



# FY2017 2<sup>nd</sup> Quarter Financial Results ended Sep 30, 2016

- I . Closing results
- II . Strategies

Oct 28, 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 full-year forecast revenue due to the market trend, upward revision to the full-year forecast operating profit due to cost reduction.

## FY2017 2<sup>nd</sup> Quarter Financial Results

2 / 21

	FY17 2Q		FY16 2Q		Change	
<b>Revenue</b>		<b>2,176.9</b>		2,228.5	-51.5	-2.3%
<b>Operating Profit</b> ( Excludes other income/ expenses)	(6.4%)	<b>138.9</b>	(7.5%)	167.2	-28.3	-16.9%
Other income/ expenses		<b>3.8</b>		-19.2	+22.9	
<b>Operating Profit</b>	(6.6%)	<b>142.7</b>	(6.6%)	148.0	-5.3	-3.6%
Finance income/ costs & others(*1)		<b>7.9</b>		18.8	-10.9	
<b>Profit before Income Taxes</b>	(6.9%)	<b>150.6</b>	(7.5%)	166.8	-16.3	-9.8%
<b>Profit (*2)</b>	(4.5%)	<b>97.5</b>	(5.1%)	113.0	-15.6	-13.8%

(Unit:Millions of Units)

Precondition	Foreign Exchange	JPY	105/\$	JPY	122/\$	-17 JPY
	Rate	JPY	118/Euro	JPY	135/Euro	-17 JPY
Domestic Car Production			4.30		4.32	-0.02 -0.4%
Overseas Car Production of Japanese Manufacturers (North America)			9.68 (3.18)		9.27 (3.13)	+0.41 (+0.05) +4.5% (+1.6%)

※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]

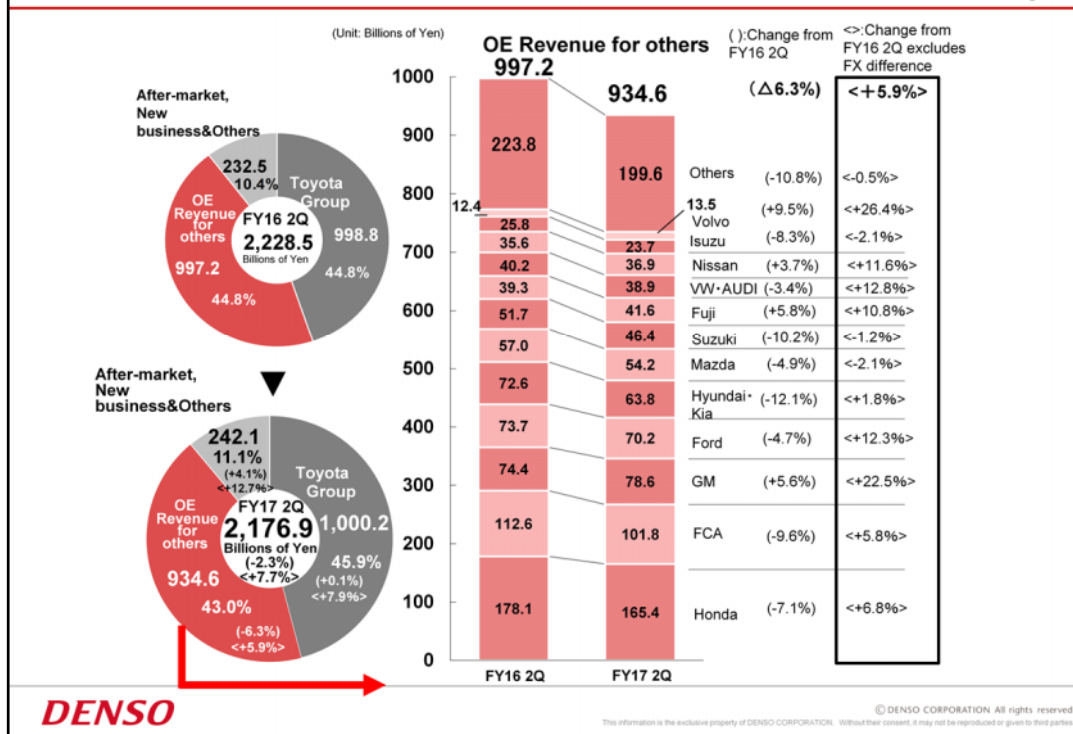
We posted revenue of 2,176.9 billion yen, down 51.5 billion yen from the previous year, equivalent to annual revenue decline of 2.3%.

Operating profit (excludes other income/ expenses) reached 138.9 billion yen, 28.3 billion yen lower than a year, down 16.9% from the previous year.

We earned profit attributable to owners of the parent company of 97.5 billion yen, down 15.6 billion yen, which is 13.8% decrease, from a year earlier.

## FY2017 2<sup>nd</sup> Quarter Consolidated Revenue ( By Customer )

3 / 21



[Sales by customer](Quantity base)

### Sales to the Toyota Group

Sales to the Toyota Group increased 7.9 % from the previous year. 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

Asia and due to the growth in sales of active safety products in North America.

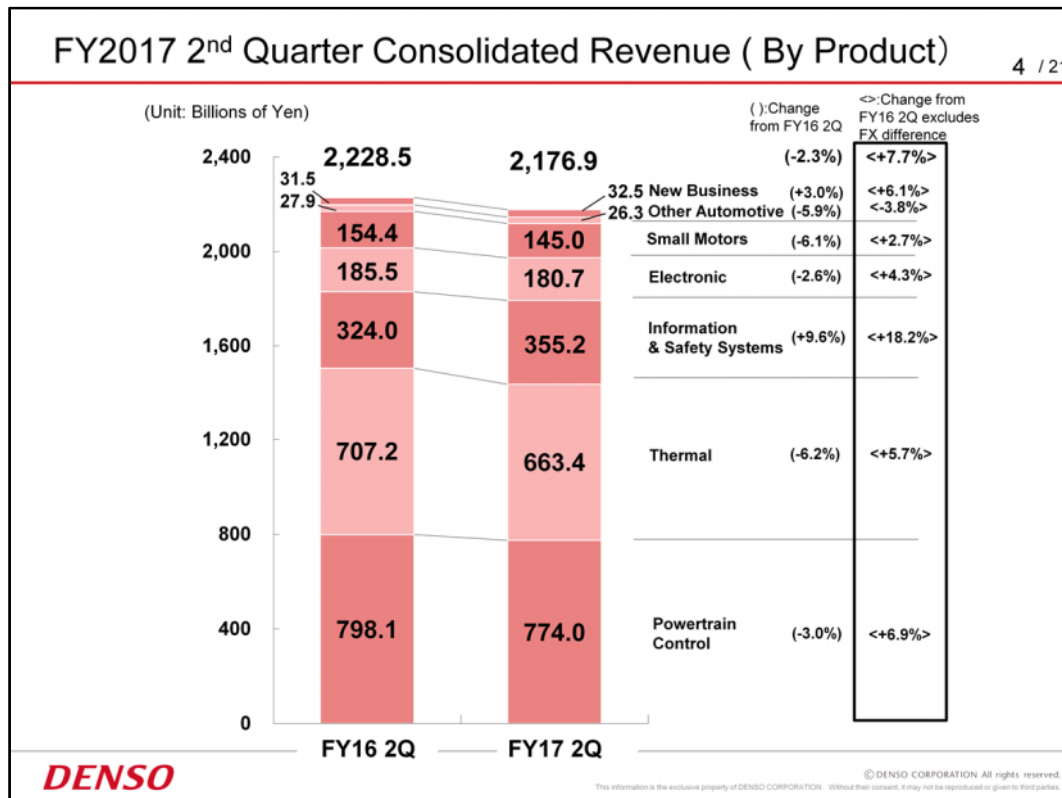
### Sales to non-Toyota Group companies

Sales to non-Toyota Group companies increased 5.9 % from the previous year.

