Financial Report 2022

DENSO CORPORATION

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Financial Review

Financial Summary

DENSO CORPORATION and its Consolidated Subsidiaries
For the Years ended March 31, 2018 to 2022

Period ended	March 2018	March 2019	March 2020	March 2021	March 2022
Revenue (Millions of yen)	5,108,291	5,362,772	5,153,476	4,936,725	**5,515,512**
Operating profit (Millions of yen)	412,676	316,196	61,078	155,107	**341,179**
Profit for the year (Millions of yen)	343,444	279,609	84,622	148,095	**288,754**
Profit for the year: attributable to owners of the parent company (Millions of yen)	320,561	254,524	68,099	125,055	**263,901**
Comprehensive income (loss) (Millions of yen)	435,494	144,565	(84,407)	635,886	**655,525**
Equity: attributable to owners of the parent company (Millions of yen)	3,598,321	3,595,694	3,397,136	3,891,012	**4,299,357**
Total assets (Millions of yen)	5,764,417	5,792,414	5,651,801	6,767,684	**7,432,271**
Equity per share: attributable to owners of the parent company (Yen)	4,614.87	4,640.36	4,384.14	5,021.52	**5,632.38**
Basic profit per share (Yen)	410.45	326.47	87.89	161.39	**342.77**
Diluted profit per share (Yen)	–	–	–	–	**–**
Equity ratio attributable to owners of the parent (%)	62.42	62.08	60.11	57.49	**57.85**
Return on equity attributable to owners of the parent company (%)	9.28	7.08	1.95	3.43	**6.44**
Price-to-earnings ratio (Times)	14.18	13.22	39.72	45.52	**22.93**
Dividends on equity attributable to owners of the parent company (%)	2.94	3.03	3.10	2.98	3.10
Net cash provided by operating activities (Millions of yen)	558,001	533,487	595,320	437,235	**395,637**
Net cash used in investing activities (Millions of yen)	(529,053)	(514,700)	(447,390)	(395,903)	**(301,579)**
Net cash (used in) provided by financing activities(Millions of yen)	(40,312)	(92,240)	(240,948)	238,657	**(159,536)**
Cash and cash equivalents at end of year (Millions of yen)	783,338	711,638	597,816	897,395	**867,808**
Number of employees	168,813	171,992	170,932	168,391	**167,950**

(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, 2018 to 2022

(Unit: Millions of yen)

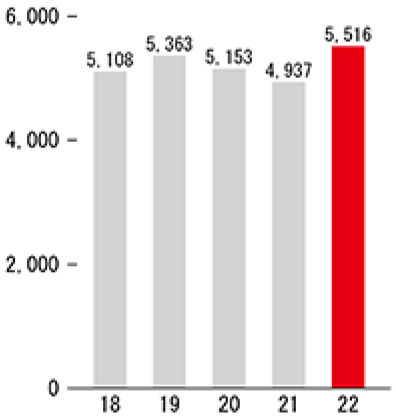
		FY2018 2017/4-2018/3	FY2019 2018/4-2019/3	FY2020 2019/4-2020/3	FY2021 2020/4-2021/3	**FY2022** 2021/4-2022/3
Japan	Customers	2,140,729	2,284,190	2,313,046	2,280,650	2,375,673
	Intersegment	943,073	981,828	950,441	896,303	1,139,424
	Total	3,083,802	3,266,018	3,263,487	3,176,953	3,515,097
North America	Customers	1,122,847	1,182,012	1,145,230	999,901	1,143,929
	Intersegment	33,405	30,343	31,035	26,285	16,276
	Total	1,156,252	1,212,355	1,176,265	1,026,186	1,160,205
Europe	Customers	620,193	609,417	548,301	482,282	506,203
	Intersegment	42,139	43,085	34,978	37,420	55,237
	Total	662,332	652,502	583,279	519,702	561,440
Asia	Customers	1,146,037	1,215,115	1,086,862	1,134,088	1,414,347
	Intersegment	176,786	201,288	191,593	169,734	223,538
	Total	1,322,823	1,416,403	1,278,455	1,303,822	1,637,885
Total	Customers	5,029,806	5,290,734	5,093,439	4,896,921	5,440,152
	Intersegment	1,195,403	1,256,544	1,208,047	1,129,742	1,434,475
	Total	6,225,209	6,547,278	6,301,486	6,026,663	6,874,627
Others	Customers	78,485	72,038	60,037	39,804	75,360
	Intersegment	513	709	702	602	1,244
	Total	78,998	72,747	60,739	40,406	76,604
Consolidated		5,108,291	5,362,772	5,153,476	4,936,725	5,515,512

(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.

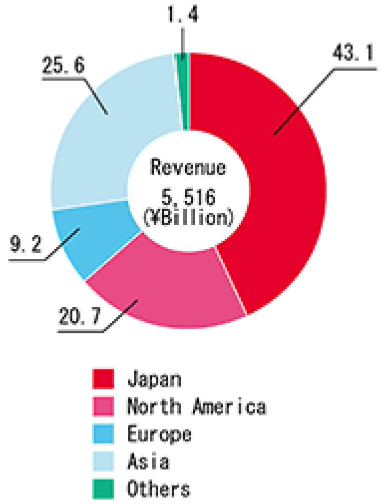
Financial Highlights

For the years ended March 31, 2018 to 2022

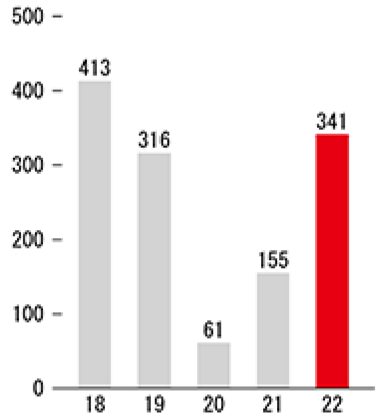
Revenue
(¥Billion)



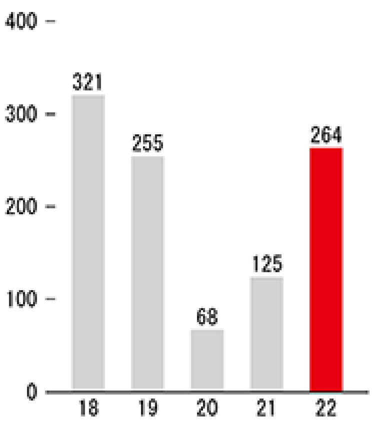
Revenue by segment
(For external customers only)
(%)



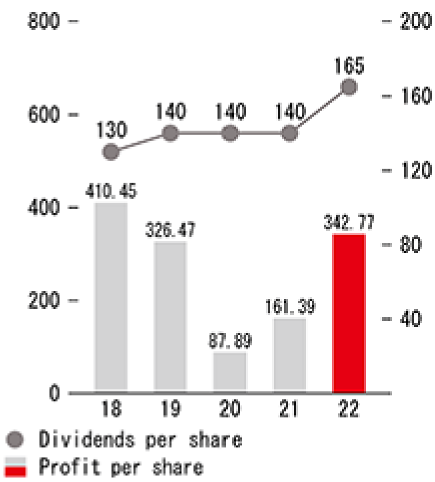
Operating profit
(¥Billion)



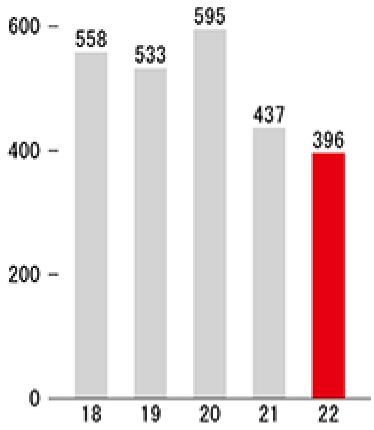
Profit for the year:attributable to owners of the parent company
(¥Billion)



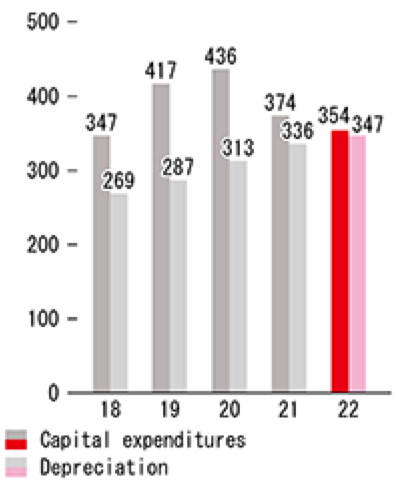
Basic profit per share and Dividends per share
(Yen)



Net cash provided by operating activities
(¥Billion)

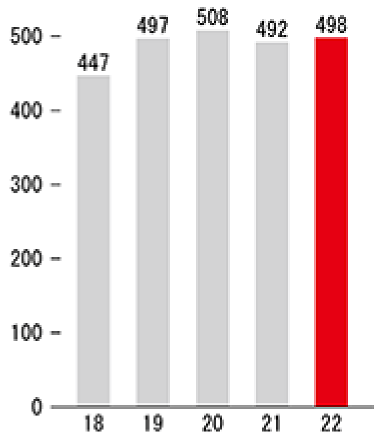


Capital expenditures and Depreciation
(¥Billion)



Depreciation of right-of-use assets has been included since FY 2020.

R&D expenses
(¥Billion)



Management's Discussion and Analysis

1. Business environment

During the fiscal year ended March 31, 2022, the world economy was on a recovery trend due to implementation of COVID-19 preventive measures such as vaccination and policy measures taken in multiple countries, albeit with differences among countries and regions. Although worldwide automotive production was brisk in the first quarter, exceeding the results for the same period of the previous year, shortages of semiconductors and raw materials became increasingly serious from the second quarter onward, forcing automakers to reduce their production and temporarily suspend operation. In addition, a number of events occurred affecting business activities, including rising prices of parts and materials, logistics disruptions and soaring transportation costs mainly in the U.S., the spread of mutant strains of COVID-19, and the worsening situation in Ukraine.

2. Summary of business

DENSO CORPORATION (hereinafter referred to as the "Company") formulated the DENSO Group Long-term Policy 2030. Under the slogan “Bringing hope for the future for our planet, society and all people,” we are aiming to resolve social issues and contribute to realization of a sustainable society through our business activities emphasizing “green” and “peace of mind.” The external business environment continues to be challenging, such as reduction in vehicle production and soaring costs of parts and materials. In these circumstances, through the DENSO Revolution Plan “Reborn21” launched in 2020, which was prompted by the occurrence of a quality-related issue and the COVID-19 pandemic, the Company has been striving to strengthen the management foundation and the financial structure and has worked on formulation of the growth strategy for the future centering on the fields of “green” and “peace of mind.” We have started to see positive results, including improvement of efficiency by digitization of work and optimization of resources through reorganization of the business portfolio. As well as embedding these activities, we will also strive for further development, going forward.

<Fields of focus>

(1) In pursuit of a sustainable mobility society, the Company has been promoting “environmental management” to reduce environmental impacts and create economic value through environmental protection activities. By further promoting environmental initiatives we have been engaged in so far, we aim to realize carbon neutrality in our business activities by 2035.

Business transfer for transformation of the business portfolio

The Company has decided to transfer the type III alternator business to Chengdu Huachuan Electric Parts Co., Ltd. Chengdu Huachuan Electric Parts is engaged in manufacture and sale of automotive parts mainly for customers in China, Europe, the U.S., and the Asia-Pacific region. The Company entered into a technology aid agreement with Chengdu Huachuan Electric Parts in 1996 and has been providing support, including technological guidance and parts supply.

While fulfilling our responsibility for supply to customers by promoting collaboration with partners in the mature products field, we intend to accelerate strengthening of the priority fields.

Global supply structure for electrification products

In readiness for worldwide expansion of the electrification market, the Company began production of inverters at TIANJIN DENSO ELECTRONICS CO., LTD. (Tianjin) in 2015 and DENSO MANUFACTURING TENNESSEE, INC. (North America) in 2019. In 2021, to respond to the China market that was expected to rapidly expand, we opened a new electrification plant at TIANJIN DENSO ENGINE ELECTRICAL PRODUCTS CO., LTD. (Tianjin) that has started production of inverters (with production of motor generators scheduled to start in 2023). Plans call for opening of plants in the southern region of China, Europe and ASEAN to establish a global production structure covering five core regions in the world.

(2) The Company aims to provide peace of mind to society through our business activities. By contributing to the resolution of social issues, such as traffic accidents, air pollution, infectious diseases, natural disasters, and the declining birthrate and population aging, we will promote initiatives to become a leading company that provides peace of mind to society.

To Zero traffic fatalities, in addition to our own initiatives, it is important to collaborate with all the parties concerned, namely the relevant government organizations, vehicle manufacturers and the industries concerned, so that measures are implemented for three aspects: people, vehicles, and the traffic environment. The Company will contribute to the initiatives through technology to realize a society of zero traffic fatalities.

1) **The Company’s orientation of technological progress and diffusion**

①Achieve progress of advanced driver assistance systems (ADAS) to prevent/reduce traffic accidents in response to various accident situations

②Develop technology to avert hazards through AI-based human-machine interface (HMI) that predicts the risk of traffic accidents and prompts the driver to take appropriate action

③Expand the lineup of attractively priced ADAS products and retrofitted products

2) **Example of initiatives in fiscal 2021**

The Company developed the Global Safety Package 3 system to improve its active safety and driver assistance performance while reducing product size and cost. We will continue to promote development of ADAS technology to realize safe and secure mobility.

3. Results of operations

(1) Revenue and profit

Revenue of the Group increased by ¥578.8 billion or 11.7% year over year to ¥5,515.5 billion for the year ended March 31, 2022, owing to the recovery form the impact of COVID-19 and other factors, despite reduction in vehicle production due mainly to semiconductor shortages.

