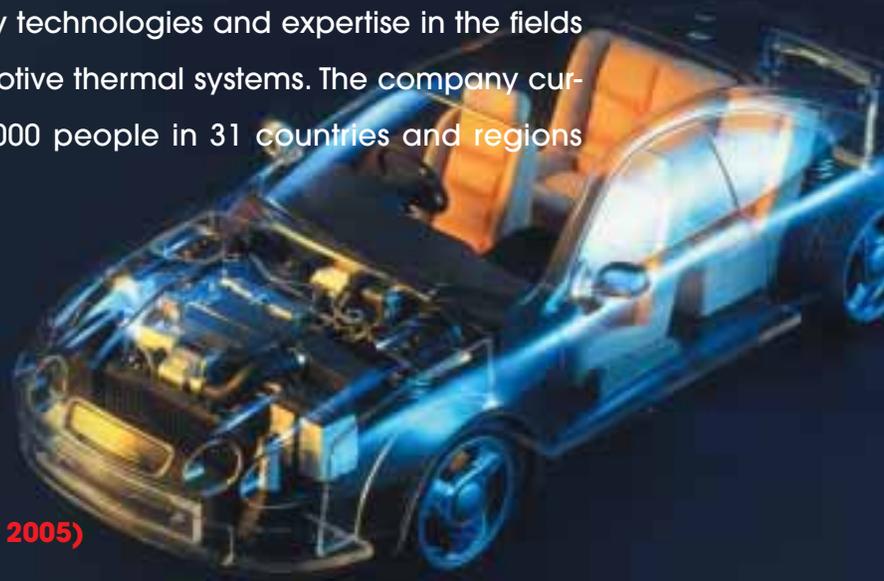


# Beyond All Expectations



DENSO Corporation, headquartered in Kariya, Aichi prefecture, Japan, is a leading global supplier of advanced automotive technologies, systems and components. Since its foundation in 1949, the Company has spurred industry growth through pioneering research and development and superior quality products. As one of the world's top suppliers of automotive components, DENSO works hand-in-hand with all major automakers worldwide in the fields of climate control, engine management, body electronics, driving control and safety, and information and communications. Twenty of the automotive product categories currently supplied by DENSO are number one in terms of global market share in their respective areas.

DENSO also utilizes its proprietary technologies and expertise in the fields of industrial systems and non-automotive thermal systems. The company currently employs approximately 104,000 people in 31 countries and regions including Japan.



**Significant Financial Results  
for the Year Ended March 31, 2005 (fiscal 2005)**

**DENSO achieved new records for net sales, operating income and net income, and expects to achieve a record income in the year ended March 31, 2006.**

**In the current medium-term management plan, announced in April 2003, DENSO reached its return on equity (ROE) target of eight percent a year ahead of schedule (and achieved the net sales target of ¥2.5 trillion two years ahead in fiscal 2004)**

**DENSO increased the annual dividend payout by ¥8, for a total annual dividend of ¥32 per share.**

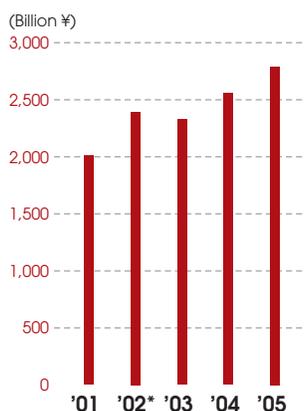
**Forward-Looking Statements**

This annual report contains forward-looking statements about DENSO's future plans, strategies, beliefs and performance that are not historical facts. They are based on current expectations, estimates, forecasts and projections about the industries in which it operates and beliefs and assumptions made by management. As the expectations, estimates, forecasts and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. DENSO, therefore, wishes to caution readers not to place undue reliance on forward-looking statements. Furthermore, the company undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments, risks, uncertainties and assumptions mentioned.

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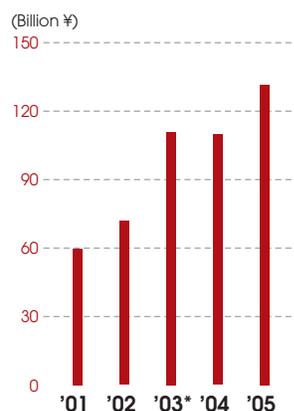
	Millions of yen			Percent change	Thousands of U.S. dollars
	2005	2004	2003	2005/2004	2005
<b>Net Sales:</b>	<b>¥2,799,949</b>	¥2,562,411	¥2,332,760	9.3%	<b>\$ 26,167,748</b>
Sales in Japan	<b>1,554,795</b>	1,442,645	1,325,637	7.8	<b>14,530,795</b>
Sales outside Japan	<b>1,245,154</b>	1,119,766	1,007,123	11.2	<b>11,636,953</b>
<b>Net Income</b>	<b>132,620</b>	110,027	111,018	20.5	<b>1,239,439</b>
<b>Total Assets</b>	<b>2,780,982</b>	2,526,502	2,354,657	10.1	<b>25,990,486</b>
<b>Shareholders' Equity</b>	<b>1,643,182</b>	1,509,489	1,397,888	8.9	<b>15,356,841</b>
<b>Capital Expenditures</b>	<b>235,258</b>	196,461	171,108	19.7	<b>2,198,673</b>
<b>Depreciation</b>	<b>160,993</b>	151,169	146,651	6.5	<b>1,504,607</b>
<b>R&amp;D Expenses</b>	<b>238,241</b>	214,917	182,886	10.9	<b>2,226,551</b>
<b>Per Share:</b>			Yen	Percent change	U.S. dollars
Basic net income	<b>¥ 159.02</b>	¥ 130.02	¥ 128.37	22.3%	<b>\$ 1.49</b>
Cash dividends	<b>32.00</b>	24.00	20.00	33.3	<b>0.30</b>
Shareholders' equity	<b>1,990.48</b>	1,809.55	1,656.93	10.0	<b>18.60</b>
<b>Number of Employees</b>	<b>104,183</b>	95,461	89,380		

Note: U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107=US\$1, the approximate exchange rate prevailing on March 31, 2005, the last trading day of the fiscal year.



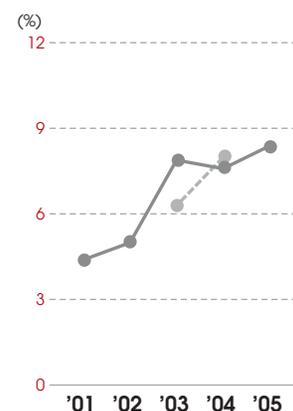
### Net Sales

\* Net sales for fiscal 2002 include the effect of an irregular 15-month reporting period at 45 overseas subsidiaries and affiliates.



### Net Income

\* Net income for fiscal 2003 includes a non-recurring gain on exemption from future pension obligation of the governmental program.



### Return on Equity

\* The broken line excludes non-recurring extraordinary items.



**Koichi Fukaya**  
President and CEO

**We approach development of technology and products by monitoring the needs of our customers and the automotive society.**

### Achievement of Record Results

Our results for the year ended March 31, 2005 (fiscal 2005) include new records for net sales, operating income and net income. Our net sales increased by 9.3 percent to ¥2,799.9 billion, our operating income by 13.4 percent to ¥213.8 billion, and our net income by 20.5 percent to ¥132.6 billion. This growth reflects strong production activity by Japanese automakers both in Japan and overseas.

A regional analysis of our results shows some variation. In Japan, we achieved growth in both sales and income. Apart from increased automobile production, our performance also benefited from strong demand for intelligent transport system (ITS) products, such as electronic toll collection (ETC) systems and car navigation systems. In the Americas, we saw growth in sales, especially to Japanese automakers, but also exchange losses from foreign currencies, rising costs from starting operations at a new plant and the changeover of products, which resulted in lower income. In Europe, in spite of increased process rationalization, there was also additional spending, including outlays for capacity expansion for the supply of diesel common rail systems (CRS) and car air conditioners. This was reflected in a negative income result, despite higher sales. In Asia and Oceania, we achieved substantial growth in both sales and income, thanks to the start of full-scale production of Toyota IMVs (Innovative International Multi-purpose Vehicles).

### Progress under the Medium-term Management Plan

The next fiscal year will be the final year of our current medium-term management plan, which we announced in April 2003. We achieved the net sales target of ¥2.5 trillion in fiscal 2004, and our excellent business performance in the current year allowed us to reach our ROE target of 8 percent one year ahead of schedule. Another target was to achieve top shares of the world markets in 23 automotive product categories. The total already stands at 20, and we are working hard to expand sales in an effort to achieve our targets.

### Outlook for the Next Fiscal Year

Despite uncertainty over the impact of exchange rate trends and rising raw material costs, we again expect to achieve record income in fiscal 2006, thanks to firm trends in automobile production in Japan and overseas. We predict that sales will increase by 5.4 percent to ¥2,950 billion, operating income by 8.9 percent to ¥233 billion, and net income by 1 percent to ¥134 billion.