- 1) Honda: Sales increased due to production volume increase in Asia and North America and growth in sales in North America.
- 2) FCA (Fiat Chrysler Automobiles): Sales increased due to production volume increase and sales expansion in air conditioners in Europe.
- 2) GM: Sales increased due to production volume increase and the sales expansion of air conditioners in North America.

## FY2017 2<sup>nd</sup> Quarter Consolidated Revenue ( By Product)

4 / 21



[Sales by product] (Quantity base)

### Sales of Powertrain Control products

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

### Sales of Thermal products

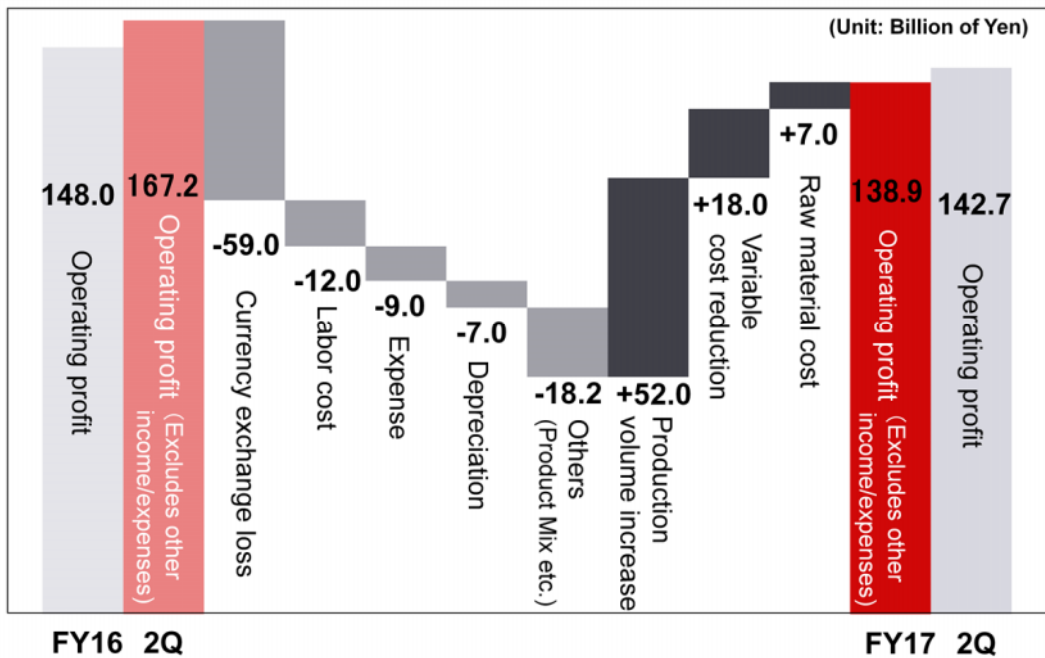
Sales increased in China and Europe due to the production volume increase in addition to the sales expansion of air conditioners.

### 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 2<sup>nd</sup> Quarter Operating Profit

5 / 21



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

### **Negative factors**

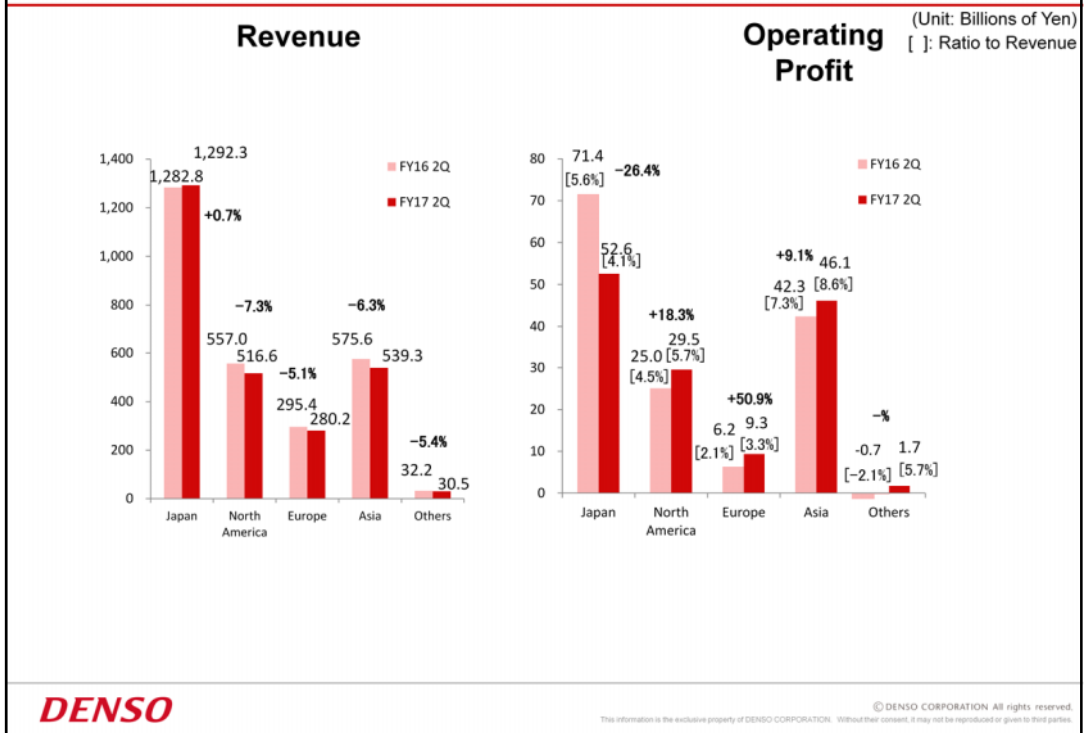
- 1) Appreciation of yen: An increase of 59.0 billion yen was due to the impact of the strong yen, which is 17 yen higher against US dollar and 17 yen higher against Euro.
- 2) Higher labor cost: An increase of 12.0 billion yen was due to an increase of salaries in Japan and emerging countries.
- 3) Higher expense: An increase of 9.0 billion yen was due to an increase in investment costs for future growth, for example, the reconstruction of systems for production control and management.

### **Positive factors**

- 1) Production volume increase: An increase of 52.0 billion yen was due to production volume increase and sales expansion.
- 2) Variable cost reduction: An increase of 18.0 billion yen was due to increased productivity and other efficiencies.

## 2<sup>nd</sup> Quarter Geographical Segments by Company Location

6 / 21

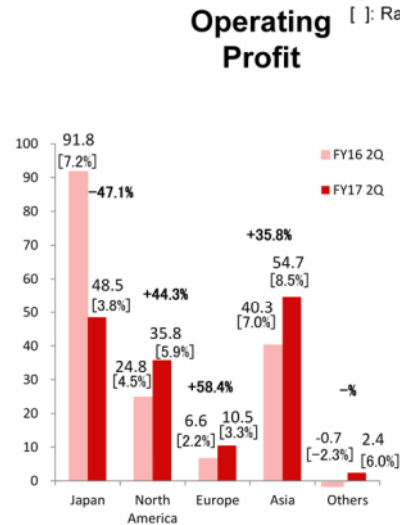
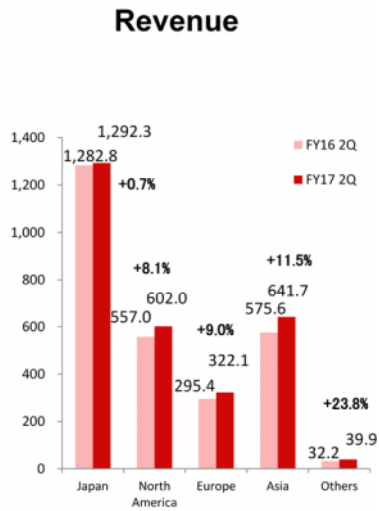


[Revenue and operating profit by operating region]

\* Based on Japanese yen

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

7 / 21



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

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[Revenue and operating profit by operating region]

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

**Japan**

- Despite impact of the exchange rate ,the production volume increase led to a increase in revenue from the previous year.
- Operating profit decreased from the previous year due to impact of the exchange rate.

