Annual Report 2017 Financial Section

DENSO CORPORATION

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Financial Review

Financial Summary

DENSO CORPORATION and its Consolidated Subsidiaries

< IFRS >

	Date of transition to IFRSs	2014	2015	2016	2017
Revenue (Millions of yen)	―	4,094,960	4,309,787	4,524,522	4,527,148
Operating profit excluding other income and expenses (Millions of yen)	―	364,282	358,131	365,196	326,424
Operating profit including other income and expenses (Millions of yen)	―	371,440	331,376	315,728	330,551
Profit for the year (Millions of yen)	―	295,056	276,709	260,565	273,895
Profit for the year: attributable to owners of the parent company (Millions of yen)	―	277,196	258,382	244,251	257,619
Comprehensive income (Millions of yen)	―	486,381	634,988	(75,245)	329,248
Equity: attributable to owners of the parent company (Millions of yen)	2,402,229	2,799,915	3,327,938	3,123,578	3,312,724
Total assets (Millions of yen)	4,162,745	4,642,053	5,283,257	5,042,896	5,150,762
Equity per share: attributable to owners of the parent company (Yen)	3,019.82	3,512.06	4,171.93	3,939.97	4,215.46
Basic profit per share (Yen)	―	348.05	324.01	307.19	326.32
Diluted profit per share (Yen)	―	347.81	323.93	307.18	―
Equity attributable to owners of the parent ratio (%)	57.71	60.32	62.99	61.94	64.32
Return on equity attributable to owners of the parent company (%)	―	10.66	8.43	7.57	8.01
Price-to-earnings ratio (Times)	―	14.22	16.92	14.73	15.01
Net cash provided by operating activities (Millions of yen)	―	471,167	383,156	552,862	467,779
Net cash used in investing activities (Millions of yen)	―	(376,002)	(111,504)	(544,834)	(108,037)
Net cash used in financing activities (Millions of yen)	―	(175,970)	(135,686)	(104,663)	(240,526)
Cash and cash equivalents at end of year (Millions of yen)	707,330	641,694	792,414	672,482	793,550
Number of employees	132,276	139,842	146,714	151,775	154,493

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

< JGAAP >

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

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

Revenue by Segment

DENSO CORPORATION and its Consolidated Subsidiaries

For the Years ended March 31, 2013 to 2017

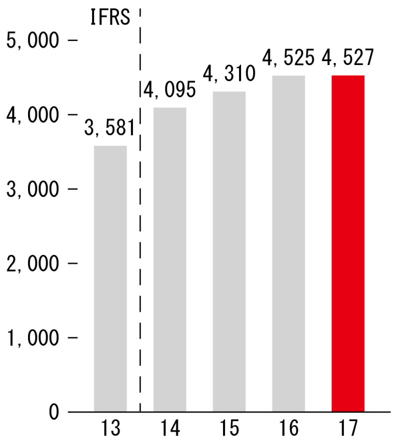
(Unit: Millions of yen)

		2013 (JGAAP)	2014 (JGAAP)	2015 (IFRS)	2016 (IFRS)	**2017 (IFRS)**
Japan	Customers	1,808,850	1,895,482	1,838,448	1,801,547	1,871,838
	Intersegment	654,775	821,182	826,077	845,023	814,166
	Total	2,463,625	2,716,664	2,664,525	2,646,570	2,686,004
North America	Customers	624,974	799,423	942,251	1,081,058	1,050,460
	Intersegment	10,424	17,179	24,206	31,625	26,743
	Total	635,398	816,602	966,457	1,112,683	1,077,203
Europe	Customers	348,769	470,515	524,754	568,183	550,244
	Intersegment	23,467	28,386	29,999	25,394	27,025
	Total	372,236	498,901	554,753	593,577	577,269
Asia	Customers	734,525	855,448	930,792	1,014,708	989,505
	Intersegment	59,516	87,674	118,933	146,525	149,770
	Total	794,041	943,122	1,049,725	1,161,233	1,139,275
Total	Customers	3,517,118	4,020,868	4,236,245	4,465,496	4,462,047
	Intersegment	748,182	954,421	999,215	1,048,567	1,017,704
	Total	4,265,300	4,975,289	5,235,460	5,514,063	5,479,751
Others	Customers	63,805	74,092	73,542	59,026	65,101
	Intersegment	123	255	261	474	715
	Total	63,928	74,347	73,803	59,500	65,816
Consolidated		3,580,923	4,094,960	4,309,787	4,524,522	4,527,148

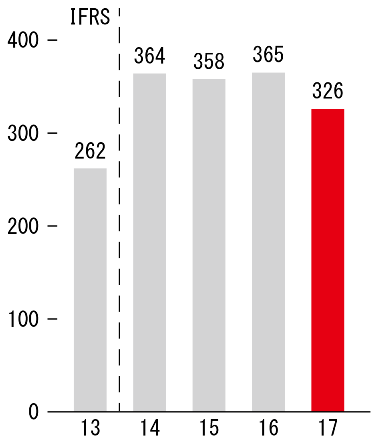
(Note) The Group has reported "Japan," "North America," "Europe" and "Asia" as the Group's reportable segments. The Group has been manufacturing and selling mainly automotive products in each reportable segment. "Others" is an operating segment that is not included in the reportable segments, such as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

Financial Highlights

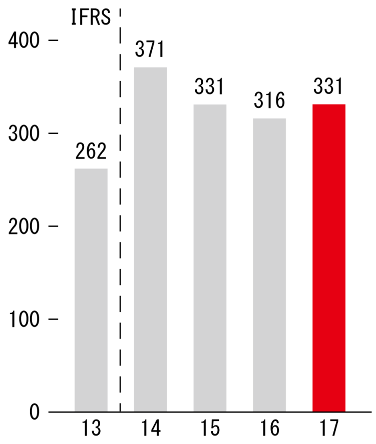
Net sales / Revenue
(¥Billion)



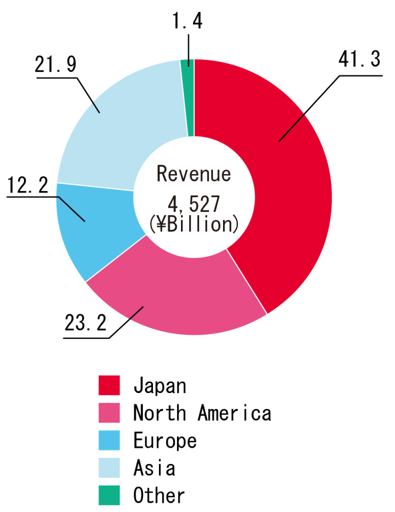
Operating income / Operating profit
excluding other income and expenses
(¥Billion)



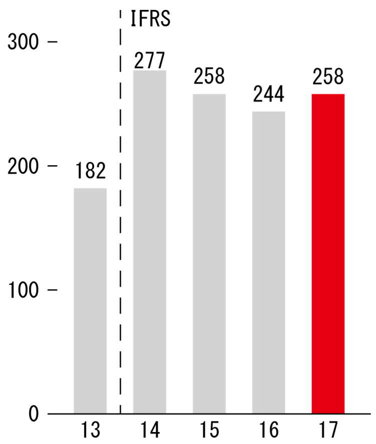
Operating income / Operating profit
including other income and expenses
(¥Billion)



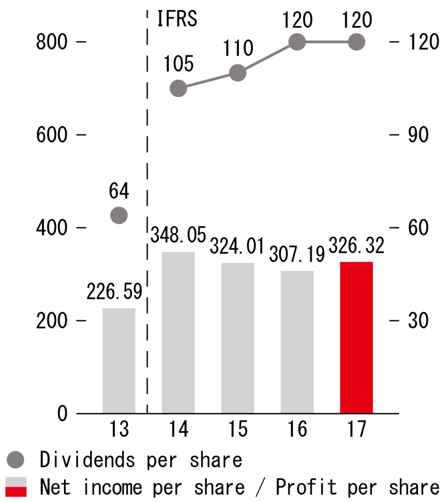
Revenue by segment
(For external customers only)
(%)



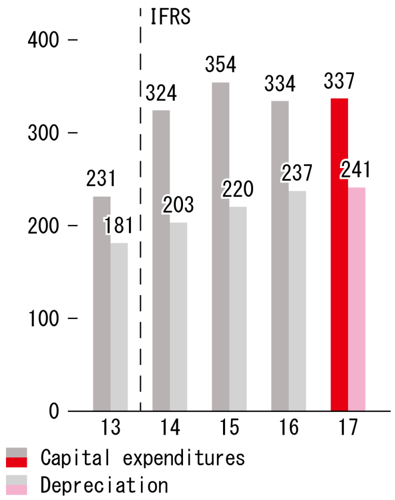
Net income: attributable to owners of the
parent company / Profit for the year:
attributable to owners of the parent company
(¥Billion)



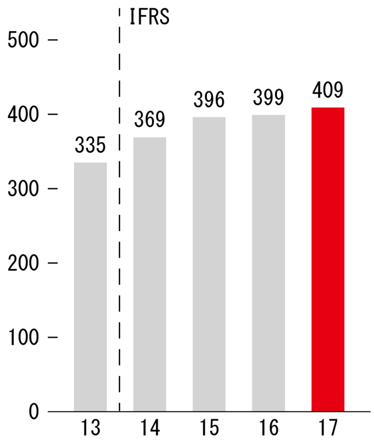
Basic net income per share / Basic profit
per share and Dividends per share (Yen)



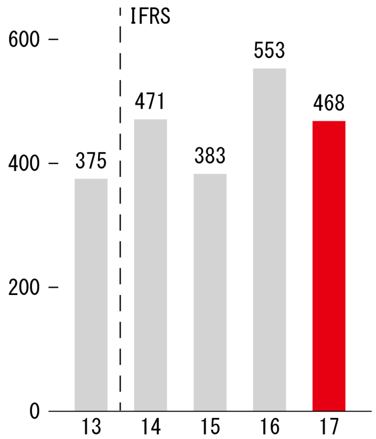
Capital expenditures and
Depreciation
(¥Billion)



R&D expenses
(¥Billion)



Net cash provided by
operating activities
(¥Billion)



Management's Discussion and Analysis

1. Business overview

During the fiscal year ended March 31, 2017, whereas uncertainty increased, reflecting political trends in Europe and the presidential election in the United States, in the second half of the fiscal year, the world economy showed gradual growth on the whole, sustained by increasing expectations regarding the new administration in the United States and a rally among the economies of emerging countries due to a recovery in natural resource prices. The Japanese economy also continued a gradual recovery, despite some weakness in personal consumption and other factors.