### DENSO VISION 2015

Our strong growth over the past few years is attributable to two important qualities. One is our ability to develop the technology needed by the automotive industry, based on decades of experience and effort. The other is our ability to apply that technology to the creation of high-quality products that anticipate market needs. We do not simply supply parts in response to orders from automakers. Instead, we approach development of technology and products by monitoring the needs of our customers and the automotive society, and determine on that basis the needed technologies, and the most attractive products. The proposal of new technologies is part of our role under the long-term partnerships that we build with our customers.

This development philosophy is an outgrowth of the DENSO Vision for the medium- to long-term future that guides the day-to-day activities of every DENSO employee. New-product development, in particular, is influenced by the future direction encapsulated in the Vision. With the close of the previous Vision in March 2006, we formulated DENSO

**“Contribution toward an advanced automotive society” and “Evolution into a truly global corporation.”**

Vision 2015 to guide our future course over the next 10 years. It emphasizes two key goals: “Contribution toward an advanced automotive society” and “Evolution into a truly global corporation.”

We aim to contribute to the creation of such a society through product development, based on a comprehensive understanding of needs, and thereby realize harmony among human beings, automobiles and the global environment. At the same time, we aim to achieve steady improvement in our own corporate value through sustained growth at the global level.

### Applying Our Vision to Technology and Product Development

Our basic development activities under DENSO Vision 2015 are broadly divided into four priority areas: “Environment, Safety, Comfort and Convenience.” A key environmental technology is CRS, which further improves diesel’s fuel efficiency while reducing harmful substances in the exhaust gas. With 1,800-bar pressure and up to five-time multiple injections during each combustion stroke, DENSO’s CRS is among the most advanced in the world. Demand is expanding, especially in Europe, Asia and Oceania. We are currently preparing an even cleaner CRS. This new technology will further strengthen DENSO’s presence in Europe and other markets.

We have developed and commercialized a wide range of products for the increasingly numerous and popular hybrid electric vehicles (HEVs), including the world’s first electric motor-driven car air-conditioning system, battery electronic control units (ECUs), DC-DC converters and inverters. We are determined to keep pace with the growth of demand for increasingly sophisticated HEVs through continued innovative product support.

In developing and commercializing safety-related products we begin with research into the future of the automotive society from the viewpoint of end users. Some of our most recent collaborations in the field of active safety include an adaptive cruise control (ACC) system, a pre-crash safety system and a lane-keeping assist system. These systems incorporate various DENSO’s sensors to detect events outside the vehicle and ECUs to calculate information detected from the sensors. Our ambition is to enable the achievement of an accident-free world through dramatic improvements in the precision of the environmental recognition and judgment technologies used in vehicle control systems.

Many of our new products enhance the convenience and comfort of motoring. In the emerging area of ITS products, there has been substantial demand growth for ETC systems and car navigation systems. In fiscal 2004 and 2005, we have led in market share for ETC on-board equipment supplied in Japan. We have also maintained the largest share

#### The DENSO Philosophy

##### Mission

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

##### Management Principles

- 1) Customer satisfaction through high quality products and services.
- 2) Global growth through anticipation of change.
- 3) Environmental preservation and harmony with society.
- 4) Corporate vitality and respect for individuality.

##### Individual Spirit

- 1) To be creative in thought and steady in action.
- 2) To be cooperative and pioneering.
- 3) To be trustworthy by improving ourselves.

### OVERVIEW OF OUR MISSION, VISION AND PLAN

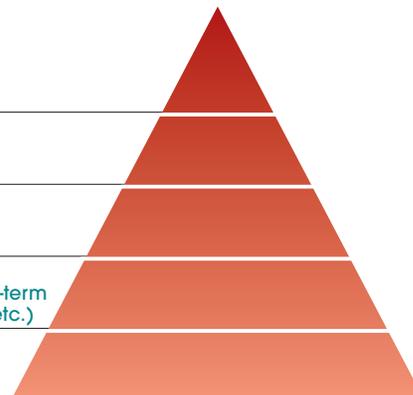
DENSO’s Corporate Philosophy

DENSO VISION 2015

Long-term concept  
Implementation strategies aimed at realizing the vision

Annual policy and annual plan  
Annual policy for achieving the long-term concept (Objectives, target figures, etc.)

Individual goals



of the world market for car navigation systems in both of those years, and demand forecasts point to continuing growth in Japan, Europe and North America. We expect this trend to contribute to the growth of our business activities.



**We must be able to discover excellent management methods and actively use overseas ideas throughout our business operations.**

### Evolving into a Truly Global Corporation—Three Challenges

The other key theme of our vision was DENSO's evolution into a truly global corporation. We have identified three challenges for our efforts toward this goal. First, we must create products that will delight customers throughout the world, and we must work through those products to become an enterprise that people will view with trust and anticipation. There are places in the world with climates that are radically different from Japan's. We aim to meet the needs of customers who live in those regions too, by contributing to the creation of vehicles suited to the enhanced automotive society that can cope with all environments, from deserts to arctic conditions.

Our second challenge is to become a corporation capable of operating seamlessly around the world. We already have many overseas business operations, and we must ensure that each has a solid business structure and makes a genuinely essential contribution to local communities in the long-term perspective, based on social, economic and cultural factors.

This will depend on our ability to meet the third challenge, which is to become a corporation that can evolve continuously based on the global wisdom from the DENSO Group. At present, technology and wisdom flows outward from business and research facilities close to the DENSO parent company. We aim to promote large numbers of

## DENSO VISION 2015 Beyond All Expectations

Achieving Our Goals

To bring  
"yasashisa"  
(consideration)  
and "ureshisa"  
(fulfillment)  
to the people  
of the world.

Three Policies

### Technological Development

#### Leading by offering new value

Concentrate development activities on anticipating the needs of end users by focusing on the environment, safety, comfort and convenience to enable an endless supply of innovative products that promote a more advanced automotive society. In tandem with these efforts, boldly explore possibilities in new businesses to broaden the business scope and encourage dynamic new thinking.

### Growth of Business Operations

#### Growing business operations that are rooted in the ways of the region to instill deeper confidence

Encourage craftsmanship that addresses the needs of specific markets to ensure that people, wherever they live, can experience the pleasure of DENSO's products. As business operations grow, ensure that DENSO's methods are shared, encourage the unique features that local regions have to offer, and gain the competitive edge by constantly evolving.

### Management and Human Resources

#### Creating an evolving corporation based on global wisdom

Encourage management to benefit from the high level of synergy that is available through a framework of collaborative autonomy. Value the abundance of skills held by employees and reinforce a team-based creative power that is generated through an amalgamation of individual ideas.

Focal Points

- 1 Product development oriented toward an automotive society
- 2 New business development oriented toward fostering new ideas and businesses
- 1 Craftsmanship that instills confidence throughout the world
- 2 Business operations that incorporate local features and are in harmony with the region
- 1 Corporate framework that offers both autonomy and synergy
- 2 Developing people to carry on the challenge of innovation and creation

people into the parent company from overseas, so that it can gain powerful ideas through exchanges of views, while at the same time attracting premium talent to its overseas business operations. We must adopt excellent management methods and actively use overseas ideas throughout our business operations. When we achieve all of these things, DENSO will be a truly global corporation.

### Global Competition

In addition to these initiatives based on our 2015 Vision, we are also strengthening our ability to overcome international price competition by implementing aggressive rationalization measures. In addition to in-depth efforts to reduce costs and improve production efficiency, we are also using creative rationalization to minimize our costs. For example, we propose and supply products that can be used for multiple types of vehicles. We are developing compact, modularized next-generation products that combine enhanced performance with reduced weight. This emphasis on compact design also extends to our production lines.

Another example of rationalization lies in our efforts to strengthen our supply systems in the ASEAN (Association of Southeast Asian Nations) region in step with Toyota's IMV project, which began in August 2004. We expanded the capacity of our production facilities and centralized production of each product with a single production company to reduce costs and maintain high quality—creating a supply network that can serve IMV vehicle production throughout the world. The main focus of our activities for the IMV project is Thailand, where we have established a parts processing center, export center and skill training center. By centralizing and strengthening our functions in the ASEAN region, we aim to establish manufacturing capabilities comparable to those in Japan, and to create a model for our development of plants in other parts of the world.

### Beyond All Expectations

A core theme running throughout DENSO Vision 2015 addresses the importance of business harmonization with the world. In accordance with the ideals of Vision 2015, we aim to base our management approach, as a supplier with a comprehensive knowledge of vehicle structures, on the "automotive society" comprising automobiles, human beings and the earth. DENSO's views on Corporate Social Responsibility (CSR) are embodied in this management policy.