**Overseas**

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



# FY2017 Financial Forecast

8 / 21

		(Ratio to Revenue)				(Unit: Billions of Yen)	
		As of	FY17	Change from June		FY16	
		June 2016	Revised	Amount	Ratio		
<b>Revenue</b>		4,400.0	<b>4,380.0</b>	-20.0	-0.5%	4,524.5	
<b>Operating Profit</b> (Excludes other income/ expenses)		(6.4%) 282.0	<b>(6.5%) 286.0</b>	+4.0	+1.4%	(8.1%)	365.2
Other income/ expenses		2.0	4.0	+2.0			△ 49.5
<b>Operating Profit</b>		(6.5%) 284.0	<b>(6.6%) 290.0</b>	+6.0	+2.1%	(7.0%)	315.7
Finance income/ costs & others(※1)		26.0	20.0	-6.0			31.6
<b>Profit before Income Taxes</b>		(7.0%) 310.0	<b>(7.1%) 310.0</b>	—	—	(7.7%)	347.3
<b>Profit</b> (※2)		(4.6%) 203.0	<b>(4.7%) 204.0</b>	+1.0	+0.5%	(5.4%)	244.3

		(Unit: Millions of Units)			
		JPY 106/\$	JPY 105/\$	-1 /JPY	JPY 120/\$
		JPY 117/Euro	JPY 117/Euro	—	JPY 133/Euro
Production	Foreign Exchange Rate				
	Domestic Car Production	9.14	8.94	-0.20	△ 2.1%
	Overseas Car Production of Japanese Manufacturers (North America)	19.67	19.52	-0.15	△ 0.8%
		(6.45)	(6.45)	—	—

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※2 Profit attributable to owners of the parent company

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## [Full-year financial forecast]

Considering the market trend, we expect revenue to be 4,380.0 billion yen, which is a decrease by 20.0 billion yen from the publication in June.

However, we expect operating profit (excludes other income/ expenses) to be 286.0 billion yen which is an increase by 4.0 billion yen from the publication in June due to cost reduction.

This forecast is based on the currency rate of 105 yen to the dollar and 117 yen to the euro. Car production volume of Japanese manufacturers will be 8.94 million in domestic and 19.52 million in Overseas.

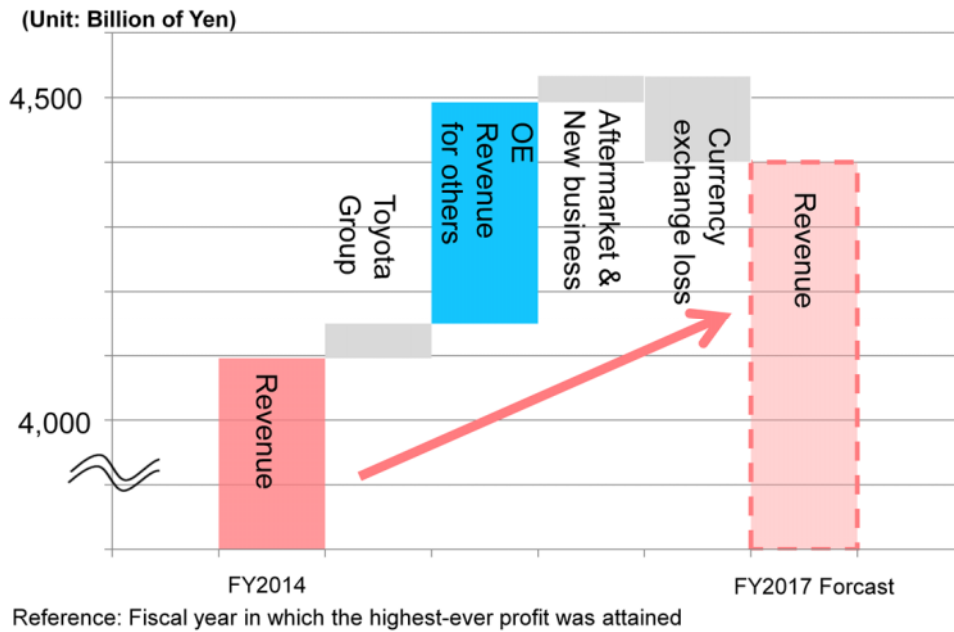
## Strategies

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1 .Revenue/profit target for FY2021

2 .Growth strategy in Security & Safety

3 .Financial and capital strategies



**Steadily expand sales to non-Toyota customers**

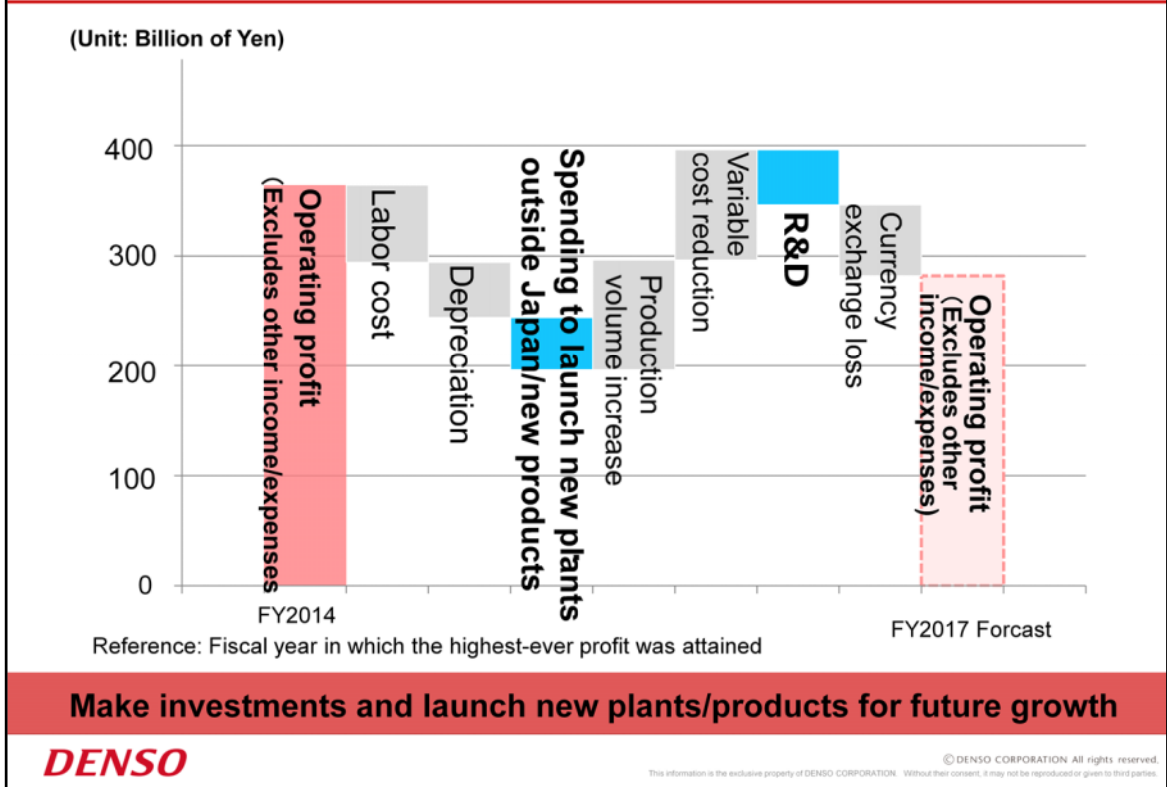


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<Look back on the Revenue>

Now, I will explain recent results in comparison with the year ended March 2014 when we posted a record profit.

