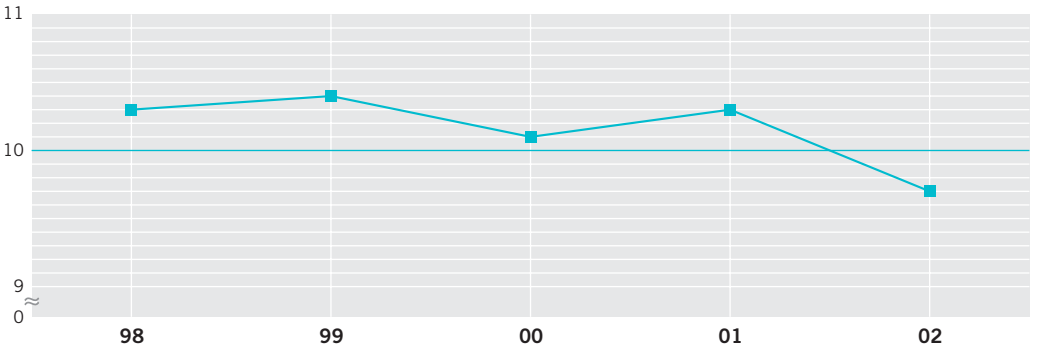
DENSO's basic philosophy is to guarantee the reliable supply of high quality, competitively priced systems and components to automobile manufacturers. To ensure we do, a productive R&D program and sound financial footing are essential. We believe the source of our ability to compete lies in the innovative technology our research facilities can conceive; that is why we have consistently been investing approximately 10% of non-consolidated sales in R&D programs. Meanwhile, to strengthen our financial base and meet shareholders' expectations, we are targeting an ROE of 8% by enhancing our earnings structure, improving asset efficiency, and repurchasing treasury stock. And with the goal of creating a DENSO more responsive to market fluctuations, we are taking a number of initiatives to optimize our corporate structure, including spin-offs.

... CORPORATE INITIATIVE —TO BE A GOOD COMPANY

›› Targeting an ROE of 8% in 2005

R&D EXPENDITURE (As a ratio of non-consolidated sales) (%)



REDUCING FIXED COSTS FOR A STRONGER FINANCIAL FUTURE

At DENSO, we have consistently emphasized stable management underpinned by a healthy balance sheet. This will continue to be our primary goal, but we will strive to become still more efficient by reducing variable costs associated with our products, and by cutting fixed costs through Value Creation (VC) activities, which we introduced in 1999. We are specifically targeting a reduction in depreciation by achieving more savings in machinery manufacturing costs, and paring R&D and indirect manufacturing costs.

We are ultimately aiming to reduce expenses related to machinery manufacturing by a third by shifting to smaller scale, simplified production processes and facilities to match the equivalent move in components. Our assembly line for engine management components, where we have reduced machinery area and costs by 70% and 30% respectively, is a prime example of these efforts. The overall result has been a fall in depreciation as a ratio of non-consolidated sales, from 6.5% in the year ended March 1999 to 5.6% in the year under review.

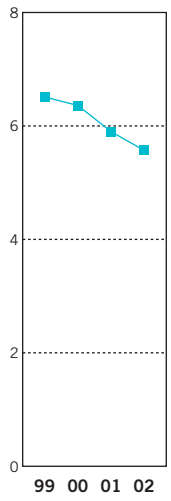
Although we are aiming for a constant level of investment in R&D programs to stay competitive, we are more rigorous in identifying and giving priority to technologies for commercialization. We are also making progress on IT engineering. Again, we are seeing results—R&D expenses have fallen from 10.4% of non-consolidated sales in the year ended March 1999 to 9.7% in the period under review. Despite these cost cutting measures, DENSO remains committed to consistently investing approximately 10% of non-consolidated sales in R&D programs.

In indirect manufacturing costs, we are using sophisticated computer systems to seek new sources of efficiencies in production management systems and production line design. These steps have reduced indirect manufacturing costs as a ratio of non-consolidated sales from 7.7% in the year ended March 1999, to 7.0% in the year under review. As a result of these activities, we succeeded in reducing fixed costs by 2.0%, on a non-consolidated basis, from the year ended March 1999 to the end of the year under review.

