

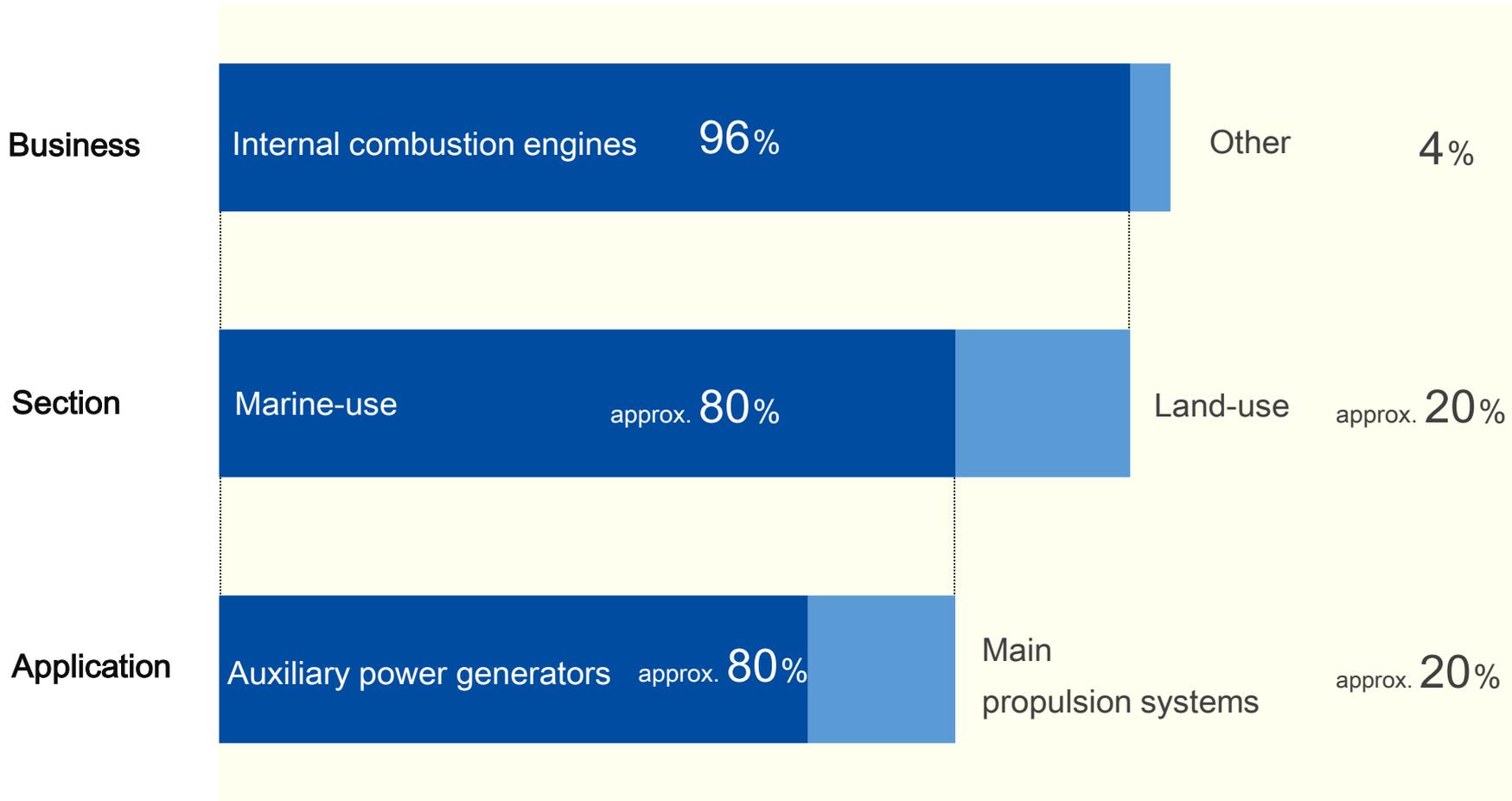
The DAIHATSU logo is displayed in a white rounded rectangle with a thin black border. The text is in a bold, blue, sans-serif font. The background of the slide is a vibrant blue underwater scene with sunlight filtering through the water, creating a bright central light source and radiating rays.

DAIHATSU DIESEL MFG. CO., LTD.

First Half of the Fiscal Year Ending March 31, 2017  
**Financial Results Briefing**