Our revenue has been affected by slow growth in the ASEAN region and the appreciation of the yen. However, we have achieved steady growth primarily due to sales expansion through OEM to non-Toyota automakers including Honda, Nissan, and the “Detroit three”.

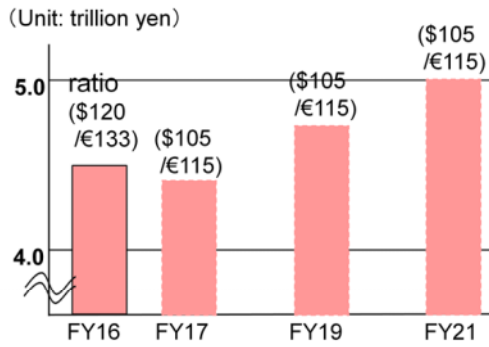


<Look back on the Operating profit>

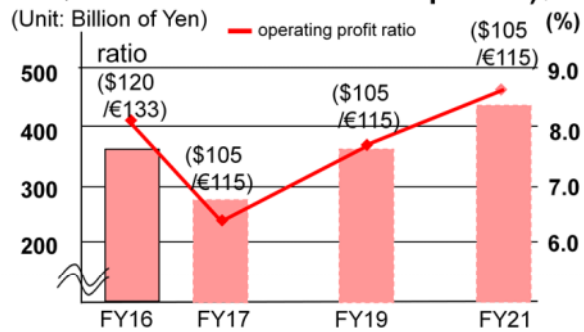
Meanwhile, operating profit decreased from the year ended March 2014.

This represents our commitment to continuously making investments toward the future, such as launching new overseas plants and new products, as well as R&D expenditure that remained at a high level.

<Revenue>



<Operating profit (Excludes other income/expenses)>



<Main growth strategies>

- ① Expand the product lineup in Environment and Security & Safety
- ② Take full advantage of production innovation
  - expand DANTOTSU factories
  - shift to local production
- ③ further cost reduction
  - improve financial efficiency and strength

**Targets toward 2021 : Revenue 5 trillion yen  
operating profit ratio steadily 8%**



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<Growth targets toward 2021>

Toward fiscal 2021, we will overcome this temporary lull and reliably see the results of our investments keeping a future vision in mind.

<Main growth strategies>

The first point is to expand our product lineup in the areas of “the environment” and “security and safety.” We will continue to deliver products of even higher quality and reliability while anticipating a tightening of regulations.

The second point is to take full advantage of production innovations. In Japan, the realization of DANTOTSU (meaning highly competitive) factories is within our reach. We will develop these activities outside Japan in stages.

Conventionally, we manufacture new products mainly in Japan. We will shift production outside Japan and make our operations resistant to foreign exchange fluctuations.

The third point is to further streamline our operations and improve our financial strength to cope with the appreciation of the yen.

We will steadily promote these three initiatives to achieve five trillion yen in revenue and keep our operating profit rate at or above 8% by fiscal 2021.

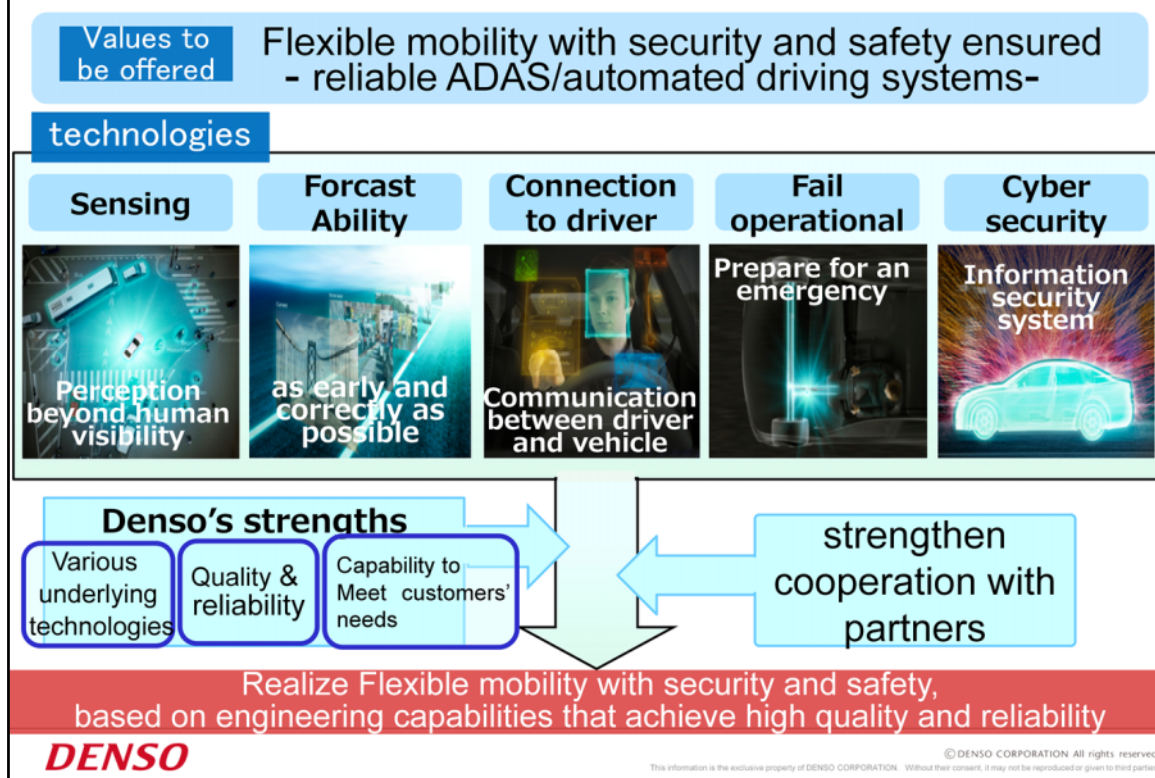
## Strategies

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1 .Revenue/profit target for FY2021

2 .Growth strategy in Security & Safety

3 .Financial and capital strategie



<Concept of initiatives in Security & Safety>

DENSO will help achieve secure and safe mobility.

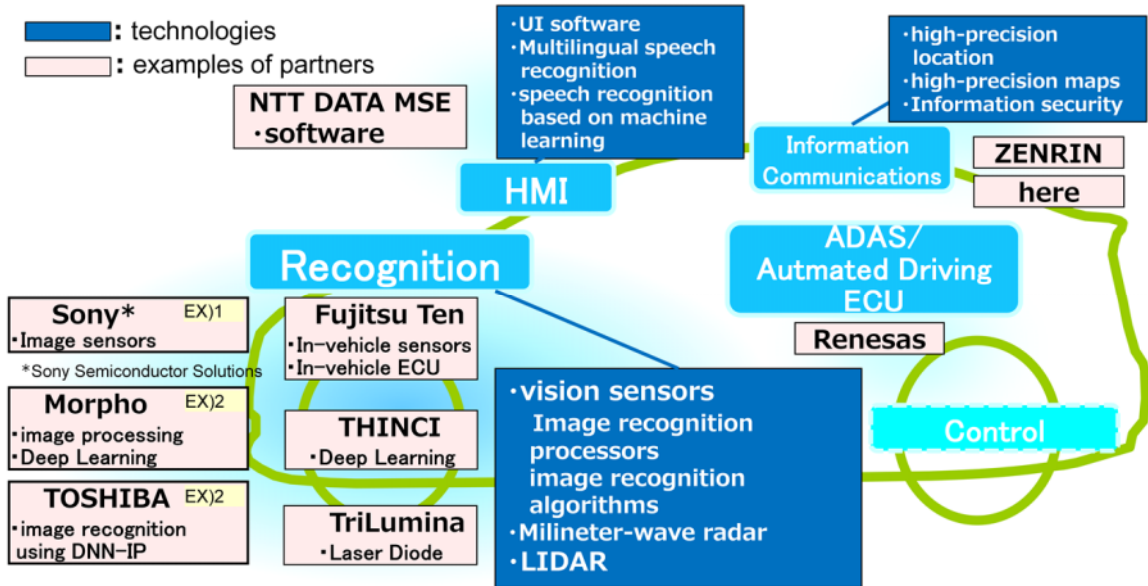
In ADAS and automated driving, we will need new technologies in five fields, including sensing technology to recognize the environment around a vehicle. We will focus on developing these technologies. Automated driving will require advanced technologies, as well as quality and reliability.

