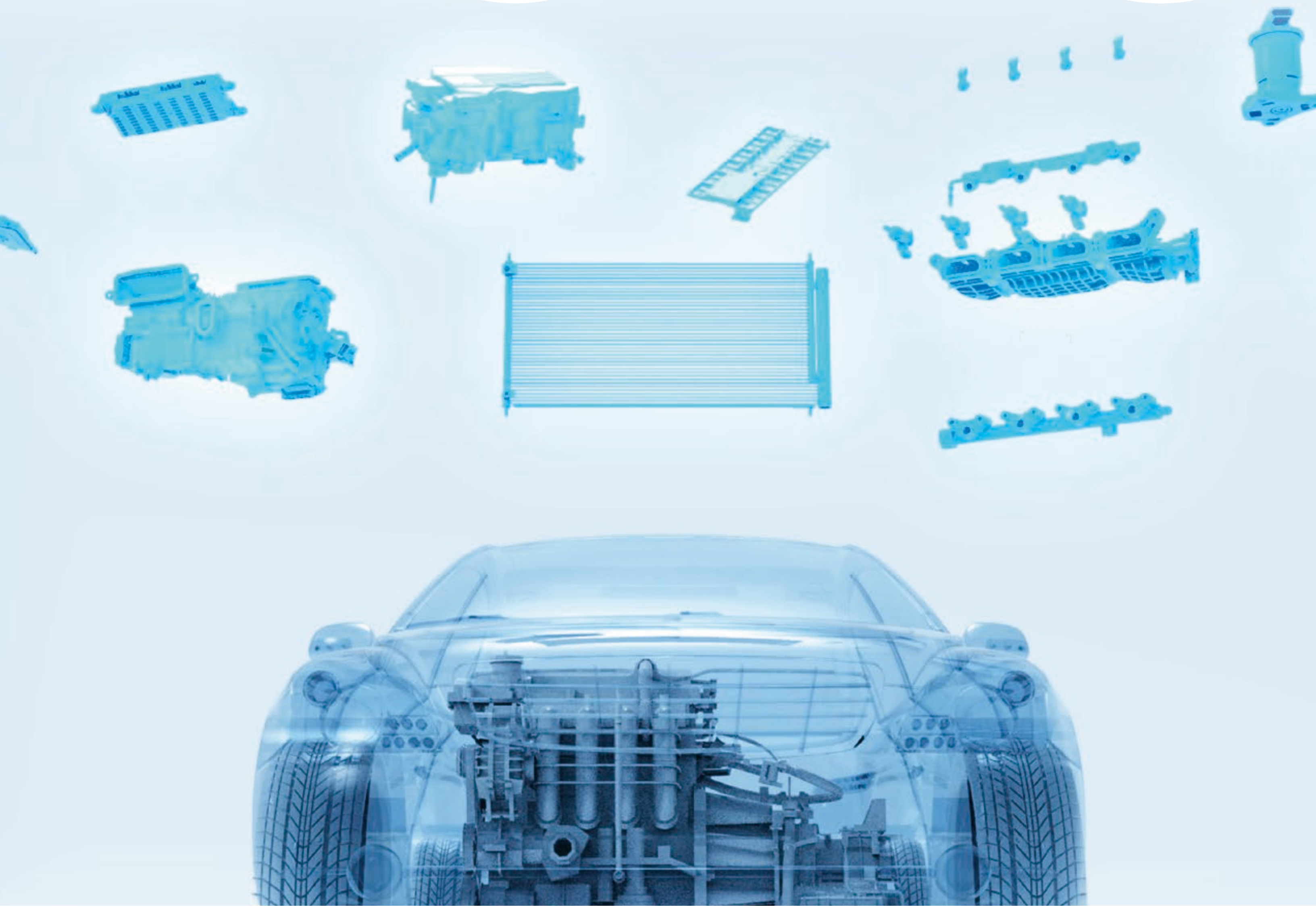
KEIHIN
change the future

2018

Keihin Corporation

Annual Report



Profile

Keihin Corporation is guided by two fundamental beliefs—"Respect for the individual" and "The five joys."

We believe that "Respect for the individual" encourages self-reliance—to be free to express ideas and opinions and to follow personal beliefs.

The concept also emphasizes respect for different perspectives and customs, and encourages associates to treat each other with fairness and sincerity to promote mutual trust.

"The five joys"—bringing joy to society, customers, suppliers, shareholders and ourselves—represent a shared commitment to meeting multiple expectations.

Keihin aims to achieve the realization of its corporate principle, which states that "Keihin will continue to contribute to the future of mankind by the continuous creation of new value," through activities grounded in this principle.

CONTENTS

Forward-Looking Statements

This annual report contains predictions and forecasts concerning Keihin's future plans, strategies and results. These predictions and forecasts are not historical facts but represent judgments formed by management based on the information available at the time they were formed. As such, actual results may differ significantly due to factors including, but not limited to, economic trends, changes in the automotive and automotive component industries, market demand, foreign exchange rates and tax systems.

Financial Highlights

Financial Results for FY2018

Revenue
¥351.4 billion
(up 8.0% compared with FY2017)

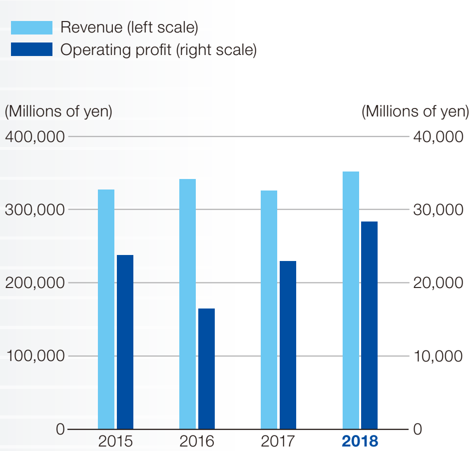
Operating profit
¥28.3 billion
(up 23.3% compared with FY2017)

Profit attributable to owners of the parent
¥17.8 billion
(up 60.8% compared with FY2017)

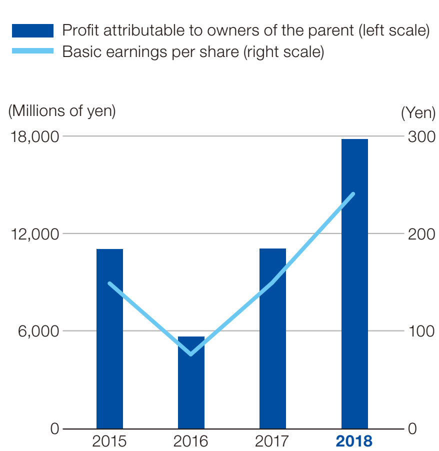
Cash dividends per share
¥43.0

	2017	2018 (Millions of yen (unless otherwise stated))	2018 (Thousands of U.S. dollars (unless otherwise stated))
For the year:			
Revenue	¥325,550	**¥351,494**	**$3,308,492**
Operating profit	22,954	**28,313**	**266,498**
Profit attributable to owners of the parent	11,084	**17,824**	**167,768**
At year-end:			
Total equity	¥193,883	**¥208,203**	**$1,959,738**
Total assets	266,851	**283,711**	**2,670,474**
Cash dividends per share (yen)	¥ 40.00	**¥ 43.00**	**$ 0.40**
Rate of exchange (1 U.S. dollar)	112.19	**106.24**	**—**
Unit sales (motorcycles and automotives) (million units)	44.15	**48.72**	**—**

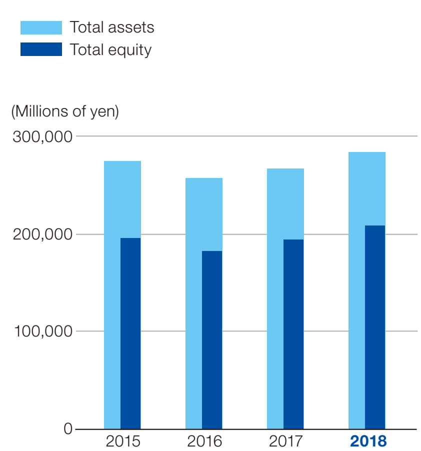
Revenue / Operating profit



Profit attributable to owners of the parent / Basic earnings per share



Total assets / Total equity



Note: U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥106.24 = US$1.

13th Medium-Term Global Policy

Build a strong company with healthy growth and a good company we can be proud of

- Provide eco-friendly solutions for the green technology era
- Greatly expand our customer base
- Enhance the attraction toward the Keihin brand

13th Medium-Term Management Target

Comsolidated operating profit margin

7%

I would like to express my sincere gratitude to all of our shareholders for their continued support.

On this occasion of reporting our business status for the 77th term (April 1, 2017 to March 31, 2018), please let me say a few words.

The 77th term was the first year of the Thirteenth Medium-Term Business Plan (April 1, 2017 to March 31, 2020), during which time we strived to realize our Medium-Term Global Policy—"Build a strong company with healthy growth and a good company we can be proud of."

Regarding the progress of our business development, in motorcycle products we began establishing the world's largest fuel injection system (FI system) supply structure in India, the largest motorcycle market in the world, where we have the top share. This included the establishment of a new plant and the expansion of buildings and equipment, as well as preparations for mass production. In automotive products, as the installation of power control units that play a core role in the expanding automotive's electrification advancement worldwide, we expanded production capacity in Japan to meet future growth in demand. Furthermore, with regard to existing gasoline engines, we began efforts to expand our areas of development in order to be able to take over more upstream development of engine systems from automotive manufacturers, and decided to establish a new R&D office to further bolster capacity.

In CSR activities, we established a Health Declaration and strengthened our efforts to promote health management. As a result, we were recognized as one of the Health and Productivity Management Outstanding Organizations (White 500).

Revenue for fiscal 2018 increased year on year, due to factors including an increase in sales of automotive products in Japan and China, and higher sales of motorcycle and power products in Asia. Profits grew as a result of higher revenue and cost reductions, despite an increase in costs such as depreciation and R&D expenses.

As for dividends, a proposal for a year-end dividend of ¥22 per share was approved at the 77th Ordinary General Meeting of Shareholders. Adding this to an interim dividend of ¥21 per share, we distributed a total dividend of ¥43 per share for fiscal 2018.

Based on the Thirteenth Medium-Term Global Policy—"Build a strong company with healthy growth and a good company we can be proud of"—we will continue to aim to be a company that always creates new value and contributes to the future of mankind, as stated in our corporate principle, guided by our fundamental beliefs of "Respect for the individual" and "The five joys."

I ask for the continued support of all stakeholders as we strive to achieve this mission together.

June 30, 2018

Chitoshi Yokota
President & CEO

Financial Results for FY2018

Revenue	Operating profit	Profit attributable to owners of the parent
¥351.4 billion	¥28.3 billion	¥17.8 billion
(up 8.0% compared with FY2017)	(up 23.3% compared with FY2017)	(up 60.8% compared with FY2017)

Economic environment

The economic environment surrounding the Group in fiscal 2018 recovered gradually in Japan, amid factors including an improvement in corporate revenue and a recovery in exports.

Overseas, the economy in the United States continued a steady recovery due to an increase in consumer spending and a strong employment environment. In Asia, the economy remained generally strong in Thailand, Indonesia and India, focused on domestic demand. The Chinese economy continued to show signs of improvement owing to factors such as strong consumer spending and exports.

In this environment, the Group expanded business in its aim to achieve the Global Policy—"Build a strong company with healthy growth and a good company we can be proud of"—under the Thirteenth Medium-Term Business Plan (for the three years from April 1, 2017 to March 31, 2020).

Business performance of motorcycle and power products

In motorcycle and power products, we developed and began mass production of a Transfer mold electronic control unit that achieves world-class compactness and lightness based on our original packaging technology. An electronic fuel injection system (FI system) for small motorcycles including this new electronic control unit is installed in the Honda *Super Cub*, launched in Thailand. In response to rising environmental awareness, our FI system for small motorcycles was installed in the Jiangmen Dachangjiang Group Co., Ltd.'s Haojue *UH110*, launched in China, and the KYMCO *RACING 150*, launched in Taiwan. In addition, among large motorcycle products, our FI system was installed in the Honda *CBR1000RR SP2*, launched in Japan.

Business performance of automotive products

In automotive products, power control units that play a central role in hybrid and electrical vehicles expanded globally, and are installed in hybrid vehicles such as the Honda *STEP WGN*, launched in Japan, and *CR-V*, launched in China, as well as in the Honda *Clarity Electric*, an electric vehicle launched in North America. System products for direct-injection engines are installed in the Honda *Accord*, launched in North America, and a new air conditioning unit that combines greater compactness, lightness and improved comfort is installed in the Honda *N-BOX*. For new customers, we supplied the electronic control unit for the power rear gate on the Mazda *CX-8*, launched in Japan, through HI-LEX Corporation.

Business expansion

With regard to business expansion, in response to growing demand for hybrid and electrical vehicles, we doubled our domestic production capacity of power control units from 50,000 to 100,000 units per year. In addition, through business alliances with development partners such as Progress Technologies Inc., which has advanced control technologies, we accelerated efforts to enable us to take on areas of upstream development of engine systems that are being performed by automotive manufacturers. Furthermore, with a view to the future, we decided to establish a new R&D office in Daiba, Tokyo, to enhance research and technological innovation related to new fields such as automation and connected cars.

Looking Back on Fiscal 2018

4 April

Parent-Child Traffic Safety Workshop held in Tochigi, Miyagi and Sayama

6 June

Determined establishment of the world's largest FI system supply structure in India


Keihin's subsidiary in Thailand received Delivery Service Award


April May June July

5 May

Keihin's products installed in the Honda *CBR1000RR SP2*, launched in Japan


Participated as volunteers in the 5th Millennium Hope Hills Tree Planting Festival

Expanded production capacity for intelligent power modules in Japan


7 July

CSR activities carried out at Keihin's subsidiary in Mexico


Began mass production of gasoline direct-injectors and new air-conditioning units for mini vehicles at Suzuka Factory




Aiming to increase new customers

As an effort to increase new customers, we decided to establish the world's largest FI system supply structure for small motorcycles in India, where we have the top share in motorcycle products, and began the establishment of a new plant and expansion of buildings and equipment. Furthermore, in response to our growing transactions with the Volkswagen Group, we decided to expand production capacity for condensers for automotive heat exchangers in Europe and China. In addition, we carried out proposal activities focused on customers in China and participated in exhibitions held in Shanghai and Beijing in order to expand sales of power control units and other hybrid and electrical vehicle-related products. We also stepped up efforts aimed at increasing new customers such as developing and launching proposal activities for next-generation gasoline engine intake modules including the newly developed electronic control throttle body that achieves world-class compactness and lightness.

Promoting CSR activities

Group associates worldwide worked as one to continue promoting CSR (corporate social responsibility) activities such as environmental conservation and social contributions, in order to share our joy with society, customers,

8 August

- Announced alliance with Progress Technologies Inc. to strengthen development in upstream areas
- Established Health Declaration to more forcefully promote initiatives aimed at improving associate health.
- Keihin's electronic control systems installed in the Honda's electric vehicles *Clarity Electric*, launched in North America

10 October

- Keihin's products installed in the Honda *Accord*, launched in North America

- Participated in Beach Cleaning Activities held in Shichigahama, Miyagi

August | September | October | November

9 September

- Keihin's products installed in the Honda *N-BOX*, launched in Japan

- Keihin's products installed in the Honda *Step WGN*, launched in Japan

- Exhibited for first time at 20th FBC Shanghai Manufacturing Expo with the aim of expanding sales of products for hybrid and electrical vehicle development in China

11 November

- Exhibited at Kids Engineer in Tohoku 2017, a hands-on event to get children interested in manufacturing (*monozukuri*)

- The first ever Ekiden Event in Tochigi, a sports event organized in collaboration with the local community

suppliers and shareholders. Among these efforts, we established a Health Declaration in Japan in August 2017, and strived to create a workplace environment that is comfortable for associates both physically and mentally. As a result, we were recognized as one of the Health and Productivity Management Outstanding Organizations (White 500) by the Japanese Ministry of Economy, Trade and Industry (METI) and the health and productivity management in February 2018. We also obtained "Kurumin certification" as a childcare support company from the Japanese Ministry of Health, Labor and Welfare (MHLW) in March 2018, in recognition of our efforts to support workstyles that facilitate a balance between work and childcare.

Revenue and profit both increased significantly

As a result of the aforementioned operations, consolidated revenue in fiscal 2018 increased ¥25,944 million year on year, to ¥351,494 million. In motorcycle and power products, revenue increased ¥13,235 million year on year, to ¥96,104 million, while revenue from automotive products also increased ¥12,709 million year on year, to ¥255,390 million. Regarding profits, operating profit increased ¥5,359 million year on year, to ¥28,313 million, owing mainly to the effects of higher revenue and cost reductions, despite factors including rising depreciation and amortization, and research and development expenses. Profit attributable to owners of the parent rose

12 December

Keihin's products installed in Jiangmen Dachangjiang Group Co., Ltd.'s *Haojue UH110*, launched in China

Supplied electronic control products to HI-LEX Corporation for the Mazda *CX-8*, launched in Japan

Keihin's subsidiary in India held 20th anniversary commemorative ceremony

2 February

Recognized in the Certified Health & Productivity Management Outstanding Organizations (White 500), established by the Ministry of Economy, Trade and Industry to recognize large corporations practicing excellent health management in collaboration with insurers

2018
健康経営優良法人
Health and productivity
ホワイト500

Determined establishment of Daiba R&D Office to enhance capacity in field of powertrain electronic control systems

December 12 | January 1 | February 2 | March 3

1 January

Keihin's products installed in Honda *Super Cub*, launched in Thailand

Received award from SUZUKI MOTOR CORPORATION as FY2017 Outstanding Partner for Overseas Contributions

Ranked 11th in the manufacturing industry category in the Environmental Management Survey conducted by Nikkei Inc.

3 March

Obtained Kurumin Certification as a childcare support company recognized by the Minister of Health, Labor and Welfare

Received the 2017 Quality Advancement Award and the 2017 New Product Development Award from China's largest motorcycle manufacturer, Jiangmen Dachangjiang Group Co. Ltd.

¥6,740 million year on year, to ¥17,824 million, due mainly to reversal of foreign exchange loss in the previous year.

Annual dividend of ¥43 and dividend payout ratio of 17.8%

We position the return of profit to shareholders as one of our most important management tasks.

With regard to dividends, our policy is to implement a dividend from a long-term perspective, taking into account consolidated performance while comprehensively considering future business developments.

After comprehensively considering performance in the fiscal year ended March 31, 2018, we paid an interim dividend of ¥21 per share with a ¥1 year-on-year increase on November 27, 2017, while a year-end dividend of ¥22 per share with a ¥2 year-on-year increase is scheduled to be paid. Thus, the annual dividend including interim dividend is scheduled to amount to ¥43 per share with a ¥3 year-on-year increase.

For the fiscal year ending March 31, 2019, an interim dividend of ¥22 per share with a ¥1 year-on-year increase, and a year-end dividend of ¥22 per share at the same level as the previous fiscal year, are scheduled, amounting to an annual dividend (including interim dividend) of ¥44 per share with a ¥1 year-on-year increase.

13th Medium-Term Business Plan

Business environment

In the business environment surrounding the Group, a tightening of exhaust emission regulations is expected to further accelerate the transition to FI for motorcycles, mainly in India. In the automotive products business, we believe that electrification is expected to accelerate more than ever as a result of stricter environmental regulations in, for example, China and Europe. In addition, the evolution of motorcycles and automotives is significantly expanding the role of suppliers. We are therefore aware that global competition involving mega suppliers will become fiercer than ever.

Under such circumstances, in the second year of the Thirteenth Medium-Term Business Plan, the Group will step up efforts to achieve our Global Policy—“Build a strong company with healthy growth and a good company we can be proud of.”

Product development and business expansion

With regard to product development, we will seek greater efficiency by reorganizing our development structure to produce synergies between development areas for motorcycle and power products and automotive products. In addition, we will establish a standalone production engineering operation to reinforce our production technological capabilities with a view to expanding global production and the future launch of hybrid and electrical vehicle-related products.

With regard to business expansion, we are proceeding with establishing the world’s largest FI system supply structure for small motorcycles in India. The reception has been favorable for our system proposals tailored to customer needs and support for vehicle development, and demand has been higher than anticipated in the initial production plan. We will therefore expand production capacity further, and move forward with preparations to be able to meet customer expectations. We will accelerate sales expansion of electrical vehicle-related products, including power control units, mainly in China, where sales of hybrid vehicles and electric vehicles are expanding. In addition, due to hybrid and electrical vehicle market growth forecasts far exceeding initial expectations, we will further expand our production capacity for power control units in Japan and move ahead with preparations to begin local production in China.

Through such initiatives, we will strive to enhance our corporate value by accelerating implementation of the key strategies of the Thirteenth Medium-Term Business Plan—“Provide eco-friendly solutions for the green technology era,” “Greatly expand our customer base,” and “Enhance the attraction toward the Keihin brand,” with the aim of achieving the Global Policy—“Build a strong company with healthy growth and a good company we can be proud of.”

13th Medium-Term Management Target

Consolidated Operating Profit Margin

7%

As percentage of consolidated revenue

Capital expenditure	12th Plan: 5% 13th Plan: 7%
Research and development expenses	12th Plan: 6% 13th Plan: 7%

Note: The “Keihin Tree” represents our hopes for the 13th Medium-Term, in which the tree will grow under the three strategies for the 13th Medium-Term, putting out large roots and developing a thick, solid trunk.

