Integrated Report 2020 Financial Section

DENSO CORPORATION

Contents

Financial Review

Financial Summary

DENSO CORPORATION and its Consolidated Subsidiaries

Period ended	March, 2016	March, 2017	March, 2018	March, 2019	March, 2020
Revenue (Millions of yen)	4,524,522	4,527,148	5,108,291	5,362,772	**5,153,476**
Operating profit (Millions of yen)	315,728	330,551	412,676	316,196	**61,078**
Profit for the year (Millions of yen)	260,565	273,895	343,444	279,609	**84,622**
Profit for the year: attributable to owners of the parent company (Millions of yen)	244,251	257,619	320,561	254,524	**68,099**
Comprehensive income (Millions of yen)	(75,245)	329,248	435,494	144,565	**(84,407)**
Equity: attributable to owners of the parent company (Millions of yen)	3,123,578	3,312,724	3,598,321	3,595,694	**3,397,136**
Total assets (Millions of yen)	5,042,896	5,150,762	5,764,417	5,792,414	**5,651,801**
Equity per share: attributable to owners of the parent company (Yen)	3,939.97	4,215.46	4,614.87	4,640.36	**4,384.14**
Basic profit per share (Yen)	307.19	326.32	410.45	326.47	**87.89**
Diluted profit per share (Yen)	307.18	—	—	—	—
Equity ratio attributable to owners of the parent (%)	61.94	64.32	62.42	62.08	**60.11**
Return on equity attributable to owners of the parent company (%)	7.57	8.01	9.28	7.08	**1.95**
Price-to-earnings ratio (Times)	14.73	15.01	14.18	13.22	**39.72**
Net cash provided by operating activities (Millions of yen)	552,862	467,779	558,001	533,487	**595,320**
Net cash used in investing activities (Millions of yen)	(544,834)	(108,037)	(529,053)	(514,700)	**(447,390)**
Net cash used in financing activities (Millions of yen)	(104,663)	(240,526)	(40,312)	(92,240)	**(240,948)**
Cash and cash equivalents at end of year (Millions of yen)	672,482	793,550	783,338	711,638	**597,816**
Number of employees	151,775	154,493	168,813	171,992	**170,932**

(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.

Revenue by Segment

DENSO CORPORATION and its Consolidated Subsidiaries

For the Years ended March 31, 2016 to 2020

(Unit: Millions of yen)

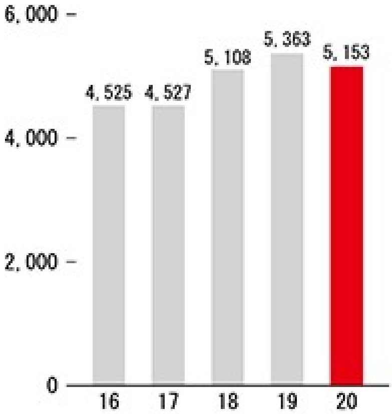
		FY2016 2015/4-2016/3	FY2017 2016/4-2017/3	FY2018 2017/4-2018/3	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Japan	Customers	1,801,547	1,871,838	2,140,729	2,284,190	2,313,046
	Intersegment	845,023	814,166	943,073	981,828	950,441
	Total	2,646,570	2,686,004	3,083,802	3,266,018	3,263,487
North America	Customers	1,081,058	1,050,460	1,122,847	1,182,012	1,145,230
	Intersegment	31,625	26,743	33,405	30,343	31,035
	Total	1,112,683	1,077,203	1,156,252	1,212,355	1,176,265
Europe	Customers	568,183	550,244	620,193	609,417	548,301
	Intersegment	25,394	27,025	42,139	43,085	34,978
	Total	593,577	577,269	662,332	652,502	583,279
Asia	Customers	1,014,708	989,505	1,146,037	1,215,115	1,086,862
	Intersegment	146,525	149,770	176,786	201,288	191,593
	Total	1,161,233	1,139,275	1,322,823	1,416,403	1,278,455
Total	Customers	4,465,496	4,462,047	5,029,806	5,290,734	5,093,439
	Intersegment	1,048,567	1,017,704	1,195,403	1,256,544	1,208,047
	Total	5,514,063	5,479,751	6,225,209	6,547,278	6,301,486
Others	Customers	59,026	65,101	78,485	72,038	60,037
	Intersegment	474	715	513	709	702
	Total	59,500	65,816	78,998	72,747	60,739
Consolidated		4,524,522	4,527,148	5,108,291	5,362,772	5,153,476

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

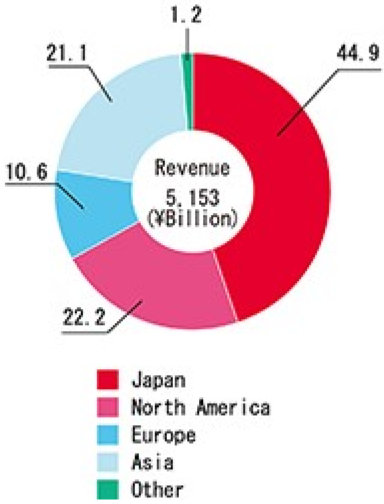
Financial Highlights

For the years ended March 31, 2016 to 2020

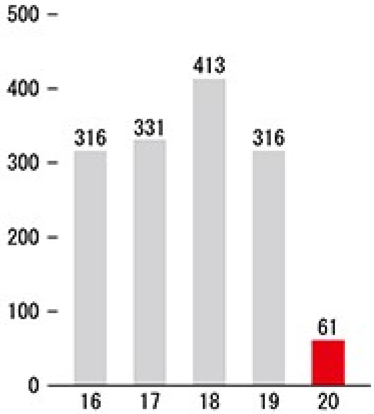
Revenue
(¥Billion)



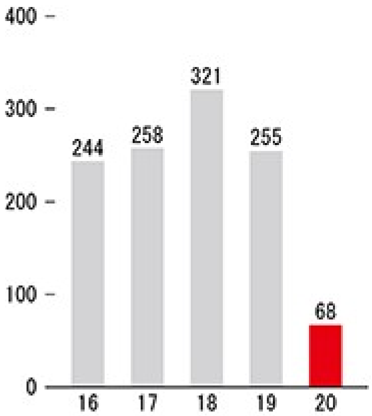
Revenue by segment
(For external customers only)
(%)



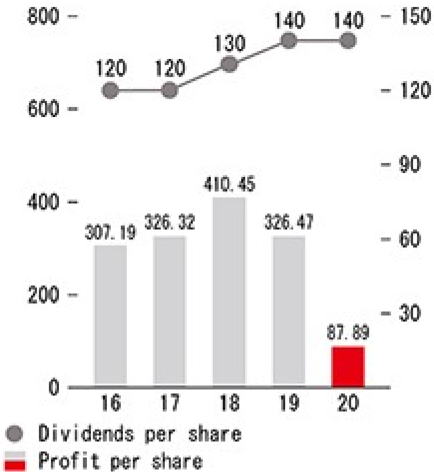
Operating profit
(¥Billion)



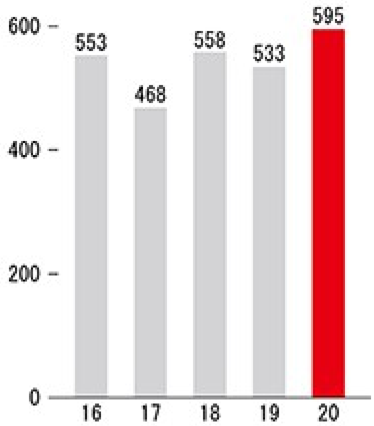
Profit for the year:attributable to owners of the parent company
(¥Billion)



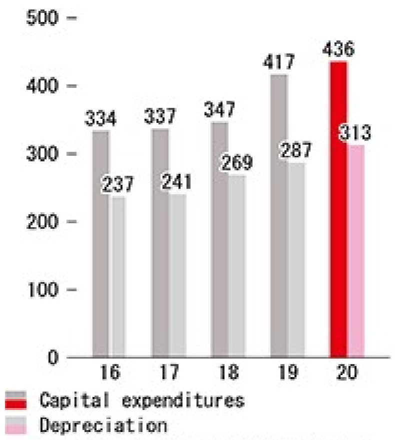
Basic profit per share and Dividends per share
(Yen)



Net cash provided by operating activities
(¥Billion)

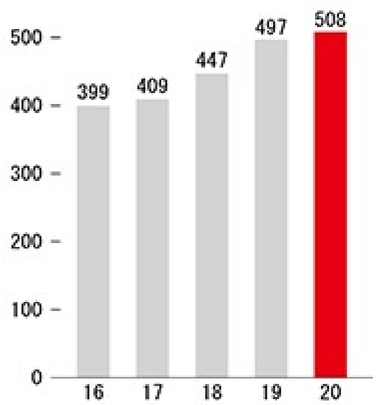


Capital expenditures and Depreciation
(¥Billion)



Depreciation for FY2020 includes right-of-use assets.

R&D expenses
(¥Billion)



Management's Discussion and Analysis

1. Business overview

During the fiscal year ended March 31, 2020, the spread of protectionism, such as trade conflict between the United States and China, affected international trade and the world economy entered a downward phase. The spread of COVID-19 has exacerbated this situation, causing further deterioration of the world economy. The Japanese economy experienced a slowdown owing to the impact of the consumption tax increase and other factors. Automobile markets contracted in the United States and China owing to trade conflict, in India as a result of financial uncertainty, and in ASEAN countries due to tighter loan controls and other factors. The Japanese market also contracted, affected by the impact of the consumption tax increase. In addition, the adverse effect of the spread of COVID-19 became apparent since February 2020 with the growth rate of each market turning negative.

2. Management strategy

DENSO CORPORATION (hereinafter referred to as the "Company") formulated the DENSO Group Long-term Policy 2030 together with the slogan "Bringing hope for the future for our planet, society and all people." In addition, as a road map to realize the above Policy, the Company formulated the DENSO Group Long-term Plan 2025. According to these initiatives, the Company will endeavor to contribute to happiness for everyone by performing our business operations, focusing on Electrification, Advanced Safety & Automated Driving, Connected Cars, and Non-automotive Businesses (FA* and agriculture, etc.).

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

<Fields of focus>

(1) The Company has long been engaged in the development of electrification technology to provide its customers with earth-friendly electrified vehicle systems that ensure more comfortable transportation. As a result, the Company has accumulated production achievements globally by achieving higher performance, more compactness and lower fuel consumption for major electrified products; these attributes are indispensable for hybrid vehicles. Going forward, by leveraging its broad range of businesses, the Company will endeavor to contribute to efficiency improvement if fuel economy and saving of electricity usage by connecting all the onboard systems and products and through efficient energy management in the vehicle.

1) **Electrification Innovation Center opened**

In the field of electrification, the Company is committed to the technological innovation that is essential for realizing the future mobility society and has been developing and manufacturing key components for electric vehicles. To meet the rising global demand for automotive electrification technologies and products, the Company is strengthening its ability to develop and produce them. As part of this initiative, the Company established the Electrification Innovation Center at DENSO's Anjo Plant in June 2020. The Electrification Innovation Center conducts advanced R&D*, fabricates and tests prototypes, and is responsible for the launch and stabilization of mass-production lines to accelerate product development in the electrification field.

*R&D: Research and Development

2) **DENSO's Hirose Plant**

In April 2020, the Hirose Plant, which previously belonged to Toyota Motor Corporation, became part of the Company and began its operation as DENSO's Hirose Plant. In the electrification field, along with the Anjo Plant, the Hirose Plant will be a global mother factory responsible for product development and establishment of production processes. By promoting competitive products related to electrification around the world, the Company will contribute to realization of a sustainable society.

(2) To achieve Quality of Mobility in society without any traffic accidents and where everyone can travel freely and safely, the Company has been working continually to develop safety technology with high quality and reliability. In addition to its long-nurtured sensing technology, the Company intends to contribute to the development of Automated Driving (AD) technology by refining its Artificial Intelligence (AI) and information technologies. Rigorously abiding by the commitment to "Quality," which has been unchanged since its foundation, the Company will continue to deliver a future mobility society with high security.

1) **New company was established to develop semiconductors for innovation in mobility worldwide**

In April 2020, Toyota Motor Corporation and the Company established MIRISE Technologies (MIRISE), a joint venture to conduct research and advanced development of next-generation in-vehicle semiconductors. MIRISE will accelerate the development of next-generation in-vehicle semiconductors that play a key role in technology innovation for electric vehicles and automated driving vehicles in terms of both vehicles and components by combining Toyota Motor Corporation's knowledge of mobility with the Company's knowledge of in-vehicle components. The goal is to achieve the future of mobility while preserving a pleasant environment and ensuring safety and comfort.

2) **Accelerating development in the advanced mobility field through co-creation in the Tokyo metropolitan area**

The Company is promoting R&D of automated driving at its R&D base in the Tokyo metropolitan area, which is positioned as the headquarters for cutting-edge development in the advanced mobility field. Through co-creation with automobile manufacturers and external partners, the Company is accelerating planning, development, and verification with the aim of achieving early commercialization. In July 2020, the Company will open a new facility with a test track and an office building at a former site of Haneda Airport. By establishing an R&D system with capabilities for verification tests on public roads using cars, the Company aims to further accelerate the pace of our development.

3. Results of operations

(1) Revenue and profit

Although sales volume remained flat until the third quarter, revenue of the Group decreased by ¥209.3 billion, or 3.9%, to ¥5,153.5 billion for the year ended March 31, 2020 due to a significant market contraction caused by the COVID-19 pandemic in the fourth quarter and exchange rate fluctuations.

Operating profit decreased by ¥255.1 billion, or 80.7%, to ¥61.1 billion owing to a provision for quality costs in the second half of the fiscal year and reduction in production volume reflecting lower sales. Consequently, profit before income taxes decreased by ¥266.4 billion, or 74.8%, to ¥89.6 billion, and profit attributable to owners of the parent company decreased by ¥186.4 billion, or 73.2%, to ¥68.1 billion.

(2) Policy on allocation of earnings

Dividends

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

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

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

Accordingly, the Company, at its Board of Directors meeting held on April 30, 2020, resolved that the fiscal year-end dividends for the fiscal year ended March 31, 2020, be ¥70 per share of the Company's common stock (for a total of ¥54.2 billion) and the date of commencement of the dividends payment thereof be May 26, 2020. The annual dividends for the fiscal year ended March 31, 2020, including the interim dividends, is ¥140 per share.

Acquisition of treasury stock

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

In the future, while giving consideration to cash flows, the Company will maintain this share repurchasing policy as an important tool in improving ROE and increasing shareholder value.

Source of funds and liquidity risk management

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

Capital expenditures/depreciation

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

Capital expenditures and depreciation during the fiscal year ended March 31, 2020 were ¥436.4 billion and ¥312.9 billion, respectively.

Capital expenditures/depreciation by segment

In regard to capital expenditures by geographic segment, the Group focused its investment on the most of regions to increase production, and mainly invests in new products and rationalization measures. As a result, capital expenditures spent in Japan were ¥277.5 billion.

In regions outside Japan, capital expenditures in North America, Europe, Asia, and other areas were ¥46.1 billion, ¥26.1 billion, ¥84.2 billion, and ¥2.5 billion, respectively.

R&D activities

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

The Group's R&D expenses, including the amount recognized as assets for the fiscal year ended March 31, 2020, totaled ¥507.8 billion.

R&D expenses by segment

By geographic segment, R&D expenses in Japan were ¥450.1 billion.

In regions outside Japan, R&D expenses in North America, Europe, Asia, and other areas were ¥30.4 billion, ¥12.4 billion, ¥14.0 billion, and ¥0.9 billion, respectively.

Approximately 89% of total R&D expenses arose in Japan. The Group continues to aim for the achievement of a society with global-advanced-mobility through the reinforcement of research function in other areas.

4. Risk management

(1) Business environmental risks

Economic risk

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

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

Exchange rate risk

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

For Group operations involving manufacturing in Japan for export, a strong yen against other currencies decreases the worldwide price competitiveness of its products and can have an adverse effect on operating results. The Group performs local production and currency hedging in order to reduce risks associated with fluctuation in exchange rates and interest rates, 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.

(2) Risks related to business activities

New product development risk

While the Group believes that it can continue to develop original and appealing new products by investing in R&D with the target of around 9% of revenue, 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.
・There is no guarantee that newly developed products or technologies will be protected as proprietary intellectual property rights.
・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 automobile manufacturers have increased in recent years.

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

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

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.

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 powertrain systems, electrification systems, sensors and semiconductors, thermal systems, and mobility electronics in automotive parts. 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.

Corporate acquisition or capital alliance risk

The Group aims to expand business, enhance functions, or develop new technologies by strengthening existing partnerships or forming new partnerships. To achieve this, the Group establishes new companies or invests in existing companies through alliances with other companies, and there is the possibility that the Group will continue to invest in the future.

The Group executes new investments only after holding extensive discussions from a wide range of perspectives, but if there is a downturn in the value of a company the Group has invested in, or if there is a disagreement with a partnering company regarding strategy or priorities, it may not be possible to enjoy benefits commensurate with the investment, which would make it difficult to recover the amount invested and possibly 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, Europe, and 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 strikes, terrorist incidents, military conflict, epidemics, and other events.