For decades, DENSO has developed various underlying technologies, ensured quality and reliability, and improved the capability to meet customers' needs through mass production of automotive components. Our expertise will be fully utilized in automated driving.

We will also enhance collaboration with our partners to keep pace with the rapid progress in technologies.

These initiatives will enable us to help achieve secure and safe mobility with high-quality reliable technologies.

Work with partners to take advantage of mutual strengths



Accelerate develop technologies to achieve reliable, secure and safe mobility with partners



<Strengthen the relationship with partners>

We will closely work with our partners and take full advantage of each other's strengths instead of trying to develop everything in-house, thereby quickly keeping pace with rapid technological advancements.

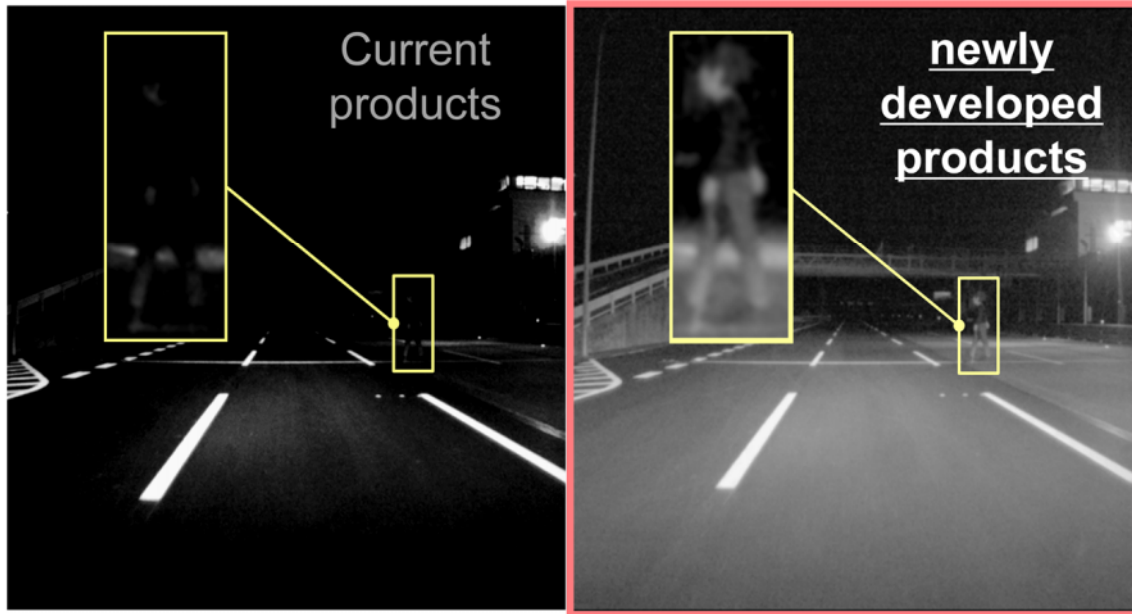
We will accelerate technological development in collaboration with our partners primarily in driving environment recognition.



## Improves Performance of In-vehicle Vision Sensors with Sony

※ Sony Semiconductor Solutions Corporation

(released on Oct.25)



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### <Example①>

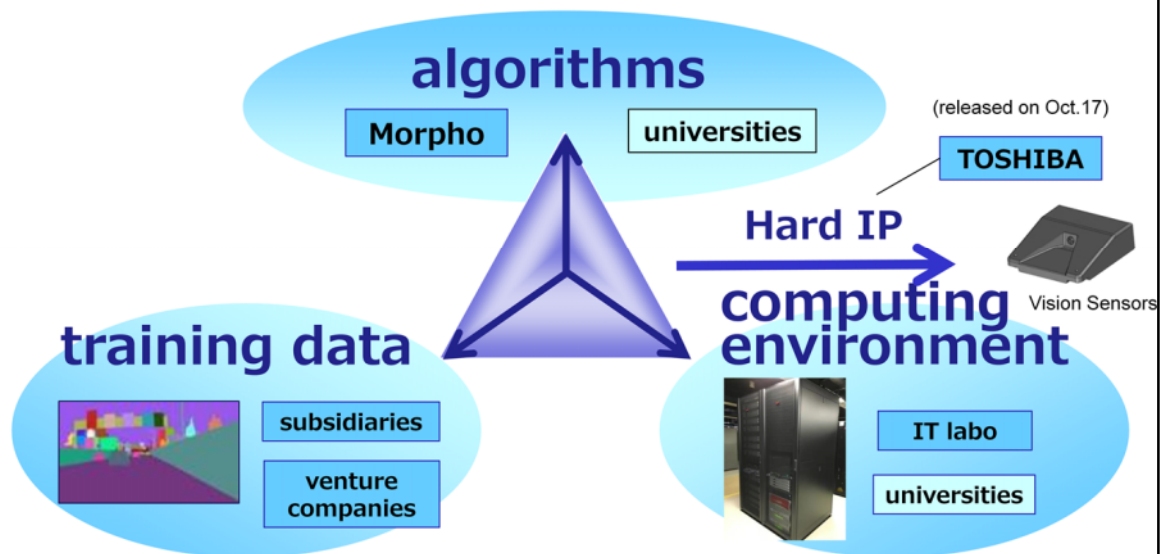
Notably, we have employed Sony's product for our in-vehicle vision sensor to improve camera performance and recognize pedestrians at night.

Sony's vision sensors are used in a wide variety of products, including surveillance cameras, because they are highly sensitive and thus enable cameras to take clear images of objects even at night when there is little available light.

We have improved the quality of Sony's vision sensors in terms of heat resistance and vibration resistance to be used in vehicle-mounted cameras.

For next-generation image recognition systems

The system of developing Deep Neural Network (DNN)



Promoting collaboration with research institutions including companies and universities, etc.

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<Example②>

Next, I will explain the development of DNN which is an AI technology. The development of DNN technology requires three key elements: an algorithm modeled after the neural networks of the human brain, a large training data set, and a computing environment for learning. To develop an algorithm that requires advanced technologies, we concluded a contract with Morpho last year to subscribe for all the new shares issued by the company. A project is underway to jointly develop image recognition technologies.