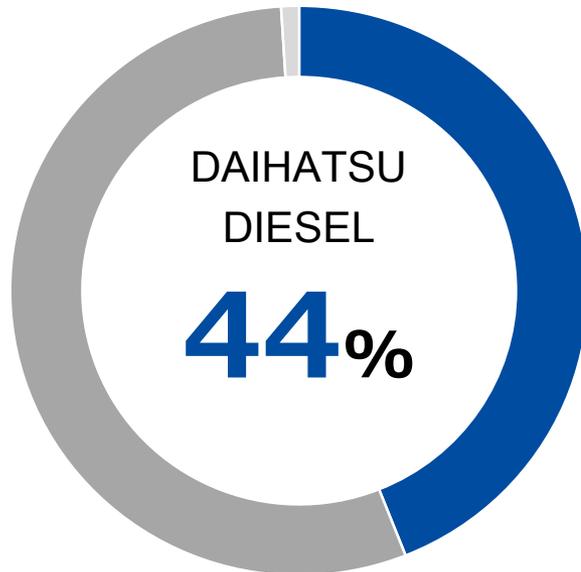
November 2016

# Sales Breakdown

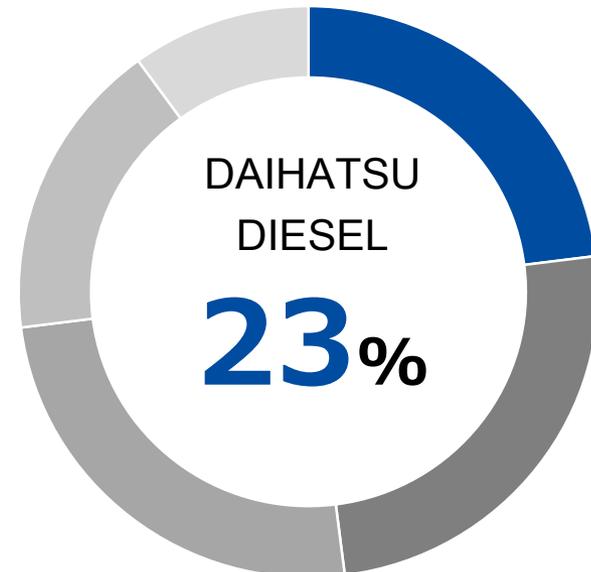


# Market Share (Auxiliary Engines for Large Ocean-going Vessels)

Share in Japan



Overseas market share

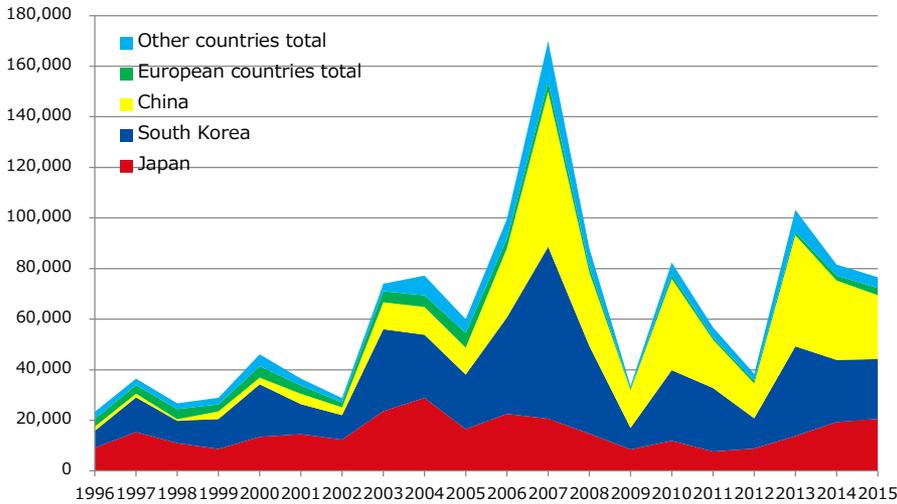


## Major competitors

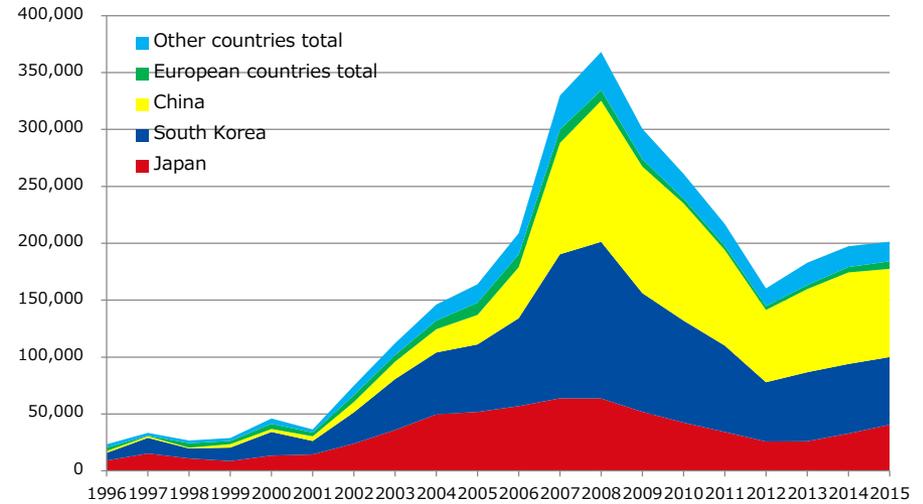
- Japan: company Y
- Overseas: company M (Denmark), company Y(Japan), company H(South Korea), company W (Finland)

