

# Management Strategy



## Message from the President

On behalf of all at the DENSO Group, I would like to take this opportunity to express our sincere gratitude for the support we have received from all our stakeholders.

My name is Koji Arima, the newly appointed president and CEO. Upon taking up my post, I would like to extend my personal greetings to all stakeholders.

Amid expectations of energy and environmental challenges as well as of an increasing number of road traffic accidents in emerging countries, the DENSO Group formulated a Mid-term Policy targeting 2018 to continue contributing to society and sustainably growing in the years to come. Under the terms of the new Mid-term Policy, we set down three fields for particular attention over the coming three years—the environment, security and safety; the aftermarket and new business; and the global market. Consideration is being given to accelerating the pace of technological developments in the environment, security and safety field and continuing diversification in terms of products and services. Raising our proposal capabilities as system supplier, we will enhance our global development, production, and quality assurance systems.

With regard to the Company's performance in fiscal 2015, the fiscal year ended March 31, 2015, revenue rose to ¥4,309.8 billion due to increases in vehicle production volumes overseas, but operating profit decreased to ¥331.4 billion due to investment in future growth and an increase in plant establishment costs. Amid an ongoing increase in vehicle production, expected to again be primarily overseas, we will step up our performance efforts in fiscal 2016 by reducing costs and improving production efficiency, as we target revenue of ¥4,470.0 billion and operating profit of ¥380.0 billion.

In addition to delivering convenience as well as the joy of driving to people all over the world, we will aim for sustainable growth and respected individual life. We will maintain the trust of all our stakeholders as we continue to contribute to the creation of a better society.

In grateful and appreciative anticipation of receiving the ongoing support of all our stakeholders,

August 2015

President and CEO

A handwritten signature in black ink that reads "Koji Arima". The signature is written in a cursive, flowing style.

# Interview with the President



Working together with the Group toward the realization of innovative *monozukuri*.

Koji Arima President and CEO

Q1

Where do you think the Denso Group's strengths lie?

A

The Group's greatest strength lies in *monozukuri*, which Denso has cultivated over many years. The competitiveness of this expertise is due to the integration of activities from the R&D stage through close cooperation across the areas of product development and manufacturing technology. By factoring in both quality and cost from the R&D stage, it is possible to minimize ineffectiveness and improve quality while reducing costs over a short period. The Company has been committed to honing this *monozukuri* method since the 1970s and, since then, has pioneered a large number of world-first and leading-edge products with quality unrivaled globally.

Going forward, the automotive industry is expected to expand, particularly in developing countries, necessitating initiatives toward further globalization of *monozukuri*. In light of that, we intend to build on our existing expertise and expand the establishment of *dantotsu*\* plants, which has been centered in Japan, to all our plants around the world. By aligning plants with product specificity and leveraging the unique features that define each country and region, we aspire to make each plant No.1 in its respective region for *monozukuri* through *dantotsu* productive efficiency. Furthermore, the Company has embarked on initiatives to utilize rapidly evolving information processing technology to share production information across approximately 130 plants around the world in real time. By collecting information on *monozukuri* technology and know-how on a global scale and monitoring the current status of plants, we are enhancing the visibility and accessibility of information. Through such initiatives, we aim to identify and prevent problems associated with defective products and improve productivity. Going forward, the Company will continue to contribute widely to society by working together with the Group toward the realization of innovative *monozukuri*.

\* *Dantotsu* plants are those that demonstrate increased competitiveness through the introduction of speedy, efficient production lines, the development of unique, space-saving facilities, and the streamlining of distribution and inspection protocols.

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**Q2**

Please discuss challenges related to the Group's further growth going forward.

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**A**

Changing powertrain control systems, such as the increased efficiency of and the incorporation of electric technology in engines, changing safety technology, such as advanced driving support, and technological advances that link automobiles to society represent how technology in the automotive industry is ever-evolving, and competition in the development of new technologies continues to intensify. Against this backdrop, the Company must further reinforce product development in response to these changes if it is to maintain continuous growth going forward.

To this end, I believe that, in addition to strengthening the development of individual products, it is also going to be important to accelerate the development process overall by incorporating a systematic approach geared toward integration and improved performance. We are engaged in the assembly of specialists from across the Company as part of DP (Denso Project) activities, which foster timely development. The initiative to promote timely development began in 2008 following the establishment of such important themes as fuel efficiency and the development of products targeted at emerging markets.

Moreover, we are promoting similar activities to strengthen competitiveness in new areas, such as advanced driving support, information security, and small motors. With a keen sense of urgency, we intend to push forward with the pursuit of such activities by drawing on expertise across the whole Company in areas that reflect a strong societal need.

