To Those Shareholders with Voting Rights

Notes to the Consolidated Financial Statements for the 93rd Fiscal Term

Notes to the Non-Consolidated Financial Statements for the 93rd Fiscal Term

The above documents are provided to shareholders of the Company by posting them on the Company's Web site (http://www.denso.co.jp) in accordance with the relevant laws and regulations and Article 16 of the Articles of Incorporation. They form a part of the information subject to audits when the Audit & Supervisory Board prepared its Audit Report and the Accounting Auditors prepared their Independent Auditors' Report.

May 27, 2016

DENSO CORPORATION

Notes to the Consolidated Financial Statements

1. Basis of Presenting the Consolidated Financial Statements

(1) Basis of preparation of the consolidated financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") under the provision of Article 120, Paragraph 1 of the Company Accounting Regulations. Certain disclosures required by IFRS have been omitted from these consolidated financial statements under the provision set forth in the second sentence of said paragraph.

(2) Scope of consolidation

1) Number of consolidated subsidiaries: 188

2) Names of the principal consolidated subsidiaries:

(Domestic)

A total of 62 companies including ASMO CO., LTD., ANDEN CO., LTD., and DENSO SALES JAPAN CORPORATION

(Overseas)

A total of 126 companies including DENSO INTERNATIONAL AMERICA, INC., DENSO MANUFACTURING MICHIGAN, INC., DENSO MANUFACTURING TENNESSEE, INC., DENSO MANUFACTURING ATHENS TENNESSEE, INC., DENSO SALES CANADA, INC., DENSO MEXICO S.A. DE C.V., DENSO EUROPE B.V., DENSO THERMAL SYSTEMS S.p.A., DENSO SALES (THAILAND) CO., LTD., DENSO (THAILAND) CO., LTD., SIAM DENSO MANUFACTURING CO., LTD., PT. DENSO SALES INDONESIA, DENSO INTERNATIONAL ASIA PTE., LTD. (Singapore), and DENSO (CHINA) INVESTMENT CO., LTD.

(3) Application of the equity method

1) Number of associates accounted for by the equity method: 60

2) Name of the principal associates accounted for by the equity method:

(Domestic) TSUDA INDUSTRIES CO., LTD., Jeco Co., Ltd. and 13 other companies (a total of 15)

(Overseas) MICHIGAN AUTOMOTIVE COMPRESSOR, INC., and 44 other companies (a total of 45)

(4) Summary of significant accounting policies

1) Financial assets

The Company and its subsidiaries (hereinafter the "Group") have made an early adoption of IFRS 9 *Financial Instruments* (as amended in October 2010).

i) Initial recognition and measurement

The Group classifies financial assets 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 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 financial asset is held within a business model whose objective is to hold financial 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 condition, 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 at fair value with changes recognized through profit or loss, or otherwise are measured at fair value with changes recognized through other comprehensive income. The designation has been applied consistently.

Financial assets other than equity instruments that do not meet the condition in relation to the measurement of amortized cost are measured at fair value with changes recognized 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 classification as follows.

a) Financial assets measured at amortized cost

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

b) Financial assets measured at fair value

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss. However, gains or losses occurring from the disposal or remeasurement of fair value of the equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income and accumulated within "Other components of equity," and is not recognized in profit or loss. The amount is transferred to retained earnings when the equity instruments are derecognized. Dividends for equity instruments are recognized in profit or loss for the period when the right to receive dividends is established and included in "Finance income" in the consolidated statement of income. Net gains or losses arising from the equity instruments measured at fair value through profit or loss are recognized as "Finance income" or "Finance costs" in the consolidated statement of income. The interest income from the debt instruments is also included in net gains or losses 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 would not otherwise consider, indications for bankruptcy of the issuer or obligor and the disappearance of active markets.