Vision for 2030

Evolve into a global green vehicle solutions brand

Seek a doubling of sales

(compared with FY2017 levels)

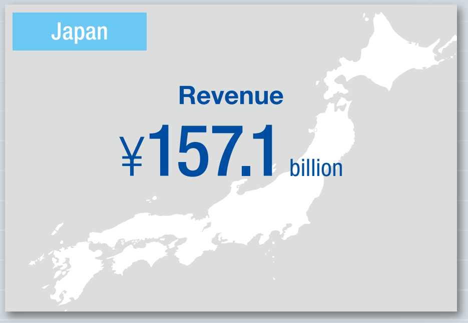
13th Medium-Term* Global Policy

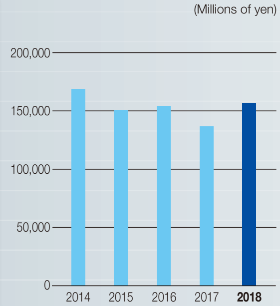
Build a strong company with healthy growth and a good company we can be proud of

* Three years from FY2018 to FY2020

1. Provide eco-friendly solutions for the green technology era
2. Greatly expand our customer base
3. Enhance the attraction toward the Keihin brand

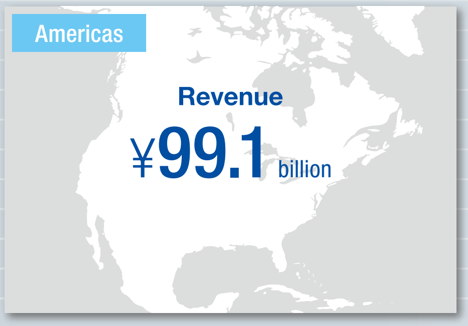
Results by Segment

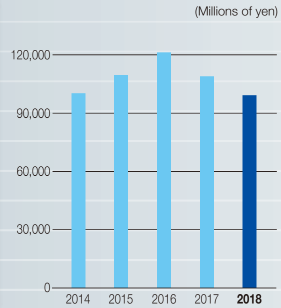




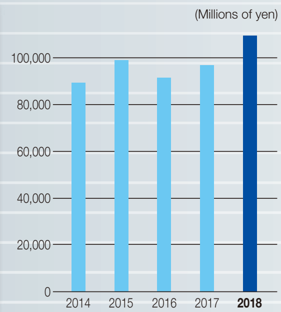
Note: Revenue for Europe is included in the geographical segment of Japan from FY2015.

Increased mainly due to increase in sales of motorcycle and power products in Indonesia, Thailand and Japan; and in sales of automotive products in Japan and China; as well as favorable foreign exchange rates.

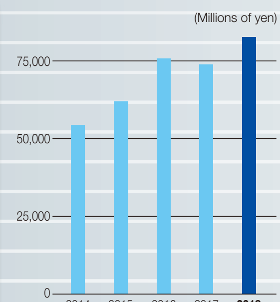




Decreased due to decline in sales of automotive products in North America, despite increase in sales of motorcycle and power products in South America.



Increased due to increase in sales of motorcycle and power products in India, Indonesia and Thailand and favorable foreign exchange rates, despite decrease in sales of automotive products in Indonesia and Malaysia.



Increased due to increase in sales of motorcycle, power products and automotive products, and favorable foreign exchange rates.

14 Countries

22,371 Associates (As of March 31, 2018)

31 Group Companies

Japan

Plants and Offices

- Head Office
- Daiba R&D Office R&D
- Miyagi Office
  Kakuda Research & Development Center R&D
- Miyagi Plant
- Tochigi Office
  Tochigi Research & Development Center R&D
- Sayama Factory
- Asaka Office
- Hamamatsu Office
- Suzuka Factory and Office
- Kumamoto Office

Subsidiaries

- Keihin Sakura Corporation
- Keihin Nasu Corporation
- Keihin Watari Corporation
- Keihin Electronics Technology, Inc. R&D
- Keihin Valve Corporation
- Keihin Thermal Technology Corporation*

Americas

U.S.A.

- Keihin North America, Inc. R&D
- Keihin Carolina System Technology, LLC.
- Keihin IPT Mfg., LLC.
- Keihin Michigan Manufacturing, LLC.
- Keihin Thermal Technology of America, Inc.

Brazil

- Keihin Tecnologia do Brasil Ltda.

Mexico

- Keihin de Mexico S.A. de C.V.

Asia

Thailand

- Keihin Asia Bangkok Co., Ltd. R&D
- Keihin (Thailand) Co., Ltd.
- Keihin Auto Parts (Thailand) Co., Ltd.
- Keihin Thermal Technology (Thailand) Co., Ltd.

India

- Keihin India Manufacturing Pvt. Ltd. R&D
- Keihin FIE Pvt. Ltd.

Indonesia

- PT Keihin Indonesia

Taiwan

- Taiwan Keihin Carburetor Co., Ltd.

Malaysia

- Keihin Malaysia Manufacturing SDN. BHD.

Vietnam

- Keihin Vietnam Co., Ltd.

China

- Dongguan Keihin Engine Management System Co., Ltd. R&D
- Nanjing Keihin Carburetor Co., Ltd.
- Keihin R&D China Co., Ltd. R&D
- Keihin-Grand Ocean Thermal Technology (Dalian) Co., Ltd.*
- Keihin (Wuhan) Automotive Components Co., Ltd.

Europe

United Kingdom

- Keihin Europe Ltd.

Germany

- Keihin Sales and Development Europe GmbH R&D

Czech Republic

- Keihin Thermal Technology Czech, s.r.o.*

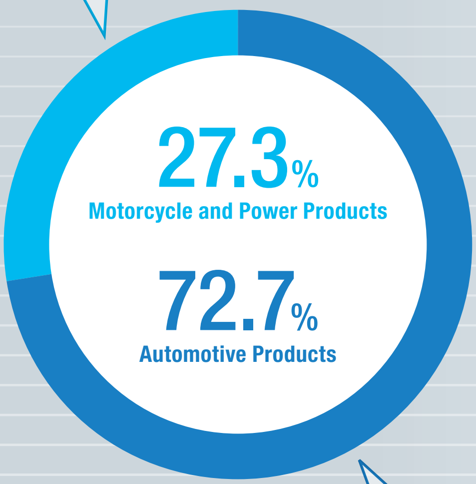
Motorcycle and Power Products　Products for Automotives　R&D Research & Development

* The Keihin Thermal Technology group was under control of management as part of the automotive air-conditioning heat exchange business in the Japan segment in FY2016. However, the Americas subsidiary and the Thailand subsidiary are included in "the American segment" and "the Asia segment," respectively, in FY2017. Each subsidiary has been placed under control of Americas headquarters and Asia headquarters to strengthen cooperation between the air-conditioning production subsidiary and regional headquarters. Accordingly, results for the year ended March 31, 2016 and the year ended March 31, 2017 have been restated for the current year presentation.

Results by Product

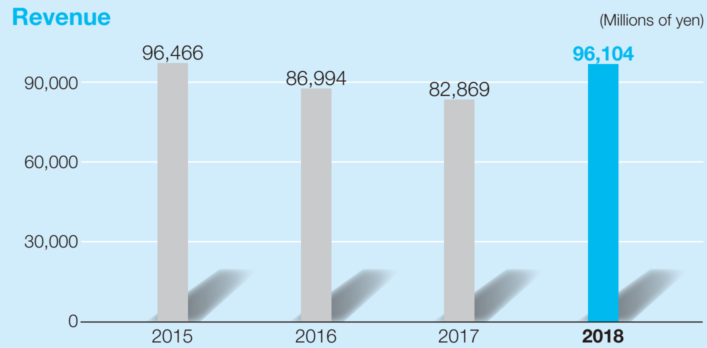
Motorcycle and Power Products

Revenue: ¥96.1 billion
(up 16.0%)



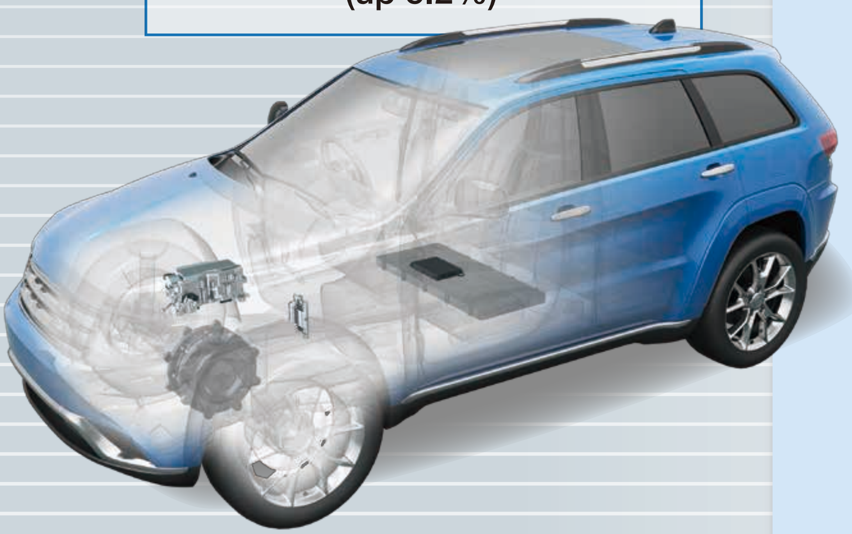
In motorcycle and power products, we developed and began mass production of a transfer mold electronic control unit that achieves world-class compactness and lightness based on our original packaging technology. We supplied an electronic fuel injection system (FI system) for small motorcycles that includes this new electronic control unit. Furthermore, in response to rising environmental awareness, we expanded the supply of FI systems for small motorcycles. We also supplied our FI system in products for large motorcycles.

Revenue from motorcycle and power products totaled ¥96,104 million, a 16.0% increase year on year, due to the expansion of sales mainly in Asia.



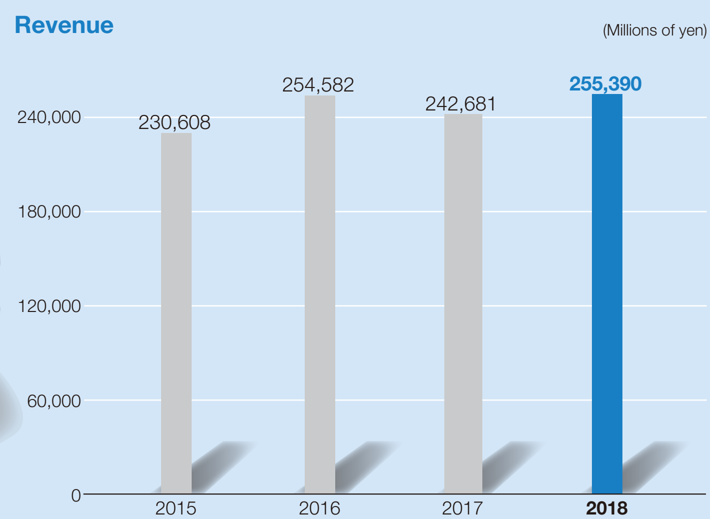
Automotive Products

Revenue: ¥255.3 billion
(up 5.2%)



In automotive products, we supplied power control units, which play a central role in our hybrid and electrical vehicle systems, for hybrid cars and electric automotives. In addition to system products for direct-injection engines, we supplied a new air-conditioning unit that combines greater compactness and lightness with improved comfort. For new customers, we supplied an electronic control unit for power rear gates.

Revenue from automotive products totaled ¥255,390 million, a 5.2% increase year on year, due to an increase in sales in Japan and China.



Main Motorcycle and Power Products

Fuel Injection System

Realizing highly environment-adaptive technology under a concept that spotlights compact size, high performance and low price

Small Motorcycle


Transfer Mold ECU


ECU
with ACG starter control system


ECU


Fuel Injector


Fuel Pump Module


Throttle Body

Large Motorcycle


ECU


Electronic Control Throttle Body

Carburetors


Carburetor
for Small Motorcycles


Carburetor
for Power Products

Main Automotive Products

Hybrid Vehicle Products

Ensuring optimum control and safety in motors and batteries


Power Control Unit


Battery Management System

Fuel Supply System

Core automotive parts that feed fuel and air to the engine


Direct Injector


Electronic Control Throttle Body


ECU


Intake Manifold


Port Injector


EGR Valve

CNG Products

Achieving top-class safety and environmental performance through leading-edge technology


Fuel Injector


Oil Trap Filter


Pressure
Regulator


2nd ECU

Fuel Cell Vehicle Products

Meeting next-generation energy specifications


ECU


FC-ECU


Injector


Regulator


In-tank Valve

Air-Conditioning System

Realizing lightweight, energy-saving, comfort-creating systems


HVAC Unit


Evaporator


Condenser

R&D Expenses

The Group's basic policy on R&D is to pursue the development of integrated systems and products backed by sophisticated technology.

Toward this end, the Group assumes a front-loading approach to R&D that anticipates customer trends.

R&D activities hinge on the Company's development departments. These departments focus on leading-edge environmental technologies that draw on the synergy between the motorcycle and power product business and the automotive product business and also focus on technology that underpins the development of reasonably priced products. In addition, the development departments strive to expand the menu of marketable integrated systems and products.

Furthermore, the Group is strengthening its global development system and focusing on local procurement activities in response to the increasingly diverse needs of customers overseas.

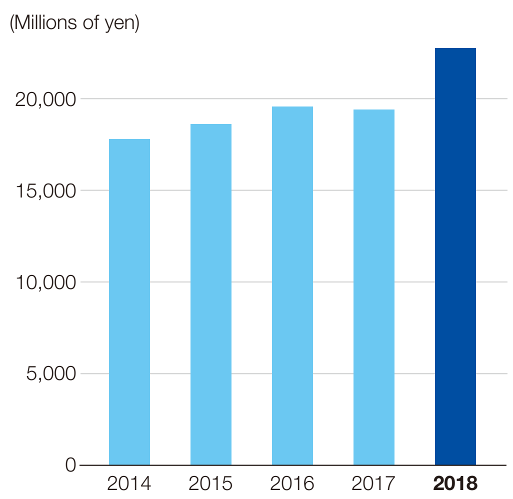
In fiscal 2018, R&D expenses came to ¥22,771 million (US$214,333 thousand), up 17.3% year on year.

Capital Expenditures

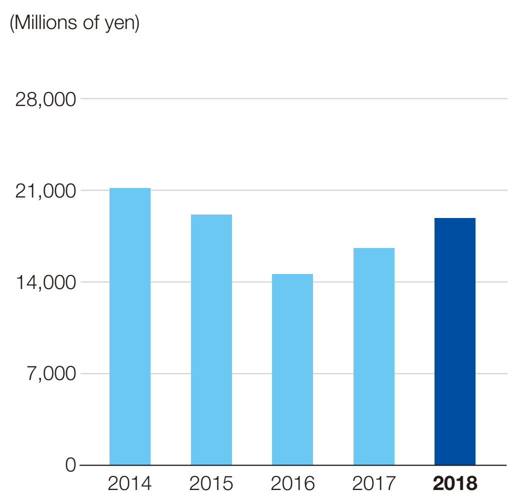
In fiscal 2018, capital expenditures increased 13.9% year on year, to ¥18,873 million, which consists of ¥14,062 million (US$132,357 thousand) for investments in production facilities, up 5.2% year on year; ¥946 million (US$8,906 thousand) for R&D expenses, down 2.0% year on year; and ¥3,866 million (US$36,387 thousand) for other investments, up 72.4% year on year.

A look at investments in production facilities by geographical region shows that ¥7,455 million (US$70,173 thousand) was allocated to operations in Japan, ¥3,476 million (US$32,721 thousand) to the Americas, ¥2,038 million (US$19,183 thousand) to Asia, and ¥1,092 million (US$10,280 thousand) to China.

Research and development expenses



Capital expenditures



Cash Flows

The balance of cash and cash equivalents as of March 31, 2018, was ¥50,914 million (US$479,236 thousand), up 28.7% from the previous fiscal year-end.

Net cash provided by operating activities totaled ¥37,052 million (US$348,761 thousand), up 48.4% year on year. This was mainly due to profit before tax as well as depreciation and amortization, which offset payment of income taxes.

Net cash used in investing activities amounted to ¥18,959 million (US$178,451 thousand), up 3.3% year on year. This was mainly due to purchase of property, plant and equipment and intangible assets.

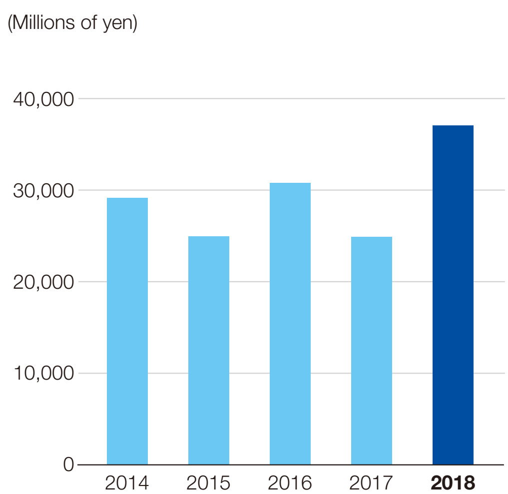
Net cash used in financing activities stood at ¥7,056 million (US$66,412 thousand), down 1.9% year on year, mainly due to repayment of loans and payment of dividends.

Financial Position

Total assets stood at ¥283,711 million (US$2,670,474 thousand) on March 31, 2018, up 6.3% from the previous fiscal year-end. Total equity was ¥208,203 million (US$1,959,738 thousand), up 7.4% from the previous fiscal year-end.

Equity attributable to owners of the parent per share amounted to ¥2,494.80 (US$23.48), an increase of ¥190.54 from the previous fiscal year-end. The ratio of equity attributable to owners of the parent was 65.0%, up 1.1 percentage points from the previous fiscal year-end.

Cash provided by operating activities



Total assets and Total equity

Risk Factors

Risks with the potential to significantly influence the decisions of investors are presented below. Forward-looking statements are based on assumptions made by management of the Keihin Group as of March 31, 2018.

1. Changes in the market environment

The Keihin Group conducts business on a global scale. Economic downturns in the markets where the Group maintains a presence could dampen demand for motorcycle and power products as well as automotive products, which could in turn limit sales and erode the Group's business results.

2. Exchange rate fluctuations

The Keihin Group pursues business activities on a global scale. Consequently, exchange rate fluctuations could influence the financial standing of the Group, its business results and its competitive edge.

3. Quality

The Keihin Group endeavors to maintain a worldwide product assurance system and will meticulously strive to sustain and further improve the quality of its products. However, the appearance of unforeseen malfunctions could reflect badly on the Company and thus impair business results.

4. Motorcycle and automotive industry environment and other rules

The motorcycle and automotive industries are governed by an extensive assortment of rules pertaining to fuel, noise, safety, exhaust emissions, toxic substances, as well as levels of pollution from manufacturing plants. Existing rules may be amended and, more often than not, the amended rules are more stringent. The costs to comply with those regulations could have a restrictive impact, limiting the scope of the Group's business activities.

5. Protecting intellectual property

Over many years, Keihin has accumulated patents and trademarks for the products manufactured by Group companies or has acquired associated rights. These patents and trademarks have played a vital part in the growth of the Company and the Group to date, and the importance of these assets will not change. However, infringement—that is, illegal use—of the Company's intellectual assets could have a negative effect on the Group's business activities.

6. High reliance on the Honda Group

In fiscal 2018, ended March 31, 2018, transactions with the Honda Group represented roughly 85% of Keihin's consolidated revenue. In the future, if the business strategies of the Honda Group change, or if for some reason the business status that the Keihin Group currently enjoys with the Honda Group changes, the business activities, business results and financial standing of the Keihin Group might be considerably affected.

7. Impact of changing raw material prices

Most of the costs incurred in manufacturing the products of the Keihin Group are raw material costs. Changes in the prices of the raw materials that the Group uses could have a detrimental impact on the Group's business results.

8. Procurement of raw materials and components

Members of the Keihin Group purchase raw materials and components from many reliable external providers selected on the basis of such factors as cost, quality and technology. The Group relies more heavily on some of these providers than on others. If it becomes impossible to secure a continuously stable supply of essential raw materials and components due to an unforeseen accident or some other event, the business results of the Group could be adversely affected.

9. Disruptive events, including disasters, disease, war, terror attacks, strikes and major accidents

The Keihin Group conducts business on a global scale. Unforeseen events, such as natural disasters, the outbreak of disease, the eruption of war, acts of terrorism, labor strikes and major accidents, such as fires, explosions and nuclear crises, could cause physical damage and human casualties and leave infrastructures temporarily or permanently unusable, which could then delay or completely prevent procurement of raw materials and components, impede production, the sale of products and logistics, and interrupt services. The Group has developed and operates a business continuity plan (BCP) to deal with these risks, however, such delays to, or suspension of, operations, especially if they prove to be lengthy, could adversely affect the Group's business activities, financial standing and business results.

10. Lawsuits and legal proceedings

The Keihin Group conducts business on a global scale and could be subject to lawsuits, investigations under the relevant laws and regulations enforced by the jurisdictions in which the Group operates, as well as other legal proceedings. In such cases, an unfavorable judgment could adversely affect the Group's business activities, financial standing and business results.

11. Information leaks

The Keihin Group conducts business on a global scale and possesses confidential information with regard to sales and technology, including information from customers as well as the Group's own proprietary know-how. The Group treats such information with the utmost care and attention to prevent accidental or malicious leakage through illegal access, manipulation, destruction, or other means, by establishing a control system and regulations. If an unexpected event occurs, however, resulting in a leak, etc., the Group may be exposed to such liability as compensation for damages and/or losses, which could adversely affect the Group's business activities, financial standing and business results.

12. Global business activities

In its production and sales activities, the Group conducts business in a wide range of markets overseas. Engaging in business activities overseas entails the risks stated below. The occurrence of any of these events could adversely affect the Group's business activities, financial standing and business results.

- Unforeseen changes in laws or regulations or disadvantageous changes in tax systems
- Occurrence of detrimental political or economic factors
- Labor shortages or deterioration of retention rate
- Negative impact on business activities caused by condition of infrastructure development

Basic concept on corporate governance

Based on the fundamental beliefs of the Keihin Philosophy, Keihin aims to realize its corporate principle, “Keihin will contribute to the future of mankind by the continuous creation of new value,” through the sharing of joy with society, customers, suppliers, shareholders and ourselves.

For us to continue being a company that can earn the understanding and trust of our stakeholders, as well as to achieve sustainable growth and raise corporate value over the medium to long term, we believe that making efforts to enhance corporate governance is one of our top management priorities.