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**Q3**

Please tell us about the Company's policy with regard to shareholder returns.

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**A**

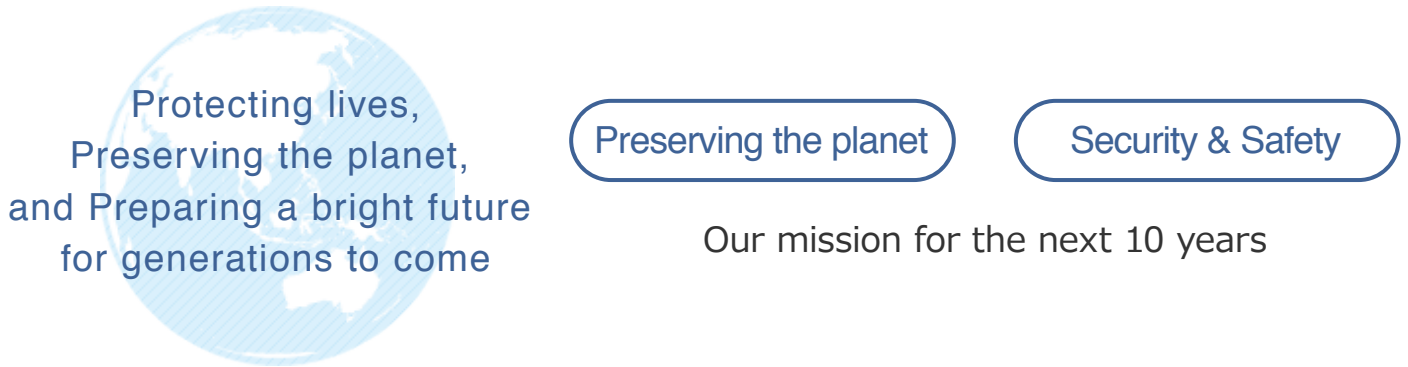
Concerning the return of profits to shareholders, we will continuously strive to raise the dividend threshold while maintaining long-term stability, giving careful consideration to a comprehensive range of factors, including consolidated performance, the dividend payout ratio, and the dividend amount. Denso uses retained earnings after the payment of dividends for investment in such areas as infrastructure, R&D, and M&A to maintain the long-term growth of its businesses and allocates funds for the repurchase of treasury stock following thorough consideration of the Company's financial position.

In line with these policies, in fiscal 2015, we declared an annual dividend of ¥110 per share, an increase of ¥5 per share from the previous fiscal year. Also, we intend to conduct an equity repurchase capped at 5 million shares, or ¥30 billion, during fiscal 2016.

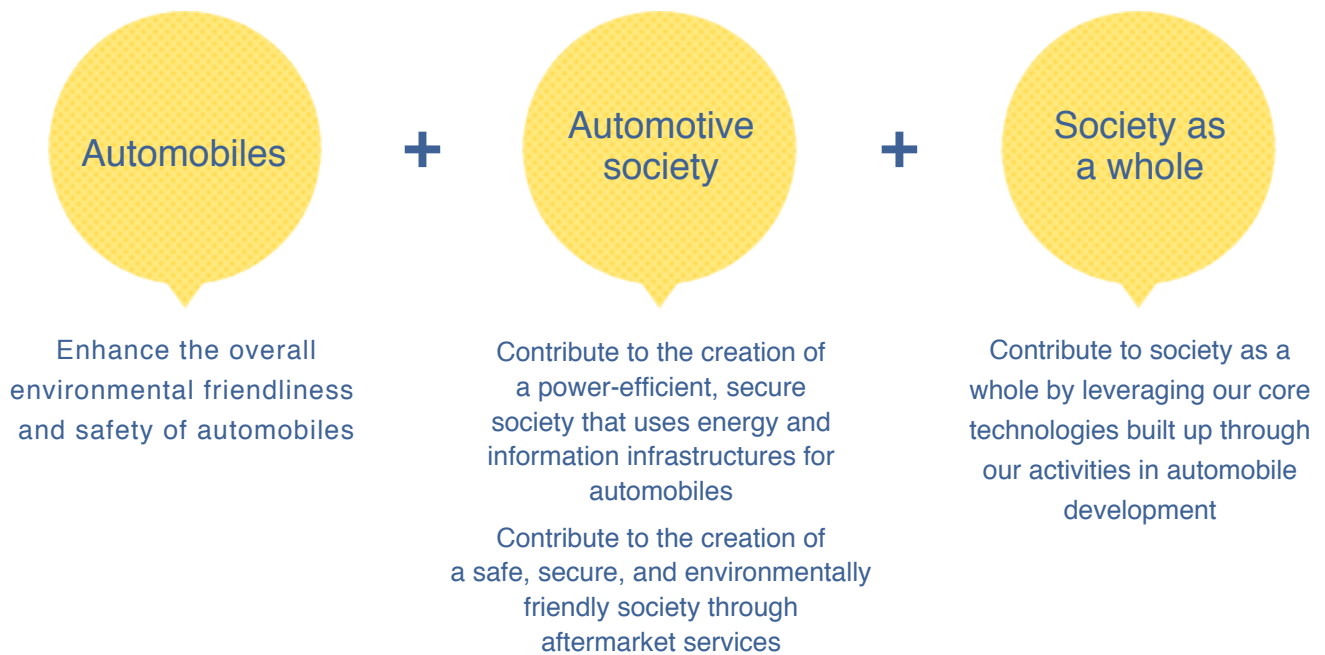
Going forward, we will continue to work toward further enhancing corporate value and raising shareholder returns.