Operating profit increased by ¥186.1 billion or 120.0% to ¥341.2 billion, owing to efforts to improve profitability, including reduction of fixed costs and improvement of R&D efficiency, despite the impact of the external environment, such as utilization variance due to decreased production volume and soaring costs of parts and materials centering on electronic components, as well as the logistics cost, raw materials cost, and energy cost. Consequently, profit before income taxes increased by ¥191.1 billion or 98.6% to ¥384.8 billion, and profit attributable to owners of the parent company increased by ¥138.8 billion or 111.0% to ¥263.9 billion.

(2) Policy on allocation of earnings

Dividends

As for dividends from surplus, the Company's basic policy is to improve the dividend level stably. For creation of corporate value, the Company introduced a new financial strategy in fiscal 2021 that is conscious of capital cost. Regarding dividends, the Company has adopted DOE (dividend on equity: dividend amount divided by shareholders' equity), which is based on shareholders' equity and is less susceptible to the influence of single fiscal year performance, as a shareholder return indicator, and intends to pay stable and continuous dividends over the long term with a standard DOE of 3.0% or more. The Company intends to pay stable and continuous dividends over the long term based on a DOE of 3.0% or more, while comprehensively taking into consideration consolidated performance, capital efficiency, and dividend amount.

Moreover, the Company intends to effectively utilize retained earnings for capital investment, R&D investment and M&A in order to realize future business growth. The Company also intends to flexibly acquire treasury stock in the pursuit of distributing its profits to the shareholders while paying attention to the stock price trend and the capital structures.

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, Paragraph 1, of the Companies Act without adopting a resolution at a general meeting of shareholders.

Accordingly, the Company, at its Board of Directors meeting held on April 28, 2022, resolved that the fiscal year-end dividend for the fiscal year ended March 31, 2022, be ¥85 per share of the Company's common stock (for a total of ¥64.9 billion) and the date of commencement of dividend payment thereof be May 25, 2022. The annual dividend for the current fiscal year, including the interim dividend, is ¥165 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 considering 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, 2022 were ¥353.9 billion and ¥346.5 billion, respectively.

Capital expenditures/depreciation by segment

In regard to capital expenditures by geographic segment, the Group focused its investment on most of the regions to increase production, and mainly invests in new products and rationalization measures. As a result, capital expenditures spent in Japan were ¥219.2 billion.

In regions outside of Japan, capital expenditures in North America, Europe, Asia, and other areas were ¥40.6 billion, ¥19.3 billion, ¥71.6 billion, and ¥3.2 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 "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, 2022, totaled ¥497.6 billion.

R&D expenses by segment

By geographic segment, R&D expenses in Japan were ¥444.5 billion.

In regions outside Japan, R&D expenses in North America, Europe, Asia, and other areas were ¥26.2 billion, ¥11.3 billion, ¥14.8 billion, and ¥0.8 billion, respectively.

Approximately 89% of total R&D expenses arose from 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 accounts for the majority of the Group's global operating revenue, 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 the 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 chance 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. 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 are, by its nature, complex and uncertain, and are 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 partnerships between existing competitors, and therefore, there is a possibility 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 Thermal Systems, Powertrain Systems, Mobility Electronics, Electrification Systems, and Advanced Devices 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 issues

The Group complies with domestic and overseas environmental laws and regulations, 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 in accordance with the Group's environmental policy DENSO Eco Vision 2025.

However, the rising global population and the pursuit of economic development and convenience are accelerating the pace of consumption of energy resources, and therefore, risks and concerns about global warming, resource depletion, environmental contamination, etc. are increasing. In line with this trend, 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.

Climate change risks

Based on the Paris Agreement adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21), initiatives to reduce greenhouse gas emissions are being promoted worldwide to curtail the increase in average temperature. Moreover, the governments of major countries, which include those in Europe as well as the United States, China, and Japan, have recently declared their intention to achieve carbon neutrality and initiatives for that purpose constitute a key element of their national growth strategies. In view of this background, the Group considers actions concerning climate change will not be constraints on economic growth but rather be a source of competitiveness.

The Group is exploring the ideal vision for a sustainable mobility society with a view to maximize the value of "green," which is a target adopted under its Long-term Policy. Referring to the framework of the Task Force on Climate-related Financial Disclosures (TCFD), the Group analyzed the impact of climate change on its businesses and identified climate-related opportunities and risks based on comparisons with hypothesized scenarios and considered how best to reflect the results of the analysis in its business strategies.

Recently, the climate change risks described below may have an adverse effect on the Group's operating results and financial condition. As regards a risk posed by transition to a carbon neutral society, if the Group is unable to appropriately respond to regulations on fuel efficiency and exhaust gas in relation to climate change and increasing electrification with its current products, the Group may lose sales opportunities. Moreover, physical risks include increased severity and occurrence of abnormal weather such as cyclones and floods and may result in a decline in revenue due to suspended plant operations and supply chain disruptions.

In order to deal with these risks, with regard to transition risks, the Group is accelerating R&D and promoting customer proposals in the Electrification Systems, Thermal Systems, and Powertrain Systems businesses to respond to new regulations on fuel efficiency and demand for electrification. As for physical risks, the Group is implementing countermeasures for meteorological disasters (including flooding) in new and existing buildings and is also strengthening supply chain risk management by diversifying suppliers for components and other materials.

From fiscal 2021, with the aim of achieving carbon neutrality by 2035, the Group will promote decarbonization initiatives in three key areas: Monozukuri, mobility products, and utilization of energy.

Specifically, in Monozukuri, the Group will accelerate the use of renewable energy; the implementation of thorough energy conservation activities; the adoption of low-carbon materials, equipment and production processes; and the introduction of Factory IoT. The Group aims to achieve zero CO_2 emissions from factories, using certificate and credits in 2025, without credits in 2035.

With regard to mobility products, the Group will prioritize energy management technology centered on drive and thermal systems, promoting technological development in many sustainable areas, from BEV, HEV, PHEV, FCEV, to urban air mobility. The Group aims to create cleaner, greener mobility (minimize CO_2 emissions from mobility products) and achieve sales of one trillion yen in electrification by 2025.

Regarding utilization of energy, the Group will work to develop technologies that recycle and repurpose CO_2. This includes solutions that store three types of energy: battery, hydrogen and fuel, as well as new technologies such as artificial photosynthesis. The Group look to achieve sales of 300 billion yen in these areas by 2035.

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 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 the lawsuit against our subsidiary filed by a certain customer in Germany and engaged in settlement negotiations with major customers (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 pandemic, 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.

However, if the COVID-19 pandemic intensifies, it will become difficult to secure raw materials and parts, production may be disturbed and the number of vehicles sold by automobile manufacturers will decline severely due to the global economic downturn and other factors. If this occurs, it may adversely affect the Group's operating results and financial condition.

Results of Operations

1. Overview

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

(1) Results of operations

1) Revenue and profit

Revenue of the Group increased by ¥578.8 billion, or 11.7%, year over year, to ¥5,515.5 billion for the year ended March 31, 2022, owing to the recovery from the impact of COVID-19 and other factors, despite reduction in vehicle production due mainly to semiconductor shortages.

Operating profit increased by ¥186.1 billion or 120.0% to ¥341.2 billion, owing to efforts to improve profitability, including reduction of fixed costs and improvement of R&D efficiency, despite the impact of the external environment, such as utilization variance due to decreased production volume and soaring costs of parts and materials centering on electronic components, as well as the logistics cost, raw materials cost, and energy cost. Consequently, profit before income taxes increased by ¥191.1 billion or 98.6% to ¥384.8 billion, and profit attributable to owners of the parent company increased by ¥138.8 billion or 111.0% to ¥263.9 billion.

Revenue and profit or loss by segment

By geographical segment, revenue increased in all regions, year over year, due to recovery from the impact of COVID-19 in spite of the vehicle production cutbacks caused by the shortage of semiconductors. Operating profit increased except North America and Europe due to the production volume improvement and the global progress in reaping the benefits of reform our profit structure activities in spite of the external environmental deterioration.

Revenue in Japan increased by ¥338.1 billion, or 10.6%, year over year, to ¥3,515.1 billion, due to increase in sales, mainly to Toyota Motor Corporation. Operating profit increased by 166.3 billion, or 735.6%, year over year, to 188.9 billion. Assets totaled ¥4,732.3 billion, which is ¥146.8 billion more than at the previous fiscal year-end, mainly due to increases in inventories and other financial assets.

Revenue in North America increased by ¥134.0 billion, or 13.1%, year over year, to ¥1,160.2 billion. Operating profit decreased by ¥10.4 billion, or 70.9%, year over year, to ¥4.3 billion. Assets totaled ¥824.8 billion, which is ¥149.4 billion more than at the previous fiscal year-end, mainly due to increases in trade and other receivables and inventories.

Revenue in Europe increased by ¥41.7 billion, or 8.0%, year over year, to ¥561.4 billion. Operating loss of ¥3.4 billion was recorded due to cost of structural reform, in contrast to operating profit of 3.1 billion in the previous year. Assets totaled ¥427.4 billion, which is ¥11.0 billion more than at the previous fiscal year-end, mainly due to increases in inventories and other current assets.

Revenue in Asia increased by ¥334.1 billion, or 25.6%, year over year, to ¥1,637.9 billion, due to recovery from the impact of COVID-19 except China. Operating profit increased by ¥32.4 billion, or 29.1%, year over year, to ¥143.8 billion. Assets totaled ¥1,508.7 billion, which is ¥246.8 billion more than at the previous fiscal year-end, mainly due to increases in trade and other receivables and inventories.

Revenue in other regions increased by ¥36.2 billion, or 89.6%, year over year, to ¥76.6 billion. Operating profit increased by ¥8.5 billion, or 121.1%, year over year, to ¥15.5 billion. Assets totaled ¥67.4 billion, which is ¥24.8 billion more than at the previous fiscal year-end, mainly due to increases in cash and cash equivalents and inventories.

2) Financial position

Total assets as of March 31, 2022, increased by ¥664.6 billion, to ¥7,432.3 billion mainly due to an increase in inventories.

The total for current and non-current liabilities increased by ¥251.8 billion, to ¥2,942.7 billion due to an increase in the bonds and borrowings.

Equity increased by ¥412.8 billion, to ¥4,489.5 billion mainly due to an increase in mark-to-market of investment securities.

3) Cash flows

In terms of cash flows for the fiscal year ended March 31, 2022, operating activities provided net cash of ¥395.6 billion, investing activities used net cash of ¥301.6 billion, and financing activities used net cash of ¥159.5 billion. As a result, cash and cash equivalents decreased by ¥29.6 billion, to ¥867.8 billion.

Net cash provided by operating activities for the fiscal year ended March 31, 2022 decreased by ¥41.6 billion from ¥437.2 billion in the previous fiscal year to ¥395.6 billion. This decrease was mainly due to the ¥112.9 billion decrease in trade receivables and ¥194.7 billion increase in inventories.

Net cash used in investing activities decreased by ¥94.3 billion from ¥395.9 billion in the previous fiscal year to ¥301.6 billion. This decrease was mainly due to the ¥101.6 billion decrease in payments for the acquisition of the core electronic component operation from Toyota Motor Corporation.

Net cash used in financing activities decreased by ¥398.2 billion from plus ¥238.7 billion in the previous fiscal year to minus ¥159.5 billion. This decrease mainly reflected the ¥882.9 billion decrease in proceeds from borrowings and ¥482.7 billion decrease in repayments of long-term borrowings.

Purchases of property, plant and equipment decreased by 15.0% from ¥395.5 billion in the previous fiscal year to ¥336.4 billion. This decrease was due to having strengthened assessments of investment opportunities as part of emergency measure.

Consolidated Statement of Financial Position

[As of March 31, 2022]

(Unit: Millions of yen)

	Note	FY2021 As of March 31, 2021	**FY2022 As of March 31, 2022**
Assets			
Current assets			
Cash and cash equivalents	7	897,395	**867,808**
Trade and other receivables	6,8	1,028,821	**1,120,781**
Inventories	6,9	726,159	**1,032,161**
Other financial assets	10	15,527	**17,730**
Other current assets		121,834	**107,696**
Subtotal		2,789,736	**3,146,176**
Assets held for sale	12	–	**22,638**
Total current assets		2,789,736	**3,168,814**
Non-current assets			
Property, plant and equipment	6,11	1,875,763	**1,912,607**
Right-of-use assets	6,13	47,834	**45,394**
Intangible assets	6,14	143,960	**155,580**
Other financial assets	10	1,681,582	**1,861,373**
Investments accounted for using the equity method	34	106,734	**113,580**
Retirement benefit assets	19	63,446	**111,351**
Deferred tax assets	6,15	36,951	**36,871**
Other non-current assets		21,678	**26,701**
Total non-current assets		3,977,948	**4,263,457**
Total assets		6,767,684	**7,432,271**

(Unit: Millions of yen)

	Note	FY2021 As of March 31, 2021	**FY2022 As of March 31, 2022**
Liabilities and equity			
Current liabilities			
Bonds and borrowings	16	98,348	**262,819**
Trade and other payables	17	1,014,406	**1,131,375**
Other financial liabilities	30	48,647	**51,034**
Income tax payables		15,414	**36,995**
Provisions	18	248,517	**144,560**
Other current liabilities		73,327	**75,286**
Subtotal		1,498,659	**1,702,069**
Liabilities directly associated with assets held for sale	12	–	**476**
Total current liabilities		1,498,659	**1,702,545**
Non-current liabilities			
Bonds and borrowings	16	755,874	**728,616**
Other financial liabilities	30	36,153	**33,860**
Retirement benefit liabilities	19	282,332	**265,188**
Provisions	18	1,369	**1,228**
Deferred tax liabilities	15	102,095	**197,122**
Other non-current liabilities		14,485	**14,186**
Total non-current liabilities		1,192,308	**1,240,200**
Total liabilities		2,690,967	**2,942,745**
Equity			
Capital stock	20	187,457	**187,457**
Capital surplus	20	272,517	**273,803**
Treasury stock	20	(56,830)	**(152,346)**
Other components of equity	20	691,417	**972,783**
Retained earnings	20	2,796,451	**3,017,660**
Equity attributable to owners of the parent company		3,891,012	**4,299,357**
Non-controlling interests	6	185,705	**190,169**
Total equity		4,076,717	**4,489,526**
Total liabilities and equity		6,767,684	**7,432,271**