As part of our commitment in this area, we established the CSR Promotion Center in January 2005. We are also expanding our group-wide environmental and social contribution activities and strengthening systems in such areas as disclosure, compliance and respect for employees' rights. Our aim is to be valued and respected by society as a corporation that lives up to trust placed in it by shareholders, customers, suppliers and business partners, as well as by employees and communities.

We want DENSO to evolve into a corporation that exceeds the expectations of all stakeholders, including the expectation of sustainable business development, to be a model for organizations in many fields.



**Koichi Fukaya**  
President and CEO



**We want DENSO to evolve into a corporation that exceeds the expectations of all stakeholders.**

# An Interim Look at our Progress toward DENSO Vision 2015

pg. **08** TECHNOLOGICAL DEVELOPMENT

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pg. **12** GLOBAL EXPANSION

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pg. **16** CORPORATE GOVERNANCE

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pg. **18** CORPORATE SOCIAL RESPONSIBILITY

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**DENSO helps guide the evolution of an advanced automotive society through the continued creation of innovative products made possible by powerful research and development capabilities.**

### **The Automotive Industry Turns a New Corner**

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The automotive industry is entering a new phase of evolution, carried forward by technological advances in the environmental, electronics and information technology (IT) fields.

DENSO is targeting further growth and the enhancement of its corporate value through the development of innovative technologies that fulfill these vital priorities for the automotive industry. This work will continue to be guided by DENSO's values as a company whose members are driven by a passion not only for the tradition of *monozukuri* (the art of making things), but also by enthusiasm for the environment, safety, comfort and convenience.

### **Environmental Commitment**

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DENSO's environmental efforts began in 1966 with the development of an electronic fuel injection system to improve fuel efficiency and reduce exhaust gas emissions. Subsequent development successes have included a car air-conditioning system designed to use HFC-134a replacing the ozone-depleting refrigerant CFC-12, which



Engineers in Aachen Engineering Center evaluating diesel engine components



Solenoid injector for 1,800-bar CRS

went on sale in 1991, and the development in 2002 of the world's first car air-conditioning system based on the use of carbon dioxide as its refrigerant, further decreasing the environmental impact of refrigerants.

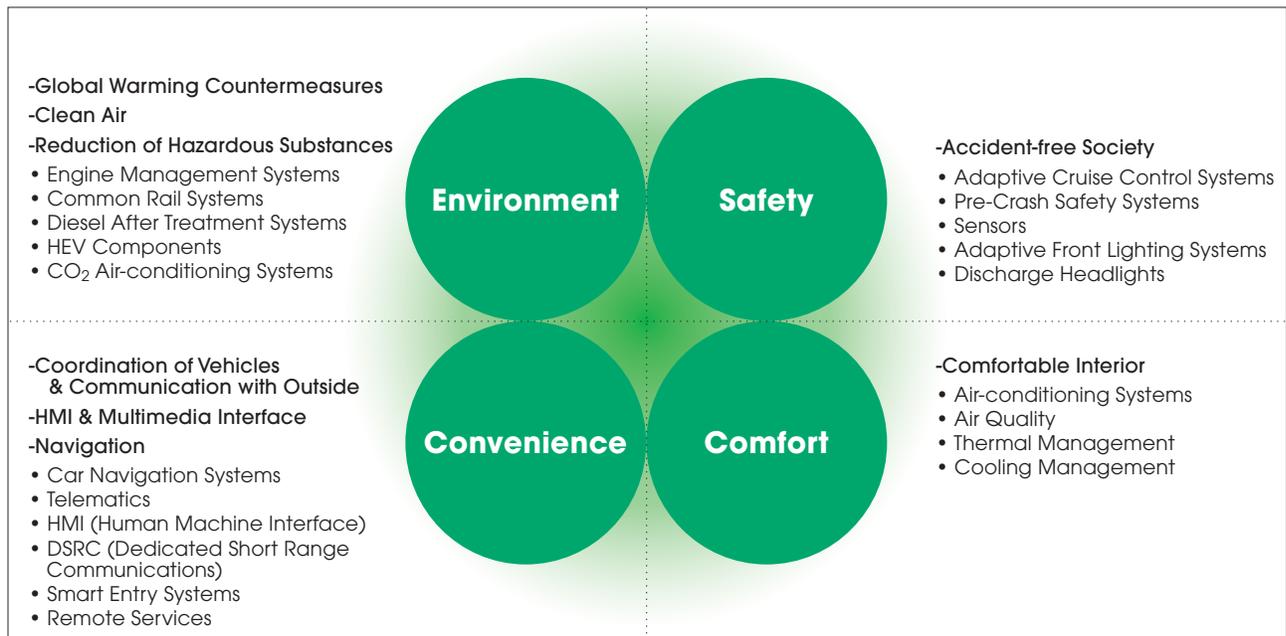
Particularly significant is DENSO's contribution to the technology of diesel engines, which emit less carbon dioxide than gasoline engines. Recognizing the potential environmental benefits, DENSO developed the world's first electronically controlled diesel common rail system (CRS). This system went on sale in 1995. DENSO has continued to make steady progress in this field of technology, and in 2001 it developed the 1,800-bar CRS, which produces the world's highest fuel injection pressure. Launched in the European market the following year, the 1,800-bar CRS has brought major improvements in engine efficiency, fuel consumption and emission levels. It also meets the Euro4 fuel emission standard introduced in 2005.

In addition to 1,800-bar pressure, DENSO's CRS delivers up to five high-accuracy injections during each combustion stroke. These two features reduce particulate matter (PM) and nitrogen oxide (NOx) emissions and achieve a quietness that is equivalent to gasoline engines. This state-of-the-art technology is an example of DENSO's advanced knowledge in this field.

DENSO continues to target improvements in fuel efficiency and power output and reductions in emissions through the development of additional advanced CRS technologies, including systems with higher pressures, and high-speed piezo injectors. It is working to develop a 2,000-bar CRS, which is expected to reach the market within two to three years. DENSO has also succeeded in commercial development of the world's first 1,800-bar CRS with piezo injectors and launched the system in the European market in May 2005. The pilot injection interval has been reduced to just 0.1 milliseconds.

The reduction of environmental loads remains a priority for DENSO. In 2002 it eliminated the use of lead from all brushes used in its automotive electric motors. And in 2004, in conjunction with Koito Manufacturing Co., Ltd. (Koito) and Royal Philips Electronics, DENSO developed the world's first mercury-free, high-intensity headlamp system.

**FOUR KEY DEVELOPMENT AREAS**



In recent years hybrid electric vehicles (HEVs) have become an increasingly important presence in the market. DENSO has developed a wide range of components for HEVs, including battery electronic control units (ECUs), DC-DC converters, inverters and electrically driven air-conditioning systems. It is also helping to develop next-generation environment-friendly vehicles, including the development of components for fuel cell hybrid vehicles.

## Commitment to Safety

---

DENSO's vision for safety is a society in which there are no traffic accidents. It is working toward this ideal through the development of technology that is based on a consideration for all segments of society, including pedestrians and the aged.

This commitment to safety dates from the 1970s and has led to the development of many important stability control and safety products, including an anti-lock braking system in 1986, and an airbag sensing system in 1989. Safety technology generally focuses on two distinct areas: active safety for collision warning and avoidance, and passive safety for damage minimization in the event of collision. DENSO develops technology for both areas.



Electronic control unit for AFS



Millimeter-wave radar for pre-crash safety system

Active safety systems provide driver perception assistance, driver decision assistance and help provide vehicle control for the driver. In 2003, DENSO launched the world's first adaptive front lighting system (AFS), the result of a joint development project with Toyota Motor Corporation (Toyota) and Koito. This system enhances driver perception at night by adjusting the headlamp beam to illuminate in the direction of travel around curves. Another innovation launched in 2003 was the world's first pre-crash safety system developed in conjunction with Toyota. This system identifies inevitable obstacles a split-second prior to collision. Then it automatically tightens passenger seat belts, while helping to activate a pre-crash braking system to reduce vehicle speed.

In 2004, DENSO began to supply components for the world's first adaptive cruise control (ACC) system, which can regulate speed at rates from zero to 30 km per hour. Conventional ACC systems only regulate speeds around 40 km per hour and higher. This new system allows drivers to use cruise control in high traffic areas, without having to continually brake and accelerate.

The most important requirement for products designed to improve safety is information reliability. DENSO has achieved dramatic improvements in the accuracy of external sensing and situation interpretation through the development of key technologies for millimeter-wave radar, laser radar, and image recognition algorithms. DENSO is also exploring the use of biological sensing technology to prevent accidents resulting from human error by detecting driver drowsiness, fatigue and other conditions. Another development focus is the use of sensor technology to detect and protect pedestrians.