# Market Trends for Newbuild Vessels

Volume of orders received, by country

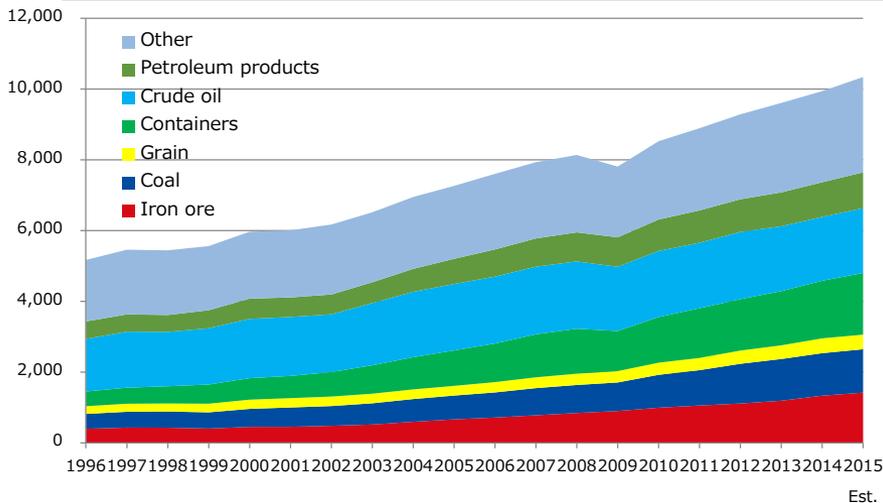


Volume of work in hand, by country



Source: The Shipbuilders' Association of Japan

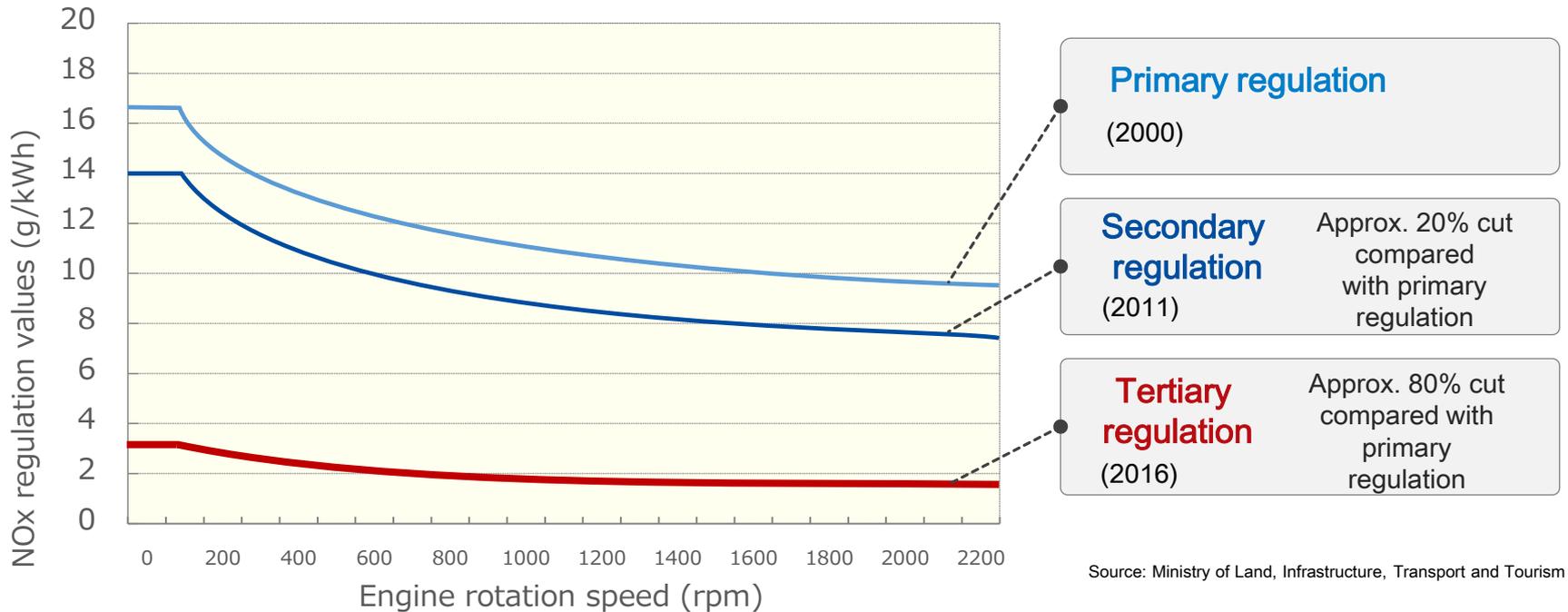
Global ocean cargo volumes, by product



- Orders received show an uneven increase over time, with a spike in 2006 to 2007, just before the 2008 financial crisis
- Volume of work in hand continues to show recovery, following a major slump after the 2008 financial crisis
- Ocean cargo volumes show steady rise over time

# Acting Promptly on Environmental Initiatives

## Impact of toughened environmental rules: Exhaust gas regulation



## Launch of tertiary regulation in 2016

NOx volumes will have to fall 80% versus primary regulation

**World first:** Our engine combined with the selective catalytic reduction (SCR\*) system has already won formal approval from 8 major ship classification societies around the world, ahead of rival companies

\*SCR: Emissions control technology system that neutralizes NOx in exhaust gas through a special catalyst

POINT

1

**Ability to develop products rapidly enables tailored response to market needs.**

- ▶ Stabilize business by mitigating impact of marine cargo restrictions and market state

