DENSO’s Mission

Contributing to a better world by creating value together with a vision for the future

On This Booklet (Digest Edition)

DENSO has issued Annual Report 2016 (hereafter: “the annual report”) as its first integrated report. In the annual report, content is focused on the integrated introduction of financial information, such as performance and strategy, and non-financial information on the environment, society, and governance, or “invisible assets.” The annual report’s content also deals with mechanisms responsible for the creation of DENSO’s unique corporate value.

In an effort to communicate the overall picture of the annual report in an easy-to-understand manner, this booklet (digest edition) has been edited to include abridged versions of the annual report’s main points. For detailed information, please consult the annual report. The contents of the annual report are as listed below (summaries that appear in the digest edition are indicated by the page numbers shown below).

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The annual report can be found at: the DENSO global website > Investors > IR Library > Annual Report

We hope...

Spearheading Monozukuri, “we aim to create a bright future.”

“Knowing that automotive parts have been a matter of life or death in DENSO’s business development for more than 60 years, I learned how necessary high quality and high precision are. As a matter of life or death, we want to show commitment to consistently high quality. That is the thought that runs through DENSO’s very foundation.”

Koji Arima, President & CEO

On a global scale

Expanding onto the world stage

“Rather than focusing on short-term profit, DENSO is a company that aspires to long-term sustainable growth and aims to consistently deliver joy and new value to society for the future. It is precisely because DENSO is a company that aims to foster growth in people and communities that we are able to bring these kinds of ideas to fruition.”

Manager, North American Regional Headquarters

To connect to society

That feeling of satisfaction when delivering to society

“A corporation representative of the local area, DENSO is a company that has known its children. It is not only a business but also a neighborly service as a member of our community. For example, by providing medical checkup activities I find the value of trying to connect with society very impressive. DENSO is a company that is responsible to the area.”

Local resident living in the vicinity of DENSO headquarters
One year has now passed since you were appointed president and CEO in June 2015. Could you please provide a summary of what you focused on in particular and the resulting achievements during your first year at the helm?

In 2015, with a view to realizing its aspirations for 2020, the Company formulated its Mid-term Policy for which 2019 is deemed as the fiscal year of its achievement, set three focus fields—the environment, safety and security, after-market, and new business, and the global market—and started to address new challenges. In fiscal 2016 (the year ended March 31, 2016), the first year for the policy’s initiatives, we accelerated development of environmental products that contribute to fuel consumption reduction and safety and security products that prevent traffic accidents while launching products in the field of agricultural production support that leverage the technologies the Company has accumulated in the automotive field. In addition to extending our DANTOTSU (outstanding) plant activities to Group companies in Japan and overseas, we commenced initiatives such as setting up the DP-Factory IoT Innovation Department and initiatives designed to bring about dramatic improvements in quality and further innovative technology for Monozukuri.

By fiscal 2019, having further raised our R&D and Monozukuri capabilities and accelerated the development of world-first and locally developed new technologies, I believe DENSO to have become a company capable of contributing to society on a global scale. With regard to the changes in the business environment in which we operate, so-called paradigm shifts are occurring more and more quickly and to a greater extent. Amid such extreme changes, I feel it imperative that to bring the Mid-term Policy to fruition we need to pay close attention to global trends, maintain a future orientation, confront whatever challenges that we might face while resolutely maintaining a healthy sense of crisis in decisively overcoming them with a strong sense of ownership and an unprecedented sense of speed.

What are the aspects to which DENSO attaches importance in promoting its business activities?

The aspects that the Company values the most are its comprehensive wisdom and comprehensive capabilities in R&D, Monozukuri and Hitozukuri (human resource development). I believe that these will be the driving force behind DENSO’s growth. Focusing on being the first in the world, the Company has been working with automakers on R&D from a global viewpoint that looks ahead 10–20 years. Having constantly focused on in-house technologies since its establishment, in Monozukuri the Company carries out in-house manufacturing design, from facilities and production lines to materials and process methods. Furthermore, I believe that the Company’s distinctive feature is its sophisticated and speedy product development that is brought about through the close collaboration between R&D and Monozukuri.

In a rapidly changing business environment, speed will take on even greater importance. However, there is a general belief that a principle of self-sufficiency that brings everything under one roof will not in itself enable a company to respond with a sense of speed to its rivals and competition in development. Without being afraid of change, I would like to continue to further hone the technologies that incorporate a range of knowledge by collaborating with other companies and research institutions to make DENSO more agile than ever before.

