

# FY2017 1<sup>st</sup> Quarter Financial Results ended June 30, 2016

July 29, 2016

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**1. Despite production volume increase and the growth in sales, revenue and operating profit decreased due to appreciation of the Yen.**

**2. Downward revision to the first-half and full-year forecast due to appreciation of the Yen.**

# FY2017 1<sup>st</sup> Quarter Financial Results

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		FY17 1Q	FY16 1Q	Change	
<b>Revenue</b>		<b>1,092.8</b>	1,106.0	-13.2	-1.2%
<b>Operating Profit</b> ( Excludes other income/ expenses)	(6.8%)	<b>74.6</b>	(7.9%) 87.2	-12.6	-14.4%
Other income/expenses		-7.4	-0.5	-6.9	
<b>Operating Profit</b>	(6.1%)	<b>67.2</b>	(7.8%) 86.7	-19.5	-22.5%
Finance income/ costs & others(*1)		7.8	20.4	-12.5	
<b>Profit before Income Taxes</b>	(6.9%)	<b>75.0</b>	(9.7%) 107.0	-32.0	-29.9%
<b>Profit (*2)</b>	(4.2%)	<b>46.1</b>	(6.7%) 73.9	-27.8	-37.6%

(Unit:Millions of Units)

Precondition	Foreign Exchange Rate	JPY	108/\$	JPY	121/\$	-13 JPY	
		JPY	122/Euro	JPY	134/Euro	-12 JPY	
	Domestic Car Production		2.05		2.09	-0.04	-1.8%
	Overseas Car Production of Japanese Manufacturers (North America)		4.85 (1.62)		4.54 (1.61)	+0.31 (+0.01)	+6.9% (+0.7%)

※1 Finance income, Finance costs, Foreign exchange gains/loss, Share of the profit of associates accounted for using the equity method

※2 Profit attributable to owners of the parent company

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## [Overview of the consolidated financial results]

We posted revenue of 1,092.8 billion yen, down 13.2 billion yen from the previous year, equivalent to annual revenue decline of 1.2%.

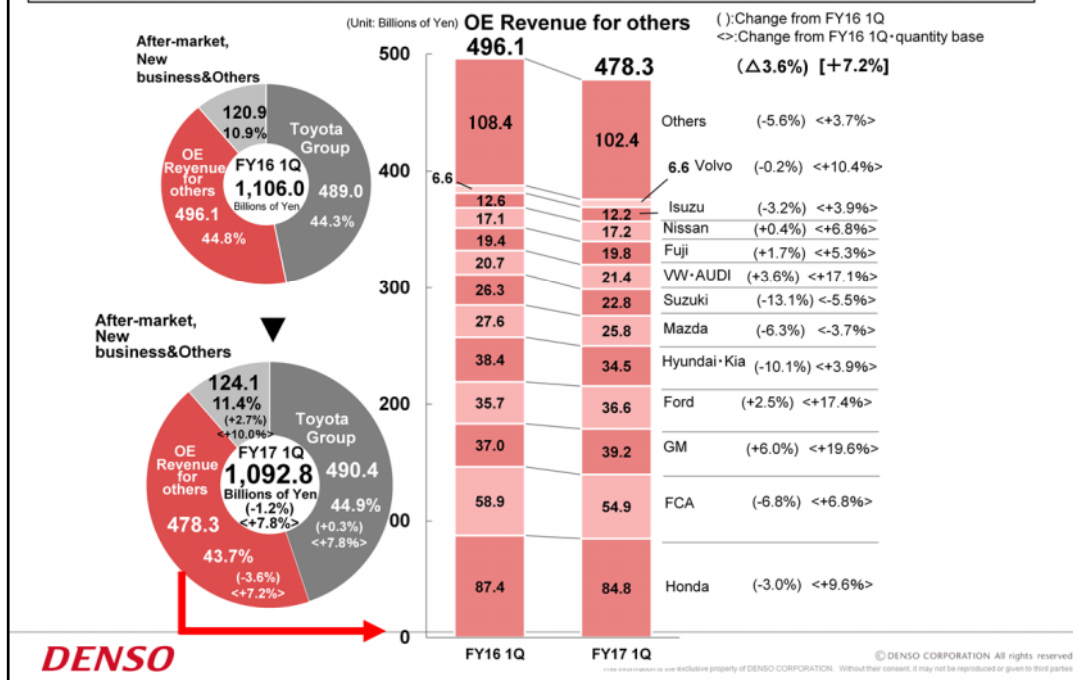
Operating profit (excludes other income/ expenses) reached 74.6 billion yen, 12.6 billion yen lower than a year, down 14.4% from the previous year.