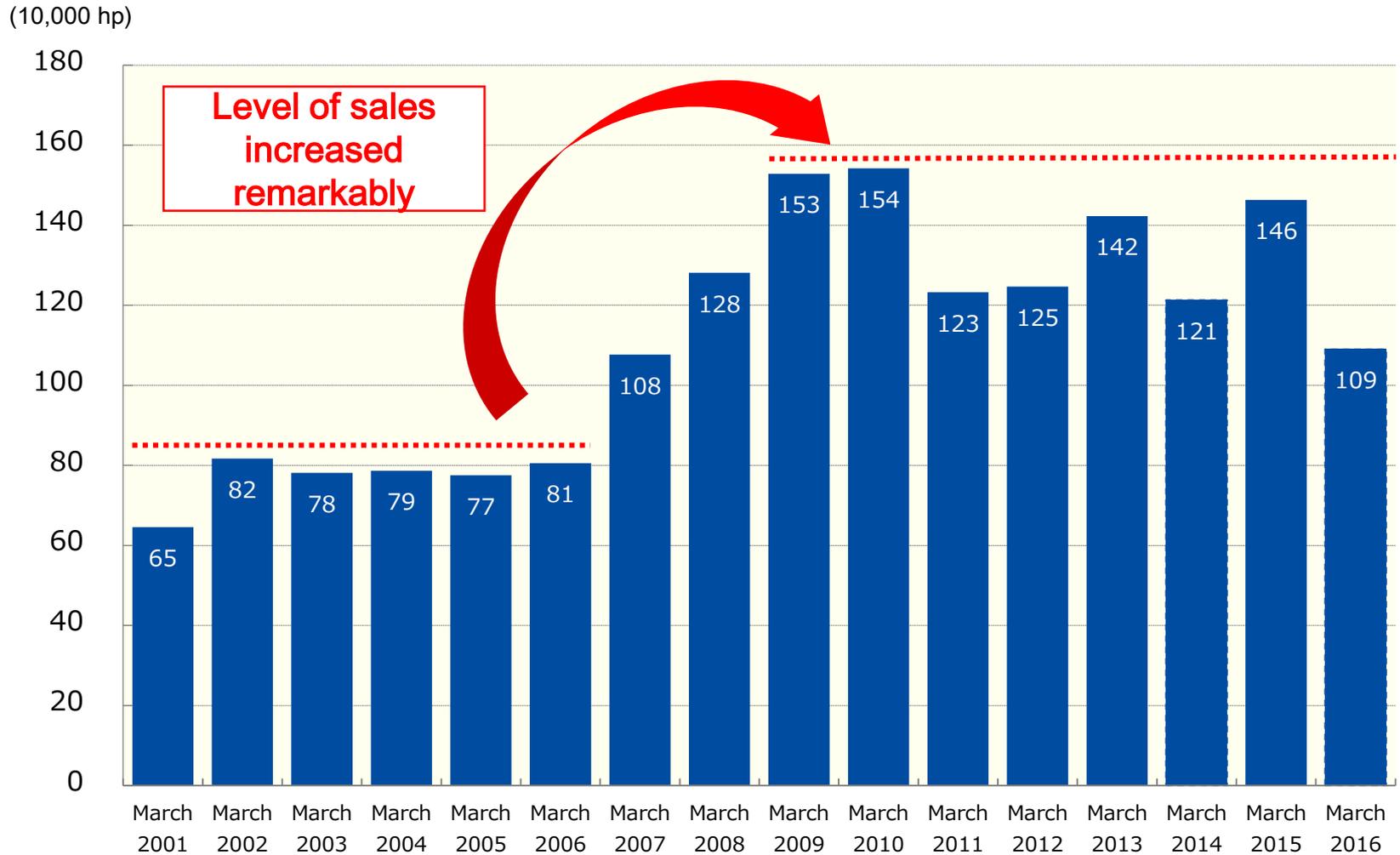
POINT

2

**Stable capture of earnings over life-cycle (30 years)**

- ▶ Post-voyage maintenance services are key.
- ▶ Cumulative total of engine units (number of ships carrying our engines) is decisive.

# Sales by Horsepower



\*Does not include technological partners in China

# Strengthening Business in the After-sales-service Market

10 years ago

## Holding the line

- Business focus was selling engines to builders of new vessels.
- Sales for the after-sales-service did not really exist.

Sales

approx. ¥15.0 billion

Major increase

Now

## Shifting to the offensive

- Creation of sales teams specializing in parts
- Launch of strategic sales targeting ship-owners and ship-managers in the after-sales-service market

Sales

approx. ¥26.0 billion

## Issues for the future

Genuine parts usage ratio is approx. 50%. Scope exists for increasing this rate.

- ▶ Gradually expand sales to mid-sized ship-owners as well.

# Overseas Strategy (Licensing)

## Anqing CSSC Diesel Engine Co., Ltd.

Anqing Diesel

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Anhui Province, China  
(Yangtze River Basin, 600 km from Shanghai)

## SHAANXI DIESEL ENGINE HEAVY INDUSTRY CO., LTD.

Shaanxi Diesel

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Shaanxi Province, China  
(50 km from Xi'an)

- Contract partner since 1982
- Granting of rights for Manufacture and marketing of certain classes of internal combustion engine
- Expand market share of DAIHATSU brand

First Half of the Fiscal Year Ending March 31, 2017  
Summary of Earnings

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DAIHATSU DIESEL MFG. CO., LTD.