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

When impairment is recognized, the carrying amount of the financial asset measured at amortized cost is reduced by an allowance for doubtful accounts and impairment losses are recognized as "Other expenses" in the consolidated statement of income. The carrying amount of financial assets is directly reduced for the impairment when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the companies in the Group. If, in a subsequent period, the estimated 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 financial 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) Hedge accounting and derivatives

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 held for hedging purposes but do not qualify for hedge accounting. The fluctuation on the fair value of these derivatives are 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, the Group assesses on a quarterly basis whether the hedging instruments are highly effective in offsetting changes in cash flows of the hedged items attributable to the hedged risk at the inception of the hedge and during its term. To qualify as a cash flow hedge of a forecast transaction, the transaction must be highly probable.

Cash flow hedge

The Group adopts only cash flow hedge as its approach to 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 amount 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 of other comprehensive income related to cash flow hedges is recognized immediately in profit or loss.

3) Inventories

Inventories are measured at the lower of 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 the estimated costs of completion and the estimated costs necessary to make the sale.

4) Depreciation or amortization methods of property, plant and equipment and intangible assets

i) Property, plant, and equipment

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

The estimated useful lives and depreciation method are reviewed at each end of the reporting period.

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

ii) Intangible assets

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

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

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

The impairment losses are included in “Other expenses” in the consolidated statement of income. Assessment for impairment is performed with respect to each asset, cash-generating unit or group of cash-generating units. The recoverable amount of an asset or a cash-generating unit (or group of cash-generating units) is determined at the higher of its fair value less costs to sell or its value in use. If the carrying amount of the asset or cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, impairment losses are recognized and the carrying amount is reduced to the recoverable amount. 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. In determining the fair value less costs to sell, the Group uses an appropriate valuation model supported by available fair value indicators.

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. However, an impairment loss recognized for goodwill is not reversed.

6) Recognition criteria for 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.

Where the effect of the time value of money is material, the amount of a provision is measured by discounting the estimated future cash flows at the discount rate that is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount due to the passage of time is recognized as "Finance costs" in the consolidated statement of income.

The main provisions are recorded as follows.

Reserve for product warranties

Reserve for product warranties is recognized at an estimated amount of warranty expenses and timing of economic benefit outflows based on past experiences for after-sales service expenses incurred.

Provision for loss on antitrust issues:

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

7) Recognition criteria for provisions

i) Post-employment benefits

a) 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 b) below). The Group’s net defined benefit obligations are calculated respectively for each plan by estimating the future amount of benefit that employees have earned in exchange for their service for the previous years and the current year. The benefits are discounted to determine the present value. These calculations are performed annually by qualified actuaries using the projected unit credit method. The fair values of plan assets are deducted from the above calculation results.

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 employee’s past services due to the revision of the pension plan is recognized in profit or loss. The Group recognizes the increase/decrease in obligations due to the remeasurement of benefit obligations and plan assets of defined benefit plans in other comprehensive income and then immediately reclassifies them from other comprehensive income to retained earnings.

b) 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.

ii) 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 constructive obligations to pay as a result of past employee service, and when reliable estimates of the obligation can be made. The Group’s long-term employee benefits are calculated by discounting the estimated future amount of benefit to the present value.

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

iii) 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.

8) 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.

The amount that is recognized as revenue is the inflows of economic benefits from which sales-related tax, rebates and similar items are excluded.

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.

9) Foreign currency translation

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

Monetary items denominated in foreign currencies are retranslated into each company's functional currency at the current exchange rates at the end of the reporting period. Non-monetary items denominated in foreign currencies that are measured at the acquisition cost are translated at the rate of the transaction date. 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 functional currency of the parent and the presentation currency of the consolidated financial statements. 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" of the equity section. 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 in which they are disposed of.

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."

[Additional information]

Following the enactment at the Diet on March 29, 2016 of the “Act for Partial Amendment of the Income Tax Act, etc.” and the “Act on Partial Revision, etc. of the Local Tax Act, etc.” of Japan, the applicable tax rate used to measure deferred tax assets and deferred tax liabilities for the fiscal year under review (limited only to those expected to be eliminated on and after April 1, 2016) has been reduced from 31.65% for the previous fiscal year to 30.29% for temporary differences that are expected to be recovered or paid during the period of April 1, 2016 through March 31, 2018, and to 30.07% for temporary differences that are expected to be recovered or paid during the period on and after April 1, 2018, respectively.