We earned profit attributable to owners of the parent company of 46.1 billion yen, down 27.8 billion yen, which is 37.6% decrease, from a year earlier.

## FY2017 1st Quarter Consolidated Revenue(By Customer)

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Revenue decreased due to Currency exchange losses despite increase of Vehicle production and Sales expansion in overseas market.



[Sales by customer](Quantity base)

### Sales to the Toyota Group

Despite the production decrease mainly due to compact cars, domestic production volume increased as a whole.

Overseas production level also increased mainly in North America and China and due to the growth in sales of active safety products in North America.

### Sales to non-Toyota Group companies

Honda: Sales increased due to production volume increase and growth in sales in Asia and North America.

### Sales to overseas automakers

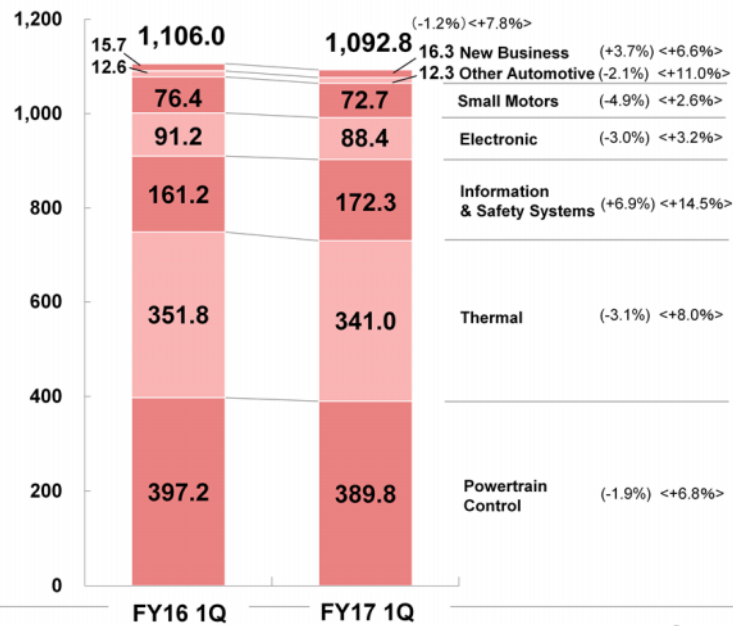
- 1)FCA(Fiat Chrysler Automobiles): Sales increased due to production volume increase in Europe on the top of sales expansion in air conditioners.
- 2)GM: Sales increased due to production volume increase in North America and the sales expansion of air conditioners and diesel common rail system in Europe.

## FY2017 1st Quarter Consolidated Revenue ( By Product)

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(Unit: Billions of Yen)

( ) : Change from FY16 1Q  
<> : Change from FY16 1Q · quantity base



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[Sales by product] (Quantity base)

### Sales of Powertrain Control products

Sales increased due to production volume increase in Europe and Asia.