Corporate governance structure

1. Overview of the corporate governance structure

<Board of Directors>

The Board of Directors, comprising 11 directors including two independent directors, is tasked with decision-making on legal requirements and important business matters, and supervising the execution of business. In addition, introducing a corporate officer structure enables a separation of supervisory and execution roles, thereby giving a greater degree of flexibility to the Board of Directors.

<Audit & Supervisory Board>

The Audit & Supervisory Board comprises three audit & supervisory board members including two independent audit & supervisory board members. Each audit & supervisory board member is assigned to examine the performance of directors in executing business operations by attending Board of Directors’ meetings and providing comments, investigating the status of operations and assets in accordance with corporate audit policies and methods, and allocating duties specified by the Audit & Supervisory Board.

<Appointment of candidate for director and audit & supervisory board member>

A candidate for director is decided by a resolution of the Board of Directors. A candidate for audit & supervisory board member is elected by consent from among the Audit & Supervisory Board, followed by a resolution of the Board of Directors.

<Business execution structure>

Keihin established a corporate officer structure as a means to reinforce its director system, in order to expand business globally and address changes in the operating environment, thereby allowing the Board of Directors to concentrate on decision-making and supervising operations, and giving it a greater degree of flexibility.

Underpinned by the Keihin Philosophy, the Company’s organization is structured with a headquarters established for each region, business and function, and subsidiaries placed under the umbrella of their respective headquarters. Under this framework, directors and operating officers (collectively, “assigned directors”) are appointed to key posts in key businesses and operational headquarters and divisions. The Company also maintains highly effective and efficient corporate structures, where business activities are capably and appropriately executed, including the implementation of the Medium-Term Business Plan and the Annual Business Plan. Among these structures is the Management Council, a body that discusses important management topics within the scope of authority delegated by the Board of Directors, as well as provides opportunities for issues to be explored in a discussion setting, attended by assigned directors.

2. Reasons for adopting the corporate governance structure

As a business organization, Keihin seeks to elicit a deeper sense of trust from stakeholders by encouraging everyone within the Group in offices around the world to consider the issues and become ambassadors of the Company with a full understanding of the Keihin Philosophy and our Declaration of Conduct.

The Company’s directors frequently discuss executive duties and the supervision thereof at meetings of important management bodies, including the Board of Directors, which comprises internal directors with abundant experience in the automotive and motorcycle industry and independent directors who pursue management decision-making and supervision from a neutral and objective perspective based on a wealth of experience and high-level insights, and the Management Council.

The Company also has an Audit & Supervisory Board, comprising three audit & supervisory board members, two of whom are independent audit & supervisory board members. Audit & supervisory board members possess a wealth of experience and high-level insights, and their broad and professional perspectives are useful in supervising and auditing the execution of business activities and directors’ responsibilities in an independent and impartial way.

Through these structures, the Company believes that the supervisory systems in place to oversee the validity, legality and other aspects of its management are fully functioning.

3. Overview of the limited liability agreement

Pursuant to Article 427, Paragraph 1 of the Companies Act and the provisions of the Articles of Incorporation, the Company has concluded a limited liability agreement with Taro Mizuno and Kohtaro Yamamoto, who are independent directors, and Yuichiro Mori, an independent audit & supervisory board member, respectively.
This agreement limits their liabilities as provided in Article 423, Paragraph 1 of the said Act up to the minimum amount stipulated in Article 425, paragraph 1 of the said Act.

4. Status of development of internal control systems

Having established the basic policy for the following items, the Company is working on developing internal control systems.

(a). Structure to ensure that directors and associates perform their functions and duties in compliance with laws and regulations and the Company's Articles of Incorporation
Having established Compliance Rules, the Company appoints a director or operating officer (hereinafter referred to as a "director") to the post of compliance officer, who plays a leading role in promoting the Group's compliance activities. With respect to corporate ethics, the Company established the Corporate Ethics Improvement and Comments Desk, which functions as an access point for suggestions and notifications on issues from in-house sources and suppliers. The Company also reinforced its compliance structure, including the management of risks attributable to compliance issues, by taking measures such as integrating legal and control functions, and strengthening the business base through the Global Liaison Committee on Legal Affairs.

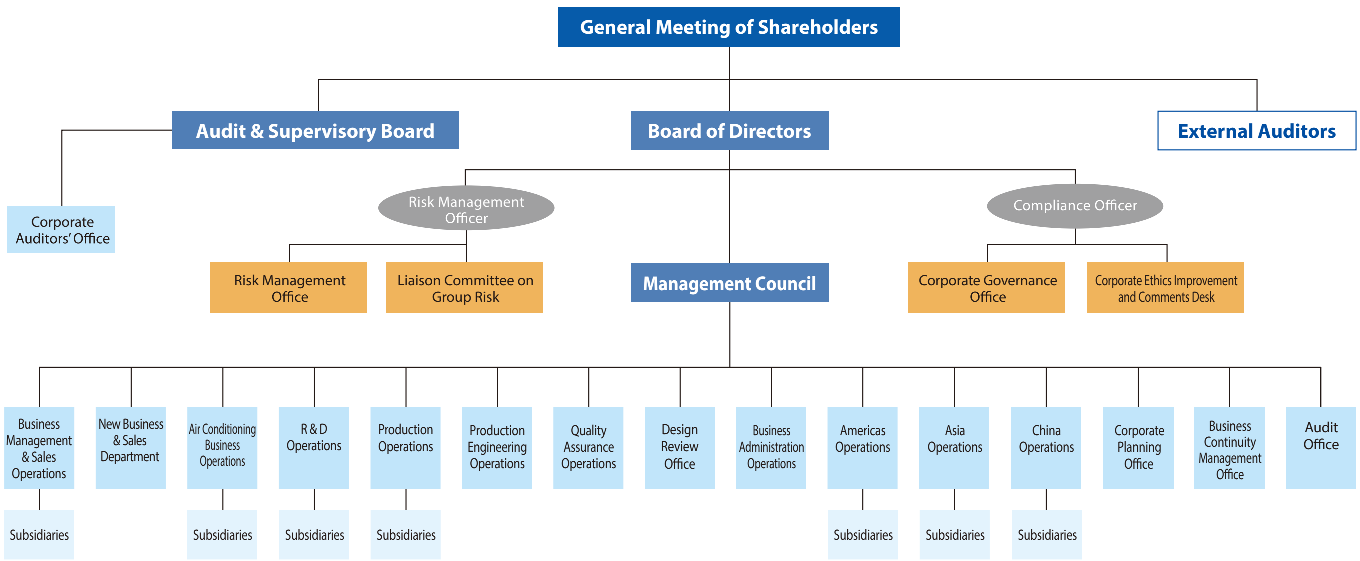
(b). Structure concerning storage and management of information on the execution of directors' duties
The Company stores and manages documents that contain information concerning the execution of directors' duties, such as meeting minutes of the Board of Directors, materials and meeting minutes of the Management Council and approval documents, in accordance with the Document Management Rules.

(c). Rules concerning risk management for losses and other structures
Having established Risk Management Rules, the Company appoints a director to the post of risk management officer, who plays a leading role in promoting the Group's risk management initiatives. The Company establishes preventive measures for every risk-associated item through the installation of a unit dedicated to supervising risk control for the entire Group and the Liaison Committee on Group Risk, while strengthening the risk control structure, including measures to improve crisis management, to respond promptly to major disasters.

(d). Structure to ensure efficient execution of directors' functions and duties
Keihin established a corporate officer structure as a means to reinforce its director system, in order to expand business globally and address changes in the operating environment, thereby allowing the Board of Directors to concentrate on decision-making and supervising operations, and giving it a greater degree of flexibility. Underpinned by the Keihin Philosophy, the Company's organization is structured with a headquarters established for each region, business and function, and subsidiaries placed under the umbrella of their respective headquarters. Under this framework, directors and operating officers (collectively,"assigned directors") are appointed to key posts in key businesses and operational headquarters and divisions. The Company also maintains highly effective and efficient corporate structures, where business activities are capably and appropriately executed, including the implementation of the Medium-Term Business Plan and the Annual Business Plan. Among these structures is the Management Council, a body that discusses important management topics within the scope of authority delegated by the Board of Directors, as well as provides opportunities for issues to be explored in a discussion setting, attended by assigned directors.

(e). Structure to ensure appropriate operations at corporate groups comprising the Company and its subsidiaries (including a framework for subsidiaries' reporting to the Company on the performance of duties by directors at subsidiaries)
Having established the Declaration of Conduct as the Group's universal Standards of Conduct, the Group is stepping up initiatives and activities for compliance and risk management by verifying their status based on checklists developed for each organization and subsidiary, and reporting the results to the Company's Board of Directors. In addition, the Company's Audit Office, an independent audit body, verifies the execution of operations through an internal audit. In principle, the Company appoints directors and associates to posts at its subsidiaries as directors, while requiring subsidiaries to obtain the Company's prior approval or deliver a subsequent report to the Company with regard to important matters.

Organizational Structure



(f). Matters concerning associates in the case where audit & supervisory board members request staff to assist them in their duties and matters to ensure the independence of such associates from directors and the effectiveness of directions given to such associates
The Company has established a Corporate Auditors' Office to assist audit & supervisory board members in their duties and assigns full-time associates therein. Such associates work under the direction of audit & supervisory board members, with the transfer, evaluation, disciplining, etc., of associates being carried out once audit & supervisory board members' approval has been obtained.

(g). Structure for directors and associates, etc., to report to audit & supervisory board members, structure concerning other reporting to audit & supervisory board members and structure to ensure that the person who has made a report to audit & supervisory board members does not receive disadvantageous treatment due to such reporting
The Company has formulated Standards for Reporting to Audit & Supervisory Board Members, based on which directors and associates (including those who received reports from them) of the Group report to the audit & supervisory board members of the Company on matters that may have a material impact on the Group and on the development and the status of operation of internal control systems such as compliance and risk management. In addition, the Company prohibits disadvantageous treatment of those who have reported to audit & supervisory board members due to such reporting.

(h). Structure to ensure the execution of effective audits by audit & supervisory board members
The Company ensures a corporate environment that enables audit & supervisory board members to execute their functions and duties effectively, such as working jointly with the Internal Audit Office, exchanging opinions with the representative director, attending major meetings and examining meeting minutes.

(i). Matters concerning policies on procedures for the prepayment or reimbursement of expenses incurred in the execution of duties by audit & supervisory board members and other handling of expenses or liabilities incurred in the execution of duties by audit & supervisory board members
When the audit & supervisory board member requests the Company to prepay, etc., expenses concerning the execution of his/her duties, such expenses or liabilities are handled promptly unless such expenses or liabilities in respect of said request have been proven to be unnecessary in the execution of duties by the audit & supervisory board members.

5. Status of the development of the risk management structure

The following measures are implemented under the Company's risk management structure.

(a). A dedicated department has been established to verify matters related to compliance and corporate ethics and reflect the results of such verification in operations.

(b). A Corporate Ethics Improvement and Comments Desk has been established as an initial point of contact to receive issues of concern and suggestions from within the Group and suppliers of the Company.

(c). Legal and control functions are integrated to enhance support to strengthen the business base through the Global Liaison Committee on Legal Affairs.

(d). The Declaration of Conduct is set out as standards of conduct to be shared within the Group comprising the Company and its subsidiaries.

(e). The Company has developed a structure to improve initiatives for compliance and risk management, in which each organization regularly conducts self-verification on the status of such initiatives based on checklists, and reports the results to the directors in charge.

(f). The Company has set out Compliance Rules and Risk Management Rules and appoints directors in charge of promoting initiatives related to compliance and risk management, respectively.

(g). A Liaison Committee on Group Risk and dedicated departments have been established to carry out comprehensive risk management on a global scale.

Status of internal audit and audits by audit & supervisory board members

Internal audit of the Company and its subsidiaries is effectively implemented by 12 associates from the Audit Office, who conduct audits of the execution of business and internal control over financial reporting of each organization, in mutual coordination with three audit & supervisory board members (two of whom are independent audit & supervisory board members).

The audit firm reports to and exchanges opinions with audit & supervisory board members on the accounting audit plan, the plan for audit of internal control over financial reporting and the status and results of the audits. In addition, the audit firm discusses with the Audit Office the plan for the audit of internal control over financial reporting and the status and results of the audits.

Full-time Audit & Supervisory Board Member Takayoshi Uchida has many years of experience in finance and accounting operations in the accounting division and other accounting-related divisions at Honda Motor Co., Ltd., and has considerable knowledge of these fields.

Independent directors and independent audit & supervisory board members

Keihin has two independent directors and two independent audit & supervisory board members, and there are no conflicts of interest between the Company and these individuals. The independent directors are Taro Mizuno and Kohtaro Yamamoto, and the independent audit & supervisory board members are Takayoshi Uchida and Yuichiro Mori.

The Company's independent directors have the functions and duties of executing management decisions and supervision from neutral and objective viewpoints based on a wealth of experience and high-level insights, while the independent audit & supervisory board members, who are positioned independently, are assigned the functions and responsibilities of performing audits based on their extensive experience and excellent judgment from both broad-ranging and specialized viewpoints in a neutral and objective manner.

The Company requires its independent directors and independent audit & supervisory board members to meet the independence standards set forth by the Tokyo Stock Exchange and notifies the Tokyo Stock Exchange pursuant to said standards.

<Independent Directors>

- Taro Mizuno possesses high-level insights gained through experience working in automotive-related business divisions and a career in corporate management. The Company assessed that Mr. Mizuno is capable of appropriately performing the functions and duties of an independent director of the Company by executing management decisions and supervision from neutral and objective viewpoints based on his wealth of experience and high-level insights. Accordingly, he was appointed as an independent director of the Company. Mr. Mizuno worked at Fujitsu Limited until 2010. Although the Company has some transactions related to internal systems with Fujitsu, they are considered immaterial in light of their size and features, and are unlikely to cause conflicts of interest between the two companies.
- Kohtaro Yamamoto has experience and specialized knowledge from working in the field of corporate legal affairs through a career as a lawyer in both Japan and overseas. The Company assessed that Mr. Yamamoto is capable of appropriately performing the functions and duties of an independent director of the Company by executing management decisions and supervision from neutral and objective viewpoints based on his wealth of experience and judgment. Accordingly, he was appointed as an independent director of the Company.

<Independent Audit & Supervisory Board Members>

- Takayoshi Uchida has had a career in the automotive industry both inside and outside Japan with extensive experience in and knowledge of accounting and related functions, and experience as a director of another company. The Company believed that Mr. Uchida is capable of appropriately performing the functions and duties of an independent audit & supervisory board member of the Company from neutral and objective viewpoints based on his wealth of experience and judgment. Accordingly, he was appointed as an independent audit & supervisory board member of the Company. Mr. Uchida formerly worked at Honda Motor Co., Ltd. before he assumed his post as an independent audit & supervisory board member of the Company in 2017. Honda Motor is a major shareholder of the Company, and the Company's business transactions with Honda Motor and its related companies (hereinafter referred to as "the Honda Group") amounted to roughly 85% of revenue on a consolidated basis in fiscal 2017. Thus, the Company has maintained a long-standing and close relationship with the Honda Group.
- Yuichiro Mori possesses considerable insights in specialized fields as a lawyer in both Japan and overseas and from a career as an independent director at other companies. The Company has assessed that Mr. Mori is capable of appropriately performing the functions and duties of an independent audit & supervisory board member of the Company from neutral and objective viewpoints based on his wealth of experience and judgment. Accordingly, he was appointed as an independent audit & supervisory board member of the Company.

Compensation, etc., for directors and audit & supervisory board members

1. Total amount of compensation, etc., by category, total amount by compensation type, and the number of eligible directors and audit & supervisory board members

Category	Number of eligible directors/audit & supervisory board members	Total amount of compensation, etc. (Millions of yen)
Directors (excluding independent directors)	10	292
Audit & supervisory board members (excluding independent audit & supervisory board members)	2	23
Independent directors and independent audit & supervisory board members	5	40
Total	17	355

Notes:
1. Amounts are rounded to the nearest million yen.
2. The total amount of compensation, etc., does not include associate salaries paid to directors who concurrently serve as associates.
3. The amount of compensation for directors is within the limit of ¥450 million per year (excluding associate salaries) and that for audit & supervisory board members is within the limit of ¥70 million per year, pursuant to the resolution at the general meeting of shareholders (resolution at the 72nd Ordinary General Meeting of Shareholders).
4. The number of eligible directors and audit & supervisory board members eligible for some of the total amount of compensation, etc., includes one director and two audit & supervisory board members who retired as of the close of the 76th Ordinary General Meeting of Shareholders.
5. The total amount of compensation, etc., includes base compensation of ¥281 million (¥217 million for directors ¥23 million for audit & supervisory board members, and ¥40 million for independent directors and audit & supervisory board members) paid during the fiscal year under review.
6. The total amount of compensation, etc., includes accrued bonuses for directors of ¥74 million for the fiscal year under review.

2. Details on the policy for determining the amount of compensation, etc., for directors and audit & supervisory board members and the calculation method thereof, and the policy for determining the amount and calculation method

The Company has a policy to set compensation, etc., for directors and audit & supervisory board members at an appropriate level, taking into account the management environment, business performance, assigned roles, achievements, etc.

- The amount of base compensation for directors (excluding independent directors) is determined by the approval of the Board of Directors, taking into account the management environment, business performance, each director's

role and achievements, etc.
- The amount of base compensation for independent directors is determined by the approval of the Board of Directors, taking into account the management environment, each independent director's role, etc.
- The amount of base compensation for audit & supervisory board members is determined upon consultation among audit & supervisory board members, taking into account the management environment, each audit & supervisory board member's role, etc.
- The amount of bonuses for directors (excluding independent directors) is determined by the approval of the Board of Directors, taking into account the management environment, business performance in the relevant fiscal year, each director's role and achievements, etc.
- All directors (excluding independent directors) and full-time audit & supervisory board members contribute a certain amount of compensation to the Director and Corporate Auditor Stock Ownership Association and acquire the Company's shares, which they hold during their term of office.

Status of the shareholding

1. The number of issues and the total balance sheet amount of investment shares held for purposes other than pure investment

12 issues
¥541 million

2. Holding category, issue, number of shares, amount on the balance sheet and holding purpose of investment shares held for purposes other than pure investment

Fiscal year ended March 31, 2017
Specified investment shares

Issuer	Number of shares (Shares)	Amount on the balance sheet (Millions of yen)	Holding purpose
Mitsubishi UFJ Financial Group, Inc.	519,950	364	To facilitate business relationships, etc.
NIKKON Holdings CO., LTD.	23,814	57	To facilitate business relationships, etc.
Kawasaki Heavy Industries, Ltd.	10,000	3	To facilitate business relationships, etc.

Fiscal year ended March 31, 2018
Special investment shares

Issuer	Number of shares (Shares)	Amount on the balance sheet (Millions of yen)	Holding purpose
Mitsubishi UFJ Financial Group, Inc.	519,950	362	To facilitate business relationships, etc.
NIKKON Holdings CO., LTD.	23,814	66	To facilitate business relationships, etc.
Kawasaki Heavy Industries, Ltd.	1,000	3	To facilitate business relationships, etc.

Note:
Kawasaki Heavy Industries, Ltd. conducted a share consolidation at a ratio of 10 shares to 1 share of common stock on October 1, 2017.

Status of accounting audits

Certified public accountants (CPA) who have conducted accounting audits of the Company are Mr. Shinji Takada and Mr. Shigeki Hioki of Ernst & Young ShinNihon LLC. Since they have been conducting audits of the Company for less than seven years, the number of consecutive years of service is not stated.

In addition, 11 CPAs and 18 other members assisted in accounting audits of the Company.

Number of directors

The Company stipulates in its Articles of Incorporation that the number of the Company's directors is to be no more than 15.

Requirements for a resolution to elect directors

The Company stipulates in its Articles of Incorporation that a resolution to elect directors requires the attendance of shareholders who possess one-third or more of all voting rights held by shareholders entitled to exercise their voting rights and a majority of the votes cast by those shareholders present.

In addition, the Company stipulates in its Articles of Incorporation that a resolution to elect directors is not to be made by cumulative voting.

Acquisition of shares of the Company

The Company stipulates in its Articles of Incorporation, with respect to matters provided for in Article 165, Paragraph 2 of the Companies Act, that it may acquire its own shares through market transactions, etc., by a resolution of the Board of Directors with the aim of enabling the implementation of a flexible capital policy.

Decision-making body for appropriation of surplus, etc.

The Company stipulates in its Articles of Incorporation, with respect to matters provided for in each item of Article 459, Paragraph 1 of the Companies Act related to appropriation of surplus, etc., that the appropriation of surplus is determined by a resolution of the Board of Directors unless otherwise stipulated by laws and regulations, with the aim of enabling the implementation of a flexible capital policy and dividend policy by delegating the authority of resolving the appropriation of surplus to the Board of Directors.

The year-end dividend for the fiscal year under review has been determined by a resolution of the general meeting of shareholders as in the past to reflect the opinions of shareholders.

Requirements for a special resolution at the general meeting of shareholders

The Company stipulates in its Articles of Incorporation, with respect to the requirements for a special resolution at the general meeting of shareholders provided for in Article 309, Paragraph 2 of the Companies Act, that a special resolution requires the attendance of shareholders who possess one-third or more of all voting rights held by shareholders entitled to exercise their voting rights and two-thirds or more of the votes cast by those shareholders present. The intention of such requirements is to facilitate the holding of general meetings of shareholders by relaxing the required quorum for special resolutions.