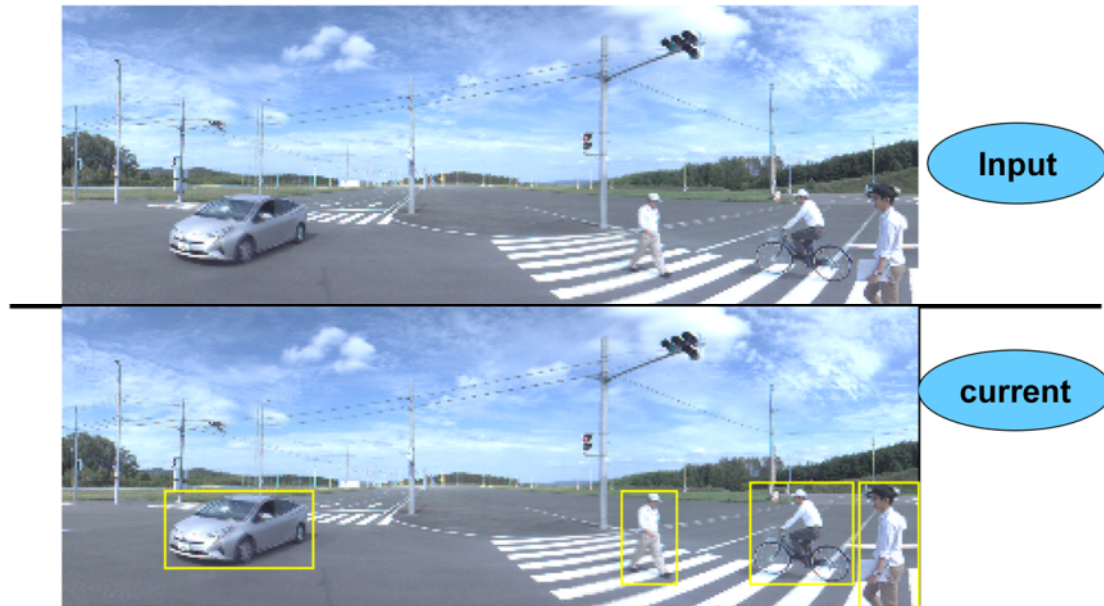
Regarding the training data set, we have been collecting a large amount of data efficiently in collaboration with our overseas subsidiaries and venture companies in and outside Japan.

Also, we have been working with DENSO IT Laboratory, which is one of our group companies, and universities to build an optimal computing environment.

Meanwhile, we have been developing hardware IP cores for DNN vision sensors in collaboration with Toshiba.

We actively promote collaboration with companies, universities, and research institutions to ensure speedy development.

Recognize individual persons, vehicles and white lines, etc.



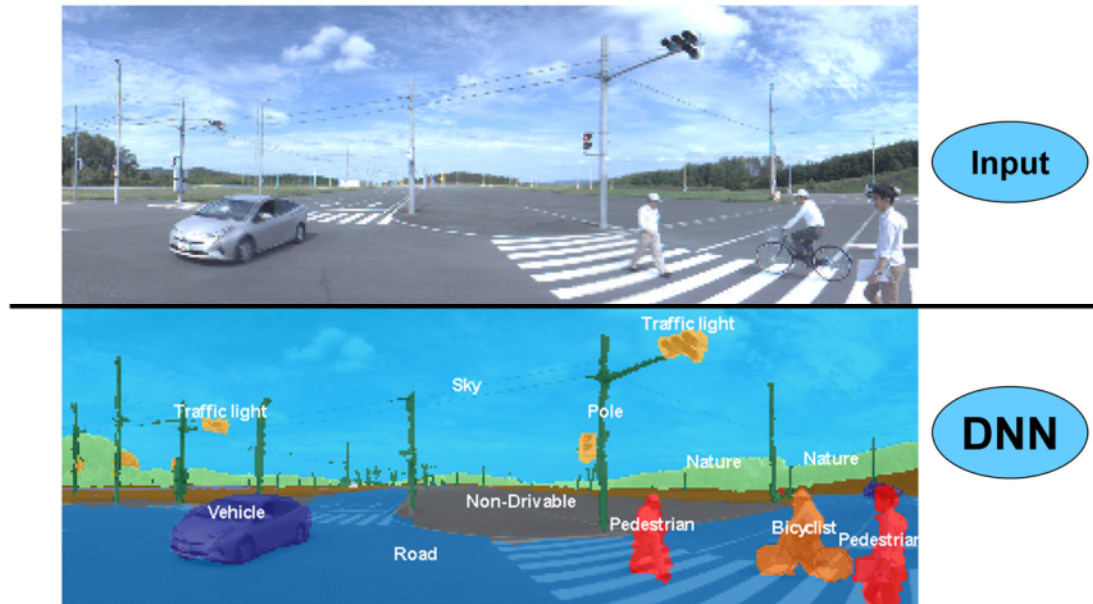
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<Image recognition achieved by DNN technology >

To achieve automated driving, automotive computers need to be able to identify different road traffic situations including a variety of obstacles and road markings, availability of road space for driving, and potentially dangerous situations. However, conventional image recognition technology can only recognize pedestrians and vehicles.

Recognize whole driving situations (including signals and roads, etc.)



⇒ Recognize the available road space for driving and enable to predict the movement of pedestrians, vehicles, etc.

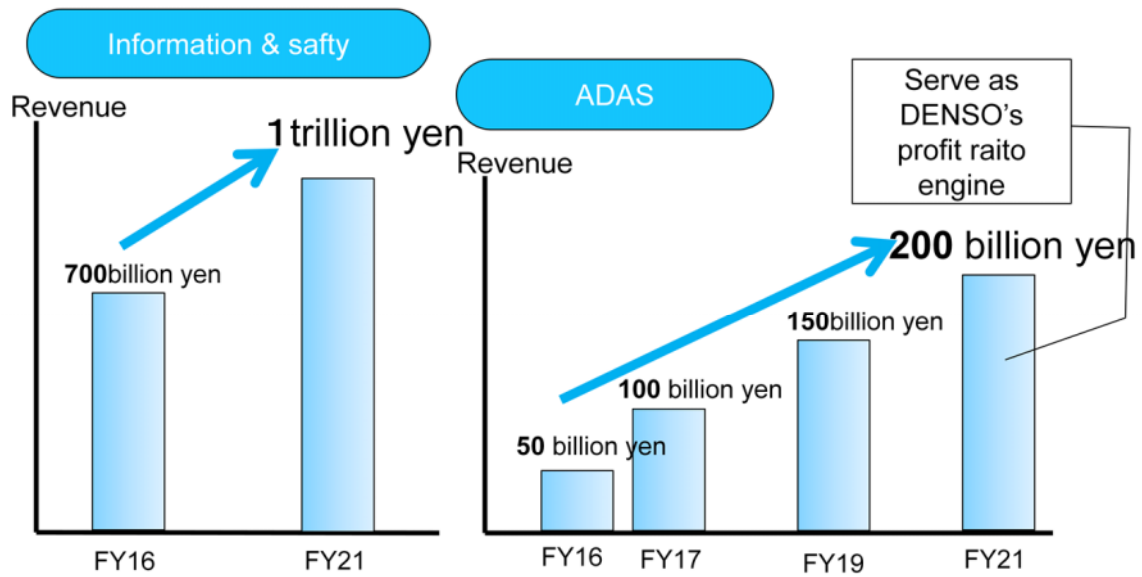
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<Image recognition achieved by DNN technology >

In DNN-based image recognition, computers can extract and learn the characteristics of objects on their own, thus significantly improving the accuracy of detection and identification of a wide range of objects.

DNN-based image recognition achieves functions required of automated driving: recognition of the availability of road space for driving and prediction of the movement of pedestrians and vehicles.



**For 2021, Revenue target in Security & Safety is 1 trillion yen  
revenue target in ADAS is 200billion yen**

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<Revenue target in Security & Safety for FY2021>

We will steadily promote initiatives and deliver security and safety products that contribute to society. The revenue target for the information and safety systems business for fiscal 2021 is one trillion yen, of which 200 billion yen will be derived from ADAS.

Profit in ADAS is expected to reach a break-even point in fiscal 2019. ADAS will become a profit engine of the DENSO Group by fiscal 2021.