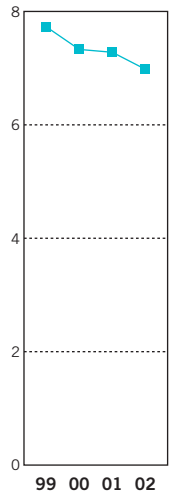
A GLOBAL CASH MANAGEMENT SYSTEM

In order to increase efficiency in financing and fund management within the DENSO Group, we reorganized our accounting operations into the independent DENSO Finance & Accounting Center Co., Ltd., in July 2000. In conjunction with our move to more unified, group-wide management practices, this step has accelerated the creation of a worldwide group cash management system. Surplus funds at group companies can be efficiently pooled for use by other group members. Progress is also being made on global cash pooling, with the start of U.S. dollar-based pooling in January 2002 at a subsidiary in the Netherlands. This allows the efficient, centralized management of U.S. dollar funds. DENSO also began yen-based global pooling in May 2002, the first Japanese company to do so. In the U.S. and Japan, we started a netting system among group companies and

DEPRECIATION
(As a ratio of non-consolidated sales)
(%)



INDIRECT MANUFACTURING COSTS
(As a ratio of non-consolidated sales)
(%)



expanded the system to Asia. We plan to introduce the system at our European operations by the end of 2002. Another development has seen the Finance & Accounting Center introduce factoring in Japan in February 2002. Targeting DENSO's domestic suppliers, the system is designed to enhance payment efficiency and drive down costs. Plans are already on the table to extend the system to all domestic group companies' suppliers. And in order to increase the efficiency of group accounting procedures and support cost-saving activities, DENSO is working to concentrate some accounting functions by standardizing accounting procedures and systems at all group companies, including those overseas.

ENHANCING THE GROUP-WIDE R&D STRUCTURE

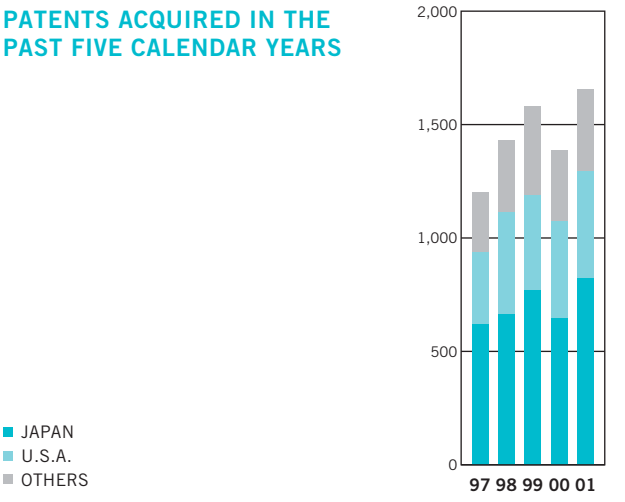
A consistently high level of R&D investment has been central to creating DENSO's renowned technological expertise in numerous product categories. Constant investment in promising product areas, seen in our long-term strategy in the telecommunications field, is how we approach R&D. This has not hobbled the profitability of the company either.

DENSO's fundamental R&D structure is built on a number of organizations in Japan—the DENSO Research Laboratories, Corporate R&D Department, Production Engineering R&D Department, Nippon Soken Inc., and DENSO IT Laboratory. Each of DENSO's six key business groups—Thermal Systems, Powertrain Systems, Electronic Systems, Electric Systems, Small Motors, and ITS—also have independent R&D sections.

Looking ahead, we expect new and exciting products to be borne out of research that integrates multiple technical fields, and further strides toward modularized components. We are therefore forming project teams that cut across research disciplines and organizational barriers, including not only researchers, but also manufacturing and quality experts. This will enhance the efficiency of R&D processes and lead to a DENSO product lineup with higher added value. As DENSO aggressively

DENSO RESEARCH LABORATORIES

PATENTS ACQUIRED IN THE PAST FIVE CALENDAR YEARS



targets increased worldwide sales, imbuing our local manufacturing facilities with our reputation for technological excellence and quality is vital in winning the trust of local customers. With this in mind, we are working to rapidly enhance our global R&D structure of technical centers in the U.S., the U.K., Germany, and Sweden, with a particular focus on greater investment in technical centers in Europe.

In new fields, we are forming alliances that complement our own technological strengths. These include the PALAP (Patterned Prepreg Lay Up Process) Consortium, formed with five Japanese printed circuit board (PCB) manufacturers. PALAP board is a next-generation, high-performance PCB developed in-house by DENSO. Made from thermoplastic resin, multi-layered PALAP board can be made using a simplified one-stage pressing operation. PALAP board is also recyclable and resistant to higher temperatures. DENSO has formed the consortium with plans to commercialize PALAP board and make it the de facto standard in the industry.

Finally, we are actively taking steps to protect our newly developed proprietary technologies on a global basis by acquiring patents for DENSO intellectual property (IP). During calendar 2001, we secured 1,654 patents worldwide, including 821 in Japan and 475 in the U.S. DENSO's policy on protecting its intellectual property was completed in the DENSO IP Vision in April 2002. Based on this Vision, the entire group will enhance the efficiency of its patent acquisition programs and be more active in asserting its patent rights.