Executive Structure

Directors


President & CEO, and
Representative Director
Chitoshi Yokota


Senior Managing Officer and
Representative Director
Hiroshi Seikai


Managing Officer and
Representative Director
Genichiro Konno


Managing Officer and
Representative Director
Tomoya Abe


Managing Officer and
Director
Hirohisa Amano


Managing Officer and
Director
Yusuke Takayama


Managing Officer and
Director
Kenichi Nishizawa


Senior Operating Officer and
Director
Hiroshi Nakatsubo


Senior Operating Officer and
Director
Shinji Suzuki


Director
(Independent)
Taro Mizuno


Director
(Independent)
Kohtaro Yamamoto

Audit & Supervisory Board Members


Takayoshi Uchida


Toshihiro Kuroki


Yuichiro Mori

Managing Officers

Toru Mitsubori   Yasutoshi Ito

Operating Officers

Seiichi Shindo   Masaaki Takahashi   Kazumi Araki   Kazuyuki Meguro   Raymond Watson   Yasunori Shimada   Takahiro Nagaoka

(As of June 30, 2018)

CSR Policy

Keihin thinks CSR activities are...

We provide exceptional products that are environment-friendly and reliable in our core business activities of developing and manufacturing mobility components. We consider “the environment, security, and the personnel who support these CSR fields” to be material (critical themes) in our corporate development and societal contributions, and we engage in activities that resonate with and earn the trust of society.

Environment

As a mobility systems supplier, our contributions to a recycling-oriented society, such as our CO_2 reduction efforts, help us achieve our corporate principle. We are actively engaged in developing technologies, products and production that help reduce our environmental impact.

Safety

Through our core business activities of developing and manufacturing mobility components, our mission is to supply customers with products with a sense of security, thereby earning their trust. We constantly strive to improve our designs and product quality to ensure safety for a secure motorized society.

Humanity

People create the “new value” of our corporate principle.

People are the focus of “Respect for the individual” and “The five joys,” the fundamental beliefs of the Keihin Philosophy. It is the power of people that enables us to create new value and achieve our corporate principle. We will continue to develop personnel based on our philosophy to share joy with our stakeholders.

Financial Section

Five-Year Summary of Selected Financial Data

For the years ended March 31,
2014, 2015, 2016, 2017, and 2018

	Millions of yen (except per share amounts)					Thousands of U.S. dollars (except per share amounts)
	2014	2015	2016	2017	2018	2018
For the year:						
Revenue	¥ 318,689	¥ 327,075	¥ 341,576	¥ 325,550	¥ 351,494	$ 3,308,492
Results by geographical region						
Japan	168,994	151,172	154,213	136,940	157,160	1,479,295
Americas	100,076	109,680	121,153	108,834	99,143	933,202
Asia	89,522	99,026	91,571	96,882	109,409	1,029,833
China	58,287	61,983	75,862	73,930	82,717	778,587
Consolidated adjustments	(98,191)	(94,786)	(101,223)	(91,036)	(96,936)	(912,425)
Results by products						
Motorcycle and power products	90,084	96,466	86,994	82,869	96,104	904,595
Mechanical products for automotives	228,605	230,608	254,582	242,681	255,390	2,403,897
Operating profit	19,517	22,747	16,440	22,954	28,313	266,498
Profit before tax	13,083	13,652	15,549	20,729	27,145	255,502
Profit attributable to owners of the parent	10,430	11,051	5,677	11,084	17,824	167,768
Comprehensive income for the year	27,384	29,719	(7,778)	16,238	19,270	181,386
Research and development expenses	17,804	18,606	19,559	19,404	22,771	214,333
Capital expenditures	21,180	18,915	14,593	16,575	18,873	177,650
At year-end:						
Total equity	¥ 170,479	¥ 195,611	¥ 182,521	¥ 193,883	¥ 208,203	$ 1,959,738
Total assets	245,740	274,269	257,065	266,851	283,711	2,670,474
Basic earnings per share (yen and U.S. dollars)	141.02	149.42	76.75	149.86	241.00	2.27
Cash dividends per share (yen and U.S. dollars)	31.00	34.00	36.00	40.00	43.00	0.40
Equity per share (yen and U.S. dollars)	1,998.02	2,290.18	2,153.82	2,304.26	2,494.80	23.48
Cash flows:						
Cash flows from operating activities	¥ 29,232	¥ 24,966	¥ 30,791	¥ 24,962	¥ 37,052	$ 348,761
Cash flows from investing activities	(21,251)	(22,577)	(9,903)	(18,358)	(18,959)	(178,451)
Cash flows from financing activities	(9,400)	(5,619)	(9,662)	(7,189)	(7,056)	(66,412)
Cash and cash equivalents at end of year	30,318	29,295	39,515	39,549	50,914	479,236

Notes:
1. The Group has adopted International Financial Reporting Standards (IFRS) from FY2015 in place of accounting principles generally accepted in Japan (JGAAP) for its consolidated financial statements. Financial figures for FY2014 have been restated to conform to IFRS.
2. U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥106.24 = US$1.
3. Revenue for Europe is included in the geographical segment of Japan from FY2015.

1【Consolidated Financial Statements】

(1)【Consolidated Statement of Financial Position】

Keihin Corporation and Consolidated Subsidiaries

As of March 31, 2017 and 2018

	Notes	Millions of yen		Thousands of U.S. dollars
		2017	**2018**	**2018**
Assets				
Current assets				
Cash and cash equivalents	7, 28	39,549	**50,914**	**479,236**
Trade and other current receivables	8, 28	56,982	**58,647**	**552,025**
Other current financial assets	9, 28	2,695	**1,613**	**15,182**
Inventories	10	45,771	**48,703**	**458,420**
Other current assets		2,158	**1,920**	**18,074**
Total current assets		147,155	**161,797**	**1,522,937**
Non-current assets				
Property, plant and equipment	11,13	97,148	**97,998**	**922,426**
Intangible assets	12	6,178	**6,096**	**57,382**
Trade and other non-current receivables	8, 28	237	**235**	**2,208**
Other non-current financial assets	9, 28	5,341	**5,764**	**54,257**
Retirement benefit assets	19	3,529	**2,784**	**26,201**
Deferred tax assets	14	4,302	**4,465**	**42,029**
Other non-current assets		2,960	**4,572**	**43,035**
Total non-current assets		119,695	**121,914**	**1,147,537**
Total assets		266,851	**283,711**	**2,670,474**

	Notes	Millions of yen 2017	Millions of yen **2018**	Thousands of U.S. dollars **2018**
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other current payables	15, 28	52,222	**55,077**	**518,421**
Short-term loans	16, 28, 30	8,590	**6,786**	**63,878**
Other current financial liabilities	17, 28	831	**372**	**3,505**
Income tax payables	14	1,141	**1,557**	**14,658**
Provisions	18	406	**1,422**	**13,387**
Other current liabilities		728	**974**	**9,164**
Total current liabilities		63,919	**66,189**	**623,013**
Non-current liabilities				
Other non-current financial liabilities	17, 28	89	**1,419**	**13,355**
Retirement benefit liabilities	19	2,445	**2,081**	**19,589**
Provisions	18	188	**203**	**1,915**
Deferred tax liabilities	14	5,158	**4,562**	**42,941**
Other non-current liabilities		1,169	**1,054**	**9,922**
Total non-current liabilities		9,049	**9,320**	**87,723**
Total liabilities		72,968	**75,509**	**710,736**
Equity				
Common stock	20	6,932	**6,932**	**65,252**
Capital surplus	20	9,258	**9,258**	**87,146**
Retained earnings	20	144,708	**159,623**	**1,502,474**
Treasury stock	20	(39)	**(40)**	**(372)**
Other components of equity	20	9,560	**8,738**	**82,243**
Equity attributable to owners of the parent		170,420	**184,512**	**1,736,743**
Non-controlling interests		23,462	**23,691**	**222,995**
Total equity		193,883	**208,203**	**1,959,738**
Total liabilities and equity		266,851	**283,711**	**2,670,474**

(2)【Consolidated Statement of Income】

Keihin Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2017 and 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars 2018
Revenue	6	325,550	**351,494**	**3,308,492**
Cost of sales	25	(274,068)	**(291,345)**	**(2,742,331)**
Gross profit		51,482	**60,149**	**566,161**
Selling, general and administrative expenses	21, 25	(28,726)	**(31,514)**	**(296,632)**
Other income	22	781	**883**	**8,311**
Other expenses	22	(582)	**(1,205)**	**(11,342)**
Operating profit	6	22,954	**28,313**	**266,498**
Finance income	23	446	**697**	**6,559**
Finance costs	23	(2,672)	**(1,865)**	**(17,554)**
Profit before tax		20,729	**27,145**	**255,502**
Income tax expense	14	(7,494)	**(6,796)**	**(63,971)**
Profit for the year		13,235	**20,348**	**191,532**
Profit attributable to:				
Owners of the parent		11,084	**17,824**	**167,768**
Non-controlling interests		2,151	**2,525**	**23,764**
Profit for the year		13,235	**20,348**	**191,532**

	Notes	Yen 2017	Yen 2018	U.S. dollars 2018
Earnings per share attributable to owners of the parent:				
Basic earnings per share	24	149.86	**241.00**	**2.27**

(3)【Consolidated Statement of Comprehensive Income】

Keihin Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2017 and 2018

	Notes	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars 2018
Profit for the year		13,235	**20,348**	**191,532**
Other comprehensive income				
Items that will not be reclassified to profit or loss, net of tax:				
Gains on financial assets measured at fair value through other comprehensive income (loss)	26	278	**291**	**2,737**
Remeasurement of net defined benefit liabilities (assets)	26	3,368	**137**	**1,287**
Total comprehensive income (loss) that will not be reclassified to profit or loss, net of tax		3,646	**427**	**4,023**
Items that may be reclassified to profit or loss, net of tax:				
Foreign currency translation adjustments	26	(644)	**(1,505)**	**(14,169)**
Total comprehensive income (loss) that may be reclassified to profit or loss, net of tax		(644)	**(1,505)**	**(14,169)**
Other comprehensive income (loss) for the year		3,003	**(1,078)**	**(10,146)**
Total comprehensive income for the year		16,238	**19,270**	**181,386**
Comprehensive income attributable to:				
Owners of the parent		13,893	**17,125**	**161,188**
Non-controlling interests		2,345	**2,146**	**20,198**
Comprehensive income for the year		16,238	**19,270**	**181,386**

(4)【Consolidated Statement of Changes in Equity】

Keihin Corporation and Consolidated Subsidiaries

For the fiscal year ended March 31, 2017

Millions of yen

	Notes	Equity attributable to owners of the parent					
						Other components of equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurement of net defined benefit liabilities (assets)
As of April 1, 2016		**6,932**	**9,524**	**133,029**	**(38)**	**2,863**	**—**
Comprehensive income							
Profit for the year		—	—	11,084	—	—	—
Other comprehensive income (loss)	26	—	—	—	—	278	3,389
Total comprehensive income (loss)		—	—	11,084	—	278	3,389
Transactions with owners							
Dividends paid	27	—	—	(2,810)	—	—	—
Purchase of treasury stock		—	—	—	(0)	—	—
Acquisition (disposal) of non-controlling interests		—	(266)	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	3,406	—	(17)	(3,389)
Total transactions with owners		—	(266)	595	(0)	(17)	(3,389)
As of March 31, 2017		**6,932**	**9,258**	**144,708**	**(39)**	**3,124**	**—**

Millions of yen

	Notes	Equity attributable to owners of the parent				
		Other components of equity				
		Foreign currency translation adjustments	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
As of April 1, 2016		**6,985**	**9,847**	**159,295**	**23,226**	**182,521**
Comprehensive income						
Profit for the year		—	—	11,084	2,151	13,235
Other comprehensive income (loss)	26	(858)	2,809	2,809	194	3,003
Total comprehensive income (loss)		(858)	2,809	13,893	2,345	16,238
Transactions with owners						
Dividends paid	27	—	—	(2,810)	(2,066)	(4,876)
Purchase of treasury stock		—	—	(0)	—	(0)
Acquisition (disposal) of non-controlling interests		310	310	44	(44)	—
Transfer from other components of equity to retained earnings		—	(3,406)	—	—	—
Total transactions with owners		310	(3,096)	(2,767)	(2,109)	(4,876)
As of March 31, 2017		**6,436**	**9,560**	**170,420**	**23,462**	**193,883**

Keihin Corporation and Consolidated Subsidiaries
For the fiscal year ended March 31, 2018

	Notes	Millions of yen					
		Equity attributable to owners of the parent					
						Other components of equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurement of net defined benefit liabilities (assets)
As of April 1, 2017		**6,932**	**9,258**	**144,708**	**(39)**	**3,124**	—
Comprehensive income							
Profit for the year		—	—	**17,824**	—	—	—
Other comprehensive income (loss)	26	—	—	—	—	**291**	**121**
Total comprehensive income (loss)		—	—	**17,824**	—	**291**	**121**
Transactions with owners							
Dividends paid	27	—	—	**(3,032)**	—	—	—
Purchase of treasury stock		—	—	—	**(1)**	—	—
Transfer from other components of equity to retained earnings		—	—	**124**	—	**(3)**	**(121)**
Total transactions with owners		—	—	**(2,909)**	**(1)**	**(3)**	**(121)**
As of March 31, 2018		**6,932**	**9,258**	**159,623**	**(40)**	**3,412**	—

	Notes	Millions of yen				
		Equity attributable to owners of the parent				
		Other components of equity				
		Foreign currency translation adjustments	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
As of April 1, 2017		**6,436**	**9,560**	**170,420**	**23,462**	**193,883**
Comprehensive income						
Profit for the year		—	—	**17,824**	**2,525**	**20,348**
Other comprehensive income (loss)	26	**(1,111)**	**(699)**	**(699)**	**(379)**	**(1,078)**
Total comprehensive income (loss)		**(1,111)**	**(699)**	**17,125**	**2,146**	**19,270**
Transactions with owners						
Dividends paid	27	—	—	**(3,032)**	**(1,917)**	**(4,949)**
Purchase of treasury stock		—	—	**(1)**	—	**(1)**
Transfer from other components of equity to retained earnings		—	**(124)**	—	—	—
Total transactions with owners		—	**(124)**	**(3,033)**	**(1,917)**	**(4,950)**
As of March 31, 2018		**5,326**	**8,738**	**184,512**	**23,691**	**208,203**

	Notes	Thousands of U.S. dollars					
		Equity attributable to owners of the parent					
						Other components of equity	
		Common stock	Capital surplus	Retained earnings	Treasury stock	Gains (losses) on financial assets measured at fair value through other comprehensive income	Remeasurement of net defined benefit liabilities (assets)
As of April 1, 2017		**65,252**	**87,146**	**1,362,083**	**(363)**	**29,407**	—
Comprehensive income							
Profit for the year		—	—	**167,768**	—	—	—
Other comprehensive income (loss)	26	—	—	—	—	**2,734**	**1,139**
Total comprehensive income (loss)		—	—	**167,768**	—	**2,734**	**1,139**
Transactions with owners							
Dividends paid	27	—	—	**(28,542)**	—	—	—
Purchase of treasury stock		—	—	—	**(9)**	—	—
Transfer from other components of equity to retained earnings		—	—	**1,165**	—	**(26)**	**(1,139)**
Total transactions with owners		—	—	**(27,377)**	**(9)**	**(26)**	**(1,139)**
As of March 31, 2018		**65,252**	**87,146**	**1,502,474**	**(372)**	**32,116**	—

	Notes	Thousands of U.S. dollars				
		Equity attributable to owners of the parent				
		Other components of equity				
		Foreign currency translation adjustments	Total	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
As of April 1, 2017		**60,581**	**89,989**	**1,604,107**	**220,842**	**1,824,948**
Comprehensive income						
Profit for the year		—	—	**167,768**	**23,764**	**191,532**
Other comprehensive income (loss)	26	**(10,454)**	**(6,580)**	**(6,580)**	**(3,566)**	**(10,146)**
Total comprehensive income (loss)		**(10,454)**	**(6,580)**	**161,188**	**20,198**	**181,386**
Transactions with owners						
Dividends paid	27	—	—	**(28,542)**	**(18,045)**	**(46,587)**
Purchase of treasury stock		—	—	**(9)**	—	**(9)**
Transfer from other components of equity to retained earnings		—	**(1,165)**	—	—	—
Total transactions with owners		—	**(1,165)**	**(28,551)**	**(18,045)**	**(46,596)**
As of March 31, 2018		**50,128**	**82,243**	**1,736,743**	**222,995**	**1,959,738**

(5)【Consolidated Statement of Cash Flows】

Keihin Corporation and Consolidated Subsidiaries

For the fiscal years ended March 31, 2017 and 2018

	Notes	Millions of yen		Thousands of U.S. dollars
		2017	**2018**	**2018**
Cash flows from operating activities:				
Profit before tax		20,729	**27,145**	**255,502**
Depreciation and amortization		16,886	**17,801**	**167,556**
Impairment loss		24	**677**	**6,372**
Interest and dividends income		(446)	**(697)**	**(6,559)**
Interest expense		302	**1,667**	**15,687**
(Gain) loss on sale of property, plant and equipment		(9)	**(10)**	**(91)**
(Increase) decrease in trade and other receivables		(3,559)	**(2,108)**	**(19,839)**
(Increase) decrease in inventories		(1,383)	**(3,525)**	**(33,178)**
Increase (decrease) in trade and current payables		(1,361)	**2,341**	**22,036**
Increase (decrease) in provisions		116	**1,016**	**9,564**
Increase (decrease) in retirement and severance benefits		280	**397**	**3,737**
Other, net		873	**(124)**	**(1,168)**
Subtotal		32,452	**44,580**	**419,619**
Interest received		301	**551**	**5,187**
Dividends received		149	**149**	**1,398**
Interest paid		(314)	**(1,661)**	**(15,637)**
Income taxes paid		(7,625)	**(6,566)**	**(61,806)**
Net cash provided by operating activities		24,962	**37,052**	**348,761**
Cash flows from investing activities:				
(Increase) decrease in time-deposits, net		(1,474)	**1,130**	**10,635**
Purchase of property, plant and equipment and intangible assets		(16,940)	**(20,042)**	**(188,647)**
Proceeds from sale of property, plant and equipment and intangible assets		167	**101**	**946**
Purchase of investment securities		(82)	—	—
Proceeds from sale of investment securities		37	**18**	**172**
Increase in loan receivable		(315)	**(327)**	**(3,081)**
Collection of loans		414	**321**	**3,021**
Other, net		(165)	**(159)**	**(1,497)**
Net cash used in investing activities		(18,358)	**(18,959)**	**(178,451)**
Cash flows from financing activities:				
(Decrease) increase in short-term loans, net		(1,255)	**(889)**	**(8,370)**
Repayment of long-term loans		(544)	**(554)**	**(5,210)**
Dividends paid to owners of the parent	27	(2,810)	**(3,032)**	**(28,542)**
Dividends paid to non-controlling interests		(2,066)	**(1,917)**	**(18,045)**
Purchase of treasury stock		(0)	**(1)**	**(9)**
Other, net		(512)	**(663)**	**(6,236)**
Net cash used in financing activities		**(7,189)**	(7,056)	**(66,412)**
Foreign currency translation adjustments on cash and cash equivalents		**619**	327	**3,077**
Net increase (decrease) in cash and cash equivalents		**34**	11,365	**106,975**
Cash and cash equivalents at beginning of year	7	**39,515**	39,549	**372,261**
Cash and cash equivalents at end of year	7	**39,549**	50,914	**479,236**

[Notes to Consolidated Financial Statements]

1. Reporting Entity

Keihin Corporation (hereinafter the "Company") is a company incorporated in Japan. The consolidated financial statements for the fiscal year ended March 31, 2018 consist of the financial statements of the Company and its consolidated subsidiaries (hereinafter the "Group"). The Group is primarily engaged in the manufacturing and sales of motorcycle and power products and automobile products.

2. Basis of Preparation

(1) Compliance with IFRS

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") promulgated by the International Accounting Standards Board. Since the Company meets all requirements of a "specified company applying designated international Financial Reporting Standards" stipulated in Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976), the Company prepares the consolidated financial statements in accordance with IFRS under the provisions of Article 93 of said Ordinance.
The consolidated financial statements were approved by the Company's Board of Directors on June 22, 2018.

(2) Basis of measurement

As stated in Note "3. Significant Accounting Policies," the consolidated financial statements of the Group have been prepared on a historical cost basis except for certain assets and liabilities, such as financial instruments measured at fair value.

(3) Functional and presentation currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency, with amounts, except per share data, rounded to the nearest million yen.

(4) U.S. dollar amounts

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to US$1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other amount.

3. Significant Accounting Policies

Accounting policies applied to the consolidated financial statements are as follows. The Group has applied IFRS 9 "Financial Instruments" (amended in November 2013).

(1) Basis of consolidation

Subsidiaries are entities that are controlled by the Group. Control means that the Group has exposure or rights to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity.
The financial statements of subsidiaries are included in the scope of consolidation from the date when control is obtained by the Group until the date when it is lost.
When the accounting policies adopted by subsidiaries differ from those adopted by the Group, the financial statements of the relevant subsidiaries are adjusted, when necessary. Intra-group balances of receivables and payables and intra-group transactions, and unrealized gains and losses arising from intra-group transactions are eliminated in preparing consolidated financial statements.
Non-controlling interests in subsidiaries are recognized separately from the Group's interests. Comprehensive income for subsidiaries is allocated to the equity attributable to owners of the parent company and non-controlling interests even if the non-controlling interests result in a deficit balance.

(2) Business combinations

Business combinations are accounted for using the acquisition method. Consideration transferred in a business combination is measured as the sum of the fair value on the acquisition date of the assets transferred, the liabilities assumed, and equity instruments issued by the Company in exchange for control over an acquiree. If the consideration transferred exceeds the fair value of identifiable assets and liabilities, the excess is recorded as goodwill. However, if the consideration transferred is lower than the fair value of the identifiable assets and liabilities, the difference is recognized in profit or loss.

Changes in the ownership interests in subsidiaries without a loss of control are accounted for as equity transactions.

(3) Foreign currency translation

1) Foreign currency transactions

Each company of the Group defines its own functional currency as the currency of the primary economic environment in which it operates, and measures transactions using its functional currency.

When each company prepares its standalone financial statements, transactions in currencies other than the functional currency are translated using the exchange rate prevailing at the date of the transactions or an exchange rate that approximates thereto.