### Sales of Thermal products

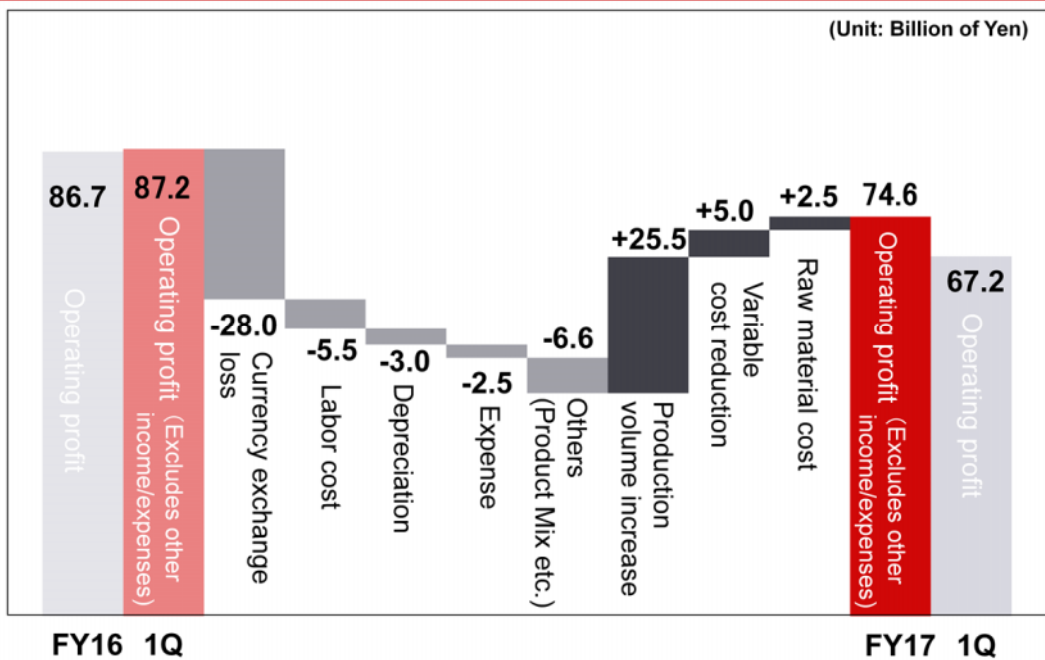
Sales increased in Europe and China due to the production volume increase in addition to the sales expansion of air conditioners.

### Sales of Information & Safety Systems

Sales increased due to production volume increase in Japan and North America as well as growth in sales of active safety products.

## Change in 1<sup>st</sup> Quarter Operating Profit

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[Factors that contributed to increases or decreases in operating profit(excludes other income/expenses)]

### **Negative factors**

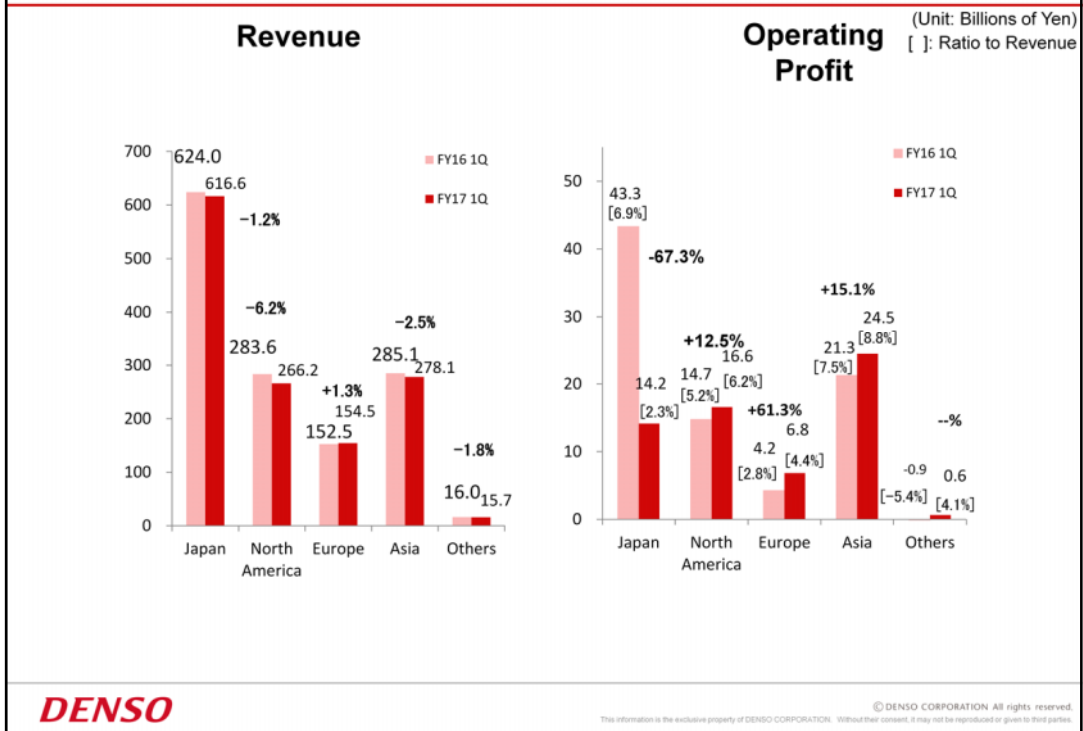
- 1) Appreciation of yen: An increase of 28.0 billion yen was due to the impact of the strong yen, which is 13 yen higher against US dollar and 12 yen higher against Euro.
- 2) Higher labor cost: An increase of 5.5 billion yen was due to an increase of salaries in emerging countries.
- 3) Higher depreciation cost: An increase of 3.0 billion yen was due to an increase in investment costs overseas for new products mainly in Asia.