# DENSO Group Long-term Policy 2020

The DENSO Group Long-term Policy 2020 has the slogan “Protecting lives, Preserving the planet, and Preparing a bright future for generations to come,” which the Company has established as its mission, with a particular focus on the themes of preserving the planet as well as security and safety.

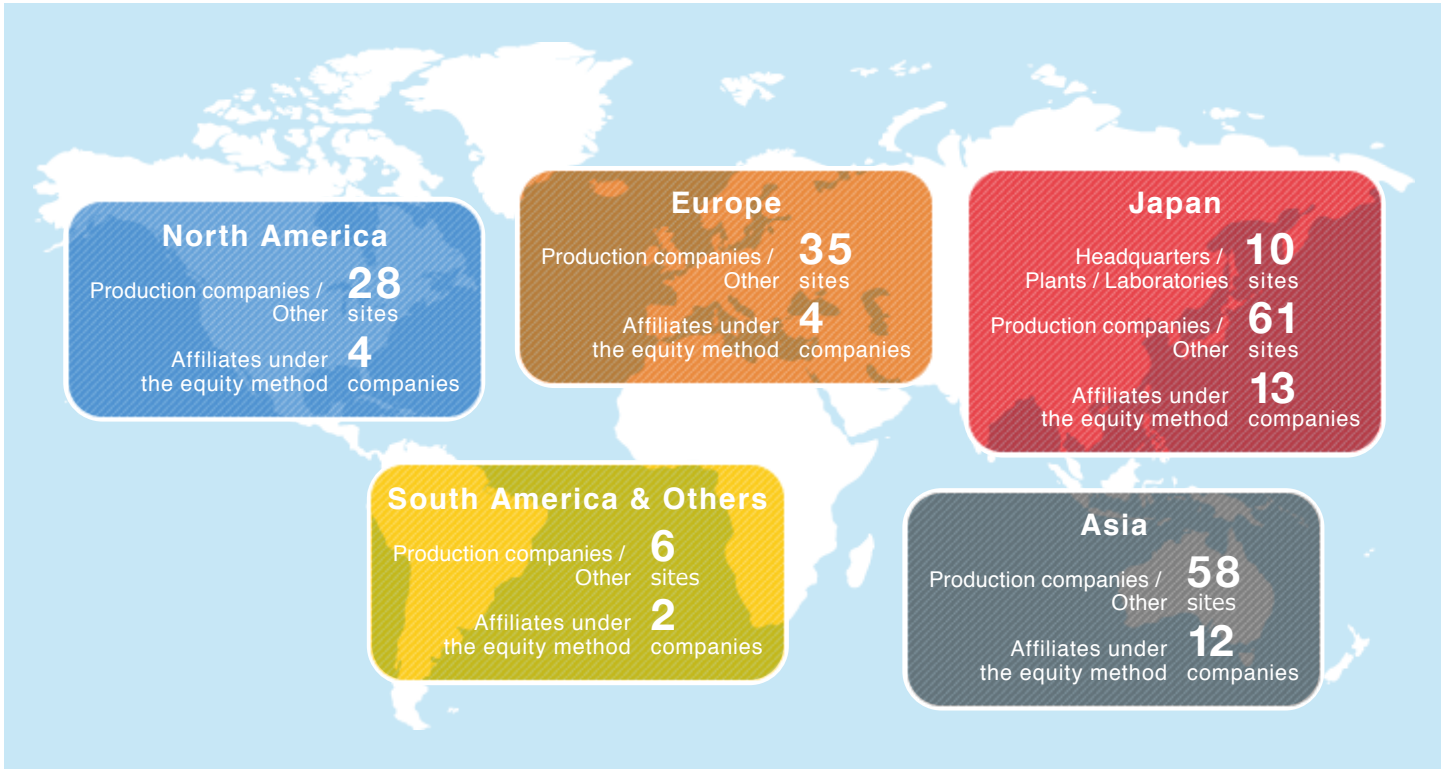


## Value Creation



The above goals characterize the value that DENSO provides, value created from a global perspective to meet local needs. To achieve these goals, we will develop new products and services through R&D activities focused on “world-first technology.”