The global automobile industry performed steadily, mainly due to record-high sales in the United States and favorable sales in China attributable to tax-cut policies for small vehicles. In Japan, sales improved for the first time in three years due to favorable sales of new model vehicles despite a continuing slump in sales of light vehicles.

In such a business climate, DENSO CORPORATION (hereinafter referred to as the "Company") and its subsidiaries in Japan and overseas (collectively referred to as the "Group") are making concerted efforts throughout the Group to achieve the targets of the DENSO Group Long-term Policy 2020 announced in April 2013: "Preserve the Planet" and "Security & Safety."

In the environment field, during the fiscal year ended March 31, 2017, the Group established the Electrification Systems Business Group to accelerate the reinforced development and business growth in electrification. In the safety and security field, the Group addressed challenging tasks for technological development related to the Advanced Driver Assistance System (ADAS)/Automated Driving (AD). At the same time, to accelerate such technological development, the Company actively enhanced collaborations with outside partners.

2. Management strategy

Under the slogan of "Protecting Lives, Preserving the Planet, and Preparing a Bright Future for Generations to Come" advocated in the DENSO Group Long-term Policy 2020, the Company aims to balance growth by sustaining the global environment and achieve a society where each and every one of us can live in peace, safety and happiness.

Looking at society, vehicle ownership continues to grow and that is bringing the joy of freedom of mobility to a broadening segment of the population. On the other hand, there are many problems to be resolved such as increasing emissions of greenhouse gases and traffic accidents. Given such circumstances, we are committed to fulfilling our mission of contributing to minimizing the shortcomings of automobiles, such as greenhouse gases emissions and traffic accidents, while maximizing the benefits of motor transport.

The automobile industry is entering an era of once-in-a-century innovation. Industrial paradigms such as electrification, AD, connected (connectivity) and car sharing are greatly changing. The Group therefore intends to anticipate and respond to customers' and societal needs ahead of others to enhance our contribution to society.

Given the radically changing business environment, to realize the aforementioned Long-term Policy, it is necessary for us to respond to electrification of more environment-friendly automobiles, sophisticate functions involved in safety and security of vehicles, provide new services that connect vehicles and society, and enhance the Group's *monozukuri* (manufacturing) capability. To this end, the Group especially focuses on the following fields.

<Major Fields of Focus>
(1) Electrification (hybrid and electric vehicles)
(2) ADAS (Advanced Driver Assistance System)/AD (Automated Driving)
(3) Connected (connected car)
(4) *Monozukuri*: Factory-IoT
(5) FA (Factory Automation) Business

(1) Electrification

The Group creates environment-friendly, electrified vehicle systems to ensure the comfortable travel of drivers and passengers through optimal management of various energies inside vehicles.

The Group has developed and provided diverse products over the past two decades that boast top-rated performance, quality and production volume for hybrid vehicles. Moreover, to accelerate the reinforcement of product and business development in the electrification field covering hybrid and electric vehicles, the Group established the Electrification Systems Business Group during the fiscal year ended March 31, 2017.

In addition to further refining its long-accumulated electrified-product related technologies, the Group will work to radically improve fuel efficiency and preserve electric power by recovering and/or recycling energy that would be generated inside vehicles from the vehicles' kinetic, electric energy or heat generation, and by connecting all systems and products equipped inside the vehicles. Furthermore, the Group will achieve energy management of the highest efficiency for whole vehicles by anticipating the road environment via collaboration with information outside the car and/or using algorithm to draw out the best performance of electrified products.

The Group will endeavor to propose the smart electrified vehicle systems as well as develop and provide the components of such systems.

(2) ADAS/AD

The Group promotes various developments as a leading company in AD technology to achieve a society with new mobility where all can travel safely and securely. The AD technology has the elements of "perception, decision and control." To ensure appropriate decision and control, it is first required for the systems to achieve perception that corresponds to that of the human eye at a highly reliable level. The Group has specifically focused on the function of perception and has commercialized excellent sensors, including millimeter-wave radar, image sensors (cameras), LIDAR (Light Detection and Ranging) and sonars to monitor the driving environment by leveraging the Group's sensing technologies long accumulated in the onboard device field. These products have been adopted by many automobile manufacturers.

In addition, to establish AD technology that is applicable throughout the world, the Group has promoted R&D reflecting the specific road and traffic environments of respective countries. In Japan, the driving tests for AD technology on public roads started in 2014. Meanwhile, to pursue enhanced R&D activities compliant with the traffic environment unique to North America where highways are used daily, driving tests on public roads have also been conducted.

Moreover, to accelerate the development of AD technology, the Group has enhanced collaborations with outside partners including automobile manufacturers and municipalities. In 2015, the Group entered into a basic agreement with the Singapore Government to conduct joint research regarding the development of AD technology with the Singapore's Agency for Science, Technology and Research as part of the government-led Smart City initiatives. Going forward, the Group will accelerate development by promoting the formation of global partnerships including alliance projects.

(3) Connected

In the future, the development of a mobility society where cars are connected to each other and to people, roads, things and services, etc. will lead to a more environment-friendly, safe and secure society. The Group intends to create new value in the mobility society starting with initiatives in commercial vehicles such as buses and trucks.

Although the number of commercial vehicles, such as trucks and buses, is no greater than one-tenth of that of passenger vehicles, the environmental burden and traffic accidents attributable to commercial vehicles account for almost one-third of the respective totals. Higher CO2 emissions due to large-scale car bodies and longer travel distance compared with passenger vehicles are mentioned as the major factors.

The Group has been developing and providing systems and equipment related to driving control and safety management for the transportation and passenger businesses to reduce the negative impact that commercial vehicles have on safety and the environment.

Recently, to pioneer and promote new service business such as total safety improvement systems, including the provision of information not only of vehicles but also of drivers' physical condition, the Group established the Connected Service Business Promotion Division. The Division intends to expand its business centering on the transportation and passenger businesses by consolidating the internal resources associated with connected services and systematically promoting diverse activities from planning and development to marketing.

(4) *Monozukuri*: Factory-IoT

The Group promotes making factories globally that bring out human wisdom and continue to evolve by introducing the Factory-IoT systems.

For the purpose of realizing an ever-evolving *monozukuri* with Factory-IoT utilizing human wisdom, the introduction of the Factory-IoT systems has started at domestic and overseas factories.

Factory-IoT will enable us to visualize diverse information and feed it back to people, thereby enhancing human sensitivity and leading to *Kaizen* (continuous improvement). Such information includes "subtle and imperceptible changes in products and facilities such as vibration, sound and temperature," "wisdom, experience, intuition and knack of experts" and "foreseeing and noticing signs of failures of facilities and equipment." Based on the visualized and shared information, people with a long-inherited *monozukuri* spirit and flexible behavioral skills can dramatically enhance onsite capabilities through further improvement and introduction of preventive measures by putting their heads together.

Moreover, the Group believes that connecting improved factories enhances global productivity. The Group intends to realize ever-evolving *monozukuri* by sharing and integrating the information of facilities and production at the respective factories and of *Kaizen* on a real-time basis throughout the world, as if we were all under one roof, leading to a swift improvement cycle at the respective factories.

By 2020, the Group will have its 130 factories worldwide digitally connected following the introduction of the Factory-IoT systems, which started in 2015, thereby aiming to achieve improvement in productivity of the entire Group by 30% (compared with 2015). This initiative will also be extended to cooperative companies by 2020 to jointly strengthen our *monozukuri* capability.

(5) FA Business

The Group intends to contribute to productivity improvement in society and industries with proposals and through the provision of optimum FA system solutions to customers by leveraging its successful introduction of factory FA systems at its 130 global factories.

The FA market continues to expand year by year, reflecting such phenomena as changes in the social structure represented by a decline in the workforce and the evolution of robot technology attributable to technological innovations in AI and IoT.

The Group started the development of its own robots almost 50 years ago in 1967. Since then, the Group has provided more than 90 thousand robots, refined in its in-house production lines through direct sales. Robots are indispensable for FA operations, and they continue to evolve in diverse aspects, for example, the ease of installation in production lines; ease of use in daily production and in maintenance, and the addition of human wisdom-based intelligence utilizing AI and IoT technologies besides conventional strengths such as high speed and high reliability.

Furthermore, FA has extensive application in not only manufacturing, but also inspection, logistics, maintenance, production control and utilization of IoT. Recently, the Group newly established the FA Business Unit under the Production Innovation Center in charge of driving company-wide *monozukuri*. With this, the Group intends to make proposals and provide FA systems that will respond to all customer needs from the viewpoint of overall factory and life cycle by leveraging its successful introduction of factory-IoT systems at its 130 factories, thereby increasing overall productivity.

3. Results of operations

(1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2017 increased by ¥2.6 billion, or 0.1%, year over year to ¥4,527.1 billion, supported by the increase in production volume and sales expansion despite the effects of yen appreciation. Operating profit increased by ¥14.8 billion, or 4.7%, to ¥330.6 billion, due to the production volume increase associated with sales growth, the rationalization effects by cost reduction and improved other income and expenses, despite the adverse impact of yen appreciation. Profit before income taxes increased by ¥13.6 billion, or 3.9%, to ¥360.9 billion. Profit for the year attributable to owners of the parent company increased by ¥13.4 billion, or 5.5%, to ¥257.6 billion.

(2) Policy on allocation of earnings

Dividends

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

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

The Company stipulates in its Articles of Incorporation that it may distribute dividends from surplus upon resolution of the Board of Directors in accordance with Article 459 of the Companies Act.

Accordingly, the Company, at its Board of Directors meeting held on April 28, 2017, resolved that the fiscal year-end dividends for the fiscal year ended March 31, 2017, be ¥60 per share of the Company's common stock (for a total of ¥47.2 billion) and the date of commencement of the dividends payment thereof be May 29, 2017. The annual dividends for the fiscal year ended March 31, 2017, including the interim dividends, is ¥120 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.

The Company, at its Board of Directors meeting held on April 28, 2017, resolved that the Company's treasury stock of 6,600,100 shares (total amount of acquisition: ¥28.5 billion) be purchased and that the specific means for the acquisition be a tender offer (for the tender period of May 1 through May 31, 2017).

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, 2017 were ¥337.4 billion and ¥241.1 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 invested in new products and rationalization measures. As a result, capital expenditures spent in Japan were ¥215.7 billion.