Risks related to increasing importance of environmental problem

The Group complies with domestic and overseas environmental laws and regulations, incorporates sustainability perspectives into management strategies, and works to reduce its environmental impact and realize highly-efficient transportation. Specifically, the Group is striving to reduce the environmental impact of its business activities, pursue environmental efficiency and resource productivity, and develop products that conform with environmental regulations.

However, environmental efforts are becoming increasingly important, and various regulations may be revised or strengthened in the future, and immediate actions as well as initiatives targeting the future may be required. If such actions are inadequate, it may have an adverse effect on the Group's operating results and financial condition, such as a decrease in product sales, limits on production volume, or a decline in reputation.

Rather than only viewing climate change as a risk, the Group sees climate change as an opportunity, and aims to solve social issues related to climate change through its business activities. In addition, the Group endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in order to clarify its stance on assessing risks and opportunities related to climate change as well as their impacts. The Group will continue to assess the impacts of climate change and disclose the related information.

Information security risks

The Group uses a variety of information technology internal networks and systems. Information technology, such as advanced driver assistance and automated driving, is also used in the Group's in-vehicle products.

The Group has constructed security measures for its internal networks, production lines, and other assets, in order to protect information assets and realize a stable supply of products. In addition, the Group is developing technology to protect in-vehicle products from cyberattacks and building its own system to ensure that they are installed.

However, fraudulent acts such as cyberattacks are becoming more threatening, and there is a possibility that the Group could become a target. In the event of cyberattacks and other fraudulent acts that greatly exceeds expectations, interruptions of important operations, leaks of confidential information, adverse effects on the functioning of in-vehicle products, or other issues, could occur. This could lead to loss of competitiveness or a decline in reputation, which could in turn have an adverse effect on the Group’s operating results and financial condition.

(3) Regulatory, legal, political and other risks

Risks of natural disasters and power outages

In order to minimize the potential negative impact of manufacturing lines being shut down in the event of a large-scale natural disaster, accident, epidemic, or other such events, the Group carries out disaster-prevention inspections and equipment checks on a regular basis.

The Group has also formulated a business continuity plan (BCP) and emergency action manuals in order to mitigate the impacts of such disasters. However, there is no guarantee that the Group can totally prevent or reduce the impact of stoppages caused by natural disasters or other events at the Group's manufacturing facilities, or at the Group's corporate customers or suppliers. For example, many of the Group's places of 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.

Legal proceedings

The Group endeavors to ensure continual legal compliance in the course of its business activities. Nevertheless, the Group has been subject to the alleged violation of antitrust law or competition law in connection with certain past transactions regarding specific auto parts from the authorities in certain countries, coping with several lawsuits filed in the United States, etc., and engaged in settlement negotiations with certain automobile manufacturers. Accordingly, such an event may have an adverse effect on the Group's operating results and financial condition.

Impact of the COVID-19 pandemic

With respect to the COVID-19, the Group will place top priority on the health and safety of customers, business partners, and employees.

Also, in order to prevent the further spread of COVID-19, the Group will thoroughly implement infection control measures in accordance with WHO guidelines and government authorities in each country, restrict traffic to and from countries and regions with high risk of infection, cancel events, and promote teleworking as the Group carries out business activities.

As of the date of submission of this report, the Group is working to reduce the impacts on our business, and there are no problems with securing raw materials and parts, but due to lockdowns instituted by government authorities in each country, the Group and some of business partners have suspended plant operations and have adjusted production, which has led to the emergence of some obstacles to production and delivery activities.

Due to the spread of COVID-19, the global economy is expected to see the largest negative growth since the 2008 global financial crisis. If the situation goes on for an even longer period of time, the number of vehicles sold by automobile manufacturers will decline severely due to the global economic downturn and other factors, and it will become difficult to secure raw materials and parts. If this occurs, it may adversely affect the Group’s operating results and financial condition.

Results of Operations

1. Overview

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

(1) Results of operations

1) Revenue and profit

Although sales volume remained flat until the third quarter, revenue of the Group decreased by ¥209.3 billion, or 3.9%, to ¥5,153.5 billion for the year ended March 31, 2020 due to a significant market contraction caused by the COVID-19 pandemic in the fourth quarter and exchange rate fluctuations.

Operating profit decreased by ¥255.1 billion, or 80.7%, to ¥61.1 billion, owing to the provision for quality costs in the second half of the fiscal year and reduction in production volume reflecting lower sales. Consequently, profit before income taxes decreased by ¥266.4 billion, or 74.8%, to ¥89.6 billion, and profit attributable to owners of the parent company decreased by ¥186.4 billion, or 73.2%, to ¥68.1 billion.

Revenue and profit or (loss) by segment

By geographical segment, revenue in Japan decreased by ¥2.5 billion, or 0.1%, year over year, to ¥3,263.5 billion, as a result of the consumption tax increase and decrease in exports in spite of increase in sales, mainly to Toyota Motor Corporation. An Operating loss of ¥88.8 billion was recorded, in contrast to operating income of ¥126.0 billion in the previous year. This result was mainly due to the provision for quality costs. Assets stood at ¥3,726.7 billion, ¥195.3 billion more than at the previous fiscal year-end, mainly due to increases in cash and cash equivalents and deferred tax assets.

Revenue in North America decreased by ¥36.1 billion, or 3.0%, year over year, to ¥1,176.3 billion. Operating profit decreased by ¥6.1 billion, or 20.6%, year over year, to ¥23.5 billion, mainly due to accelerated investment for increased production capacity and decreased production volume that can not be offset by efforts of cost reduction. Assets stood at ¥625.2 billion, ¥10.3 billion more than at the previous fiscal year-end, mainly due to increases in other financial assets and inventories.

Revenue in Europe decreased by ¥69.2 billion, or 10.6%, year over year, to ¥583.3 billion due to market contraction. Operating profit decreased by ¥8.5 billion, or 37.1%, year over year, to ¥14.4 billion due to decreased production volume and increase in labor costs. Assets stood at ¥386.2 billion, ¥23.7 billion less than at the previous fiscal year-end, mainly due to decreases in trade and other receivables and property, plant and equipment.

Revenue in Asia decreased by ¥137.9 billion, or 9.7%, year over year, to ¥1,278.5 billion, due to market contraction. Operating profit decreased by ¥25.1 billion, or 19.6%, year over year, to ¥103.3 billion, mainly due to decreased production volume. Assets stood at ¥1,071.9 billion, ¥32.2 billion less than at the previous fiscal year-end, mainly due to decreases in trade and other receivables and cash and cash equivalents.

Revenue in other regions decreased by ¥12.0 billion, or 16.5%, year over year, to ¥60.7 billion. Operating profit decreased by ¥0.5 billion, or 5.2%, year over year, to ¥9.8 billion. Assets stood at ¥38.2 billion, ¥8.7 billion less than at the previous fiscal year-end, mainly due to decreases in trade and other receivables and property, plant and equipment.

2) Financial position

Total assets as of March 31, 2020, decreased by ¥140.6 billion, to ¥5,651.8 billion due to a decrease in trade and other receivables.

The total for current and non-current liabilities increased by ¥70.9 billion, to ¥2,092.9 billion due to an increase in the provision for quality costs. Equity decreased by ¥211.5 billion, to ¥3,558.9 billion mainly due to a decrease in mark-to-market of investment securities.

3) Cash flows

In terms of cash flows for the fiscal year ended March 31, 2020, operating activities provided net cash of ¥595.3 billion, investing activities used net cash of ¥447.4 billion, and financing activities used net cash of ¥240.9 billion. As a result, cash and cash equivalents decreased by ¥113.8 billion, to ¥597.8 billion.

Net cash provided by operating activities for the fiscal year ended March 31, 2020 increased by ¥61.8 billion from ¥533.5 billion in the previous fiscal year to ¥595.3 billion. This increase was due to the ¥169.7 billion increase in the provision for quality costs and the ¥114.6 billion increase in collection of trade receivables, but this was partially offset by the 266.4 billion decrease in profit before income taxes.

Net cash used in investing activities decreased by ¥67.3 billion from ¥514.7 billion in the previous fiscal year to ¥447.4 billion. This decrease was due to the ¥82.1 billion decrease in deposit amount of time deposits.

Net cash used in financing activities increased by ¥148.7 billion from ¥92.2 billion in the previous fiscal year to ¥240.9 billion. This increase mainly reflected the ¥125.9 billion decrease in proceeds from borrowings, and the ¥90.0 billion decrease in issuance of bonds, but this was partially offset by the ¥28.4 billion decrease in purchase of treasury stock.

Purchases of property, plant and equipment increased by 3.5% from ¥410.2 billion in the previous fiscal year to ¥424.5 billion. This increase was due to an increase in capital investment related to the enhancement of the production platform and future domains on which the Group is currently working towards completion (electrification, advanced safety, etc.).

Consolidated Statement of Financial Position

(Unit: Millions of yen)

	Note	FY2019 As of March 31, 2019	**FY2020 As of March 31, 2020**
Assets			
Current assets			
Cash and cash equivalents	7	711,638	**597,816**
Trade and other receivables	8	1,009,049	**885,461**
Inventories	9	612,539	**651,670**
Other financial assets	10	182,921	**121,177**
Other current assets		96,163	**90,194**
Total current assets		2,612,310	**2,346,318**
Non-current assets			
Property, plant and equipment	11	1,689,949	**1,758,233**
Right-of-use assets	12	—	**47,254**
Intangible assets	13	86,292	**96,388**
Other financial assets	10	1,200,258	**1,121,066**
Investments accounted for using the equity method	33	106,138	**104,590**
Retirement benefit assets	18	38,324	**38,298**
Deferred tax assets	14	29,774	**117,856**
Other non-current assets		29,369	**21,798**
Total non-current assets		3,180,104	**3,305,483**
Total assets		5,792,414	**5,651,801**

(Unit: Millions of yen)

	Note	FY2019 As of March 31, 2019	**FY2020 As of March 31, 2020**
Liabilities and equity			
Current liabilities			
Bonds and borrowings	15	144,038	**112,402**
Trade and other payables	16	939,550	**891,949**
Other financial liabilities	29	26,263	**53,436**
Income tax payables		26,474	**22,839**
Provisions	17	87,959	**269,733**
Other current liabilities		69,663	**72,708**
Total current liabilities		1,293,947	**1,423,067**
Non-current liabilities			
Bonds and borrowings	15	406,160	**352,970**
Other financial liabilities	29	8,595	**34,166**
Retirement benefit liabilities	18	250,634	**253,198**
Provisions	17	1,198	**4,429**
Deferred tax liabilities	14	42,352	**13,469**
Other non-current liabilities		19,162	**11,633**
Total non-current liabilities		728,101	**669,865**
Total liabilities		2,022,048	**2,092,932**
Equity			
Capital stock	19	187,457	**187,457**
Capital surplus	19	268,776	**272,375**
Treasury stock	19	(56,803)	**(56,815)**
Other components of equity	19	401,582	**226,653**
Retained earnings	19	2,794,682	**2,767,466**
Equity attributable to owners of the parent company		3,595,694	**3,397,136**
Non-controlling interests		174,672	**161,733**
Total equity		3,770,366	**3,558,869**
Total liabilities and equity		5,792,414	**5,651,801**

Consolidated Statement of Income

(Unit: Millions of yen)

	Note	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Revenue	5, 21	5,362,772	**5,153,476**
Cost of revenue	9, 11, 12, 13	(4,531,872)	**(4,423,876)**
Gross profit		830,900	**729,600**
Selling, general and administrative expenses	11, 12, 13, 23	(513,323)	**(668,509)**
Other income	22	23,556	**21,981**
Other expenses	23, 32	(24,937)	**(21,994)**
Operating profit	5	316,196	**61,078**
Finance income	24	48,629	**47,250**
Finance costs	24	(12,007)	**(9,621)**
Foreign exchange losses		(4,386)	**(14,530)**
Share of the profit of associates and joint ventures accounted for using the equity method		7,599	**5,454**
Profit before income taxes		356,031	**89,631**
Income tax expenses	14	(76,422)	**(5,009)**
Profit for the year		279,609	**84,622**
Attributable to:			
Owners of the parent company		254,524	**68,099**
Non-controlling interests		25,085	**16,523**

(Unit: Yen)

Earnings per share			
Basic	25	326.47	87.89
Diluted	25	—	—

Consolidated Statement of Comprehensive Income

(Unit: Millions of yen)

	Note	FY2019 2018/4-2019/3	**FY2020 2019/4-2020/3**
Profit for the year		279,609	**84,622**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value loss on equity instruments designated as FVTOCI	26, 28	(116,822)	**(91,690)**
Remeasurements of defined benefit pension plans	18, 26	(12,565)	**436**
Share of other comprehensive income of investments accounted for using the equity method	26	(11)	**(34)**
Total		(129,398)	**(91,288)**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	26	(5,853)	**(76,037)**
Cash flow hedges	26	(23)	**(141)**
Share of other comprehensive income of investments accounted for using the equity method	26	230	**(1,563)**
Total		(5,646)	**(77,741)**
Total other comprehensive income		(135,044)	**(169,029)**
Comprehensive income for the year		144,565	**(84,407)**
Attributable to:			
Owners of the parent company		118,875	**(91,936)**
Non-controlling interests		25,690	**7,529**

Consolidated Statement of Changes in Equity

Year ended March 31, 2020

(Unit: Millions of yen)

	Note	Equity attributable to owners of the parent company				
					Other components of equity	
		Capital stock	Capital surplus	Treasury stock	Net fair value gain (loss) on equity instruments designated as FVTOCI	Remeasure-ments of defined benefit pension plans
As of April 1, 2018		187,457	265,985	(57,677)	499,730	—
Profit for the year		—	—	—	—	—
Other comprehensive income		—	—	—	(116,845)	(13,011)
Comprehensive income for the year		—	—	—	(116,845)	(13,011)
Acquisition of treasury stock	19	—	—	(28,447)	—	—
Disposal of treasury stock	19	—	2,067	4,648	—	—
Retirement of treasury stock	19	—	(4,125)	24,673	—	—
Dividends	20	—	—	—	—	—
Changes in the ownership interest in subsidiaries without a loss of control		—	4,849	—	—	—
Changes by business combinations		—	—	—	—	—
Transfer to retained earnings		—	—	—	(4,198)	13,011
Transfer from retained earnings to capital surplus		—	—	—	—	—
Other		—	—	—	—	—
Total transactions with the owners		—	2,791	874	(4,198)	13,011
As of March 31, 2019		187,457	268,776	(56,803)	378,687	—
As of April 1, 2019		**187,457**	**268,776**	**(56,803)**	**378,687**	—
Profit for the year		—	—	—	—	—
Other comprehensive income		—	—	—	**(91,768)**	**1,551**
Comprehensive income for the year		—	—	—	**(91,768)**	**1,551**
Acquisition of treasury stock	19	—	—	**(13)**	—	—
Disposal of treasury stock	19	—	**(1)**	**1**	—	—
Retirement of treasury stock		—	—	—	—	—
Dividends	20	—	—	—	—	—
Changes in the ownership interest in subsidiaries without a loss of control		—	**3,599**	—	—	—
Changes by business combinations		—	—	—	—	—
Transfer to retained earnings		—	—	—	**(13,343)**	**(1,551)**
Transfer from retained earnings to capital surplus		—	**1**	—	—	—
Other		—	—	—	—	—
Total transactions with the owners		—	**3,599**	**(12)**	**(13,343)**	**(1,551)**
As of March 31, 2020		**187,457**	**272,375**	**(56,815)**	**273,576**	—

(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, 2018		28,534	154	528,418	2,674,138	3,598,321	175,972	3,774,293
Profit for the year		—	—	—	254,524	254,524	25,085	279,609
Other comprehensive income		(5,770)	(23)	(135,649)	—	(135,649)	605	(135,044)
Comprehensive income for the year		(5,770)	(23)	(135,649)	254,524	118,875	25,690	144,565
Acquisition of treasury stock	19	—	—	—	—	(28,447)	—	(28,447)
Disposal of treasury stock	19	—	—	—	—	6,715	—	6,715
Retirement of treasury stock	19	—	—	—	(20,548)	—	—	—
Dividends	20	—	—	—	(105,348)	(105,348)	(15,119)	(120,467)
Changes in the ownership interest in subsidiaries without a loss of control		—	—	—	—	4,849	(11,859)	(7,010)
Changes by business combinations		—	—	—	—	—	—	—
Transfer to retained earnings		—	—	8,813	(8,813)	—	—	—
Transfer from retained earnings to capital surplus		—	—	—	—	—	—	—
Other		—	—	—	729	729	(12)	717
Total transactions with the owners		—	—	8,813	(133,980)	(121,502)	(26,990)	(148,492)
As of March 31, 2019		22,764	131	401,582	2,794,682	3,595,694	174,672	3,770,366
As of April 1, 2019		22,764	131	401,582	2,794,682	3,595,694	174,672	3,770,366
Profit for the year		—	—	—	68,099	68,099	16,523	84,622
Other comprehensive income		(69,677)	(141)	(160,035)	—	(160,035)	(8,994)	(169,029)
Comprehensive income for the year		(69,677)	(141)	(160,035)	68,099	(91,936)	7,529	(84,407)
Acquisition of treasury stock	19	—	—	—	—	(13)	—	(13)
Disposal of treasury stock	19	—	—	—	—	0	—	0
Retirement of treasury stock		—	—	—	—	—	—	—
Dividends	20	—	—	—	(108,486)	(108,486)	(15,592)	(124,078)
Changes in the ownership interest in subsidiaries without a loss of control		—	—	—	—	3,599	(4,953)	(1,354)
Changes by business combinations		—	—	—	—	—	28	28
Transfer to retained earnings		—	—	(14,894)	14,894	—	—	—
Transfer from retained earnings to capital surplus		—	—	—	(1)	—	—	—
Other		—	—	—	(1,722)	(1,722)	49	(1,673)
Total transactions with the owners		—	—	(14,894)	(95,315)	(106,622)	(20,468)	(127,090)
As of March 31, 2020		(46,913)	(10)	226,653	2,767,466	3,397,136	161,733	3,558,869