Consolidated Statement of Income

[For the year ended March 31, 2022]

(Unit: Millions of yen)

	Note	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Revenue	5, 22	4,936,725	**5,515,512**
Cost of revenue	9, 11, 13, 14	(4,275,239)	**(4,714,024)**
Gross profit		661,486	**801,488**
Selling, general and administrative expenses	11, 13, 14, 24	(514,492)	**(460,449)**
Other income	6, 23	29,477	**39,161**
Other expenses	6, 24, 33	(21,364)	**(39,021)**
Operating profit	5	155,107	**341,179**
Finance income	25	42,718	**42,254**
Finance costs	25	(7,330)	**(8,403)**
Foreign exchange gains		1,457	**4,019**
Share of the profit of associates and joint ventures accounted for using the equity method		1,801	**5,759**
Profit before income taxes		193,753	**384,808**
Income tax expenses	15	(45,658)	**(96,054)**
Profit for the year		148,095	**288,754**
Attributable to:			
Owners of the parent company		125,055	**263,901**
Non-controlling interests		23,040	**24,853**

(Unit: Yen)

Earnings per share			
Basic	26	161.39	342.77
Diluted	26	–	–

Consolidated Statement of Comprehensive Income

[For the year ended March 31, 2022]

(Unit: Millions of yen)

	Note	FY2021 2020/4-2021/3	**FY2022 2021/4-2022/3**
Profit for the year		148,095	**288,754**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain on equity instruments designated as FVTOCI	27, 29	400,887	**153,317**
Remeasurements of defined benefit pension plans	19, 27	4,763	**44,904**
Share of other comprehensive income of investments accounted for using the equity method	27	59	**5**
Total		405,709	**198,226**
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	27	81,115	**165,770**
Cash flow hedges	27	50	**(2,819)**
Share of other comprehensive income of investments accounted for using the equity method	27	917	**5,594**
Total		82,082	**168,545**
Total other comprehensive income		487,791	**366,771**
Comprehensive income for the year		635,886	**655,525**
Attributable to:			
Owners of the parent company		601,712	**617,752**
Non-controlling interests		34,174	**37,773**

Consolidated Statement of Changes in Equity

[For the year ended March 31, 2022]

(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, 2020		187,457	272,375	(56,815)	273,576	–
Profit for the year		–	–	–	–	–
Other comprehensive income		–	–	–	400,452	2,770
Comprehensive income for the year		–	–	–	400,452	2,770
Acquisition of treasury stock	20	–	–	(15)	–	–
Disposal of treasury stock	20	–	(0)	0	–	–
Dividends	21	–	–	–	–	–
Changes in the ownership interest in subsidiaries without a loss of control		–	135	–	–	–
Changes by business combinations	6	–	–	–	–	–
Transfer to retained earnings		–	–	–	(9,123)	(2,770)
Transfer from retained earnings to capital surplus		–	0	–	–	–
Other		–	7	–	–	–
Total transactions with the owners		–	142	(15)	(9,123)	(2,770)
As of March 31, 2021		187,457	272,517	(56,830)	664,905	–
As of April 1, 2021		**187,457**	**272,517**	**(56,830)**	**664,905**	**–**
Profit for the year		**–**	**–**	**–**	**–**	**–**
Other comprehensive income		**–**	**–**	**–**	**152,937**	**43,119**
Comprehensive income for the year		**–**	**–**	**–**	**152,937**	**43,119**
Acquisition of treasury stock	20	**–**	**–**	**(97,540)**	**–**	**–**
Disposal of treasury stock	20	**–**	**1,281**	**2,024**	**–**	**–**
Dividends	21	**–**	**–**	**–**	**–**	**–**
Changes in the ownership interest in subsidiaries without a loss of control		**–**	**5**	**–**	**–**	**–**
Changes by business combinations	6	–	–	–	–	–
Transfer to retained earnings		**–**	**–**	**–**	**(29,366)**	**(43,119)**
Transfer from retained earnings to capital surplus		**–**	**–**	**–**	**–**	**–**
Other		**–**	**–**	**–**	**–**	**–**
Total transactions with the owners		**–**	**1,286**	**(95,516)**	**(29,366)**	**(43,119)**
As of March 31, 2022		**187,457**	**273,803**	**(152,346)**	**788,476**	**–**

(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, 2020		(46,913)	(10)	226,653	2,767,466	3,397,136	161,733	3,558,869
Profit for the year		–	–	–	125,055	125,055	23,040	148,095
Other comprehensive income		73,385	50	476,657	–	476,657	11,134	487,791
Comprehensive income for the year		73,385	50	476,657	125,055	601,712	34,174	635,886
Acquisition of treasury stock	20	–	–	–	–	(15)	–	(15)
Disposal of treasury stock	20	–	–	–	–	0	–	0
Dividends	21	–	–	–	(108,486)	(108,486)	(10,165)	(118,651)
Changes in the ownership interest in subsidiaries without a loss of control		–	–	–	–	135	(40)	95
Changes by business combinations	6	–	–	–	–	–	–	–
Transfer to retained earnings		–	–	(11,893)	11,893	–	–	–
Transfer from retained earnings to capital surplus		–	–	–	(0)	–	–	–
Other		–	–	–	523	530	3	533
Total transactions with the owners		–	–	(11,893)	(96,070)	(107,836)	(10,202)	(118,038)
As of March 31, 2021		26,472	40	691,417	2,796,451	3,891,012	185,705	4,076,717
As of April 1, 2021		**26,472**	**40**	**691,417**	**2,796,451**	**3,891,012**	**185,705**	**4,076,717**
Profit for the year		**–**	**–**	**–**	**263,901**	**263,901**	**24,853**	**288,754**
Other comprehensive income		**160,614**	**(2,819)**	**353,851**	**–**	**353,851**	**12,920**	**366,771**
Comprehensive income for the year		**160,614**	**(2,819)**	**353,851**	**263,901**	**617,752**	**37,773**	**655,525**
Acquisition of treasury stock	20	**–**	**–**	**–**	**–**	**(97,540)**	**–**	**(97,540)**
Disposal of treasury stock	20	**–**	**–**	**–**	**–**	**3,305**	**–**	**3,305**
Dividends	21	**–**	**–**	**–**	**(115,865)**	**(115,865)**	**(39,518)**	**(155,383)**
Changes in the ownership interest in subsidiaries without a loss of control		**–**	**–**	**–**	**–**	**5**	**(23)**	**(18)**
Changes by business combinations	6	–	–	–	–	–	**6,309**	**6,309**
Transfer to retained earnings		**–**	**–**	**(72,485)**	**72,485**	**–**	**–**	**–**
Transfer from retained earnings to capital surplus		**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other		**–**	**–**	**–**	**688**	**688**	**(77)**	**611**
Total transactions with the owners		**–**	**–**	**(72,485)**	**(42,692)**	**(209,407)**	**(33,309)**	**(242,716)**
As of March 31, 2022		**187,086**	**(2,779)**	**972,783**	**3,017,660**	**4,299,357**	**190,169**	**4,489,526**

Consolidated Statement of Cash Flows

[For the year ended March 31, 2022]

(Unit: Millions of yen)

	Note	FY2021 2020/4-2021/3	**FY2022 2021/4-2022/3**
Cash flows from operating activities			
Profit before income taxes		193,753	**384,808**
Depreciation		335,578	**346,526**
Impairment losses		35	**9,934**
Increase (decrease) in retirement benefit liabilities		1,020	**(7,120)**
Decrease in retirement benefit assets		6,158	**823**
Interest and dividend income		(39,259)	**(40,111)**
Interest expenses		4,510	**4,699**
Foreign exchange gains		(6,368)	**(8,558)**
Share of the profit of associates and joint ventures accounted for using the equity method		(1,801)	**(5,759)**
Losses on sales or disposal of property, plant and equipment		6,481	**6,322**
(Increase) decrease in trade receivables		(104,405)	**8,494**
Increase in inventories		(45,320)	**(239,972)**
Increase in trade payables		71,880	**8,280**
Decrease in provisions		(25,166)	**(105,585)**
Other		67,525	**41,022**
Subtotal		464,621	**403,803**
Interest received		7,095	**6,059**
Dividends received		32,495	**36,616**
Interest paid		(4,780)	**(4,652)**
Income taxes paid		(62,196)	**(46,189)**
Net cash provided by operating activities		437,235	**395,637**
Cash flows from investing activities			
Decrease in time deposits		101,834	**3,429**
Purchases of property, plant and equipment		(395,548)	**(336,410)**
Proceeds from sales of property, plant and equipment		13,576	**20,648**
Purchases of intangible assets		(39,133)	**(35,734)**
Purchases of equity instruments		(2,171)	**(3,611)**
Purchases of debt instruments		(218)	**(250)**
Proceeds from sales of equity instruments		26,755	**55,012**
Proceeds from sales and redemption of debt instruments		464	**330**
Payments for acquisition of subsidiaries and other businesses	6	(105,597)	**(4,003)**
Other		4,135	**(990)**
Net cash used in investing activities		(395,903)	**(301,579)**
Cash flows from financing activities			
Net (decrease) increase in short-term borrowings	31	(10,694)	**103,696**
Proceeds from borrowings	31	908,306	**25,395**
Repayments of long-term borrowings	31	(540,939)	**(58,234)**
Repayments of lease liabilities	31	(30,919)	**(26,773)**
Issuance of bonds	31	50,001	**55,960**
Redemption of bonds	31	(20,000)	**(10,000)**
Dividends paid	21	(108,486)	**(115,865)**
Dividends paid to non-controlling interests		(10,165)	**(39,518)**
Purchase of treasury stock		(15)	**(97,540)**
Other	31	1,568	**3,343**
Net cash provided by (used in) financing activities		238,657	**(159,536)**
Foreign currency translation adjustments on cash and cash equivalents		19,590	**35,891**
Net increase (decrease) in cash and cash equivalents		299,579	**(29,587)**
Cash and cash equivalents at beginning of year		597,816	**897,395**
Cash and cash equivalents at end of year	7	897,395	**867,808**

Notes to Consolidated Financial Statements

Year ended March 31, 2022

1. Reporting entity

The Company is a business corporation located in Japan. The Company and its subsidiaries develop, manufacture and sell mainly automotive parts in each segment of Japan, North America, Europe, Asia, and Others. The automotive parts are related to Thermal Systems, Powertrain Systems, Mobility Electronics, Electrification Systems, and Advanced Devices, 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 IFRS 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, 2022 were approved on June 30, 2022 by Koji Arima, the 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 22 "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 significant risks that will cause a material adjustment to the carrying 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. The Company assumes that the current business environment will continue in the fiscal year ending March 31, 2023 and there will be no significant impact on automobile parts production and supply activities. Among the accounting estimates listed below, such assumptions were mainly used for the impairment loss on non-financial assets, recoverability of deferred tax assets, and measurement of fair value of financial instruments; however, there was no significant impact on the consolidated financial statements for the year ended March 31, 2022. As these estimates include uncertainties, if unpredictable changes to assumptions lead to changes in estimates, this may result in additional expenses or losses in the future.

i) 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 identification of impairment indicators and the recognition of impairment loss, as well as the estimates of recoverable amounts, are reasonable. However, as 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 13 "Right-of-use assets (2) Impairment losses." More information on impairment losses and impairment test for goodwill on intangible assets is found in Note 14 "Intangible assets (2) Impairment losses and (4) Impairment test for goodwill."

ii) 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, as 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 15 "Income taxes (2) Deferred tax assets and liabilities."

iii) 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 target vehicles, that are based on defect handling (including recalls) determined by the automobile manufacturers and other customers.

Of the above, the reserve for warranty related to the defect handling is calculated based on a reasonably expected amount that 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 involve a high degree of uncertainties because they include an estimate of the man-hours required for repairs, which depends 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 amount 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 18 "Provisions."

iv) 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, as 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 19 "Post-employment benefits (1) Defined benefit plans."

v) 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, as 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 29 "Financial instruments (5) Fair value of financial instruments."

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 it is impracticable to unify the fiscal year-ends primarily due to the involvement of other shareholders. 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 are 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 are 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 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 on 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 gains" 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 revenues 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 on 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 29 "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 to 25 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

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 leases 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.

Finance 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 non-current asset held for sale 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, considering the timing of outflows of resources embodying economic benefits based on past experiences of the 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 part transactions related to 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 customer

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 Thermal Systems, Powertrain Systems, Mobility Electronics, Electrification Systems, and Advanced Devices. 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, an 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 realize 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 were 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, 2022, are as follows:

Standards	Title	Date of mandatory adoption (Fiscal year of commencement thereafter)	Reporting periods of application by the Group	Description of new standards and amendments
IFRS 17	Insurance contracts	January 1, 2023	Fiscal year ending March 31, 2024	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. have been cooperating together as a management unit to strengthen 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, 2021 (Unit: Millions of yen)

	Reportable segment					Others (Note 1)	Eliminations	Consolidated
	Japan (Note 2)	North America	Europe	Asia	Total			
Revenue								
Customers	2,280,650	999,901	482,282	1,134,088	4,896,921	39,804	–	4,936,725
Intersegment	896,303	26,285	37,420	169,734	1,129,742	602	(1,130,344)	–
Total	3,176,953	1,026,186	519,702	1,303,822	6,026,663	40,406	(1,130,344)	4,936,725
Segment profit	22,607	14,642	3,114	111,422	151,785	6,999	(3,677)	155,107
Finance income								42,718
Finance costs								(7,330)
Foreign exchange gains								1,457
Share of the profit of associates and joint ventures accounted for using the equity method								1,801
Profit before income taxes								193,753

(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 ¥82,141 million is included in the segment profit 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	242,144	41,028	25,245	53,911	362,328	1,477	–	363,805
Impairment losses	35	–	–	–	35	–	–	35
Reversal of impairment losses	–	–	–	–	–	–	–	–
Investments accounted for using the equity method	75,525	4,663	8,234	18,464	106,886	–	(152)	106,734
Increase in non-current assets (Note 2)	394,073	35,740	17,502	65,514	512,829	2,179	–	515,008

(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.