In regions outside Japan, capital expenditures in North America, Europe, Asia and other areas were ¥51.8 billion, ¥23.6 billion, ¥44.1 billion and ¥2.2 billion, respectively.

Research and Development (R&D) Activities

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

The Group's R&D expenses, including the amount recognized as assets for the fiscal year ended March 31, 2017, totaled ¥409.2 billion.

R&D Expenses by Segment

By geographic segment, R&D expenses in Japan were ¥344.5 billion.

In regions outside Japan, R&D expenses in North America, Europe, Asia and other areas were ¥31.1 billion, ¥13.7 billion, ¥18.7 billion and ¥1.2 billion, respectively.

Approximately 84% of total R&D expenses arose in Japan. The Group continues aiming for the achievement of the society with global-advanced-mobility through the reinforcement of the 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 has been changed. In general, a strong yen (in particular against the U.S. dollar and Euro that constitute a major part of the Group's sales) has an adverse effect on the Group's operations, and a weak yen has a positive effect on the Group's operations.

For Group operations that manufacture in Japan and export, a strong yen against other currencies decreases the worldwide 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 ineffective competitive practices on the Group's part will lead to a decrease in customers, which may have an adverse effect on the Group's operating results and financial condition.

Potential Risks of International Activities and Overseas Expansion

The proportion of manufacturing and sales activities carried out in North America and Europe, as well as in developing and emerging markets in Asia, has been increasing in recent years.

Expansion into these overseas markets has the following inherent risks, which, if they materialize, may have an adverse effect on the Group's operating results and financial condition.

・Unforeseen 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, 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 of the annual report from the fiscal year ended March 31, 2015. In addition, the following items are reported based on the consolidated financial statements prepared in accordance with IFRS.

(1) Results of operations

1) Revenue and profit

Revenue for the consolidated fiscal year ended March 31, 2017, increased by ¥2.6 billion, or 0.1%, year over year to ¥4,527.1 billion, supported by the increase in production volume and sales expansion which offset the impact of a strong yen. Operating profit increased by ¥14.8 billion, or 4.7%, to ¥330.6 billion due to a production volume increase supported by sales growth, rationalization effects by cost reduction and improved other income and expenses despite the adverse impact of yen appreciation. Profit before income taxes increased by ¥13.6 billion, or 3.9%, to ¥360.9 billion. Profit for the year attributable to owners of the parent company increased by ¥13.4 billion, or 5.5%, to ¥257.6 billion.

Revenue and profit by segment

By geographical segment, revenue in Japan increased by ¥39.4 billion, or 1.5% year over year to ¥2,686.0 billion, supported by the increase in production of vehicles. Operating profit decreased by ¥24.4 billion, or 15.8% year over year to ¥130.2 billion, mainly due to the impact of a strong yen, which could not be offset by a production increase and cost reduction.

Revenue in North America decreased by ¥35.5 billion, or 3.2% year over year to ¥1,077.2 billion due to the impact of a strong yen, which could not be offset by the increase in vehicle production volume supported by the market recovery. Operating profit increased by ¥12.3 billion, or 25.7% year over year to ¥60.0 billion, mainly due to a production volume increase.

Revenue in Europe decreased by ¥16.3 billion, or 2.7% year over year to ¥577.3 billion, reflecting the impact of a strong yen, in spite of the increase in vehicle production volume supported by the market recovery. Operating profit increased by ¥5.8 billion, or 39.9% year over year to ¥20.2 billion mainly due to the production volume increase.

Revenue in Asia decreased by ¥22.0 billion, or 1.9% year over year to ¥1,139.3 billion, due to the impact of a strong yen, although vehicle production volume increased. Operating profit increased by ¥16.2 billion, or 16.7% year over year to ¥112.7 billion, mainly due to a production volume increase.

Revenue in other regions increased by ¥6.3 billion, or 10.6% year over year to ¥65.8 billion. Operating profit of ¥6.9 billion was recorded, compared with operating loss of ¥2.0 billion recorded in the previous fiscal year.

2) Financial position

Total assets as of March 31, 2017, stood at ¥5,150.8 billion, 2.1% or ¥107.9 billion more than the previous fiscal year-end.

Current assets decreased by ¥65.2 billion, or 2.7% to ¥2,332.1 billion, primarily reflecting decreases in other financial assets. Non-current assets increased by ¥173.0 billion, or 6.5% to ¥2,818.7 billion, primarily reflecting increases in other financial assets. Property, plant and equipment increased by ¥65.0 billion, or 4.6% to ¥1,490.5 billion, mainly due to aggressive capital investment.

The total of current and non-current liabilities decreased by ¥84.2 billion, or 4.7% to ¥1,703.7 billion due to decreases of current bonds and borrowings. Equity increased by ¥192.0 billion, or 5.9% to ¥3,447.1 billion, primarily reflecting increases in measured fair value of the investment securities.

3) Cash flows

In terms of cash flows for the fiscal year ended March 31, 2017, net cash provided by operating activities was ¥467.8 billion, net cash used in investing activities was ¥108.0 billion, and net cash used in financing activities was ¥240.5 billion. As a result, cash and cash equivalents increased by ¥121.1 billion to ¥793.6 billion.

Net cash provided by operating activities for the fiscal year ended March 31, 2017 totaled ¥467.8 billion, ¥85.1 billion less than in the previous year. Cash flows mainly reflected income taxes paid of ¥108.4 billion, an increase of ¥43.6 billion from the previous fiscal year.

Investing activities used cash of ¥108.0 billion, ¥436.8 billion less than in the previous fiscal year. This mainly reflected the increased expenditures related to purchases of investments in debt instruments in the amount of ¥92.5 billion, a decrease of ¥482.1 billion compared to the previous fiscal year.

Net cash used in financing activities was ¥240.5 billion, an increase of ¥135.9 billion from the previous fiscal year. This increase mainly reflected repayments of long-term borrowings, an increase of ¥58.8 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 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 increasing operating profit for the fiscal year ended March 31, 2017 by ¥30.2 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, the amounts of operating profit and finance costs increased by ¥3.7 billion and ¥1.0 billion, respectively, and other comprehensive income decreased by ¥16.8 billion in the fiscal year ended March 31, 2017, compared to those under JGAAP.

Preparation of consolidated financial statements

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

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

3. Particular efforts to appropriately prepare the consolidated financial statements and improve the process for preparing the consolidated financial statements in accordance with IFRS

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

Consolidated Statement of Financial Position

March 31, 2017

(Unit: Millions of yen)

	Note	2016	2017
Assets			
Current assets			
Cash and cash equivalents	6	672,482	**793,550**
Trade and other receivables	7	826,687	**876,454**
Inventories	8	476,574	**485,867**
Other financial assets	9	356,815	**93,781**
Other current assets		64,654	**82,398**
Total current assets		2,397,212	**2,332,050**
Non-current assets			
Property, plant and equipment	10	1,425,567	**1,490,531**
Intangible assets	11	21,156	**22,451**
Other financial assets	9	1,037,672	**1,111,945**
Investments accounted for using the equity method	30	71,096	**92,198**
Retirement benefit assets	16	25,791	**43,868**
Deferred tax assets	12	40,464	**30,266**
Other non-current assets	12	23,938	**27,453**
Total non-current assets		2,645,684	**2,818,712**
Total assets		5,042,896	**5,150,762**

(Unit: Millions of yen)

	Note	2016	**2017**
Liabilities and equity			
Current liabilities			
Bonds and borrowings	13	261,973	**84,139**
Trade and other payables	14	812,936	**861,161**
Other financial liabilities		12,333	**14,484**
Income tax payables		36,494	**24,890**
Provisions	15	86,750	**70,549**
Other current liabilities		46,859	**48,588**
Total current liabilities		1,257,345	**1,103,811**
Non-current liabilities			
Bonds and borrowings	13	214,638	**266,116**
Other financial liabilities		10,099	**9,819**
Retirement benefit liabilities	16	231,120	**228,576**
Provisions	15	2,152	**1,529**
Deferred tax liabilities	12	54,417	**78,243**
Other non-current liabilities		18,090	**15,586**
Total non-current liabilities		530,516	**599,869**
Total liabilities		1,787,861	**1,703,680**
Equity			
Capital stock	17	187,457	**187,457**
Capital surplus	17	267,640	**265,985**
Treasury stock	17	(246,486)	**(31,191)**
Other components of equity	17	422,205	**454,445**
Retained earnings	17	2,492,762	**2,436,028**
Equity attributable to owners of the parent company		3,123,578	**3,312,724**
Non-controlling interests		131,457	**134,358**
Total equity		3,255,035	**3,447,082**
Total liabilities and equity		5,042,896	**5,150,762**

Consolidated Statement of Income

Year ended March 31, 2017

(Unit: Millions of yen)

	Note	2016	2017
Revenue	5	4,524,522	**4,527,148**
Cost of revenue	8, 10, 11	(3,747,311)	**(3,769,532)**
Gross profit		777,211	**757,616**
Selling, general and administrative expenses	10, 11, 20	(412,015)	**(431,192)**
Other income	19	12,453	**27,721**
Other expenses	20	(61,921)	**(23,594)**
Operating profit	5	315,728	**330,551**
Finance income	21	34,267	**35,487**
Finance costs	21	(8,797)	**(9,883)**
Foreign exchange gains (losses)		965	**(3,733)**
Share of the profit of associates and joint ventures accounted for using the equity method		5,130	**8,436**
Profit before income taxes		347,293	**360,858**
Income tax expenses	12	(86,728)	**(86,963)**
Profit for the year		260,565	**273,895**
Attributable to:			
Owners of the parent company		244,251	**257,619**
Non-controlling interests		16,314	**16,276**

(Unit: Yen)

Earnings per share			
Basic	22	307.19	326.32
Diluted	22	307.18	—

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

(Unit: Millions of yen)

	Note	2016	2017
Profit for the year		260,565	**273,895**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value (loss) gain on equity instruments designated as FVTOCI	23, 25	(192,673)	**59,994**
Remeasurements of defined benefit pension plans	16, 23	(43,659)	**21,660**
Share of other comprehensive income of investments accounted for using the equity method	23	(44)	(12)
Total		(236,376)	**81,642**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	23	(98,058)	**(24,987)**
Cash flow hedges	23	(284)	**477**
Share of other comprehensive income of investments accounted for using the equity method	23	(1,092)	(1,779)
Total		(99,434)	**(26,289)**
Total other comprehensive income		(335,810)	**55,353**
Comprehensive income for the year		(75,245)	**329,248**
Attributable to:			
Owners of the parent company		(77,720)	**314,074**
Non-controlling interests		2,475	**15,174**