At the same time, the “DENSO Spirit” that embodies the common employee values that we have been cultivating since our establishment is an unchanging asset on which the Company has placed a high value. Considering Hitozukuri as a management foundation, we have been focusing efforts on proactive human resource training based on that DENSO Spirit. As the driving force for opening up the Company’s future in the years to come, I would like to continue sharing this DENSO Spirit with our partners across the world.

President Arima, in closing, could you please tell us about your hopes and aspirations with regard to the further growth of the DENSO Group?

Established as a manufacturer of automotive electronic components in 1949, DENSO has been globally expanding its business domains to this day. Always responding to the needs of our customers and of the times, this expansion has had the effect of addressing the creation of a better society by causing accumulated R&D capabilities to come together with Monozukuri and Hitozukuri capabilities as well as the provision of world-first technologies and products, and I consider it important for this cycle to continue. For that reason, I recognize it as my responsibility to steer a course to become a corporate group that repeats that cycle and grows and develops in its relationships with all of its stakeholders.

In resolving social issues through business and continuously providing value, I believe that we have been improving our earnings, strengthening our financial base, and realizing an improvement in DENSO’s corporate value. As a result, under the policy that continues to be linked to dividend returns to all shareholders, I recognize it as an important mission of the DENSO Group to stably bring about improvements in the dividend threshold over the long term. So that we are able to contribute to the creation of a better society from now on, I would like DENSO to remain a company that is full of enthusiasm and smiling faces and in which each and every employee takes steps to go further and higher with courage. I would like to take this opportunity to thank everyone for their continued and unflagging support.

Koji Arima
President & CEO
DENSO is leveraging the strengths of its R&D, Monozukuri *1 and Hitozukuri *2, which have been cultivated since its founding, as the driving force of its business activities.

By addressing a variety of social challenges, helping to preserve the global environment, and contributing to the security and safety of society, DENSO is also taking steps to enhance its corporate value. Through these means, the Company is further reinforcing its inherent strengths while ensuring that its efforts lead to sustainable growth.

Here, we would like to provide details of our thoughts and the processes implemented.

*1 Monozukuri: The art of making things
*2 Hitozukuri: Human resource development

Corporate Value Creation Process

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*1 Monozukuri: The art of making things
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**Strengths That the Company Has Nurtured Since Its Founding**

DENSO’s strengths lie in the R&D, Monozukuri, and Hitozukuri that it has continued to nurture since its founding. Each of these strengths mutually supports the other, helping to drive the activities of the Company forward. These strengths also help realize DENSO’s Long-term Policy, which is supported by the pillars of environmental preservation, security, and safety and provide the engine that delivers new value to society.

**Research and Development (R&D)**

We are taking steps to further strengthen planning and R&D in order to accurately perceive society’s needs and produce competitive products. For instance, we use R&D themes through the sharing of roadmaps with related divisions that integrate social trends and regulations. In addition, we are strengthening our global development network by promoting technological proposals tailored to local business at our technical centers in seven regions throughout the world. DENSO considers R&D expenditure at around 9% of revenue to be an appropriate level, and is therefore maintaining that high level.

**Monozukuri**

Since its inception, DENSO’s Monozukuri has thoroughly integrated in-house technologies. Through Monozukuri’s positive steps are taken to design and manufacture equipment, production lines, materials and processing technologies. This enables us to provide society with the world’s most advanced groundbreaking technologies and products conceived by our R&D. We have strived to develop speedy and efficient production lines and compact, unique facilities, as well as streamline distribution and inspection with our own production technology, and we have built a DANOTOTSU plant that performs Monozukuri at a DANOTOTSU (sustaining cost) plant is such a high level that it cannot be compared to other plants.

**Hitozukuri**

*“The best products are made by the best human resources.”*

DENSO has positioned human resources as its most important management resource. Accordingly, the Company has focused on the training and skill development of employees based on the idea that human resource development supports R&D and Monozukuri. Furthermore, the “DENSO Spirit,” a heritage dating back to the Company’s founding, is instilled in every employee through our Code of Conduct and carried out in our daily business operations.

**Monozukuri & Safety**

DENSO’s strengths lie in the R&D, Monozukuri, and Hitozukuri that it has continued to nurture since its founding. Each of these strengths mutually supports the other, helping to drive the activities of the Company forward. These strengths also help realize DENSO’s Long-term Policy, which is supported by the pillars of environmental preservation, security, and safety and provide the engine that delivers new value to society.