Consolidated Statement of Cash Flows

(Unit: Millions of yen)

	Note	FY2019 2018/4-2019/3	**FY2020 2019/4-2020/3**
Cash flows from operating activities			
Profit before income taxes		356,031	**89,631**
Depreciation		287,317	**312,888**
Impairment losses		6,654	**255**
Increase in retirement benefit liabilities		435	**1,593**
Decrease in retirement benefit assets		3,373	**3,994**
Interest and dividend income		(46,709)	**(45,139)**
Interest expenses		9,223	**7,324**
Foreign exchange (gains) losses		(2,151)	**5,933**
Share of the profit of associates and joint ventures accounted for using the equity method		(7,599)	**(5,454)**
Losses on sales or disposal of property, plant and equipment		4,526	**6,219**
(Increase) Decrease in trade receivables		(14,660)	**99,961**
Increase in inventories		(47,384)	**(57,299)**
Increase (Decrease) in trade payables		14,464	**(17,156)**
Increase in provisions		17,872	**187,575**
Other		37,268	**42,806**
Subtotal		618,660	**633,131**
Interest received		12,535	**13,588**
Dividends received		37,020	**35,679**
Interest paid		(8,944)	**(7,557)**
Income taxes paid		(125,784)	**(79,521)**
Net cash provided by operating activities		533,487	**595,320**
Cash flows from investing activities			
(Increase) Decrease in time deposits		(31,316)	**50,764**
Purchases of property, plant and equipment		(410,241)	**(424,510)**
Proceeds from sales of property, plant and equipment		11,260	**9,744**
Purchases of intangible assets		(37,265)	**(42,121)**
Purchases of equity instruments		(56,075)	**(51,350)**
Purchases of debt instruments		(14,240)	**(30,342)**
Proceeds from sales and redemption of equity instruments		3,417	**24,473**
Proceeds from sales and redemption of debt instruments		24,834	**4,543**
(Decrease) Increase from acquisitions of control over subsidiaries		(8,141)	**142**
Other		3,067	**11,267**
Net cash used in investing activities		(514,700)	**(447,390)**
Cash flows from financing activities			
Net Increase in short-term borrowings	30	3,082	**18,061**
Proceeds from borrowings	30	146,225	**20,335**
Repayments of long-term borrowings	30	(134,324)	**(115,263)**
Repayments of lease liabilities	30	(13,209)	**(24,545)**
Issuance of bonds	30	90,000	**—**
Redemption of bonds	30	(30,000)	**(20,000)**
Dividends paid	20	(105,348)	**(108,486)**
Dividends paid to non-controlling interests		(15,119)	**(15,592)**
Purchase of treasury stock		(28,447)	**(13)**
Other	30	(5,100)	**4,555**
Net cash used in financing activities		(92,240)	**(240,948)**
Foreign currency translation adjustments on cash and cash equivalents		1,753	**(20,804)**
Net decrease in cash and cash equivalents		(71,700)	**(113,822)**
Cash and cash equivalents at beginning of year		783,338	**711,638**
Cash and cash equivalents at end of year	7	711,638	**597,816**

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Reporting entity

The Company is a business corporation located in Japan. The Company and the Group develop, manufacture and sell mainly automotive parts in each segment of Japan, North America, Europe, Asia, and Others. The automotive parts are related to Powertrain systems, Electrification systems, Sensor & Semiconductor, Thermal systems, and Mobility Electronics, as well as Non-automotive 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, 2020 were approved on June 19, 2020 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 judgement, estimates and assumption

In preparing the consolidated financial statements in accordance with IFRS, management established judgement, 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.

The estimates and the associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis because actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1) Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations, that managements have made in the process of applying the Group's accounting policies and that have the most significant impact on the amounts recognized in the consolidated financial statements:

・Scope of consolidation: Note 3 "Significant accounting policies" (1) Basis of consolidation

・Revenue: Note 3 "Significant accounting policies" (16) Revenue and Note 21 "Revenue"

2) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period that may have siginificant risks that will cause a material adjustment to the carring amounts of assets and liabilities within the next financial year, are as follows.

The outlook for the global economy still remains uncertain due to the COVID-19 pandemic, and there is no unified view as to when the pandemic will settle down. For this reason, at this point in time, the Company has no outlook for the next financial year. The Company assumes that production and sales activities of automobile parts will be likely to recover to a certain level in the next financial year as the pandemic settles down and economic activities resume in each region. Among the accounting estimates below, this effect mainly relates to the impairment loss on non-financial assets, recoverability of deferred tax assets, and measurment of fair value of financial instruments, however, there are no material impact on the consolidated financial statements for the year ended March 31, 2020. Due to the fact that these estimates include uncertainties, if unpredictable changes to assumptions lead to change in estimates, this may result in additional expenses or losses in the future.

Impairment loss on non-financial assets

Regarding non-financial assets such as property, plant and equipment, right-of-use assets and intangible assets, if there is an event or change in circumstances indicating that the carrying amount of the asset or cash-generating unit may exceed the recoverable amount, the recoverable amount of the asset or cash-generating unit is estimated, assuming there is an indication of possible impairment. In estimating the recoverable amount, assumptions such as the remaining useful life of the asset, projections of future cash flow, and discount rates are used.

The Group believes that the judgments concerning the recognition of an indication of possible impairment and impairment loss, as well as estimates of recoverable amounts, are reasonable. However, due to the fact that these estimates include uncertainties, if unpredictable changes to assumptions, etc., lead to changes in estimates related to assessing non-financial assets, this may result in additional impairment losses in the future.

More information on impairment losses on property, plant and equipment is found in Note 11 "Property, plant and equipment (4) Impairment losses." More information on impairment losses on right-of-use assets is found in Note 12 "Right-of-use assets (2) Impairment losses." More information on impairment losses and impairment test for goodwill on intangible assets is found in Note 13 "Intangible assets (2) Impairment losses and (4) Impairment test for goodwill."

Recoverability of deferred tax assets

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 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.

The Group believes that the estimates related to assessing the recoverability of deferred tax assets are reasonable. However, due to the fact that these estimates include uncertainties, if unpredictable changes to assumptions, etc., lead to changes in estimates related to assessing the recoverability of deferred tax assets, this may result in an additional reduction of deferred tax assets in the future.

More information on the deductible temporary differences and unused tax losses for which deferred tax assets are not recognized is found in Note 14 "Income taxes (2) Deferred tax assets and liabilities."

Reserve for warranty and provision for loss on antitrust issues

Reserve for warranty

Warranty expenses include repair expenses for repair requests, which are primarily from end users, as well as repair expenses for covered vehicles, which are based on defect handling (including recalls) determined by automobile manufacturers and other customers.

Of the above, the reserve for warranty related to the defect handling is calculated based on the reasonably expected amount which would be paid by the Group, in the event that automobile manufacturers or other customers handled the repairs for products manufactured by the Group in the past. The amount is calculated by multiplying the following; a) the number of target vehicles; b) the repair expenses per unit; c) the defect handling incidence rate; and d) the expected burden ratio with customers such as automobile manufacturers. These assumptions cause a higher degree of estimation uncertainty because they include an estimate of the man-hours required for repairs, which depend on the cause of product defects as well as the results of negotiations with customers such as automobile manufactures.

The Group believes that the estimates of the assumptions related to the calculation of warranty expenses are reasonable. However, these estimates include uncertainties, and if the estimates differ from the actual warranty expenses as a result of unpredictable changes made to assumptions, etc., it may be necessary to recognize additional reserve for warranty or make reversal of it.

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 litigation settlements, etc., which the Company has accepted with regard to allegations of antitrust law infractions for past transactions of specific automotive parts.

Litigation settlements mainly include; a) surcharges that are ordered to be paid as a result of investigations by national governments and competition authorities; b) litigation settlements to be paid as a result of settlement negotiations with the plaintiffs in civil cases; and c) litigation settlements to be paid as a result of individual settlement negotiations with automobile manufacturers. The Group has established an internal system to prevent violations of the Antitrust Law, and publicly announced a safety declaration regarding the Antitrust Law in March 2012. As such, the Group believes that the risk of antitrust violations has been reduced. However, the Group estimates the amounts of litigation settlements that are expected to occur in the future, and reviews the provisions amount that have already been recorded, in a timely manner. For the estimates and the reviews, the Group considers the status of investigations by the national governments and competition authorities related to transactions before March, 2012, the progress of settlement negotiations, the settlement of past settlement sought cases, and consultation with the attorneys in charge.

The Group believes that it reasonably estimates surcharges and settlements, as well as reviews these estimates. However, these estimates and estimate revisions include uncertainties, which depend on the intentions of the authorities and counterparties, and it may be necessary to make additional provisions for loss on antitrust issues or reversal as a result of unpredictable changes made to assumptions, etc.

For the amount of these provisions, see Note 17 "Provisions."

Measurement of defined benefit obligation

The present value of the defined benefit obligation is determined with actuarial calculations using assumptions such as discount rate, rate of salary increase, rate of employee turnover and mortality rate. The discount rate is a particularly significant assumption. 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.

The Group believes that the estimates of the assumptions related to the calculation of defined benefit obligation are reasonable. However, due to the fact that these estimates include uncertainties, this could have an impact on the evaluation of Group's defined benefit obligation, if the assumptions differ from the actual results, or if there are changes made to the assumptions.

The carrying amount of the defined benefit obligation, and the expected impact on defined benefit obligation due to fluctuations in the discount rate are found in Note 18 "Post-employment benefits (1) Defined benefit plans."

Measurement of fair value of financial instruments

The fair value of certain 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. If available, quoted prices on active markets, or observable prices, are used to measure fair value. If such information is not available, unobservable inputs that reflect the Group's judgment on assumptions, which market participants would use when pricing the assets or liabilities, are used. The Group develops unobservable inputs using the best information available in the circumstances, which might include the Group's own data.

The Group believes that assessments of fair value of financial instruments are reasonable. However, due to the fact that these assessments include uncertainties, this could result in changes in fair value measurement if there are changes in estimates for financial instruments, which may arise from unpredictable changes made to assumptions, etc.

The carrying amounts of financial instruments, details of material unobservable inputs and valuation methodologies for the financial instruments classified as Level 3 are found in Note 28 "Financial instruments (4) Fair value measurements."

(5) Changes in accounting policies

The Group applied the following standards for the year ended March 31, 2020.

Standards	Standard names	Overview
IFRS 16	Leases	Accounting and disclosure requirements for leases

(Application of IFRS 16, "Leases")

The Group applied IFRS 16, "Leases" (issued in January 2016) (referred to as "IFRS 16"), from the fiscal year ended March 31, 2020. The cumulative effect of applying this standard is recognized at the date of initial application, in accordance with the transition requirements.

In applying IFRS 16, the Group applied the practical expedient stated in paragraph C3 of IFRS 16 to continue to apply the assessments made under International Accounting Standard ("IAS") 17, "Leases" (referred to as "IAS 17"), and International Finacial Reporting Interpretations Committee ("IFRIC") 4, "Determining Whether an Arrangement Contains a Lease." After the date of initial application, the assessment is made under the provisions of IFRS 16.

With the introduction of a single lessee accounting model in accordance with the application of IFRS 16, the lessee, with regard to all leases excluding short-term leases and leases for which the underlying asset is of low value, is required to recognize its right to use the underlying leased assets during the lease period as right-of-use assets, and its obligation to make lease payments to the lessor as lease liabilities.

For the lessee's leases previously classified as operating leases under IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application.

Lease liabilities are measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

Right-of-use assets are measured at an amount equal to the lease liabilities adjusted by the amount of any prepaid lease payments, etc.

For the lessee's leases previously classified as finance leases under IAS 17, the carrying amounts of the right-of-use assets and lease liabilities at the date of initial application are measured at the carrying amounts of the lease assets and lease liabilities immediately before that date measured applying IAS 17. The weighted average lessee's incremental borrowing rates applied to lease liabilities is 0.33%.

The following practical expedients are used in the initial application of IFRS 16.

・Application of a single discount rate to a portfolio of leases with reasonably similar characteristics
・Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same manner as short-term leases
・Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application
・Use of hindsight to determine the lease term for lease contracts containing options to extend or terminate the lease

The difference between the non-cancellable operating lease contracts applying IAS 17 disclosed as of March 31, 2019, and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application, is as follows.

(Unit: Millions of yen)

Non-cancellable operating lease contracts (March 31, 2019)	7,865
Finance lease liabilities（March 31, 2019）	17,879
Short-term leases and leases of low-value assets	(1,043)
Cancellable operating lease contracts, etc.	32,291
Lease liabilities at the date of initial application	56,992

Right-of-use assets recognized at the date of initial application in the consolidated statement of financial position is ¥48,855 million. These right-of-use assets include reclassifications from lease assets previously classified as finance leases under IAS 17, etc.

The impact on the consolidated statement of income is immaterial, and there is no effect on retained earnings at the date of initial application.

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 inter-group 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. The unification of the fiscal year-end is impracticable as required by the local legal systems under which they are governed.

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

2) Associates and joint ventures

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

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of parties sharing control. Investments in joint ventures are accounted for using the equity method.

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

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

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

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

3) Joint operations

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

(2) Business combination and goodwill

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

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

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

・ Deferred tax assets (or liabilities) and liabilities (or assets) related to employee benefit arrangements are recognized and measured in accordance with IAS 12, "Income Taxes," and IAS 19, "Employee Benefits," respectively;

・Assets or disposal groups that are classified as held for sale in accordance with IFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," are recognized and measured in accordance with the standard; and

・Liabilities or equity instruments related to share-based remuneration of the acquiree or share-based remuneration of the Company entered into to replace such arrangements of the acquiree are measured in accordance with IFRS 2, "Share-based Payment."

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

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

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

(3) Foreign currency translation

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

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

Differences arising from the translation and settlement are recognized in profit or loss during the period, as presented in "Foreign exchange losses" 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

1) Financial assets

i) Initial recognition and measurement

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

a) Financial assets measured at the amortized cost

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

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

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

b) Financial assets measured at fair value

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

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

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

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

ii) Subsequent measurement

After initial recognition, financial assets are measured based on the following classifications:

a) Financial assets measured at amortized cost

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

b) Financial assets measured at fair value

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

However, gains or losses occurring from the disposal or remeasurement of fair value of the equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income and accumulated within "Other components of equity," and are not recognized in profit or loss. The amount is transferred to retained earnings when the equity instruments are derecognized. Dividends for equity instruments are recognized in profit or loss for the period when the right to receive dividends is established and included in "Finance income" in the consolidated statement of income. Net gains or losses arising from equity instruments measured at fair value through profit or loss are recognized as "Finance income" or "Finance costs" in the consolidated statement of income (Note 28 "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

Financial assets measured at amortized cost are assessed at the end of each reporting period as to whether there has been a significant increase in credit risk since initial recognition. If the credit risk on financial assets has increased significantly since initial recognition, or for credit-impaired, the lifetime expected credit losses are recognized as allowance for doubtful accounts. If there has been no significant increase in credit risk, the 12-month expected credit losses are recognized as allowance for doubtful accounts. The expected credit losses are measured based on the discounted present value of the difference between the contractual cash flows to be received in accordance with the contract and the cash flows expected to be received.

With regard to trade receivables, the lifetime expected credit losses are recognized as allowance for doubtful accounts since initial recognition. Additional allowance for doubtful accounts relating to financial assets or reversal of allowance for doubtful accounts when reducing the allowance for doubtful accounts is recognized in the consolidated statement of income.

iv) Derecognition of financial assets

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

2) Financial liabilities

i) Initial recognition and measurement

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

ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on the following classifications:

a) Financial liabilities measured at amortized cost

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

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

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

iii) Derecognition of financial liabilities

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

3) Derivatives and hedge accounting

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

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

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

Cash flow hedge

The Group adopts only cash flow hedges as part of its hedge accounting.

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

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

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

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

4) Offsetting financial assets and financial liabilities

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

(5) Cash and cash equivalents

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

(6) Inventories

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

(7) Property, plant and equipment

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

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

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

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

(8) Investment property

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

(9) Intangible assets

1) Separately acquired intangible assets

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

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

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

2) Internally generated intangible assets

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

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

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

Initial recognition of internally generated intangible assets comprises the total expenditure incurred from the date when all the preceding conditions have been satisfied to the date when the developments are finished. Development costs are recognized as an expense as incurred if the internally generated intangible assets are not recognized.