Consolidated Statement of Changes in Equity

Year ended March 31, 2017

(Unit: Millions of yen)

	Note	Equity attributable to owners of the parent company					
					Other components of equity		
		Capital stock	Capital surplus	Treasury stock	Stock acquisition rights	Net fair value gain on equity instruments designated as FVTOCI	Remeasurements of defined benefit pension plans
As of April 1, 2015		187,457	268,611	(218,942)	148	552,324	—
Profit for the year		—	—	—	—	—	—
Other comprehensive income		—	—	—	—	(192,565)	(42,769)
Comprehensive income for the year		—	—	—	—	(192,565)	(42,769)
Acquisition of treasury stock	17	—	—	(27,829)	—	—	—
Disposal of treasury stock (includes exercising stock options)	17	—	133	285	(89)	—	—
Retirement of treasury stock		—	—	—	—	—	—
Dividends	18	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries without loss of control		—	(1,104)	—	—	—	—
Transfer to retained earnings		—	—	—	—	1,617	42,769
Other		—	—	—	(59)	—	—
Total transactions with the owners		—	(971)	(27,544)	(148)	1,617	42,769
As of March 31, 2016		187,457	267,640	(246,486)	—	361,376	—
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	17	—	—	**(30,020)**	—	—	—
Disposal of treasury stock (includes exercising stock options)	17	—	**14**	**65**	—	—	—
Retirement of treasury stock	17	—	(1,683)	245,250	—	—	—
Dividends	18	—	—	—	—	—	—
Changes in the ownership interest in subsidiaries without loss of control		—	**14**	—	—	—	—
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**	—

(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, 2015		147,704	(238)	699,938	2,390,874	3,327,938	146,273	3,474,211
Profit for the year		—	—	—	244,251	244,251	16,314	260,565
Other comprehensive income		(86,353)	(284)	(321,971)	—	(321,971)	(13,839)	(335,810)
Comprehensive income for the year		(86,353)	(284)	(321,971)	244,251	(77,720)	2,475	(75,245)
Acquisition of treasury stock	17	—	—	—	—	(27,829)	—	(27,829)
Disposal of treasury stock (includes exercising stock options)	17	—	—	(89)	—	329	—	329
Retirement of treasury stock		—	—	—	—	—	—	—
Dividends	18	—	—	—	(97,977)	(97,977)	(11,354)	(109,331)
Changes in the ownership interest in a subsidiary without a loss of control		—	—	—	—	(1,104)	(5,919)	(7,023)
Transfer to retained earnings		—	—	44,386	(44,386)	—	—	—
Other		—	—	(59)	—	(59)	(18)	(77)
Total transactions with the owners		—	—	44,238	(142,363)	(126,640)	(17,291)	(143,931)
As of March 31, 2016		61,351	(522)	422,205	2,492,762	3,123,578	131,457	3,255,035

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	17	—	—	—	—	(30,020)	—	(30,020)
Disposal of treasury stock (includes exercising stock options)	17	—	—	—	—	79	—	79
Retirement of treasury stock	17	—	—	—	(243,567)	—	—	—
Dividends	18	—	—	—	(95,001)	(95,001)	(12,262)	(107,263)
Changes in the ownership interest in a subsidiary without a loss of control		—	—	—	—	14	11	25
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

Consolidated Statement of Cash Flows

Year ended March 31, 2017

(Unit: Millions of yen)

	Note	2016	2017
Cash flows from operating activities			
Profit before income taxes		347,293	**360,858**
Depreciation		236,845	**241,123**
Impairment losses		1,257	**—**
Increase in retirement benefit liabilities		1,165	**3,494**
Decrease in retirement benefit assets		1,874	**6,787**
Interest and dividend income		(33,984)	**(35,281)**
Interest expenses		6,821	**7,337**
Foreign exchange losses (gains)		4,124	**(2,153)**
Share of the profit of associates and joint ventures accounted for using the equity method		(5,130)	**(8,436)**
Losses on sales or disposal of property, plant and equipment		4,706	**6,477**
Increase in trade receivables		(63,210)	**(70,541)**
Increase in inventories		(23,367)	**(17,507)**
Increase in trade payables		41,484	**48,747**
Increase (Decrease) in provisions		37,721	**(16,607)**
Other		28,067	**21,406**
Subtotal		585,666	**545,704**
Interest received		7,798	**7,654**
Dividends received		30,690	**30,390**
Interest paid		(6,515)	**(7,557)**
Income taxes paid		(64,777)	**(108,412)**
Net cash provided by operating activities		552,862	**467,779**
Cash flows from investing activities			
(Increase) Decrease in time deposits		(62,670)	**126,464**
Purchases of property, plant and equipment		(334,896)	**(334,978)**
Proceeds from sales of property, plant and equipment		5,627	**6,693**
Purchases of intangible assets		(9,484)	**(9,437)**
Purchases of equity instruments		(64,263)	**(18,830)**
Purchases of debt instruments		(574,611)	**(92,542)**
Proceeds from sales and redemption of equity instruments		99	**1,312**
Proceeds from sales and redemption of debt instruments		489,269	**213,597**
Other		6,095	**(316)**
Net cash used in investing activities		(544,834)	**(108,037)**
Cash flows from financing activities			
Net (decrease) increase in short-term borrowings		(489)	**5,312**
Proceeds from borrowings		120,250	**76,744**
Repayments of long-term borrowings		(104,865)	**(163,643)**
Repayments of finance lease obligations		(10,592)	**(11,924)**
Issuance of bonds		30,000	**30,000**
Redemption of bonds		—	**(50,000)**
Dividends paid	18	(97,977)	**(95,001)**
Dividends paid to non-controlling interests		(11,354)	**(12,262)**
Purchase of treasury stock		(27,829)	**(30,020)**
Purchase of subsidiary's treasury stock		(7,254)	**—**
Other		5,447	**10,268**
Net cash used in financing activities		(104,663)	**(240,526)**
Foreign currency translation adjustments on cash and cash equivalents		(23,403)	**1,852**
Net (decrease) increase in cash and cash equivalents		(120,038)	**121,068**
Cash and cash equivalents at beginning of year		792,414	**672,482**
Cash and cash equivalents of a newly consolidated subsidiary		106	**—**
Cash and cash equivalents at end of year	6	672,482	**793,550**

Notes to Consolidated Financial Statements

Year ended March 31, 2017

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, Information & Safety systems and Small Motors, as well as Industrial products and Consumer products. Please refer to the Appendix for a list of subsidiaries.

2. Basis of preparation

(1) Compliance with IFRS

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

The Group's consolidated financial statements for the year ended March 31, 2017, were approved on June 20, 2017 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 where such estimates are revised and the future fiscal periods.

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

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

(5) Changes in Accounting Policies

The Group adopted the standards and interpretations which were mandatorily effective from the year ended March 31, 2017. The adoption of the standards and interpretations had no significant impact on the consolidated financial statements for the fiscal year ended March 31, 2017.

3. Significant accounting policies

(1) Basis of consolidation

1) Subsidiaries

A subsidiary is an entity that is controlled by the Company and whose financial statements are included in the consolidated financial statements of the Group from the date of acquisition of the control to the date of loss of the control by the Group. In cases where the accounting policies applied by subsidiaries are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. All intragroup balances, transactions, and unrealized gains have been eliminated on consolidation. Comprehensive income is attributed to owners of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

2) Associates and joint ventures

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

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

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

3) Joint operations

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

(2) Business combination and goodwill

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

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

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

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

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

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

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

(3) Foreign currency translation

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

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

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

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

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

(4) Financial instruments

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

1) Financial assets

i) Initial recognition and measurement

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

a) Financial assets measured at the amortized cost

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

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

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

b) Financial assets measured at fair value

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

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

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

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

ii) Subsequent measurement

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

a) Financial assets measured at amortized cost

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

b) Financial assets measured at fair value

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

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

iii) Impairment of financial assets measured at amortized cost

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

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

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

iv) Derecognition of financial assets

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

2) Financial liabilities

i) Initial recognition and measurement

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

ii) Subsequent measurement

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

a) Financial liabilities measured at amortized cost

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

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

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

iii) Derecognition of financial liabilities

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

3) Derivatives and hedge accounting

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

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

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

Cash flow hedge

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

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

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

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

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

4) Offsetting financial assets and financial liabilities

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

(5) Cash and cash equivalents

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

(6) Inventories

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

(7) Property, plant and equipment

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

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

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

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

(8) Investment property

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

(9) Intangible assets

1) Separately acquired intangible assets

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

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

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

2) Internally generated intangible assets

Expenditures related to research activities are recognized as expenses as incurred.
The cost arising from development (or from the development phase of an internal project) shall be recognized if, and only if, the Group can demonstrate all of the following:

i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
ii) its intention to complete the intangible asset and use or sell it;
iii) its ability to use or sell the intangible asset;
iv) how the intangible asset will generate probable future economic benefits;
v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

3) Intangible assets acquired in business combinations

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

4) Amortization of intangible assets

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

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

5) Derecognition of intangible assets

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

(10) Leases

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

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

1) As lessee

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Leased assets are depreciated using the straight-line method over their estimated useful lives based on the accounting policies applied to the assets.

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

2) As lessor

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

(11) Borrowing costs

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

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(12) Impairment of non-financial assets

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

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

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

(13) Non-current assets held for sale

An asset or asset group for which the value is expected to be recovered through a sale transaction rather than through continuing use is classified as a held-for-sale non-current asset or disposal group when the following conditions are met: it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the Group management commits to the sale plan. In such cases, the non-current asset is not depreciated or amortized and is measured at the lower of its carrying amount or its fair value less costs to sell.

(14) Provisions

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

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

The main provisions are recorded as follows.

Reserve for warranty

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

Provision for loss on antitrust issues

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

(15) Employee benefit

1) Post-employment benefits

i) Defined benefit plans

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

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

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

ii) Defined contribution plans

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

2) Other long-term employee benefits

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

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

3) Short-term employee benefits

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

(16) Revenue

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

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

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

(17) Government grants

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

(18) Income taxes

Income taxes in the consolidated statement of income are presented as the total of current income taxes and deferred income taxes. The current income taxes are recognized in profit or loss, except for taxes arising from items that are recognized in other comprehensive income or directly in equity and those arising from business combinations.

