

TO OUR SHAREHOLDERS

A Year of Solid Growth

In the year ended March 31, 2004, DENSO Corporation posted another strong set of results. Operating income surged 18.0% to ¥188.6 billion on record net sales of ¥2,562.4 billion, up 9.8% year on year. Net income, however, slipped 0.9% to ¥110.0 billion, mainly reflecting significant extraordinary income posted in the previous fiscal year. Excluding non-recurring items in the previous year and the year under review, DENSO recorded a 30.7% increase in net income.

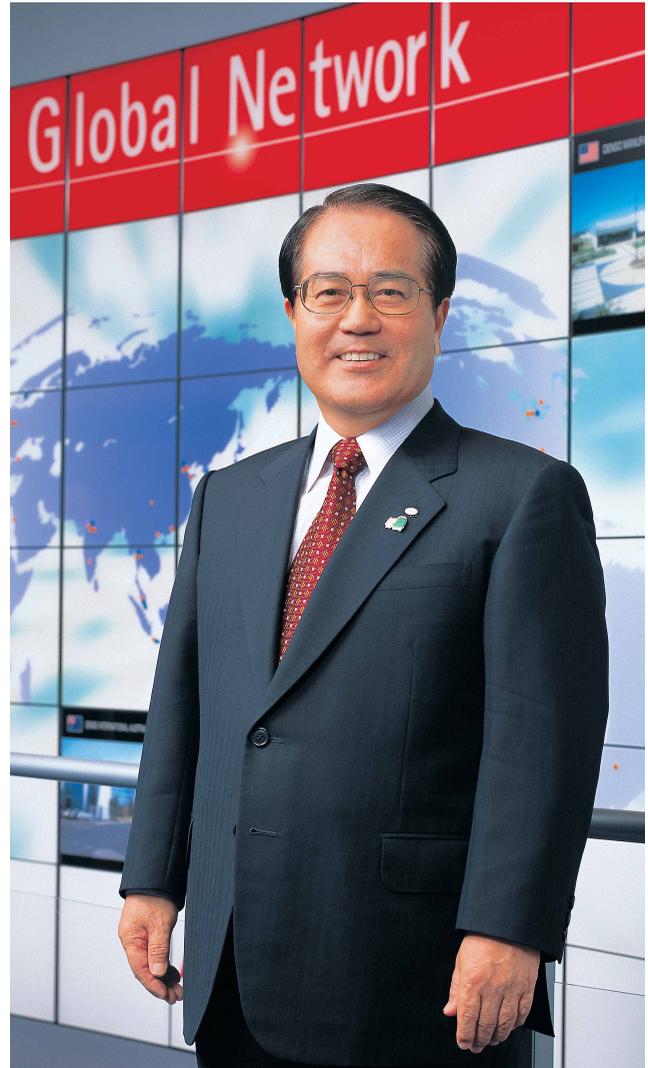
Higher Sales in Japan, Europe, and Asia & Oceania

Although we recorded robust sales in all of our global operating regions, three markets—Japan, Europe and Asia & Oceania—stood out. The largest increase in sales during the year was achieved in Japan, mainly due to rising vehicle production at Toyota Motor Corporation, an uptick in demand for new trucks spurred by stricter emissions regulations for diesel-powered commercial vehicles, and growth in the Intelligent Transport Systems field. In Europe, sales were supported by strong demand for powertrain products such as common rail diesel injection systems, increased sales of car air conditioners, and higher production by Japanese automakers at their European plants. In Asia & Oceania, the underlying trend of rising vehicle production in ASEAN countries, Australia, and China helped boost sales to locally based automakers. During the past year in North America, we posted higher sales thanks to stronger orders and higher vehicle output by Japanese manufacturers.

Building Global Momentum

Our results for the year under review reflect the momentum we have achieved: our customer base is now more global and diverse than ever, and we have built a major presence in all the world's major car markets.

DENSO though, is never complacent. We are well aware that we still rely on the Japanese market for more than half of our sales. That is why we are aiming to create a more balanced operating profile, mainly by focusing on two strategically important regions—China, where rapid motorization offers numerous opportunities for growth; and Europe, a highly developed car market, but a region where we believe we can capture greater market share.



KOICHI FUKAYA
President and CEO

China: Numerous Opportunities

It is vital that we enhance our presence in China. DENSO's basic position in the country is agility and flexibility. That means we will establish a supply network that is always ready to meet customer needs, while at the same time avoiding issues related to major investments in a rapidly growing market. To understand market needs and shifts in a timely manner and make the necessary investment decisions, we are taking a company-wide approach involving sales, product groups, production engineering, and corporate functions.

Our sales target for China is ¥150 billion by 2010, a six-fold increase compared to the year under review. We can achieve this target by offering leading-edge technologies and products

tailored to the Chinese market—products that reduce the automobile's impact on the environment, enhance vehicle performance, and improve cabin comfort such as common rail, air conditioning, and navigation systems.

We have been investing heavily in China, creating an operating framework that now consists of 11 local production companies. Our policy is to manufacture products near our customers and create a region-wide optimal production network. Because China is geographically large, it is essential to create a framework that balances both these criteria, taking into account efficiency in delivery as well as production.

At DENSO, quality is our priority. This is no exception in China. To supply quality products in the country, we will help local suppliers to enhance parts and material reliability, as well as make significant and sustained investments in quality training for local associates.