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**R&D That Confronts the Impossible Commitment to World-Firsts**

In order to make an HVAC that can be used in everything from compact cars to large vehicles, it must be based on a size that fits in a compact car. Therefore, we made changes in the installation space for HVACs of the last 10 years of major Japanese, U.S., and European manufacturers and clarified specifications for performance and function. From there we derived future trends and created an HVAC to cover them. A particularly important change was the reduction in the area visible from the side. We were able to achieve a 20% reduction in the side area by miniaturizing such new functional components as the blower fan and servo-motor module and applying a sliding door system to the

**Innovative Monozukuri**

**Production Technology That Gives Shape to World-First Ideas**

In order to take advantage of HVAC features aimed at complete standardization, we sought to create a process concept that would become a highly efficient compact global standard. To achieve this, we adopted a Process Degree of Coincidence Index. Because conventional HVACs are specially designed for each vehicle model, part types are vast and the production process is also fragmented. Therefore, even if the HVAC were produced with differing specifications, standardized parts would run in the same order, and as such, we devised a method to raise the process degree of coincidence. As a result, the process degree of coincidence doubled and a significant production improvement was achieved.

**Value to Society**

**Achieve comfortable car interiors**

**Contribute to the environmental impact of fuel economy improvement**

**Global fair and stable product supply**

**Energy efficiency through low cost and productivity improvement**

**CoA HVAC**

Drawing on the steps taken to launch CoA HVAC, we provide details of the Company’s unique value creation mechanism.

**Glossary**

**What is HVAC?**

HVAC is the acronym for “Heating, Ventilation and Air-Conditioning,” a major component of car air-conditioners that controls temperature, air volume, and outlet location in order to maintain a comfortable temperature in the vehicle interior.

**Development Background**

Improvement of environmental performance and comfort, a challenge that automotive society currently faces, as well as a Company theme, is the basis of development. The societal need for greater fuel economy, which significantly affects environmental performance, is further increasing. At the same time, if we can ensure a higher degree of design freedom, a comfortable interior, and eliminate noise, we can make more competitive products. The Company is working to create smaller, lighter, and higher performance air-conditioning units (HVACs) that currently meet up a considerable amount of space in vehicles’ instrument panels, and curtail costs through standardization with the idea that they could be installed in even more vehicles. In other words, one HVAC unit would be compatible with a wide range of vehicles including compact cars, SUVs, luxury cars, hybrid cars, and all-terrain vehicles across automakers, car models, and powertrains. In past HVAC development, an enormous variety existed because they were specially designed for each car model. By overcoming that major premise, however, we challenged the development of a general-purpose HVAC while meeting the needs of many customers.

**Concurrent Engineering**

Concurrent engineering, which transcends development and manufacturing departments, was essential to the creation of the CoA HVAC. Up until then, we ran into a number of challenges and obstacles and those that could not be resolved by the development department alone were repeatedly discussed, using things in the training camp and outside the Company, and we solved them one by one with the cooperation of Group companies. In the production process as well, in the concurrent engineering activities, in order to make an easy-to-build product configuration significant changes were made to the Monozukuri system, such as approving the manufacturing department’s request that it be involved from the design phase of each part.

**Manufactestation of the DENSO Spirit**

Initially, everyone thought that this project would be impossible, but the goals of making a world-first HVAC and transforming Monozukuri were shared beyond the development, manufacturing departments, and Group companies. The CoA HVAC was completed by mobilizing the collective wisdom and strength of everyone involved.
DENSO’s History of Corporate Value Creation

DENSO has maintained the corporate mission of addressing shifts in societal needs while helping to solve social issues. Beginning with the manufacture of such electrical components as alternators and starters, the Company has continued to substantially expand the scope of business activities and accordingly achieved a dramatic increase in sales. In this manner, DENSO has successfully linked the creation of value for society with the creation of corporate value.

Here, we provide details of the Company’s growth trajectory that is grounded in efforts to consistently create both social and corporate value over the more than 60 years since DENSO’s founding.