Current income taxes are measured at the amount that is expected to be paid to or refunded from the taxation authorities. For the calculation of the tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

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

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

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

An entity shall offset deferred tax assets and deferred tax liabilities, if and only if, the entity has a legally enforceable right to set off the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(19) Equity

Common stock

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

Treasury stock

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

(20) Fair value measurements

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

1) Level 1

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

2) Level 2

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

3) Level 3

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

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

(21) Stock-based compensation

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

(22) Levies

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

(23) Earnings per share

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

(24) Dividends

Dividends to the shareholders of the Company are recognized as liabilities in the period in which each year-end dividends and interim dividends 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, 2017, are as follows. The Group is currently assessing the possible impacts that these applications will have on the consolidated financial statements.

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

5. Segment information

(1) Outline of reportable segments

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

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

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

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

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

Reportable segment profit is measured on the basis of operating profit in the consolidated statement of income. Finance income, finance costs, foreign exchange gains/losses, share of profit/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, 2016 (Unit: Millions of yen)

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

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

Other material items

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

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

	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.

(3) Assets for each reportable segment

(Unit: Millions of yen)

	2016	2017
Japan	2,822,407	3,021,943
North America	448,573	510,048
Europe	379,654	379,381
Asia	859,928	904,414
Others (Note 1)	48,202	58,365
Corporate assets (Note 2)	484,132	276,611
Consolidated	5,042,896	5,150,762

(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, 2016 and 2017

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)

	2016	2017
Japan	1,744,241	1,817,838
The United States	932,003	899,640
Others	1,848,278	1,809,670
Total	4,524,522	4,527,148

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

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

	2016	2017
Japan	824,940	895,813
Others	621,783	617,168
Total	1,446,723	1,512,981

(Note) 1. Countries which have significant impact to the consolidated financial statements are individually presented.
2. Non-current assets, a total of property, plant and equipment and intangible assets, are attributed to geographic areas based on locations of assets.

(6) Information about major customers

The major customer is Toyota Motor Corporation 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)

2016	2017
2,077,584	2,128,244

6. Cash and cash equivalents

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

(Unit: Millions of yen)

	2016	2017
Cash and deposits	503,530	682,077
Short-term investments	168,952	111,473
Total	672,482	793,550

7. Trade and other receivables

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

(Unit: Millions of yen)

	2016	2017
Notes and accounts receivable	699,377	740,048
Other	129,080	138,242
Less: Allowance for doubtful accounts	(1,770)	(1,836)
Total	826,687	876,454

(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 increase and decrease of the allowance for doubtful accounts for each fiscal year were as follows.

(Unit: Millions of yen)

	2016	2017
Balance, beginning of year	2,001	1,770
Increase	219	862
Decrease - used	(14)	(58)
Decrease - reversed	(449)	(758)
Foreign exchange difference	13	20
Balance, end of year	1,770	1,836

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

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

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

(Unit: Millions of yen)

	2016	2017
Past due within 90 days	20,774	23,843
Past due over 90 days through one year	2,820	3,200
Past due over one year	545	111
Total	24,139	27,154

8. Inventories

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

(Unit: Millions of yen)

	2016	2017
Merchandise and finished products	153,418	160,054
Work in process	187,243	189,079
Raw materials and supplies	135,913	136,734
Total (Note)	476,574	485,867

(Note) The amounts of write-down of inventories to net realizable value recognized as "Cost of revenue" for the years ended March 31, 2016 and 2017 were ¥8,998 million and ¥6,422 million, respectively.

9. Other financial assets

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

(Unit: Millions of yen)

	2016	2017
Bank deposits (Note 1)	192,182	64,864
Certificates of deposit (Note 1)	12,050	—
Debt securities (Note 1)	144,977	35,934
Equity securities (Note 2)	993,821	1,079,124
Derivative assets (Note 3)	37,993	10,357
Other	13,464	15,447
Total	1,394,487	1,205,726

Current assets	356,815	93,781
Non-current assets	1,037,672	1,111,945
Total	1,394,487	1,205,726

(Note 1) Bank deposits, certificates of deposit, and debt securities are classified as financial assets measured at amortized cost.
(Note 2) Equity securities are classified as financial assets measured at fair value through other comprehensive income.
(Note 3) Derivative assets, excluding those hedge accounting is applied to, are classified as financial assets measured at fair value through profit or loss.

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

(Unit: Millions of yen)

Security name	2016	2017
Toyota Motor Corporation	517,001	527,079
TOYOTA INDUSTRIES CORPORATION	150,018	163,953
Towa Real Estate Co., Ltd.	64,499	71,605
Aisin Seiki Co., Ltd.	54,971	70,918
KOITO MANUFACTURING CO., LTD.	34,237	38,869
JTEKT CORPORATION	26,822	31,764
TOYOTA BOSHOKU CORPORATION	18,692	26,326
TOKAI RIKA CO., LTD	18,830	19,942
SUZUKI MOTOR COPORATION	11,779	18,082
KDDI CORPORATION	15,498	15,065

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

Dividend income related to the financial assets measured at fair value through other comprehensive income that the Group held through the years ended March 31, 2016 and 2017 were ¥26,769 million and ¥27,670 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)

	2016	2017
Fair value	118	3,487
Cumulative losses that have been previously recognized in equity as other comprehensive income - pre-tax (Note 4)	(1,617)	3,009
Dividend income	2	60

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

10. Property, plant and equipment

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

(Unit: Millions of yen)

Acquisition cost	Buildings and structures	Machinery and equipment	Land	Construction in progress (Note 1)	Other	Total
Balance, April 1, 2015	872,286	2,587,080	182,462	131,097	659,054	4,431,979
Acquisition	15,801	128,474	860	155,173	34,236	334,544
Disposals	(5,025)	(95,523)	(388)	(335)	(26,570)	(127,841)
Foreign exchange differences	(20,328)	(72,934)	(3,118)	(5,683)	(19,020)	(121,083)
Other (Note 2)	12,770	120,979	114	(161,314)	24,326	(3,125)
Balance, March 31, 2016	875,504	2,668,076	179,930	118,938	672,026	4,514,474
Acquisition	22,714	129,345	3,878	148,866	32,339	337,142
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

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

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

(Unit: Millions of yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and equipment	Land	Construction in progress	Other	Total
Balance, April 1, 2015	527,541	1,957,089	1,016	―	550,627	3,036,273
Depreciation (Note)	26,818	161,496	―	―	48,531	236,845
Impairment losses	202	―	―	1,055	―	1,257
Disposals	(4,058)	(88,894)	―	―	(25,032)	(117,984)
Foreign exchange differences	(8,329)	(45,165)	(3)	―	(14,016)	(67,513)
Other	(142)	(1,619)	―	―	1,790	29
Balance, March 31, 2016	542,032	1,982,907	1,013	1,055	561,900	3,088,907
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

(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, 2015	344,745	629,991	181,446	131,097	108,427	1,395,706
Balance, March 31, 2016	333,472	685,169	178,917	117,883	110,126	1,425,567
Balance, March 31, 2017	338,627	730,379	181,040	125,018	115,467	1,490,531

(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)

	2016	2017
Contractual commitments for the acquisition of property, plant and equipment	84,125	91,768

(4) Impairment losses

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

For the year ended March 31, 2016

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

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

The Group wrote down the undepreciated balances of its productive facilities to their recoverable amounts and recognized ¥1,055 million in impairment losses for relevant assets because the expected profit was not foreseen due to deterioration of a part of the business environment in certain regions. The recoverable amounts of the asset group were measured at fair value less costs to 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.

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

For the year ended March 31, 2017

No items to report.

11. Intangible assets

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

(Unit: Millions of yen)

Acquisition cost	Software	Development costs	Goodwill	Other	Total
Balance, April 1,2015	45,142	1,074	2,942	5,633	54,791
Acquisition	5,153	—	712	2,266	8,131
Internally generated	340	234	—	803	1,377
Disposal	(2,261)	—	—	(10)	(2,271)
Foreign exchange difference	(847)	—	(126)	223	(750)
Other	(155)	—	—	(1,561)	(1,716)
Balance, March 31, 2016	47,372	1,308	3,528	7,354	59,562
Acquisition	5,049	—	—	1,678	6,727
Internally generated	309	1,726	—	675	2,710
Disposal	(1,107)	—	(1,502)	(13)	(2,622)
Foreign exchange difference	(368)	—	(171)	(142)	(681)
Other	(406)	—	—	(1,370)	(1,776)
Balance, March 31, 2017	50,849	3,034	1,855	8,182	63,920

(Unit: Millions of yen)

Accumulated amortization and Accumulated impairment losses	Software	Development costs	Goodwill	Other	Total
Balance, April 1, 2015	31,656	—	1,502	1,996	35,154
Amortization (Note)	5,047	304	—	563	5,914
Impairment losses	—	—	—	—	—
Disposal	(2,253)	—	—	—	(2,253)
Foreign exchange difference	(541)	—	—	286	(255)
Other	49	—	—	(203)	(154)
Balance, March 31, 2016	33,958	304	1,502	2,642	38,406
Amortization (Note)	4,967	610	—	561	6,138
Impairment losses	—	—	—	—	—
Disposal	(1,087)	—	(1,502)	(2)	(2,591)
Foreign exchange difference	(181)	—	—	(78)	(259)
Other	(225)	—	—	—	(225)
Balance, March 31, 2017	37,432	914	—	3,123	41,469

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

(Unit: Millions of yen)

Carrying amount	Software	Development costs	Goodwill	Other	Total
Balance, April 1, 2015	13,486	1,074	1,440	3.637	19.637
Balance, March 31, 2016	13,414	1,004	2,026	4,712	21,156
Balance, March 31, 2017	13,417	2,120	1,855	5,059	22,451

The research and development expenditures recognized in profit or loss for the years ended March 31, 2016 and 2017 were ¥399,004 million and ¥407,497 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, 2016

No items to report.

For the year ended March 31, 2017

No items to report.

(3) Material intangible assets

Intangible assets recognized in the statement of financial position are not individually material as of March 31, 2016 and 2017.

(4) Impairment test for goodwill

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

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

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

12. Income taxes

(1) Income tax expenses

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

(Unit: Millions of yen)

	2016	2017
Current income tax expenses		
Current year	90,345	88,543
Prior years	1,080	(1,046)
Total	91,425	87,497
Deferred income tax expenses		
Occurrence and reversal of temporary differences	(9,737)	(415)
Change in tax rates	4,984	―
Recognition of previously unrecognized deferred tax assets	(268)	(213)
Reversal of deferred tax assets recognized in the prior year	324	94
Total	(4,697)	(534)
Total of income tax expenses	86,728	86,963
Income taxes recognized in other comprehensive income	(120,542)	33,876

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 32.43% for the year ended March 31, 2016 and 30.29% for the year ended March 31, 2017.

