

Main Q&As of Presentation of results (4Q of the year ended March 2017)

<FY2018 Financial Forecast>

Q1: The profit forecast for the next fiscal year is only slightly higher. Why?

A1: In this fiscal year, the negative contribution of "Others" was more than 30 billion yen greater than in the previous fiscal year. This will be decreased to 7.5 billion yen in the next term to improve profitability.

In this fiscal year, the market growth was a little less than 4%, but we achieved growth of more than 7%. In the next fiscal year, we expect to achieve 2% growth compared to the 1% market growth.

But the operating income is expected to slightly higher for the currency except the dollar to become the exchange loss.

Q2: The revenue seems to increase significantly in the year ending March 2019 and beyond. Why?

A2: The revenue increase in the year ending March 2019 and beyond is attributed to the increasing percentage of vehicles equipped with ADAS, sales expansion the several companies, increasing revenue in electrification, and sales expansion due to the redesign of many models in 2018. The result for this year may seem to be a temporary lull, but we will maintain the growth to achieve the revenue of five trillion yen.

<Electrification>

Q: What kind of influence does the progress of electrification for Denso?

A: Many people have expressed concern that internal combustion engines (ICEs) refined through many years of operation may no longer be needed. However, ICEs will continue to be used in HVs.

Batteries play a key role in HVs and EVs. We have expertise and technology to combine battery cells properly and put them into packs. We have investigated the batteries of various manufacturers, and can handle the batteries of any manufacturer at the customer's request.

We consider that our inverters, which are critical components for electrification, are competitive thanks to technologies that have been refined through manufacturing power devices.

The key to electrification is energy and heat management. Improper use of the air conditioner leads to significant energy losses. We have extensive engineering assets and expertise in electrification and thermal management, and will be able to offer unique proposals and solutions in response to advanced needs.

<ADAS/AD>

Q1: It seems the revenue in the ADAS area will increase steadily. How will the ADAS area contribute to profits?

A1: The break-even point is 120 to 130 billion yen. The ADAS area is slightly in the red at present, but will exceed the break-even point by FY2019. The profit ratio will exceed the company's average by the year ending March 2021. The revenue target for the year ending March 2021 is 200 billion yen. Orders worth 130 billion yen have almost been fixed, and the amount is 180 billion yen if prospective orders are included. This figure includes sales expansion to automakers other than Toyota. We have been negotiating with both Japanese and foreign automakers.

Q2: How is the activity of ADAS technology area?

A2: We will continue to improve the sensor recognition technology etc. In the future, we will need advanced AI which can make judgments equivalent to those of highly skilled drivers. Connected services will be required to prevent collisions especially at blind spots which are currently difficult for sensors to recognize. We will promote in-house production and enhance alliances.

<Alliances/Partnership >

Q: What is the policy of alliance strategy? Various alliances have been formed recently. How does DENSO see alliances with automakers?

A: Recently, partnerships have been formed between automakers and semiconductor manufacturers. Even if an automaker decides to work with a specific semiconductor manufacturer, it must rely on a Tier 1 supplier to build a computer or implement software which meets in-vehicle quality. We have consulted with semiconductor manufacturers which have formed alliances with automakers, and have a system in place to meet any request.

Q: What is the policy of Investment for venture companies?

Do you think about the large-scale investment exceeding 100 billion yen?

A: Regarding equity participation in startups including venture companies, we aim to become a lead investor in developing future technologies and creating business models. We have made decisions on equity participation in Silicon Valley, Israel, Singapore, etc. There are companies that have unique technologies around the world. We have been actively seeking technologies which meet our needs, and have been taking necessary action. Indeed, we have been accelerating our efforts in this area in recent years. We invested 2.7 billion yen in the past three years, and we are considering investing three billion yen in FY2018 alone.

If we were to invest 100 billion yen, we would invest in feasible technologies rather than venture companies. We have formed a special M&A team to determine the appropriate amount.

Q: What are the objective and background of the partnership with Ibiden?

A: We are highly interested in exhaust systems. Unlike European manufacturers, we focus on the materials of the exhaust systems. Ibiden manufactures important materials which offer various potential applications. We have high expectations for collaboration between Ibiden and our Research Laboratories (which conduct research on materials) to look for applications other than exhaust systems.

<China market>

Q: What is the status of business for local automakers in China?

A: The customers in China have been changing, and focus on the quality of products more than before. The Shanghai MS demonstrates that customers no longer focus solely on low prices. The quality of cars has been improving, and the scope of our contribution has been expanding. We will properly meet the needs of this large market, and are pleased to work with customers who have been rapidly improving their quality.