Monetary assets and liabilities denominated in foreign currencies at the fiscal year-end are translated at the exchange rate prevailing at the fiscal year-end.

Exchange differences arising from translation or settlement of accounts are recognized in profit or loss.

2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the fiscal year-end, and income and expenses are translated at the average exchange rate for the fiscal year. However, if such an average exchange rate is not considered as a reasonable approximation of the cumulative effect of the exchange rates at the transaction dates, the exchange rates at the transaction dates are used. Translation differences arising from the translation of financial statements of foreign operations are recognized in other comprehensive income. If control of foreign operations is lost, translation differences of foreign operations are recognized in profit or loss in the period of disposal.

There is no Group company that adopts a currency under a hyperinflationary economy as its functional currency.

(4) Financial instruments

1) Financial assets

(i) Initial recognition and measurement

The Group classifies financial assets into financial assets measured at fair value through profit or loss (hereinafter “FVTPL financial assets”), financial assets measured at fair value through other comprehensive income (hereinafter “FVTOCI financial assets”), and financial assets measured at amortized cost. The Group determines this classification at initial recognition.

All financial assets, excluding those classified as FVTPL financial assets, are initially measured at their fair value plus transaction costs.

Financial assets that meet both of the following requirements are classified as financial assets measured at amortized cost.

- Assets are held pursuant to the business model that aims to hold assets to collect contractual cash flows.
- Contractual terms of financial assets give rise to cash flows on a specific date that are solely payments of principal and interest of the principal outstanding.

Of the financial assets that have not been classified as financial assets measured at amortized cost, equity instruments not held for the purpose of trading, for which it is determined at initial recognition that subsequent changes to the fair value are presented in other comprehensive income, are classified as FVTOCI financial assets, and financial assets other than said financial assets are classified as FVTPL financial assets.

(ii) Subsequent measurement

After the initial recognition, financial assets are measured based on the classifications as described below.

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

FVTPL financial assets and FVTOCI financial assets are measured at fair value after the initial recognition, and subsequent changes are recognized in profit or loss and other comprehensive income, respectively. The amount recorded in other comprehensive income for FVTOCI financial assets will not be reclassified to profit or loss. However, dividends from FVTOCI financial assets are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Changes in the fair value of FVTOCI financial assets that have been recorded in other comprehensive income in the consolidated statement of comprehensive income are recorded in “other components of equity” in the consolidated statement of financial position. If such FVTOCI financial assets are derecognized, the changes are directly transferred to retained earnings.

(iii) Impairment of financial assets

The Group assesses whether there is any objective evidence that a financial asset is impaired every fiscal year. Impairment loss on financial assets is recognized when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of assets (hereinafter the “Loss Event”), and when it is reasonably expected that the Loss Event has a negative impact on the estimated future cash flows of the financial assets.

Objective evidence that indicates the impairment of financial assets includes significant financial difficulty of the borrower, a default or delinquency in interest or principal payments, or bankruptcy of the obligor, etc.

In evaluating the impairment of financial assets measured at amortized cost, individually significant financial asset is individually evaluated for impairment. Financial assets that are not individually significant are collectively evaluated for impairment in a group of financial assets with similar risk characteristics.

In evaluating impairment collectively, the Group takes into account the historical trends of the probability of default, timing of recoveries, and the amount of loss incurred, and assesses the possibilities that actual losses could be greater or less than historical trends depending on current economic and credit conditions.

Impairment loss on financial assets measured at amortized cost is measured as the difference between the assets’ carrying amount and the present value of the estimated future cash flows discounted at the assets’ initial effective interest rate, and recognized in profit or loss. If there are events that decrease the amount of an impairment loss after the recognition of the impairment loss, the impairment loss is reversed in profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes financial assets only when contractual rights to the cash flows from the financial assets are extinguished, or when the Group transfers substantially all of the risks and economic value incidental to ownership of the financial assets.

2) Financial liabilities

(i) Initial recognition and measurement

The Group classifies financial liabilities as either financial liabilities measured at fair value through profit or loss (hereinafter “FVTPL financial liabilities”) or financial liabilities measured at amortized cost. The Group determines this classification at initial recognition.

All financial liabilities are initially measured at fair value except for financial liabilities measured at amortized cost, which are measured at the amount less directly attributable transaction costs.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on the classifications as described below.

FVTPL financial liabilities are measured at fair value after the initial recognition, and subsequent changes are recognized in profit or loss.

Financial liabilities measured at amortized cost are measured using the effective interest method after initial recognition.

Amortization under the effective interest method and a gain or loss on derecognition is recognized in profit or loss.

(iii) Derecognition of financial liabilities

The Group derecognizes financial liabilities when they are extinguished, i.e. when obligations specified in the contract are discharged, cancelled, or expired, or when the Group fulfills the obligations under the contract.

(5) Hedge accounting

The Group uses forward exchange contracts etc. for some transactions denominated in foreign currencies to hedge exchange fluctuation risk. However, the Group does not apply hedge accounting to such transactions as the criteria for hedge accounting are not satisfied.

(6) Cash and cash equivalents

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

(7) Inventories

Inventories are measured at the lower of cost or net realizable value. The costs of inventories are determined based on the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

(8) Property, plant and equipment

Property, plant and equipment are measured at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes costs directly attributable to the acquisition, and restoration costs, etc.

Depreciation of each item of property, plant and equipment, other than land and construction in progress, is recorded using the straight-line method over the estimated useful life of each item. The main estimated useful lives are as follows:

- Buildings and structures 2 to 50 years
- Machinery, equipment and vehicles 2 to 17 years

The estimated useful lives, residual value, and depreciation method are reviewed every fiscal year and revised if necessary.

(9) Intangible assets

1) Software

Software for internal use is measured at cost at initial recognition. Internal and external expenses incurred at the preparation stage are recorded as expenses when they are incurred, and internal and external expenses incurred at the development stage are recorded in intangible assets. Expenses incurred after the introduction of the software, such as maintenance expenditure, are recorded as expenses when they are incurred.

Amortization is recorded using the straight-line method over the estimated useful life (mainly 5 years). The estimated useful lives and amortization method are reviewed every fiscal year and revised if necessary.

2) Development expenses

Expenditures arising from research activities to obtain new scientific or technical knowledge are recorded as expenses when incurred. Expenditures arising from development activities are recorded as intangible assets, only when they can be measured reliably, developments are technically and commercially feasible, it is probable to generate future economic benefits, and the Group has the intention and adequate resources to complete the development activities and use or sell them.

Amortization is recorded using the straight-line method over the estimated useful life. The Group adopts the period of the estimated life-cycle (mainly 2 to 5 years) as the estimated useful life, during which specific motorcycles and power products and automobile products that carry the Group’s products are manufactured and sold. The estimated useful lives and amortization method are reviewed every fiscal year and revised if necessary.

(10) Leases

Leases are classified as finance leases (lessee) when all the risks and rewards of ownership of an asset in an arrangement are substantially transferred to the Group, and all leases other than finance leases are classified as operating leases (lessee).

Leased assets under finance lease transactions (lessee) are initially recognized at the lower of the fair value of leased properties or the present value of minimum lease payments, which were determined at the inception of the lease. After the initial recognition, the leased assets are depreciated over the estimated useful life of the assets or the term of the lease, whichever is shorter.

Lease payments are allocated to finance costs and payments of lease obligations in accordance with the interest method, and financial costs are recognized in the consolidated statement of income.

In operating lease transactions (lessee), lease payments are recognized as expenses in the consolidated statement of income using the straight-line method over the lease term. However, if the time pattern of benefits is more appropriately presented, the lease payments are recognized as expenses in the period in which they are incurred.

Leases are classified as finance leases (lessor) when all the risks and rewards of ownership of an asset in an arrangement is substantially transferred to the lessee.

Lease receivables under finance leases (lessor) are initially recognized at the net investment in the lease. After initial recognition, the lease receivables are recognized in profit or loss in the period in which they are attributable after reflecting a constant periodic rate of return on the net investment in the lease.

(11) Impairment of non-financial assets

The carrying amount of non-financial assets of the Company, excluding inventories and deferred tax assets, is evaluated every fiscal year to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the non-financial assets is estimated. A recoverable amount of an asset or a cash-generating unit is the higher of its value in use and its fair value less cost to sell. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and risks specific to the assets. Assets that are not individually tested for impairment are included in the smallest cash-generating unit that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Corporate assets of the Group do not generate independent cash inflows. Therefore, if there is an indication that corporate assets may be impaired, the recoverable amount is determined for the cash-generating units to which the corporate assets belong.

If the carrying amount of an asset or a cash-generating unit exceeds the estimated recoverable amount, an impairment loss is recognized in profit or loss. An impairment loss recognized related to a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amount of other assets of the cash-generating unit on a pro-rata basis.

An impairment loss recognized in prior years is evaluated every fiscal year to determine whether there is any indication that such impairment may have decreased or may no longer exist.

An impairment loss is reversed if there is an indication of reversal of impairment and there has been a change in the estimates used to determine the asset’s recoverable amount. An impairment loss is reversed up to the amount not exceeding the carrying amount, net of depreciation or amortization, that would have been determined if no impairment had been recognized.

(12) Employee benefits

1) Post-employment benefits

The Group has defined benefit plans and defined contribution plans as post-employment benefit plans for employees.

The Group calculates the present value of defined benefit obligations and related current service cost and past service cost using the projected unit credit method.

As for the discount rate used to calculate the present value of defined benefit obligations, the discount period is determined based on the period until the expected date of benefit payments in each fiscal year, and the discount rate is determined by reference to market yields on high-quality corporate bonds at the end of the fiscal year corresponding to the discount period.

Liabilities or assets for defined benefit plans are calculated by deducting the fair value of plan assets from the present value of defined benefit obligations. Service cost and net interest on defined benefit liabilities (assets) are recognized in profit or loss in the accounting period in which they are incurred. Net interest on defined benefit liabilities (assets) consists of interest income on plan assets and interest expense on defined benefit obligations. Net interest is calculated by using the same discount rate as used for the measurement of the present value of defined benefit obligations.

The Group recognizes past service cost in profit or loss in the accounting period to which the earlier of the following dates belongs:

- When the plan amendment or curtailment occurs; or
- When the Group recognizes related restructuring costs or termination benefits.

Actuarial gains or losses based on changes in actuarial assumptions and differences between estimates and actual results, and the return on plan assets (excluding the amount included in net interest on defined benefit liabilities (assets), net) are recognized in other comprehensive income in the accounting period in which they are incurred and transferred to retained earnings when they are incurred. The cost for retirement benefits for defined contribution plans is recognized in profit or loss when the related service is rendered.

As for the multi-employer plan in which the Group participates, the Group accounts for its proportionate share of defined benefit obligations, plan assets, and cost associated with the plan in the same way as other defined benefit plans.

2) Short-term employee benefits

Short-term employee benefits are recorded in profit or loss when the related service is rendered.

Accrued bonuses are recognized as liabilities in the amount estimated to be paid based on plans when the Group has present legal and constructive obligations to make payments and when reliable estimates of obligations can be made.

(13) Provisions

Provisions are recognized when the Group has present legal and constructive obligations as a result of past events; it is probable that outflows of economic resources will be required to settle the obligations, and reliable estimates of the amount of such obligations can be made. Provisions are calculated by discounting estimated future cash flows to the present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the liabilities. The reversal of the discounted amount due to the passage of time is recognized in profit or loss. Warranty provisions are the major provisions for the Group. To prepare for expenditures on the cost of free repairs of products, the sum of the following amount calculated by estimating the cost of free repairs under warranty contracts with purchasers of the products is recorded.

- Estimated costs during the free-repair period taking into account the historical experience with repairs and the expected amount of future costs.
- Estimated amount of special costs for free repairs calculated on an individual basis

(14) Treasury stock

Treasury stock is measured at cost and recognized as a deduction from equity. When the Group sells the treasury stock, the difference between the carrying amount and the consideration received from the sale is recognized as capital surplus.

(15) Revenue

Revenue is measured at the fair value of the consideration received for goods sold and services rendered less discounts, rebates, and sales-related taxes.

1) Sales of goods

Revenue from sales of goods is recognized when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and economic value incidental to ownership of goods;
- The Group does not retain continuing managerial involvement and substantial control over the goods;
- The amount of revenue can be measured reliably;
- It is probable that future economic benefits will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Although the timing of revenue recognition differs depending on the conditions of each sales contract, revenue is generally recognized when goods are delivered to customers.

2) Interest income

Interest income is recognized using the effective interest method.

3) Dividends

Dividend revenue is recognized when the right to receive dividends is established.

(16) Income taxes

Income taxes comprise current taxes and deferred taxes. These are recognized in profit or loss, except for items that relate to business combinations and items recognized directly in equity or in other comprehensive income.

Current taxes are measured at the amount expected to be paid to or refunded from the taxation authorities. The tax amount is calculated in accordance with the tax laws and tax rates that have been enacted or substantially enacted by the end of the fiscal year in the country where the Group conducts business activities and earns taxable income.

Deferred taxes are recognized on temporary differences between the carrying amount of assets and liabilities for accounting purposes at the closing date and such amount on a tax law basis, and unused tax losses and unused tax credits.

Deferred tax liabilities are, in principle, recognized for all taxable temporary differences, and deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits, to the extent that it is probable that they can be utilized for future taxable income.

The carrying amount of deferred tax assets is reviewed every fiscal year and reduced for the amount that it is probable that sufficient taxable income will no longer be available to allow all or part of the deferred tax assets to be recovered. Unrecognized deferred tax assets are re-evaluated in each fiscal year and are recognized to the extent that it has become probable that future taxable income will be available to allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured in accordance with tax laws and tax rates that are expected to apply in the period in which the assets are realized or the liabilities are settled, based on the tax laws and tax rates that have been enacted or substantially enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied on the same entity by the same tax authority.

4. Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses. However, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognized in the accounting period in which the estimates are changed and in future accounting periods affected by the changes.

The estimates and judgments made by management that may have significant effects on the amounts in the consolidated financial statements are as follows:

(1) Impairment of property, plant and equipment and intangible assets

The Group conducts an impairment test if there is an indication that any property, plant and equipment or intangible asset may be impaired.

The impairment test is conducted by comparing the carrying amount and recoverable amount of an asset. If the recoverable amount declines below the carrying amount, an impairment loss is recognized.

In calculating the recoverable amount, the Group estimates the discounted present value of future cash flows generated from the use of the asset and the discounted present value of future cash flows generated from the final disposal of the asset. These estimates are based on the best estimates made by management. However, these estimates may differ from the actual results due to the results of changes in uncertain future economic conditions.

(2) Post-employment benefits

The Group has defined benefit plans and defined contribution plans as post-employment benefit plans for employees and retirees. The present value, service cost, etc., of defined benefit obligations are calculated based on various actuarial assumptions. Actuarial assumptions include the estimates of various factors, such as discount rates, future salary payments, future withdrawals of participants from the plan, and average life expectancy of participants. These estimates are based on the best estimates made by management. However, these estimates may differ from the actual results due to the results of changes in uncertain future economic conditions as well as amendments and publications of related laws and regulations.

(3) Warranty provisions

The Group provides quality assurance on products manufactured and sold. The Group estimates the costs expected to be incurred in the future related to the products sold and records the amounts as a provision. These estimates are based on the best estimates made by management on the basis of the latest information given by purchasers of the products and past performance. However, these estimates may differ from the actual results.

(4) Income taxes

Deferred tax assets are recognized to the extent that it is probable that taxable income, for which deductible temporary differences, etc., can be utilized, will be available. When judging the possibility of generating taxable income, the Group estimates the timing and amount of the taxable income based on the business plan. These estimates are based on the best estimates made by management. However, these estimates may differ from the actual results due to the results of changes in uncertain future economic conditions, etc.

5. Accounting Standards Issued but Not Yet Adopted

The new or amended standards and interpretations that have been issued up to the date of approval of the consolidated financial statements, which are not early adopted by the Group, are mainly as follows. The adoption of IFRS 15 and IFRS 9 does not have a significant impact on the consolidated financial statements of the Group. Meanwhile, any impact of the adoption of IFRS 16 on consolidated financial statements of the Group is currently under evaluation and cannot be provided at present.

IFRS	Title	Mandatory effective date (Fiscal year beginning on or after)	Year of adoption by the Group	Outline of new / amended standards
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 31, 2019	Clarification of framework for revenue recognition
IFRS 9	Financial Instruments (Amended in July 2014)	January 1, 2018	Fiscal year ending March 31, 2019	Amendments of impairment accounting, classification and measurement
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Amendment of accounting for lease contract

6. Segment Information

(1) Overview of reporting segments

The Company defines its reporting segments as units of the Company for which independent financial information is accessible and which are subject to periodic review by the Board of Directors to determine the allocation of management resources and to evaluate performance.

The Company is primarily engaged in the manufacture and sale of motorcycle and power products and automobile products and divides its activities into four region-specific reporting segments—Japan, Americas, Asia, and China—each with management systems and production and sales systems tailored to local characteristics.

The business in Europe is under control of the Japan headquarters without a regional headquarters. It is included in the Japan segment.

(2) Revenue, operating profit and other items by reporting segments

Revenue, operating profit and other items of the Group's reportable segments are as follows:

For the fiscal year ended March 31, 2017

	Millions of yen						
	Reporting Segments					Eliminations	Total
	Japan	Americas	Asia	China	Total		
Revenue:							
Outside customers	72,206	100,736	85,649	66,960	325,550	—	325,550
Intersegment	64,734	8,098	11,233	6,971	91,036	(91,036)	—
Total	136,940	108,834	96,882	73,930	416,586	(91,036)	325,550
Depreciation and amortization	(6,875)	(4,759)	(3,851)	(1,918)	(17,402)	516	(16,886)
Impairment loss	(23)	—	(1)	—	(24)	—	(24)
Operating profit (loss)	3,465	3,285	10,956	5,894	23,600	(646)	22,954
Finance income	—	—	—	—	—	—	446
Finance costs	—	—	—	—	—	—	(2,672)
Profit before tax	—	—	—	—	—	—	20,729

For the fiscal year ended March 31, 2018

	Millions of yen						
	Reporting Segments					Eliminations	Total
	Japan	Americas	Asia	China	Total		
Revenue:							
Outside customers	**88,138**	**91,757**	**97,787**	**73,812**	**351,494**	**—**	**351,494**
Intersegment	**69,022**	**7,387**	**11,622**	**8,905**	**96,936**	**(96,936)**	**—**
Total	**157,160**	**99,143**	**109,409**	**82,717**	**448,430**	**(96,936)**	**351,494**
Depreciation and amortization	**(7,695)**	**(5,096)**	**(3,746)**	**(1,790)**	**(18,327)**	**526**	**(17,801)**
Impairment loss	**(66)**	**(564)**	**(6)**	**(41)**	**(677)**	—	**(677)**
Operating profit	**5,940**	**1,616**	**13,735**	**6,531**	**27,822**	**491**	**28,313**
Finance income	—	—	—	—	—	**—**	**697**
Finance costs	—	—	—	—	—	**—**	**(1,865)**
Profit before tax	—	—	—	—	—	**—**	**27,145**

	Thousands of U.S. dollars						
	Reporting Segments					Eliminations	Total
	Japan	Americas	Asia	China	Total		
Revenue:							
Outside customers	**829,614**	**863,675**	**920,436**	**694,767**	**3,308,492**	**—**	**3,308,492**
Intersegment	**649,681**	**69,527**	**109,396**	**83,820**	**912,425**	**(912,425)**	**—**
Total	**1,479,295**	**933,202**	**1,029,833**	**778,587**	**4,220,917**	**(912,425)**	**3,308,492**
Depreciation and amortization	**(72,431)**	**(47,968)**	**(35,257)**	**(16,852)**	**(172,508)**	**4,952**	**(167,556)**
Impairment loss	**(619)**	**(5,308)**	**(54)**	**(390)**	**(6,372)**	**—**	**(6,372)**
Operating profit	**55,910**	**15,212**	**129,284**	**61,470**	**261,876**	**4,622**	**266,498**
Finance income	**—**	**—**	**—**	**—**	**—**	**—**	**6,559**
Finance costs	**—**	**—**	**—**	**—**	**—**	**—**	**(17,554)**
Profit before tax	**—**	**—**	**—**	**—**	**—**	**—**	**255,502**

(Note)

1. Intersegment revenue is based on arm's length pricing.
2. Revenue in the "Eliminations" column is intersegment revenue. Operating profit in the "Eliminations" column is associated with inventories and property, plant and equipment.
3. Depreciation and amortization in the "Eliminations" column are the result of intersegment consolidation adjustments.

(3) Information by product and service

Revenue from outside customers of the Group by product and service is as follows:

Millions of yen		
2017		
Motorcycles and Power Products	Automobile Products	Total
82,869	242,681	325,550

Millions of yen			Thousands of U.S. dollars		
2018			**2018**		
Motorcycles and Power Products	Automobile Products	Total	Motorcycles and Power Products	Automobile Products	Total
96,104	**255,390**	**351,494**	**904,595**	**2,403,897**	**3,308,492**

(4) Information by region

Revenue from outside customers and non-current assets (excluding financial assets, deferred tax assets, retirement benefit assets and rights arising under insurance contracts) of the Group by geographical region are as follows. Revenue from outside customers is classified by country and area based on geographic location.

ⅰ. Revenue from outside customers

Millions of yen					
2017					
Japan	USA	Thailand	China	Others	Total
54,068	94,069	29,778	74,133	73,502	325,550

Millions of yen						Thousands of U.S. dollars					
2018						**2018**					
Japan	USA	Thailand	China	Others	Total	Japan	USA	Thailand	China	Others	Total
68,751	**84,536**	**34,220**	**81,198**	**82,789**	**351,494**	**647,132**	**795,709**	**322,103**	**764,286**	**779,262**	**3,308,492**

ii. Non-current assets

Millions of yen					
2017					
Japan	USA	Thailand	China	Others	Total
37,470	19,902	11,702	10,525	26,686	106,286

Millions of yen						Thousands of U.S. dollars					
2018						**2018**					
Japan	USA	Thailand	China	Others	Total	Japan	USA	Thailand	China	Others	Total
38,562	**17,586**	**13,531**	**11,044**	**27,920**	**108,642**	**362,973**	**165,533**	**127,359**	**103,949**	**262,797**	**1,022,611**

(5) Information by major customer

The Group continuously sells products to Honda Motor Co., Ltd. and the Honda Motor Group. Revenue from the Honda Motor Group accounting for over 10% of consolidated revenue for the fiscal years ended March 31, 2017 and 2018 amounted to ¥277,742 million and ¥298,500 million ($2,809,672 thousand), respectively, and is included in revenue from outside customers in each of the Japan, Americas, Asia and China segments.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Cash and deposits	33,557	**45,019**	**423,748**
Time deposits with maturities of less than three months	5,992	**5,895**	**55,487**
Total	39,549	**50,914**	**479,236**

The balance of "cash and cash equivalents" on the consolidated statement of financial position is consistent with "cash and cash equivalents" on the consolidated statement of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Notes and trade receivables	48,952	**50,691**	**477,132**
Accrued receivables	7,608	**7,541**	**70,977**
Others	660	**651**	**6,124**
Total	57,219	**58,882**	**554,233**
Current	56,982	**58,647**	**552,025**
Non-current	237	**235**	**2,208**
Total	57,219	**58,882**	**554,233**

9. Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Time deposits with maturities of more than three months	2,633	**1,553**	**14,621**
Derivatives	62	**60**	**561**
Equity instruments	5,341	**5,764**	**54,257**
Total	8,036	**7,377**	**69,439**
Current	2,695	**1,613**	**15,182**
Non-current	5,341	**5,764**	**54,257**
Total	8,036	**7,377**	**69,439**

Equity instruments held by the Group are stocks of companies with which the Group has business relationships. The Group holds such stocks, etc., mainly to facilitate transactions, etc., and not for short-term trading purposes. Therefore, the equity instruments are measured at fair value through other comprehensive income. The breakdown of major investments and their fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Honda Motor Co., Ltd.	4,674	**5,105**	**48,051**
Mitsubishi UFJ Financial Group, Inc.	364	**362**	**3,411**
Others	303	**297**	**2,794**
Total	5,341	**5,764**	**54,257**

During the fiscal years ended March 31, 2017 and 2018, with the aim of increased efficiency and effective use of the assets held by the Group, FVTOCI financial assets were sold (derecognized).

During the fiscal years ended March 31, 2017 and 2018, their fair values at the time of derecognition were ¥37 million and ¥18 million ($172 thousand), respectively, and accumulated gains recognized as other comprehensive income (loss) in equity were ¥17 million and ¥3 million ($26 thousand), respectively.

Meanwhile, accumulated gains recognized as other comprehensive income (loss) in equity were transferred to retained earnings upon the sale of the assets.

10. Inventories

The breakdown of inventories is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Merchandise and finished products	13,334	**14,469**	**136,195**
Work in process	8,022	**8,837**	**83,178**
Raw materials and supplies	24,416	**25,396**	**239,048**
Total	45,771	**48,703**	**458,420**

The write-downs of inventories included in “cost of sales” during the fiscal years ended March 31, 2017 and 2018 were ¥4,799 million and ¥5,819 million ($54,769 thousand), respectively. There are no significant inventories pledged as security for liabilities.

11. Property, Plant and Equipment

(1) Schedule of property, plant and equipment

The breakdown and schedule of property, plant and equipment are as follows:

Acquisition costs

	Millions of yen				
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2016	71,004	171,870	46,190	7,847	296,911
Acquisition	1,128	11,928	4,023	16,525	33,604
Sales or disposal	(537)	(5,193)	(2,247)	—	(7,977)
Transfer	—	—	—	(16,240)	(16,240)
Foreign currency translation adjustments	(287)	(855)	(163)	2	(1,302)
Others	74	20	(459)	(381)	(746)
As of March 31, 2017	**71,383**	**177,770**	**47,344**	**7,753**	**304,250**
Acquisition	**1,954**	**11,500**	**3,697**	**18,157**	**35,308**
Sales or disposal	**(113)**	**(4,530)**	**(2,019)**	—	**(6,662)**
Transfer	—	—	—	**(16,639)**	**(16,639)**
Foreign currency translation adjustments	**(684)**	**(1,795)**	**(248)**	**(237)**	**(2,965)**
Others	**67**	**(1,112)**	**287**	**259**	**(499)**
As of March 31, 2018	**72,607**	**181,833**	**49,061**	**9,292**	**312,792**

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of March 31, 2017	**671,899**	**1,673,284**	**445,634**	**72,976**	**2,863,795**
Acquisition	**18,391**	**108,247**	**34,801**	**170,901**	**332,341**
Sales or disposal	**(1,059)**	**(42,637)**	**(19,008)**	—	**(62,705)**
Transfer	—	—	—	**(156,619)**	**(156,619)**
Foreign currency translation adjustments	**(6,443)**	**(16,892)**	**(2,336)**	**(2,235)**	**(27,906)**
Others	**631**	**(10,470)**	**2,703**	**2,435**	**(4,701)**
As of March 31, 2018	**683,420**	**1,711,533**	**461,794**	**87,459**	**2,944,205**

Accumulated depreciation and accumulated impairment loss

	Millions of yen			
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of April 1, 2016	(35,038)	(126,892)	(39,025)	(200,955)
Depreciation	(1,798)	(8,846)	(4,130)	(14,775)
Impairment loss	—	(23)	(1)	(24)
Sales or disposal	326	5,027	2,214	7,567
Foreign currency translation adjustments	107	422	81	610
Others	2	(41)	515	476
As of March 31, 2017	**(36,402)**	**(130,352)**	**(40,347)**	**(207,101)**
Depreciation	**(1,872)**	**(9,513)**	**(4,282)**	**(15,667)**
Impairment loss	**(50)**	**(491)**	**(136)**	**(677)**
Sales or disposal	**103**	**4,367**	**1,959**	**6,430**
Foreign currency translation adjustments	**220**	**954**	**248**	**1,422**
Others	**(97)**	**587**	**309**	**800**
As of March 31, 2018	**(38,098)**	**(134,448)**	**(42,248)**	**(214,794)**

	Thousands of U.S. dollars			
	Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
As of March 31, 2017	**(342,643)**	**(1,226,956)**	**(379,771)**	**(1,949,370)**
Depreciation	**(17,621)**	**(89,546)**	**(40,306)**	**(147,473)**
Impairment loss	**(474)**	**(4,622)**	**(1,276)**	**(6,372)**
Sales or disposal	**973**	**41,107**	**18,440**	**60,520**
Foreign currency translation adjustments	**2,071**	**8,980**	**2,336**	**13,386**
Others	**(913)**	**5,529**	**2,912**	**7,529**
As of March 31, 2018	**(358,607)**	**(1,265,508)**	**(397,664)**	**(2,021,780)**

Depreciation of property, plant and equipment is included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income. The information of impairment loss is disclosed in Note “13. Impairment Loss.”

Carrying amount

		Land, buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Construction in progress	Total
As of April 1, 2016	(Millions of yen)	35,966	44,978	7,164	7,847	95,956
As of March 31, 2017	(Millions of yen)	34,980	47,418	6,997	7,753	97,148
As of March 31, 2018	(Millions of yen)	**34,508**	**47,386**	**6,813**	**9,292**	**97,998**
As of March 31, 2018	(Thousands of U.S. dollars)	**324,813**	**446,025**	**64,129**	**87,459**	**922,426**

(2) Collateral

No items of property, plant and equipment are pledged as security for liabilities.

12. Intangible Assets

Schedule of intangible assets

The breakdown and schedule of intangible assets are as follows:

Acquisition costs

	Millions of yen			
	Software	Development expenses	Others	Total
As of April 1, 2016	5,998	4,515	1,473	11,985
Acquisition	300	—	0	300
Increase arising from internal development	—	1,457	—	1,457
Sale or disposal	(24)	—	—	(24)
Foreign currency translation adjustments	(12)	—	0	(12)
Others	(305)	(82)	(34)	(421)
As of March 31, 2017	**5,957**	**5,890**	**1,439**	**13,286**
Acquisition	**456**	—	**2**	**458**
Increase arising from internal development	—	**1,554**	—	**1,554**
Sale or disposal	**(361)**	—	—	**(361)**
Foreign currency translation adjustments	**25**	—	**(16)**	**9**
Others	**(20)**	**(304)**	**(69)**	**(394)**
As of March 31, 2018	**6,056**	**7,140**	**1,356**	**14,552**

	Thousands of U.S. dollars			
	Software	Development expenses	Others	Total
As of March 31, 2017	**56,067**	**55,441**	**13,549**	**125,057**
Acquisition	**4,294**	—	**18**	**4,312**
Increase arising from internal development	—	**14,631**	—	**14,631**
Sale or disposal	**(3,402)**	—	—	**(3,402)**
Foreign currency translation adjustments	**234**	—	**(150)**	**84**
Others	**(189)**	**(2,866)**	**(653)**	**(3,708)**
As of March 31, 2018	**57,004**	**67,206**	**12,764**	**136,974**

Accumulated amortization and accumulated impairment loss

	Millions of yen			
	Software	Development expenses	Others	Total
As of April 1, 2016	(3,470)	(894)	(1,062)	(5,426)
Amortization	(919)	(1,003)	(189)	(2,111)
Sale or disposal	23	—	—	23
Foreign currency translation adjustments	(1)	—	(4)	(6)
Others	311	69	32	412
As of March 31, 2017	**(4,056)**	**(1,829)**	**(1,223)**	**(7,109)**
Amortization	**(838)**	**(1,145)**	**(150)**	**(2,134)**
Sale or disposal	**361**	—	—	**361**
Foreign currency translation adjustments	**(16)**	—	**9**	**(7)**
Others	**59**	**303**	**69**	**432**
As of March 31, 2018	**(4,490)**	**(2,670)**	**(1,295)**	**(8,456)**

	Thousands of U.S. dollars			
	Software	Development expenses	Others	Total
As of March 31, 2017	**(38,180)**	**(17,215)**	**(11,515)**	**(66,910)**
Amortization	**(7,891)**	**(10,777)**	**(1,414)**	**(20,082)**
Sale or disposal	**3,402**	—	—	**3,402**
Foreign currency translation adjustments	**(151)**	—	**83**	**(68)**
Others	**557**	**2,856**	**653**	**4,066**
As of March 31, 2018	**(42,263)**	**(25,136)**	**(12,193)**	**(79,592)**

(Note)

1. The amortization of intangible assets is included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income.
2. Capitalized development expenses recognized as intangible assets during the fiscal years ended March 31, 2017 and 2018 were ¥1,457 million and ¥1,554 million ($14,631 thousand), respectively. Total research and development expenses including those capitalized expenses during the fiscal years ended March 31, 2017 and 2018 were ¥19,404 million and ¥22,771 million ($214,333 thousand), respectively.

Carrying amount

		Software	Development expenses	Others	Total
As of April 1, 2016	(Millions of yen)	2,528	3,621	411	6,560
As of March 31, 2017	(Millions of yen)	1,900	4,061	216	6,178
As of March 31, 2018	**(Millions of yen)**	**1,566**	**4,469**	**61**	**6,096**
As of March 31, 2018	**(Thousands of U.S. dollars)**	**14,741**	**42,070**	**572**	**57,382**

13. Impairment Loss

For the fiscal year ended March 31, 2017

The Group recognized an impairment loss of ¥24 million during the fiscal year ended March 31, 2017.

Impairment losses were mainly recognized on machinery, equipment and vehicles, etc. classified as idle assets, which are grouped as individual cash-generating units. The carrying amount of such idle assets was reduced to the recoverable amount as they were not expected to be used for business purposes. The recoverable amount is the value in use, which was the memorandum amount assuming a value of zero.

Impairment losses are included in “other expenses” in the consolidated statement of income. The relevant reporting segments are “Japan” and “Asia.” The amount recognized in each reporting segment is stated in Note “6. Segment Information.”

For the fiscal year ended March 31, 2018

The Group recognizes the smallest unit with identifiable independent cash flows as a cash-generating unit.

Individual assets classified as idle assets are each subjected to impairment testing.

During the fiscal year ended March 31, 2018, progress in achieving cost improvement and productivity enhancement was behind schedule at some locations in the Americas’ segment engaged in the manufacture and sale of air-conditioning products, which led the Company to believe that recovery in business performance will take an extended period of time. In consideration of such a prospect, the carrying amount was reduced to the recoverable amount, whereby ¥564 million ($5,308 thousand) was included in “other expenses” in the consolidated statement of income. This amount comprises ¥50 million ($474 thousand) for land, ¥384 million ($3,617 thousand) for machinery, equipment and vehicles, and ¥129 million ($1,217 thousand) for tools, furniture and fixtures. Such recoverable amount represents fair value less disposal cost, as measured by the market-approach valuation method. The fair value used for calculating such recoverable amount is classified into Level 3 on the fair value hierarchy. In addition, a ¥113 million ($1,063 thousand) impairment loss on idle assets is included in “other expenses” in the consolidated statement of income. The carrying amount of such idle assets was reduced to the recoverable amount as they were not expected to be used for business purposes. The recoverable amount is the value in use, which was the memorandum amount assuming a value of zero.

The relevant reporting segments are “Japan”, “Americas”, “Asia”, and “China.” The amount recognized in each reporting segment is stated in Note “6. Segment Information.”

14. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

The breakdown and schedule of deferred tax assets and deferred tax liabilities are as follows:

For the fiscal year ended March 31, 2017

	Millions of yen			
	As of April 1, 2016	Recognized in profit or loss (Note)	Recognized in other comprehensive income	As of March 31, 2017
Deferred tax assets				
Inventories	1,143	410	—	1,553
Property, plant and equipment and intangible assets	3,116	(10)	—	3,106
Accrued expenses	1,530	(400)	—	1,131
Retirement benefits	505	(203)	156	459
Unused tax losses	85	76	—	161
Others	272	(86)	—	186
Total deferred tax assets	6,653	(213)	156	6,596
Deferred tax liabilities				
Property, plant and equipment and intangible assets	3,940	215	—	4,155
Financial assets measured at fair value through other comprehensive income	1,238	(1)	71	1,308
Undistributed retained earnings of foreign subsidiaries	580	241	—	820
Retirement benefits	3	(163)	1,228	1,068
Others	129	(29)	—	101
Total deferred tax liabilities	5,890	262	1,299	7,452

(Note) The difference between the total of recognized in profit or loss in the above table and deferred income tax expense is due to foreign exchange fluctuations.

For the fiscal year ended March 31, 2018

	Millions of yen			
	As of April 1, 2017	Recognized in profit or loss (Note)	Recognized in other comprehensive income	As of March 31, 2018
Deferred tax assets				
Inventories	**1,553**	**(349)**	—	**1,204**
Property, plant and equipment and intangible assets	**3,106**	**(5)**	—	**3,101**
Accrued expenses	**1,131**	**17**	—	**1,148**
Retirement benefits	**459**	**(153)**	**9**	**315**
Unused tax losses	**161**	**(52)**	—	**110**
Others	**186**	**228**	—	**414**
Total deferred tax assets	**6,596**	**(313)**	**9**	**6,292**
Deferred tax liabilities				
Property, plant and equipment and intangible assets	**4,155**	**(848)**	—	**3,307**
Financial assets measured at fair value through other comprehensive income	**1,308**	**(3)**	**156**	**1,461**
Undistributed retained earnings of foreign subsidiaries	**820**	**(70)**	—	**750**
Retirement benefits	**1,068**	**(54)**	**(177)**	**836**
Others	**101**	**(66)**	—	**35**
Total deferred tax liabilities	**7,452**	**(1,042)**	**(21)**	**6,389**

(Note) The difference between the total of recognized in profit or loss in the above table and deferred income tax expense is due to foreign exchange fluctuations.

	Thousands of U.S. dollars			
	As of April 1, 2017	Recognized in profit or loss (Note)	Recognized in other comprehensive income	As of March 31, 2018
Deferred tax assets				
Inventories	**14,619**	**(3,286)**	—	**11,333**
Property, plant and equipment and intangible assets	**29,234**	**(49)**	—	**29,185**
Accrued expenses	**10,644**	**162**	—	**10,806**
Retirement benefits	**4,317**	**(1,436)**	**87**	**2,968**
Unused tax losses	**1,518**	**(485)**	—	**1,032**
Others	**1,752**	**2,146**	—	**3,898**
Total deferred tax assets	**62,084**	**(2,949)**	**87**	**59,223**
Deferred tax liabilities				
Property, plant and equipment and intangible assets	**39,108**	**(7,984)**	—	**31,124**
Financial assets measured at fair value through other comprehensive income	**12,313**	**(32)**	**1,469**	**13,750**
Undistributed retained earnings of foreign subsidiaries	**7,721**	**(660)**	—	**7,061**
Retirement benefits	**10,049**	**(511)**	**(1,667)**	**7,871**
Others	**950**	**(621)**	—	**329**
Total deferred tax liabilities	**70,142**	**(9,809)**	**(198)**	**60,135**

(Note) The difference between the total of recognized in profit or loss in the above table and deferred income tax expense is due to foreign exchange fluctuations.

(2) Unrecognized deferred tax assets

The amount of deductible temporary differences, unused tax losses and unused tax credits, for which no deferred tax assets were recognized, is as follows. The amount of deductible temporary differences and unused tax losses is described as income basis amount, and that of unused tax credits is described as tax basis amount.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Deductible temporary differences	17,847	**18,340**	**172,632**
Unused tax losses	32,168	**29,624**	**278,839**
Unused tax credits	4,288	**3,567**	**33,579**

Unused tax losses for which no deferred tax assets are recognized expire as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
1st year	178	**253**	**2,385**
2nd year	1,922	**882**	**8,306**
3rd year	846	**4,145**	**39,020**
4th year	5,681	**3,652**	**34,379**
5th year and thereafter	23,542	**20,690**	**194,749**
Total	32,168	**29,624**	**278,839**

Unused tax credits for which no deferred tax assets are recognized expire as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
1st year	1,531	**1,060**	**9,974**
2nd year	1,170	**1,319**	**12,416**
3rd year	1,425	**965**	**9,079**
4th year	10	**40**	**376**
5th year and thereafter	152	**184**	**1,735**
Total	4,288	**3,567**	**33,579**

(3) Unrecognized deferred tax liabilities

The amount of taxable temporary differences associated with investments in subsidiaries, for which no deferred tax liabilities are recognized, is as follows. Deferred tax liabilities are not recognized for these investments as the Company is able to control the timing of the reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Temporary differences associated with investments in subsidiaries for which no deferred tax liabilities are recognized	86,606	**96,862**	**911,729**

(4) Income taxes

The breakdown of income tax expense is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Current income tax	(7,084)	**(7,520)**	**(70,786)**
Deferred income tax	(409)	**724**	**6,815**
Total	(7,494)	**(6,796)**	**(63,971)**

(5) Reconciliation between the applicable and effective tax rate

The reconciliation between the applicable tax rate and the effective tax rate is as follows:

	2017	**2018**
Applicable tax rate	30.3%	**30.3%**
Different tax rates applied to foreign subsidiaries	(10.2%)	**(7.1%)**
Undistributed retained earnings of foreign subsidiaries	4.0%	**2.8%**
Foreign tax	8.6%	**5.2%**
Temporary differences on elimination in profit or loss resulting from intra-group transactions	0.1%	**0.3%**
Changes in unrecognized deferred tax assets	2.7%	**(3.0%)**
Impact of the change in the tax rate (Note)	—	**(2.3%)**
Others	0.8%	**(1.1%)**
Effective tax rate	36.2%	**25.0%**

(Note) Following the enactment of the Tax Cuts and Jobs Act in the United States on December 22, 2017, the federal corporate tax rate used for calculating deferred tax assets and deferred tax liabilities for the fiscal year ended March 31, 2018 of the Company's subsidiaries in the United States was changed from 35% to 21%.

15. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Notes and trade payables	33,222	**34,643**	**326,085**
Accrued expenses	14,661	**16,274**	**153,180**
Accrued payments	4,339	**4,160**	**39,157**
Total	52,222	**55,077**	**518,421**

16. Loans

The breakdown of loans is as follows. There were no loans in default at the end of the each reporting period.

	Millions of yen			Thousands of U.S. dollars
	2017	**2018**	Average Interest rate (Note)	**2018**
Short-term loans	8,029	**6,786**	**2.03%**	**63,878**
Long-term loans to be repaid within one year	561	—	—	—
Total	8,590	**6,786**	—	**63,878**
Current	8,590	**6,786**		**63,878**
Non-current	—	—		—
Total	8,590	**6,786**		**63,878**

(Note) The average interest rate is based on the weighted-average rate calculated based on the interest rates and the balances as of March 31, 2018.

17. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Derivatives	3	**1,362**	**12,823**
Finance lease obligations	917	**429**	**4,037**
Total	920	**1,791**	**16,860**
Current	831	**372**	**3,505**
Non-current	89	**1,419**	**13,355**
Total	920	**1,791**	**16,860**

18. Provisions

The breakdown of provisions is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Warranty provisions	406	**1,305**	**12,287**
Others	188	**320**	**3,015**
Total	594	**1,626**	**15,301**
Current	406	**1,422**	**13,387**
Non-current	188	**203**	**1,915**
Total	594	**1,626**	**15,301**

Warranty provisions are expected to be paid within one year, however, the timing of payment is affected by the timing of claims from customers.