# Summary

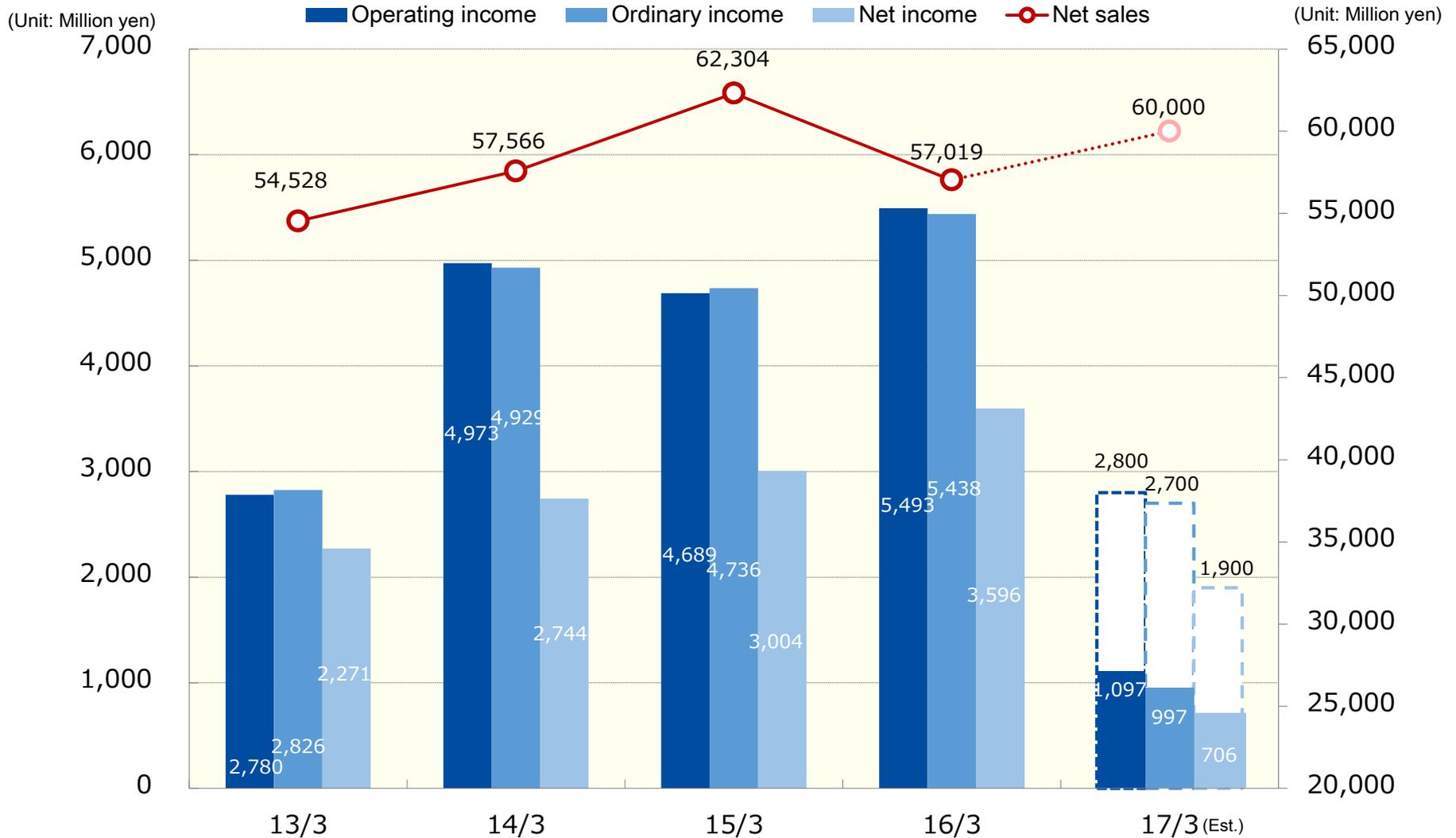
(Unit: Million yen)

|                          | September 2014 Results | September 2015 Results | September 2016 Results | YoY difference    |         | March 2017 |              |
|--------------------------|------------------------|------------------------|------------------------|-------------------|---------|------------|--------------|
|                          |                        |                        |                        | Increase/decrease | (%)     | Forecast   | Progress (%) |
| Net sales                | 29,323                 | 26,447                 | 28,139                 | 1,692             | 6.4%    | 60,000     | 46.9%        |
| Operating income         | 1,816                  | 1,884                  | 1,097                  | (786)             | (41.7)% | 2,800      | 39.2%        |
| Ordinary income          | 1,894                  | 1,833                  | 997                    | (836)             | (45.6)% | 2,700      | 37.0%        |
| Net income               | 1,241                  | 1,227                  | 706                    | (520)             | (42.4)% | 1,900      | 37.2%        |
| Basic earnings per share | 39.00                  | 38.55                  | 22.20                  | (16.35)           | (42.4)% | 59.65      | 37.2%        |
| Total assets             | 74,835                 | 71,934                 | 75,652                 | 3,718             | 5.2%    | -          | -            |
| Equity ratio             | 39.5%                  | 45.1%                  | 45.3%                  | 0.2%              | -       | -          | -            |

## POINT

- Sales expanded due to increased ship size
- Yen appreciation and sluggish performance by maintenance operations had a major negative impact on sales and earnings