# Global Management

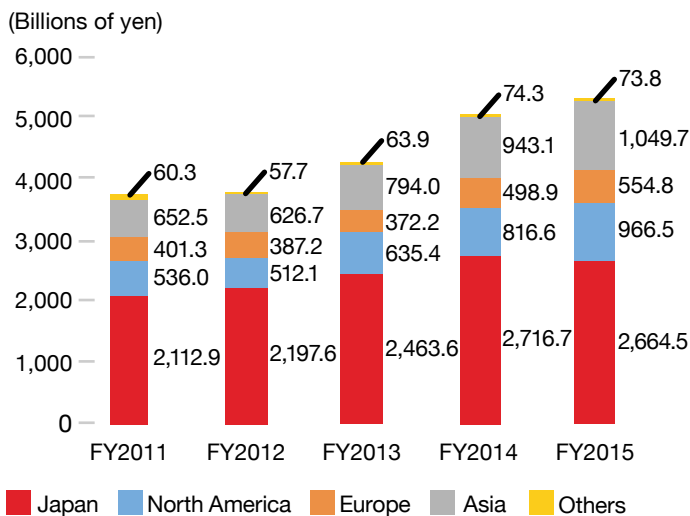


Note: In addition to the above, there is one nonconsolidated subsidiary.

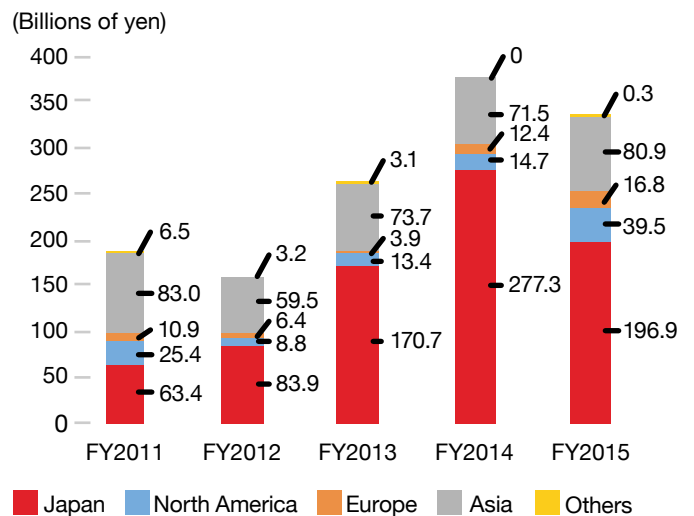
## Revenue and Profit by Segment

Figures for the fiscal 2014, the year ended March 31, 2014, and afterwards are based on International Financial Reporting Standards (IFRS). (Figures for the fiscal 2013, the year ended March 31, 2013, and prior are based on Japanese accounting standards.)

### Revenue by Segment



### Operating Profit by Segment



# Performance and Outlook by Segment

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## | Japan

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### ○ Results for Fiscal 2015

In the domestic automobile market, revenue decreased 1.9% year on year, to ¥2,664.5 billion. This decline was largely attributable to a shift toward compact vehicles for the domestic market and lower sales of products for use overseas. Similarly, operating profit was down 29.0%, to ¥196.9 billion, due to detractors including the lower capacity utilization rate that followed reduced sales as well as an increase in labor costs and other fixed costs.

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### ○ Approach for Fiscal 2016

The Japanese economy is anticipated to display a modest recovery trend on the back of increased exports and capital expenditure. These increases will follow from the dissipation of the adverse impact of the consumption tax rate hike as well as the benefits of the depreciated yen and lower crude oil prices. In the domestic automobile market, however, conditions are expected to deteriorate in comparison to fiscal 2015 due to a delayed recovery as well as a sales downturn due to the increase in taxes for compact vehicles.

Against this backdrop, the Company will install 1/N production equipment and lines to create *DANTOTSU* plants with the aim of realizing increases in investment efficiency and productivity in terms of human resources, facilities, and plant floor space. When introducing the new lines, we will employ designs similar to previous lines to lower installation costs and start-up costs. At the same time, development will be advanced while optimally allocating our resources by shifting focus toward growth fields, such as active safety systems. By increasing production and development efficiency in this manner, we will endeavor to build a business structure that can maintain stable profit levels, even in a sluggish market.