2. Notes to the Consolidated Statement of Financial Position

(1) Accumulated depreciation of property, plant and equipment ¥3,086,839 million

Accumulated depreciation of property, plant and equipment includes accumulated impairment loss.

(2) Other

The details of the contingent liabilities of this consolidated fiscal year are as follows:

Concerning the Antitrust Law

(1) Investigations by Countries and Competition Authorities

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

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

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

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

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

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

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

(3) Individual Settlement Negotiations

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

In relation to some of the above matters, the Company estimated potentially payable amounts and reserved 45,930 million yen in the "Other expenses" category.

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.

3. Notes to the Consolidated Statement of Income

(1) Litigation settlements, etc., which the Company has accepted with regard to allegations of antitrust law infractions for several automotive components, are reported as loss on antitrust issues.

4. Notes to the Consolidated Statement of Changes in Equity

(1) Type and total number of shares issued as of March 31, 2016: 884,068,713 shares of common stock

(2) Dividends

1) Dividends paid

Resolution	Type of stock	Total dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2015	Common stock	50,257	63	March 31, 2015	June 22, 2015
Board of Directors meeting held on October 30, 2015	Common stock	47,720	60	September 30, 2015	November 26, 2015

2) Of the dividends for which the record date belongs to the fiscal year ended March 31, 2016, those for which the effective date of the dividends will be in the fiscal year ending March 31, 2017

A resolution was made as follows at the Board of Directors meeting held on April 28, 2016.

Resolution	Type of stock	Total dividend amount (Millions of yen)	Source of funds for dividends	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 28, 2016	Common stock	47,569	Retained earnings	60	March 31, 2016	May 30, 2016

5. Notes to Financial Instruments

(1) Status of financial instruments

1) Capital Management

To achieve sustainable growth, the Group aims to ensure financial health while continuing stable and lasting return to shareholders by managing its resources into activities such as facility investment in business, research and development, and merger and acquisition. Generally, the operating cash flows cover such funding by keeping and strengthening the Group's profitability and cash-generating ability, with additional interest-bearing debt, such as bonds and borrowings, if necessary. In addition, the Group secures funds to maintain the stable financial health in the long term. The Group is not subject to any externally imposed restriction on capital as of March 31, 2016.

2) Description and extent of financial risks

1) Financial risk management policy

In the course of 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 asset management and derivative transactions at the Group, are approved by the Board of Directors of the Company at the beginning of each fiscal year, the transactions and relevant risk management during the period are implemented primarily in accordance with internal regulations.

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

Trade receivables such as notes and accounts receivable are exposed to credit risk of the customers. The Group manages trade receivables based on the due dates and balance by customer. For those customers whose credit risk is of concern to the Group, measures to protect the receivables are individually developed and implemented by periodically monitoring the status and evaluating the default risk due mainly to deterioration of their financial standing at an earlier stage.

As short-term bond investment trusts as well as government and corporate bonds held by the Group for investment in debt instruments are all highly-rated instruments or instruments issued by highly-rated financial institutions and other issuers in accordance with internal asset management regulations, credit risk is deemed as immaterial.

The Group enters into derivative transactions only with highly-rated financial institutions to minimize counterparty risks.

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 the value of collaterals obtained.

ii) Market risk

Foreign exchange risk

The Group operates globally and is exposed to foreign currency risks related to transactions in currencies other than the local currencies in which the Group operates. Such foreign exchange risk is economically hedged principally by forward foreign currency contracts related to the foreign currency trade receivables and payables. Currency swaps are used as derivative transactions for the borrowings in foreign currency.

Risk management is performed by the Company's accounting division based on the internal guidelines which prescribe the authority and the limits for each transaction. The actual results of such transactions are reported monthly to the executive supervising the accounting division. The consolidated subsidiaries conduct the management of their derivative transactions based on the similar guidelines.