# Trend of Sales and Earnings



# Analysis of Increase/Decrease in Earnings

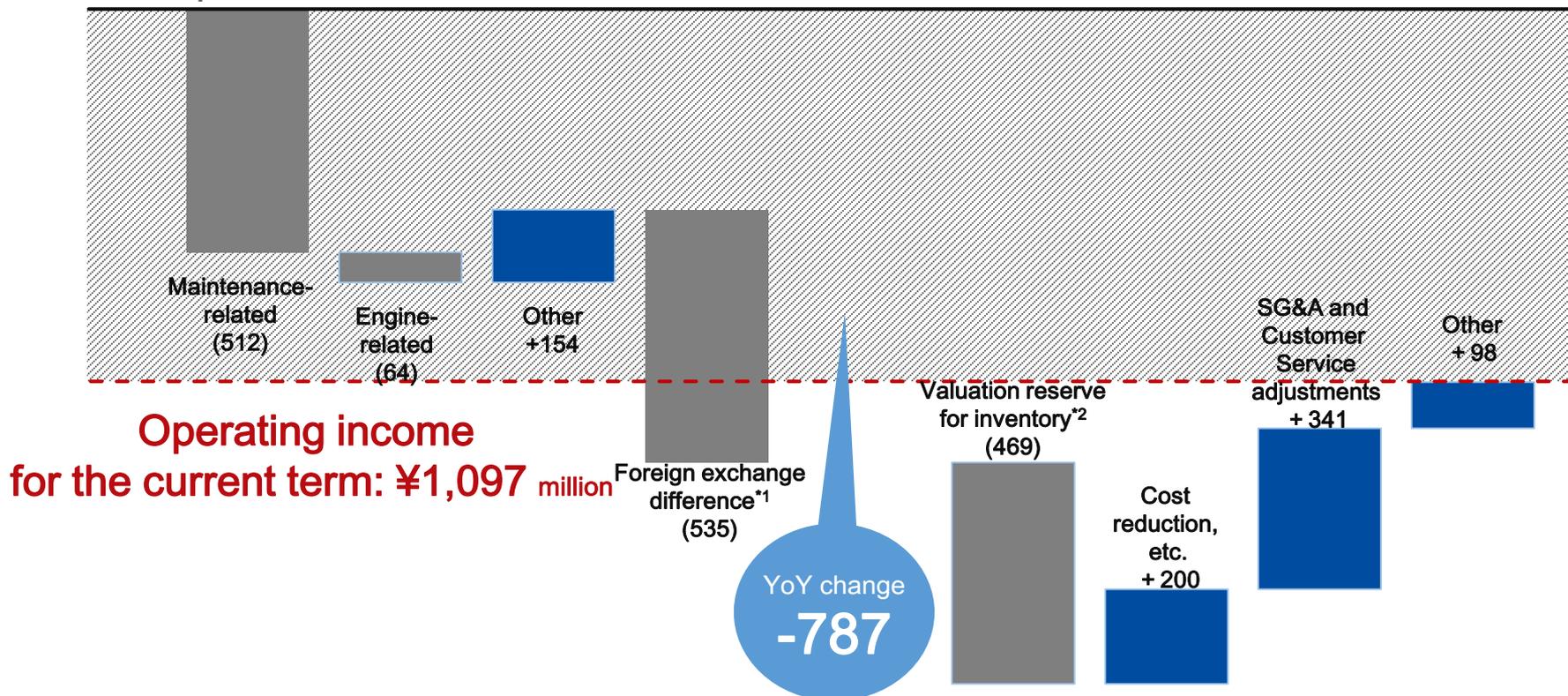
Sales

Expenses

(Unit: Million yen)

Operating income

for the previous term: ¥1,884 million



\*1 Exchange rate: ¥121.26 for the previous term; ¥104.35 for the current term

\*2 Valuation reserves, etc. for the inventory, associated with foreign exchange fluctuations