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

3) Intangible assets acquired in business combinations

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

4) Amortization of intangible assets

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

- Software: 3 to 5 years
- Development costs: 3 years
- Customer-related assets: 8 years
- Technology-based assets: 10 years

5) Derecognition of intangible assets

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

(10) Leases

The Group applied IFRS 16 "Leases" from the fiscal year ended March 31, 2020. The cumulative effect of applying this standard is recognized at the date of initial application and for comparative information the previous accounting standards of IAS 17 "Leases" and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" are applied.

For the year ended March 31, 2019;

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

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

1) As lessee

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

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

2) As lessor

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

For the year ended March 31, 2020;

1) As lessee

With regard to all leases excluding short-term leases and leases for which the underlying asset is of low value, at the commencement date, the Group recognizes its right to use the underlying leased assets during the lease period as right-of-use assets, and its obligation to make lease payments to the lessor as lease liabilities.

For the initial measurement of right-of-use assets, it is measured at the amount of the initial measurement of the lease liabilities adjusted by prepaid lease payments, etc. After the initial measurement, a “cost model” is applied for subsequent measurement, and the carrying amount is measured at cost less any accumulated depreciation and any accumulated impairment loss. The right of use assets are depreciated from the commencement date to the earlier of the end of the useful life or the end of the lease term based on a straight-line method, unless it is reasonably certain that ownership will be acquired at the end of the lease term.

For the initial measurement of lease liabilities, it is measured at the present value of the lease payments that are not paid at the commencement date, and the payments are discounted using the lessee’s incremental borrowing rate. After the initial measurement, the lease liabilities are measured by reflecting interest on the lease liabilities and the lease payments made for subsequent measurement.

The lease term is determined as the non-cancellable period of leases, together with both periods covered by an option to extend the leases if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the leases if the lessee is reasonably certain not to exercise that option.

For short-term leases and leasese of low-value assets, right-of-use assets and lease liabilities are not recognized and lease payments are recognized as expenses based on a straight-line method over the lease term.

2) As lessor

If substantially all the risks and rewards incidental to ownership of an underlying asset are transferred, the lease is classified as a finance lease, while in the other cases the lease is classified as an operating lease.

Finace lease receivables are measured at an amount equal to the net investment in the lease.

(11) Borrowing costs

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

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

(12) Impairment of non-financial assets

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

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

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

(13) Non-current assets held for sale

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

(14) Provisions

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

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

Main provisions are recorded as follows;

Reserve for warranty

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

Provision for loss on antitrust issues

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

(15) Employee benefits

1) Post-employment benefits

i) Defined benefit plans

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

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

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

ii) Defined contribution plans

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

2) Other long-term employee benefits

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

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

3) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed during the period when the service is rendered.

Bonus accrual is recognized as a liability when the Group has present legal or constructive obligations to pay as a result of past employee service, and when reliable estimates of the obligation can be made.

(16) Revenue

The Group recognizes revenue by applying the following steps:

STEP 1: Identifying the contract with a custumer
STEP 2: Identifying the performance obligations in the contract
STEP 3: Determining the transaction price
STEP 4: Allocating the transaction price to each performance obligation in the contract
STEP 5: Recognizing revenue when satisfying a performance obligation

The Group serves automobile manufacturers around the world and supplies a wide range of products, including Powertrain systems, Electrification systems, Sensor & Semiconductor, Thermal systems, and Mobility Electronics. In the Aftermarket and Non-automotive business, the Group also supplies automotive service parts and accessories to end-users.

The Group's performance obligation is primarily to deliver a finished product to the customer. In principle, it is deemed that control of the product is transferred to the customer and the performance obligation is satisfied at the time of delivery of the finished product to the customer; therefore, revenue is recognized at that point. Consideration for these performance obligations is generally received within one year after the performance obligation is satisfied, according to separately determined payment conditions, and does not include any significant financing components. Revenue is determined at the amount after the deduction of discounts, rebates, and considerations payable to a customer for transactions of parts provided to suppliers with charge under the repurchase agreement. In addition, when the transaction prices are not determined at the time of transfer of the promised products, estimate is made based on an appropriate method such as using the most likely amount to determine the amount of variable consideration. With regard to certain transactions of parts provided to suppliers with charge under the repurchase agreement, inventories continue to be recognized as a result of deemed financing transactions, and corresponding amounts of those parts retained by the suppliers are recognized as financial liabilities.

(17) Government grants

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

(18) Income taxes

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

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

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

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

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

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

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

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

An entity shall offset deferred tax assets and deferred tax liabilities, if and only if, the entity has a legally enforceable right to set off the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The Company and its wholly owned subsidiaries in Japan adopt the consolidated taxation system.

(19) Equity

Common stock

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

Treasury stock

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

(20) Fair value measurements

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

1) Level 1

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

2) Level 2

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

3) Level 3

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

The fair value is measured at the financial and accounting division by following the Company's measurement policy and procedure, and the measurement is executed based on the valuation models which reflect nature, feature, and risks of each financial instrument most appropriately. In addition, transitions of important indexes which impact on the changes of fair value are examined on an ongoing basis. In cases where the changes in the fair value of financial instruments are found to be significant as a result of examination, it is reported to the executive of finance and accounting division to obtain approval.

(21) Levies

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

(22) Earnings per share

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

(23) Dividends

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

4. New accounting standards not yet adopted by the Group

New or revised major standards and interpretations that were issued by the date of approval of the consolidated financial statement but were not yet adopted by the Group as of March 31, 2020, is as follows:

Standards	Title	Date of mandatory adoption (Fiscal year of commencement thereafter)	Reporting periods of application by the Group	Description of new standards and amendments
IFRS 17	Insurance contracts	January 1, 2021	Fiscal year ending March 31, 2022	Consistent accounting practices for insurance contracts

The Group is currently assessing the possible impacts of the application of IFRS 17, "Insurance contracts," and it is not able to estimate reasonably at this moment.

5. Segment information

(1) Outline of reportable segments

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

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

The Company is in charge of business activities in Japan. Meanwhile, DENSO INTERNATIONAL AMERICA, INC. is in charge in the United States of America, Canada, and Mexico as the North America region, DENSO INTERNATIONAL EUROPE B.V. is in charge in Europe regions (mainly Netherlands, United Kingdom, Italy, Spain, Hungary, and Czech, etc.), respectively. In Asia (mainly Thailand, Malaysia, Indonesia, India, Taiwan, China, and Korea, etc.), DENSO INTERNATIONAL ASIA CO., LTD. (Thailand), DENSO INTERNATIONAL ASIA PTE. LTD. (Singapore), and DENSO (CHINA) INVESTMENT CO., LTD., these 3 companies have been cooperating together as a management unit to strengthten the system that is closely linked to the region for both sides of optimal production and supply system.

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, 2019 (Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	2,284,190	1,182,012	609,417	1,215,115	5,290,734	72,038	—	5,362,772
Intersegment	981,828	30,343	43,085	201,288	1,256,544	709	(1,257,253)	—
Total	3,266,018	1,212,355	652,502	1,416,403	6,547,278	72,747	(1,257,253)	5,362,772
Segment profit or losses	126,027	29,616	22,827	128,440	306,910	10,316	(1,030)	316,196
Finance income								48,629
Finance costs								(12,007)
Foreign exchange losses								(4,386)
Share of the profit of associates and joint ventures accounted for using the equity method								7,599
Profit before income taxes								356,031

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

Other material items

(Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	189,049	37,905	25,021	56,724	308,699	2,124	—	310,823
Impairment losses	461	—	—	6,193	6,654	—	—	6,654
Reversal of impairment losses	—	—	—	—	—	—	—	—
Investments accounted for using the equity method	81,904	5,206	506	18,677	106,293	—	(155)	106,138
Increase in non-current assets (Note 2)	290,281	60,167	26,589	70,865	447,902	3,424	—	451,326

(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, 2020 (Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan (Note 2)	North America	Europe	Asia	Total			
Revenue								
Customers	2,313,046	1,145,230	548,301	1,086,862	5,093,439	60,037	—	5,153,476
Intersegment	950,441	31,035	34,978	191,593	1,208,047	702	(1,208,749)	—
Total	3,263,487	1,176,265	583,279	1,278,455	6,301,486	60,739	(1,208,749)	5,153,476
Segment profit or losses	(88,763)	23,520	14,350	103,305	52,412	9,777	(1,111)	61,078
Finance income								47,250
Finance costs								(9,621)
Foreign exchange losses								(14,530)
Share of the profit of associates and joint ventures accounted for using the equity method								5,454
Profit before income taxes								89,631

(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) Provision for warranty reserve of ¥ 210,604 mllion is included in the segment loss of Japan segment.

Other material items

(Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Depreciation and amortization	214,501	41,711	24,811	54,916	335,939	1,987	—	337,926
Impairment losses	255	—	—	—	255	—	—	255
Reversal of impairment losses	—	—	618	—	618	—	—	618
Investments accounted for using the equity method	76,001	4,616	7,177	16,935	104,729	—	(139)	104,590
Increase in non-current assets (Note 2)	351,375	44,479	24,596	81,963	502,413	2,339	1,565	506,317

(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, right-of-use assets, and intangible assets.

(3) Assets for each reportable segment

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Japan	3,531,440	3,726,725
North America	614,890	625,171
Europe	409,924	386,194
Asia	1,104,044	1,071,865
Others (Note 1)	46,910	38,214
Corporate assets (Note 2)	85,206	(196,368)
Consolidated	5,792,414	5,651,801

(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 year ended March 31, 2019

For disaggregated revenue by type of products and services, see Note 21 "Revenue."

For the year ended March 31, 2020

For disaggregated revenue by type of products and services, see Note 21 "Revenue."

(5) Geographic information

1) Revenue

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Japan	2,211,859	2,237,929
The United States	1,012,971	936,587
Others	2,137,942	1,978,960
Total	5,362,772	5,153,476

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

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

2) Non-current assets

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Japan	1,111,010	1,230,044
Others	665,231	671,831
Total	1,776,241	1,901,875

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

2. Non-current assets, a total of property, plant and equipment, and intangible assets for the fiscal year ended March 31, 2019 and property, plant and equipment, right-of-use assets, and intangible assets for the fiscal year ended March 31, 2020, 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.

Disaggregated revenue by segment is ¥1,542,504 mllion in Japan, ¥507,480 million in North America, ¥77,120 million in Europe, ¥404,946 million in Asia, and ¥24,479 million in other areas.

(Unit: Millions of yen)

FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
2,519,262	2,556,529

6. Business combinations

For the year ended March 31, 2019

(1) TOHOKU PIONEER EG CORPORATION

The Company acquired TOHOKU PIONEER EG CORPORATION (hereinafter, "TOHOKU PIONEER EG") as a consolidated subsidiary as of December 1, 2018.

1) Description of business combination

TOHOKU PIONEER EG, an investee of the Company, became the Company's subsidiary on December 1, 2018, as a result of the Company obtaining all of the shares from PIONEER CORPORATION, its previous parent company, and the ownership ratio of TOHOKU PIONEER EG's voting rights held by the Company rose from 0% (as of November 30, 2018) to 100% (as of December 1, 2018).

2) Reason for the business combination

As a system integrator of various automated production equipment, TOHOKU PIONEER EG has supplied advanced custom-made FA production systems that meet the needs of customers in various industries such as the automotive, electrical/electronic equipment, medical, food, semiconductor, and IT industries, etc.

The Company's track record for introducing automation systems at 130 plants globally has an affinity with TOHOKU PIONEER EG's experience in offering FA production system. By taking a stake in TOHOKU PIONEER EG, the Company will be able to offer optimal streamlined FA system solutions, thereby contributing to the overall development of the manufacturing industry.

3) Summary of the acquiree

Name	TOHOKU PIONEER EG CORPORATION (Renamed DENSO FA YAMAGATA CO., LTD.)
Business description	Manufacturing various custom-made automated production equipment and high-precision flow measurement equipment

4) Acquisition date

December 1, 2018

5) Consideration transferred and its components

(Unit: Millions of yen)

	Amount
Payment by cash	10,950
Total of the consideration transferred	10,950

6) Fair values of assets, liabilities, and goodwill on the acquisition date

(Unit: Millions of yen)

	Provisional amount	Adjustment	Adjusted amount
Total of the consideration transferred for the acquired shares (A)	10,900	50	10,950
Assets Trade and other receivables Other current assets Non-current assets	 3,276 6,449 3,131	 — — 87	 3,276 6,449 3,218
Total assets	12,856	87	12,943
Liabilities Current liabilities Non-current liabilities	 3,877 1,554	 — 26	 3,877 1,580
Total liabilities	5,431	26	5,457
Equity (B)	7,425	61	7,486
Goodwill (A-B) (Note)	3,475	(11)	3,464

(Note) Goodwill

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

7) Payment for acquisition of control over the subsidiary

(Unit: Millions of yen)

	Amount
Payment by cash	10,950
Cash and cash equivalents held by the acquiree at the time of the acquisition	1,967
Total of the consideration transferred	8,983

8) Revenue and profit of the acquiree

The acquiree's revenue and profit for the year before elimination of inter-company transactions after the acquisition date, which are recorded in the consolidated statement of income for the fiscal year ended March 31, 2019, were ¥3,197 million and ¥292 million, respectively.

(2) Consolidated revenue and profit assuming that the business combination was completed at the beginning of the fiscal year

The following is pro forma information (unaudited) of consolidated performance of the Group for the fiscal year ended March 31, 2019, assuming that the business combination of TOHOKU PIONEER EG was completed and control was acquired as of April 1, 2018.

(Unit: Millions of yen)

	FY2019 2018/4-2019/3
Revenue (pro forma)	5,368,619
Profit for the year (pro forma)	280,118

For the year ended March 31, 2020

There are no applicable items.

7. Cash and cash equivalents

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Cash and deposits	679,288	576,065
Short-term investments	32,350	21,751
Total	711,638	597,816

8. Trade and other receivables

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Notes and accounts receivable	822,583	710,175
Other	188,912	179,181
Less: Allowance for doubtful accounts	(2,446)	(3,895)
Total	1,009,049	885,461

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

9. Inventories

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Merchandise and finished products	193,515	211,960
Work in process	249,395	258,624
Raw materials and supplies	169,629	181,086
Total (Note)	612,539	651,670

(Note) The amounts of write-down of inventories to net realizable value recognized as "Cost of revenue" for the years ended March 31, 2019 and 2020 were ¥16,633 million and ¥14,664 million, respectively.

10. Other financial assets

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Financial assets measured at amortized cost		
Bank deposits	169,174	113,794
Debt securities	4,222	1,750
Other	23,163	21,579
Financial assets measured at fair value through profit or loss		
Equity securities	—	28,875
Derivative assets (Note)	6,872	6,631
Financial assets measured at fair value through other comprehensive income and their fair values etc.,		
Equity securities	1,179,748	1,069,614
Total	1,383,179	1,242,243

Current assets	182,921	121,177
Non-current assets	1,200,258	1,121,066
Total	1,383,179	1,242,243

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

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

(Unit: Millions of yen)

Security name	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Toyota Motor Corporation	586,976	588,243
TOYOTA INDUSTRIES CORPORATION	164,546	153,576
Towa Real Estate Co., Ltd.	75,444	67,354
Renesas Electronics Corporation	44,370	59,573
AISIN SEIKI CO., LTD.	51,276	34,539
IBIDEN CO.,LTD.	12,973	18,287
KDDI CORPORATION	12,297	16,447
KOITO MANUFACTURING CO., LTD.	42,092	14,719
JTEKT CORPORATION	25,022	13,503
TOYOTA BOSHOKU CORPORATION	17,072	13,117

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

Dividend income related to financial assets measured at fair value through other comprehensive income that the Group held through the years ended March 31, 2019 and 2020 were ¥32,563 million and ¥32,499 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 are as follows:

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Fair value	4,924	17,098
Cumulative gains that have been previously recognized in equity as other comprehensive income—pre-tax (Note)	4,198	13,343
Dividend income	154	331

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

11. Property, plant and equipment

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

(Unit: Millions of yen)

Acquisition cost	Buildings and structures	Machinery and equipment	Land	Construction in progress (Note 1)	Other	Total
Balance, April 1, 2018	938,057	2,898,928	189,874	155,516	726,665	4,909,040
Acquisition	29,138	129,801	262	213,189	40,940	413,330
Business combinations (Note 3)	940	240	1,166	580	72	2,998
Disposals	(9,833)	(121,868)	(421)	(485)	(32,173)	(164,780)
Foreign exchange differences	(2,605)	(6,420)	(410)	(256)	(2,622)	(12,313)
Other (Note 2)	26,663	128,947	1,322	(187,907)	29,567	(1,408)
Balance, March 31, 2019	982,360	3,029,628	191,793	180,637	762,449	5,146,867
Adjustment on applying IFRS 16	—	—	—	—	(7,681)	(7,681)
Acquisition	19,792	164,299	834	202,607	45,342	432,874
Business combinations	—	—	—	—	—	—
Disposals	(7,555)	(117,229)	(697)	(1,074)	(35,278)	(161,833)
Foreign exchange differences	(16,502)	(61,455)	(2,460)	(4,476)	(17,462)	(102,355)
Other (Note 2)	18,552	131,667	190	(181,737)	28,671	(2,657)
Balance, March 31, 2020	996,647	3,146,910	189,660	195,957	776,041	5,305,215

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

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

(Note 3) The increase in "Business combinations" is due to the acquisition of TOHOKU PIONEER EG for the year ended March 31, 2019 (See Note 6 "Business combinations").