The schedule of provisions is as follows:

	Millions of yen		
	Warranty provisions	Others	Total
As of April 1, 2017	**406**	**188**	**594**
Increase during the fiscal year	**1,394**	**129**	**1,523**
Interest cost associated with passage of time	—	**3**	**3**
Decrease due to intended use	**(384)**	—	**(384)**
Reversal during the fiscal year	**(109)**	—	**(109)**
Foreign currency translation adjustments	**(2)**	**0**	**(2)**
As of March 31, 2018	**1,305**	**320**	**1,626**

	Thousands of U.S. dollars		
	Warranty provisions	Others	Total
As of April 1, 2017	**3,823**	**1,770**	**5,594**
Increase during the fiscal year	**13,122**	**1,216**	**14,338**
Interest cost associated with passage of time	—	**32**	**32**
Decrease due to intended use	**(3,612)**	—	**(3,612)**
Reversal during the fiscal year	**(1,029)**	—	**(1,029)**
Foreign currency translation adjustments	**(18)**	**(4)**	**(22)**
As of March 31, 2018	**12,287**	**3,015**	**15,301**

19. Employee Benefits

(1) Defined benefit pension plans

The Company and certain consolidated subsidiaries adopt defined benefit pension plans. The defined benefit pension plan is mainly the Company's, which accounts for approximately 90% of the total present value of defined benefit obligations. It is composed of the Company's single-employer plan and a multi-employer plan.

(The Company's single-employer plan)

The Company has a welfare pension fund plan as a defined benefit pension plan. This plan is operated by delegating the management and investment of plan assets to pension property management trust institutions pursuant to the rules on defined benefit corporate pension plans that are agreed between an employer and employees.

In this plan, employees are entitled to receive the amount determined based on the years of service and wage level, etc., as lump-sum payment at the time of their retirement. If an employee satisfies certain conditions such as years of service, such employee may receive benefits as a fixed-term annuity instead of the lump-sum payment.

The Defined-Benefit Corporate Pension Act provides that pension premiums shall be recalculated at least every five years so that the financial stability of the plan can be maintained through the future.

(Multi-employer plan)

The Company participates in the HONDA PENSION FUND, a multi-employer plan, in addition to the single-employer plan stated above. The administration of the plan is conducted by a fund legally independent of the Company. The fund establishes the board of representatives, which consists of, in equal numbers, representatives elected by mutual election by employers and participants. Directors and auditors are appointed as executive officers through mutual election by the representatives. Directors are responsible to faithfully execute their duties with respect to the management and investment of pension reserves for the fund complying with laws and regulations, any legal orders issued by the Minister of Health, Labour and Welfare and the Chief of the Regional Bureau of Health and Welfare, the corporate pension fund rules (hereinafter the "Rules"), and the resolutions of the board of representatives. In addition, directors are prohibited from being engaged in any actions that hinder proper management and investment of pension reserves for the purpose of gaining their own interests or interests of third parties other than the fund.

This plan is a plan similar to the cash balance plan, under which an employee may receive the amount calculated based on the years of service, wage level, annuity rate (index rate), etc., as a lump-sum payment at the time of their retirement. In addition, if an employee satisfies certain conditions such as years of service, such employee may receive benefits as a fixed-term annuity or life-term annuity instead of the lump-sum payment.

The Company assumes an obligation to contribute premiums to the fund. The Defined-Benefit Corporate Pension Act provides that pension premiums shall be recalculated at least every five years so that the financial stability can be maintained through the future. The premiums contributed may be used for benefit payments of other participating employers.

If the reserved amount falls below the minimum funding requirements at the time of dissolution of the plan, the employers are required to make a lump-sum contribution as a premium to meet the minimum funding requirement. In addition, since the Rules set forth that the entire amount of residual assets at the time of dissolution of the plan shall be distributed to employees, such amount shall not be returned to the Company and other participating employers.

If an employer withdraws from the plan, the employer is required to make a lump-sum payment for the deficit, etc., that is expected to be incurred from the withdrawal.

(a) Breakdown of net defined benefit liability (asset)

The breakdown of net defined benefit liability (asset) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Present value of defined benefit obligations	46,380	**44,768**	**421,382**
Fair value of plan assets	47,464	**45,470**	**427,994**
Defined benefit liability (net)	2,445	**2,081**	**19,589**
Defined benefit asset (net)	3,529	**2,784**	**26,201**

(b) Changes in present value of retirement benefit obligations

The changes in present value of retirement benefit obligations are as follows:

	Millions of yen	Thousands of U.S. dollars
As of April 1, 2016	44,536	
Service cost	2,303	
Interest cost	315	
Actuarial gain or loss		
Changes in demographic assumptions	15	
Changes in financial assumptions	(302)	
Experience adjustments	695	
Past service cost and gain or losses of settlements	6	
Benefits paid	(1,243)	
Foreign currency translation adjustments	55	
As of March 31, 2017	46,380	**436,555**
Service cost	**2,296**	**21,607**
Interest cost	**345**	**3,248**
Actuarial gain or loss		
Changes in demographic assumptions	**10**	**98**
Changes in financial assumptions	**364**	**3,426**
Experience adjustments	**(51)**	**(479)**
Past service cost and gain or losses of settlements	**38**	**360**
Benefits paid	**(4,545)**	**(42,778)**
Foreign currency translation adjustments	**(70)**	**(656)**
As of March 31, 2018	**44,768**	**421,382**

(c) Significant actuarial assumptions and sensitivity analysis

The significant actuarial assumptions (weighted average) are as follows:

	2017	**2018**
Discount rate	0.8%	**0.5%**

The effects on the present value of defined benefit obligations due to a 0.5% increase or decrease in the significant actuarial assumptions are as follows:

	Changes in assumptions	Millions of yen Effects on present value of defined benefit obligations		Thousands of U.S. dollars
		2017	**2018**	**2018**
Discount rate	Increase of 0.5%	(2,409)	**(2,393)**	**(22,526)**
	Decrease of 0.5%	2,655	**2,634**	**24,792**

The present values of the defined benefit obligations in cases of a 0.5% increase and decrease in the discount rate are calculated in the same manner as used in the calculation of present values of the defined benefit obligations recognized in the consolidated statement of financial position, and thereby, the differences from the actual present values of the defined benefit obligations are determined as the result of the sensitivity analysis. In such analysis, it is assumed that variables other than the discount rate remain fixed. However, in fact, there may be times when changes are correlated.

(d) Information on the maturity composition of defined benefit obligations

The weighted average duration is as follows:

	2017	**2018**
Weighted average duration	12.7 years	**12.2 years**

(e) Schedule of plan assets

The changes in fair value of plan assets are as follows:

	Millions of yen	Thousands of U.S. dollars
As of April 1, 2016	41,559	
Contributions by the employer	1,963	
Benefits paid	(1,196)	
Interest income (Note)	249	
Return on plan assets (excluding interest income)	4,848	
Foreign currency translation adjustments	42	
As of March 31, 2017	47,464	**446,765**
Contributions by the employer	**1,939**	**18,249**
Benefits paid	**(4,450)**	**(41,885)**
Interest income (Note)	**301**	**2,836**
Return on plan assets (excluding interest income)	**274**	**2,577**
Foreign currency translation adjustments	**(58)**	**(549)**
As of March 31, 2018	**45,470**	**427,994**

(Note) Interest income is measured by multiplying the fair value of plan assets at the beginning of the fiscal year by the discount rate used for the calculation of the present value of defined benefit obligations.

(f) Breakdown of fair value of plan assets by type

The Group's investment policy is designed to optimize the total investment income over the mid- to long-term under acceptable risk levels in order to ensure pension benefits of employees. To reduce risks, the plan assets are diversified, mainly in domestic and overseas stocks and bonds based on asset allocation targets. Regarding asset allocation, the Group establishes allocation targets to be maintained over the mid- to long-term based on the correlation between the mid- to long-term forecast of risk and return and the actual investment performance of each asset. These asset allocation targets are reviewed in an appropriate manner when any material change arises in the investment environment, etc., of plan assets.

The Group plans to contribute ¥1,484 million ($13,971 thousand) to plan assets in the fiscal year ending March 31, 2019.

The breakdown of fair value of plan assets by type is as follows:

	Millions of yen				Thousands of U.S. dollars	
	2017		**2018**		**2018**	
	Quoted price in an active market is available	No quoted price in an active market is available	Quoted price in an active market is available	No quoted price in an active market is available	Quoted price in an active market is available	No quoted price in an active market is available
Stocks (Note)	6,909	6,293	**6,764**	**6,449**	**63,669**	**60,698**
Bonds (Note)	4,637	13,362	**3,131**	**12,150**	**29,476**	**114,362**
General accounts of life insurance companies	—	2,376	—	**2,455**	—	**23,111**
Hedge funds	—	4,962	—	**3,907**	—	**36,777**
Cash and cash equivalents	7,561	—	**9,163**	—	**86,248**	—
Others	195	1,169	**191**	**1,260**	**1,794**	**11,859**
Total	19,303	28,161	**19,249**	**26,221**	**181,186**	**246,807**

(Note) A portion of plan assets is invested in the joint trust of a trust bank and classified as an item for which a quoted price in an active market is not available.

(g) Defined benefit cost

The breakdown of defined benefit cost is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Service cost	(2,303)	**(2,296)**	**(21,607)**
Past service cost and gain or losses of settlements	(6)	**(38)**	**(360)**
Net interest	(66)	**(44)**	**(412)**
Total	(2,375)	**(2,378)**	**(22,379)**

These costs are included in “cost of sales”, “selling, general and administrative expenses” and “other expenses” in the consolidated statement of income.

(2) Defined contribution pension plans

Some consolidated subsidiaries adopt defined contribution pension plans. The amount of cost recognized during the fiscal years ended March 31, 2017 and 2018 is as follows. The cost is included in “cost of sales” and “selling, general and administrative expenses” in the consolidated statement of income.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Contributions	(467)	**(817)**	**(7,691)**

20. Equity and Other Equity Items

(1) Number of shares authorized

The number of shares authorized is as follows:

	2017	**2018**
Number of shares authorized (shares)	240,000,000	**240,000,000**

(2) Total number of shares issued

The total number of shares issued is as follows. There are no changes in the total number of shares issued during the fiscal year. In addition, all the shares issued by the Company are non-par value common stock with no limitation on rights, and the shares issued are fully paid.

	2017	**2018**
Total number of shares issued (shares)	73,985,246	**73,985,246**

(3) Treasury stock

Number of treasury stock is as follows:

	2017	**2018**
Number of treasury stock (shares)	26,299	**26,851**

(4) Information on surplus included in equity

(a) Capital surplus

The components of capital surplus are as follows:

(i) Legal capital surplus

The Japanese Companies Act provides that at least 50% of the proceeds upon an issuance of shares is required to be recorded as the common stock, and the remainder is required to be recorded as legal capital surplus.

(ii) Other capital surplus

Changes in the ownership interest in a subsidiary without a loss of control is treated as an equity transaction, and the amount equivalent to goodwill, negative goodwill, etc., incurred in connection with any such changes is recorded in other capital surplus.

(b) Retained earnings

The components of retained earnings are as follows:

(i) Legal retained earnings

The Japanese Companies Act provides that 10% of dividends of capital surplus (excluding legal capital surplus) and retained earnings (excluding legal retained earnings) shall be appropriated as legal capital surplus and legal retained earnings until the aggregate amount of legal capital surplus and legal retained earnings reaches 25% of the common stock. At certain foreign subsidiaries, similar reserves are also required pursuant to local laws.

(ii) Other retained earnings

Other retained earnings represent the accumulated amount of profit earned by the Group.

(5) Information on other components of equity

(a) Gains or losses on financial assets measured at fair value through other comprehensive income

This is the accumulated amount of changes in fair value of financial assets measured at fair value through other comprehensive income.

(b) Remeasurements of net benefit defined benefit liabilities (assets)

Remeasurements of net benefits defined benefit liabilities (assets) comprise actuarial gain or loss and the return on plan assets (excluding the amount included in net interest on defined benefit liabilities (assets)). Remeasurements of defined benefit liabilities (assets), net, are recognized as other comprehensive income in the fiscal year in which they occurred and are immediately transferred to retained earnings.

(c) Foreign currency translation adjustments

This is an accumulated amount of exchange differences occurring when standalone financial statements of foreign subsidiaries prepared in foreign currencies are translated into Japanese yen upon consolidation.

21. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Employee benefit expenses	(10,841)	**(11,281)**	**(106,183)**
Freight and packing expenses	(4,102)	**(4,503)**	**(42,388)**
Depreciation and amortization	(1,135)	**(1,051)**	**(9,888)**
Others	(12,648)	**(14,679)**	**(138,175)**
Total	(28,726)	**(31,514)**	**(296,632)**

22. Other Income and Other Expenses

(1) Other income

The Group recognized gains on sales of property, plant and equipment of ¥68 million and ¥23 million ($220 thousand) for the fiscal years ended March 31, 2017 and 2018, respectively.

There is no additional significant other income.

(2) Other expenses

The Group recognized impairment losses of ¥24 million and ¥677 million ($6,372 thousand) for the fiscal years ended March 31, 2017 and 2018, respectively. The breakdown of impairment loss is presented in Note “13. Impairment Loss.”

There are no additional significant other expenses.

23. Finance Income and Finance Costs

(1) Finance income

The breakdown of finance income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Interest income	306	**548**	**5,161**
Dividend income	140	**149**	**1,398**
Total	446	**697**	**6,559**

All dividend income arises from financial assets measured at fair value through other comprehensive income. Those are investments which the Group owns at the end of the each reporting period.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Financial assets derecognized during the year	1	**0**	**3**
Financial assets held at year-end	139	**148**	**1,395**
Total	140	**149**	**1,398**

(2) Finance costs

The breakdown of finance costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Interest costs	(302)	**(304)**	**(2,859)**
Foreign exchange loss	(2,370)	**(198)**	**(1,868)**
Loss on valuation of derivatives	—	**(1,363)**	**(12,828)**
Total	(2,672)	**(1,865)**	**(17,554)**

24. Earnings per Share

Basic earnings per share and the basis on which the numerator is determined are as follows. There are no dilutive potential ordinary shares.

		2017	**2018**
Earnings per share attributable to owners of the parent	(Millions of yen)	11,084	**17,824**
Weighted average number of ordinary shares outstanding during the year	(shares)	73,959,076	**73,958,671**
Basic earnings per share	(yen)	149.86	**241.00**

25. Classification of Items Based on Nature

The significant accounts of expenses, if the Group classifies these based on nature, are “employee benefit costs” and “depreciation and amortization”. Both of these are disclosed as “cost of sales,” and “selling, general and administrative expenses” in the consolidated statement of income. The total amounts are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Employee benefit costs	(80,301)	**(83,726)**	**(788,079)**
Depreciation and amortization	(16,886)	**(17,801)**	**(167,556)**

26. Other Comprehensive Income

The amount of changes and income tax effects relating to each component of other comprehensive income for each year, including non-controlling interests, are as follows:

	Millions of yen		
	2017		
	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss			
Gains (losses) on financial assets measured at fair value through other comprehensive income			
Amount arising during the year	349	(71)	278
Subtotal	349	(71)	278
Remeasurement of the net defined benefit liabilities (assets)			
Amount arising during the year	4,441	(1,073)	3,368
Subtotal	4,441	(1,073)	3,368
Items that may be reclassified to profit or loss			
Foreign currency translation adjustments			
Amount arising during the year	(644)	—	(644)
Subtotal	(644)	—	(644)
Total other comprehensive income (loss)	4,146	(1,144)	3,003

	Millions of yen		
	2018		
	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss			
Gains (losses) on financial assets measured at fair value through other comprehensive income			
Amount arising during the year	**447**	**(156)**	**291**
Subtotal	**447**	**(156)**	**291**
Remeasurement of the net defined benefit liabilities (assets)			
Amount arising during the year	**(50)**	**186**	**137**
Subtotal	**(50)**	**186**	**137**
Items that may be reclassified to profit or loss			
Foreign currency translation adjustments			
Amount arising during the year	**(1,505)**	—	**(1,505)**
Subtotal	**(1,505)**	—	**(1,505)**
Total other comprehensive income (loss)	**(1,108)**	**30**	**(1,078)**

	Thousands of U.S. dollars		
	2018		
	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss			
Gains (losses) on financial assets measured at fair value through other comprehensive income			
Amount arising during the year	**4,206**	**(1,470)**	**2,737**
Subtotal	**4,206**	**(1,470)**	**2,737**
Remeasurement of the net defined benefit liabilities (assets)			
Amount arising during the year	**(468)**	**1,754**	**1,287**
Subtotal	**(468)**	**1,754**	**1,287**
Items that may be reclassified to profit or loss			
Foreign currency translation adjustments			
Amount arising during the year	**(14,169)**	—	**(14,169)**
Subtotal	**(14,169)**	—	**(14,169)**
Total other comprehensive income (loss)	**(10,431)**	**285**	**(10,146)**

There are no reclassification adjustments arising from the above each item for each year.

27. Dividends

For the fiscal year ended March 31, 2017

(1) Cash dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
June 24, 2016 Annual Shareholders Meeting	Ordinary shares	1,331	18	March 31, 2016	June 27, 2016	Retained earnings
November 8, 2016 Board of Directors	Ordinary shares	1,479	20	September 30, 2016	November 28, 2016	Retained earnings
Total	—	2,810	—	—	—	—

(2) Dividends with a record date in the fiscal year ended March 31, 2017 and an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
June 23, 2017 Annual Shareholders Meeting	Ordinary shares	1,479	20	March 31, 2017	June 26, 2017	Retained earnings

For the fiscal year ended March 31, 2018

(1) Cash dividends paid

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
June 23, 2017 Annual Shareholders Meeting	Ordinary shares	1,479	20	March 31, 2017	June 26, 2017	Retained earnings
November 6, 2017 Board of Directors	Ordinary shares	1,553	21	September 30, 2017	November 27, 2017	Retained earnings
Total	—	3,032	—	—	—	—

(2) Dividends with a record date in the fiscal year ended March 31, 2018 and an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
June 22, 2018 Annual Shareholders Meeting	Ordinary shares	1,627	22	March 31, 2018	June 25, 2018	Retained earnings

For the fiscal year ended March 31, 2018

(1) Cash dividends paid

Resolution	Class of shares	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 23, 2017 Annual Shareholders Meeting	Ordinary shares	13,923	0.19	March 31, 2017	June 26, 2017	Retained earnings
November 6, 2017 Board of Directors	Ordinary shares	14,619	0.20	September 30, 2017	November 27, 2017	Retained earnings
Total	—	28,542	—	—	—	—

(2) Dividends with a record date in the fiscal year ended March 31, 2018 and an effective date in the following fiscal year

Resolution	Class of shares	Total dividends (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)	Record date	Effective date	Source of dividends
June 22, 2018 Annual Shareholders Meeting	Ordinary shares	15,315	0.21	March 31, 2018	June 25, 2018	Retained earnings

28. Financial Instruments

Financial assets measured at fair value through profit or loss are referred to as “FVTPL financial assets,” financial assets measured at fair value through other comprehensive income are referred to as “FVTOCI financial assets,” and financial liabilities measured at fair value through profit or loss are referred to as “FVTPL financial liabilities.”

(1) Disclosure of fair value
(a) Fair value and carrying amount

The carrying amount and fair value of long-term loans payable (including the current portion) are as follows.

Since financial instruments measured at amortized cost are settled within the short term and the carrying amount reasonably approximates to the respective fair value, they are not included in the table below.

Financial instruments measured at fair value on a recurring basis are also not included in the table below, because the fair value equals the respective carrying amount.

	Millions of yen				Thousands of U.S. dollars	
	2017		**2018**		**2018**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans payable	561	562	—	—	—	—

The fair value is calculated based on the present value by discounting the sum of the principal and interest at the interest rate assumed for a new similar borrowing.

(b) Measurement of fair value

With respect to financial instruments measured at fair value, the fair value is classified into Level 1 to Level 3 based on the observability and significance of the inputs used for measurement.

Level 1: Quoted prices in active markets for identical assets or liabilities (no adjustment)
Level 2: Fair value calculated using an observable price other than quoted prices in Level 1, either directly or indirectly
Level 3: Fair value calculated using valuation techniques including unobservable inputs

“Derivatives (assets),” “equity instruments,” and “derivatives (liabilities)” referred to in the table below are included in “other financial assets (current),” “other financial assets (non-current),” “other financial liabilities (current)” and “other financial liabilities (non-current)” in the consolidated statement of financial position, respectively.

As of March 31, 2017

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTPL financial assets				
Derivatives	—	62	—	62
FVTOCI financial assets				
Equity instruments	5,116	—	225	5,341
Total	5,116	62	225	5,403
Liabilities:				
FVTPL financial liabilities				
Derivatives	—	3	—	3
Total	—	3	—	3

As of March 31, 2018

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTPL financial assets				
Derivatives	—	60	—	60
FVTOCI financial assets				
Equity instruments	5,538	—	226	5,764
Total	5,538	60	226	5,824
Liabilities:				
FVTPL financial liabilities				
Derivatives	—	1,362	—	1,362
Total	—	1,362	—	1,362

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Assets:				
FVTPL financial assets				
Derivatives	—	561	—	561
FVTOCI financial assets				
Equity instruments	52,126	—	2,131	54,257
Total	52,126	561	2,131	54,818
Liabilities:				
FVTPL financial liabilities				
Derivatives	—	12,824	—	12,824
Total	—	12,824	—	12,824

There was no transfer of assets or liabilities between levels of the fair value hierarchy during each period presented.

Financial instruments classified as Level 2 are forward exchange contracts etc. The fair value of forward exchange contracts etc. is calculated using the quoted price presented by the relevant financial institutions, etc.

Main financial instruments classified as Level 3 are shares of Japanese unlisted companies. The fair value of unlisted shares is calculated using the comparable listed company analysis method (a method to calculate multipliers of various financial indicators relative to the market share prices of comparable listed companies and add necessary adjustments to such multipliers) based on market approaches. An unobservable input for the measurement of fair value of financial assets classified in Level 3 is a price-earnings ratio, and in the calculation using the comparable listed company analysis method, the Company continuously makes comparisons with multiple comparable listed companies as well as takes into account illiquidity discounts.

(2) Disclosure of risks

(a) Market risk

(i) Foreign currency exchange rate risk

The Group operates business activities on a global scale and conducts buying and selling transactions in foreign currencies. As a result, the Group has financial instruments denominated in foreign currencies other than functional currencies. Therefore, fluctuations in exchange rates have an impact on the performance of the Group, and such financial instruments are exposed to the foreign currency exchange rate risk, mainly the exchange rate between the U.S. dollar and Japanese yen.