## Making Driving More Comfortable

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DENSO has continually sought ways to prevent fatigue and enhance the enjoyment of driving through improvements to passenger and driver comfort. In the 1950s, when household air conditioners were a luxury item, DENSO was investigating the possibility of affordable vehicle heating and air-conditioning units. DENSO's first auto-heating unit was launched in 1952, followed by its first air conditioner in 1957. An aggressive product development strategy yielded many important advances, and an air-conditioning system that automatically controlled cabin temperature with manual switches launched in



An electric compressor, a key component of electric air conditioners for HEVs

1971 was one of the most advanced systems of its class at that time. Today, car air conditioners are DENSO's largest business category, and these products continue to hold the largest share of the world market.

In 2003, DENSO completed commercial development of an electric air conditioner for HEVs, which uses a newly developed electric compressor. This technology keeps the air-conditioning system running even during "idle" stops, when the engine shuts down to save fuel and lessen emissions.

DENSO will continue to seek the ultimate in cabin comfort. Future development concepts include a cabin comfort level measurement system based on the use of sensor technology to monitor biological data, including the body temperatures and pulse rates of passengers. Another goal is the development of individual air-conditioning and air-quality control systems to ensure optimal comfort for each individual passenger.

## Improving Convenience

DENSO views vehicle-based convenience as a combination of communications, information and mobility. It continues to develop a variety of technologies in this area. DENSO recognized early on that communication systems for cars were going to grow as an important way to maintain contact with the home or office while driving or to obtain information about the destination or traffic conditions. That is why DENSO launched its first car transceiver in 1973. In the 1980s, we were among the first in the industry to begin developing car navigation systems.

Car navigation systems have become an increasingly important category of vehicle equipment. DENSO has contributed to advances in this area on three levels by developing navigation systems as information and communications terminals capable of linking with external systems, by integrating navigation systems with audiovisual equipment to provide enhanced in-vehicle entertainment, and by linking navigation systems with vehicle control equipment to improve safety and security.

In 2002, DENSO established a joint venture with Robert Bosch GmbH of Germany to develop large-scale integrated circuits and other core components for car navigation and multimedia systems. In 2003, we began to supply the Electronics Multi-vision Board, which uses Bluetooth technology to wirelessly connect car navigation systems and cell phones. This technology allows the user to make telephone calls using the touch screen on the car navigation system, and the navigation system's microphone and speaker system is then used for those calls. This product is typical of DENSO's efforts to develop systems that meet user needs by combining safety and enhanced convenience.

Another development concept that anticipates user needs is windshield display technology. This advanced concept combines display technology, sensing technology and HMI (human-machine interface) technology. Basically, all the information drivers need will be visible on the windshield directly in front of them. The data displayed includes vehicle speed, navigation information and virtual images of nearby objects or people. By displaying information that would not otherwise be readily visible to the driver, this system will significantly enhance not only convenience but also safety.



Car navigation system, the center of driving information and communication



Application design of components for air-conditioning systems at DENSO Automotive Deutschland GmbH



**DENSO's basic philosophy is to meet customer needs by locating operations close to its customers. We are building a structure to support local management of local operations in Japan, the Americas, Europe and Asia & Oceania.**

### Adapting to Globalization

We are maximizing our corporate contribution under globalization by extending localized management to all levels, from research and development (R&D), production to service and financing. In the future, DENSO will establish R&D operations in locations that offer the best potential for technology improvement. We will also strengthen organizational structures to support product design in locations close to markets. As a true global supplier, our role is to monitor the needs of the automotive society and end-users and reflect those needs in products, not only in Japan, but throughout the world. DENSO's consistent commitment to this approach in all of its markets is a key advantage.

## Business Development in Japan



DENSO's research laboratories in Japan, source of our future technology

In addition to its Global Headquarters, DENSO's facilities in Japan include 11 plants, one research laboratory, and 77 subsidiaries and affiliates. These form the nucleus for DENSO's global business development. In the domestic market, annual vehicle production in Japan remains steady at just over 10 million units, and further significant growth is unlikely. To achieve continued business growth in this environment, DENSO needs to increase content value per vehicle, and maximize the proportion of high value-added products. DENSO is achieving this by focusing R&D on the introduction of new products to the Japanese market in the key areas of environment, safety, comfort and convenience. The prioritized business categories in this context are intelligent transport systems (ITS), safety products, diesel common rail system (CRS), and products for hybrid electric vehicles (HEVs).

In the year under review, DENSO participated in a project by the Ministry of Land, Infrastructure and Transport to test an Internet-based taxi dispatch service, as the company responsible for the development and implementation of the system to be used in the trials. Safety-related products brought to market included an adaptive cruise control (ACC) system with a low-speed following mode, and a vision sensor for a lane-keeping assist system. New products for HEVs included a hybrid control computer, a battery-monitoring unit, a DC-DC converter and an electric compressor for new, large HEVs introduced by Toyota Motor Corporation.

## Activities in the Americas



DENSO's first North American production company, established in Michigan in 1984

DENSO first entered the North American market in 1963, when it began to supply alternators to Ford Motor Company. It subsequently established a sales office in Chicago, followed by sales offices in Los Angeles (which was expanded into its first overseas subsidiary in 1971) and Detroit. In 1969 an office was also opened in Toronto, Canada to support the continuing expansion of marketing operations in North America. DENSO's first North American production company was DENSO Manufacturing Michigan, Inc., which was established in 1984 to manufacture heat exchangers. DENSO's presence in North, Central and South America, currently extends to 29 production companies and 10 companies involved in sales and other activities.

In the year under review, DENSO established its second North American production company for car air-conditioning compressors. The new company, TD Automotive Compressor Georgia, LLC, is a joint venture with Toyota Industries Corporation. DENSO Manufacturing Arkansas, Inc. was established in 2003 and started production of radiators and car air conditioners. DENSO has now basically completed a supply structure for all of its products in the U.S. market. Its main task now is to secure orders from Japanese-affiliated automakers, which are enjoying high levels of demand, while aggressively expanding its sales to the Big Three automakers. Sales to the Big Three currently consist mainly of products for luxury cars. Though DENSO has important advantages in terms of technology development capabilities and product quality, the challenge now is to improve cost competitiveness so that it can expand sales of products for medium-priced vehicles.

## Priorities in the European Market



DENSO Manufacturing UK Ltd., producing heaters and air conditioners

DENSO's presence in Europe dates from the opening of an office in Amsterdam in 1972. It has since established sales offices in the United Kingdom, Germany, France, Italy, Sweden and Belgium. Our first European production company was DENSO Barcelona S.A. established in Spain in 1989. This company manufactures engine control components and automotive electronic products. Today DENSO has 17 production companies and 16 companies involved in sales and other activities in Europe.

Europe is a mature market, but DENSO's market share is still small. Though it recorded an operating loss in fiscal 2005 due to start-up costs resulting from production capacity expansion, DENSO regards Europe as an important market with the potential to contribute to global earnings as marketing efforts start to yield growth. It is actively serving every need of Japanese-affiliated automakers, which are steadily expanding their production, while moving decisively to increase sales of strategic products, such as car air conditioners, engine management systems, CRS and car navigation systems, to European automakers.

One of the key product areas for sales growth is car air conditioners. The market is expected to expand in step with growth in the percentage of vehicles with installed air conditioners. In fiscal 2004, DENSO began to supply systems to Volkswagen, and in fiscal 2007 it will commence deliveries to Peugeot. Another key area is CRS. The percentage of diesel vehicles in the European market is high, at around 50%. Tighter exhaust emissions regulations will be a positive factor for DENSO as it works to expand its market share. The Company has completed the expansion of CRS production facilities in Hungary in preparation for the start of deliveries to Ford of Europe in fiscal 2005.

In April 2005, the Aachen Engineering Center was established within DENSO Automotive Deutschland GmbH as an engineering base for diesel engine components. This engineering center will carry out application design and performance evaluation of fuel injection systems for diesel engines. In the future, the facility will be expanded into DENSO's European engineering base for all powertrain components.



Newly established Aachen Engineering Center for application design and evaluation of diesel engine components

## Asia and Oceania



Manufacturing fuel injection pumps at DENSO Haryana Pvt. Ltd. in India

DENSO has had a presence in the markets of Asia and Oceania since 1963, when it began to export spare parts for Japanese-made vehicles. DENSO (Thailand) Co., Ltd. was established in 1972 as DENSO's first production base in the region, and its first overseas production facility. The company manufactures electrical automotive components and car air conditioners. Since then DENSO has established business operations in Australia, Indonesia, the Philippines, the Republic of Korea, Malaysia, India, China and so on. It currently has 39 production facilities in the region and 12 companies involved in sales and other activities.