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

On June 28, 2010 and June 22, 2012, the Company received reassessment notices of supplementary tax assessments for additional tax on the income of certain overseas subsidiaries under the Anti-tax haven rules for the consecutive years ended March 31, 2008 to March 31, 2011, from the Nagoya Regional Taxation Bureau. The bureau stated that these overseas subsidiaries of the Group did not satisfy the conditions for exemption from the application of the Anti-tax haven rules.

The additional tax assessments, including local taxes and others, were ¥1,188 million for the years ended March 31, 2008 and 2009, and ¥6,101 million for the years ended March 31, 2010 and 2011. The Company filed an appeal to have the action canceled. Regarding the cases for the fiscal year ended March 31, 2008 and 2009, after the Nagoya District Court ruled in favor of the Company regarding its subsidiary subject to the exemptions to the anti-tax haven rules on September 4, 2014, the Nagoya High Court rejected the Company's assertions on February 10, 2016. The Company appealed to the Supreme Court of Japan, by filing a final appeal and/or petitioning for acceptance of a final appeal. Currently, the cases are under examination by the Supreme Court.

In addition, regarding the cases for the fiscal years ended March 31, 2010 and 2011, the Nagoya District Court ruled in favor of the Company's claims fully on January 26, 2017. Currently, the cases are under examination by the Nagoya High Court.

The Company strongly believes that the total amount of ¥7,289 million will be fully recovered and, therefore, the amount was recognized as "Other non-current assets."

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

(Unit: %)

	2016	2017
Applicable statutory tax rate	32.43	30.29
Lower income tax rates applicable to income in certain foreign subsidiaries	(4.22)	(2.27)
Tax credit for R&D expenses	(3.80)	(2.31)
Recognition of previously unrecognized deferred tax assets	(0.08)	(0.06)
Reversal of deferred tax assets due to change in applicable tax rates	1.43	—
Other	(0.79)	(1.55)
Actual effective tax rate	24.97	24.10

(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, 2016 (Unit: Millions of yen)

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

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	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets					
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 vacation 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)

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

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

(Unit: Millions of yen)

	2016	2017
Deferred tax assets	40,464	30,266
Deferred tax liabilities	54,417	78,243
Net deferred tax assets (liabilities)	(13,953)	(47,977)

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)

	2016	2017
Deductible temporary differences	9,707	9,119

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)

	2016	2017
Within 1st year	256	298
2nd year	1,489	374
3rd year	2,377	87
4th year	841	1,579
5th year and thereafter	19,637	20,382
Total	24,600	22,720

As of March 31, 2016 and 2017, deferred tax liabilities were not recognized for taxable temporary differences associated with investments in subsidiaries, except for the undistributed profits which are determined to be distributed. This was because the Company was able to control the timing of the reversal of the temporary differences and it was certain that the temporary differences would not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries in which deferred tax liabilities were not recognized as of March 31, 2016 and 2017 were ¥689,866 million and ¥790,024 million, respectively.

13. Bonds and borrowings

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

The Company is subject to financial covenants with respect to a portion of its borrowings from financial institutions and has complied with such covenants for the year ended March 31, 2017. In addition, the Company monitors each compliance status to maintain the level required by such financial covenants.

	2016	2017	Average interest rate (Note 1)	Maturity date
With collateral				
Short-term borrowings	—	—	—	—
Current portion of long-term borrowings	7	—	—	—
Long-term borrowings	—	—	—	—
Without collateral				
Short-term borrowings	56,068	81,594	1.93	—
Current portion of bonds (Note 2)	50,000	—	—	—
Current portion of long-term borrowings	155,898	2,545	4.28	—
Bonds (Note 2)	80,000	110,000	—	—
Long-term borrowings	134,638	156,116	0.62	From 2018 to 2024
Total	476,611	350,255	—	—

(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	The date of Issuance	2016 (Millions of yen)	2017 (Millions of yen)	Interest rate (%)	Collateral	Redemption period
DENSO Corporation	The 8th unsecured bonds	July 24, 2013	30,000	30,000	0.35	None	June 20, 2018
	The 9th unsecured bonds	July 16, 2014	20,000	20,000	0.20	None	June 20, 2019
	The 10th unsecured bonds	September 8, 2015	20,000	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	0.01	None	September 17, 2021
	The 13th unsecured bonds	September 8, 2016	—	20,000	0.14	None	September 18, 2026
Total	—	—	80,000	110,000	—	—	—

14. Trade and other payables

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

(Unit: Millions of yen)

	2016	2017
Notes and accounts payable (Note 1)	525,589	562,580
Other (Note 2)	287,347	298,581
Total	812,936	861,161

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

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

15. Provisions

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

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

(Unit: Millions of yen)

	Reserve for warranty (Note 1)	Provision for loss on antitrust issues (Note 2)	Other	Total
Balance, April 1, 2015	45,744	–	7,059	52,803
Provisions made	13,373	45,930	3,400	62,703
Provisions used	(14,637)	–	(678)	(15,315)
Provisions reversed	(10,005)	–	(588)	(10,593)
Foreign exchange difference	66	–	(762)	(696)
Balance, March 31, 2016	34,541	45,930	8,431	88,902
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 difference	(29)	–	78	49
Balance, March 31, 2017	51,825	11,522	8,731	72,078

(Note 1) A portion of the reserve for warranty is expected to be reimbursed by mutual agreement with the Group's suppliers. The estimated amounts of reimbursements were ¥4,459 million and ¥3,340 million as of March 31, 2016 and 2017, respectively. The amounts were included in "Trade and other receivables" in the consolidated statement of financial position.

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

16. Post-employment benefits

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

The funded defined benefit plans are 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 defined benefit obligation and fair value of plan assets were as follows:

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

	2016	2017
Balance, beginning of year	763,973	819,977
Service cost	34,377	37,263
Interest cost on obligation	8,521	5,792
Plan amendments	(504)	(317)
Actuarial gains (Demographic)	(8,698)	(1,867)
Actuarial losses (Financial)	53,920	(20,618)
Benefits paid	(27,903)	(25,124)
Foreign exchange differences	(3,709)	(347)
Balance, end of year	819,977	814,759

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

	2016	2017
Balance, beginning of year	637,476	614,648
Interest income on plan assets	6,750	4,176
Plan amendments	(9)	(45)
Income from plan assets other than interest	(18,435)	8,338
Employer contributions	22,844	18,613
Benefits paid	(17,138)	(15,615)
Redemption of part of the plan assets (Note)	(14,648)	—
Foreign exchange differences	(2,192)	(64)
Balance, end of year	614,648	630,051

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

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

	2016	2017
Defined benefit obligation, end of year	819,977	814,759
Plan assets, end of year	614,648	630,051
Net amount of defined benefit obligation and plan assets	205,329	184,708
Retirement benefit liabilities	231,120	228,576
Retirement benefit assets	25,791	43,868
Net amount of liabilities and assets recognized in the consolidated statement of financial position	205,329	184,708

Investment policy

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

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

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

Major components of plan assets

The fair values of plan assets for the years ended March 31, 2016 and 2017 were as follows:

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

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

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

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

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 contract (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 contract includes investments in life insurance company general accounts, which are guaranteed for principal amount and interest rate by life insurance companies.

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

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

	2016	2017
Discount rate	0.51	0.67

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, 2017
Discount rate: Decreased by 0.5%	66,483
Discount rate: Increased by 0.5%	(61,057)

The Group expects ¥14,195 million of the contribution to be paid from April 1, 2017 to March 31, 2018.

The weighted-average duration of the defined benefit obligations for the years ended March 31, 2016 and 2017 was 16 years.

(2) Defined contribution plans

The amounts recognized as expenses related to the defined contribution plans for the years ended March 31, 2016 and 2017 were ¥9,698 million and ¥10,365 million, respectively.

17. Equity and other equity items

(1) Capital stock and Capital surplus

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

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 (Share)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
2016	884,068,713	187,457	267,640
Decrease	(90,000,000)	—	(1,655)
2017	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. Decrease in number of shares is due to a retirement of treasury stock which was based on the resolusion at the Board of Directors meeting held on July 29, 2016.

(2) Retained earnings

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

(3) Treasury stock

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

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

	Number of shares (Share)	Amount (Millions of yen)
2016	91,277,104	246,486
Decrease	(83,059,933)	(215,295)
2017	8,217,171	31,191

The decrease in the number of treasury stock includes decrease of 90,000,000 shares due to a retirement of treasury stock which was based on the resolution passed at the Board of Directors meeting held on July 29, 2016.

(4) Other components of equity

1) Stock acquisition rights

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

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

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

3) Remeasurements of defined benefit pension plans

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

4) Exchange differences on translating foreign operations

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

5) Cash flow hedges

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

18. Dividends

Total annual dividends for each fiscal year were as follows:

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Annual shareholders' meeting held on June 19, 2015	Ordinary shares	50,257	63	March 31, 2015	June 22, 2016
Board of Directors' meeting held on October 30, 2015	Ordinary shares	47,720	60	September 30, 2015	November 26, 2015
Annual shareholders' 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

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 28, 2017	Ordinary shares	Retained earnings	47,153	60	March 31, 2017	May 29, 2017

19. Other income

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

(Unit: Millions of yen)

	2016	2017
Rental income - property, plant and equipment	2,518	2,335
Gain on sales - property, plant and equipment	2,778	3,577
Other (Note)	7,157	21,809
Total	12,453	27,721

(Note) Other for the year ended March 31, 2017 included insurance income of ¥12,868 million which was related to plant shut-downs in the Company and its subsidiaries in Japan.

20. Selling, general and administrative expenses and other expenses

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

(Unit: Millions of yen)

	2016	2017
Freight expenses	42,221	39,747
Employee benefit expenses	170,398	174,201
Provision for warranty reserve	482	20,041
Depreciation	20,732	20,354
Welfare expenses	28,359	27,656
Other	149,823	149,193
Total	412,015	431,192

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

	2016	2017
Loss on sales or disposal - property, plant and equipment	7,484	8,054
Impairment losses	1,257	—
Other (Note)	53,180	15,540
Total	61,921	23,594

(Note) Other for the years ended March 31, 2016 and 2017 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 ¥45,930 million and ¥9,308 million (See Note 29 "Contingencies").