For the year ended March 31, 2022

(Unit: Millions of yen)

	Reportable segment					Others (Note)	Eliminations	Consolidated
	Japan	North America	Europe	Asia	Total			
Revenue								
Customers	2,375,673	1,143,929	506,203	1,414,347	5,440,152	75,360	–	5,515,512
Intersegment	1,139,424	16,276	55,237	223,538	1,434,475	1,244	(1,435,719)	–
Total	3,515,097	1,160,205	561,440	1,637,885	6,874,627	76,604	(1,435,719)	5,515,512
Segment profit or losses	188,904	4,262	(3,354)	143,831	333,643	15,476	(7,940)	341,179
Finance income								42,254
Finance costs								(8,403)
Foreign exchange gains								4,019
Share of the profit of associates and joint ventures accounted for using the equity method								5,759
Profit before income taxes								384,808

(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	249,109	43,193	26,376	60,261	378,939	1,867	–	380,806
Impairment losses	994	–	8,940	–	9,934	–	–	9,934
Reversal of impairment losses	–	–	–	–	–	–	–	–
Investments accounted for using the equity method	77,160	5,270	8,599	22,819	113,848	–	(268)	113,580
Increase in non-current assets (Note 2)	259,317	42,719	20,165	90,304	412,505	2,575	–	415,080

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Japan	4,585,444	4,732,271
North America	675,402	824,767
Europe	416,424	427,418
Asia	1,261,952	1,508,705
Others (Note 1)	42,673	67,431
Corporate assets (Note 2)	(214,211)	(128,321)
Consolidated	6,767,684	7,432,271

(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, 2021

For disaggregated revenue by type of products and services, see Note 22 "Revenue."

For the year ended March 31, 2022

For disaggregated revenue by type of products and services, see Note 22 "Revenue."

(5) Geographic information

1) Revenue

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Japan	2,219,102	2,294,046
The United States	822,743	964,658
China	653,019	761,992
Others	1,241,861	1,494,816
Total	4,936,725	5,515,512

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Japan	1,365,549	1,342,229
Others	702,008	771,352
Total	2,067,557	2,113,581

(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, right-of-use assets, and intangible assets, are attributed to geographic areas based on locations of assets.

(6) Information about major customers

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

Disaggregated revenue by segment is ¥1,603,641 million in Japan, ¥555,619 million in North America, ¥75,836 million in Europe, ¥579,875 million in Asia, and ¥31,601 million in other areas.

(Unit: Millions of yen)

FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
2,619,778	2,846,572

6. Business combinations

For the year ended March 31, 2021

(1) Toyota Motor Corporation of core electronic component operation

The Company acquired the core electronic component operation of Toyota Motor Corporation on April 1, 2020 and commenced operation as Denso Hirose Plant.

1) Description of business combination

i) Consolidation of production operations for electronic components

- Consolidation of electronic components production at Toyota Motor Corporation'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 Corporation

ii) Consolidation of development functions for electronic components

- Consolidation of development functions for electronic components of the Company
- Transfer of relevant drawings, development equipment, and other items from Toyota Motor Corporation to the Company

2) Reason for the business combination

By consolidating these operations within the Company, which has a high level of expertise in the field of electronic components, a swift 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 Group to new domains that will increase the value of future mobility, thus strengthening the overall competitiveness of the Toyota Group.

3) Summary of the acquiree

Business description Development functions and production operations of electronic components

4) Acquisition date

April 1, 2020

5) Consideration transferred and its components

(Unit: Millions of yen)

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

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

(Unit: Millions of yen)

	Amount
Total of the consideration transferred for the acquired shares (A)	105,258
Assets	
Inventories	9,346
Property, plant and equipment	53,143
Intangible assets	32,380
Deferred tax assets	3,124
Total assets (B)	97,993
Goodwill (Note) (A-B)	7,265

(Note) Goodwill

Goodwill reflects excess earning power expected from future business development and the synergy between the Company and the acquiree. No amount of goodwill is expected to be deductible for tax purposes.

7) Amount of key acquisition related costs

(Unit: Millions of yen)

	Amount
Advisory fees and others	58

8) Revenue of transferred business

The transferred business's revenue after the acquisition date, which is recorded in the consolidated statements of income for the fiscal year ended March 31, 2021, was ¥115,682 million.

For the year ended March 31, 2022

(1) JECO CO., LTD.

The Company acquired JECO CO., LTD.(hereinafter, "JECO") as a consolidated subsidiary as of April 1, 2021.

1) Description of business combination

JECO, which was an affiliate of the Company and was mainly engaged in the manufacture and sale of products in the field of display products, became a consolidated subsidiary of the Company on April 1, 2021 upon the share exchange implemented on that day. As a result, the ratio of voting rights of JECO held by the Company rose from 41.89% (as of March 31, 2021) to 100% (as of April 1, 2021). The Company owns all the voting rights of JECO.

2) Reason for the business combination

The Group aims to pursue agile management by implementing a framework that enables the optimization, unified management and mutual utilization of the management resources, in order to maintain and strengthen its competitive advantage and achieve sustainable growth.

3) Summary of the acquiree

Name	JECO CO., LTD.
Business description	Manufacturing and sales of automobile clocks, automobile instruments, automobile motors, and applied products

4) Acquisition date

April 1, 2021

5) Consideration transferred and its components

(Unit: Millions of yen)

	Amount
Fair value of the Company’s shares delivered as consideration for the share exchange	3,200
Fair value of ownership interest in JECO already held at the time of acquisition of control	2,307
Total of the consideration transferred	5,507

A loss of ¥2,752 million is recognized as a result of the remeasurement of the equity interest of JECO previously held at the time of acquisition of control by the Company at the fair value on the acquisition date. This loss is recorded as “Other expenses ” in the condensed consolidated statement of income.

Acquisition-related costs including advisory fees and others of ¥82 million (for the years ended March 31, 2021 and 2022 were ¥74 million and ¥8 million, respectively) related to the business combination are included in "Selling, general and administrative expenses."

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

(Unit: Millions of yen)

	Initial provisional fair value	Adjustment (Note 1)	Adjusted fair value
Total of the consideration transferred for the acquired shares (A)	5,507	-	5,507
Assets			
Trade and other receivables	6,407	-	6,407
Other current assets	3,594	-	3,594
Property, plant and equipment	7,844	63	7,907
Other non-current assets	2,200	-	2,200
Total assets	20,045	63	20,108
Liabilities			
Current liabilities	4,359	-	4,359
Non-current liabilities	1,956	19	1,975
Total liabilities	6,315	19	6,334
Equity (B)	13,730	44	13,774
Goodwill (Note 2) (A-B)	(8,223)	(44)	(8,267)

(Note 1) Adjustment to the provisional amount

Consideration transferred is allocated to acquired assets based on the fair value on the acquisition date. Allocation of the consideration transferred was completed during the three-month period ended September 30, 2021. In terms of adjustments from the initial provisional amounts, after additional analysis on the fair value of JECO, property, plant and equipment and deferred tax assets increased by ¥63 million and ¥19 million, respectively. As a result, negative goodwill increased by ¥44 million.

(Note 2) Goodwill

Negative goodwill resulting from the share exchange amounting to ¥8,267 million was incurred as the fair value of the net assets acquired exceeded the acquisition cost. This gain is recorded as “Other income” in the condensed consolidated statement of income.

7) Proceeds from acquisition of control over the subsidiary

(Unit: Millions of yen)

	Amount
Cash and cash equivalents held by the acquiree at the time of the acquisition	960
Total of the consideration acquired	960

8) Revenue and profit of the acquiree

The acquiree's revenue and profit 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, 2022, were ¥26,274 million and ¥591 million, respectively.

The income for the year referred to above includes amortization of property, plant and equipment recognized at the acquisition date.

(2) Chongqing Chaoli Electric Appliance Co., Ltd.

The Company acquired Chongqing Chaoli Electric Appliance Co., Ltd. as a consolidated subsidiary as of August 4, 2021.

1) Description of business combination

Chongqing Chaoli Electric Appliance Co., Ltd. became the Company's subsidiary on August 4, 2021 as a result of the Company obtaining a portion of shares from Chongqing Chaoli High-Tech Co., Ltd., its previous parent company. As a result, the ratio of voting rights of Chongqing Chaoli Electric Appliance Co., Ltd. held by the Company was 51% (as of August 4, 2021). The Company owns a majority of the voting rights of Chongqing Chaoli Electric Appliance Co., Ltd.

2) Reason for the business combination

The Group aims to maintain and strengthen its competitive advantage in China and achieve sustainable growth.

3) Summary of the acquiree

Name	Chongqing Chaoli Electric Appliance Co., Ltd.
Business description	Development, manufacturing and sales of thermal products (HVAC, heat exchanger, plumbing, etc.)

4) Acquisition date

August 4, 2021

5) Consideration transferred and its components

(Unit: Millions of yen)

	Amount
Payment by cash	9,289
Total of the consideration transferred	9,289

A portion of the above consideration transferred was contributed to the escrow account provided for in the share transfer agreement for the year ended March 31, 2021. The amount of ¥4,963 million included in payments for acquisition of subsidiaries and other businesses in the consolidated statement of cash flows for the fiscal year ended March 31, 2022 represents the net amount of cash and cash equivalents held by Chongqing Chaoli Electric Appliance Co., Ltd. received at the time of acquisition and the amount contributed to the escrow account for the year ended March 31, 2022.

Acquisition-related costs including advisory fees and others of ¥271 million (for the years ended March 31, 2021 and 2022 were ¥107 million and ¥164 million, respectively) related to the business combination are included in "Selling, general and administrative expenses."

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

(Unit: Millions of yen)

	Initial provisional fair value	Adjustment (Note 1)	Adjusted fair value
Total of the consideration transferred for the acquired shares (A)	9,289	–	9,289
Assets			
Trade and other receivables	8,188	–	8,188
Other current assets	3,881	600	4,481
Property, plant and equipment	1,947	1,690	3,637
Right-of-use assets	431	377	808
Intangible assets	49	5,654	5,703
Total assets	14,496	8,321	22,817
Liabilities			
Current liabilities	8,722	–	8,722
Non-current liabilities	33	1,248	1,281
Total liabilities	8,755	1,248	10,003
Equity (B)	5,741	7,073	12,814
Non-controlling interests (C) (Note 2)	2,813	3,496	6,309
Goodwill (A-(B-C)) (Note 3)	6,361	(3,577)	2,784

(Note 1) Adjustment to the provisional amount

Consideration transferred is allocated to acquired assets on the fair value on the acquisition date. Allocation of the consideration transferred was completed during the three-month period ended December 31, 2021. In terms of adjustments from the initial provisional amounts, after additional analysis on the fair value of Chongqing Chaoli Electric Appliance Co., Ltd., inventories increased by ¥600 million, property, plant and equipment increased by ¥1,690 million, right-of-use assets increased by ¥377 million, intangible assets increased by ¥5,654 million and deferred tax liabilities increased by ¥1,248 million. As a result, non-controlling interests increased by ¥3,496 million and goodwill decreased by ¥3,577 million.

(Note 2) Non-controlling interests

Non-controlling interests in an acquire that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation are measured based on the proportionate interests at the acquisition date in the identifiable net assets of the acquire at the acquisition date.

(Note 3) Goodwill

Goodwill reflects excess earning power expected from future business development and the synergy between the Company and the acquiree. No amount of goodwill is expected to be deductible for tax purposes.

7) Payment for acquisition of control over the subsidiary

(Unit: Millions of yen)

	Amount
Payment by cash	9,289
Cash and cash equivalents held by the acquiree at the time of the acquisition	360
Total of the consideration acquired	8,929

8) Revenue and profit of the acquiree

The acquiree's revenue and loss 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, 2022, were ¥9,317 million and ¥836 million, respectively.

The above loss includes depreciation and amortization of intangible assets at the acquisition date.

9) 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, 2022, assuming that the business combination of Chongqing Chaoli Electric Appliance Co., Ltd. was completed and control was acquired as of April 1, 2021.

(Unit: Millions of yen)

	Amount
Revenue (pro forma)	5,521,234
Profit for the year (pro forma)	288,875

7. Cash and cash equivalents

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

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Cash and deposits	868,706	756,472
Short-term investments	28,689	111,336
Total	897,395	867,808

8. Trade and other receivables

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

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Notes and accounts receivable	843,701	941,122
Other	189,020	183,828
Less: Allowance for doubtful accounts	(3,900)	(4,169)
Total	1,028,821	1,120,781

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Merchandise and finished products	225,896	313,929
Work in process	305,702	405,613
Raw materials and supplies	194,561	312,619
Total (Note)	726,159	1,032,161

(Note) The amounts of write-down of inventories to net realizable value recognized as "Cost of revenue" for the years ended March 31, 2021 and 2022 were ¥14,886 million and ¥17,715 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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Financial assets measured at amortized cost		
Bank deposits	14,284	8,245
Debt securities	888	348
Other	19,101	25,925
Financial assets measured at fair value through profit or loss		
Equity securities and other	877	–
Derivative assets (Note)	3,575	5,255
Financial assets measured at fair value through other comprehensive income and their fair values etc.,		
Equity securities and other	1,658,384	1,839,330
Total	1,697,109	1,879,103

Current assets	15,527	17,730
Non-current assets	1,681,582	1,861,373
Total	1,697,109	1,879,103

(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	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Toyota Motor Corporation	779,619	1,005,954
TOYOTA INDUSTRIES CORPORATION	292,328	251,118
Renesas Electronics Corporation	183,772	219,302
Towa Real Estate Co., Ltd. (Note)	98,208	116,621
AISIN CORPORATION	54,453	54,400
AURORA INNOVATION, INC.	31,683	21,646
TOYOTA BOSHOKU CORPORATION	18,652	20,405
JTEKT CORPORATION	20,760	17,710
SUZUKI MOTOR COPORATION	19,764	16,577
IBIDEN CO.,LTD.	39,259	16,413

(Note) From April 27, 2022, the company name of "Towa Real Estate Co., Ltd." was changed to "TOYOTA FUDOSAN CO., LTD."