### **Positive factors**

- 1) Production volume increase: An increase of 25.5 billion yen was due to production volume increase and sales expansion.
- 2) Variable cost reduction: An increase of 5.0 billion yen was due to increased productivity and other efficiencies.

# 1st Quarter Geographical Segments by Company Location

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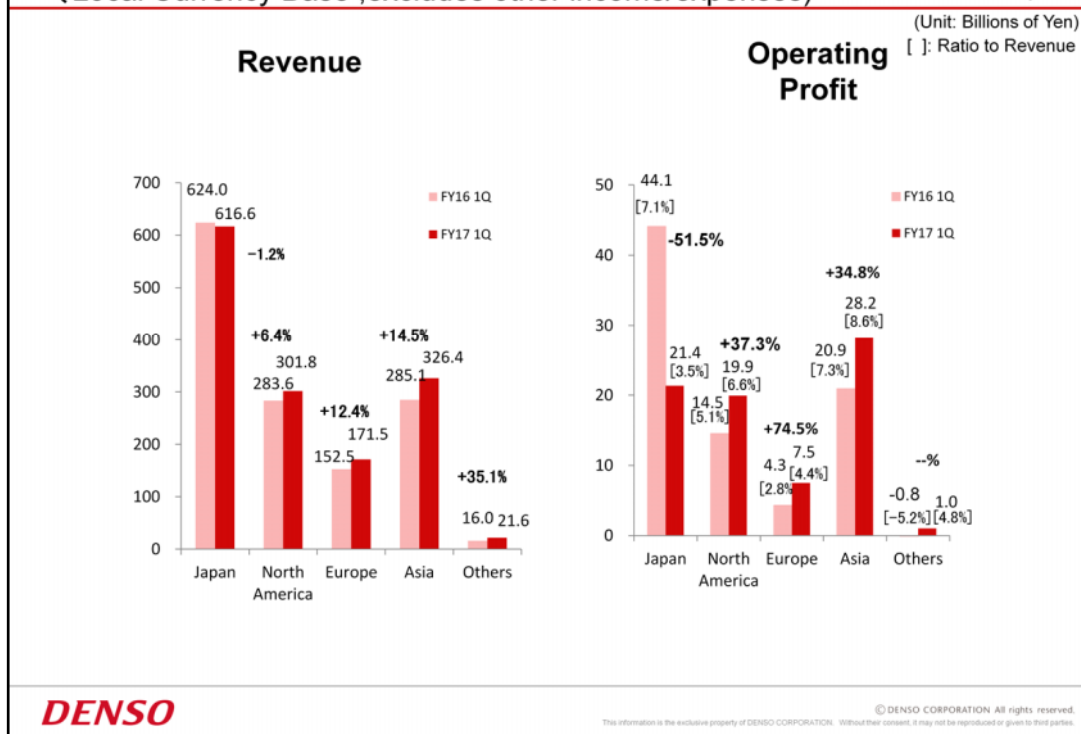


[Revenue and operating profit by operating region]

\* Based on Japanese yen

1<sup>st</sup> Quarter Geographical Segments by Company Location  
(Local Currency Base ,excludes other income/expenses)

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[Revenue and operating profit by operating region]

\* Excluding the effect of foreign exchange rates and other income / expenses.