Interest-rate risks

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

Risk management is performed by the Company's accounting division based on the internal guidelines which prescribe the authority and the limits for each transaction. The actual results of such transactions are reported monthly to the executive supervising the accounting division. The consolidated subsidiaries conduct the management of their derivative transactions based on the similar guidelines.

iii) Liquidity risk

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

iv) Price fluctuation risk of equity instruments

The Group is exposed to price fluctuation risk arising from equity instruments (stocks). As these investments are not held for short-term trading purpose, but mainly for forming a business alliance or strengthening a business relationship with business partners, the Group does not sell these investments frequently. The Group reviews holding status of such equity instruments on an ongoing basis in light of the relationship with the business partners by periodically evaluating their fair values as well as the financial condition of the issuers (i.e. business partners).

(2) Fair value of financial instruments

The carrying amounts and fair values of financial instruments held as of March 31, 2016 (consolidated closing date of the fiscal year under review) are presented as follows.

1) Financial instruments measured at amortized cost

(Unit: Millions of yen)

	Carrying amount	Fair value
Financial assets		
Debt securities	49,925	50,165
Financial liabilities		
Long-term borrowing (Note)	290,544	290,528
Corporate bonds (Note)	130,000	130,411

(Note) The current portions are included in these amounts.

As the fair value of short-term financial assets and short-term financial liabilities, which are measured at amortized cost, approximates carrying amounts, their note disclosures are omitted.

As the fair value of long-term borrowings is calculated based on the present value which is obtained by discounting the sum of the principal amount and interest payments at an interest rate assumed to be applied if the same loans were newly executed.

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

(Unit: Millions of yen)

	Carrying amount	Fair value

Derivative assets	37,993	37,993
Stocks		
Listed stocks	912,529	912,529
Unlisted stocks	81,292	81,292
Other equity securities	2,446	2,446
Derivative assets	6,736	6,736

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

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

The fair values of unlisted stocks and other equity securities are determined by using the adjusted market value method with adjustments to the market value using the PBR, or price book-value ratio, if necessary. In addition, immaterial items are measured by the book value of net assets method.

The liquidity discount, which is a significant unobservable input used in measuring the fair value of unlisted shares and other equity securities, is assumed to be 30%.

6. Notes to Per Share Data

(1) Equity per share attributable to owners of the parent company	¥3,939.97
(2) Basic earnings per share	¥307.19

7. Note to Subsequent Events

No significant event to note

<u>**Notes to the Non-Consolidated Financial Statements**</u>

1. Significant Accounting Policies

(1) Standard and method of valuation of securities

1) Investment in subsidiaries and associates
Stated at cost using the moving-average method.

2) Available-for-sale securities
Available-for-sale securities for which the market price is readily determinable:
Stated at the market price, based on the market quotation at the balance sheet date. Unrealized gains and losses are reported, net of applicable taxes, as a separate component of equity. The cost of securities sold is determined based on the moving-average method.
Available-for-sale securities for which the market price is not readily determinable:
Stated at cost mainly determined by the moving-average method.

(2) Derivatives are stated at the market price.

(3) Inventories are stated at cost determined by the gross average method (write-down of book values due to the decline in profitability for the amounts stated in the non-consolidated balance sheet)

(4) Depreciation of property, plant and equipment (excluding leased property) is computed by the declining-balance method, and the amortization of intangible assets (excluding leased property) and depreciation of leased assets are computed using the straight-line method.

(5) Accounting standards for reserves

Allowance for doubtful accounts:
Allowance for doubtful accounts is provided at an amount of possible losses from uncollectible receivables based on the past loan loss ratio for bad debts for ordinary receivables and on the estimated recoverability for specific doubtful receivables.

Accrued bonuses to employees:
Accrued bonuses to employees are recognize for payments of bonuses to employees at an amount estimated by the Company to be recorded for the fiscal year under review.

Accrued bonuses to directors and corporate auditors:
Accrued bonuses to directors and corporate auditors are recognized for payments of bonuses to board members and audit & supervisory board members at an estimated amount to be recorded for the fiscal year under review.

Reserve for product warranties:
Reserve for product warranties is provided at an amount projected for after-sales service of products based on past experience.