## ASEAN-based Capabilities Expanded



Manufacturing alternators at DENSO (THAILAND) Co., Ltd., DENSO's first overseas production company

DENSO has established new production facilities and expanded its capacity at existing facilities, including starting production of CRS at Siam DENSO Manufacturing Co., Ltd. in Thailand, to meet the needs of the ASEAN-based IMV project initiated by Toyota Motor Corporation in August 2004. In Thailand, which will be the main focus for activities relating to the IMV project, DENSO has established a number of facilities, including a parts-processing center, an export center, and a skill-training center. By concentrating and strengthening its ASEAN-based operations, DENSO aims to establish manufacturing systems comparable with those in Japan as a model for plants in other regions of the world.

With the view of ASEAN as a single region, DENSO has introduced a more centralized production system that allows single manufacturing bases to complement each other. In the year under review, the Company spun off the sales division of P.T. DENSO Indonesia Corp., to form P.T. DENSO Sales Indonesia, a new sales company.

## Increased Emphasis on China



DENSO's production company in Chongqing, China, produces magnetos, CDI amplifiers and ignition coils for the rapidly growing Chinese market.

The Chinese automobile market is expected to expand rapidly in the years ahead. Current forecasts indicate that the number of vehicles produced will increase from five million annually at present to eight million by 2010, making China the world's second biggest market. DENSO has positioned China as an important market in its global growth strategy. The sales target for the year to March 2011 is ¥150 billion.

In the year under review, DENSO established a production companies in Tianjin to produce filters and another to produce heat exchangers for car air conditioners, a production company for fuel injectors and fuel injection pumps for gasoline engines in Guangzhou and an ignition-coil production company in Wuxi. These four new companies bring the total number of production operations in China to 14, and the foundations for DENSO's production network in China are now basically complete. DENSO will keep pace with future demand growth by expanding capacity at these facilities.

DENSO has also established a joint venture in Tianjin to sell aftermarket products. The new company will work with other Japanese-affiliated parts manufacturers to develop a sales network for maintenance parts and other products. The main customers at present are Japanese-affiliated automakers, but the customer base will be expanded through marketing targeted toward non-Japanese automakers, including European and American manufacturers and local manufacturers commercial vehicles. Marketing efforts will focus on strategic products, especially car air conditioners, engine management systems, diesel injection systems and car navigation systems.

## Other Regions



Signing ceremony on acquiring a capital interest in Smith Manufacturing (Pty) Limited

In the year under review, DENSO decided to acquire a capital interest in Smiths Manufacturing (Pty) Limited (SMITHS), the largest automotive air conditioner company in the Republic of South Africa (RSA). DENSO has long provided technical assistance to SMITHS on automotive air conditioners, heaters, radiators and electric fans. This investment will allow DENSO to expand its business foundation in the RSA.

**DENSO is working to strengthen its corporate governance systems. The Company sees this effort as vital not only to the improvement of Group competitiveness but also to the maintenance and improvement of long-term business performance in today's rapidly changing global markets.**

To maintain strong and healthy corporate institutions, DENSO developed a variety of internal governance mechanisms to support sound, efficient and highly transparent management. At their heart, the systems are based on the continuous disclosure of information—both within the company and to shareholders, investors and other stakeholders.

### **Management System**

In June 2004, DENSO introduced a new management system designed to speed up decision-making and operations. The key changes were a reduction in the size of the Board of Directors from 32 to 13 members, and the introduction of non-board managing officers. Under this new system, the managing officers, including one non-Japanese, are able to focus exclusively on operations in the divisions for which they are responsible. Eight of the 13 directors are assigned to supervise activities in all divisions. These directors play a bridging role between management and day-to-day operations. In addition, the term of office for directors has been reduced to one year to create a management structure capable of adapting flexibly to changes in the business environment and to maintain clearer chains of management responsibility within individual business terms. By streamlining the Board of Directors, DENSO strengthened group-level functions in the area of management strategy and decision-making.

### **Corporate Oversight**

Two standing corporate auditors and three external corporate auditors oversee the actions of the Board of Directors, and the operations and financial status of DENSO and its domestic and overseas subsidiaries. In addition to these legally mandated functions, DENSO also established internal audit departments in DENSO and its major subsidiaries worldwide. Each department in DENSO and its subsidiaries conduct internal checks of their own governance systems. There are also continual site audits designed to ensure not only legal compliance, but also appropriate management and operational procedures. Auditors hold monthly meetings to set audit policies and discuss audit results. They also work to improve the efficiency and quality of audit activities.

### **Compliance**

In 1997, DENSO established the Corporate Ethics Committee. Using the Legal Department as its secretariat, this Committee checks all aspects of corporate activity from the perspectives of legal compliance and corporate ethics. The Committee also works to inform employees about corporate ethics through education programs and other activities, as well as through the publication of ethical and behavior guidelines for employees, including the DENSO Code of Business Conduct. In 2003, DENSO estab-



**DENSO believes that Corporate Social Responsibility (CSR) initiatives enhance the overall corporate value of the DENSO Group, and it is continually working to meet the expectations and wishes of all stakeholders in this area. The Company has created organizational structures to support a wide range of activities in such areas as environmental protection, social contribution, human resource development, information disclosure and compliance.**

## CSR Organization

In January 2005, DENSO established the CSR Promotion Center in its Global Headquarters as the core unit responsible for coordinating group-level CSR activities. Under the new organization, DENSO will work toward global integration of a wide range of activities formerly handled at the company and division levels by developing and implementing basic policies, goals and plans interlinking the CSR activities of the entire DENSO Group.

## Protecting the Environment

In June 2000, DENSO announced DENSO EcoVision 2005 as its basic policy and strategy for environment-related activities. Efforts under EcoVision focus on three key areas: promoting environmental management, encouraging environment-friendly product development and design, and achieving clean factories.

## Promoting Environmental Management

The DENSO Environmental Committee, which is chaired by the President, was established in 1992 to consider Group-level policies, targets and measures relating to environmental protection. There are three subcommittees, each chaired by a director, with responsibility for environmental activities in relation to products, production and environmental communication. These subcommittees formulate action strategies based on specialist perspectives in their particular areas. They also promote specific initiatives, such as measures to reduce environmental impact. In the year under review, the Product Environmental Subcommittee strengthened systems designed to prevent the use of regulated environmental load substances in products.

## Environment-friendly Product Development

Contribution to the development of environment-friendly vehicles is an important mission for DENSO, which is continually developing new technology to reduce the environmental load of motor vehicles. In the year under review, DENSO developed a bus air-conditioning system that uses 30 percent less power than earlier products. This was achieved by using a variable-capacity compressor to minimize power requirements. The Japan Machinery Federation (JMF) selected this air-conditioning system as the winner of the 25th annual JMF Chairman's Award for Energy-Conserving Machinery. DENSO also received an award from the United States Environmental Protection Agency (EPA) in recognition of the climate protection benefits of an electrically driven air-conditioning system for hybrid electric vehicles, which was launched in 2003.



Bus air-conditioning system with a variable-capacity compressor



Receiving a European Business Award for the Environment in recognition

### Achieving Clean Factories

DENSO is working to achieve zero emission status and to reduce the impact of the environment, including CO<sub>2</sub> emissions, at its factories. Zero emission status has been achieved at all 18 DENSO Group manufacturing companies in Japan, as well as at five overseas companies. To reduce CO<sub>2</sub> emissions, DENSO is installing cogeneration facilities and conducting research relating to energy-saving process technology. DENSO is also developing the "Perfect Energy Factory" with the smallest possible energy loss.

In the year under review, DENSO Manufacturing Hungary Ltd. (DMHU) received a European Business Award for the Environment ("Management Section") from the European Commission. The award recognizes the excellence of the DMHU EcoVision program. This environmental program has produced wide-ranging benefits, and DMHU was the first company in Hungary to achieve zero-emission status.

At the Zenmyo Plant in Japan, DENSO has installed a small wind-power generator to provide electric power for external lighting at the plant. This generator is equipped with a car alternator manufactured by DENSO.

### Social Contribution

DENSO has pledged itself to exist in harmony with society throughout the world and enhance its international reputation by giving back to the community. It is actively involved in social contribution initiatives in three prioritized areas: social welfare for the physically challenged, nurturing youth and environmental protection.

Welfare for the physically challenged has been a particular priority for DENSO. In Japan, employment for the physically challenged is provided by DENSO Taiyo Co., Ltd., which was established in 1984 to manufacture automotive components. Overseas, DENSO established the Wheelchairs and Friendship Center of Asia (WAFCA), a non-profit organization that manufactures and distributes wheelchairs in Thailand. Plans for the expansion of this initiative to other Asian countries are currently under consideration.