### Changing Societal Needs

#### 1949
- Separated from Toyota Motor Co., Ltd. and established Nippondenso Co., Ltd.

#### 1950s
- Entered into a technical cooperation agreement for electrical equipment with Robert Bosch GmbH
- Started the Assigned Service Station System to install shops in respective regions
- Opened a technical training center
- Opened an injection pump preparation section

#### 1960s
- Won the Deming Prize, the most prestigious award for quality control
- Established its first overseas sales company in Los Angeles
- Established its first overseas manufacturing companies in Thailand and Australia

#### 1970s
- Won its first gold medal at the World Skills Competition
- Won its first Okochi Memorial Production Prize (production engineering section)

#### 1980s
- Opened the Nukata Testing Center

#### 1990s
- Established Research Laboratories
- Established the DENSO Philosophy
- Changed name to DENSO Corporation

#### 2000s
- Opened its first overseas regional training center in Thailand

#### 2010s
- Formulated DENSO Group Long-term Policy 2020
- Formulated Environmental Action Guidelines DENSO Eco Vision 2025

### Corporate Value Creation Process

#### DENSO’s History of Corporate Value Creation

#### Value Provided to Society

- **Environment**
  - Smaller inverters that utilize cooling on both sides
  - Motor generators that utilize a unique winding configuration
  - ISS idle-stop system: tandem solenoid starter
  - Remote start-up even when engine speed decreases

- **Security & Safety**
  - Pedestrian collision detection sensors that accurately detect during the entire bumper

#### Revenue

<table>
<thead>
<tr>
<th>Year (FY)</th>
<th>Revenue* (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,422.6</td>
</tr>
<tr>
<td>2016</td>
<td>4,524.5</td>
</tr>
</tbody>
</table>

#### Number of Employees

<table>
<thead>
<tr>
<th>Year (as of March 31)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>40,278</td>
</tr>
<tr>
<td>2016</td>
<td>151,775</td>
</tr>
</tbody>
</table>
While focusing mainly on its automotive-related operations, DENSO also pursues a wide range of business opportunities, from new businesses that utilize automotive technologies to consumer-, industrial-, and other related products. Details of the composition of revenue for each business are presented briefly as follows.

### Revenue

<table>
<thead>
<tr>
<th>Business</th>
<th>2016 (Billions of yen)</th>
<th>2015 (Billions of yen)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Powertrain Control</td>
<td>1,529.0</td>
<td>1,409.9</td>
<td>0.9%</td>
</tr>
<tr>
<td>Thermal</td>
<td>1,000</td>
<td>965.7</td>
<td>3.5%</td>
</tr>
<tr>
<td>Information &amp; Safety</td>
<td>689.3</td>
<td>666.1</td>
<td>3.5%</td>
</tr>
<tr>
<td>Electronics</td>
<td>662.6</td>
<td>646.6</td>
<td>2.5%</td>
</tr>
<tr>
<td>Small Motors</td>
<td>302.3</td>
<td>286.7</td>
<td>5.6%</td>
</tr>
<tr>
<td>New Business</td>
<td>62.4</td>
<td>65.6</td>
<td>-5.1%</td>
</tr>
</tbody>
</table>

In fiscal 2016, revenue was roughly the same as the previous fiscal year, edging down 0.3%, to ¥372.2 billion. Results were significantly impacted by the decline in vehicle production in Japan.

In fiscal 2016, revenue grew 4.9% compared with the previous fiscal year, to ¥1,619.7 billion. This was largely due to increased sales of meters in North America and safety products in Japan.

In fiscal 2016, revenue increased 5.9% compared with the previous fiscal year, to ¥1,409.9 billion. This was largely due to increased sales of meters in North America and safety products in Japan.

In June 2015, DENSO formulated the Basic Policies on Corporate Governance based on the Corporate Governance Code that aims for transparent and efficient corporate management.

### Corporate Governance System

The Company has established a management system that performs accurate decision-making and rapid business execution, while enabling proper oversight and monitoring. As a system of decision-making for business execution, DENSO has established the Officer Meeting comprising the Board of Directors. Through a corporate officer system that separates and clarifies the roles between Members of the Board, who are responsible for management (decision-making and supervision), and Senior Executive Directors and Executive Directors, who are responsible for the execution of business operations, DENSO Corporation is streamlining the number of Members of the Board and is realizing swift decision-making and business operations. Under this system, depending on the circumstances, Members of the Board serve concurrently as Senior Executive Directors to directly link management with management by continuously providing shareholders and investors with information on the state of our business.

The Company is streamlining the number of Members of the Board to one at a year with the aim of building a flexible management structure that responds to changes in the management environment and to further clarify management responsibility during the business year.

Moreover, we have strengthened our corporate governance system by establishing the Officer Nomination and Compensation Advisory Council as an ad-hoc committee that corresponds to the Nomination Committee or Compensation Committee in appointing directors and auditors and determining their compensation.