For the purpose of reducing the foreign currency exchange rate risk associated with trade receivables and payables denominated in foreign currencies, the Group, in principle, uses foreign currency forward exchange contracts for exchange fluctuation risks that have been monitored according to each currency and on a monthly basis. The execution and management of foreign currency forward exchange contracts are conducted in accordance with the internal management rules that provide transaction authority, etc., and contents of such transactions are reported to a director in charge of risk management on a case-by-case basis.

If the Japanese yen appreciates by 10% against the U.S. dollar at the fiscal year-end, effects on profit before tax are as follows. Such effects include the effects of foreign currency forward exchange contracts entered into to reduce the foreign currency exchange rate risk. In such analysis, it is assumed that variables other than the exchange rate between the U.S. dollar and Japanese yen are fixed. However, in fact, they do not always change independently.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Profit before tax	(83)	**(224)**	**(2,108)**

(ii) Price fluctuation risk of equity instruments

The Group has equity instruments, such as shares of listed companies with whom the Group maintains business relationships, and the prices thereof are exposed to market price fluctuation risk. Since these instruments are designated as FVTOCI financial assets in view of the holding purpose, the fluctuation of the prices thereof affects other comprehensive income, not profit or loss.
The current fair value of the equity instruments and the financial status of issuers are assessed regularly, and the changes in holding status and fair value are reported to a director in charge of risk management.

If the market value of these instruments declines 10% at the fiscal year-end, the impact on other comprehensive income (before the tax effects) is as follows. In such analysis, it is assumed that variables other than market prices remain fixed. However, in fact, they do not always change independently.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Other comprehensive income (loss) (before tax effects)	(512)	**(554)**	**(5,213)**

(iii) Interest rate risk

The Group procures funds for working capital through interest-bearing debt. However, the payment of interest has a minimal impact on the performance of the Group.

(b) Credit risk

Most of the receivables arising from operating activities are with Honda Motor Co., Ltd. and its group companies, and are exposed to the credit risk of said group. However, the credit risk is limited as the level of creditworthiness is high.
At the Group, the division that manages operations administers the due date and balance of trade receivables of each counterparty and assesses the credit standing, etc., of major counterparties in accordance with the “Credit Management Rules” in order to reduce credit risk.
Derivatives are exposed to the credit risk of the counterparty financial institutions. The Group enters into derivative transactions only with financial institutions that have high credit ratings. Therefore, the credit risk on such transactions is limited.
The carrying amount of financial assets, net of impairment losses, recorded in the consolidated statement of financial position is the maximum exposure to credit risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet maturity dates of its repayment obligations for financial liabilities that become due.
The Group manages liquidity risk through the cash management plan prepared and updated by the financial division of each group company on a timely basis and by maintaining the level of liquidity at hand.

The balances of financial liabilities (including guarantee obligations) by maturity date are as follows. The financial liabilities included in “trade and other payables” in the consolidated statement of financial position are not included in the table below, as they are all current liabilities and their contractual amount equals their carrying amount. Guarantee obligations are included in the earliest possible period in which the maximum amount of guarantee obligations may be demanded.

As of March 31, 2017

	Millions of yen							
	Carrying amount	Contractual amount	Within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
Loan	8,590	8,598	8,598	—	—	—	—	—
Other financial liabilities								
Derivatives	3	3	3	—	—	—	—	—
Lease obligations	917	925	831	35	25	25	8	—
Guarantee obligations	—	212	212	—	—	—	—	—
Total	9,510	9,739	9,645	35	25	25	8	—

As of March 31, 2018

	Millions of yen							
	Carrying amount	Contractual amount	Within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
Loans	**6,786**	**6,786**	**6,786**	—	—	—	—	—
Other financial liabilities								
Derivatives	**1,362**	**1,362**	**172**	**249**	**249**	**249**	**249**	**193**
Lease obligations	**429**	**434**	**367**	**33**	**25**	**8**	—	—
Guarantee obligations	—	**193**	**193**	—	—	—	—	—
Total	**8,577**	**8,775**	**7,518**	**282**	**274**	**257**	**249**	**193**

	Thousands of U.S. dollars							
	Carrying amount	Contractual amount	Within 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	Over 5 years
Loans	**63,878**	**63,878**	**63,878**	—	—	—	—	—
Other financial liabilities								
Derivatives	**12,823**	**12,823**	**1,621**	**2,346**	**2,346**	**2,346**	**2,346**	**1,818**
Lease obligations	**4,037**	**4,086**	**3,453**	**315**	**238**	**79**	—	—
Guarantee obligations	—	**1,815**	**1,815**	—	—	—	—	—
Total	**80,739**	**82,602**	**70,767**	**2,661**	**2,584**	**2,426**	**2,346**	**1,818**

29. Capital Management

The Group manages capital aiming to maximize corporate value through sustainable growth. To achieve this objective, the Group's basic policy for capital management is to secure sufficient equity for the implementation of agile business investments and to maintain financially sound equity structures.

The important indicator for capital management is the equity ratio as stated below. The amount of capital represents "total equity interests attributable to owners of the parent," and the equity ratio is calculated by dividing said amount by "total liabilities and equity."

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Capital	170,420	**184,512**	**1,736,743**
Total liabilities and equity	266,851	**283,711**	**2,670,474**
Equity ratio	63.9%	**65.0%**	—

There is no significant externally imposed capital requirement.

30. Changes in liabilities arising from financing activities

For the fiscal year ended March 31, 2017

	Millions of yen			
	As of April 1, 2016	Cash flows	Non-cash changes (foreign exchange fluctuations)	As of March 31, 2017
Short-term loans	9,420	(1,255)	(136)	8,029
Long-term loans (Note)	1,127	(544)	(21)	561

For the fiscal year ended March 31, 2018

	Millions of yen			
	As of April 1, 2017	Cash flows	Non-cash changes (foreign exchange fluctuations)	As of March 31, 2018
Short-term loans	**8,029**	**(889)**	**(354)**	**6,786**
Long-term loans (Note)	**561**	**(554)**	**(7)**	—

	Thousands of U.S. dollars			
	As of April 1, 2017	Cash flows	Non-cash changes (foreign exchange fluctuations)	As of March 31, 2018
Short-term loans	**75,577**	**(8,370)**	**(3,330)**	**63,878**
Long-term loans (Note)	**5,280**	**(5,210)**	**(70)**	—

(Note) Long-term loans include long-term loans scheduled to be repaid within one year.

31. Related Parties

(1) Transactions with related parties

The major transactions between the Group and related parties are as follows:

For the fiscal year ended March 31, 2017

Type	Name of related parties	Content of transactions	Millions of yen: Transaction amount	Millions of yen: Outstanding balance
A company with significant influence on the Company	Honda Motor Co., Ltd.	Sales of products, such as fuel injection system, etc.	39,192	6,068
		Purchase of raw materials, etc.	785	145
Other related party	Honda of America Manufacturing, Inc.	Sales of products, such as fuel injection system, etc.	38,939	2,643
Other related party	Dongfeng Honda Engine Co., Ltd.	Sales of products, such as fuel injection system, etc.	32,444	7,347

For the fiscal year ended March 31, 2018

Type	Name of related parties	Content of transactions	Millions of yen	
			Transaction amount	Outstanding balance
A company with significant influence on the Company	Honda Motor Co., Ltd.	Sales of products, such as fuel injection system, etc.	**51,128**	**9,183**
		Purchase of raw materials, etc.	**742**	**138**
Other related party	Honda of America Manufacturing, Inc.	Sales of products, such as fuel injection system, etc.	**36,137**	**2,466**
Other related party	Dongfeng Honda Engine Co., Ltd.	Sales of products, such as fuel injection system, etc.	**35,415**	**4,899**

Type	Name of related parties	Content of transactions	Thousands of U.S. dollars	
			Transaction Amount	Outstanding balances
A company with significant influence on the Company	Honda Motor Co., Ltd.	Sales of products, such as fuel injection system, etc.	**481,248**	**86,435**
		Purchase of raw materials, etc.	**6,985**	**1,300**
Other related party	Honda of America Manufacturing, Inc.	Sales of products, such as fuel injection system, etc.	**340,141**	**23,208**
Other related party	Dongfeng Honda Engine Co., Ltd.	Sales of products, such as fuel injection system, etc.	**333,350**	**46,110**

(2) Management personnel compensation

The total amount of personnel compensation for directors and corporate auditors of the Company is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Base compensation and bonus	(320)	**(355)**	**(3,344)**

32. Contingent Liabilities

The Group guarantees bank loans held by employees who belong to the Honda Housing Mutual Aid Society to honor the right to demand compensation, based on guarantee and indemnification agreements entered into Honda Motor Co., Ltd. In addition, the Group guarantees bank loans held by employees of the Company and its consolidated subsidiaries under the earthquake housing loan program. Guarantee obligations are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Honda Housing Mutual Aid Society	204	**185**	**1,746**
Earthquake housing loan program	9	**7**	**69**
Total	212	**193**	**1,815**

33. Subsequent Event

Not applicable.

34. Commitments

Contractual commitments for the acquisition of property, plant and equipment and intangible assets are as follows.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Acquisition of property, plant and equipment and intangible assets	—	**1,609**	**15,145**

35. Composition of the Group

(1) Composition of the Group

The composition of the Group is as follows. The Group does not have any associates.

Reporting segment	Number of companies	
	2017	**2018**
Japan	11	**11**
Americas	8	**7**
Asia	11	**10**
China	4	**4**
Total	34	**32**

(2) Subsidiaries

The consolidated subsidiaries of the Group are as follows. The Group does not have any subsidiaries with significant non-controlling interests.

Company name	Location	Reporting segment	Ownership interests *1	
			2017	2018
Keihin Sakura Corporation	Miyagi Prefecture	Japan	100.00%	100.00%
Keihin Nasu Corporation	Tochigi Prefecture	Japan	100.00%	100.00%
Keihin Watari Corporation	Miyagi Prefecture	Japan	100.00%	100.00%
Keihin Electronics Technology, Inc.	Miyagi Prefecture	Japan	100.00%	100.00%
Keihin Valve Corporation	Kanagawa Prefecture	Japan	51.00%	51.00%
Keihin Thermal Technology Corporation	Tochigi Prefecture	Japan	100.00%	100.00%
Keihin-Grand Ocean Thermal Technology (Dalian) Co., Ltd.	China	Japan	55.00%	55.00%
Keihin Thermal Technology Czech, s.r.o.	Czech Republic	Japan	100.00%	100.00%
Keihin Europe Ltd.	United Kingdom	Japan	100.00%	100.00%
Keihin Sales and Development Europe GmbH	Germany	Japan	100.00%	100.00%
Keihin North America, Inc.	U.S.A.	Americas	75.10%	75.10%
Keihin Carolina System Technology, LLC.	U.S.A.	Americas	75.10% (100.00%)	75.10% (100.00%)
Keihin Aircon North America, Inc. *2	U.S.A.	Americas	75.10% (100.00%)	—

Company name	Location	Reporting segment	Ownership interests *1	
			2017	2018
Keihin IPT Mfg, LLC.	U.S.A.	Americas	75.10% (100.00%)	75.10% (100.00%)
Keihin Michigan Manufacturing, LLC.	U.S.A.	Americas	75.10% (100.00%)	75.10% (100.00%)
Keihin Thermal Technology of America, Inc.	U.S.A.	Americas	100.00%	100.00%
Keihin de Mexico S.A. de C.V.	Mexico	Americas	100.00%	100.00%
Keihin Tecnologia do Brasil Ltda.	Brazil	Americas	75.28%	75.28%
Keihin Asia Bangkok Co., Ltd.	Thailand	Asia	100.00%	100.00%
Keihin (Thailand) Co., Ltd.	Thailand	Asia	57.02%	57.02%
Keihin Auto Parts (Thailand) Co., Ltd.	Thailand	Asia	85.00%	85.00%
Keihin Thermal Technology (Thailand) Co., Ltd.	Thailand	Asia	97.50%	97.50%
PT Keihin Indonesia	Indonesia	Asia	100.00%	100.00%
Keihin India Manufacturing Pvt. Ltd.	India	Asia	100.00%	100.00%
Keihin FIE Pvt. Ltd.	India	Asia	74.00%	74.00%
Keihin Automotive Systems India Pvt. Ltd. *3	India	Asia	100.00%	—
Keihin Vietnam Co., Ltd.	Vietnam	Asia	100.00%	100.00%
Keihin Malaysia Manufacturing SDN. BHD.	Malaysia	Asia	100.00%	100.00%
Taiwan Keihin Carburetor Co., Ltd.	Taiwan	Asia	51.00%	51.00%
Nanjing Keihin Carburetor Co., Ltd.	China	China	100.00%	100.00%
Dongguan Keihin Engine Management System Co., Ltd.	China	China	100.00%	100.00%
Keihin R&D China Co., Ltd.	China	China	100.00%	100.00%
Keihin (Wuhan) Automotive Components Co., Ltd.	China	China	100.00%	100.00%

*1 If the ratio of ownership interests and the ratio of voting rights of the Group are different, the ratio of voting rights is stated in parentheses.

*2 Keihin Aircon North America, Inc. was merged with Keihin IPT Mfg., LLC. in April 2017. The surviving company is Keihin IPT Mfg., LLC.

*3 Keihin Automotive Systems India Pvt. Ltd. was merged with Keihin India Manufacturing Pvt. Ltd. in June 2017. The surviving company is Keihin India Manufacturing Pvt. Ltd.

(3) Changes in Ownership Interests

For the fiscal year ended March 31, 2017

Not applicable

For the fiscal year ended March 31, 2018

Not applicable

Building a better
working world

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Independent Auditor's Report

The Board of Directors
Keihin Corporation

We have audited the accompanying consolidated financial statements of Keihin Corporation and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended and the notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Keihin Corporation and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shinnihon LLC

June 22, 2018

Corporate Data (As of March 31, 2018)

Keihin Corporation

Corporate Data

Established	December 19, 1956
Capital	6,932 million yen
Fiscal Year-End	March 31
Number of associates	22,371 (Consolidated), 3,719 (Non-Consolidated)
Independent Auditors	Ernst & Young ShinNihon LLC
Head Office	Shinjuku Nomura Bldg. 39F, 1-26-2, Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-0539, Japan
Home Page	https://www.keihin-corp.co.jp/english

Stock Information

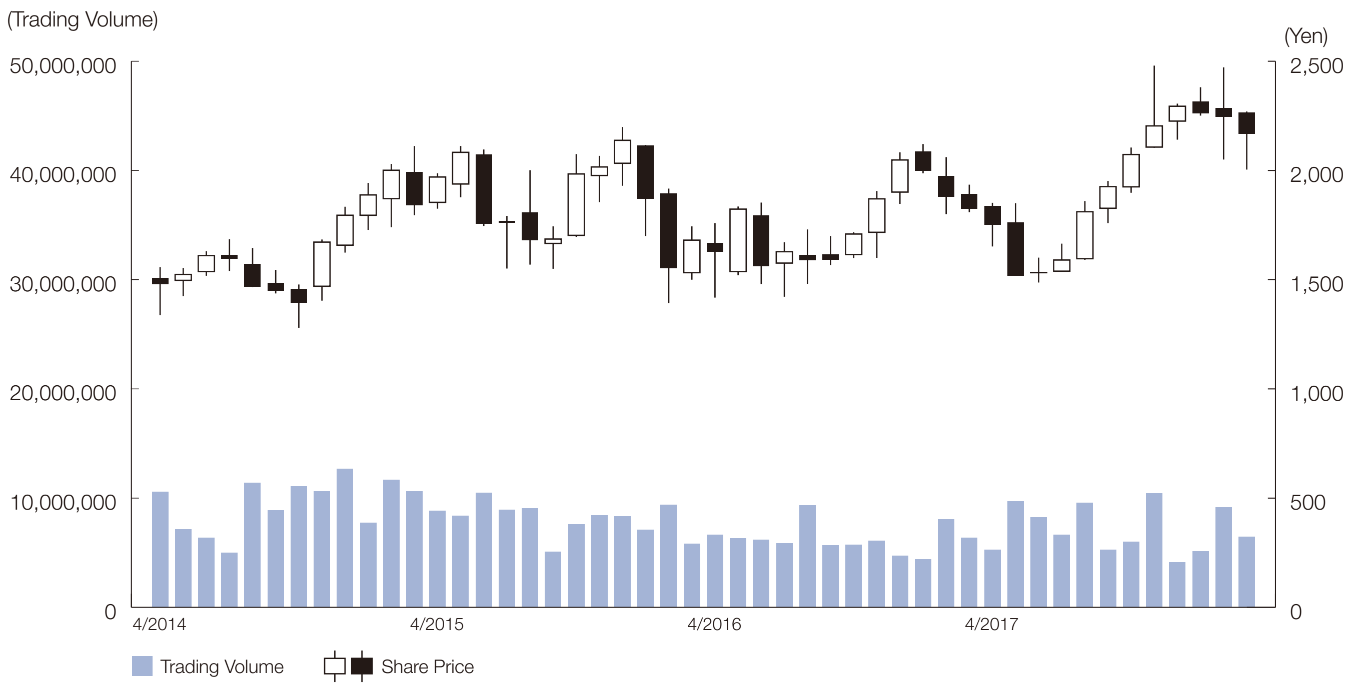
Number of Shares Authorized	240,000,000 shares
Total Number of Shares Issued	73,985,246 shares
Number of Shareholders	4,342
Stock Listing	Tokyo Stock Exchange
General Meeting of Shareholders	June
Share Registrar	Mitsubishi UFJ Trust and Banking Corporation 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

Principal Shareholders

	Number of shares held (Thousands)	Percentage of total shares outstanding (%)
HONDA MOTOR CO., LTD.	30,581	41.35
JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT)	2,477	3.35
THE MASTER TRUST BANK OF JAPAN, LTD. (TRUST ACCOUNT)	2,064	2.79
MUFG BANK, LTD.	1,938	2.62
STATE STREET BANK AND TRUST COMPANY	1,369	1.85
STATE STREET BANK AND TRUST COMPANY 505103	1,244	1.68
DFA INTERNATIONAL SMALL CAP VALUE PORTFOLIO	996	1.35
THE BANK OF NEW YORK MELLON 140044	909	1.23
JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT 5)	877	1.19
KEIHIN CORPORATION CLIENT STOCK OWNERSHIP ASSOCIATION	835	1.13

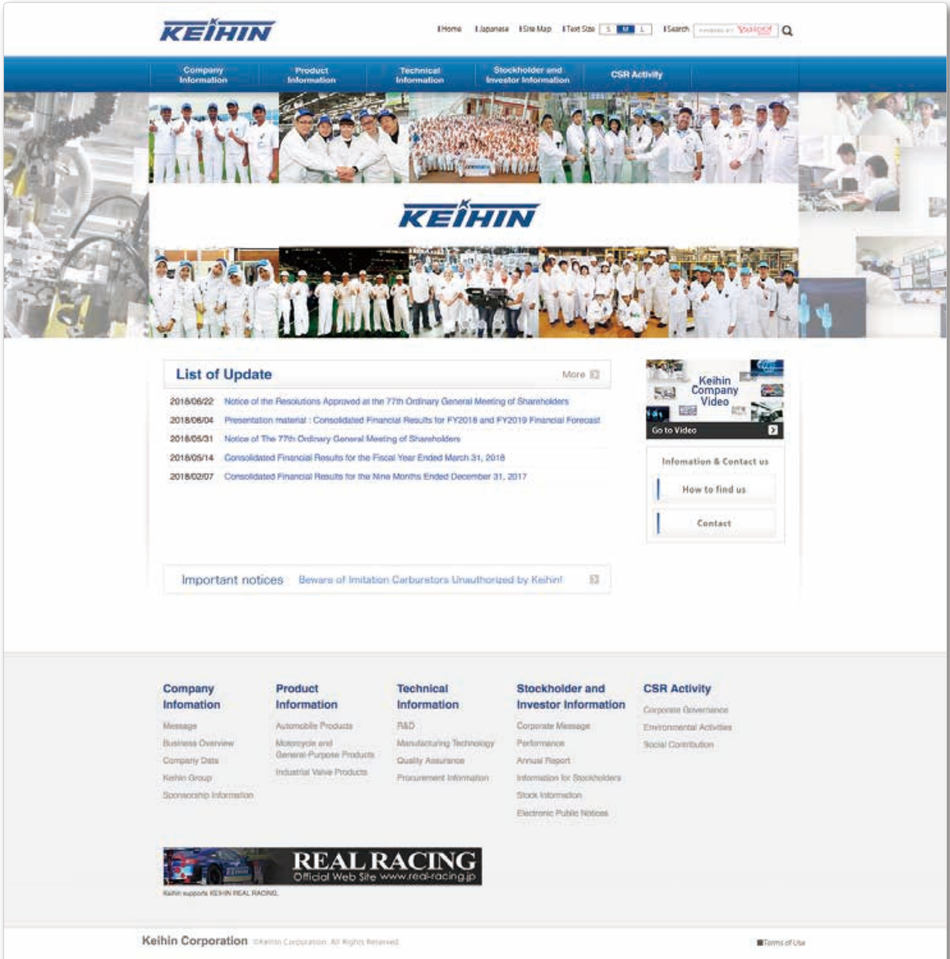
Note: The percentage of total shares outstanding is calculated after deducting treasury shares (26,851).

Share Price and Trading Volume



Corporate Data (As of March 31, 2018)

Keihin Corporation Website



http://www.keihin-corp.co.jp/english/

Keihin's CSR page

http://www.keihin-corp.co.jp/english/activity/index.html

Keihin's environmental report

http://www.keihin-corp.co.jp/english/activity/environment_report.html

KEIHIN

change the future

Our Conviction Built into Each Product

Although the parts we produce for cars and motorcycles are very small,

we believe that their continuous evolution has the potential to change not only the industry,

but also the world itself.

We are confident of contributing to a better future through our constant

challenge to create new value.