To provide better support for voluntary activities by employees in the three prioritized areas, DENSO established the Volunteer Support Center in 1994, and the DENSO Heartful Club in 1998. In the year under review, DENSO introduced the "DENSO Group Heartful Day" to encourage increased global coordination of activities among individual Group companies. DENSO has established the Heartful Fund as a link between employees and voluntary organizations. We also introduced a corporate award system to raise employee awareness. In recognition of these initiatives, DENSO received the fourth Chunichi Welfare Volunteer Award (Chunichi Shimbun Community Service Administration).



Wind-power generator for external lighting at the Zenmyo Plant in Japan



DENSO employee competing at the 2004 Abilympics

### Employment and Human Resource Development

DENSO aims to foster human resource systems and a corporate culture in which employees with diverse values can realize and expand their potential and achieve growth and prosperity. The company actively employs and promotes a wide variety of people, including non-Japanese, the physically challenged and women. The success of these policies was reflected in the performance of three DENSO employees in the 2004 Abilympics in Japan, a competition for skilled technicians with disabilities. All three employees won gold medals, an achievement that has significantly enhanced the social confidence of the individuals concerned and all disabled DENSO employees.



Gathering feedback from public stakeholders at an Environmental & Social Awareness Meeting

### Disclosure and Communication

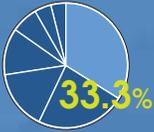
To increase public understanding of these activities and other aspects of CSR initiatives by the DENSO Group, DENSO publishes detailed information in the Environmental & Social Report. Since 2003, DENSO has also held Environmental & Social Awareness Meetings to provide opportunities for stakeholders to tour corporate facilities and exchange views on the aspects of DENSO's environmental and social activities. Feedback from participants in these meetings is reflected in future initiatives.

### Included in International Sustainability Indexes

DENSO's efforts in these areas are reflected in the Dow Jones Sustainability Indexes (DJSI), a share index system for socially responsible investment, for five consecutive years. The index is based on comprehensive assessments of companies from financial, environmental and social perspectives. Since June 2004, DENSO has also been included in the Ethibel Sustainability Index (ESI). DENSO will use this recognition as building blocks for further expansion of its contribution to social and corporate sustainability through its CSR activities.



DENSO's social responsibility commitment is recognized by its inclusion in international sustainability indexes.

BUSINESS SEGMENT	MAIN PRODUCTS	HIGHLIGHTS IN FISCAL 2005	PERCENTAGE OF NET SALES
<b>AUTOMOTIVE</b>	<b>Thermal Systems</b> <b>Climate Control Products</b> Air-conditioning systems for cars, buses, construction equipment, truck refrigeration units, and air purifiers <b>Engine Cooling Components</b> Radiators, cooling fans, inter coolers, oil coolers, front-end modules, and cooling modules	Increased by 4.3% year-on-year to ¥931.5 billion. This is equivalent to 33.3% of net sales.	
	<b>Powertrain Control Systems</b> <b>Diesel Engine-related Products</b> Diesel engine management systems and their constituent components (common rail systems, exhaust gas recirculation (EGR) valves, throttle bodies, diesel particulate filters (DPFs), and others) <b>Gasoline Engine-related Products</b> Gasoline engine management systems and their constituent components (fuel injectors, fuel pumps, variable cam timing components, throttle bodies, air flow meters, ignition coils, exhaust gas sensors, ceramic substrates, and others) <b>Transmission Control Components</b> Automatic transmission (AT) control valves, AT solenoids, and shift-by-wire actuators <b>Lighting Electronics Products</b> Ballasts <b>Components for Hybrid Electric Vehicles(HEVs)</b> Integrated starter generators (ISGs), DC-DC converters, battery ECUs, and inverters	Increased by 11.2% year-on-year to ¥646.1 billion. This is equivalent to 23.0% of net sales.	
	<b>Electronic Systems</b> <b>Body Electronics Products</b> Instrument clusters, integrated climate control panels, smart keys, remote keyless entry controllers, rear and corner sonars, car security systems, and body ECUs <b>Engine-related Components</b> Engine ECUs <b>Transmission Control Components</b> AT control ECUs <b>Electronic Components and Devices</b> Monolithic ICs, hybrid ICs, relays, and semiconductor sensors	Increased by 12.0% year-on-year to ¥424.3 billion. This is equivalent to 15.2% of net sales.	
	<b>Electric Systems</b> <b>Engine-related Components</b> Starters and alternators <b>Driving Control and Safety Products</b> Airbag sensors and ECUs, ABS actuators and ECUs, laser radars and ECUs for adaptive cruise control (ACC) systems, millimeter-wave radars and ECUs for pre-crash safety systems, and ECUs for electric power steering systems	Increased by 13.0% year-on-year to ¥331.4 billion. This is equivalent to 11.9% of net sales.	
	<b>Small Motors</b> Windshield wiper systems, windshield washer systems, power window motors, and other automotive motors	Increased by 6.6% year-on-year to ¥193.6 billion. This is equivalent to 6.9% of net sales.	
	<b>ITS (Intelligent Transport Systems)</b> Car navigation systems, electronic toll collection (ETC) on-board equipment, data communication modules, and advanced vehicle operation systems (AVOS)	Increased by 30.7% year-on-year to ¥120.9 billion. This is equivalent to 4.3% of net sales.	
<b>NON-AUTOMOTIVE</b>	<b>Automatic ID Data Capture Devices</b> Bar code handy scanners and handy terminals, QR code scanners and handy terminals, smart cards and reader/writers, radio frequency-identification (RF-ID) systems, and security systems <b>Factory Automation (FA) Products</b> Industrial robots and programmable controllers <b>Refrigeration and Air-conditioning systems</b> Cooling units for electronic devices (Mobile phone base stations, computers, and others), kerosene heat pumps (KHPs), and spot coolers/heaters	Increased by 9.7% year-on-year to ¥58.9 billion. This is equivalent to 2.1% of net sales.	
	<b>Consumer Products</b> CO <sub>2</sub> refrigerant heat-pump water heaters, automatic faucets, and electrically powered kitchen systems		

## ( AUTOMOTIVE )

### Thermal Systems

#### ► OVERVIEW

The supplier, TD Automotive Compressor Georgia, LLC, was established in Georgia, U.S.A., as a joint venture with Toyota Industries Corporation. The new company produces compressors for car air conditioners. In Arkansas, DENSO marked the world's first mass-production application of the CuproBraz® process, for manufacture of radiators for off-highway (heavy-duty construction and industrial) vehicles and started production of car air conditioners. In Michigan, DENSO increased production capacity for heat exchangers.

In China, DENSO (Tianjin) Thermal Products Co., Ltd. was established for production of heat exchangers for car air conditioners and radiators. In Tianjin, DENSO also began producing hoses and pipes for car air conditioners in November 2004, and added additional capacity for car air conditioner production.

DENSO (Thailand) Co., Ltd. expanded its production capacity for air-conditioning units, and a new factory was built to produce next-generation heat exchangers. Production capacity for heat exchangers was also increased in India.

DENSO also acquired a capital interest in Smiths Manufacturing (Pty) Limited, the largest car air conditioner manufacturer in the Republic of South Africa.

Factors contributing to sales growth in the year ended March 31, 2005 include growth in the number of vehicles produced in Japan, and the starting of deliveries of air-conditioning systems in Asia for use in Toyota IMVs (Innovative International Multi-purpose Vehicles). In Europe, DENSO began to deliver air-conditioning units,

condensers and radiators to a Suzuki plant in Hungary. The Company also entered the mass-production phase for air-conditioning units and condensers delivered to Volkswagen.

#### ► PERSPECTIVE

In the car air conditioner area, a core product category, customers require highly efficient systems that can meet increasingly stringent fuel consumption requirements while improving cabin comfort. Moreover, the emphasis on environmental needs grows as governments restrict the use of fluorocarbon refrigerants. DENSO is continually developing high-added value products to enhance cabin comfort, including temperature-related enhancements, such as independent temperature controls, as well as filters and other products designed to improve air quality. DENSO strives to optimize the environmental efficiency of both individual components and total systems. The Company is also working to develop environment-friendly air conditioners based on natural refrigerants.

In the radiator category, DENSO is developing compact, high-performance cooling systems to meet a growing demand for improved engine efficiency and output, prompted by stricter fuel efficiency regulations and rising gasoline prices. With the introduction of new laws and regulations to protect pedestrians, there is also a need for products that reduce injuries to pedestrians when collisions occur. DENSO is working to meet these needs by combining its cooling and air-conditioning systems to create products that improve fuel efficiency, warm-up speed and power output.

#### NEW PRODUCTS

- **Bus Air Conditioner with a Variable-capacity Compressor**  
Reduces fuel consumption.
- **World's First Car Air Conditioner with Pollen-removal Function**  
Blows pollen from the occupants and their clothing and removes it from the cabin.
- **The World's First Electric Compressor Incorporating an Inverter with Built-in Motor**  
Results in high output from a compact design (developed with Toyota Industries Corporation).



