

As of March 31, 2001, DENSO operated in 27 countries and regions worldwide through 142 subsidiaries and 22 affiliates, including 76 production centers. Under this global system, we conduct business with virtually all of the world's automakers.

The auto industry today faces various issues that are spurring change. Manufacturers are finding it difficult to produce more vehicles due to lackluster demand in a mature market, and they are being pressured to address vehicle-induced environmental problems. Innovative technologies are presenting new and exciting growth opportunities. In response to slowing growth in their markets, automakers are reducing costs by manufacturing vehicles on common platforms and developing models for sale worldwide.

Reinforcing our longstanding business connections with global automakers is critical to our growth. We have focused on a number of initiatives to bolster our global operations. We are lowering costs without sacrificing quality. We are promoting modularization, backed by our ability to propose new products and systems to automakers. And we are refining our ability to supply quality products anywhere in the world. For fiscal 2002, ending March 31, 2002, we have formulated strategies for all three major regions. In the Americas, we will build upon our established production centers and sales channels to further bolster our presence. In Europe, our efforts will focus on increasing production of diesel injection pumps in Hungary and air-conditioning and electrical components in Italy. And in Asia, we will increase local procurement and consolidate production activities at the most advantageous locations.

> **GLOBAL DISTRIBUTION OF BUSINESS**

DENSO's global system transcends borders and products. A key emphasis of the system is that businesses around the world complement one another. Locations for overseas operations are selected based on a range of crucial factors. First, we make a selection based on where our major customers themselves are operating and what their needs are. Next, we seek an optimal production network both globally and regionally, considering the complexity of products, procurement of materials, delivery, regulations, and other aspects of the business environment. In Japan for instance, we focus on production of products that demand a high degree of accuracy, such as precision processing, and that require highly advanced technology to add value.

> **RESTRUCTURING PRODUCTION IN ASIA**

Until recently, most Asian countries imposed regulations requiring that auto components be manufactured locally. As these restrictions are lifted, domestic producers, including members of the DENSO Group, must compete for the first time with imported components that are often cheaper. To remain competitive, we are purchasing more materials locally and centralizing at strategic locations production activities that had been spread over many countries. For example, we now manufacture electrical components at DENSO (Thailand) Co., Ltd., exporting the finished items to Malaysia, Indonesia, Taiwan, and elsewhere in Asia.



from left:

Magneti Marelli Climatizzazione S.p.A.

Materials Technical Center at DENSO International Singapore Pte. Ltd.

Mobile autonomous robots that work in association

To promote the shift to local procurement, we established a Materials Technical Center (MTC) within DENSO International Singapore Pte. Ltd. in April 2000. The MTC formulates procurement plans for our 24 production centers in 10 countries and regions throughout Asia and Oceania, and identifies and forges relationships with suppliers in the region. The MTC also provides support activities, such as studying, reviewing, and evaluating items supplied by existing and potential vendors. We are aiming to raise the level of local procurement in Asia and Oceania from 54% to 90% by 2003.

> **GLOBAL MANAGEMENT**

As enshrined in our long-term management vision, DENSO Vision 2005, networks and self-reliance are key themes in today's era of consolidated management and globalization. To facilitate direct communication between corporate headquarters and local managers, we hold a global strategy conference at each business group.

This provides a forum at which head office participants and local managers share and discuss their respective long-term strategies. One specific result of the conference involved the Thermal Systems Group, which engaged in discussion on deriving complementation in the ASEAN region. Plans were formulated for local procurement and selection of suppliers, and later implemented. The end result was a substantial reduction in costs.

> **CUSTOMER-CENTRIC SALES**

Our sales policy is to meet customer demand by drawing on all our strengths in R&D, technology, quality control, manufacturing, and services. We focus our energies on forging long-term relationships with customers under a business framework that engenders their trust.

Our sales mission is to respond to customers' demands with one voice. This credo runs through all our business groups. Our Sales Department is the collective gateway for dealing with customers. Today's diverse customer demands go beyond the framework of a single business group, requiring cooperation across the board. As such, the Sales Department, which is not tied to any particular business group, is uniquely positioned to serve as the gateway to clients. We must strike the right balance in each product of quality, cost, and supply, or we will lose customer faith. An integrated sales group is therefore the perfect way to respond accurately to customer needs.

> **REGIONAL TOPICS**

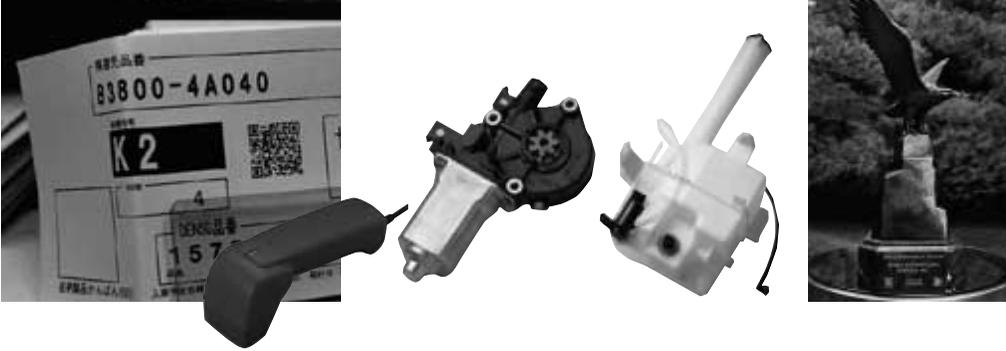
Japan

In Japan, more progress was made in shifting administrative services to separate companies, one way to make DENSO more cost competitive globally. During fiscal 2001, we established four new companies, including DENSO Finance and Accounting Center Co., Ltd., a company responsible for our accounting operations, and other companies in charge of employee training and employee benefits. In all, nine such companies have been formed since the spin-off program began.

