

## **Main Q&As of Presentation on the Results for 1Q of the Fiscal Year Ending March 2018**

### **[1Q Results and Outlook for FY2018 Financial Forecast]**

Q: What were the factors regarding operating profit increased in 1Q?

A: One of the factors is increased car production volume in Japan and China. Others are increasing percentage of vehicles equipped with “Toyota Safety Sense P” for sales to Toyota, and increased car production volume and continuous sales expansion for sales outside the Toyota Group. Additionally, improved profitability by streamlining efforts contributed to operating profit increase.

Q: Why will operating profit of 2Q become lower than one of 1Q? Does it have any upside potential?

A: The reason is that much more expenses are planned to be used in 2Q than 1Q. This financial forecast is based on the conservative plan that all remained expenses by reducing efforts in 1Q will be spent in 2Q. Thus, the first half financial forecast may become better if we would be able to cut expenses in 2Q. In addition, if car production volume increased in second half, operation profit would be higher than expected because we haven't reviewed preconditions in second half financial forecast except foreign exchange rate.

### **[Electrification]**

Q: Developments in electrification have announced in Europe and many automakers are subject to the effects to cope with the matter. How will DENSO respond to this electrification?

A: The recent news reports may give you the impression that the pace of electrification is accelerating; however, DENSO has started to strength electrification development by early 2010, the current movements are within the scope of our expectations. In electrification, Europe is lagging behind North America and Japan. They have announced to make all cars moved by electricity, but the full electrification requires various infrastructure and technology development, such as installing charging stations, lowering battery prices, doubling the output for long-distance travel, and reducing the charging time to around that for gas pumping. Thus, we assume that full electrification will be preceded only in limited situations or countries.

Q: What are the risks and opportunities for DENSO in electrification, such as Hybrid, Plug-in Hybrid, and Electric Vehicles?

A: First of all, we consider Plug-in Hybrid Vehicles will be the mainstream in the next seven or eight years and the cooling technology will become even more important because there will be less space left in the engine compartment with more electronic components. In this situation, DENSO is one of few suppliers who can introduce thermal technology into the electrification area. We will exhibit this strength even more based not only on production system in foreign countries but on past delivery results of various hybrid parts for Toyota, such as Prius models.

If all vehicles become electric, even though Internal-Combustion Engine is no longer necessary, we will continue to supply high-tech, high-value-added products such as inverters, motor generators, and battery ECUs. In addition, thermal management will become much more important by lack of a heat source caused by elimination of the Internal-Combustion Engine. Thus, our air-conditioning technologies such as heat pump cycles are expected to create added value again.

#### **[ADAS/AD]**

Q: Will DENSO's share of ADAS-related products for Toyota increase?

A: For example, we have announced on July 26<sup>th</sup> that a new vision sensor and a millimeter-wave radar sensor will be introduced for the Lexus LS. Just like this case, we will increase our share by continuing to release higher additional value products with most advanced technology.

#### **[Foreign Markets]**

Q: What is the economic outlook in Asia countries?

A: The economy in Asia has bottomed out and is likely to recover in future such as in Thailand, the Philippines, and Malaysia.

Q: What is the current status of the Chinese market and prospects for electrification components from the viewpoint of growing demand for local production?

A: In China, there was a surge in demand because a tax cut on small-engine vehicles was expected to shrink at the end of last fiscal year. However, demand has not fallen this year and keep in good statuses.

We feel the local automakers in China are shifting their focus to expensive high-quality components. Thus we see both opportunities and challenges in expanding sales to local automakers and make even more of an effort.

Q: In terms of revenue outside Japan, the revenue in North America has decreased. What are the risks regarding business in North America?

A: While the fundamentals remain strong under the Trump Administration, we see risks in new car sales because many high-quality cars have entered the used car market. Thus, we estimate our car production to be low for North America, but we will offset that decrease in Japan and China.