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, 2021 and 2022 were ¥29,774 million and ¥33,711 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Fair value	26,292	55,012
Cumulative gains that have been previously recognized in equity as other comprehensive income—pre-tax (Note)	19,597	41,996
Dividend income	221	549

(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, 2020	996,647	3,146,910	189,660	195,957	776,041	5,305,215
Acquisition	50,499	127,648	21	158,978	34,511	371,657
Business combinations (Note 3)	9,919	31,950	5,740	383	5,151	53,143
Disposals	(9,716)	(120,420)	(528)	(2,216)	(40,955)	(173,835)
Foreign exchange differences	17,414	65,253	2,451	4,406	19,114	108,638
Other (Note 2)	17,620	106,606	56	(153,297)	24,516	(4,499)
Balance, March 31, 2021	1,082,383	3,357,947	197,400	204,211	818,378	5,660,319
Acquisition	17,930	140,727	7,088	143,214	36,294	345,253
Business combinations (Note 3)	2,140	6,531	1,537	699	637	11,544
Transfer to assets held for sale (Note 4)	(2,287)	(53,272)	(26)	(462)	(10,788)	(66,835)
Disposals	(10,993)	(121,860)	(2,081)	(1,303)	(43,340)	(179,577)
Foreign exchange differences	30,313	114,970	2,084	7,825	32,369	187,561
Other (Note 2)	16,408	112,778	1,821	(153,491)	22,117	(367)
Balance, March 31, 2022	1,135,894	3,557,821	207,823	200,693	855,667	5,957,898

(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" for the year ended March 31, 2021 was due to the acquisition of the core electronic component operation from Toyota Motor Corporation, and the increase for the year ended March 31, 2022 was due to the acquisition of JECO and Chongqing Chaoli Electric Appliance Co., Ltd. (See Note 6 "Business combinations").

(Note 4) The decrease in "Transfer to assets held for sale" was due to the business transfer to Aisan Industry Co., Ltd. (See Note 12 "Assets held for sale").

(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, 2020	623,742	2,287,527	1,078	77	634,558	3,546,982
Depreciation (Note 5)	32,566	230,319	–	–	58,901	321,786
Impairment losses	24	–	–	–	11	35
Disposals	(9,838)	(109,391)	–	–	(36,544)	(155,773)
Foreign exchange differences	8,792	45,838	9	–	15,027	69,666
Other	204	1,782	201	–	(327)	1,860
Balance, March 31, 2021	655,490	2,456,075	1,288	77	671,626	3,784,556
Depreciation (Note 5)	34,659	239,827	–	–	58,632	333,118
Impairment losses	2,437	5,150	1,124	721	363	9,795
Transfer to assets held for sale (Note 6)	(1,648)	(37,328)	–	–	(9,636)	(48,612)
Disposals	(7,916)	(106,957)	–	–	(39,239)	(154,112)
Foreign exchange differences	15,238	79,963	40	–	25,811	121,052
Other	(684)	314	–	–	(136)	(506)
Balance, March 31, 2022	697,576	2,637,044	2,452	798	707,421	4,045,291

(Note 5) Depreciation on "Property, plant and equipment" is included in "Cost of revenue" and "Selling, general and administrative expenses" in the consolidated statement of income.

(Note 6) The decrease in "Transfer to assets held for sale" was due to the business transfer to Aisan Industry Co., Ltd. (See Note 12 "Assets held for sale").

(Unit: Millions of yen)

Carrying amount	Buildings and structures	Machinery and equipment	Land	Construction in progress	Other	Total
Balance, April 1, 2020	372,905	859,383	188,582	195,880	141,483	1,758,233
Balance, March 31, 2021	426,893	901,872	196,112	204,134	146,752	1,875,763
Balance, March 31, 2022	438,318	920,777	205,371	199,895	148,246	1,912,607

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Contractual commitments for the acquisition of property, plant and equipment	109,168	120,151

(4) Impairment losses

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

For the year ended March 31, 2021

The impairment losses are not presented as they are immaterial.

For the year ended March 31, 2022

(Unit: Millions of yen)

Business group	Segment	Types of assets	Class	Amount
Electrification Systems	Europe	Facility for electrification systems	Land, Buildings and structures, Machinery and equipment, etc.	8,844
Other	Japan	Facility for recreation	Land, Buildings and structures,	908

The Group wrote down the carrying amounts of its production facilities of subsidiaries in Europe to their recoverable amounts and recognized ¥8,844 million in impairment losses for relevant assets because the expected profit was not foreseen due to deterioration of a part of the business environment in certain regions. The recoverable amounts of the asset group were measured at value in use and the discount rate used to calculate the estimated future cash flows is 8.48%.

The Group wrote down the carrying amounts of its recreation facility, which was decided to close at the end of March, as a result of a change in the Group's use plan to their recoverable amounts and recognized ¥908 million in impairment losses. The recoverable amounts of the asset group were measured at fair. Fair value is calculated based on valuation techniques which include inputs that are not based on observable market data and the fair value hierarchy is level 3.

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

(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, 2021

The reversal of impairment losses is not applicable.

For the year ended March 31, 2022

The reversal of impairment losses is not applicable.

12. Assets held for sale

For the year ended March 31, 2021

The non-current assets held for sale is not applicable.

For the year ended March 31, 2022

The breakdown of "Assets held for sale" and "Liabilities directly associated with assets held for sale" is as follows.

(Unit: Millions of yen)

	FY 2022 As of March 31, 2022		FY2022 As of March 31, 2022
Assets held for sale		Liabilities directly associated with assets held for sale	
Inventories	4,143	Trade and other payables	472
Other current assets	251	Other non-current liabilities	4
Property, plant and equipment	18,223		
Other non-current assets	21		
Total	22,638	Total	476

Assets classified as "Assets held for sale" and "Liabilities directly associated with assets held for sale" for the year ended March 31, 2022 are the assets and liabilities of the fuel pump module business for which the business transfer agreement with Aisan Industry Co., Ltd. was concluded and those held by KYOSAN DENSO MANUFACTURING KENTUCKY, LLC, which is included in the fuel pump module business. This classification as "Assets held for sale" and "Liabilities directly associated with assets held for sale" reflects the decision to sell the fuel pump module business.

Since the basic agreement on May 20, 2019, between the Company and Aisan Industry Co., Ltd., the Company has been studying the possibility of strengthening their competitiveness in powertrain. This business transfer is subject to approval from the antitrust authorities in the relevant countries and regions. Date of the transfer is planned for August 1, 2022.

13. 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, 2020	36,984	6,053	14,920	4,207	62,164
Acquisition	13,344	881	654	204	15,083
Business combinations	–	–	–	–	–
Disposals	(8,507)	(1,062)	(427)	(650)	(10,646)
Foreign exchange differences	445	198	675	16	1,334
Other	881	189	183	34	1,287
Balance, March 31, 2021	43,147	6,259	16,005	3,811	69,222
Acquisition	8,789	1,062	945	329	11,125
Business combinations (Note 1)	8	–	800	–	808
Disposals	(9,096)	(1,550)	(990)	(1,353)	(12,989)
Foreign exchange differences	1,065	195	1,177	(4)	2,433
Other	–	–	–	–	–
Balance, March 31, 2022	43,913	5,966	17,937	2,783	70,599

(Note 1) The increase in "Business combinations" was due to the acquisition of Chongqing Chaoli Electric Appliance Co., Ltd. (See Note 6 "Business combinations").

(Unit: Millions of yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery and equipment	Land	Other	Total
Balance, April 1, 2020	8,734	2,268	2,380	1,528	14,910
Depreciation (Note 2)	10,714	1,265	965	848	13,792
Impairment losses	–	–	–	–	–
Disposals	(6,570)	(775)	(359)	(432)	(8,136)
Foreign exchange differences	152	92	167	10	421
Other	386	15	–	–	401
Balance, March 31, 2021	13,416	2,865	3,153	1,954	21,388
Depreciation (Note 2)	10,546	1,267	953	642	13,408
Impairment losses	–	–	–	–	–
Disposals	(7,740)	(1,316)	(620)	(966)	(10,642)
Foreign exchange differences	422	76	244	(10)	732
Other	163	9	116	31	319
Balance, March 31, 2022	16,807	2,901	3,846	1,651	25,205

(Note 2) 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, 2020	28,250	3,785	12,540	2,679	47,254
Balance, March 31, 2021	29,731	3,394	12,852	1,857	47,834
Balance, March 31, 2022	27,106	3,065	14,091	1,132	45,394

(2) Impairment losses

The Group recognized impairment losses for the following assets:

For the year ended March 31, 2021

The impairment losses are not applicable.

For the year ended March 31, 2022

The impairment losses are not applicable.

For the lease transactions, see Note 30 "Leases."

14. 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, 2020	109,717	13,014	14,739	21,745	6,445
Acquisition	18,003	554	235	–	–
Internally generated	2,060	7,445	–	–	–
Business combinations (Note 1)	–	–	7,265	26,697	5,683
Disposals	(4,758)	–	(180)	–	–
Foreign exchange differences	1,252	5	55	–	–
Other	2,993	–	–	–	–
Balance, March 31, 2021	129,267	21,018	22,114	48,442	12,128
Acquisition	17,432	74	–	–	–
Internally generated	1,964	1,250	–	–	–
Business combinations (Note 1)	49	–	2,784	3,181	2,473
Disposals	(1,973)	–	–	–	–
Foreign exchange differences	2,690	7	348	134	104
Other	5,580	–	(198)	–	–
Balance, March 31, 2022	155,009	22,349	25,048	51,757	14,705

(Unit: Millions of yen)

Acquisition cost	Other	Total
Balance, April 1, 2020	25,517	191,177
Acquisition	10,303	29,095
Internally generated	191	9,696
Business combinations (Note 1)	–	39,645
Disposals	(417)	(5,355)
Foreign exchange differences	170	1,482
Other	(5,547)	(2,554)
Balance, March 31, 2021	30,217	263,186
Acquisition	13,186	30,692
Internally generated	1,704	4,918
Business combinations (Note 1)	–	8,487
Disposals	(913)	(2,886)
Foreign exchange differences	67	3,350
Other	(4,681)	701
Balance, March 31, 2022	39,580	308,448

(Note 1) The increase in "Business combinations" for the year ended March 31, 2021 was due to the acquisition of the core electronic component operation from Toyota Motor Corporation, and the increase for the year ended March 31, 2022 was due to the acquisition of Chongqing Chaoli Electric Appliance Co., Ltd. (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, 2020	68,036	4,550	970	10,049	1,559
Amortization (Note 2)	18,549	1,603	–	4,089	1,213
Impairment losses	–	–	–	–	–
Disposals	(4,620)	–	–	–	–
Foreign exchange differences	867	1	–	–	–
Other	(384)	–	–	–	–
Balance, March 31, 2021	82,448	6,154	970	14,138	2,772
Amortization (Note 2)	19,740	5,252	–	3,845	1,337
Impairment losses	–	–	42	–	–
Disposals	(1,908)	–	–	–	–
Foreign exchange differences	1,639	4	–	6	4
Other	507	–	–	–	–
Balance, March 31, 2022	102,426	11,410	1,012	17,989	4,113

(Unit: Millions of yen)

Accumulated amortization and accumulated impairment losses	Other	Total
Balance, April 1, 2020	9,625	94,789
Amortization (Note 2)	2,773	28,227
Impairment losses	–	–
Disposals	(380)	(5,000)
Foreign exchange differences	102	970
Other	624	240
Balance, March 31, 2021	12,744	119,226
Amortization (Note 2)	2,833	33,007
Impairment losses	97	139
Disposals	(869)	(2,777)
Foreign exchange differences	312	1,965
Other	801	1,308
Balance, March 31, 2022	15,918	152,868

(Note 2) 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, 2020	41,681	8,464	13,769	11,696	4,886
Balance, March 31, 2021	46,819	14,864	21,144	34,304	9,356
Balance, March 31, 2022	52,583	10,939	24,036	33,768	10,592

(Unit: Millions of yen)

Carrying amount	Other	Total
Balance, April 1, 2020	15,892	96,388
Balance, March 31, 2021	17,473	143,960
Balance, March 31, 2022	23,662	155,580

The research and development expenditures recognized in profit or loss for the years ended March 31, 2021 and 2022 were ¥484,567 million and ¥496,306 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, 2021

The impairment losses are not applicable.

For the year ended March 31, 2022

Impairment losses on goodwill recognized along with the decrease in profit or the disposal, etc. of TD MOBILE's directly managed stores were ¥42 million.

Impairment losses on intangible assets of a subsidiary in Europe were ¥97 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, 2021

	Carrying amount (Millions of yen)	Average remaining amortization periods (Years)
Customer-related assets	34,304	19.0
Technology-based assets	9,356	7.9

Significant intangible assets newly recognized for the year ended March 31, 2021 were customer-related assets (carrying amount of ¥25,629 million, remaining amortization period of 24.0 years) and technology-based assets (carrying amount of ¥5,115 million, remaining amortization period of 9.0 years), which were recognized as a result of the acquisition of the core electronic component operation from Toyota Motor Corporation.