(Unit: Millions of yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and equipment	Land	Construction in progress	Other	Total
Balance, April 1, 2018	582,905	2,132,974	1,112	1,132	599,710	3,317,833
Depreciation (Note)	29,285	200,014	—	—	58,018	287,317
Impairment losses	3,900	1,475	—	—	945	6,320
Disposals	(7,989)	(112,973)	—	—	(29,736)	(150,698)
Foreign exchange differences	(251)	(2,837)	(5)	—	(1,610)	(4,703)
Other	436	1,767	(25)	—	(1,329)	849
Balance, March 31, 2019	608,286	2,220,420	1,082	1,132	625,998	3,456,918
Adjustment on applying IFRS 16	—	—	—	—	(2,836)	(2,836)
Depreciation (Note)	29,880	214,342	—	—	56,797	301,019
Impairment losses	7	—	—	—	5	12
Disposals	(6,424)	(106,836)	—	—	(32,374)	(145,634)
Foreign exchange differences	(7,806)	(41,206)	(4)	—	(13,537)	(62,553)
Other	(201)	807	—	(1,055)	505	56
Balance, March 31, 2020	623,742	2,287,527	1,078	77	634,558	3,546,982

(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, 2018	355,152	765,954	188,762	154,384	126,955	1,591,207
Balance, March 31, 2019	374,074	809,208	190,711	179,505	136,451	1,689,949
Balance, March 31, 2020	372,905	859,383	188,582	195,880	141,483	1,758,233

(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)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Contractual commitments for the acquisition of property, plant and equipment	139,767	155,302

(4) Impairment losses

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

For the year ended March 31, 2019

Business group	Segment	Types of assets	Class	Amount (Millions of yen)
Mobility Electronics	Asia	Production facility for mobility electronics	Buildings and structures, machinery, and equipment, etc.	6,193

For the year ended March 31, 2019, the Group wrote down the undepreciated balances of its Korean subsidiary's production facilities to their recoverable amounts and recognized ¥6,193 million in impairment losses for relevant assets because the expected profit was not foreseen due to the deterioration of a part of the business environment in certain regions. For the calculation of its value in use, the discount rate used for calculating the present value of future cash flows was 7.31%.

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

For the year ended March 31, 2020

The impairment losses are not presented as they are immaterial.

(5) Reversal of impairment losses

The reversal of impairment losses the Group recognized for each fiscal year is as follows:

For the year ended March 31, 2019

The reversal of impairment losses is not applicable.

For the year ended March 31, 2020

In the Europe segment, impairment losses of ¥618 million were reversed due to the fact that certain machinery and equipment, for which impairment losses had been recognized previously, were regarded as being profitable.

The reversal of impairment losses is included in "Other income" in the consolidated statement of income.

12. Right-of-use assets

(1) The breakdown and movement of acquisition cost, accumulated depreciation and accumulated impairment losses, and carrying amount of right-of-use assets are as follows:

(Unit: Millions of yen)

Acquisition cost	Buildings and structures	Machinery and equipment	Land	Other	Total
Balance, April 1, 2019 (After reflecting transitional requirements)	28,709	5,609	14,633	3,882	52,833
Acquisition	9,703	1,460	964	530	12,657
Disposals	(1,124)	(827)	(82)	(194)	(2,227)
Foreign exchange differences	(304)	(189)	(595)	(11)	(1,099)
Other	—	—	—	—	—
Balance, March 31, 2020	36,984	6,053	14,920	4,207	62,164

(Unit: Millions of yen)

Accumulated depreciation and accumlated impairment losses	Buildings and structures	Machinery and equipment	Land	Other	Total
Balance, April 1, 2019 (After reflecting transitional requirements)	28	1,503	1,620	827	3,978
Depreciation (Note)	9,003	1,208	896	762	11,869
Impairment losses	—	—	—	—	—
Disposals	(241)	(384)	(9)	(58)	(692)
Foreign exchange differences	(56)	(67)	(127)	(3)	(253)
Other	—	8	—	—	8
Balance, March 31, 2020	8,734	2,268	2,380	1,528	14,910

(Note) Depreciation on right-of-use 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	Buildings and structures	Machinery and equipment	Land	Other	Total
Balance, April 1, 2019 (After reflecting transitional requirements)	28,681	4,106	13,013	3,055	48,855
Balance, March 31, 2020	28,250	3,785	12,540	2,679	47,254

(2) Impairment losses

For the year ended March 31, 2020

The impairment losses are not applicable.

For the lease transactions, see Note 29 "Leases."

13. Intangible assets

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

(Unit: Millions of yen)

Acquisition cost	Software	Development costs	Goodwill	Customer-related assets	Technology-based assets
Balance, April 1, 2018	70,553	4,549	11,558	21,745	6,445
Acquisition	18,263	—	—	—	—
Internally generated	3,493	1,574	—	—	—
Business combinations (Note)	51	—	3,464	—	—
Disposals	(1,024)	—	(52)	—	—
Foreign exchange differences	(257)	—	(31)	—	—
Other	914	—	—	—	—
Balance, March 31, 2019	91,993	6,123	14,939	21,745	6,445
Acquisition	17,684	551	—	—	—
Internally generated	5,329	6,340	—	—	—
Business combinations	—	—	—	—	—
Disposals	(4,742)	—	(133)	—	—
Foreign exchange differences	(1,124)	—	(67)	—	—
Other	577	—	—	—	—
Balance, March 31, 2020	109,717	13,014	14,739	21,745	6,445

(Unit: Millions of yen)

Acquisition cost	Other	Total
Balance, April 1, 2018	18,954	133,804
Acquisition	10,079	28,342
Internally generated	1,131	6,198
Business combinations (Note)	96	3,611
Disposals	(217)	(1,293)
Foreign exchange differences	(71)	(359)
Other	(8,838)	(7,924)
Balance, March 31, 2019	21,134	162,379
Acquisition	8,519	26,754
Internally generated	2,366	14,035
Business combinations	—	—
Disposals	(44)	(4,919)
Foreign exchange differences	(150)	(1,341)
Other	(6,308)	(5,731)
Balance, March 31, 2020	25,517	191,177

(Note) The increase in "Business combinations" is due to the acquisition of TOHOKU PIONEER EG for the year ended March 31, 2019 (See Note 6 "Business combinations").

(Unit: Millions of yen)

Accumulated amortization and accumulated impairment losses	Software	Development costs	Goodwill	Customer-related assets	Technology-based assets
Balance, April 1, 2018	46,908	1,989	393	2,797	269
Amortization (Note)	15,228	1,169	—	3,828	645
Impairment losses	—	—	334	—	—
Disposals	(986)	—	—	—	—
Foreign exchange differences	(234)	—	—	—	—
Other	(3,290)	—	—	—	—
Balance, March 31, 2019	57,626	3,158	727	6,625	914
Amortization (Note)	17,040	1,392	—	3,424	645
Impairment losses	—	—	243	—	—
Disposals	(4,438)	—	—	—	—
Foreign exchange differences	(672)	—	—	—	—
Other	(1,520)	—	—	—	—
Balance, March 31, 2020	68,036	4,550	970	10,049	1,559

(Unit: Millions of yen)

Accumulated amortization and accumulated impairment losses	Other	Total
Balance, April 1, 2018	4,480	56,836
Amortization (Note)	2,636	23,506
Impairment losses	—	334
Disposals	(213)	(1,199)
Foreign exchange differences	(86)	(320)
Other	220	(3,070)
Balance, March 31, 2019	7,037	76,087
Amortization (Note)	2,537	25,038
Impairment losses	—	243
Disposals	(37)	(4,475)
Foreign exchange differences	(92)	(764)
Other	180	(1,340)
Balance, March 31, 2020	9,625	94,789

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

(Unit: Millions of yen)

Carrying amount	Software	Development costs	Goodwill	Customer-related assets	Technology-based assets
Balance, April 1, 2018	23,645	2,560	11,165	18,948	6,176
Balance, March 31, 2019	34,367	2,965	14,212	15,120	5,531
Balance, March 31, 2020	41,681	8,464	13,769	11,696	4,886

(Unit: Millions of yen)

Carrying amount	Other	Total
Balance, April 1, 2018	14,474	76,968
Balance, March 31, 2019	14,097	86,292
Balance, March 31, 2020	15,892	96,388

The research and development expenditures recognized in profit or loss for the years ended March 31, 2019 and 2020 were ¥495,843 million and ¥501,487 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, 2019

Impairment losses on goodwill recognized along with the decrease in profit or the disposal, etc. of TD MOBILE's directly managed stores were ¥334 million.

For the year ended March 31, 2020

Impairment losses on goodwill recognized along with the decrease in profit or the disposal, etc. of TD MOBILE's directly managed stores were ¥243 million.

(3) Material intangible assets

The material intangible assets recognized in the consolidated statement of financial position are as follows:

For the year ended March 31, 2019

	Carrying amount (Millions of yen)	Average remaining amortization periods (Years)
Customer-related assets	15,120	6.4
Technology-based assets	5,531	8.6

There are no significant intangible assets newly recognized for the year ended March 31, 2019.

For the year ended March 31, 2020

	Carrying amount (Millions of yen)	Average remaining amortization periods (Years)
Customer-related assets	11,696	5.4
Technology-based assets	4,886	7.6

There are no significant intangible assets newly recognized for the year ended March 31, 2020.

(4) Impairment test for goodwill

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

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
TD MOBILE (Note 1)	7,011	6,635
DENSO TEN group (Note 2)	1,938	1,938
DENSO FA YAMAGATA	3,464	3,464
Other	1,799	1,732
Total	14,212	13,769

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

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

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

DENSO TEN group and DENSO FA YAMAGATA's recoverable amounts for each cash-generating unit or group of cash-generating units are calculated using the maximum value in use based on the five-year business plan prepared based on past experiences and external evidence. Such business plan is approved by management. Cash flow projections beyond the five-year period are extrapolated using a steady or declining growth rate. They were discounted using the weighted-average cost of capital 6.13%-8.63% of cash-generating units or groups of cash-generating units. While the recoverable amounts exceeded carrying amounts for the year ended March 31, 2020, an increase in the discount rate of 2.2% would result in impairment losses.

14. Income taxes

(1) Income tax expenses

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

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Current income tax expenses		
Current year	95,226	79,608
Prior years	(1,331)	(882)
Total	93,895	78,726
Deferred income tax expenses		
Occurrence and reversal of temporary differences	(18,763)	(73,355)
Change in tax rates	(0)	12
Recognition of previously unrecognized deferred tax assets	(340)	(497)
Reversal of deferred tax assets recognized in the prior year	1,630	123
Total	(17,473)	(73,717)
Total of income tax expenses	76,422	5,009
Income taxes recognized in other comprehensive income	(56,637)	(44,364)

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in an applicable tax rate of 30.07% for the years ended March 31, 2019 and 2020.

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

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

(Unit: %)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Applicable statutory tax rate	30.07	30.07
Lower income tax rates applicable to income in certain foreign subsidiaries	(3.80)	(11.43)
Tax credit for R&D expenses	(3.44)	(11.30)
Dividends Received Deduction	(0.72)	(3.34)
Other	(0.64)	1.59
Actual effective tax rate	21.47	5.59

"Recognition of previously unrecognized deferred tax assets," and "Reversal of deferred tax liabilities due to change in applicable tax rates," which were separately presented for the year ended March 31, 2019, have become quantitatively immaterial and were therefore included in "Other" for the year ended March 31, 2020. "Dividends Received Deduction" which was included in "Other" for the year ended March 31, 2019, has become quantitatively material and was separately presented for the year ended March 31, 2020.

As a result, (0.10)% for "Recognition of previously unrecognized deferred tax assets," and (0.00)% for "Reversal of deferred tax liabilities due to change in applicable tax rates," for the fiscal year ended March 31, 2019, were reclassified and presented as "Other" and (0.72)% for "Dividends Received Deduction" which was included in "Other" for the fiscal year ended March 31, 2019, is separately presented for the year ended March 31, 2020.

(2) Deferred tax assets and liabilities

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

For the year ended March 31, 2019 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations (Note 2)	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets (Note 1)						
Accrued bonuses to employees	20,584	(218)	—	42	18	20,426
Reserve for warranty	9,705	8,848	—	45	3	18,601
Retirement benefit liabilities	66,842	(259)	2,581	1	(29)	69,136
Accrued vacations paid	19,319	565	—	42	1	19,927
Other	111,914	8,141	13,844	44	(91)	133,852
Total deferred tax assets	228,364	17,077	16,425	174	(98)	261,942
Deferred tax liabilities						
Investment in equity instruments	216,685	—	(37,471)	—	—	179,214
Depreciation	43,748	379	—	—	334	44,461
Retirement benefit assets	45,827	(1,451)	(2,732)	—	(13)	41,631
Other	8,356	676	(9)	103	88	9,214
Total deferred tax liabilities	314,616	(396)	(40,212)	103	409	274,520
Net	(86,252)	17,473	56,637	71	(507)	(12,578)

For the year ended March 31, 2020 (Unit: Millions of yen)

	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Exchange differences on translating foreign operations	Balance, end of year
Deferred tax assets (Note 1)						
Accrued bonuses to employees	20,426	(2,605)	—	—	(62)	17,759
Reserve for warranty	18,601	57,200	—	—	(75)	75,726
Retirement benefit liabilities	69,136	4,868	623	—	(161)	74,466
Accrued vacations paid	19,927	1,437	—	—	(26)	21,338
Other	133,852	38,990	25,622	—	(1,785)	196,679
Total deferred tax assets	261,942	99,890	26,245	—	(2,109)	385,968
Deferred tax liabilities						
Investment in equity instruments	179,214	—	(19,469)	—	—	159,745
Depreciation	44,461	7,771	—	—	(399)	51,833
Retirement benefit assets	41,631	4,227	1,411	—	(1)	47,268
Other	9,214	14,175	(61)	—	(593)	22,735
Total deferred tax liabilities	274,520	26,173	(18,119)	—	(993)	281,581
Net	(12,578)	73,717	44,364	—	(1,116)	104,387

(Note 1) The recoverability of deferred tax assets was assessed based on sufficient amounts of taxable temporary differences and future taxable income, and feasibility of tax planning.

(Note 2) The increase in "Business combinations" is due to the acquisition of TOHOKU PIONEER EG for the year ended March 31, 2019 (See Note 6 "Business combinations").

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Deferred tax assets	29,774	117,856
Deferred tax liabilities	42,352	13,469
Net deferred tax (liabilities) assets	(12,578)	104,387

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Deductible temporary differences	44,823	45,696

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Within 1st year	413	15,354
2nd year	16,424	3,605
3rd year	3,366	7,959
4th year	7,841	4,469
5th year and thereafter	29,461	25,501
Total	57,505	56,888

As of March 31, 2019 and 2020, deferred tax liabilities were not recognized for taxable temporary differences associated with investments in subsidiaries, except for undistributed profits which are determined to be distributed. This was because the Company was able to control the timing of the reversal of the temporary differences and it was certain that the temporary differences would not reverse in the foreseeable future. The taxable temporary differences associated with investments in subsidiaries in which deferred tax liabilities were not recognized as of March 31, 2019 and 2020 were ¥967,561 million and ¥1,082,556 million, respectively.

15. Bonds and borrowings

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

The Company is subject to financial covenants with respect to a portion of its borrowings from financial institutions and has complied with such covenants for the years ended March 31, 2019 and 2020. In addition, the Company monitors each compliance status to maintain the level required by such financial covenants.

	FY2019 As of March 31, 2019 (Millions of yen)	FY2020 As of March 31, 2020 (Millions of yen)	Average interest rate (%) (Note 1)	Maturity date
With collateral				
Short-term borrowings	—	—	—	—
Current portion of long-term borrowings	—	—	—	—
Long-term borrowings	—	—	—	—
Without collateral				
Short-term borrowings	106,659	61,897	1.45	—
Current portion of bonds (Note 2)	20,000	20,000	—	—
Current portion of long-term borrowings	17,379	30,505	0.34	—
Bonds (Note 2)	220,000	200,000	—	—
Long-term borrowings	186,160	152,970	0.16	From 2021 to 2028
Total	550,198	465,372	—	—

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

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

Issuer	Name of bond	Date of Issuance	FY2019 As of March 31, 2019 (Millions of yen)	FY2020 As of March 31, 2020 (Millions of yen)	Interest rate (%)	Collateral	Redemption period
DENSO Corporation	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 (20,000)	0.18	None	September 18, 2020
	The 11th unsecured bonds	September 8, 2015	10,000	10,000	0.27	None	September 20, 2022
	The 12th unsecured bonds	September 8, 2016	10,000	10,000	0.01	None	September 17, 2021
	The 13th unsecured bonds	September 8, 2016	20,000	20,000	0.14	None	September 18, 2026
	The 14th unsecured bonds	June 8, 2017	30,000	30,000	0.04	None	June 20, 2022
	The 15th unsecured bonds	June 8, 2017	40,000	40,000	0.25	None	June 18, 2027
	The 16th unsecured bonds	April 26, 2018	30,000	30,000	0.08	None	March 20, 2023
	The 17th unsecured bonds	April 26, 2018	20,000	20,000	0.18	None	March 19, 2025
	The 18th unsecured bonds	April 26, 2018	40,000	40,000	0.32	None	March 17, 2028
Total	—	—	240,000 (20,000)	220,000 (20,000)	—	—	—

(Note) The amounts in parentheses under "FY2019 and FY2020 (Millions of yen)" indicate current portion of bonds.