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from left:

A handheld scanner for two-dimensional QR code

A power window regulator motor

A windshield washer system

DENSO International America, Inc. awarded 2000 Corporation of the Year by General Motors Corporation

A key development was an agreement between DENSO, Aisin Seiki Co., Ltd., Toyota Motor Corporation, and Sumitomo Electric Industries, Ltd. to jointly establish a shared-technology brake development and sales company in July 2001. We have provided 20% of the capitalization of the new company, which deals in both brake systems and parts. The major goal of the new company is to deliver state-of-the-art brake systems and parts to the global market in a timely manner and in response to market needs.

Our electronic systems operations in Japan continue to focus more on software. This past year, we established a new software company to develop leading-edge technologies for the 21st century.

Efforts to bring to market diversified products saw us continuing to refine our development of industrial robots and our independently developed QR code, the industry standard for the data-rich format of two-dimensional labeling code. Although originally developed for in-house use, we now hold the world's top share in sales of small industrial robots.

We also reached agreements with Kyocera Corporation and Kenwood Corporation to develop and produce wireless phones for the Japanese market. The agreements serve a dual purpose. They will enable us to shift the focus of our telecommunication business from wireless phones to telematics. At the same time, they will ensure a continued strong presence in the wireless phone market.

The Americas

Operations continued to progress smoothly in this region. DENSO International America, Inc., our major U.S. subsidiary, was recognized for its all-round performance in quality, service, technology, and price by capturing the prestigious 2000 Corporation of the Year award from General Motors Corporation, beating 30,000 suppliers to the prize. The company was awarded the prize for the first time in 1997. DENSO International America was also recognized as a GM Supplier of the Year for the eighth consecutive year. During the year, we garnered a total of 25 supplier awards from U.S.-based automobile manufacturers, testifying to our strong commitment to this region.

A recent key development was our acquisition in June 2001 of U.S.-based component manufacturer ArvinMeritor, Inc.'s 50% stake in joint venture Purodenso Company. The move, which makes Purodenso a wholly owned subsidiary of DENSO, is designed to expand Purodenso's operations to meet customer needs and reinforce our presence in the Americas. Purodenso is a manufacturer of air, oil, and fuel filters and air induction systems.

Europe

Three major events defined our European thermal systems operations in fiscal 2001. First was the purchase of Magneti Marelli Climatizzazione S.p.A. (MMCL), leading European component maker Magneti Marelli S.p.A.'s Thermal Systems Division. This move followed our acquisition of Magneti Marelli's Rotating Machines Division in 1999. On March 30, 2001, we concluded procedures for the purchase. We plan to expand sales of air-conditioning systems for compact cars, a market sector where significant growth is

foreseen. MMCL operates production centers in six countries, and conducts business with Fiat, Peugeot, Renault, and other major European automakers. We view MMCL as a strategic subsidiary that is uniquely positioned to capitalize on marketing opportunities in Europe.

The second accomplishment in fiscal 2001 was a contract to supply air-conditioning systems for Volkswagen's Passat. Over the years, we have built a proven track record in supplying components for BMW and other luxury vehicles. This agreement, however, marks the first time we have captured an order in Europe to supply components for a vehicle outside the luxury category.

Third, we announced plans to establish a manufacturing company in August 2001 to produce car air conditioners in the Czech Republic. This expansion into Europe further consolidates our leading position in the global automotive air conditioning components sector. The new company will be DENSO's fourth manufacturer of air conditioners in Europe.

**Asia
and Oceania**

In October 2000, DENSO and subsidiary ASMO Co., Ltd. invested in Poong Sung Electric Co., Ltd., a South Korean automotive supplier that manufactures small motors, fuel pumps, and other electrical automotive components, by purchasing 24% and 16%, respectively, of the company's shares. Renamed DENSO PS Corporation, the company produces and supplies components mainly to Hyundai Motor Company and Kia Motors Corporation.

The Australian market experienced severe competition among automobile component manufacturers. In response, we consolidated our two Australian air-conditioning system production centers in July 2001. The move was designed to streamline our operations in this country and bolster our balance sheet. We now have three bases in Australia: two production centers turning out air-conditioning systems, instrument clusters, and motors and our Australian holding company.

To make the most of the potential for producing automotive air-conditioning systems in the Middle East, we joined forces with local company Abdul Latif Jameel Co., Ltd. in March 2001 to establish DENSO Abdul Latif Jameel Co., Ltd. As our first production center in the Middle East, this joint venture will begin manufacturing air-conditioning systems in October 2001.

In August 2000, DENSO received an additional order for 14,000 units of onboard equipment for ETC systems for the city of Chongqing, China, which is expanding the scope of an ETC systems project under development. At an international contract tender in April 1999, DENSO won a contract to supply 7,000 units of onboard ETC equipment and antennas to the city.