For the year ended March 31, 2022

	Carrying amount (Millions of yen)	Average remaining amortization periods (Years)
Customer-related assets	33,768	18.2
Technology-based assets	10,592	7.5

Significant intangible assets newly recognized for the year ended March 31, 2022 were customer-related assets (carrying amount of ¥24,561 million, remaining amortization period of 23.0 years) and technology-based assets (carrying amount of ¥4,546 million, remaining amortization period of 8.0 years), which were recognized as a result of the acquisition of the core electronic component operation from Toyota Motor Corporation.

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
The Company (Note 1)	7,265	7,265
TD MOBILE (Note 2)	6,455	6,364
DENSO TEN group (Note 3)	1,938	1,938
DENSO FA YAMAGATA	3,464	3,464
Chongqing Chaoli Electric Appliance Co., Ltd.	–	2,902
Other	2,022	2,103
Total	21,144	24,036

(Note 1) Goodwill allocated to the Company was allocated to the related business field.

(Note 2) Goodwill allocated to TD MOBILE was allocated to directly managed stores run by TD MOBILE.

(Note 3) 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 along with the decrease in profit or the disposal, etc. of its directly managed stores.

The Company, 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 plans are 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 10.70%-12.88% of cash-generating units or groups of cash-generating units. While the recoverable amounts exceeded the carrying amounts for the year ended March 31, 2022, an increase in the discount rate of 3.6% would result in impairment losses.

15. Income taxes

(1) Income tax expenses

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

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Current income tax expenses		
Current year	39,074	78,817
Prior years	2,777	(2,827)
Total	41,851	75,990
Deferred income tax expenses		
Occurrence and reversal of temporary differences	4,903	18,152
Change in tax rates	(6)	–
Recognition of previously unrecognized deferred tax assets	(1,126)	(105)
Reversal of deferred tax assets recognized in the prior year	36	2,017
Total	3,807	20,064
Total of income tax expenses	45,658	96,054
Income taxes recognized in other comprehensive income	179,688	86,626

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, 2021 and 2022.

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: %)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Applicable statutory tax rate	30.07	30.07
Lower income tax rates applicable to income in certain foreign subsidiaries	(5.06)	(3.28)
Tax credit for R&D expenses	(1.82)	(2.56)
Dividends Received Deduction	(1.45)	(0.75)
Other	1.82	1.48
Actual effective tax rate	23.56	24.96

(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, 2021 (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	17,759	779	–	–	29	18,567
Reserve for warranty	75,726	(8,978)	–	–	90	66,838
Retirement benefit liabilities	74,466	(5,135)	9,006	–	255	78,592
Accrued vacations paid	21,338	1,265	–	–	30	22,633
Other	196,679	11,025	(26,735)	3,124	1,086	185,179
Total deferred tax assets	385,968	(1,044)	(17,729)	3,124	1,490	371,809
Deferred tax liabilities						
Investment in equity instruments	159,745	–	141,849	–	–	301,594
Depreciation	51,833	7,813	–	–	605	60,251
Retirement benefit assets	47,268	(7,482)	9,617	–	(5)	49,398
Other	22,735	2,432	22	–	521	25,710
Total deferred tax liabilities	281,581	2,763	151,488	–	1,121	436,953
Net	104,387	(3,807)	(169,217)	3,124	369	(65,144)

For the year ended March 31, 2022 (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	18,567	2,672	–	–	122	21,361
Reserve for warranty	66,838	(32,862)	–	–	178	34,154
Retirement benefit liabilities	78,592	(1,165)	(3,197)	–	164	74,394
Accrued vacations paid	22,633	447	–	–	69	23,149
Other	185,179	(8,666)	2,159	456	2,777	181,905
Total deferred tax assets	371,809	(39,574)	(1,038)	456	3,310	334,963
Deferred tax liabilities						
Investment in equity instruments	301,594	–	60,271	–	–	361,865
Depreciation	60,251	(11,202)	–	–	2,197	51,246
Retirement benefit assets	49,398	(823)	13,951	–	2	62,528
Other	25,710	(7,485)	(1,212)	1,315	1,247	19,575
Total deferred tax liabilities	436,953	(19,510)	73,010	1,315	3,446	495,214
Net	(65,144)	(20,064)	(74,048)	(859)	(136)	(160,251)

(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" for the year ended March 31, 2021 was due to the acquisition of the core electronic component operation from Toyota Motor Corporation, and the increase for the year ended March 31, 2022 was due to the acquisition of JECO and Chongqing Chaoli Electric Appliance Co., Ltd. (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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Deferred tax assets	36,951	36,871
Deferred tax liabilities	102,095	197,122
Net deferred tax assets (liabilities)	(65,144)	(160,251)

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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Deductible temporary differences	49,717	76,665

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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Within 1st year	3,191	7,804
2nd year	7,807	4,728
3rd year	4,401	6,291
4th year	6,280	489
5th year and thereafter	19,650	29,064
Total	41,329	48,376

As of March 31, 2021 and 2022, 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, 2021 and 2022 were ¥1,067,241 million and ¥1,311,288 million, respectively.

16. 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, 2021 and 2022. In addition, the Company monitors each compliance status to maintain the level required by such financial covenants.

	FY2021 As of March 31, 2021 (Millions of yen)	FY2022 As of March 31, 2022 (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	51,069	174,212	0.70	–
Current portion of bonds (Note 2)	10,000	70,000	–	–
Current portion of long-term borrowings	37,279	18,607	0.03	–
Bonds (Note 2)	240,001	231,196	–	–
Long-term borrowings	515,873	497,420	0.13	From 2023 to 2028
Total	854,222	991,435	–	–

(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	FY2021 As of March 31, 2021 (Millions of yen)	FY2022 As of March 31, 2022 (Millions of yen)	Interest rate (%)	Collateral	Redemption period
The Company	The 11th unsecured bonds	September 8, 2015	10,000	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 (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 (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
	The 19th unsecured bonds	November 20, 2020	50,001	50,001	0.00	None	November 20, 2023
	Due 2026 U.S. dollar-denominated straight bonds (sustainability bonds)	September 16, 2021	–	61,195	1.24	None	September 16, 2026
Total	–	–	250,001 (10,000)	301,196 (70,000)	–	–	–

(Note) The amounts in parentheses under "FY2021 and FY2022 (Millions of yen)" indicate current portion of bonds.

17. Trade and other payables

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

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Notes and accounts payable (Note 1)	670,016	753,600
Other (Note 2)	344,390	377,775
Total	1,014,406	1,131,375

(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.

18. 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, 2020	254,342	10,582	9,238	274,162
Provisions made	97,707	600	1,568	99,875
Provisions used	(113,133)	(343)	(2,213)	(115,689)
Provisions reversed	(9,083)	–	(711)	(9,794)
Foreign exchange differences	663	561	108	1,332
Balance, March 31, 2021	230,496	11,400	7,990	249,886
Provisions made	17,185	3,093	6,047	26,325
Provisions used	(118,654)	(525)	(3,154)	(122,333)
Provisions reversed	(8,654)	–	(1,527)	(10,181)
Foreign exchange differences	907	921	263	2,091
Balance, March 31, 2022	121,280	14,889	9,619	145,788

(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 ¥993 million and ¥977 million as of March 31, 2021 and 2022, respectively. The amounts were included in "Trade and other receivables" in the consolidated statement of financial position.

(Note 2) Please see Note 33 "Contingencies."

19. 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Balance, beginning of year	920,027	956,823
Service cost	41,099	41,283
Interest cost on obligation	7,268	7,996
Business combinations (Note)	–	3,782
Plan amendments	519	(5,088)
Actuarial gains and losses (Demographic)	32,084	(9,464)
Actuarial gains and losses (Financial)	(6,886)	(19,457)
Benefits paid	(41,146)	(44,229)
Foreign exchange differences	3,858	4,904
Balance, end of year	956,823	936,550

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

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Balance, beginning of year	705,127	737,937
Interest income on plan assets	5,563	6,396
Business combinations (Note)	–	2,742
Plan amendments	239	–
Income from plan assets other than interest	30,572	33,131
Employer contributions	19,339	24,535
Benefits paid	(24,493)	(25,935)
Foreign exchange differences	1,590	3,907
Balance, end of year	737,937	782,713

(Note) The increase in "Business combinations" for the years ended March 31, 2022 was due to the acquisition of JECO. (See Note 6 "Business combinations").

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

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Defined benefit obligation, end of year	956,823	936,550
Plan assets, end of year	737,937	782,713
Net amount of defined benefit obligation and plan assets	218,886	153,837
Retirement benefit liabilities	282,332	265,188
Retirement benefit assets	63,446	111,351
Net amount of liabilities and assets recognized in the consolidated statement of financial position	218,886	153,837

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, 2021 and 2022 are as follows:

As of March 31, 2021 (Unit: Millions of yen)

Category	Plan assets that have a quoted market price in an active market	Plan assets that do not have a quoted market price in an active market	Total
Equity instruments			
Japanese equity securities	45,633	–	45,633
Global equity securities	155	2,360	2,515
Commingled funds—Japanese equity securities	–	72,708	72,708
Commingled funds—global equity securities	–	45,751	45,751
Total—Equity instruments	45,788	120,819	166,607
Debt instruments			
Japanese debt securities	14,883	–	14,883
Global debt securities	61,952	–	61,952
Commingled funds—Japanese debt securities	–	86,005	86,005
Commingled funds—global equity securities	–	53,478	53,478
Other	349	4,053	4,402
Total—Debt instruments	77,184	143,536	220,720
Insurance contracts (Note 1)	833	176,724	177,557
Other (Note 2)	49,613	123,440	173,053
Total	173,418	564,519	737,937

(Note 1) Insurance contracts include 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, 2022 (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	59,367	–	59,367
Global equity securities	194	1,597	1,791
Commingled funds—Japanese equity securities	–	59,736	59,736
Commingled funds—global equity securities	–	34,528	34,528
Total—Equity instruments	59,561	95,861	155,422
Debt instruments			
Japanese debt securities	15,424	–	15,424
Global debt securities	34,916	–	34,916
Commingled funds—Japanese debt securities	–	80,600	80,600
Commingled funds—global equity securities	–	54,429	54,429
Other	354	4,808	5,162
Total—Debt instruments	50,694	139,837	190,531
Insurance contracts (Note 1)	–	195,129	195,129
Other (Note 2)	65,009	176,622	241,631
Total	175,264	607,449	782,713

(Note 1) Insurance contracts include 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: %)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Discount rate	0.67	0.82

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 considering all information of projected cash flow.

(Unit: Millions of yen)

	Increase (decrease) of defined benefit obligations as of March 31, 2022
Discount rate: Decreased by 0.5%	69,033
Discount rate: Increased by 0.5%	(61,194)

The Group expects ¥24,360 million of the contribution to be paid from April 1, 2022 to March 31, 2023.

The weighted-average durations of the defined benefit obligations for the years ended March 31, 2021 and 2022 were 18 years.

(2) Defined contribution plans

The amounts recognized as expenses related to the defined contribution plans for the years ended March 31, 2021 and 2022 were ¥11,141 million and ¥11,992 million, respectively.

20. 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)
FY2021 As of March 31, 2021	787,944,951	187,457	272,517
Increase	–	–	1,286
FY2022 As of March 31, 2022	787,944,951	187,457	273,803

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)
FY2021 As of March 31, 2021	13,077,449	56,830
Increase	11,539,500	95,516
FY2022 As of March 31, 2022	24,616,949	152,346

(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 from a functional currency into the 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.

21. 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 30, 2020	Ordinary shares	54,243	70	March 31, 2020	May 26, 2020
Board of Directors' meeting held on October 29, 2020	Ordinary shares	54,243	70	September 30, 2020	November 26, 2020
Board of Directors' meeting held on April 28, 2021	Ordinary shares	54,243	70	March 31, 2021	May 25, 2021
Board of Directors' meeting held on October 29, 2021	Ordinary shares	61,622	80	September 30, 2021	November 26, 2021

Dividends for which the record date is in the current fiscal year, yet the effective date is in the following fiscal year, are as follows:

Resolution	Class of shares	Source of dividends	Total dividends(Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors' meeting held on April 28, 2022	Ordinary shares	Retained earnings	64,886	85	March 31, 2022	May 25, 2022

22. 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, 2021

(Unit: Millions of yen)

Toyota Group	2,619,778
Other Original Equipment Manufacturing Sales	1,727,214
Total Original Equipment Manufacturing Sales	4,346,992
Aftermarket and Non-Automotive Business	589,733
Total	4,936,725

(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 ¥16,404 million, under IFRS 16.

For the year ended March 31, 2022

(Unit: Millions of yen)

Toyota Group	2,846,572
Other Original Equipment Manufacturing Sales	2,028,557
Total Original Equipment Manufacturing Sales	4,875,129
Aftermarket and Non-Automotive Business	640,383
Total	5,515,512

(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 ¥20,119 million, under IFRS 16.

Disaggregated revenue by product is as follows:

In accordance with the organizational change on January 1, 2021, effective from the fiscal year ended March 31, 2021, the business group name was changed from "Mobility Electronics" to "Mobility Systems," and in accordance with the organizational change on April 1, 2021, effective from the fiscal year ended March 31, 2022, the business group name was changed from "Sensor & Semiconductor" to "Sensing system & Semiconductor."

In addition, effective from the fiscal year ended March 31, 2022, certain products previously classified as “Thermal Systems” are reclassified as “Non-Automotive Businesses” and certain products previously classified as “Other” are reclassified as “Mobility Systems.” The disaggregated revenue by product for the fiscal year ended March 31, 2021 is presented using the name after the change.

Although there was an organizational change on January 1, 2022, the above classification is used for the fiscal year ended March 31, 2022.

For the year ended March 31, 2021

Before rearrangement:

(Unit: Millions of yen)

Thermal Systems	1,162,982
Powertrain Systems	1,108,845
Mobility Systems	1,080,805
Electrification Systems	958,704
Sensor & Semiconductor	148,641
Others	314,489
Automotive Total	4,774,466
Non-Automotive Business (FA and agriculture, etc.) Total	162,259
Total	4,936,725

(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 ¥16,404 million, under IFRS 16.