# Net Sales and Earnings for the Internal Combustion Engine Section

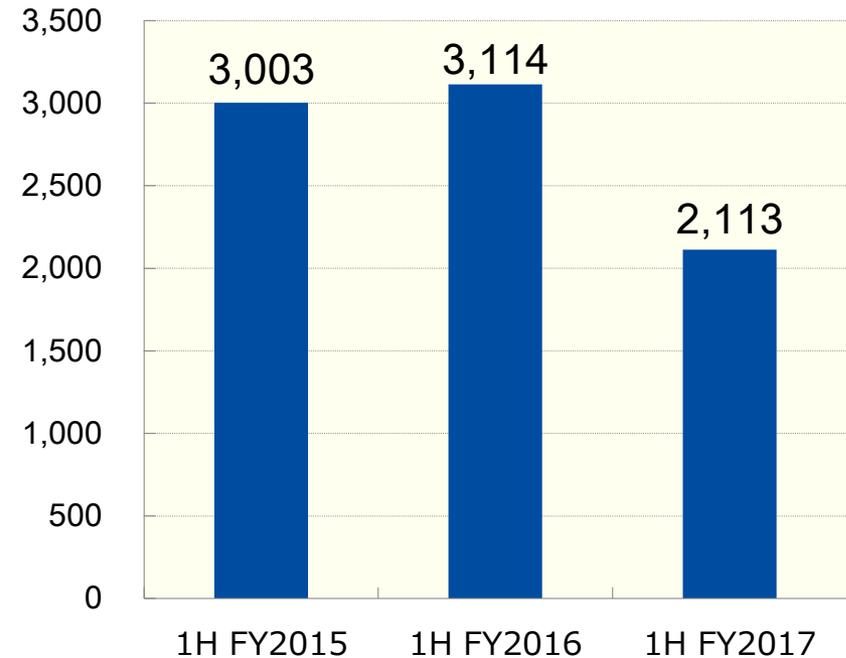
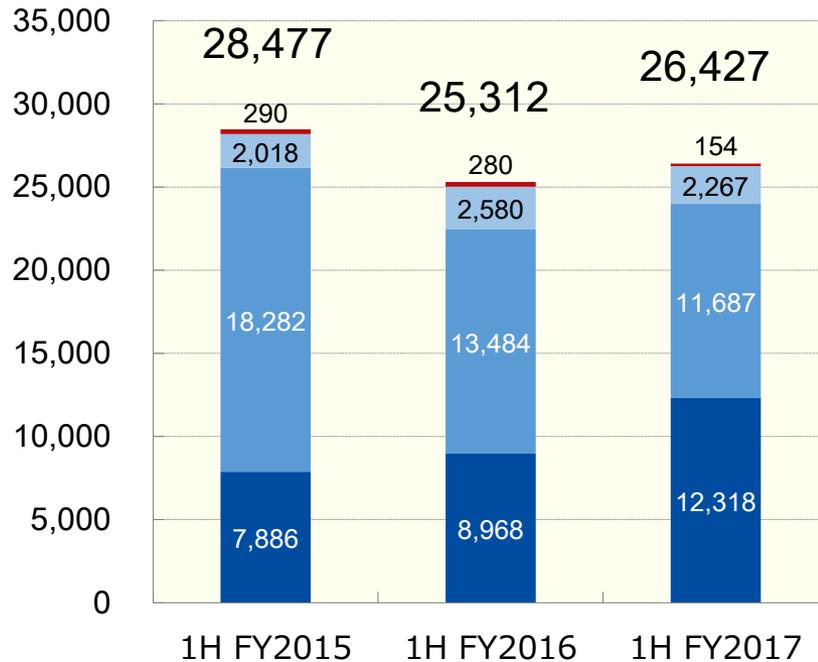
Net sales

Internal combustion engine section earnings

(Unit: Million yen)

■ Marine-use (Japan)      ■ Marine-use (Overseas)  
■ Land-use (Japan)      ■ Land-use (Overseas)

(Unit: Million yen)