### Japan

- Despite the production volume increase and growth in sale mainly in export sales, impact of the exchange rate led to a decrease in revenue by 1.2% from the previous year.
- Operating profit diminished by 51.5% from the previous year due to the increase in R&D cost in addition to the impact of the exchange rate.

This R&D cost is for future growth in active safety products and will help us accelerate our business expansion in this field.

### Overseas

- Revenue and profit increased in North America, Europe and Asia.



# FY2017 1st Half Financial Forecast

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(Ratio to Revenue) (Unit: Billions of Yen)

	FY17 2Q YTD Original	FY17 2Q YTD Revised	FY16 2Q YTD	Change	
<b>Revenue</b>	2,200.0	<b>2,170.0</b>	2,228.5	-58.5	-2.6%
<b>Operating Profit</b> (Excludes other income/ expenses)	(6.0%) 133.0	<b>(5.8%) 125.0</b>	(7.5%) 167.2	-42.2	-25.2%
Other income/ expenses	0.0	<b>2.0</b>	Δ 19.2	21.2	
<b>Operating Profit</b>	(6.0%) 133.0	<b>(5.9%) 127.0</b>	(6.6%) 148.0	-21.0	-14.2%
Finance income/ costs & others(※1)	15.0	<b>9.0</b>	18.8	-9.8	
<b>Profit before Income Taxes</b>	(6.7%) 148.0	<b>(6.3%) 136.0</b>	(7.5%) 166.8	-30.8	-18.5%
<b>Profit</b> (※2)	(4.6%) 102.0	<b>(4.0%) 86.0</b>	(5.1%) 113.0	-27.0	-23.9%

(Unit: Millions of Units)

Precondition	Foreign Exchange Rate	JPY 110/\$	JPY 107/\$	JPY 122/\$	-15 JPY	
		JPY 125/Euro	JPY 119/Euro	JPY 135/Euro	-17 JPY	
Domestic Car Production		4.52	4.28	4.32	-0.03	-0.8%
Overseas Car Production of Japanese Manufacturers (North America)		9.53	9.71	9.27	+0.44	+4.8%
		(3.19)	(3.15)	(3.13)	(+0.02)	(+0.7%)

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※2 Profit attributable to owners of the parent company

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## [1st Half financial forecast]

Considering the appreciation of the yen, we expect revenue to be 2,170.0 billion yen, operating profit (excludes other income/ expenses) to be 125.0 billion yen.

This forecast is based on the currency rate of 107 yen to the dollar and 119 yen to the euro. Car production volume of Japanese manufacturers will be 4.28 million in domestic and 9.71 million in Overseas.

# FY2017 Financial Forecast

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		(Ratio to Revenue)			(Unit: Billions of Yen)	
		FY17 Original	FY17 Revised	FY16	Change	
<b>Revenue</b>		4,500.0	<b>4,400.0</b>	4,524.5	-124.5	-2.8%
<b>Operating Profit</b> (Excludes other income/ expenses)	(7.0%)	313.0	<b>282.0</b>	365.2	-83.2	-22.8%
Other income/ expenses		0.0	<b>2.0</b>	△ 49.5	51.5	
<b>Operating Profit</b>	(7.0%)	313.0	<b>284.0</b>	(7.0%) 315.7	-31.7	-10.0%
Finance income/ costs & others(※1)		29.0	<b>26.0</b>	31.6	-5.6	
<b>Profit before Income Taxes</b>	(7.6%)	342.0	<b>310.0</b>	(7.7%) 347.3	-37.3	-10.7%
<b>Profit</b> (※2)	(5.2%)	235.0	<b>203.0</b>	(5.4%) 244.3	-41.3	-16.9%

		(Unit: Millions of Units)					
Precondition	Foreign Exchange Rate	JPY 110/\$	JPY 106/\$	JPY 120/\$			
			JPY 125/Euro	JPY 117/Euro	JPY 133/Euro		
	Domestic Car Production	9.38	9.14	8.93		+0.21	+2.4%
	Overseas Car Production of Japanese Manufacturers (North America)	19.49	19.67	18.75		+0.92	+4.9%
		(6.48)	(6.45)	(6.26)		(+0.19)	(+3.0%)

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※2 Profit attributable to owners of the parent company

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## [Full-year financial forecast]

Considering the appreciation of the yen, we expect revenue to be 4,400.0 billion yen, operating profit (excludes other income/ expenses) to be 282.0 billion yen.