After rearrangement:

(Unit: Millions of yen)

Thermal Systems	1,158,824
Powertrain Systems	1,108,845
Mobility Systems	1,272,133
Electrification Systems	958,704
Sensing system & Semiconductor	148,641
Others	123,161
Automotive Total	4,770,308
Non-Automotive Business (FA and agriculture, etc.) Total	166,417
Total	4,936,725

For the year ended March 31, 2022

(Unit: Millions of yen)

Thermal Systems	1,282,040
Powertrain Systems	1,245,085
Mobility Systems	1,356,424
Electrification Systems	1,136,264
Sensing system & Semiconductor	176,018
Others	132,807
Automotive Total	5,328,638
Non-Automotive Business (FA and agriculture, etc.) Total	186,874
Total	5,515,512

(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 ¥20,119 million, under IFRS 16.

For the breakdown of revenue by geographical segment and revenue to the Toyota 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, 2020	March 31, 2021	March 31, 2022
Receivables from contracts with customers			
Trade and other receivables	792,864	940,548	1,023,767
Total	792,864	940,548	1,023,767
Contract assets			
Other current assets	842	609	976
Other non-current assets	1,503	1,437	3,302
Total	2,345	2,046	4,278

The balance and changes in contract assets are both immaterial.

Of the revenue recognized for the fiscal years ended March 31, 2021 and 2022, 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 ¥15,863 million and ¥20,839 million are included in "Other current liabilities" for the fiscal years ended March 31, 2021 and 2022, 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.

23. Other income

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

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Rental income-property, plant and equipment	2,659	2,455
Gain on sales-property, plant and equipment	4,446	5,706
Other (Note)	22,372	31,000
Total	29,477	39,161

(Note) "Other" for the year ended March 31, 2021 included government grants for COVID-19 of ¥6,187 million and the refund of value added tax of ¥2,691 million in an overseas subsidiary.
For the year ended March 31,2022 included negative goodwill resulting from the share exchange of JECO amounting to ¥8,267 million (See Note 6 "Business combinations") and income associated with amendment of retirement benefit plan of ¥5,223 million.

24. 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Freight expenses	42,577	50,973
Employee benefit expenses	194,884	197,645
Provision for warranty reserve	87,309	6,958
Depreciation	35,305	36,305
Welfare expenses	29,951	31,868
Other	124,466	136,700
Total	514,492	460,449

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

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Loss on sales or disposal—property, plant and equipment	10,927	12,028
Impairment losses	35	9,934
Other (Note)	10,402	17,059
Total	21,364	39,021

(Note) "Other" for the year ended March 31, 2022 included a loss of ¥2,752 million as a result of the remeasurement of equity interest previously held at the time of the acquisition of control by the Company of JECO at fair value on the acquisition date (See Note 6 "Business combinations"), and 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 ¥3,093 million
(See Note 33 "Contingencies").

25. Income and expenses pertaining to financial instruments

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

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Interest income		
Financial assets measured at amortized cost (i.e., deposits and other)	6,543	5,410
Financial assets measured at fair value through profit or loss (i.e., interest rate derivatives)	148	441
Dividend income		
Financial assets measured at fair value through profit or loss	2,573	–
Financial assets measured at fair value through other comprehensive income (Note)	29,995	34,260
Other	3,459	2,143
Total	42,718	42,254

(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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Interest expenses		
Financial liabilities measured at amortized cost (i.e., bonds, borrowings, and other)	4,510	4,699
Interest on defined benefit liabilities, net	1,705	1,600
Other	1,115	2,104
Total	7,330	8,403

26. 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Profit attributable to owners of the parent company	125,055	263,901

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

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Average number of shares—basic	774,869	769,916

(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.

27. 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Net fair value gain on equity instruments designated as FVTOCI		
Arising during the year	579,942	224,007
Income taxes	(179,055)	(70,690)
Total	400,887	153,317
Remeasurements of defined benefit pension plans		
Arising during the year	5,374	62,052
Income taxes	(611)	(17,148)
Total	4,763	44,904
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	59	5
Total	59	5
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations		
Arising during the year	81,115	165,697
Reclassification to profit or loss	–	73
Total	81,115	165,770
Cash flow hedges		
Arising during the year	482	(3,927)
Reclassification to profit or loss	(410)	(104)
Before income taxes	72	(4,031)
Income taxes	(22)	1,212
Total	50	(2,819)
Share of other comprehensive income of investments accounted for using the equity method		
Arising during the year	917	5,594
Total	917	5,594
Total other comprehensive income	487,791	366,771

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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Net fair value gain on equity instruments designated as FVTOCI	494	385
Remeasurements of net defined benefit pension plans	1,993	1,785
Exchange differences on translating foreign operations	8,647	10,750
Total	11,134	12,920

28. Non-financial transactions that are material

Details of non-financial transactions that are material

Assets and liabilities related to lease transactions are as follows:

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
The amounts of assets and liabilities related to lease transactions	32,388	26,774

29. 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, 2022.

(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 controls 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 speculative 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 based on internal guidelines, which include monitoring of payment terms and balances of each customer to identify the default risk of customers at an early stage. As of March 31, 2022, receivables from the Toyota Group accounted for 33% of the total receivables.

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 a 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, 2020	1,816	2,079	3,895
Increase	2,183	–	2,183
Decrease—used	(112)	(297)	(409)
Decrease—reversed	(1,560)	(309)	(1,869)
Reclassification to credit-impaired financial assets	(737)	737	–
Foreign exchange differences	13	87	100
Balance, March 31, 2021	1,603	2,297	3,900
Increase	442	–	442
Decrease—used	(18)	(39)	(57)
Decrease—reversed	(302)	(91)	(393)
Reclassification to credit-impaired financial assets	(205)	205	–
Foreign exchange differences	82	195	277
Balance, March 31, 2022	1,602	2,567	4,169

(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 Credit-impaired financial assets	Total
Balance, April 1, 2020	379	471	850
Increase	1	–	1
Decrease—used	–	–	–
Decrease—reversed	(266)	–	(266)
Reclassification to credit-impaired financial assets	–	–	–
Foreign exchange differences	–	47	47
Balance, March 31, 2021	114	518	632
Increase	2	1,033	1,035
Decrease—used	–	–	–
Decrease—reversed	(3)	–	(3)
Reclassification to credit-impaired financial assets	–	–	–
Foreign exchange differences	(1)	130	129
Balance, March 31, 2022	112	1,681	1,793

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, 2020	685,549	4,043	689,592
New financial assets and derecognized financial assets during the period	82,303	(1,314)	80,989
Reclassification to credit-impaired financial assets	(927)	927	–
Foreign exchange differences	19,874	141	20,015
Balance, March 31, 2021	786,799	3,797	790,596
New financial assets and derecognized financial assets during the period	86,723	(1,139)	85,584
Reclassification to credit-impaired financial assets	(46)	46	–
Foreign exchange differences	58,202	246	58,448
Balance, March 31, 2022	931,678	2,950	934,628

Receivables except for trade receivables

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Balance, April 1, 2020	2,302	471	2,773
New financial assets and derecognized financial assets during the period	(989)	–	(989)
Reclassification to credit-impaired financial assets	–	–	–
Foreign exchange differences	–	47	47
Balance, March 31, 2021	1,313	518	1,831
New financial assets and derecognized financial assets during the period	(343)	1,033	690
Reclassification to credit-impaired financial assets	–	–	–
Foreign exchange differences	–	130	130
Balance, March 31, 2022	970	1,681	2,651

Risk profile

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

For the year ended March 31, 2021

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	935,528	–	935,528
Past due within 90 days	16,194	–	16,194
Past due within 90 days to 1 year	1,797	2,254	4,051
Past due over 1 year	861	1,543	2,404
Total	954,380	3,797	958,177

Receivables except above

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses Credit-impaired financial assets	Total
Within due date	94,259	–	94,259
Past due within 30 days	–	–	–
Past due within 30 days to 90 days	–	–	–
Past due within 90 days to 1 year	–	337	337
Past due over 1 year	–	181	181
Total	94,259	518	94,777

(Note) Financial instruments for which the Group does not recognize 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	888

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

For the year ended March 31, 2022

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	1,028,840	–	1,028,840
Past due within 90 days	14,727	–	14,727
Past due within 90 days to 1 year	1,364	1,004	2,368
Past due over 1 year	597	1,946	2,543
Total	1,045,528	2,950	1,048,478

Receivables except above

(Unit: Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses	Total
		Credit-impaired financial assets	
Within due date	104,251	–	104,251
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	–	1,681	1,681
Total	104,251	1,681	105,932

(Note) Financial instruments for which the Group does not recognize 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	348

(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 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 subsidiaries manage their derivative transactions based on similar guidelines.

The details of currency derivatives are as follows:

(Unit: Millions of yen)

	FY2021 As of March 31, 2021			FY2022 As of March 31, 2022		
	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	2,969	–	(35)	4,389	–	(100)
Selling	89,493	–	(2,337)	95,309	–	(4,042)
Currency option						
Buying (put)	2,942	–	4	2,631	–	(4)
Selling (call)	2,942	–	(32)	2,631	–	(21)
Currency swaps						
Buying	55,805	1,875	1,031	67,897	–	1,079
Selling	11,656	9,138	386	15,063	8,441	454
Total	165,807	11,013	(983)	187,920	8,441	(2,634)

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Net profit or loss	563	598
Equity	563	598

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. 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)

	FY2021 As of March 31, 2021			FY2022 As of March 31, 2022		
	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	39,167	33,949	(272)	35,754	27,497	461
Floating rate receipt, floating rate payment	–	–	–	–	–	–
Cross currency swap						
Floating rate receipt, fixed rate payment	–	–	–	–	–	–
Fixed rate receipt, fixed rate payment	34,312	2,550	(2,981)	39,249	2,891	(4,426)
Total	73,479	36,499	(3,253)	75,003	30,388	(3,965)

(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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Net profit or loss	5,979	4,926
Equity	6,089	4,932

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 liquid assets 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)

FY2021 As of March 31, 2021	Due in one year or less	Due after one year through five years	Due after five years	Total
Non-derivative financial liabilities				
Bonds and borrowings	98,348	535,874	220,000	854,222
Trade and other payables	713,785	–	–	713,785
Other financial liabilities (Note)	37,143	22,036	13,670	72,849
Derivative financial liabilities				
Derivatives	6,198	431	20	6,649

(Note) For lease liabilities which are included in other financial liabilities, see Note 30 "Leases."

(Unit: Millions of yen)

FY2022 As of March 31, 2022	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	262,819	619,616	109,000	991,435
Trade and other payables	816,321	–	–	816,321
Other financial liabilities (Note)	38,482	20,542	12,791	71,815
Derivative financial liabilities				
Derivatives	8,533	614	–	9,147

(Note) For lease liabilities which are included in other financial liabilities, see Note 30 "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 ¥10,520 million and ¥11,830 million for the years ended March 31, 2021 and 2022, 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 have 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 reputable 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)

	FY2021 As of March 31, 2021						
	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	1,167	27,000	(0.04)%	106.34	22,000	5,000	–

(Unit: Millions of yen)

	FY2022 As of March 31, 2022						
	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	563	5,000	(0.03)%	110.13	5,000	–	–
Fixed rate receipt, fixed rate payment	2,151	55,065	0.07%	110.13	–	55,065	–

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:

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Cash flow hedge reserve for continuing hedge	40	(2,779)

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

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Hedging gains or losses of the reporting period that were recognized in other comprehensive income	482	(3,927)
The amount reclassified from the cash flow hedge reserve into profit or loss (Note)	(410)	(104)
Total	72	(4,031)

(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 27 "Other comprehensive income" for the reconciliation of each component of equity and an analysis of other comprehensive income.

(4) Impact of Interest Rate Benchmark Reform: amendments to IFRS 9, IAS 39 and IFRS 7

For the year ended March 31, 2021, the Group adopted Interest Rate Benchmark Reform—Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

For the year ended March 31, 2022, the Group adopted Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Both the Phase 1 and Phase 2 amendments are relevant to certain derivative and non-derivative financial instruments held by the Group that mature in and after the year ended March 31, 2022.

The amendments are relevant for the hedging relationships and financial instruments of the Group, all of which extend beyond the year ended March 31, 2022. The Group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed ends. The Group expects this uncertainty will continue until the Group’s contracts that reference the U.S. dollar LIBOR mature. The target of interest rate benchmark reform to which the hedging relationship of the Group is exposed is U.S. dollar LIBOR.

Risks arising from the interest rate benchmark reform

Risks arising from the interest rate benchmark reform of the Group are immaterial.

Progress towards implementation of alternative benchmark interest rates

The Group does not make any contract that references the U.S. dollar LIBOR after January 2022. The existing contracts that reference the U.S. dollar LIBOR will not be renewed when it expires. The Group monitors this policy is complied with.

The non-derivative financial instruments that reference the U.S. dollar LIBOR and derivatives except for the hedging instruments, which reference the U.S. dollar LIBOR

The non-derivative financial instrument that references the U.S. dollar LIBOR and derivatives except for the hedging instruments, which reference the U.S. dollar LIBOR held by the Group are immaterial.

Derivatives and hedging relationships that reference that U.S. dollar LIBOR

Below are details of the hedging instruments and hedged items in the scope of the IFRS 9 amendments due to interest rate benchmark reform, by type of hedge. The terms of the hedged items match those of the corresponding hedging instruments. The Group has determined that, regarding the designated fixed-rate bank borrowings, the hedged U.S. dollar LIBOR interest rate risk components continue to be reliably measurable.

Type of hedge	Instrument type	Maturing in	Notional amount	Hedged item
Cash flow hedges	Interest rate currency swap Floating rate of 6-month U.S. dollar LIBOR receipt, fixed rate in Japanese yen payment	2022	US$45.4 million	U.S. dollar-denominated U.S. LIBOR borrowings of the same maturity and notional amount of the swap

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows to which the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference the U.S. dollar LIBOR matures.