## Strategies

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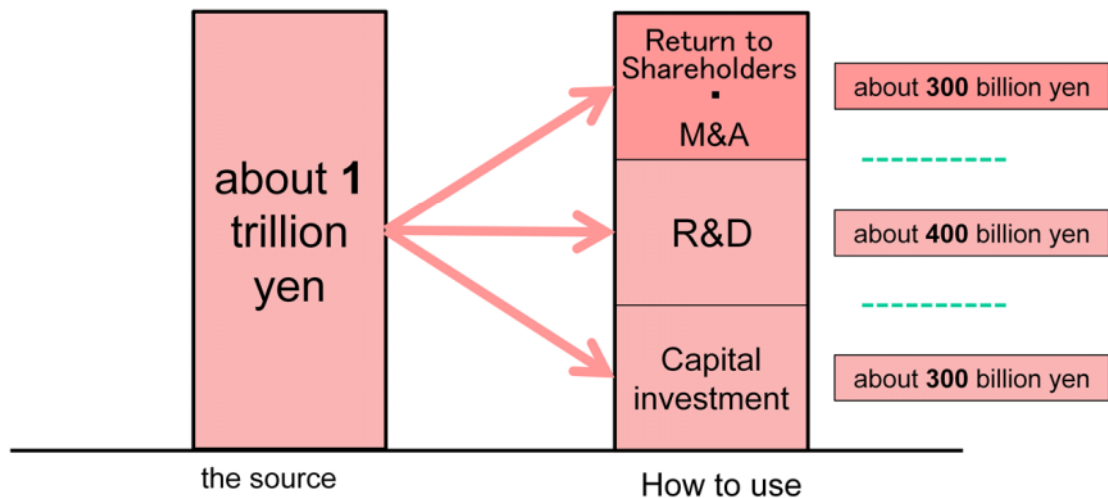
1 .Revenue/profit target for FY2021

2 .Growth strategy in Security & Safety

3 .Financial and capital strategie

## How to spend the cash

Cash flow from operation



**Allot the cash to investment for growth and return to shareholders**

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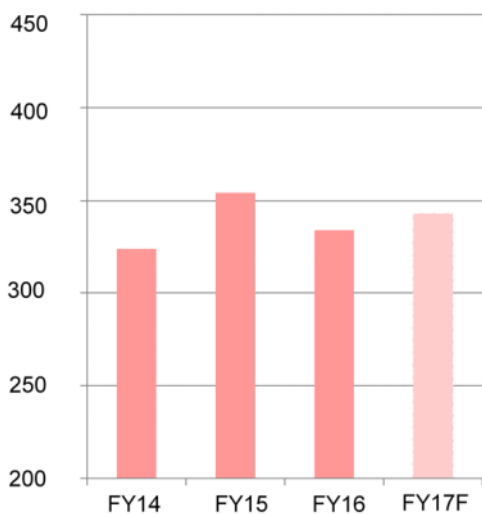
## &lt;Financial and capital strategie&gt;

Annually, we generate about one trillion yen of cash through our business operations. To further enhance our enterprise value, we will use the cash for capital investment, R&D, return it to shareholders, and on M&A.

We have been asked if we save the cash that we generate. We have also received questions about our policy on M&A and alliances. We will actively promote M&A and alliances and work on the policy on return to shareholders to reliably meet their long-term expectations to increase our enterprise value.

Capital investment

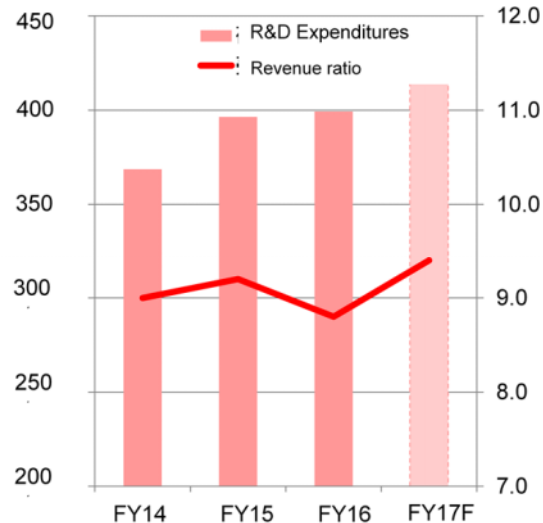
(Unit: Billion of Yen)



R&D

(Unit: Billion of Yen)

(%)



Capital investment: Continuously make investments of just over 300 billion yen  
 R&D: Continuously make investments (reference: 9% of revenue)



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<Capital investment>

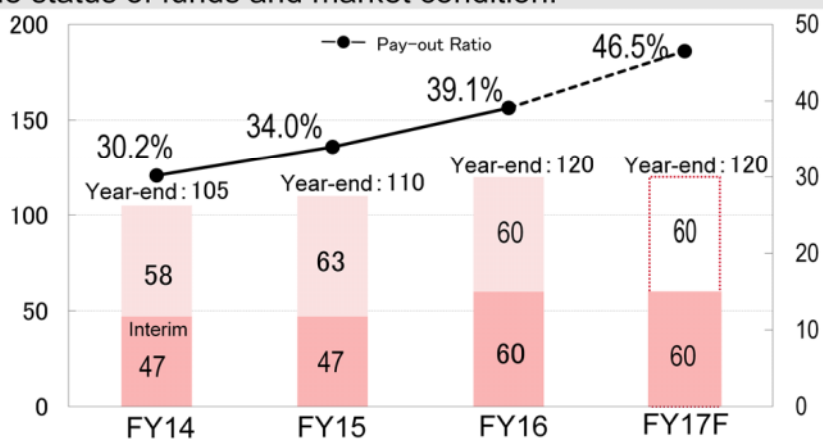
We will maintain capital investment above 300 billion yen to deploy DANTOTSU factories outside Japan and promote Factory IoT and thereby further improve our manufacturing capabilities around the world.

<R&D>

Our recent profit level is somewhat low, but we will continuously make investments equivalent to 9% of our revenue in the areas of “security and safety” and “the environment” for our future development.



1. Improve 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 flexible acquisition of treasury stock while paying attention to the status of funds and market condition.



**Strengthen Return to Shareholders in the point of long-term and steady view**

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### <Return to Shareholders>

Our profit is expected to decrease this fiscal year, but our annual dividend will remain unchanged from the previous year, in order to ensure a stable return to shareholders based on our target to recover profitability in the next fiscal year and beyond. We will continuously endeavor to improve our enterprise value and increase our return to shareholders by stably paying dividends and strategically acquiring our own shares so that we can meet the long-term expectations of 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 2Q		FY16 2Q		Change	
	Amount	%	Amount	%	Amount	%
Net Sales	( 100.0 )	1,190.0	( 100.0 )	1,175.3	14.7	1.3
Operating Income	( 1.4 )	17.2	( 5.9 )	68.9	-51.7	-75.1
Income Before Income Taxes	( 6.6 )	78.3	( 8.6 )	101.0	-22.7	-22.5
Net Income	( 5.7 )	68.2	( 7.6 )	89.1	-20.9	-23.4

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

23

		FY2017 First-Half					FY2017 Second-Half					FY2017 Full Year					
		Prior Year	Forecast (Original)	Forecast as of Jul.29	Actual	Change	Prior Year	Forecast (Original)	Forecast as of Jul.29	Forecast (Revised)	Change	Prior Year	Forecast (Original)	Forecast as of Jul.29	Forecast (Revised)	Change	
		Foreign Exchange Rate (Yen)	USD	122	110	107	105	-17.0	118	110	105	105	-13.0	120	110	106	105
	EUR	135	125	119	118	-17.0	130	125	115	115	-15.0	133	125	117	117	-16.0	
Forex Impact on Operating Income per Yen (Billions of Yen)	USD											-	2.0	2.0	2.5	2.5	0.5
	EUR											-	0.7	0.7	1.0	1.0	0.3
Car Production of Japanese Manufacturers (Millions of Units)	Domestic	4.32	4.52	4.28	4.30	-0%	4.61	4.86	4.86	4.65	+1%	8.93	9.38	9.14	8.94	+0%	
	North America	3.13	3.19	3.15	3.18	+2%	3.13	3.30	3.30	3.27	+5%	6.26	6.48	6.45	6.45	+3%	
	Overseas	9.27	9.53	9.71	9.68	+4%	9.48	9.96	9.96	9.83	+4%	18.75	19.49	19.67	19.52	+4%	