### ○ Results for Fiscal 2015

The U.S. automobile market showed strong sales and production levels due to recovery in the U.S. economy. In this market, revenue rose 18.4% year on year, to ¥966.5 billion, following increases in the number of automobiles produced for Toyota Motor Corporation and Honda Motor Co., Ltd., as well as the benefit of sales promotions for heating, ventilation, and air-conditioning (HVAC) units and gasoline direct injection engine products. Buoyed by the benefits of a higher capacity utilization rate stemming from increased sales, operating profit grew 156.9%, to ¥39.5 billion.

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### ○ Approach for Fiscal 2016

In the United States, despite the decrease in exports and rise in interest rates resulting from the strong U.S. dollar, the economy is expected to continue to expand gradually, supported by the stable job market and low crude oil prices. The automobile market is likewise forecast to grow steadily.

In this environment, the Company will expand plants in Mexico to establish an optimal production and supply system for all of North America and thereby respond to the expected increases in automobile production going forward. In addition, we will enhance human resource development programs for production, maintenance, and other manufacturing-related personnel based on the recognition that these employees are essential to ensuring stable operations and the smooth start-up of new facilities. Through these efforts, we will reinforce DENSO's earnings structure. In the area of R&D, collaboration will be pursued with technical centers and external partners to enhance development capabilities related to advanced driving support, which is in high demand in North America.

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## | Europe

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### ○ Results for Fiscal 2015

In Europe, market recovery coupled with the success of sales promotions for HVAC units and diesel common rail systems led revenue to increase 11.2% year on year, to ¥554.8 billion. Operating profit rose 39.6%, to ¥16.8 billion, due to such factors as gains from a capacity utilization rate increase brought about by the sales increase.

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### ○ Approach for Fiscal 2016

The European economy is set to recover gradually as a result of improvements in consumer spending, corporate expenditures, and exports stemming from the benefits of quantitative easing, lower crude oil prices, currency devaluation, and a strong job market. The automobile market, too, will recover steadily leading up to 2018.

Under these conditions, we will continue to advance sales promotions for powertrain control systems and thermal systems aimed primarily at European customers. In manufacturing operations, we will strive to construct a more competitive production system by further accelerating the shift toward local production of parts and equipment and developing optimal processes that incorporate suppliers. In terms of development, the European market is highly demanding as it is on the forefront of environmental and safety regulations. Accordingly, DENSO will strengthen its design functions to create products that meet the needs of customers in this market.



### ○ Results for Fiscal 2015

While growth slowed in Thailand and Indonesia, automobile production rose centered on China. As a result, revenue was up 11.3% year on year, to ¥1,049.7 billion. While there was an increase in labor costs and expenses for setting up new factories and technical centers to fuel future growth, this was outweighed by the gains on capacity utilization following higher sales and the currency exchange gain stemming from yen depreciation. Accordingly, operating profit increased 13.1%, to ¥80.9 billion.

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### ○ Approach for Fiscal 2016

Countries in the ASEAN region continue to suffer from sluggish internal demand, and economic growth is therefore forecast to be limited to a slow pace. Nonetheless, this region is anticipated to see ongoing economic growth over the medium to long term. Meanwhile, there is a certain degree of uncertainty with regard to the future of the automobile market. However, the market on the whole is expected to expand steadily going forward.

In this environment, we will continue to promote sales of compact vehicles by our cost competitive products. At the same time, we will work to differentiate the Company's offerings by launching products with specifications that optimally address the issues faced by each market in response to the introduction of regulations related to the fields of environment and safety. In the environment field, we will step up activities aimed at creating markets for stop/start systems and energy-efficient air-conditioning systems. In the safety field, we will focus on promoting sales of airbags while also advancing preparations for future promotions of cutting-edge safety products.

# DENSO Group's Mid-term Policy 2018

Special Feature

DENSO Group's Mid-term Policy 2018

Targeting  
New Value Creation



With a view to realizing its long-term aspirations, and in accordance with the DENSO Group Long-term Policy 2020 formulated in April 2013, DENSO formulated a Mid-term Policy, which will run through 2018. Under its new Mid-term Policy, the DENSO Group firstly continues to focus on heading toward realizing an automotive society in which automobiles place less of a burden on the environment and drivers have fewer worries about traffic accidents and, secondly, targets sustainable growth by further evolving its traditional operations.

## Major Policies