This forecast is based on the currency rate of 106 yen to the dollar and 117 yen to the euro. Car production volume of Japanese manufacturers will be 9.14 million in domestic and 19.67 million in Overseas.

Due to the impact of foreign exchange rate, we expect revenue and operating income to decrease in FY 2017. However, towards FY 2019, which is the final year of our mid-term policy, we will focus on establishing leaner corporate structures, for example by company-wide productivity improvement, to increase profitability to cope with the changes in the external environment while continuing active release of new products and new production technologies.

### ■ Policy of shareholders return

DENSO intends to allocate retained earnings not only to the capital investment, R&D investment and M&A required to maintain Long-term business development but also to,

1. Improvement of the dividend level stably on an ongoing basis by comprehensively taking into account the consolidated operating results, the payout ratio and the amount of dividends.
2. The acquisition of own shares while paying attention to the status of funds and market condition.



A resolution was adopted at the board of directors meeting held today, July 29<sup>th</sup>, to **acquire own shares**.

- Purpose of the stock purchase:  
To increase returns to shareholders and improve capital efficiency.
- Total number of shares to be purchased:  
Up to 8 million shares or 30,000 million yen

- Resolution was adopted to cancel 90 million of its own shares.

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### [Return to Shareholders]

Based on our policy of shareholders return, to increase returns to shareholders and improve capital efficiency, a resolution was adopted at the board of directors meeting held on July 29<sup>th</sup> to acquire own shares. Total number of shares to be purchased is up to 8 million shares or 30,000 million yen. A resolution was also adopted to cancel 90 million of its own shares.

We will continue to enhance corporate value and further profit return by dividend and acquisition of own shares to our shareholders.



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## Appendix

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- Non-Consolidated Financial Results
- Pre-Conditions (Foreign Exchange Rate/Car Production)
- Consolidated Revenue by Customer
- Consolidated Revenue by Product
- Trend of Capital Expenditures, Depreciation and R&D Expenditures
- Capital Expenditures, Depreciation, and R&D Expenditures

Income Statements(Japanese accounting standards)

Account	(Ratio to Sales)				(Unit: Billions of Yen,%)	
	FY17 1Q		FY16 1Q		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	( 100.0 )	5,684.0	( 100.0 )	5,725.0	-41.0	-0.7
Operating Income	( 1.6 )	90.0	( 6.3 )	359.0	-269.0	-75.0
Income Before Income Taxes	( 6.7 )	380.0	( 11.9 )	683.0	-302.0	-44.3
Net Income	( 5.6 )	321.0	( 9.9 )	565.0	-244.0	-43.2

# Pre-Conditions (Foreign Exchange Rate/Car Production)

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		FY2017 First-Half								FY2017 Second-Half				FY2017 Full Year			
		1Q															
		Prior Year	Actual	Change	Prior Year	Forecast (Original)	Forecast (Revised)	Change	Prior Year	Forecast (Original)	Forecast (Revised)	Change	Prior Year	Forecast (Original)	Forecast (Revised)	Change	
Foreign Exchange Rate (Yen)	USD	121	108	- 13	122	110	107	- 15	118	110	105	- 13	120	110	106	- 14	
	EUR	134	122	- 12	135	125	119	- 17	130	125	115	- 15	133	125	117	- 16	
Forex Impact on Operating Income per Yen (Billions of Yen)	USD												2.0	2.0	2.5	-0.5	
	EUR												0.7	0.7	1.0	+ 0.3	
Car Production of Japanese Manufacturers (Millions of Units)	Domestic	2.09	2.05	- 2%	4.32	4.52	4.28	- 1%	4.61	4.86	4.86	+ 5%	8.93	9.38	9.14	+ 2%	
	North America	1.61	1.62	+ 1%	3.13	3.19	3.15	+ 1%	3.13	3.30	3.30	+ 5%	6.26	6.48	6.45	+ 3%	
	Overseas	4.54	4.85	+ 7%	9.27	9.53	9.71	+ 5%	9.48	9.96	9.96	+ 5%	18.75	19.49	19.67	+ 5%	

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## Consolidated Revenue (By Customer)

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(Unit: Billions of Yen, %)

	FY2017		FY2016		Change		Change quantity base	
	Ended Jun. 30, 2016	% to Total	Ended Jun. 30, 2015	% to Total	Amount	%	Amount	%
Toyota	457.7	41.9	454.4	41.1	3.3	0.7	38.5	8.5
Daihatsu	20.4	1.9	21.7	2.0	-1.3	-6.1	0.1	0.3
Hino	12.3	1.1	12.9	1.2	-0.6	-4.5	-0.5	-3.7
<b>Toyota Group</b>	<b>490.4</b>	<b>44.9</b>	<b>489.0</b>	<b>44.3</b>	<b>1.4</b>	<b>0.3</b>	<b>38.1</b>	<b>7.8</b>
Honda	84.8	7.8	87.4	7.9	-2.6	-3.0	8.4	9.6
FCA	54.9	5.0	58.9	5.3	-4.0	-6.8	4.0	6.8
GM	39.2	3.6	37.0	3.3	2.2	6.0	7.2	19.6
Ford	36.6	3.3	35.7	3.2	0.9	2.5	6.2	17.4
Hyundai/Kia	34.5	3.1	38.4	3.5	-3.9	-10.1	1.5	3.9
Mazda	25.8	2.3	27.6	2.5	-1.7	-6.3	-1.0	-3.7
Suzuki	22.8	2.1	26.3	2.4	-3.4	-13.1	-1.4	-5.5
VW/AUDI	21.4	2.0	20.7	1.9	0.7	3.6	3.5	17.1
Fuji	19.8	1.8	19.4	1.8	0.3	1.7	1.0	5.3
Nissan	17.2	1.6	17.1	1.5	0.1	0.4	1.2	6.8
Isuzu	12.2	1.1	12.6	1.1	-0.4	-3.2	0.5	3.9
BMW	11.7	1.1	10.8	1.0	1.0	9.1	2.2	20.3
Mitsubishi	11.0	1.0	11.3	1.0	-0.3	-3.0	1.0	8.5
Benz	8.9	0.8	9.1	0.8	-0.2	-2.4	0.7	7.5
PSA	7.1	0.6	6.6	0.6	0.5	7.6	1.3	19.8
Volvo	6.6	0.6	6.6	0.6	-0.0	-0.2	0.7	10.4
Jaguar/Land Rover	4.0	0.4	5.2	0.5	-1.2	-23.0	-0.9	-17.2
OE Sales for others	59.7	5.5	65.5	5.9	-5.8	-8.8	-0.2	-0.3
<b>OEM Total</b>	<b>968.7</b>	<b>88.6</b>	<b>985.1</b>	<b>89.1</b>	<b>-16.5</b>	<b>-1.7</b>	<b>73.9</b>	<b>7.5</b>
After-market, New business & Others(*)	124.1	11.4	120.9	10.9	3.2	2.7	12.0	10.0
<b>Total</b>	<b>1,092.8</b>	<b>100.0</b>	<b>1,106.0</b>	<b>100.0</b>	<b>-13.2</b>	<b>-1.2</b>	<b>86.0</b>	<b>7.8</b>

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## Consolidated Revenue (By Product)

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(Unit: Billions of Yen,%)