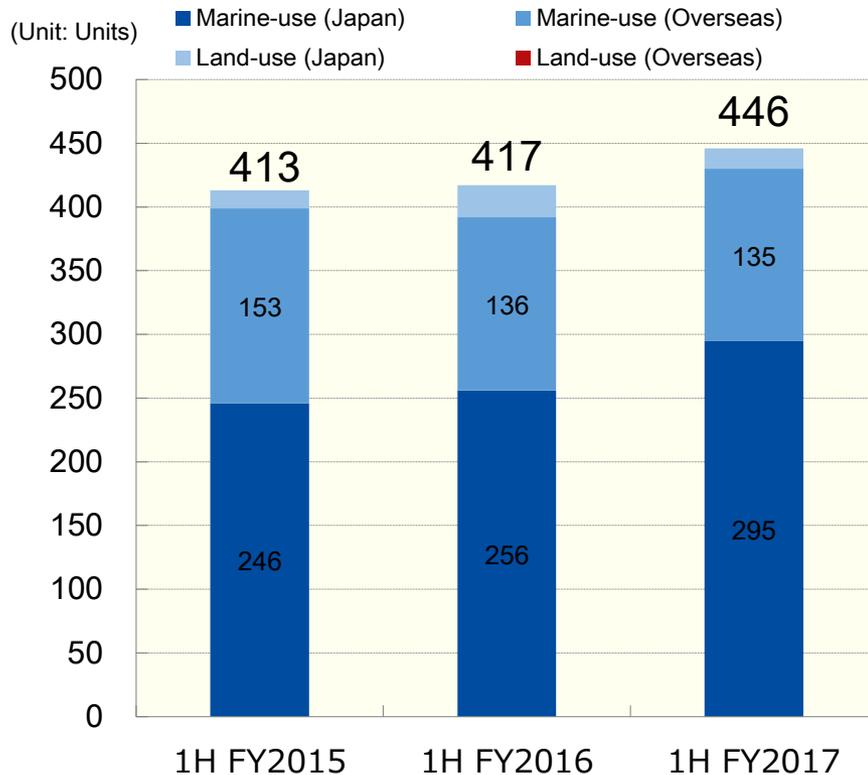


**POINT**

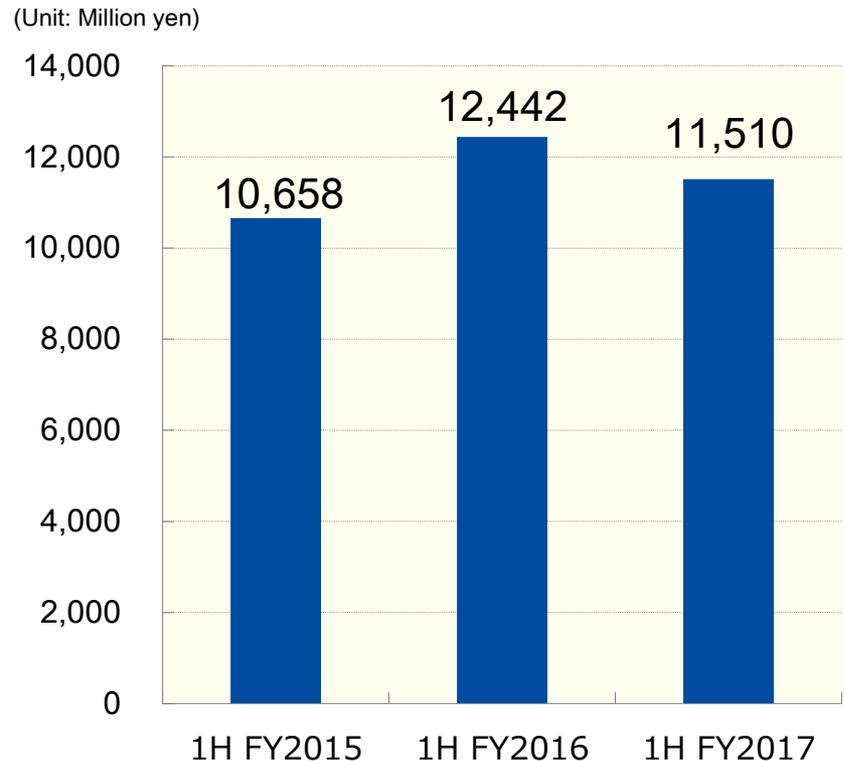
- Profitability picture remains bleak for sales of diesel engine units
- Net sales increase due to rise in sales proportion of larger diesel engines for marine-use
- Maintenance-related sales are stagnant
- Reduced earnings due to the effects of yen appreciation and valuation reserve for inventory

# Unit Sales and Maintenance-related Net Sales

Units sold



Maintenance-related net sales



**POINT**

- Total units sold increased
- Decreased earnings on back of stronger yen and sluggish maintenance-related sales

# Earnings Forecasts

(Unit: Million yen)

|                             | March 2016<br>Results | March 2017                          |                              |
|-----------------------------|-----------------------|-------------------------------------|------------------------------|
|                             |                       | Forecast (revised<br>on October 17) | Increase/<br>decrease<br>(%) |
| Net sales                   | 57,019                | 60,000                              | + 5.2                        |
| Operating income            | 5,493                 | 2,800                               | (49.0)                       |
| Ordinary income             | 5,438                 | 2,700                               | (50.4)                       |
| Net income                  | 3,596                 | 1,900                               | (47.2)                       |
| Basic earnings per<br>share | 112.98                | 59.65                               | (47.2)                       |

\*Exchange rates: March 2016 (Results) ¥119.41, March 2017 (Estimate) ¥100.00

## Forecast

- Sales increase from higher sales composition of marine-use large-scale diesel engines
- Profitability deteriorating for main engine units
- Earnings decrease due to sluggish maintenance-related sales and yen appreciation

# Progress of the Mid-term Management Plan

(from April 1, 2015 to March 31, 2019)

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DAIHATSU DIESEL MFG. CO., LTD.

## Models for large-scale ships

- Introduction of “DE-33” to the market, a new model for mega container ships (May 2016)
- Development targeted at feeder container ships where solid demand is expected



## Models at low cost and low fuel consumption

- Establish cost structure to confront yen appreciation
  - CC30 PJ  
Cost reduction activities to slash costs for design, procurement and in-house production by 30%  
An entirely new method free from conventional approaches  
Promote development while acquiring expertise from the Toyota Group

## Environmental response

- Orders for SCR are favorable. Promote urea solution generation system and scrubbers (\*)
  - Initiatives for establishing our presence as a manufacturer undertaking environmental measures are successful

\*In April 2015, signed exclusive sales agency agreement in Japan with BELCO in the U.S.

## Sales expansion in parts business

- Promote switch to the Company's genuine parts and purchase of auxiliary equipment to maintain engine performance by visiting ship-owners and ship management companies
- Listing of target customers, proactive sales expansion and progress management
- Measures against counterfeit products (detect and restrict illegal sale)
- Rebuild agency network

## Sales expansion in service business

- In Japan, make proposals on land-use engines to receive orders
  - Sales promotion activities targeted at domestic maintenance bases in response to large-scale natural disasters
- Overseas, cultivate construction needs through an enhanced service system

## Production innovation at Moriyama Factory

- Production Innovation PJ
  - Promote operational standardization, lead-time shortening, and cost reduction activity with support of Toyota Group
- Rebuild production system (operation scheduled to start in 2017)
  - Promote introduction of system for quick response to orders, lead-time shortening, cost reduction, and inventory reduction

# Reorganization of production bases (New Himeji Factory)



- Basic plan for the new factory (response to larger-scale engines and higher efficiency)
  - Located on the coast to eliminate losses arising from fragmented engine parts deliveries and reassembly
  - Introduce an advanced production system (in-house transportation, andon (electric light board) and abnormality display device)
  - Adopt lead-time shortening method used in Toyota's production systems

Panoramic view of New Himeji Factory (planned)



Location: Fuji-cho, Hirohata-ku, Himeji City, Hyogo Prefecture

Site area: Approx. 60,000m<sup>2</sup>

Start of operations: Scheduled within FY2018

Number of employees: Approx. 100 (after 3 years)

Remarks: Finished products will be shipped from the adjacent public berth

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