21. Income and expenses pertaining to financial instruments

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

	2016	2017
Interest income		
Financial assets measured at amortized cost (i.e., deposits and other)	7,215	7,611
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)	26,769	27,670
Other	283	206
Total	34,267	35,487

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

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

	2016	2017
Interest expenses		
Financial liabilities measured at amortized cost (i.e., bonds, borrowings and other)	5,599	6,020
Financial liabilities measured at fair value through profit or loss (i.e., interest rate derivatives)	1,222	1,317
Interest on defined benefit liabilities, net	1,771	1,616
Other	205	930
Total	8,797	9,883

22. Earnings per share

(1) Basis of calculating basic earnings per share

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

	2016	2017
Profit attributable to owners of the parent company	244,251	257,619

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

	2016	2017
Average number of shares - basic	795,105	789,465

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

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

	2016	2017
Profit attributable to owners of the parent company - diluted	244,251	257,619

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

	2016	2017
Average number of shares - basic	795,105	789,465
Effect of dilutive shares	24	—
Average number of shares - diluted	795,129	789,465

23. Other comprehensive income

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

(Unit: Millions of yen)

	2016	2017
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net fair value (loss) gain on equity instruments designated as FVTOCI		
Arising during the year	(293,101)	84,499
Income taxes	100,428	(24,505)
Total	(192,673)	59,994
Remeasurements of defined benefit pension plans		
Arising during the year	(63,657)	30,823
Income taxes	19,998	(9,163)
Total	(43,659)	21,660
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(44)	(12)
Total	(44)	(12)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Arising during the year	(98,122)	(24,987)
Reclassification to profit or loss	64	—
Total	(98,058)	(24,987)
Cash flow hedges		
Arising during the year	130	1,343
Reclassification to profit or loss	(530)	(658)
Before income taxes	(400)	685
Income taxes	116	(208)
Total	(284)	477
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(1,092)	(1,779)
Total	(1,092)	(1,779)
Total other comprehensive income	(335,810)	55,353

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)

	2016	2017
Net fair value (loss) gain on equity instruments designated as FVTOCI	(152)	12
Remeasurements of net defined benefit pension plans	(890)	454
Exchange differencies on translating foreign operations	(12,797)	(1,568)
Cash flow hedges	—	—
Total	(13,839)	(1,102)

24. Non-financial transactions that are material

Details of non-financial transactions that are material

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

(Unit: Millions of yen)

	2016	2017
The amounts of assets and liabilities related to finance lease transactions	12,054	13,355

(2) Stocks acquired by returning a part of the employee retirement benefit trust were as follows:

(Unit: Millions of yen)

	2016	2017
The amounts of stocks acquired by return of a part of employee retirement benefit trust	14,648	—

25. Financial instruments

(1) Capital Management

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

The Group is not exposed to capital restrictions by external parties as of March 31, 2017.

(2) Description and extent of financial risks

1) Financial risk management policy

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

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

i) Credit risk

Receivables, such as note and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk. The Group manages its credit risks from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of each customer to identify the default risk of customers at an early stage. 26% of total receivables are from the group of Toyota Motor Corporation as of March 31, 2017.

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

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

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

ii) Market risk

Foreign exchange risk

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

The details of currency derivatives are as follows:

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

	2016			2017		
	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	18,828	−	(1,405)	5,367	−	(136)
Selling	56,950	−	443	78,744	−	451
Currency swaps						
Buying	119,170	66,723	8,545	112,221	61,893	3,578
Selling	13,406	7,383	(620)	12,859	3,687	(288)
Total	208,354	74,106	6,963	209,191	65,580	3,605

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

Foreign exchange sensitivity analysis

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

(Unit: Millions of yen)

	2016	2017
Net profit or loss	630	839
Equity	630	839

Interest-rate risks

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

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

The details of Interest derivatives were as follows:

Derivative transactions to which hedge accounting is not applied

(Unit: Millions of yen)

	2016			2017		
	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	49,382	34,633	(841)	47,199	46,950	(383)
Floating rate receipt, floating rate payment	31,902	15,000	1,693	15,000	15,000	468
Cross currency swap						
Floating rate receipt, fixed rate payment	1,091	—	345	—	—	—
Fixed rate receipt, fixed rate payment	22,023	15,367	689	47,650	13,421	(3,105)
Total	104,398	65,000	1,886	109,849	75,371	(3,020)

Derivative transactions to which hedge accounting is applied

(Unit: Millions of yen)

	2016			2017		
	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	84,109	32,001	21,478	47,001	47,001	2,567
Total	84,109	32,001	21,478	47,001	47,001	2,567

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

Interest rate sensitivity analysis

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

(Unit: Millions of yen)

	2016	2017
Net profit or loss	5,476	5,016
Equity	6,316	6,034

iii) Liquidity risk

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

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

(Unit: Millions of yen)

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

(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

iv) Price risks of equity instruments

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

Assuming that the share price rose or fell by 1% at each fiscal year-end, increase or decrease in total equity amounted to approximately ¥6,381 million and ¥6,921 million for the years ended March 31 2016 and 2017, respectively. As most marketable securities held by the Group are classified as financial assets measured at FVTOCI, a 1% rise or fall in share price would result in an immaterial impact on profit or loss.

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

(3) Fair value of financial instruments

1) Financial instruments measured at amortized cost

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

(Unit: Millions of yen)

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

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

(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.

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

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

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

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

(Unit: Millions of yen)

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

(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

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)

	2016	2017
Balance, beginning of year	94,195	83,738
Total recognized gains and losses		
Losses recognized in profit or loss (Note 1)	—	(26)
(Losses) gains recognized in other comprehensive income (Note 2)	(8,860)	7,311
Purchases	70	897
Sales or Disposal	(1,667)	—
Balance, end of year	83,738	91,920

(Note 1) Losses recognized in profit or loss for the year ended March 31, 2017 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 (loss) gain on equity instruments designated as FVTOCI" in the statement of comprehensive income.

(4) Offsetting of financial assets and financial liabilities

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

(Unit: Millions of yen)

	2016	2017
Financial assets presented in the consolidated statement of financial position	37,993	10,357
The amount to be offset under master netting arrangement or similar arrangements	(3,079)	(2,694)
Cash collateral received	—	—
Net	34,914	7,663

(Unit: Millions of yen)

	2016	2017
Financial liabilities presented in the statement of financial position	6,736	7,454
The amount to be offset under master netting arrangement or similar arrangements	(3,079)	(2,694)
Cash collateral paid	—	—
Net	3,657	4,760

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

26. Leases

(1) As Lessee

1) Finance lease obligation

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

(Unit: Millions of yen)

	Minimum lease payments	
	2016	2017
Due within one year	10,410	10,891
Due after one year through five years	4,772	5,774
After five years	679	627
Total	15,861	17,292

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

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

2) Non-cancellable operating lease transaction

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

(Unit: Millions of yen)

	Minimum lease payments	
	2016	2017
Due within one year	1,934	1,955
Due after one year through five years	2,064	3,037
After five years	341	641
Total	4,339	5,633

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)

2016	2017
8,081	8,901

(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	
	2016	2017
Due within one year	9,092	9,127
Due after one year through five years	3,050	4,430
After five years	―	―
Total	12,142	13,557

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

27. Related parties

(1) Related-party transactions

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

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

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

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

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

(Unit: Millions of yen)

	2016	2017
Trade accounts receivable	172,050	171,050
Electronically recorded monetary claims	35,375	39,845
Accounts receivable - others	170	42
Allowance for doubtful accounts	—	—
Accounts payable	3,915	4,055
Accrued expenses	324	357

(2) Remuneration of key managing officers

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

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

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

28. Share-based payment

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

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

The stock options outstanding as of March 31, 2016 and 2017 were as follows:

For the year ended March 31, 2016

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

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

For the year ended March 31, 2017

No items to report.

29. Contingencies

The details of contingent liabilities for the year ended March 31, 2017 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 concerning 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, and by an automotive insurance company.

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 and the automotive insurance company, however, there is no such process for considering class certification, and any trial on the merits will commence after discovery concludes. In each of these cases, however, the Company could commence settlement discussions with the plaintiffs at any time in the proceedings and reach a settlement.

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, and certification hearings for some of the Canadian cases are expected to take place in 2018.

(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 15 "Provisions" and Note 20 "Selling, general and administrative expenses, and other expenses").

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

30. Subsidiaries, associates and others

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

There are no subsidiaries that have material non-controlling interests, associates or joint ventures at the end of fiscal years ended March 31, 2016 and 2017.

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)

	2016	2017
(Decrease) Increase in capital surplus	(1,104)	14

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

31. Subsequent events

The Group has evaluated subsequent events through June 20, 2017.

(1) Additional acquisition of shares of FUJITSU TEN LIMITED (Becoming a subsidiary of the Company)

At the Board of Directors meeting held on April 28, 2017, the Company resolved to make FUJITSU TEN LIMITED (hereinafter, "FUJITSU TEN") a consolidated subsidiary of the Company by obtaining a portion of shares from FUJITSU LIMITED (hereinafter, "FUJITSU"), its parent company.

1) Reason for the additional acquisition of shares (Becoming a subsidiary of the Company)

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 the 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 its 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.