(5) 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 each quarter.

There were no transfers among Levels for 12 months of the year ended March 31, 2021.

There was a transfer from Level 3 to Level 1 due to the listing of AURORA INNOVATION, INC. for 12 months of the year ended March 31, 2022. There were no other level transfers.

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)

FY2021 As of March 31, 2021	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	226	224	–	–	224
Financial liabilities					
Long-term borrowing (Note)	553,151	–	–	552,463	552,463
Bonds	250,001	250,367	–	–	250,367

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

(Unit: Millions of yen)

FY2022 As of March 31, 2022	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Debt securities	348	348	–	–	348
Financial liabilities					
Long-term borrowing (Note)	516,028	–	–	514,110	514,110
Bonds	301,196	296,169	–	–	296,169

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

The fair values of short-term financial assets and short-term financial liabilities, which are measured at amortized cost, approximate the carrying amounts, and are not disclosed above.

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

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

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

(Unit: Millions of yen)

FY2021 As of March 31, 2021	Level 1	Level 2	Level 3	Total
Derivative assets	–	3,575	–	3,575
Shares				
Listed shares	1,504,392	–	–	1,504,392
Unlisted shares	–	–	155,533	155,533
Other equity securities	–	–	3,090	3,090
Total	1,504,392	3,575	158,623	1,666,590
Derivative liabilities	–	6,646	–	6,646
Total	–	6,646	–	6,646

(Unit: Millions of yen)

FY2022 As of March 31, 2022	Level 1	Level 2	Level 3	Total
Derivative assets	–	5,255	–	5,255
Shares				
Listed shares	1,691,751	–	–	1,691,751
Unlisted shares	–	–	147,580	147,580
Other equity securities	–	–	3,023	3,023
Total	1,691,751	5,255	150,603	1,847,609
Derivative liabilities	–	9,141	–	9,141
Total	–	9,141	–	9,141

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. Those fair values are measured by using the discounted 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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Balance, beginning of year	129,504	158,623
Total recognized gains and losses		
Gains (Losses) recognized in profit or loss (Note 1)	2,062	(341)
Gains recognized in other comprehensive income (Note 2)	26,707	21,973
Purchases	2,163	2,544
Sales or Disposal	(1,813)	(188)
Transfers to Level 1 due to listing (Note 3)	–	(32,008)
Balance, end of year	158,623	150,603

(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 gain (loss) on equity instruments designated as FVTOCI" in the consolidated statement of comprehensive income.

(Note 3) Due to the transfer to Level 1 following the listing of stocks held by the Group.

(6) 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)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Total financial assets	20,020	20,959
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	(12,660)	(12,857)
Financial assets presented in the consolidated statement of financial position (Note 1)	7,360	8,102
The amount to be offset under master netting arrangement or similar arrangements	(1,640)	(1,964)
Cash collateral received	–	–
Net (Note 2)	5,720	6,138

(Note 1) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2021 and 2022 were ¥3,575 million and ¥5,255 million, respectively.

(Note 2) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2021 and 2022 were ¥1,935 million and 3,292 million, respectively.

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Total financial liabilities	22,623	24,258
Offsetting amount of financial assets and financial liabilities in accordance with the requirements	(12,660)	(12,857)
Financial liabilities presented in the statement of financial position (Note 3)	9,963	11,401
The amount to be offset under master netting arrangement or similar arrangements	(1,640)	(1,964)
Cash collateral paid	–	–
Net (Note 4)	8,323	9,437

(Note 3) Derivative assets recognized in "Financial assets presented in the consolidated statement of financial position" for the years ended March 31, 2021 and 2022 were ¥6,646 million and ¥9,141 million, respectively.
(Note 4) Derivative assets recognized in "Net" amount presented in the consolidated statement of financial position for the years ended March 31, 2021 and 2022 were ¥5,006 million and ¥7,178 million, respectively.

30. Leases

(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 covenants imposed by the leases. The amount of future cash outflows that is not reflected in the measurement of lease liabilities due to leases that are committed but have not yet commenced, is immaterial.

1) Lease liabilities

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

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Due within one year	20,723	22,593
Due after one year through five years	22,036	21,679
After five years	13,670	11,654
Total	56,429	55,926

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 liquid assets 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.

2) Interest expense on lease liabilities

Interest expense on lease liabilities for each fiscal year is as follows:

(Unit: Millions of yen)

FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
227	284

3) Total cash outflow for leases

Total cash outflow for leases for each fiscal year is as follows:

(Unit: Millions of yen)

FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
37,704	33,885

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 each fiscal year is as follows:

(Unit: Millions of yen)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
The expense relating to short-term leases	6,336	6,644
The expense relating to leases of low-value assets	222	184

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 at each fiscal year-end is as follows:

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Due within one year	11,346	14,144
Due after one year through five years	4,237	6,289
After five years	-	-
Total	15,583	20,433

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 22 "Revenue."

2) Lease payments from operating leases

Lease payments from operating leases are immaterial.

For the details of right-of-use assets, see Note 13 "Right-of-use assets."

31. Reconciliation of liabilities arising from financing activities

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

For the year ended March 31, 2021

(Unit: Millions of yen)

	FY2021 As of April 1, 2020	Cash flows	Non-cash changes					FY2021 As of March 31, 2021
			Foreign exchange differences	Fair value changes	New lease contracts	Business combi-nations	Other	
Short-term borrowings	61,897	(12,438)	1,610	–	–	–	–	51,069
Long-term borrowings	183,475	369,111	566	–	–	–	–	553,152
Lease liabilities	56,693	(30,919)	392	–	32,388	–	(2,125)	56,429
Bonds	220,000	30,001	–	–	–	–	–	250,001
Derivatives (Note 1)	9,994	307	165	(3,820)	–	–	–	6,646
Total	532,059	356,062	2,733	(3,820)	32,388	–	(2,125)	917,297

For the year ended March 31, 2022

(Unit: Millions of yen)

	FY2022 As of April 1, 2021	Cash flows	Non-cash changes					FY2022 As of March 31, 2022
			Foreign exchange differences	Fair value changes	New lease contracts	Business combi-nations (Note 2)	Other	
Short-term borrowings	51,069	108,535	14,095	–	–	513	–	174,212
Long-term borrowings	553,152	(37,678)	553	–	–	–	–	516,027
Lease liabilities	56,429	(26,773)	638	–	26,774	425	(1,567)	55,926
Bonds	250,001	45,960	5,235	–	–	–	–	301,196
Derivatives (Note 1)	6,646	3,893	52	(1,450)	–	–	–	9,141
Total	917,297	93,937	20,573	(1,450)	26,774	938	(1,567)	1,056,502

(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 increase in "Business combinations" was due to the acquisition of JECO and Chongqing Chaoli Electric Appliance Co., Ltd. (See Note 6 "Business combinations").

32. Related parties

(1) Related-party transactions

For the year ended March 31, 2021 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Group	Sale of automotive components	2,619,778
		Purchase of automotive components	54,565

For the year ended March 31, 2022 (Unit: Millions of yen)

Category	Name	Main transactions	Transaction amounts
Associated company which has significant influence over the Group	Toyota Group	Sale of automotive components	2,846,572
		Purchase of automotive components	56,282

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

(Unit: Millions of yen)

	FY2021 As of March 31, 2021	FY2022 As of March 31, 2022
Trade accounts receivable	281,438	289,290
Electronically recorded monetary claims	60,483	53,292
Accounts receivable - others	342	316
Allowance for doubtful accounts	–	–
Accounts payable	7,485	6,995
Accrued expenses	1,449	2,051

(2) Remuneration of key managing officers

For the year ended March 31, 2021 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Bonuses	Share-based payment
Key managing officers	360	256	90	14

For the year ended March 31, 2022 (Unit: Millions of yen)

	Total remuneration	Breakdown of remuneration		
		Basic remuneration	Bonuses	Share-based payment
Key managing officers	394	252	105	37

33. Contingencies

The details of contingent liabilities for the year ended March 31, 2022 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

Our subsidiary is among the defendants named in the lawsuit filed by a certain customer in Germany, wherein damages are claimed on suspicion of violation of antitrust law or competition law in connection with certain past transactions regarding specific auto parts. The case will be proceeded in accordance with the rule of the civil procedure in Germany, 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 18 "Provisions" and Note 24 "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.

34. 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, 2021 and 2022.

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)

	FY2021 2020/4-2021/3	FY2022 2021/4-2022/3
Increase in capital surplus	135	5

Gains (losses) associated with a loss of control of subsidiaries for the years ended March 31, 2021 and 2022 were not material.

35. Subsequent events

The Group has evaluated subsequent events through June 30, 2022. There are no subsequent events to be disclosed as of June 30, 2022.

Appendix

List of subsidiaries

The Company's subsidiaries as of March 31, 2022 are as follows.

Segment	Company name	Voting rights (%)
Japan	KYOSAN DENKI CO., LTD.	63.0
	HAMANAKODENSO CO., LTD.	76.7
	DENSO ELECTRONICS CORPORATION	100.0
	DENSO DAISHIN CORPORATION	100.0
	DENSO WIPER SYSTEMS, INC.	100.0
	DENSO AIR SYSTEMS CORPORATION	100.0
	DENSO SOLUTION CORPORATION	100.0
	DENSO WAVE INC.	75.2
	DENSO TECHNO CO., LTD.	100.0
	DENSO TRIM CO., LTD.	80.0
	DENSO WISETECH CORPORATION.	100.0
	DENSO KYUSHU CORPORATION	100.0
	DENSO HOKKAIDO 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 SALES CANADA, INC.	100.0
	DENSO MEXICO S.A. DE C.V.	95.0 (95.0)
	11 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 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)
	20 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)
	DENSO TEN (THAILAND) Limited	90.0 (90.0)
	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 TEN PHILIPPINES CORPORATION	100.0 (100.0)
	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)
	WUXI DENSO AUTOMOTIVE PRODUCTS CO., LTD.	100.0 (100.0)
	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
	55 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."

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of DENSO CORPORATION:

Opinion

We have audited the consolidated financial statements of DENSO CORPORATION and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2022, 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, 2022, 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

Key Audit Matter Description

As described in Notes 2 (4), 3 (14) and 18 to the consolidated financial statements, the reserve for warranty amounted to 121,280 million yen in the consolidated statement of financial position as of March 31, 2022.

The reserve for warranty is recognized based on the estimated amount of warranty expenses, considering the timing of outflows of resources embodying economic benefits based on past experiences of the 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 target vehicles, that are based on defect handling (including recalls) determined by the automobile manufacturers and other customers.

The reserve for warranty related to the defect handling is calculated based on a reasonably expected amount that 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 involve significant assumptions, which requires management's judgment. Specifically, certain factors such as “B.) the repair expenses per unit” and “D.) the expected burden ratio with customers” involve a high degree of uncertainties because they include an estimate of the man-hours required for repairs, which depends 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 and region. In addition, the uncertainty in accounting estimates might increase if occurrences of product defects continue to change. Furthermore, the total amount of repair expenses could be higher depending on the degree of the commonality of parts. Therefore, we have identified the estimate of the warranty reserve related to defect handling as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to test the completeness and valuation of individual warranty reserves related to defect handling including recalls, which comprise a large portion of the overall warranty reserve, included the following, among others:

(1) We tested the design and operating effectiveness of internal controls over the accounting department’s timely consultation with the quality control department in order to obtain all information necessary for estimating the warranty reserve.

(2) We inspected the list of recall notifications announced by the Ministry of Land, Infrastructure, Transport and Tourism, the Board of Directors meeting minutes and the written request for approval to test the completeness of the warranty reserve.

(3) We discussed with the responsible manager in the quality control department the outline of defect handling, the causes of the product defects and other information for the new cases and discussed whether there were any changes in the situation that need to be reflected in the current best estimate for the existing cases.

(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 management to assess 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” by comparing the rates used for the assumptions to the actual rates in other cases for the new cases and to their latest rates for the existing cases.

(6) We evaluated the reasonableness of significant assumptions used by management for “B.) the repair expenses per unit” and “D.) the expected burden ratio with customers” by examining the cause of product defects, other actual cases in the past and available external data for the

new cases, and by examining the latest average repair expenses per unit and the latest result of negotiation of the burden ratio for the existing cases.

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

2. Estimating provision for loss on antitrust issues

Key Audit Matter Description

As described in Notes 2 (4), 3 (14), 18 and 33 to the consolidated financial statements, the provision for loss on antitrust issues amounted to 14,889 million yen in the consolidated statement of financial position as of March 31, 2022.

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 DENSO CORPORATION has accepted with regard to allegations of antitrust law infractions for past transactions related to 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 amount 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, based on 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 cases, and consultation with the attorneys in charge.
The uncertainty surrounding the intentions of the authorities and other parties could make it difficult to estimate the amounts of surcharges and litigation settlements to be incurred. As such, we have identified the estimate of the provision for loss on antitrust issues as a key audit matter.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures to test the completeness and valuation of provision for loss on antitrust issues included the following, among others:

(1) We tested the design and operating effectiveness of internal controls over the accounting department’s timely consultation with legal department in order to obtain all information necessary for estimating 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. Discussions included the status of correspondence with the authorities of each country in which the Group operates, the status of negotiations with automobile manufacturers, and the

progress of civil lawsuits in order to determine the need for recognizing the 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 discussions with the head of the legal department. We evaluated the reasonableness of significant assumptions used by management by examining the status of the investigations by the national governments and competition authorities, the progress of settlement negotiations, the resolution status of past settlement 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 evaluated whether the provision was consistent with the progress of the settlement negotiations and completely recorded by testing the 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 management:

- We inspected the contracts, agreements, and other legal documentation that provided evidence of the settlement and compared them with the recorded amounts of the provision in the past.
- We inspected the payment proofs of cases in which payment of settlements had been completed, and retrospectively compared them with the recorded amounts of the provision in the past.

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in Financial Report 2022, but does not include the consolidated financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 judgment. 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 30, 2022