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

Liability for employees' retirement benefits:
Liability for employees' retirement benefits is provided at an amount calculated based on the projected benefit obligations and plan assets at the balance sheet date. Liability for employees' retirement benefits and retirement benefit expenses are accounted for as follows:

1) Method of allocating the projected retirement benefits to periods
In calculating the projected benefit obligations, the benefit formula basis is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year under review.

2) Amortization method for actuarial gains or losses and prior service cost
Prior service cost is amortized using the straight-line method over a certain period (10 years), which is shorter than the average remaining service period of employees at the time of the occurrence.

Actuarial gains or losses are amortized for the pro-rata amount computed by the straight-line method over a certain period (10 years), which is shorter than the average remaining service period of employees at the time of the occurrence, commencing from the following fiscal year of occurrence.

- The accounting procedures for unrecognized actuarial gains or losses and unrecognized prior service cost pertaining to retirement benefits in the non-consolidated financial statements are different from those used in the consolidated financial statements.

Retirement allowances for directors and corporate auditors:
Retirement allowances for directors and corporate auditors is recognized at an amount considered necessary

to be borne by the Company based on its in-house rules at the balance sheet date of the fiscal year under review to prepare for possible payments to retiring board members and audit & supervisory board members.

Provision for loss on business of subsidiaries and associates:

Provision for loss on business of subsidiaries and associates is recognized at an expected amount to prepare for possible losses that could derive from the business of any subsidiaries and associates by taking into account the financial conditions of those companies.

(6) Hedge accounting

Interest rate swap agreements, forward exchange contracts and currency options hedged for projected foreign currency transactions are accounted for by deferred hedging accounting (valuation gains/losses on hedging instruments are deferred as assets/liabilities until the gains/losses on the underlying hedged instruments are realized). Preferential treatment accounting is applied to certain interest rate swap agreements that satisfy the requirements.

Monetary receivables denominated in foreign currencies with forward exchange contracts are accounted for by the allocation method (derivative financial instruments are accounted for as if each hedging instrument and hedged item were one combined financial instrument).

(7) Transactions subject to the consumption tax and local consumption taxes are recorded at amounts exclusive of the consumption tax.

2. Notes to the Non-Consolidated Balance Sheet

(1) Short-term monetary receivables due from subsidiaries and associates	¥342,654 million
(2) Short-term monetary payables due to subsidiaries and associates	¥383,788 million
(3) Accumulated depreciation of property, plant and equipment	¥1,939,284 million

(4) Other

See Item (2) of “2. Notes to the Consolidated Statement of Financial Position.”

3. Notes to the Non-Consolidated Statement of Income

(1) Sales to subsidiaries and associates	¥1,920,751 million
(2) Purchases from subsidiaries and associates	¥879,788 million
(3) Other operating transactions with subsidiaries and associates	¥30,372 million
(4) Transactions with subsidiaries and associates other than operating transactions	¥70,143 million

(5) The Company’s retirement benefit scheme has a feature that the reserve of plan assets exceeds the amount of projected benefit obligations. As such a situation is expected to continue in the near future, the Company has a partial redemption of the employees’ retirement benefit trust.

Consequently, a gain on one-time amortization of actuarial gains or losses, which has resulted from the aforementioned procedure, is reported as “Gain on withdrawal of assets from retirement benefit trust.”

(6) Loss on antitrust issues

See Item (1) of “3. Notes to the Consolidated Statement of Income.”

4. Note to the Non-Consolidated Statement of Changes in Equity

Number of shares of treasury stock at the end of the fiscal year: 91,246,018 shares

5. Note to Tax-Effect Accounting

The significant components of deferred tax assets and liabilities are summarized as follows:

(Deferred tax assets)	(Millions of yen)
Depreciation and amortization	45,351
Liability for employees’ retirement benefits	44,371
Accrued bonuses to employees	12,075
Impairment loss on investment in subsidiaries and associates	9,647
Reserve for product warranties	7,942
Other	74,831
Subtotal deferred tax assets	194,217
Valuation reserve	(15,627)
Total deferred tax assets	178,590