#### ◀ PRODUCT EXAMPLES

From left to right

- Electric Compressor with Incorporated Inverter\*
- Air-conditioning Unit
- Front-End Module

\*New Product

## Powertrain Control Systems

### ► OVERVIEW

In fiscal 2005, DENSO further developed its supply network for powertrain products. In China the Company established three new manufacturing companies to produce fuel injectors and fuel injection pumps for gasoline vehicles, ignition coils and filters. In Europe, DENSO started production of intake manifolds and air filters in Poland, and established an engineering center for diesel engine components in Germany. In the Republic of Korea, DENSO started production of stick coils and variable cam timing (VCT) components. In the United States, DENSO increased production capacity for exhaust gas sensors, ceramic substrates and fuel injectors. In Mexico, the Company expanded capacity for VCT components and oil flow control valves (OCVs) and established new production lines for evaporative leak check modules (ELCMs) and non-contact sensors.

On the sales front, DENSO began delivering components for Toyota's IMV project, including diesel common rail systems (CRS), and fuel injectors, fuel pump modules, stick coils and exhaust gas sensors for gasoline vehicles. The company now delivers common rail systems to Isuzu Motors Limited in the ASEAN region, and started contract production of main inverters for Toyota's hybrid electric vehicles (HEVs).

Overall trends in this segment include strong sales of CRS in the ASEAN region and Europe, while variable valve-timing systems sold well globally. In the Japanese and American markets there was growth in integrated air fuel modules, automatic transmission (AT) control products and ELCMs. Increased sales of discharge lamp ballasts and components for HEVs in Japan also improved overall performance.

### ► PERSPECTIVE

Automakers are seeking to increase fuel-efficiency and lower emissions to meet increasingly stringent standards in markets worldwide. DENSO plans to meet this need by developing components and systems for gasoline engine, diesel engine, and HEVs.

In Europe, where around half of vehicles are diesel powered, the drive to lower CO<sub>2</sub> emissions favors diesel engines. In North America, use of diesel engines is likely to increase, especially for SUVs, in the face of more stringent Corporate Average Fuel Economy (CAFE) standards. Automakers in both markets face the challenge of future regulations that call for further reduction of nitrogen oxide (NOx), particulate matter (PM) and other harmful substances in the exhaust gas. In Japan, automakers must prepare for regulations that may soon set diesel PM emissions at the same level as for gasoline engines. DENSO's market-leading diesel CRS brings major improvements in fuel efficiency while lowering PM and NOx emissions and increasing drivability (see Technological Development, page 9). DENSO continues further development on even more advanced CRS, capable of reducing harmful substances in the exhaust gas even further.

HEVs are gaining U.S. and Japanese market share thanks to tax incentives and improved acceleration performance. Depending on the strictness of CO<sub>2</sub> emission regulations in 2012, HEVs could also claim a bigger share in Europe. DENSO's products for HEVs include battery ECUs, DC-DC converters, inverters, and electric-motor driven car air-conditioning systems. DENSO research is further reducing the size and improving the efficiency of these components.

### NEW PRODUCTS

- **Ballast for World's First Mercury-free High-intensity Discharge Headlamp System**
- **World's First Tank Close Valve**  
Seals fuel tanks to prevent leakage of gasoline vapor.

- **World's First 1,800-bar Diesel Common Rail System with Piezo Injectors**  
Improves combustion performance, helping to generate higher engine power, and reduce nitrogen oxide (NOx) and particulate matter (PM).



### ◀ PRODUCT EXAMPLES

From left to right

- Piezo Injector\*
- Integrated Air Fuel Module
- Ballast\*

\*New Product

## Electronic Systems

### ► OVERVIEW

DENSO strengthened its supply systems for electronic systems in fiscal 2005. We increased production capacity for engine electronic control units (ECUs) and instrument clusters in China, and for engine ECUs and body electronics products in Malaysia. Sales benefited from the start of deliveries of engine ECUs for common rail systems to Hyundai Motor Company. DENSO also began to supply crank position sensors and cam position sensors for Nissan vehicles destined for the Japanese and North American markets.

In the electronic systems segment, DENSO expanded its sales of new products for increasingly sophisticated vehicles, including keyless entry systems, tire-pressure monitoring systems (TPMS), sensors and body electronics products. The Company also increased its market shares for products in the Japanese and U.S. markets. Increased sales in China, which is a new market for DENSO, also helped to boost revenues.

### ► PERSPECTIVE

The demand for attractive instrument panels based on original, sophisticated design concepts continues to grow. Drivers now seek systems that present information in easily assimilated ways. For example, DENSO first introduced white light emitting diodes (LEDs) for instrument cluster nighttime backlighting. The Company has also used precision printing and lighting technology to create instrument clusters with superior design appeal. Additionally, DENSO developed instrument clusters with multi-information displays, including compact dot-matrix multi-displays and

full-color thin film transistor (TFT) displays, to enhance the visibility of various types of information.

Body electronic products enhance the comfort of drivers and passengers and make vehicles more attractive. DENSO continues to develop a wide range of vehicle body electronic systems, including products for safer driving, such as clearance sonar and TPMS, and innovations for user convenience, such as smart entry and push-button starting systems.

Priorities include the development of more compact ECUs that are resistant to vibration and heat, and the integration of engine control systems with other systems to improve fuel efficiency and performance. DENSO aims to raise comfort, convenience and fuel efficiency by combining various ECUs into integrated control systems, and by developing software platforms to support integration.

There is growing demand for semiconductor sensors to support the sophisticated control systems needed to meet today's demanding regulatory controls, including exhaust emission standards. There is also a growing need for sensors with enhanced precision and detection ranges, as well as the durability to withstand harsh conditions. In this market, DENSO's advantages reside in the ability to develop products that anticipate system needs, and the integration of production processes from wafer processing to packaging. DENSO has led the world in establishing mass production capacity for a variety of devices, including pressure sensors, acceleration sensors, rotary position sensors and light sensors. DENSO will continue to use its accumulated technology to supply today's most sophisticated hybrid sensors.

### NEW PRODUCTS

- **World's First Engine ECU Developed using Simulink Automatic Code Generation on a Large Scale**  
DENSO reduced development costs by using automatic code generation to reduce development work.

- **ECU with Integrated Engine Control, High-voltage Battery Control and Hybrid System Control**  
DENSO and Toyota Motor Corporation jointly developed this product, for use in hybrid electric vehicles.



### ◀ PRODUCT EXAMPLES

- From left to right
- Instrument Cluster
  - Engine ECU
  - Crank Position Sensor

## Electric Systems

### ► OVERVIEW

Supply-related developments during the year ended March 2005 included the expansion of alternator production capacity in Thailand and the Republic of Korea. On the sales side, DENSO began deliveries of alternators to Ford in the United States, and to Toyota for use in the ASEAN IMVs. DENSO also received a purchase order from Honda North America for sensing systems used for rollover airbags.

Factors helping to expand sales in this segment included increased vehicle production in Japan and strong overseas sales of Japanese vehicles. Another contributing factor was the increased percentage of vehicles fitted with sophisticated products, such as anti-lock brake systems (ABS) with traction control, vehicle stability control and brake-assist functions, and airbag systems with side airbags.

### ► PERSPECTIVE

While there is increasing demand throughout the world for safety-related products, the performance requirements for these products vary because of differing traffic conditions in Japan, North America and Europe. The priority in Japan is improved performance with shorter distance between vehicles, while in the United States there is a need for improved sensor performance when the cars in front are

dirty. In Europe, the improvement of performance at high speeds and over long distances is a priority. DENSO will continue to develop products to meet the varying needs of each market.

One of the main priorities for starters is a reduction in size and weight. There is also a need for improvements in durability and starting performance to support increased starter use in eco-friendly vehicles, which have systems that automatically switch off vehicle engines during idling, for instance at red lights. DENSO will make these changes to promote greater use of eco-friendly vehicles within society.

Automakers need alternators that combine reduced size and weight with improved power generation capacity to support increased electricity consumption in vehicles. The reduction of magnetic noise is also a priority from the viewpoint of cabin comfort. DENSO has completed commercial development of segment conductor (SC) alternators designed to meet these needs. We will continue to target further improvements in the output capacity of SC alternators while increasing efforts to develop related products to meet new requirements in this area, including optimal generation and charging control.

## NEW PRODUCTS

- **Adaptive Cruise Control (ACC) System**  
Includes a low-speed following mode.
- **Vision Sensor**  
Detects lane markers on the road for lane-keeping assist system.



\*New Product

## Small Motors

### ► OVERVIEW

The DENSO Group company responsible for small-motor business is Asmo Co., Ltd., which in 2004 celebrated its 25th anniversary and the production of its two-billionth motor in Japan.