16. Trade and other payables

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Notes and accounts payable (Note 1)	594,090	560,585
Other (Note 2)	345,460	331,364
Total	939,550	891,949

(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.

17. Provisions

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

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

(Unit: Millions of yen)

	Reserve for warranty (Note 1)	Provision for loss on antitrust issues (Note 2)	Other	Total
Balance, April 1, 2018	40,262	21,136	9,411	70,809
Provisions made	38,842	1,191	5,135	45,168
Provisions used	(6,092)	(7,853)	(3,044)	(16,989)
Provisions reversed	(4,967)	(21)	(4,454)	(9,442)
Foreign exchange differences	(196)	101	(294)	(389)
Balance, March 31, 2019	67,849	14,554	6,754	89,157
Provisions made	229,717	—	6,563	236,280
Provisions used	(25,583)	(2,851)	(1,861)	(30,295)
Provisions reversed	(17,087)	(733)	(2,549)	(20,369)
Foreign exchange differences	(554)	(388)	331	(611)
Balance, March 31, 2020	254,342	10,582	9,238	274,162

(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 ¥5,026 million and ¥5,760 million as of March 31, 2019 and 2020, respectively. The amounts were included in "Trade and other receivables" in the consolidated statement of financial position.

(Note 2) Please see Note 32 "Contingencies."

18. Post-employment benefits

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

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

(1) Defined benefit plans

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

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Balance, beginning of year	877,116	912,297
Service cost	37,973	38,640
Interest cost on obligation	7,691	6,784
Plan amendments	(616)	(272)
Actuarial gains and losses (Demographic)	5,709	2,234
Actuarial gains and losses (Financial)	19,565	(251)
Benefits paid	(35,604)	(36,180)
Foreign exchange differences	463	(3,225)
Balance, end of year	912,297	920,027

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Balance, beginning of year	685,593	699,987
Interest income on plan assets	6,164	5,305
Plan amendments	(1,306)	205
Income from plan assets other than interest	7,396	3,207
Employer contributions	23,462	21,840
Benefits paid	(22,012)	(23,613)
Foreign exchange differences	690	(1,804)
Balance, end of year	699,987	705,127

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

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Defined benefit obligation, end of year	912,297	920,027
Plan assets, end of year	699,987	705,127
Net amount of defined benefit obligation and plan assets	212,310	214,900
Retirement benefit liabilities	250,634	253,198
Retirement benefit assets	38,324	38,298
Net amount of liabilities and assets recognized in the consolidated statement of financial position	212,310	214,900

Investment policy

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

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

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

Major components of plan assets

The fair values of plan assets for the years ended March 31, 2019 and 2020 are as follows:

As of March 31, 2019 (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	37,820	—	37,820
Global equity securities	191	—	191
Commingled funds—Japanese equity securities	—	81,074	81,074
Commingled funds—global equity securities	—	41,821	41,821
Total—Equity instruments	38,011	122,895	160,906
Debt instruments			
Japanese debt securities	22,206	—	22,206
Global debt securities	75,028	—	75,028
Commingled funds—Japanese debt securities	—	75,620	75,620
Commingled funds—global equity securities	—	89,383	89,383
Other	157	2,380	2,537
Total—Debt instruments	97,391	167,383	264,774
Insurance contracts (Note 1)	—	149,704	149,704
Other (Note 2)	75,605	48,998	124,603
Total	211,007	488,980	699,987

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

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

As of March 31, 2020 (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	37,417	—	37,417
Global equity securities	304	—	304
Commingled funds—Japanese equity securities	—	75,764	75,764
Commingled funds—global equity securities	—	46,872	46,872
Total—Equity instruments	37,721	122,636	160,357
Debt instruments			
Japanese debt securities	10,118	—	10,118
Global debt securities	11,349	—	11,349
Commingled funds—Japanese debt securities	—	74,989	74,989
Commingled funds—global equity securities	—	113,169	113,169
Other	389	3,524	3,913
Total—Debt instruments	21,856	191,682	213,538
Insurance contracts (Note 1)	—	159,181	159,181
Other (Note 2)	92,385	79,666	172,051
Total	151,962	553,165	705,127

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

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

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Discount rate	0.55	0.61

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, 2020
Discount rate: Decreased by 0.5%	71,299
Discount rate: Increased by 0.5%	(65,420)

The Group expects ¥23,141 million of the contribution to be paid from April 1, 2020 to March 31, 2021.

The weighted-average durations of the defined benefit obligations for the years ended March 31, 2019 and 2020 were 19 years and 16 years, respectively.

(2) Defined contribution plans

The amounts recognized as expenses related to the defined contribution plans for the years ended March 31, 2019 and 2020 were ¥11,078 million and ¥11,196 million, respectively.

19. Equity and other equity items

(1) Capital stock and Capital surplus

Under 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 are as follows:

	Number of shares (Shares)	Capital stock (Millions of yen)	Capital surplus (Millions of yen)
FY2019 As of March 31, 2019	787,944,951	187,457	268,776
Increase	—	—	3,599
FY2020 As of March 31, 2020	787,944,951	187,457	272,375

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

(2) Retained earnings

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

(3) Treasury stock

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

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

	Number of shares (Shares)	Amount (Millions of yen)
FY2019 As of March 31, 2019	13,071,645	56,803
Increase	3,087	12
FY2020 As of March 31, 2020	13,074,732	56,815

(4) Other components of equity

1) Net fair value loss on equity instruments designated as FVTOCI

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

2) Remeasurements of defined benefit pension plans

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

3) Exchange differences on translating foreign operations

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

4) Cash flow hedges

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

20. Dividends

Total annual dividends for each fiscal year are as follows:

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on April 27, 2018	Ordinary shares	50,684	65	March 31, 2018	May 28, 2018
Board of Directors' meeting held on October 31, 2018	Ordinary shares	54,664	70	September 30, 2018	November 27, 2018
Board of Directors' meeting held on April 26, 2019	Ordinary shares	54,243	70	March 31, 2019	May 27, 2019
Board of Directors' meeting held on October 31, 2019	Ordinary shares	54,243	70	September 30, 2019	November 26, 2019

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 30, 2020	Ordinary shares	Retained earnings	54,243	70	March 31, 2020	May 26, 2020

21. Revenue

(1) Disaggregation of revenue

The Group serves automobile manufacturers around the world and supplies a wide range of automotive technology, system and products to mainly OEMs. In the aftermarket and non-automotive business, the Group mainly supplies automotive service parts and accessories to end-users. Revenue generated from these businesses is recorded in accordance with contracts with customers and is presented as "Revenue."

Disaggregated revenue by customer is as follows:

For the year ended March 31, 2019

(Unit: Millions of yen)

Toyota Motor Corporation Group	2,519,262
Other Original Equipment Manufacturing Sales	2,243,017
Total Original Equipment Manufacturing Sales	4,762,279
Aftermarket and Non-Automotive Business	600,493
Total	5,362,772

(Note 1) The amounts are after deduction of inter-group transactions.

(Note 2) The "Total Original Equipment Manufacturing Sales" includes lease income of ¥15,240 million, under IAS 17.

For the year ended March 31, 2020

(Unit: Millions of yen)

Toyota Motor Corporation Group	2,556,529
Other Original Equipment Manufacturing Sales	2,002,133
Total Original Equipment Manufacturing Sales	4,558,662
Aftermarket and Non-Automotive Business	594,814
Total	5,153,476

(Note 1) The amounts are after deduction of inter-group transactions.

(Note 2) The "Total Original Equipment Manufacturing Sales" includes income from subleasing right-of-use assets of ¥10,267 million, under IFRS 16.

Disaggregated revenue by product is as follows:

The breakdown of revenue by product was rearranged due to organizational change on July 1st, 2019, which is presented below.

Former organization : "Thermal Systems," "Powertrain Systems," "Electrification Systems," "Mobility Systems," "Electronic Systems," and "Others"

Rearranged organization: "Thermal Systems," "Powertrain Systems," "Mobility Electronics," "Electrification Systems," "Sensor & Semiconductor," and "Others"

Due to this change, the breakdown of revenue by product for the year ended March 31, 2019 is rearranged.

Before rearrangement:

For the year ended March 31, 2019

(Unit: Millions of yen)

	Thermal Systems	1,403,885
	Powertrain Systems	1,278,778
	Electrification Systems	800,545
	Mobility Systems	914,040
	Electronic Systems	658,200
	Others	109,985
Automotive Total		5,165,433
Non-Automotive Business (FA and agriculture, etc.) Total		197,339
Total		5,362,772

(Note 1) The amounts are after deduction of inter-group transactions.

(Note 2) The "Automotive Total" includes lease income of ¥15,240 million, under IAS 17.

After rearrangement:

For the year ended March 31, 2019

(Unit: Millions of yen)

	Thermal Systems	1,403,885
	Powertrain Systems	1,278,778
	Mobility Electronics	1,110,901
	Electrification Systems	911,271
	Sensor & Semiconductor	144,404
	Others	327,920
Automotive Total		5,177,159
Non-Automotive Business (FA and agriculture, etc.) Total		185,613
Total		5,362,772

(Note 1) The amounts are after deduction of inter-group transactions.

(Note 2) The "Automotive Total" includes lease income of ¥15,240 million, under IAS 17.

For the year ended March 31, 2020

(Unit: Millions of yen)

	Thermal Systems	1,280,563
	Powertrain Systems	1,222,030
	Mobility Electronics	1,112,605
	Electrification Systems	897,363
	Sensor & Semiconductor	139,193
	Others	322,099
Automotive Total		4,973,853
Non-Automotive Business (FA and agriculture, etc.) Total		179,623
Total		5,153,476

(Note 1) The amounts are after deduction of inter-group transactions.

(Note 2) The "Automotive Total" includes income from subleasing right-of-use assets of ¥10,267 million, under IFRS 16.

For the breakdown of revenue by geographical segment and revenue to the Toyota Motor Corporation group, see Note 5 "Segment information."

(2) Contract balances

The breakdown of contract balances of the Group is as follows:

(Unit: Millions of yen)

	April 1, 2018	March 31, 2019	March 31, 2020
Receivables from contracts with customers			
Trade and other receivables	906,553	918,919	792,864
Total	906,553	918,919	792,864
Contract assets			
Other current assets	835	953	842
Other non-current assets	1,156	1,558	1,503
Total	1,991	2,511	2,345

The balance and changes in contract assets are both immaterial.

Of the revenue recognized for the fiscal years ended March 31, 2019 and 2020, the amounts included in the balance of contract liabilities at the beginning of the periods, or the amounts of revenue recognized from performance obligations that have been satisfied (or partially satisfied) in previous periods, are immaterial.

(3) Refund liabilities

The Group expects a portion of the product sales transactions to be refunded to customers due to estimated discounts. Refund liabilities of ¥7,498 million and ¥9,738 million are included in "Other current liabilities" for the fiscal years ended March 31, 2019 and 2020, respectively.

(4) Transaction price allocated to remaining performance obligations

As the Group does not have significant contracts with an expected term in excess of one year, the Group has applied the practical expedient and omitted the information on remaining performance obligations. In addition, considerations arising from contracts with customers do not include significant amounts that are not included in the transaction price.

22. Other income

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

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Rental income—property, plant and equipment	2,394	2,484
Gain on sales—property, plant and equipment	4,628	2,486
Other (Note)	16,534	17,011
Total	23,556	21,981

(Note) Other for the year ended March 31, 2019 included reversal of provisions ¥3,463 million which was related to customs in some overseas subsidiaries.

23. 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)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Freight expenses	46,712	45,921
Employee benefit expenses	211,827	202,589
Provision for warranty reserve	32,737	210,916
Depreciation	28,125	32,437
Welfare expenses	33,317	31,658
Other	160,605	144,988
Total	513,323	668,509

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Loss on sales or disposal—property, plant and equipment	9,154	8,705
Impairment losses	6,654	255
Other (Note)	9,129	13,034
Total	24,937	21,994

(Note) Other for the year ended March 31, 2019 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 ¥1,170 million (See Note 32 "Contingencies"). Other for the year ended March 31, 2020 included expenses related to demolition work and removal of contaminated soil at the Ikeda plant in the amount of ¥3,088 million.

24. Income and expenses pertaining to financial instruments

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Interest income		
Financial assets measured at amortized cost (i.e., deposits and other)	13,768	11,723
Financial liabilities measured at fair value through profit or loss (i.e., interest rate derivatives)	378	585
Dividend income		
Financial assets measured at fair value through other comprehensive income (Note)	32,563	32,831
Other	1,920	2,111
Total	48,629	47,250

(Note) Dividend income from the financial assets measured at fair value through other comprehensive income, which was recognized in each fiscal year included the dividend income from the financial assets measured at fair value through other comprehensive income which were derecognized in each fiscal year (See Note 10 "Other financial assets").

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Interest expenses		
Financial liabilities measured at amortized cost (i.e., bonds, borrowings, and other)	9,223	7,324
Interest on defined benefit liabilities, net	1,527	1,479
Other	1,257	818
Total	12,007	9,621

25. 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)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Profit attributable to owners of the parent company	254,524	68,099

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

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Average number of shares—basic	779,611	774,872

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

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

26. 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)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net fair value loss on equity instruments designated as FVTOCI		
Arising during the year	(168,137)	(136,781)
Income taxes	51,315	45,091
Total	(116,822)	(91,690)
Remeasurements of defined benefit pension plans		
Arising during the year	(17,878)	1,224
Income taxes	5,313	(788)
Total	(12,565)	436
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	(11)	(34)
Total	(11)	(34)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Arising during the year	(314)	(75,625)
Reclassification to profit or loss	(5,539)	(412)
Total	(5,853)	(76,037)
Cash flow hedges		
Arising during the year	1,343	969
Reclassification to profit or loss	(1,375)	(1,171)
Before income taxes	(32)	(202)
Income taxes	9	61
Total	(23)	(141)
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	230	(1,563)
Total	230	(1,563)
Total other comprehensive income	(135,044)	(169,029)

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)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Net fair value gain on equity instruments designated as FVTOCI	12	44
Remeasurements of net defined benefit pension plans	446	(1,115)
Exchange differencies on translating foreign operations	147	(7,923)
Cash flow hedges	—	—
Total	605	(8,994)

27. Non-financial transactions that are material

Details of non-financial transactions that are material

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

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
The amounts of assets and liabilities related to finance lease transactions	12,818	25,811

28. 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, 2020.

(2) Description and extent of financial risks

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.

1) Credit risk

Receivables, such as notes and account receivables, acquired from the operating activities of the Group are exposed to customer credit risk. The Group manages its credit risks from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of each customer to identify the default risk of customers at an early stage. Of total receivables 38% are from the Toyota Motor Corporation group as of March 31, 2020.

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

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

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

The Group determined whether credit risk has significantly increased since initial recognition based on fluctuations in the risk of default, taking into consideration matters such as the financial situation of the customer and past due information. When contractual payments are more than 30 days past due, the credit risk is, in principle, deemed to have significantly increased. When evaluating credit risk, the Group takes into consideration reasonable and supportable information that is available without undue cost or effort, and in the event that it is possible to refute the determination based on this information, it may be assumed that there is no significant increase in credit risk. In addition, the Group in principle, deems default to have occurred when contractual payments are more than 90 days past due and when credit impairment has occurred. The Group evaluates whether or not there is any objective evidence to demonstrate that credit impairment has occurred at the end of each reporting period. Evidence of credit impairment includes a default or delinquency of the borrower, granting the borrower a concession that the Group would not otherwise consider, indications of bankruptcy of the issuer or obligor, and the disappearance of active markets. If future collection cannot be reasonably expected, the financial instrument is written off.

Changes in allowance for doubtful accounts

The Group recognizes an allowance for doubtful accounts taking into consideration the recoverability of trade receivables, etc., according to the credit status of counterparties. Expected credit losses are measured by multiplying the gross carrying amount by the expected credit loss rate. The expected credit loss rate is calculated based on reasonable and supportable information available without undue cost or effort, such as historical default rates, past due status of receivables, the financial position of the borrower, or the economic prospects of the industry to which the borrower belongs.

In addition, for financial instruments for which there is a significant increase in credit risk and credit-impaired financial assets, expected credit losses are calculated as the difference between the recoverable amount individually calculated and the gross carrying amount. The individually calculated recoverable amount factors in forecasts for future economic conditions of the counterparty in addition to its financial situation.