These actions are all leading to a growing presence for DENSO in China, and helping us to recreate our global success in this important market.

Europe: Room to Grow

There are two key reasons why we think we can capture a greater share of the European market. First, our market share is still relatively small: Europe only generates approximately 13.0% of consolidated sales. Second, with relatively low installation rates for car air conditioners and navigation systems in the region—two product categories where DENSO is a world leader—we feel there is significant potential for expansion. In fact, our innovative technologies and reliable products are already earning support from more and more automakers in Europe.

It is important for us to meet the specific needs of European automakers. Some companies in the region are shifting their procurement activities from a component-based to a system-based approach, while others are consolidating their vehicle platforms. Demands from other European automakers include reductions in prices for existing products and far-reaching innovation in environmental and safety technologies. Supported by our competitive technology development capabilities, including advanced system development, a global supply framework, and enhanced cost competitiveness, I am confident we can satisfy these requirements.

Because automakers increasingly expect suppliers to be involved in the development of innovative products, we will further reinforce local design and engineering functions. We currently have four engineering facilities in Europe—Germany, the United Kingdom, Italy, and Sweden—and this year we strengthened our engineering functions in Germany. The combination of our development capabilities and our competitive lineup of strategic products such as air conditioning, common rail, engine management and car navigation systems, will help us move into the top five automotive component suppliers in Europe by 2010.

Although our operations in Europe are still in the investment stage, I expect them to become profitable in the latter half of 2004 as our air conditioning plant in the Czech Republic begins full-scale production, output of common rail systems is ramped up in Hungary, and the benefits of reform at Italian plants begin to emerge.

Three Key Reasons for Success

DENSO has moved into third place in the global league of automotive component suppliers in terms of sales—an achievement that perfectly illustrates our current momentum. Three activities have been crucial to this success: originating groundbreaking products, supplying high-quality products on a global basis, and leveraging global expertise.

Originating Groundbreaking Products

With a powerful lineup of core technologies in a range of automotive fields from engine management, heat exchange, and electronics to information and communications, we are creating advanced technologies and products. This has been achieved by anticipating the needs of users and automakers and closely working with customers from the first stage of development. Going forward, we must focus on the perspective of consumers more than ever—whether they are drivers, passengers, pedestrians, or society itself. We will also play a greater role in car development, creating new concepts in the areas of the environment, safety, comfort, and convenience.

DENSO will further utilize its global expertise to create innovative products in Japan. The creation of new technologies reflects conditions unique to particular cultures and customs. For example,

the German automotive industry developed anti-lock braking systems to help ensure the safety of drivers on the country's high-speed *autobahn*, and Japan originated navigation systems due to the complex residential address systems in that country. To spark more innovations, we will forge alliances with external partners such as automakers, suppliers, research institutions, and even companies in other industries.

Supplying High-quality Products Globally

Automakers are increasingly focusing on the concurrent launch of global vehicle platforms. So we must put in place a global supply network that enables the faster start-up of production and ensures quality.

Our innovations in production engineering are never-ending. Right now, we primarily develop and produce manufacturing systems and equipment in Japan and supply them to overseas plants, which carry out final adjustments. Our goal is to realize universal production systems, which are based on the assessment of local needs such as product specifications and anticipated volume, as well as regional procurement networks and local workforce skills, all at the initial stage of development. This allows us to easily adapt production systems to the local operating environment with minimal investment. The universal system can also deliver even higher quality—our paramount goal.

Leveraging Global Expertise

At DENSO, management is carried out along three lines: product groups, customers, and regions. While this approach will remain basically the same, we are working to make the most of our global network by focusing more on regions, because regional insight and ideas are essential to the global growth of the company. This means giving more latitude to regional managers—people with the best understanding of regional needs and conditions—and encouraging more flexible decision making.

At the same time, we must accurately understand the global perspective, based on a more responsive and transparent management framework. Our efforts to create a more efficient management framework during the past year included reducing the number of directors from 32 to 13, and appointing 24 managing officers responsible for day-to-day operations at specific divisions.

Continuing to Drive Ahead

It is relatively easy to prepare for situations we can clearly see, such as the growth in China and Europe. But we know that like previous years, the future will present many challenges and opportunities that we cannot anticipate. And while we cannot predict everything that will happen on a global, political, societal or economic scale, we can be prepared. That is why we have drafted a new management policy, DENSO VISION 2015, to serve as our guide for the next 10 years.

DENSO VISION 2015 focuses on two important elements. First, DENSO must become a truly global company. Although we employ more than 95,000 associates in 31 countries, we still have work to do before we are truly global. We need to forge stronger partnerships with customers built on greater trust and reliability, establish management more attuned to local needs, and effectively use the global knowledge and experience in the DENSO team.

Second, we must become a still more socially responsible company. Our vision incorporates the principle of contributing to a better society that DENSO has adhered to since its inception; something that society now is demanding of all corporations. So we will introduce an even greater social element into our business activities and our products. We recognize that building trust, with society as well as our customers, is essential for us to continue to grow.

With your vital support and DENSO VISION 2015 as our guide, we will fully take our place on the global stage—with revolutionary products and concepts designed to help create a better and safer world for all of us. And we will continue to manage DENSO with the integrity and reliability required to keep your confidence and trust.

July 2004



Koichi Fukaya
President and CEO