2) Company profile of the new subsidiary (FUJITSU TEN)

<table>
<tr><td colspan="2">i) Company name</td><td colspan="2">FUJITSU TEN LIMITED</td></tr>
<tr><td colspan="2">ii) Head office location</td><td colspan="2">2-28, Gosho-dori 1-chome, Hyogo-ku, Kobe, Hyogo, Japan</td></tr>
<tr><td colspan="2">iii) Representatives</td><td colspan="2">Chairman and Representative Director: Takashi Shigematsu
President and Representative Director: Akira Yamanaka</td></tr>
<tr><td colspan="2">iv) Main business</td><td colspan="2">Development, manufacture, and sales of infotainment equipment and automotive electronics equipment</td></tr>
<tr><td colspan="2">v) Capital</td><td colspan="2">5,300 million yen</td></tr>
<tr><td colspan="2">vi) Establishment</td><td colspan="2">October 25, 1972</td></tr>
<tr><td colspan="2">vii) Major shareholder and percentage of shares held</td><td colspan="2">FUJITSU LIMITED 55.00%
Toyota Motor Corporation 35.00%
DENSO CORPORATION 10.00%</td></tr>
<tr><td colspan="2" rowspan="3">viii) Relationship between the Company and the new subsidiary</td><td>Capital relationship</td><td>The Company owns 10.00% of FUJITSU TEN's total number of outstanding shares.</td></tr>
<tr><td>Personnel relationship</td><td>There are no noteworthy personnel ties between FUJITSU TEN and its related companies and the Group.</td></tr>
<tr><td>Business relationship</td><td>There is a business relationship between FUJITSU TEN and its related companies and the Group in the form of product and component sales and supplier transactions. There are no other noteworthy business ties between the two groups.</td></tr>
<tr><td colspan="4">ix) Consolidated results of operations and consolidated financial positions for the most recent three years
(Unit: Millions of yen, unless otherwise stated)</td></tr>
<tr><td></td><td>2015</td><td>2016</td><td>2017</td></tr>
<tr><td>Total equity</td><td>42,510</td><td>35,610</td><td>38,336</td></tr>
<tr><td>Total assets</td><td>170,900</td><td>164,418</td><td>173,629</td></tr>
<tr><td>Equity per share</td><td>9,241.30 yen</td><td>7,741.30 yen</td><td>8,333.91 yen</td></tr>
<tr><td>Revenue</td><td>329,787</td><td>363,287</td><td>383,617</td></tr>
<tr><td>Operating profit</td><td>2,812</td><td>5,493</td><td>13,483</td></tr>
<tr><td>Ordinary profit</td><td>2,765</td><td>4,026</td><td>13,062</td></tr>
<tr><td>Profit for the year: attributable to owners of the parent company</td><td>(3,024)</td><td>(1,224)</td><td>4,650</td></tr>
<tr><td>Earnings per share</td><td>(657.39) yen</td><td>(266.09) yen</td><td>1,010.87 yen</td></tr>
</table>

3) Company profile of the counterparty

i) Name	FUJITSU LIMITED	
ii) Head office location	4-1-1 Kamikodanaka, Nakahara-ku, Kawasaki-shi, Kanagawa, Japan	
iii) Representative	Representative Director and President: Tatsuya Tanaka	
iv) Main businesses	Development, manufacture, sale and provision of services, software and products in the fields of information processing and communication	
v) Capital	324,625 million yen (As of September 30, 2016)	
vi) Establishment	June 20, 1935	
vii) Total equity	856,409 million yen	
viii) Total assets	3,003,658 million yen	
ix) Major shareholders and percentage of shares held	Fuji Electric Co., Ltd.	11.03%
	Japan Trustee Services Bank, Ltd. (Trust account)	4.52%
	The Master Trust Bank of Japan, Ltd. (Trust account)	3.76%
	Fujitsu Employee Shareholding Association	2.81%
	Mizuho Bank, Ltd.	1.79%
	Asahi Mutual Life Insurance Company	1.70%
	THE BANK OF NEW YORK MELLOW SA/NV 10 (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	1.59%
	STATE STREET BANK AND TRUST COMPANY 505225 (Standing proxy: Bank Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	1.55%
	CBNY-GOVERNMENT OF NORWAY (Standing proxy: Department of securities brokerage of Citibank Japan Ltd.)	1.43%
	STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Bank Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	1.30%
x) Relationship between the Company and the counterparty	Capital relationship	There are no noteworthy capital ties between FUJITSU and its related companies and the Group.
	Personnel relationship	There are no noteworthy personnel ties between FUJITSU and its related companies and the Group.
	Business relationship	There is a business relationship in the form of purchases of software between FUJITSU and the Company. There are no other noteworthy business ties between the two companies.
	Status of related-party relationship	FUJITSU is not considered to be a related party of the Company. In addition, the related individuals and affiliates of FUJITSU are not considered to be related parties of the Company.

4) Details regarding acquisition of shares

i) Number of shares held before the acquisition	460,000 shares (Number of voting rights: 460,000) (Shareholding ratio of voting rights: 10.00%)
ii) Number of shares to be acquired	1,886,000 shares (Number of voting rights: 1,886,000)
iii) Acquisition cost	Common stock of FUJITSU TEN 16,511 million yen Advisory fees, etc. (estimated amount) 360 million yen Total (estimated amount) 16,871 million yen
iv) Number of shares to be held after the acquisition	2,346,000 shares (Number of voting rights: 2,346,000) (Shareholding ratio of voting rights: 51.00%)

5) Schedule

i) Board of Directors resolution	April 28, 2017
ii) Contract date	April 28, 2017
iii) Execution date of stock transfer	Scheduled date: October 2, 2017 (Depending on approval status, etc., at competition regulatory authorities)

(2) Tender offer for repurchase of treasury stock

The Company resolved to conduct a tender offer for the repurchase of its treasury stock at a meeting of the Board of Directors on April 28, 2017, as specified under Article 156, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 165, Paragraph 3 of the Companies Act, and the provisions of the Company's Articles of Incorporation.

1) Purpose of tender offer for repurchase of treasury stock

As part of promoting shareholders returns and enhance capital efficiency, from the view point of being able to acquire considerable number of its treasury stock in relatively short terms without losing capital efficiency when the Company repurchases its treasury stock from a large shareholder. And the Company started to consider repurchasing its treasury stock from Toyota Motor Corporation, who is the largest shareholder of the Company.

As a result, the Company concluded that the method of a tender offer would ensure an opportunity for shareholders to tender their shares while watching the trend in the market price during the prescribed offer period, and it was the most suitable method from the viewpoint of both the equality of shareholders and the transparency of the transactions.

2) Details of the resolution concerned with acquisition of the treasury stock

Type of shares to be purchased : Common stock
Total number of shares to be purchased : 6,600,100 shares (at maximum)
Total cost of shares to be purchased : 28,519,032,100 yen (at maximum)
Acquisition period : May 1, 2017 through June 30, 2017

3) Outline of the tender offer on the treasury stock

Number of shares to be acquired by the tender offer : 6,600,000 shares
Tender offer price : 4,321 yen per share
Tender offer period : May 1, 2017 through May 31, 2017
Date of tender offer commencement notice : May 1, 2017
Settlement commencement date : June 22, 2017

4) Result of the tender offer on the treasury stock

Total number of shares tendered : 6,123,762 shares
Total number of shares purchased : 6,123,762 shares
Total cost of shares purchased : 26,460,775,602 yen
Acquired period : May 1, 2017 through May 31, 2017

(3) Unsecured Bonds

The Company issued unsecured bonds with inter-bond pari passu clause under the resolution at a meeting of the Board of Directors on April 28, 2017.

1) Name of bond : The 14th unsecured bonds

Total amount of issuance : 30.0 billion yen
Interest rate : 0.040%
Issuance price : 100 yen per 100 yen par value
Redemption period : June 20, 2022
Due date of payment : June 8, 2017
Application of funds : Parts of funds for repayment of borrowing and working capital

2) Name of bond : The 15th unsecured bonds

Total amount of issuance : 40.0 billion yen
Interest rate : 0.245%
Issuance price : 100 yen per 100 yen par value
Redemption period : June 18, 2027
Due date of payment : June 8, 2017
Application of funds : Parts of funds for repayment of borrowing and working capital

Appendix

List of subsidiaries

The Company's subsidiaries as of March 31, 2017 were as follows.

Segment	Company Name	Voting rights (%)
Japan	KYOSAN DENKI CO., LTD.	62.9
	ANDEN CO., LTD.	100.0
	HAMANAKODENSO CO., LTD.	76.7
	DAISHINSEIKI CO., LTD.	100.0
	NIPPON WIPER BLADE CO., LTD.	70.0
	DENSO AIRCOOL CORPORATION	100.0
	DENSO AIR SYSTEMS CORPORATION	100.0
	DENSO SALES JAPAN CORPORATION	100.0
	ASMO CO., LTD.	92.4 (12.6)
	DENSO WAVE INC.	75.2
	DENSO TECHNO CO., LTD.	100.0
	DENSO FINANCE&ACCOUNTING CENTER CO., LTD.	100.0
	DENSOTRIM CO., LTD.	80.0
	DENSO KYUSHU CORPORATION	100.0
	DENSO HOKKAIDO CORPORATION	100.0
	Other 47 companies	—
North America	DENSO INTERNATIONAL AMERICA, INC.	100.0
	DENSO PRODUCTS AND SERVICES AMERICAS, INC.	100.0 (100.0)
	DENSO MANUFACTURING MICHIGAN, INC.	100.0 (100.0)
	DENSO MANUFACTURING TENNESSEE, INC.	100.0 (100.0)
	DENSO MANUFACTURING ATHENS TENNESSEE, INC	100.0 (100.0)
	ASMO NORTH AMERICA, LLC.	100.0 (100.0)
	ASMO NORTH CAROLINA, INC.	100.0 (100.0)
	ASMO GREENVILLE OF NORTH CAROLINA, INC.	100.0 (100.0)
	DENSO MANUFACTURING ARKANSAS, INC.	100.0 (100.0)
	KYOSAN DENSO MANUFACTURING KENTUCKY, LLC	100.0 (100.0)
	DENSO SALES CANADA, INC.	100.0
	DENSO MANUFACTURING CANADA, INC.	100.0
	DENSO MEXICO S.A. DE C.V.	95.0 (95.0)
	Other 15 companies	—

Segment	Company Name	Voting rights (%)
Europe	DENSO INTERNATIONAL EUROPE B.V.	100.0
	DENSO EUROPE B.V.	100.0 (100.0)
	DENSO INTERNATIONAL UK, LTD.	100.0 (100.0)
	DENSO MANUFACTURING UK, LTD.	100.0 (100.0)
	DENSO BARCELONA S.A.	100.0 (100.0)
	DENSO MANUFACTURING ITALIA S.p.A.	100.0 (100.0)
	DENSO THERMAL SYSTEMS S.p.A.	100.0 (100.0)
	DENSO MANUFACTURING HUNGARY, LTD.	100.0 (100.0)
	DENSO MANUFACTURING CZECH s.r.o.	100.0 (100.0)
	DENSO THERMAL SYSTEMS POLSKA Sp.zo.o.	100.0 (100.0)
	Other 25 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)

Segment	Company Name	Voting rights (%)
Asia	DENSO KOREA AUTOMOTIVE CORPORATION	100.0 (29.2)
	DENSO KOREA ELECTRONICS CORPORATION	100.0
	Other 37 companies	—
Others	DENSO DO BRASIL LTDA.	90.6
	Other 5 companies	—

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

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

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, 2017, 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, 2017, 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, 2017