There have been no significant changes in estimation techniques or significant assumptions for the assessment of allowance for doubtful accounts during the current reporting period.

Increase and decrease of allowance for doubtful accounts are as follows:

Trade receivables

(Unit: Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance, April 1, 2018	637	1,517	2,154
Incarese	1,551	—	1,551
Decrease—used	(187)	(73)	(260)
Decrease—reversed	(916)	(21)	(937)
Reclassification to credit-impaired financial assets	(418)	418	—
Foreign exchange differences	(86)	24	(62)
Balance, March 31, 2019	581	1,865	2,446
Increase	2,184	286	2,470
Decrease—used	(76)	—	(76)
Decrease—reversed	(501)	(419)	(920)
Reclassification to credit-impaired financial assets	(388)	388	—
Foreign exchange differences	16	(41)	(25)
Balance, March 31, 2020	1,816	2,079	3,895

(Note) Allowance for doubtful accounts is not recorded for contract assets or lease receivables.

Receivables except for trade receivables

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Balance, April 1, 2018	283	―	283
Increase	22	539	561
Decrease—used	(1)	―	(1)
Decrease—reversed	(105)	―	(105)
Reclassification to credit-impaired financial assets	―	―	―
Foreign exchange differences	0	5	5
Balance, March 31, 2019	199	544	743
Increase	370	―	370
Decrease—used	(165)	(35)	(200)
Decrease—reversed	(21)	―	(21)
Reclassification to credit-impaired financial assets	―	―	―
Foreign exchange differences	(4)	(38)	(42)
Balance, March 31, 2020	379	471	850

Changes in the gross carrying amount of financial instruments that contributed to the changes in the allowance for doubtful accounts are as follows:

Trade receivables

(Unit: Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Balance, April 1, 2018	748,247	4,059	752,306
New financial assets and derecognized financial assets during the period	18,344	(294)	18,050
Reclassification to credit-impaired financial assets	(558)	558	―
Foreign exchange differences	(378)	69	(309)
Balance, March 31, 2019	765,655	4,392	770,047
New financial assets and derecognized financial assets during the period	(90,335)	(813)	(91,148)
Reclassification to credit-impaired financial assets	(579)	579	―
Foreign exchange differences	10,808	(115)	10,693
Balance, March 31, 2020	685,549	4,043	689,592

Receivables except for trade receivables

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Balance, April 1, 2018	2,125	—	2,125
New financial assets and derecognized financial assets during the period	106	539	645
Reclassification to credit-impaired financial assets	—	—	—
Foreign exchange differences	0	5	5
Balance, March 31, 2019	2,231	544	2,775
New financial assets and derecognized financial assets during the period	71	(35)	36
Reclassification to credit-impaired financial assets	—	—	—
Foreign exchange differences	—	(38)	(38)
Balance, March 31, 2020	2,302	471	2,773

Risk profile

The breakdown of credit risk profiles by external credit ratings, etc., are as follows:

For the year ended March 31, 2019

Trade receivables, contract assets, or lease receivables

(Unit: Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	906,741	—	906,741
Past due within 90 days	22,901	—	22,901
Past due within 90 days to 1 year	1,832	2,292	4,124
Past due over 1 year	1,057	2,100	3,157
Total	932,531	4,392	936,923

Receivables except above

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	94,014	544	94,558
Past due within 30 days	—	—	—
Past due within 30 days to 90 days	—	—	—
Past due within 90 days to 1 year	—	—	—
Past due over 1 year	—	—	—
Total	94,014	544	94,558

(Note) Financial instruments which does not recognized credit losses due to low credit risk such as deposits at major financial instruments etc., among financial assets measured at amortized cost, are not included.

Bonds

(Unit: Millions of yen)

	12 months expected credit losses
Rating over AA	4,221

(Note) Rated by MOODY'S JAPAN, S&P GLOBAL RATEING JAPAN and Rating and Investment Information, Inc..

For the year ended March 31, 2020

Trade receivables, contract assets, or lease receivables

(Unit: Millions of yen)

	Lifetime expected credit losses		Total
	Non-credit-impaired financial assets	Credit-impaired financial assets	
Within due date	768,085	—	768,085
Past due within 90 days	33,881	—	33,881
Past due within 90 days to 1 year	727	2,178	2,905
Past due over 1 year	1,157	1,727	2,884
Total	803,850	3,905	807,755

Receivables except above

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	101,907	471	102,378
Past due within 30 days	—	—	—
Past due within 30 days to 90 days	—	—	—
Past due within 90 days to 1 year	—	—	—
Past due over 1 year	—	—	—
Total	101,907	471	102,378

(Note) Financial instruments which does not recognized credit losses due to low credit risk such as deposits at major financial instruments etc., among financial assets measured at amortized cost, are not included.

Bonds

(Unit: Millions of yen)

	12 months expected credit losses
Rating over AA	1,750

(Note) Rated by MOODY'S JAPAN, S&P GLOBAL RATEING JAPAN and Rating and Investment Information, Inc..

2) Market risk

Foreign exchange risk

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

The details of currency derivatives are as follows:

(Unit: Millions of yen)

	FY2019 As of March 31, 2019			FY2020 As of March 31, 2020		
	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	96,778	420	(693)	116,820	—	(7,841)
Selling	79,007	—	(286)	73,324	—	747
Currency option						
Buying (put)	955	—	6	1,319	—	14
Selling (call)	955	—	(6)	1,319	—	(15)
Currency swaps						
Buying	96,130	3,001	4,097	62,689	1,128	994
Selling	9,723	7,336	(83)	11,947	11,218	906
Total	283,548	10,757	3,035	267,418	12,346	(5,195)

(Note) There is no derivative transaction above to which hedge accounting is applied.

Foreign exchange sensitivity analysis

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Net profit or loss	382	360
Equity	382	360

Interest-rate risks

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

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

The details of Interest derivatives are as follows:

Interest derivative transactions to which hedge accounting is not applied

(Unit: Millions of yen)

	FY2019 As of March 31, 2019			FY2020 As of March 31, 2020		
	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	40,302	35,033	(288)	48,149	27,586	(271)
Floating rate receipt, floating rate payment	15,000	15,000	174	15,000	—	51
Cross currency swap						
Floating rate receipt, fixed rate payment	—	—	—	—	—	—
Fixed rate receipt, fixed rate payment	37,120	4,601	334	35,553	4,719	2,625
Total	92,422	54,634	220	98,702	32,305	2,405

(Note) For interest derivative transactions to which hedge accounting is applied, see (3) Hedge accounting.

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)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Net profit or loss	5,164	4,422
Equity	5,812	4,779

3) Liquidity risk

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

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

(Unit: Millions of yen)

FY2019 As of March 31, 2019	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	144,038	197,160	209,000	550,198
Trade and other payables	668,796	6,311	607	675,714
Derivative financial liabilities				
Derivatives	1,602	1,724	16	3,342

(Unit: Millions of yen)

FY2020 As of March 31, 2020	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	112,402	217,970	135,000	465,372
Trade and other payables	626,079	—	—	626,079
Other financial liabilities (Note)	38,406	22,885	10,710	72,001
Derivative financial liabilities				
Derivatives	9,435	527	52	10,014

(Note) For lease liabilities which are included in other financial liabilities, see Note29 "Leases."

4) Price risks of equity instruments

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

Assuming that the share price rose or fell by 1% at each fiscal year-end, the increase or decrease in total equity would have amounted to approximately ¥7,346 million and ¥6,821 million for the years ended March 31 2019 and 2020, 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) Hedge accounting

Interest rate currency swap transaction

The Group has borrowings in foreign currencies with floating interest rates, and is exposed to foreign exchange risks and interest rate risks. In order to hedge the risks when borrowing in foreign currencies at floating interest rates, cash flow payments are, in principle, fixed in yen or at contracted interest rates by concluding interest rate currency swaps at the time of borrowing.

The Group uses interest rate currency swaps as hedging instruments in order to hedge the foreign exchange risk and the interest rate risk on borrowings with floating interest rates in foreign currencies. The Group determines the economic relationship between the hedged item and the hedging instrument based on the currency, amount, and timing of occurrence of the relevant cash flows. For transactions currently subject to hedge accounting, the important conditions for the hedged item and the hedging instrument are the same, and the hedge ratio is 1:1. The importance of the currency basis spread is deemed to be insignificant. Hedge ineffectiveness occurs as the result of fluctuations in the credit risk of the counterparty of the hedged items and hedging instruments. However, since the Group transacts only with highly rated financial institutions, the risk of occurrence of hedge ineffectiveness is deemed to be extremely small.

No hedge ineffectiveness has been recognized in profit or loss in the previous year or the current year.

Details of hedging instruments that are designated as cash flow hedges are as follows:

(Unit: Millions of yen)

	FY2019 As of March 31, 2019						
	Carrying amount	Nominal amount	Average rate	Average price	Within 1 year	1 to 5 years	Over 5 years
Interest rate currency swap transaction Floating rate receipt, fixed rate payment	438	41,503	(0.06)%	110.33	—	41,503	—

(Unit: Millions of yen)

	FY2020 As of March 31, 2020						
	Carrying amount	Nominal amount	Average rate	Average price	Within 1 year	1 to 5 years	Over 5 years
Interest rate currency swap transaction Floating rate receipt, fixed rate payment	(577)	41,503	(0.06)%	110.33	14,503	27,000	—

Assets or liabilities related to the aforementioned derivatives are included in "Other financial assets" or "Other financial liabilities," respectively, in the consolidated statement of financial position. In addition, there are no forecasted transactions where hedge accounting was used in the previous and current years, but which are no longer expected to occur.

Hedged items designated as cash flow hedges are as follows:

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Cash flow hedge reserve for continuing hedge	131	(10)

The impact of hedge accounting on the consolidated statement of income is as follows:

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Hedging gains of the reporting period that were recognized in other comprehensive income	1,523	969
The amount reclassified from the cash flow hedge reserve into profit or loss (Note)	(1,555)	(1,171)
Total	(32)	(202)

(Note) The amount reclassified in profit or loss is included in "Foreign exchange losses" or "Finance costs" in the consolidated statement of income. See Note 26 "Other comprehensive income" for the reconciliation of each component of equity and an analysis of other comprehensive income.

(4) Fair value of financial instruments

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

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

Transfers between fair value hierarchy levels are deemed to have occurred at the beginning of the fiscal year ended March 31, 2020.

There were no significant transfers between Level 1 and Level 2 for 12 months of the years ended March 31, 2019 and 2020.

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)

FY2019 As of March 31, 2019	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	4,221	4,228	—	—	4,228
Financial liabilities					
Long-term borrowing (Note)	203,539	—	—	203,808	203,808
Bonds	240,000	240,577	—	—	240,577

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

(Unit: Millions of yen)

FY2020 As of March 31, 2020	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	216	220	—	—	220
Financial liabilities					
Long-term borrowing (Note)	183,474	—	—	184,068	184,068
Bonds	220,000	220,448	—	—	220,448

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

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

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

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

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

(Unit: Millions of yen)

FY2019 As of March 31, 2019	Level 1	Level 2	Level 3	Total
Derivative assets	—	6,872	—	6,872
Shares				
Listed shares	1,050,470	—	—	1,050,470
Unlisted shares	—	—	129,278	129,278
Other equity securities	—	—	4,741	4,741
Total	1,050,470	6,872	134,019	1,191,361
Derivative liabilities	—	3,250	—	3,250
Total	—	3,250	—	3,250

(Unit: Millions of yen)

FY2020 As of March 31, 2020	Level 1	Level 2	Level 3	Total
Derivative assets	—	6,631	—	6,631
Shares				
Listed shares	975,462	—	—	975,462
Unlisted shares	—	—	95,682	95,682
Other equity securities	—	—	33,822	33,822
Total	975,462	6,631	129,504	1,111,597
Derivative liabilities	—	9,994	—	9,994
Total	—	9,994	—	9,994

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 measured by using the most appropriate method in accordance with specific circumstances. Fair value is measured by using the discount cash flow method or the adjusted market value method with adjustments to the market value using the PBR, price book-value ratio, if necessary.

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 are as follows:

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Balance, beginning of year	101,530	134,019
Total recognized gains and losses		
Losses recognized in profit or loss (Note 1)	(234)	(16)
Losses recognized in other comprehensive income (Note 2)	(4,679)	(40,745)
Purchases	37,855	38,045
Sales or Disposal	(453)	(1,799)
Balance, end of year	134,019	129,504

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

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

(5) Offsetting of financial assets and financial liabilities

A part of the Group's financial assets and financial liabilities were offset in accordance with the requirements for offsetting financial assets and financial liabilities and the net amounts were presented in the consolidated statement of financial position. In addition, the Group has financial derivative transactions under master netting arrangements or similar arrangements. These arrangements provide the Group, in the event of default by the counterparty, the right to offset receivables and payables with the same counterparty. The offsetting information of financial assets and financial liabilities with the same counterparty as of each fiscal year-end are as follows:

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Total financial assets	24,984	22,279
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	(14,290)	(12,287)
Financial assets presented in the consolidated statement of financial position (Note 1)	10,694	9,992
The amount to be offset under master netting arrangement or similar arrangements	(1,972)	(2,194)
Cash collateral received	—	—
Net (Note 2)	8,722	7,798

(Note 1) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2019 and 2020 were ¥6,872 million and ¥6,631 million, respectively.

(Note 2) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2019 and 2020 were ¥4,900 million and ¥4,437 million, respectively.

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Total financial liabilities	20,405	25,014
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	(14,290)	(12,287)
Financial liabilities presented in the statement of financial position (Note 3)	6,115	12,727
The amount to be offset under master netting arrangement or similar arrangements	(1,972)	(2,194)
Cash collateral paid	—	—
Net (Note 4)	4,143	10,533

(Note 3) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2019 and 2020 were ¥3,250 million and ¥9,994 million, respectively.

(Note 4) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2019 and 2020 were ¥1,277 million and ¥7,800 million, respectively.

29. Leases

For the year ended March 31, 2019

(1) As Lessee

1) Finance lease obligations

The breakdown of finance lease obligations for the year ended March 31, 2019 is as follows:

(Unit: Millions of yen)

	Minimum lease payments
	FY2019 As of March 31, 2019
Due within one year	10,961
Due after one year through five years	6,311
After five years	607
Total	17,879

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

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

2) Non-cancellable operating lease transactions

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

(Unit: Millions of yen)

	Minimum lease payments
	FY2019 As of March 31, 2019
Due within one year	2,579
Due after one year through five years	4,725
After five years	852
Total	8,156

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 the year ended March 31, 2019 is as follows:

(Unit: Millions of yen)

FY2019 2018/4-2019/3
11,423

(2) As lessor

Finance lease receivables

The breakdown of finance lease receivables for the year ended March 31, 2019 is as follows:

(Unit: Millions of yen)

	Minimum lease payments receivable
	FY2019 As of March 31, 2019
Due within one year	11,223
Due after one year through five years	4,270
After five years	―
Total	15,493

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

For the year ended March 31, 2020

(1) As Lessee

The Group leases assets such as buildings and structures, machinery and equipment, and land. In this transaction, the amounts of gains or losses arising from variable lease payments, lease agreements including residual value guarantees, and sale and leaseback transactions are immaterial. In addition, there are no restrictions or convenants imposed by leases. The amount of future cash outflows that is not reflected in the masurement of lease liabilities due to leases not yet commenced to which the lessee is committed, is ¥5,079 million.

1) Lease liabilities

The breakdown of lease liabilities for the year ended March 31, 2020 is as follows:

(Unit: Millions of yen)

	FY2020 As of March 31, 2020
Due within one year	23,098
Due after one year through five years	22,885
After five years	10,710
Total	56,693

The balance of the lease liabilities is included in "Other financial liabilities" in the consolidated statement of financial position.The Group is exposed to liquidity risk that the Group would not be able to repay lease liabilities on the due date due to the deterioration of the business environment or other similar situation. The Group manages its liquidity risk by holding adequate volumes of assets with liquidity to cover the amounts of one month's consolidated revenuie of the Group, along with adequate financial planning developed and revised by the Group's accounting department based on reports from each business unit.

2) Interest expense on lease liabilities

Interest expense on lease liabilities for the year ended March 31, 2020 is as follows:

(Unit: Millions of yen)

FY2020 2019/4-2020/3
225

3) Total cash outflow for leases

Total cash outflow for leases for the year ended March 31, 2020 is as follows:

(Unit: Millions of yen)

FY2020 2019/4-2020/3
33,281

4) The expense relating to short-term leases and leases of low-value assets

The expense relating to short-term leases and leases of low-value assets for the year ended March 31, 2020 is as follows:

(Unit: Millions of yen)

	FY2020 2019/4-2020/3
The expense relating to short-term leases	8,332
The expense relating to leases of low-value assets	179

For short-term leases and leases of low-value assets, the lease payments associated with those leases are recognized as an expense on a straight-line basis over the lease term.