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## Consolidated Revenue (By Customer)

24

(Unit: Billions of Yen, %)

	FY2017 Ended Sep. 30, 2016		FY2016 Ended Sep. 30, 2015		Change		Change excludes FX difference
	Amount	% to Total	Amount	% to Total	Amount	%	%
Toyota	932.5	42.8	930.1	41.7	2.3	0.3	8.3
Daihatsu	42.2	1.9	42.5	1.9	-0.3	-0.7	5.4
Hino	25.6	1.2	26.2	1.2	-0.6	-2.4	-2.0
<b>Toyota Group</b>	<b>1,000.2</b>	<b>45.9</b>	<b>998.8</b>	<b>44.8</b>	<b>1.4</b>	<b>0.1</b>	<b>7.9</b>
Honda	165.4	7.6	178.1	8.0	-12.6	-7.1	6.8
FCA	101.8	4.7	112.6	5.1	-10.8	-9.6	5.8
GM	78.6	3.6	74.4	3.3	4.2	5.6	22.5
Ford	70.2	3.2	73.7	3.3	-3.5	-4.7	12.3
Hyundai/Kia	63.8	2.9	72.6	3.3	-8.8	-12.1	1.8
Mazda	54.2	2.5	57.0	2.6	-2.8	-4.9	-2.1
Suzuki	46.4	2.1	51.7	2.3	-5.3	-10.2	-1.2
Fuji	41.6	1.9	39.3	1.8	2.3	5.8	10.8
VW/AUDI	38.9	1.8	40.2	1.8	-1.4	-3.4	12.8
Nissan	36.9	1.7	35.6	1.6	1.3	3.7	11.6
Isuzu	23.7	1.1	25.8	1.2	-2.1	-8.3	-2.1
BMW	22.5	1.0	23.1	1.0	-0.5	-2.4	12.0
Mitsubishi	21.0	1.0	22.8	1.0	-1.9	-8.1	1.5
Benz	17.6	0.8	18.7	0.8	-1.2	-6.3	7.0
Volvo	13.5	0.6	12.4	0.6	1.2	9.5	26.4
PSA	11.9	0.6	14.1	0.6	-2.2	-15.8	-3.8
Jaguar/Land Rover	6.8	0.3	9.5	0.4	-2.6	-27.8	-20.5
OE Sales for others	119.9	5.6	135.6	6.1	-15.7	-11.6	-2.1
<b>OEM Total</b>	<b>1,934.8</b>	<b>88.9</b>	<b>1,995.9</b>	<b>89.6</b>	<b>-61.1</b>	<b>-3.1</b>	<b>6.9</b>
After-market, New business & Others(*)	242.1	11.1	232.5	10.4	9.5	4.1	12.7
<b>Total</b>	<b>2,176.9</b>	<b>100.0</b>	<b>2,228.5</b>	<b>100.0</b>	<b>-51.5</b>	<b>-2.3</b>	<b>7.7</b>

\* Sales of industrial systems and consumer products, Sales for After Market, and Sales of property/equipment are included.

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## Consolidated Revenue (By Product)

25

(Unit: Billions of Yen,%)

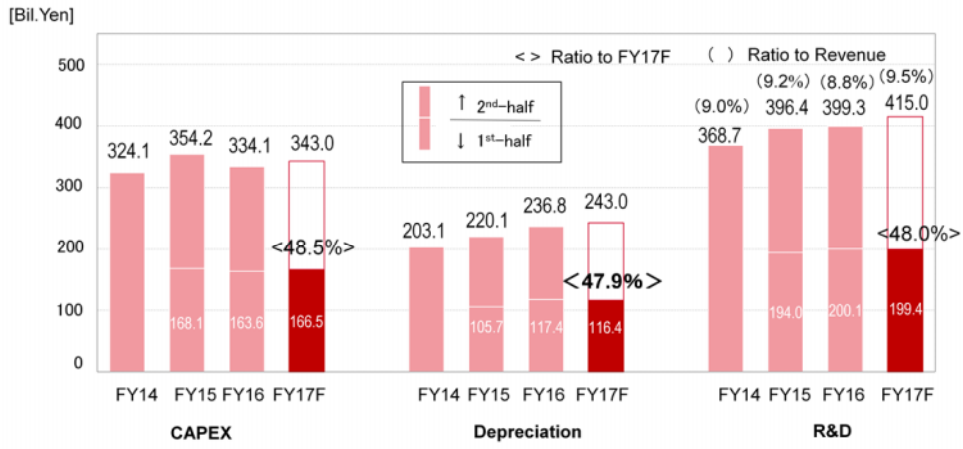
	FY2017 Ended Sep. 30, 2016		FY2016 Ended Sep. 30, 2015		Change		Change excludes FX difference
	Amount	% to Total	Amount	% to Total	Amount	%	%
Powertrain Control	774.0	35.5	798.1	35.6	-24.1	-3.0	6.9
Thermal	663.4	30.5	707.2	31.7	-43.8	-6.2	5.7
Information & Safety Systems	355.2	16.3	324.0	14.6	31.2	9.6	18.2
Electronic	180.7	8.3	185.5	8.3	-4.8	-2.6	4.3
Small Motors	145.0	6.7	154.4	6.9	-9.4	-6.1	2.7
Others(*)	26.3	1.2	27.9	1.3	-1.6	-5.9	-3.8
<b>Automotive Total</b>	<b>2,144.4</b>	<b>98.5</b>	<b>2,196.9</b>	<b>98.6</b>	<b>-52.5</b>	<b>-2.4</b>	<b>7.6</b>
<b>New Business Total</b>	<b>32.5</b>	<b>1.5</b>	<b>31.5</b>	<b>1.4</b>	<b>0.9</b>	<b>3.0</b>	<b>6.1</b>
<b>Total</b>	<b>2,176.9</b>	<b>100.0</b>	<b>2,228.5</b>	<b>100.0</b>	<b>-51.5</b>	<b>-2.3</b>	<b>7.7</b>

\* Revenue of equipment, repair parts, original brand products of subsidiaries

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





## Capital Expenditures, Depreciation and R&D Expenditures

27

(Unit: Billions of Yen)

	FY16		FY17 Forecast		2Q YTD Change from PY	Progress to FY17 Forecast
	2Q		2Q			
Japan	93.0	191.0	103.9	210.5	11.7%	49.4%
North America	23.3	45.6	29.0	62.5	24.5%	46.4%
Europe	13.0	30.9	10.9	24.0	-16.2%	45.4%
Asia	33.3	64.9	21.8	44.0	-34.5%	49.5%
Others	0.9	1.7	1.0	2.0	11.1%	50.0%
Capital Exp.	163.6	334.1	166.5	343.0	1.8%	48.5%
Japan	66.4	134.6	68.2	142.6	2.7%	47.8%
North America	13.9	28.0	12.8	29.9	-7.9%	42.8%
Europe	9.2	19.1	9.0	18.1	-2.2%	49.7%
Asia	26.2	52.0	25.0	49.6	-4.6%	50.4%
Others	1.7	3.1	1.4	2.8	-17.6%	50.0%
Depreciation	117.4	236.8	116.4	243.0	-0.9%	47.9%
R&D Expenditure (Ratio to Revenue)	200.1 (9.0%)	399.3 (8.8%)	199.4 (9.2%)	415.0 (9.5%)	-0.3%	48.0%

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