### Dialogue with Outside Directors

**Actively Incorporating Different Perspectives to Reinforce Governance as a Foundation for Growth**

To realize long-term corporate growth, the DENSO Group is working to reinforce its governance, which acts as the foundation for such growth.

We had our two outside directors provide us with their honest opinions on the Group’s governance and speak frankly about the issues the Group faces in improving its corporate value going forward.
Environmental Management

Further details on Environmental Management can be found on pages 50–52 of the annual report.

Basic Stance
DENSO aims to be a corporate group that contributes to the “creation of an advanced automotive society” in order to maintain and ensure harmony with the Earth’s environment. As such, we must work to achieve world-class environmental efficiency and high resource productivity as we reduce the environmental impact of our operations. This applies not only to product development and production but also to all aspects of our business activities. We are also promoting environmental management, an approach that creates economic value through environmental conservation activities.

Environmental Value Creation Management
Every 10 years, DENSO formulates its DENSO Eco Vision to demonstrate its long-term commitment and to serve as its environmental policy for the environmental management to which the Group aspires. Every five years, DENSO defines an Environmental Action Plan to embody the commitment and environmental policy set out in its Eco Vision.

DENSO Eco Vision 2025
DENSO has formulated the new DENSO Eco Vision as an action plan toward realizing sustainable regions and societies in 2050. This latest Eco Vision sets three targets (Target 3) to be achieved in 2025: ENERGY 1/2, CLEAN × 2, and GREEN × 2.

The Company will also promote 10 specific actions (Action 10) to realize these three targets in the respective stages of products, factories, associates (employees), and management.

Environmental Value Creation Management
Every 10 years, DENSO formulates its DENSO Eco Vision to demonstrate its long-term commitment and to serve as its environmental policy for the environmental management to which the Group aspires. Every five years, DENSO defines an Environmental Action Plan to embody the commitment and environmental policy set out in its Eco Vision.

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The Company will also promote 10 specific actions (Action 10) to realize these three targets in the respective stages of products, factories, associates (employees), and management.

Engagement with Society

Basic Stance
DENSO advances business activities while interacting with various stakeholders.

To create a better society, DENSO clarifies its responsibility to stakeholders in its business activities, and values engagement with stakeholders as a helpful means of avoiding self-satisfying activities that are biased by its own logic and preconceptions. DENSO fulfills its social responsibility while reflecting stakeholder opinions and the needs of society in its corporate activities.

Examples of Engagement with Stakeholders

Customers
Customer Satisfaction (CS) Improvement Exhibition
DENSO holds an exhibition to present its Monozukuri initiatives and associated case examples—which are based on customer feedback and undertaken from the customer’s perspective—to employees, Group companies, and suppliers. We also hold lecture sessions on the theme of fostering awareness of the customer’s perspective to learn about efforts by other companies.

Approx. 20,000 people attended

Suppliers
General Meeting of Suppliers
As a measure to deepen interactions with our suppliers, we provide information to major suppliers inside and outside Japan about our procurement policy and the initiatives of each business division.

Approx. 340 suppliers participated from around the world

Employees
Global Conference
Leaders from Group companies around the world gathered at the Global Conference to learn more about the Mid-term Policy and discuss related strategies as well as hear presentations by directors about how the Group is pivoting toward sustainable development, followed by group sessions.

Approx. 300 employees participated from around the world

Local Communities
DENSO Group Heartful Day
DENSO has designated a day (“Heartful Day”) for employees to give back to their local communities. DENSO aims to contribute to society in ways that reflects its unique position and role in society.

Approx. 30,000 employees participated from around the world

Shareholders and Investors
Results Briefings for Institutional Investors
DENSO holds results briefings for the purpose of disclosing business and financial information in a timely and appropriate manner and enhancing management transparency through dialogue. After presenting financial information, DENSO updates investors on the development of products that contribute to security, safety, and the environment based on its Mid-term Policy, and then opens the floor to questions.

Approx. 130 people participated in each of the four annual events

Ordinary General Shareholders’ Meeting
After the president reports progress on annual initiatives, the president and Board members answer questions posed by shareholders. Once the General Shareholders’ Meeting ends, DENSO offers participants a tour of its plants with a choice of seven courses for learning more about Monozukuri.

Approx. 1,200 people participated

Please visit our special Eco Vision 2025 website at: