millions of yen)

2018	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	170,003	176,023	127,824	473,850
Trade and other payables	655,286	6,039	786	662,111
Derivative financial liabilities				
Derivatives	6,940	3,277	24	10,241

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, the increase or decrease in total equity would have amounted to approximately ¥6,921 million and ¥8,473 million for the years ended March 31 2017 and 2018, 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

The fair value hierarchy of financial instruments is categorized within the following three levels.

Level 1: Fair value measured via market prices in active markets.
Level 2: Fair value measured via observable prices, either directly or indirectly, other than those categorized within Level 1.
Level 3: Fair value measured via inputs not based on observable market data.

Transfers between fair value hierarchy levels are deemed to have occurred at the beginning of the fiscal year ended March 31, 2018.

There were no significant transfers between Level 1 and Level 2 for 12 months of the years ended March 31, 2017 and 2018.

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)

2017	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	59,183	59,312	―	―	59,312
Financial liabilities					
Long-term borrowing (Note)	158,661	―	―	159,830	159,830
Bonds	110,000	109,961	―	―	109,961

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

(Unit: Millions of yen)

2018	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	13,440	13,478	―	―	13,478
Financial liabilities					
Long-term borrowing (Note)	229,005	―	―	227,775	227,775
Bonds	180,000	179,723	―	―	179,723

(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 is 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)

2017	Level 1	Level 2	Level 3	Total
Derivative assets	—	10,357	—	10,357
Shares				
Listed shares	989,641	—	—	989,641
Unlisted shares	—	—	89,482	89,482
Other equity securities	—	—	2,438	2,438
Total	989,641	10,357	91,920	1,091,918
Derivative liabilities	—	7,454	—	7,454
Total	—	7,454	—	7,454

(Unit: Millions of yen)

2018	Level 1	Level 2	Level 3	Total
Derivative assets	—	4,550	—	4,550
Shares				
Listed shares	1,211,703	—	—	1,211,703
Unlisted shares	—	—	99,014	99,014
Other equity securities	—	—	2,516	2,516
Total	1,211,703	4,550	101,530	1,317,783
Derivative liabilities	—	10,232	—	10,232
Total	—	10,232	—	10,232

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)

	2017	2018
Balance, beginning of year	83,738	91,920
Total recognized gains and losses		
(Losses) Gains recognized in profit or loss (Note 1)	(26)	318
Gains recognized in other comprehensive income (Note 2)	7,311	9,906
Purchases	897	3,945
Sales or Disposal	―	(364)
Transfers to Level 1 due to listing	―	(168)
Transfers due to acquisition of control over the subsidiary	―	(4,027)
Balance, end of year	91,920	101,530

(Note 1) Losses recognized in profit or loss for the year ended March 31, 2018 are related to financial assets measured at fair value through profit or loss as of the fiscal year-end. These losses are included in "Other income" and "Other expenses" 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 on equity instruments designated as FVTOCI" in the statement of comprehensive income.

(4) Offsetting of financial assets and financial liabilities

A part of the Group's financial assets and financial liabilities were offset in accordance with the requirements for offsetting financial assets and financial liabilities and the net amounts were presented in the consolidated statement of financial position. In addition, 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 offsetting information of financial assets and financial liabilities with the same counterparty as of each fiscal year-end were as follows:

(Unit: Millions of yen)

	2017	2018
Total financial assets	10,357	24,850
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	―	(15,943)
Financial assets presented in the consolidated statement of financial position (Note1)	10,357	8,907
The amount to be offset under master netting arrangement or similar arrangements	(2,694)	(2,461)
Cash collateral received	―	―
Net (Note 2)	7,663	6,446

(Note 1) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2017 and 2018 were ¥10,357 million and ¥4,550 million, respectively.

(Note 2) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2017 and 2018 were ¥7,663 million and ¥2,089 million, respectively.

(Unit: Millions of yen)

	2017	2018
Total financial liabilities	7,454	29,648
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	—	(15,943)
Financial liabilities presented in the statement of financial position (Note 3)	7,454	13,705
The amount to be offset under master netting arrangement or similar arrangements	(2,694)	(2,461)
Cash collateral paid	—	—
Net (Note 4)	4,760	11,244

(Note 3) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2017 and 2018 were ¥7,454 million and ¥10,232 million, respectively.

(Note 4) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2017 and 2018 were ¥4,760 million and ¥7,771 million, respectively.

27. Leases

(1) As Lessee

1) Finance lease obligations

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

(Unit: Millions of yen)

	Minimum lease payments	
	2017	2018
Due within one year	10,891	11,442
Due after one year through five years	5,774	6,039
After five years	627	786
Total	17,292	18,267

The balance of lease obligations 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 table in (2) As lessor.

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

2) Non-cancellable operating lease transactions

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

(Unit: Millions of yen)

	Minimum lease payments	
	2017	2018
Due within one year	1,955	2,166
Due after one year through five years	3,037	4,088
After five years	641	982
Total	5,633	7,236

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)

2017	2018
8,901	9,753

(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	
	2017	2018
Due within one year	9,127	10,453
Due after one year through five years	4,430	3,640
After five years	—	—
Total	13,557	14,093

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 receipt periods are mainly two years. There is no residual value after the end of the lease period. Also, there is neither unearned finance income, unguaranteed residual value which is recognized as profit for a lessor, accumulated allowance for uncollectible minimum lease payments receivable, nor contingent rent recognized as income in the reporting periods.

28. Reconciliation of liabilities arising from financing activities

The changes in liabilities arising from financing activities were as follows:

(Unit: Millions of yen)

	2017	Cash flows	Non-cash changes				2018
			Foreign exchange differences	Fair value changes	New lease contracts	Business combi-nations	
Short-term borrowings	81,595	(35,266)	(4,808)	—	—	23,324	64,845
Long-term borrowings	158,660	75,827	(5,551)	—	—	69	229,005
Lease obligation	17,292	(12,636)	—	—	11,307	2,304	18,267
Bonds	110,000	70,000	—	—	—	—	180,000
Derivatives (Note)	7,454	(1,767)	—	4,533	—	12	10,232
Total	375,001	96,158	(10,359)	4,533	11,307	25,709	502,349

(Note) Derivatives are included in "Other financial liabilities" in the consolidated statement of financial position and "Other" in "Cash flows from financing activities" in the consolidated statement of cash flows.

29. Related parties

(1) Related-party transactions

For the year ended March 31, 2017 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Motor Corporation group	Sale of automotive components	2,128,244
		Purchase of automotive components	35,692

For the year ended March 31, 2018 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Motor Corporation group	Sale of automotive components	2,341,657
		Purchase of automotive components	43,250

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

(Unit: Millions of yen)

	2017	2018
Trade accounts receivable	171,050	208,046
Electronically recorded monetary claims	39,845	50,584
Accounts receivable - others	42	331
Allowance for doubtful accounts	—	—
Accounts payable	4,055	6,153
Accrued expenses	357	545

(2) Remuneration of key managing officers

For the year ended March 31, 2017 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	913	564	—	349

For the year ended March 31, 2018 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	722	427	—	295

30. Contingencies

The details of contingent liabilities for the year ended March 31, 2018 are as follows:

Concerning the Antitrust Law

(1) Investigations by Countries and Competition Authorities

The Company is responding to the authorities' investigations in certain jurisdictions.

(2) Civil Lawsuits

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

In the United States, depending upon the particular auto part, putative class action lawsuits have been filed against the Company and certain subsidiaries of the Group on behalf of putative classes of direct purchasers (e.g., tier-one suppliers, RV manufacturers and aftermarket parts distributors). Lawsuits also have been filed by several state attorneys general on behalf of their state's government entities and/or citizens within their states, by an automotive insurance company, and by certain automobile dealerships.

Progress in these cases may differ depending on the procedural nature of the suit and the products involved. In the putative class action lawsuits, each case will be subject to the process known as discovery (a procedure where the parties to the litigation mutually disclose evidence, such as documents, relating to the subject matter of the litigation prior to trial). After discovery concludes and followed by defendants' motion practices, if any, plaintiffs may bring motions for class certification, to allow them to assert the claims of all members of their putative classes. Only after such motions are decided will the cases proceed to any trial on the merits. In the lawsuits filed by the state attorneys general, the automotive insurance company and automobile dealerships, however, there is no such process for considering class certification, and any trial on the merits will commence after discovery concludes.

In Canada, a number of putative class actions have been filed in several provinces against the Company and certain subsidiaries of the Group on behalf of both direct purchasers (e.g., automobile manufacturers) and indirect purchasers (e.g., automobile dealerships and vehicle purchasers). Class certification in Canada occurs at an earlier stage of the process than in the U.S., prior to any discovery.

In each of these cases mentioned above both in the United States and Canada, the company could commence settlement discussions with the plaintiffs at any time in the proceedings and reach a settlement.

(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 antitrust law or competition law in connection with certain past transactions regarding specific auto parts.

In relation to certain of these matters, the Company has estimated its potential payable amounts and has reserved such amounts in the "Other expenses" category (see Note 16 "Provisions" and Note 21 "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.

31. Subsidiaries, associates, and others

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

There are no subsidiaries that have material non-controlling interests, associates, or joint ventures at the end of fiscal years ended March 31, 2017 and 2018.

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)

	2017	2018
Increase in capital surplus	14	–

There were no gains (losses) associated with a loss of control of subsidiaries for the year ended March 31, 2017.
Gains (losses) associated with a loss of control of subsidiaries for the year ended March 31, 2018 were not material.

32. Subsequent events

The Group has evaluated subsequent events through June 20, 2018.

The Company issued unsecured bonds with the inter-bond pari passu clause per resolution at a meeting of the Board of Directors on March 9, 2018.

(1) Name of bond: The 16th unsecured bonds
Total amount of issuance: 30.0 billion yen
Interest rate: 0.080%
Issuance price: 100 yen per 100 yen par value
Redemption period: March 20, 2023
Due date of payment: April 26, 2018
Application of funds: Portion of funds for redemption of bonds and working capital

(2) Name of bond: The 17th unsecured bonds
Total amount of issuance: 20.0 billion yen
Interest rate: 0.180%
Issuance price: 100 yen per 100 yen par value
Redemption period: March 19, 2025
Due date of payment: April 26, 2018
Application of funds: Portion of funds for redemption of bonds and working capital

(3) Name of bond: The 18th unsecured bonds
Total amount of issuance: 40.0 billion yen
Interest rate: 0.315%
Issuance price: 100 yen per 100 yen par value
Redemption period: March 17, 2028
Due date of payment: April 26, 2018
Application of funds: Portion of funds for redemption of bonds and working capital

Appendix

List of subsidiaries

The Company's subsidiaries as of March 31, 2018 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
	DENSO DAISHIN CORPORATION	100.0
	DENSO AIRCOOL CORPORATION	100.0
	DENSO AIR SYSTEMS CORPORATION	100.0
	DENSO SALES JAPAN CORPORATION	100.0
	ASMO CO., LTD.	92.4
	DENSO WAVE INC.	75.2
	DENSO TECHNO CO., LTD.	100.0
	DENSO FINANCE&ACCOUNTING CENTER CO., LTD.	100.0
	DENSOTRIM CO., LTD.	80.0
	DENSO KYUSHU CORPORATION	100.0
	DENSO HOKKAIDO CORPORATION	100.0
	DENSO TEN LIMITED	51.0
	DENSO TEN MANUFACTURING LIMITED	100.0 (100.0)
	TD MOBILE CORPORATION	51.0
	55 Other 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)
	DENSO TEN AMERICA LIMITED	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)
	18 Other companies	—

Segment	Company name	Voting rights (%)
Europe	DENSO INTERNATIONAL EUROPE B.V.	100.0
	DENSO EUROPE B.V.	100.0 (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)
	25 Other companies	—
Asia	DENSO INTERNATIONAL ASIA PTE., LTD.	100.0
	DENSO SALES (THAILAND) CO., LTD.	100.0 (100.0)
	DENSO (THAILAND) CO., LTD.	51.3 (51.3)
	DENSO INTERNATIONAL ASIA CO., 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)
	DENSO (CHANGZHOU) FUEL INJECTION SYSTEM CO.,LTD.	100.0 (30.6)

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

(Notes) 1. The percentages in parentheses under "Voting rights (%)" indicate 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 the reportable segments, such as business activities of subsidiaries in South America.

Deloitte.

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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, 2018, 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, 2018, 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 20, 2018