(Deferred tax liabilities)	
Net unrealized gain on available-for-sale securities	(142,915)
Prepaid pension cost	(48,988)
Other	(10,872)
Total deferred tax liabilities	(202,775)
Net deferred tax assets	(24,185)

[Additional Information]

Following the enactment at the Diet on March 29, 2016 of the "Act for Partial Amendment of the Income Tax Act, etc." and the "Act on Partial Revision, etc. of the Local Tax Act, etc.," the effective statutory tax rate used to measure deferred tax assets and deferred tax liabilities for the fiscal year under review (limited only to those expected to be eliminated on and after April 1, 2016) has been reduced from 31.65% for the previous fiscal year to 30.29% for temporary differences that are expected to be recovered or paid during the period of April 1, 2016 through March 31, 2018, and to 30.07% for temporary differences that are expected to be recovered or paid during the period on and after April 1, 2018, respectively.

As a result of this change, deferred tax liabilities (the amount after deducting deferred tax assets) decreased by ¥1,827 million, whereas income taxes—deferred decreased by ¥5,682 million and net unrealized gain on available-for-sale securities increased by ¥7,509 million for the fiscal year under review from the corresponding figures with the previous calculation method.

6. Notes to Transactions with Related Parties

(1) Transactions with subsidiaries

Company name	Ownership percentage of voting rights	Business line	Relationship with the Company	Description of important transactions		Transaction amount (Millions of yen)	Account item	The fiscal year-end balance (Millions of yen)
DENSO FINANCE & ACCOUNTING CENTER CO., LTD.	Directly holding 100%	Entrusted accounting and financial operations as well as factoring	Factoring	Factoring		139,079	Accounts payable—trade	119,545
							Accounts payable—other	16,304
				Lending of loans receivable	Lending of loans receivable	30,986	Short-term loans receivable from subsidiaries and associates	31,847
					Reception of interest	40		

Notes:

1. The transaction amount does not include consumption taxes, whereas the fiscal year-end balance includes consumption taxes.
2. A portion of the payments for accounts payable—trade and accounts payable—other are settled via factoring under the master agreement entered into by and between the Company, its certain suppliers and DENSO FINANCE & ACCOUNTING CENTER CO., LTD.
3. The transaction amount indicates the average balance during the fiscal year.
4. As for the above transactions, the transfer of monetary payables is conducted at the net book value of the Company.
5. The lending of loans receivable and the reception of interest are determined by fully taking into account the market interest rate and other factors.

(2) Transactions with other subsidiaries/associates

Company name	Ownership percentage of voting rights	Business line	Relationship with the Company		Description of important transactions		Transaction amount (Millions of yen)	Account item	The fiscal year-end balance (Millions of yen)
			Officers' posts concurrently held (persons)	Business relationship					
Toyota Motor Corporation	Directly holding 24.82% Indirectly holding 0.17%	Manufacture and sale of automobiles and automotive components	Concurrent appointment: 1 Employment transfer: 1	The Company's products are sold thereto.	Operating transactions	Sale of various automotive components	1,058,823	Accounts receivable—trade Electronically recorded monetary claims-operating Accounts receivable—other	102,044 29,311 75
						Purchase of various automotive components	31,421	Accounts payable—trade Accrued expenses	3,222 1

Notes:
1. The transaction amount does not include consumption taxes, whereas the fiscal year-end balance includes consumption taxes.
2. The above transactions are conducted through negotiations by taking into account the market price and other factors similar to those for general transactions.

(3) Transactions with corporate pensions

Company name	Ownership percentage of voting rights	Business line	Relationship with the Company	Description of important transactions	Transaction amount (Millions of yen)	Account item	The fiscal year-end balance (Millions of yen)
DENSO Pension Fund	–	Management of a corporate pension	Corporate pension for employees	Partial redemption from the retirement benefit trust	14,648	–	–

Note: The transaction amount does not include consumption taxes.

7. Notes to Per Share Data

(1) Equity per share ¥2,765.15
(2) Net income per share ¥197.30

8. Note to Subsequent Events

No significant event to note

9. Other Note

The amounts stated in the non-consolidated financial statements are rounded off to the nearest unit.