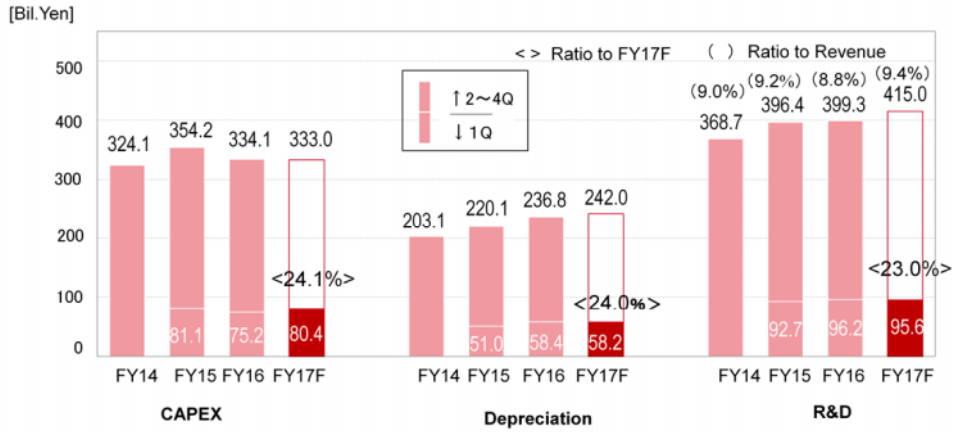
	FY2017		FY2016		Change		Change quantity base	
	Ended Jun. 30, 2016		Ended Jun. 30, 2015		Amount	%	Amount	%
	Amount	% to Total	Amount	% to Total				
Powertrain Control	389.8	35.7	397.2	35.9	-7.4	-1.9	27.1	6.8
Thermal	341.0	31.2	351.8	31.8	-10.8	-3.1	28.2	8.0
Information & Safety Systems	172.3	15.8	161.2	14.6	11.1	6.9	23.4	14.5
Electronic	88.4	8.1	91.2	8.3	-2.8	-3.0	3.0	3.2
Small Motors	72.7	6.6	76.4	6.9	-3.7	-4.9	2.0	2.6
Others(*)	12.3	1.1	12.6	1.1	-0.3	-2.1	1.4	11.0
<b>Automotive Total</b>	<b>1,076.5</b>	<b>98.5</b>	<b>1,090.3</b>	<b>98.6</b>	<b>-13.8</b>	<b>-1.3</b>	<b>85.1</b>	<b>7.8</b>
<b>New Business Total</b>	<b>16.3</b>	<b>1.5</b>	<b>15.7</b>	<b>1.4</b>	<b>0.6</b>	<b>3.7</b>	<b>1.0</b>	<b>6.6</b>
<b>Total</b>	<b>1,092.8</b>	<b>100.0</b>	<b>1,106.0</b>	<b>100.0</b>	<b>-13.2</b>	<b>-1.2</b>	<b>86.1</b>	<b>7.8</b>

\* Sales of property/equipment, original brand products of subsidiaries are included.

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# Trend of Capital Expenditures, Depreciation and R&D Expenditures



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## Capital Expenditures, Depreciation and R&D Expenditures

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(Unit: Billions of Yen)

	FY16		FY17 Forecast		1Q YTD Change from PY	Progress to FY17 Forecast
	1Q		1Q			
Japan	38.9	191.0	52.3	200.5	34.4%	26.1%
North America	12.2	45.6	12.3	41.8	0.8%	29.4%
Europe	5.8	30.9	4.6	29.3	-20.7%	15.7%
Asia & Oceania	18.0	64.9	10.7	60.0	-40.6%	17.8%
Others	0.3	1.7	0.5	1.4	66.7%	35.7%
Capital Exp.	75.2	334.1	80.4	333.0	6.9%	24.1%
Japan	33.0	134.6	33.7	143.0	2.1%	23.6%
North America	6.8	28.0	6.5	28.4	-4.4%	22.9%
Europe	4.7	19.1	4.7	18.4	0.0%	25.5%
Asia & Oceania	13.0	52.0	12.6	50.4	-3.1%	25.0%
Others	0.9	3.1	0.7	1.8	-22.2%	38.9%
Depreciation	58.4	236.8	58.2	242.0	-0.3%	24.0%
R&D Expenditure (Ratio to Sales)	96.2 (8.7%)	399.3 (8.8%)	95.6 (8.7%)	415.0 (9.4%)	-0.6%	23.0%

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