(2) As lessor

1)Finance lease receivables

The breakdown of finance lease receivables for the year ended March 31, 2020 is as follows:

(Unit: Millions of yen)

	FY2020 As of March 31, 2020
Due within one year	8,654
Due after one year through five years	3,892
After five years	—
Total	12,546

The balance of the lease receivable is included in "Trade and other receivables" and "Other financial assets" in the consolidated statement of financial position. The Group leases, as lessor, mainly tools and molds and receipt periods are mainly two years, therefore, the amount of lease receivables longer than two years is immaterial. Also, there is neither unearned finance income nor discounted unguaranteed residual value.

For finance lease, the amounts of selling profit or loss, finance income on the net investment in the lease, and income relating to variable lease payments not included in the measurement of the net investment in the lease, are immaterial.

The amount of income from subleasing right-of-use assets is the same as income from subleasing right-of-use assets under IFRS 16 in the Note 21 "Revenue."

2) Lease payments from operating leases

Lease payments from operating leases for the year ended March 31, 2020 is immaterial.

For the details of right-of-use assets, see Note 12 "Right-of-use assets."

30. Reconciliation of liabilities arising from financing activities

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

For the year ended March 31, 2019

(Unit: Millions of yen)

	FY2019 As of April 1, 2018	Cash flows	Non-cash changes					FY2019 As of March 31, 2019
			Foreign exchange differences	Fair value changes	New lease contracts	Business combi-nations	Other	
Short-term borrowings	64,845	44,793	(2,979)	–	–	–	–	106,659
Long-term borrowings	229,005	(29,810)	2,584	–	–	1,760	–	203,539
Lease liabilities	18,267	(13,209)	–	–	12,818	3	–	17,879
Bonds	180,000	60,000	–	–	–	–	–	240,000
Derivatives (Note 1)	10,232	(4,483)	–	(2,499)	–	–	–	3,250
Total	502,349	57,291	(395)	(2,499)	12,818	1,763	–	571,327

(Note 1) Derivatives are included in "Other financial liabilities" in the consolidated statement of financial position and "Other" in "Cash flows from financing activities" in the consolidated statement of cash flows.

For the year ended March 31, 2020

(Unit: Millions of yen)

	FY2020 As of April 1, 2019	Cash flows	Non-cash changes					FY2020 As of March 31, 2020
			Foreign exchange differences	Fair value changes	New lease contracts	Business combi-nations	Other	
Short-term borrowings	106,659	(58,406)	13,644	–	–	–	–	61,897
Long-term borrowings	203,539	(18,461)	(1,603)	–	–	–	–	183,475
Lease liabilities (Note 2)	56,992	(24,545)	(266)	–	25,811	–	(1,299)	56,693
Bonds	240,000	(20,000)	–	–	–	–	–	220,000
Derivatives (Note 1)	3,250	4,788	(24)	1,980	–	–	–	9,994
Total	610,440	(116,624)	11,751	1,980	25,811	–	(1,299)	532,059

(Note 1) Derivatives are included in "Other financial liabilities" in the consolidated statement of financial position and "Other" in "Cash flows from financing activities" in the consolidated statement of cash flows.

(Note 2) The lease liabilities as of April 1, 2019 includes an adjustment of ¥39,113 million in accordance with the application of IFRS16. For the details of lease liabilities recognized in the consolidated statement of financial position, please see "Notes 2. Basis of preparation (5) Changes in accounting policies."

31. Related parties

(1) Related-party transactions

For the year ended March 31, 2019 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Motor Corporation group	Sale of automotive components	2,519,262
		Purchase of automotive components	55,194

For the year ended March 31, 2020 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Motor Corporation group	Sale of automotive components	2,556,529
		Purchase of automotive components	66,341

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

(Unit: Millions of yen)

	FY2019 As of March 31, 2019	FY2020 As of March 31, 2020
Trade accounts receivable	236,446	246,996
Electronically recorded monetary claims	54,981	56,044
Accounts receivable - others	692	2,242
Allowance for doubtful accounts	—	—
Accounts payable	7,253	7,788
Accrued expenses	488	668

The Company entered into a business transfer agreement with Toyota Motor Corporation on April 5, 2019, regarding the acquisition of the major electronic component business from Toyota Motor Corporation, and the Company has acquired the major electronic component business of Toyota Motor Corporation on April 1, 2020. The details of this transfer, see Note 34 "Subsequent events."

(2) Remuneration of key managing officers

For the year ended March 31, 2019 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	460	284	—	176

For the year ended March 31, 2020 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Stock option	Bonuses
Key managing officers	316	255	—	61

32. Contingencies

The details of contingent liabilities for the year ended March 31, 2020 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 some of our subsidiaries are among the defendants named in several lawsuits filed by certain automotive dealerships and certain state attorneys general in the United States, and our subsidiary is among the defendants named in the lawsuit filed by a certain customer in Germany, both wherein damages are claimed on suspicion of violation of antitrust law or competition law in connection with certain past transactions regarding specific auto parts. Those cases will be proceeded in accordance with the rule of the civil procedure in the relevant country or state, and the Company could commence settlement discussions with the plaintiffs at any time in the proceedings and reach a settlement.

(3) Individual Settlement Negotiations

The Company have 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 17 "Provisions" and Note 23 "Selling, general and administrative expenses, and other expenses").

Please note that pursuant to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," 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.

33. 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, 2019 and 2020.

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

(Unit: Millions of yen)

	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3
Increase in capital surplus	4,849	3,599

Gains (losses) associated with a loss of control of subsidiaries for the year ended March 31, 2019 and 2020 were not material.

34. Subsequent events

The Group has evaluated subsequent events through June 19, 2020.

On April 1, 2020, the Company received a transfer from Toyota Motor Corporation (“Toyota Motor”) of core electronic component operations.

1. Overview of the business transfer
   (1) Consolidation of production operations for electronic components
      - Consolidation of electronic components production at Toyota Motor’s Hirose Plant to the Company
      - Transfer of land, production infrastructure (including buildings, equipment, and software, etc.) and other items at the Hirose Plant from Toyota Motor
   (2) Consolidation of development functions for electronic components
      - Consolidation of development functions for electronic components to the Company
      - Transfer of relevant drawings, development equipment, and other items from Toyota Motor to the Company

2. Reason for the business transfer
   By consolidating these operations within the Company, which has a high level of expertise in the field of electronic components, a speedy and competitive development and production structure will be established. In doing so, the aim is to also maximize resource utilization, such as by shifting resources created by eliminating duplicate operations within the Toyota Motor Group to new domains that will increase the value of future mobility, thus strengthening the competitiveness of the Toyota Motor Group overall.

3. Business transfer date
   April 1, 2020

4. Consideration transferred

(Unit: Millions of yen)

	Amount
Payment by cash	105,258
Total of the consideration transferred	105,258

5. Amount of goodwill incurred, reasons for the goodwill incurred and the method and period of amortization
   These have not been determined at this moment.

6. Amount of key acquisition related costs

(Unit: Millions of yen)

	Amount
Advisory fees and others	58

7. Amount and breakdown of acquired assets, etc.
   The acquired assets are mainly inventories, tangible fixed assets (buildings and structures, machinery and equipment, etc.), intangible assets (software etc.), and other items.

   The fair value of the acquired assets has not been determined at this moment.

Appendix

List of subsidiaries

The Company's subsidiaries as of March 31, 2020 are as follows.

Segment	Company name	Voting rights (%)
Japan	KYOSAN DENKI CO., LTD.	62.9
	HAMANAKODENSO CO., LTD.	76.7
	ANDEN CO., LTD.	100.0
	DENSO DAISHIN CORPORATION	100.0
	DENSO WIPER SYSTEMS,INC.	100.0
	DENSO AIR SYSTEMS CORPORATION	100.0
	DENSO SOLUTION JAPAN CORPORATION	100.0
	DENSO WAVE INC.	75.2
	DENSO TECHNO CO.,LTD.	100.0
	DENSO TRIM CO., LTD.	80.0
	DENSO FINANCE & ACCOUNTING CENTER CO.,LTD.	100.0
	DENSO KYUSHU CORPORATION	100.0
	DENSO HOKKAIDO CORPORATION	100.0
	DENSO FUKUSHIMA CORPORATION	100.0
	DENSO IWATE CORPORATION	100.0
	TD MOBILE CORPORATION	51.0
	DENSO TEN LIMITED	51.0
	47 Other companies	—
North America	DENSO INTERNATIONAL AMERICA, INC.	100.0
	DENSO PRODUCTS AND SERVICES AMERICAS, INC.	100.0 (100.0)
	DENSO MANUFACTURING MICHIGAN, INC.	100.0 (100.0)
	DENSO MANUFACTURING NORTH CAROLINA, INC.	100.0 (82.0)
	DENSO MANUFACTURING TENNESSEE, INC.	100.0 (100.0)
	DENSO MANUFACTURING ATHENS TENNESSEE, INC.	100.0 (100.0)
	DENSO MANUFACTURING ARKANSAS, INC.	100.0 (100.0)
	DENSO TEN AMERICA LIMITED	100.0 (100.0)
	DENSO MANUFACTURING CANADA,INC.	100.0
	DENSO SALES CANADA, INC.	100.0
	DENSO MEXICO S.A. DE C.V.	95.0 (95.0)
	12 Other companies	—

Segment	Company name	Voting rights (%)
Europe	DENSO INTERNATIONAL EUROPE B.V.	100.0
	DENSO EUROPE B.V.	100.0 (100.0)
	DENSO BARCELONA S.A.	100.0 (100.0)
	DENSO SISTEMAS TERMICOS ESPANA 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)
	23 Other companies	—
Asia	DENSO INTERNATIONAL ASIA PTE., LTD.	100.0
	DENSO INTERNATIONAL ASIA CO.,LTD.	100.0 (100.0)
	DENSO (THAILAND) CO., LTD.	51.7 (51.7)
	SIAM DENSO MANUFACTURING CO., LTD.	90.0 (90.0)
	DENSO SALES (THAILAND) CO., LTD.	100.0 (100.0)
	SIAM KYOSAN DENSO CO., LTD.	100.0 (100.0)
	PT. DENSO INDONESIA	68.3 (68.3)
	PT. DENSO MANUFACTURING INDONESIA	100.0 (100.0)
	PT. DENSO SALES 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 ENGINE ELECTRICAL PRODUCTS CO., LTD.	95.0 (95.0)
	TIANJIN DENSO ELECTRONICS CO., LTD.	93.5 (93.5)
	GUANGZHOU DENSO CO., LTD.	60.0 (60.0)
	TIANJIN FAWER DENSO AIR-CONDITIONER CO., LTD.	60.0 (60.0)
	DENSO (GUANGZHOU NANSHA) CO., LTD.	100.0 (72.7)
	DENSO (CHANGZHOU) FUEL INJECTION SYSTEM CO.,LTD.	100.0 (30.6)
	DENSO TEN TRADING (TIANJIN) , LTD.	100.0 (100.0)
	DENSO TEN ELECTRONICS (WUXI) , LTD.	98.2 (98.2)

Segment	Company name	Voting rights (%)
Asia	DENSO KOREA CORPORATION	100.0
	52 Other companies	—
Others	DENSO DO BRASIL LTDA.	90.6
	6 Other companies	—

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

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

3. () in the "voting rights" column indicates "Indirect ownership rate."

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of DENSO CORPORATION:

Opinion

We have audited the consolidated financial statements of DENSO CORPORATION (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Estimating the reserve for warranty

Description of the Key Audit Matter and Reason of Determination

Please refer to the notes to the consolidated financial statements Note 2 (4), 3 (14) and 17. The reserve for warranty amounted to 254,342 million yen in the consolidated statement of financial position as of March 31, 2020.

The reserve for warranty is recognized based on the estimated amount of warranty expenses, taking into account the timing of outflows of economic benefit based on past experiences for after-sales service expenses incurred. The warranty expenses include repair expenses for repair requests, which are primarily from end users, as well as repair expenses for covered vehicles, which are based on defect handling (including recalls) determined by automobile manufacturers and other customers.

The reserve for warranty related to the defect handling is calculated based on the reasonably expected amount which would be paid by the Group, in the event that automobile manufacturers or other customers handled the repairs for products manufactured by the Group in the past.

The amount is calculated by multiplying the following;

A.) the number of target vehicles

B.) the repair expenses per unit

C.) the defect handling incidence rate

D.) the expected burden ratio with customers

All of these factors are influenced by significant assumptions involving management's judgment. In addition, certain factors such as B.) the repair expenses per unit and D.) the expected burden ratio with customers cause a higher degree of estimation uncertainty because they include an estimate of the man-hours required for repairs, which depend on the cause of product defects as well as the results of negotiations with customers. Uncertainty in A.) the number of target vehicles might increase, depending on criteria such as vehicle type, region, and others. In addition, the uncertainty in accounting estimates might increase if the occurrences of product defects continue to change. Furthermore, total number of products which require repair expenses could be higher, depending on the degree to which parts commonality. Therefore, we have recognized the estimate of the warranty reserve related to defect handling as our key audit matter.

Our audit approach to the Key Audit Matter

We performed the following audit procedures to examine the completeness and valuation of individual warranty reserves related to defect handling including recalls, which comprise a large portion of the overall warranty reserve.

(1) We evaluated the design, implementation, and operating effectiveness of internal controls that accounting department has been consulting with quality control department in a timely manner in order to obtain all the information necessary for estimates of the warranty reserve.

(2) We inspected the list of recall notifications announced by the Ministry of Land, Infrastructure, Transport and Tourism, the minutes of meetings of the Board of Directors, and the written internal decision request to confirm the completeness of the warranty reserve.

(3) We discussed with the responsible manager in the quality control department regarding the overview of the new cases of defect handling, the causes of the product defects, and other relevant information.

(4) We reconciled A.) the number of target vehicles with the available external data. In addition, depending on the situation, we evaluated the reasonableness of significant assumptions used by the management in light of the accuracy and completeness of the underlying source data.

(5) We evaluated the reasonableness of significant assumptions used by management for C.) the defect handling incidence rate against other actual cases.

(6) We discussed with the responsible manager of the quality control department, and evaluated the reasonableness of significant assumptions used by management for B.) the repair expenses per unit and D.) the expected burden ratio with customers in light of the cause of product defects, other actual cases in the past, and available external data.

(7) We retrospectively compared the estimates, which the Group had made in the past, with the results of B.) the repair expenses per unit and D.) the expected burden ratio with customers, in order to confirm the reasonableness of significant assumptions used by management.

2. Estimating provision for loss on antitrust issues

Description of the Key Audit Matter and Reason of Determination

Please refer to the notes to the consolidated financial statements Note 2 (4), 3 (14), 17 and 32. Provision for loss on antitrust issues amounted to 10,582 millions of yen on the consolidated statement of financial position as of March 31, 2020.

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.

Litigation settlements mainly include; A.) surcharges that are ordered to be paid as a result of investigations by national governments and competition authorities, B.) litigation settlements to be paid as a result of settlement negotiations with the plaintiffs in civil cases, and C.) litigation settlements to be paid as a result of individual settlement negotiations with automobile manufacturers.

The Group has established an internal system to prevent violations of the Antitrust Law, and publicly announced a safety declaration regarding the Antitrust Law in March 2012. As such, the Group believes that the risk of antitrust violations has been reduced. However, the Group estimates the amounts of litigation settlements that are expected to occur in the future, or reviews the provisions amounts that have already been recorded, in a timely manner. For the estimates and the reviews, the Group considers the status of investigations by the national governments and competition authorities related to transactions before March 2012, the progress of settlement negotiations, the settlement of past settlement sought cases, and consultation with the attorneys in charge.

Uncertainty caused by the intentions of the authorities and the other parties could make it difficult to estimate the amounts of surcharges and litigation settlements to be incurred, as such, we have recognized the estimate of the provision for loss on antitrust issues as our key audit matter.

Our audit approach to the Key Audit Matter

We performed the following audit procedures in examining the completeness and valuation of provision for loss on antitrust issues.

(1) We evaluated the design, implementation, and operating effectiveness of internal controls that the accounting department has been consulting with legal department in a timely manner in order to obtain all the information necessary for estimates of the provision for loss on antitrust issues.

(2) We discussed with the head of the legal department regarding the status of legal matters globally. Discussion included the status of correspondence with the authorities of each country which the Group operates in, the status of negotiations with automobile manufacturers, and the progress of civil lawsuits in order to determine the need for recognition of provision for loss on antitrust issues.

(3) We evaluated the appropriateness of the estimation process for the provision for loss on antitrust issues. This included discussion with the head of the legal department. We evaluated the reasonableness of significant assumptions used by management in light of the status of the investigations by the national governments and competition authorities, the progress of settlement negotiations, the settlement status of past settlement sought cases and other information.

(4) We sent a confirmation letter to the attorneys in charge to support the information obtained from the accounting department and the legal department.

(5) We confirmed that the provision was consistent with the progress of the settlement negotiations and completely recorded in light of occurrences of professional fees for the attorneys in charge.

(6) We performed the following procedures for the settled cases, in order to evaluate the reasonableness of amounts estimated by the management.

- We inspected the contracts, agreements, and other legal documentation, which provide evidences of the settlement, and compared them with the recorded amounts of the provision in the past.
- We verified the payment proofs of cases which have completed payment of settlements, and retrospectively compared them with the recorded amounts of the provision in the past.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

・Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

・Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

・Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

・Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 19, 2020