Production-related developments for the year ended March 2005 included the establishment of new production lines for next-generation windshield wiper systems, power window motors, power seat motors and other products in China. A reliability testing facility in China was also expanded. DENSO also expanded an engineering center in the United States and a reliability testing facility in Indonesia.

Factors contributing to sales growth included buoyant worldwide sales of windshield wiper systems, and strong demand for power-seat motors and sliding-door closer motors in North America and Japan.

### ► PERSPECTIVE

The market demands continuous improvements in windshield wiper systems, including reductions in size and weight. In addition to improvements in basic wiping performance, there is also a need for qualitative enhancements in the appearance of exterior parts. DENSO will

continue to develop products to meet all of these needs. Reductions in weight and size and the improvement of exterior appearance are also priorities for windshield washer systems. Another requirement is the improvement of cleaning efficiency to reduce the amount of fluid used by washer systems. DENSO is working to develop lighter, more compact systems. The Company has also improved the exterior appearance by developing systems with nozzles in concealed locations, such as beneath the hood. Future development goals include the improvement of performance during high-speed travel, and the reduction of the amount of washer fluid consumed per use.

In the power-window motor category, there is a growing need for smaller, lighter motors to fit in the increasingly slim doors of modern cars. There is also growing demand for smart motors with built-in control circuits as new cars are increasingly being fitted with jam-protection systems. DENSO has already brought some of the world's lightest, most compact power window motors to market. The Company has also developed smart power window motors and is preparing for their commercial introduction.

### NEW PRODUCTS

- **World's First Car Air-conditioner Blower Motor Module**  
Combines blower motor and driver circuit with built-in relay functions.
- **Brushless Variable-gear Ratio Steering Motor**  
This product, designed to reduce vibration, requires no external vibration damper.



### ◀ PRODUCT EXAMPLES

- From left to right
- Windshield Wiper System
  - Power Window Motor
  - Blower Motor Module\*

\*New Product

## ITS (Intelligent Transport Systems)

### ► OVERVIEW

Developments affecting DENSO's supply operations in this segment in the year ended March 2005 included the establishment of new production lines in the United States to meet increased demand for car navigation systems in the North American market.

A key sales-related event was the start of deliveries of car navigation systems to Land Rover, Nissan Motors, and Mazda. Factors contributing to sales growth in the year ended March 2005 included strong sales of car navigation systems in Japan, North America and Europe. As in the previous year, DENSO was again the market leader in terms of the number of car navigation circuit boards shipped, with a market share of approximately 17 percent. Sales of electronic toll collection (ETC) on-board equipment were also strong, reflecting an increase in the diffusion rate in Japan, combined with higher corporate demand resulting from government measures to promote the technology. DENSO's domestic sales of ETC on-board equipment reached 1.24 million units, and its market share was again the largest, at around 35 percent. Cumulative shipments exceeded two million units in January 2005.

### ► PERSPECTIVE

Demand for car navigation systems has started to expand in the North American and European markets, as well as in Japan. Demand is now polarized between low-priced systems integrated with audio equipment and systems that are integrated with vehicle control equipment

to provide enhanced safety and peace of mind. DENSO develops custom LSIs with scalability characteristics that allow them to be used in products ranging from basic car navigation systems to high-end multimedia systems. The Company is also developing systems that will enhance the attractiveness of vehicles by working in linkage with other vehicle equipment, such as instrument clusters and cruise control systems.

There is growing demand for telematics services, such as Toyota's G-Book concept, to enhance safety and security. DENSO is developing advanced communication modules to support these services.

The percentage of vehicles using ETC systems on Japan's expressways has reached 30 percent and is expected to rise still further because of the need to alleviate congestion. DENSO is developing a range of attractive new products in the area of ETC on-board equipment.

The use of mobile telephones while driving is prohibited in some areas, and there is a growing need for hands-free systems that can be operated safely. DENSO has already introduced a convenient hands-free system that allows a mobile telephone to be connected wirelessly using the Bluetooth system. It is now working to expand the use of this technology by expanding its product range.



### ◀ PRODUCT EXAMPLES

From left to right

- Car Navigation System
- ETC On-board Equipment
- Data Communication Module

## (NON-AUTOMOTIVE)

### Industrial Systems and Consumer Products

#### ► OVERVIEW

In the consumer products category, subsidies introduced by the Japanese government and growing environmental awareness were reflected in strong sales of CO<sub>2</sub> refrigerant heat-pump water heaters in fiscal 2005.

The DENSO Group company responsible for industrial systems at all levels from development through production is DENSO Wave Inc. In Japan, there was strong sales growth in security systems. Sales of industrial robots were also buoyant, reflecting higher plant and facility investment by the manufacturing sector.

One development topic in this segment was the establishment of a marketing company in Japan together with Dentsu Inc., Dentsu Tec Inc. and Sharp Corporation to manage the development and issuance of the Mobile Code system. Mobile Code is based on QR Code, a kind of two-dimensional code (2D code) originated by DENSO Wave. Mobile Code encodes information to prevent tampering and strengthen security.

#### ► PERSPECTIVE

Energy conservation and environment friendliness are increasingly important in the refrigeration and air-conditioning market. DENSO's excellent thermal system technology is now being applied to the development of revolutionary new non-automotive products. Further development will focus on products and technologies to

meet energy conservation and environmental requirements. DENSO also aims to expand its activities to include such areas as cooling systems for electronic devices based on heat-exchanger technology.

Through our involvement in automotive electronics, we have global top-level technology resources and quality control systems to fill a growing need by the industry for automatic identification (ID) capture systems. We also pioneered barcode and 2D code scanners. By combining this expertise, DENSO will reliably serve this field at all stages from product development, sales and service through to systems integration.

ID solutions help protect business privacy, business secrets and other confidential information in today's increasingly sophisticated and complex world. DENSO continues to develop related systems and products based on applications of proprietary automotive electronics technology. Our main focus will be the use of smart card technology as a mechanism for the maintenance of system confidentiality.

Additionally, DENSO pioneered factory automation (FA) systems for production lines. After considerable development within the Group, we now sell a highly reliable FA system to outside companies seeking flexible manufacturing. We will continue to offer automation solutions, especially industrial robots and programmable controllers, for use in a wide range of manufacturing plants.

#### NEW PRODUCTS

• **CO<sub>2</sub> Refrigerant Heat-pump Water Heaters for Household Use**  
DENSO launched three new CO<sub>2</sub>-refrigerant heat-pump hot water heaters. One has increased capacity to provide floor heating in addition to household hot water. Another is among the most compact in the industry and the third is a solar hybrid system that achieves extreme efficiency.

- **VP-F Series Mini-sized Vertical Articulated Robot**
- **BHT-500B Series Bar Code Handy Terminal**  
This system features enhanced reading and communications capabilities.
- **BHT-300Q Series Bar Code and 2D Code Handy Terminal**  
This system features enhanced reading performance and ease of reading.



#### ◀ PRODUCT EXAMPLES

From left to right

- Industrial Robot\*
- Bar Code Handy Terminal\*
- CO<sub>2</sub> Refrigerant Heat-pump Water Heater\*

\*New Product

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# FINANCIAL REVIEW

## FINANCIAL SUMMARY

DENSO CORPORATION and Consolidated Subsidiaries  
Years ended March 31

	2005	2004	2003	2002	2002 <sup>*1</sup> unaudited
<b>Net Sales:</b>	<b>¥2,799,949</b>	¥2,562,411	¥2,332,760	¥2,401,098	¥2,183,062
Sales in Japan	<b>1,554,795</b>	1,442,645	1,325,637	1,277,865	1,277,865
Sales outside Japan	<b>1,245,154</b>	1,119,766	1,007,123	1,123,233	905,197
<b>Operating Income</b>	<b>213,895</b>	188,659	159,893	133,340	129,888
<b>Net Income</b>	<b>132,620</b>	110,027	111,018	72,313	70,800
<b>Total Assets</b>	<b>2,780,982</b>	2,526,502	2,354,657	2,361,048	—
<b>Shareholders' Equity</b>	<b>1,643,182</b>	1,509,489	1,397,888	1,421,212	—
<b>Capital Expenditures</b>	<b>235,258</b>	196,461	171,108	193,599	183,977
<b>Depreciation</b>	<b>160,993</b>	151,169	146,651	147,277	139,991
<b>R&amp;D Expenses</b>	<b>238,241</b>	214,917	182,886	185,627	181,044
<b>Net Cash Provided by Operating Activities</b>	<b>273,296</b>	231,814	267,344	206,663	—
<b>Per Share:</b>					
Basic net income	¥ <b>159.02</b>	¥ 130.02	¥ 128.37	¥ 80.22	¥ 78.54
Diluted net income	<b>158.96</b>	130.01	126.65	78.93	77.29
Cash dividends	<b>32.00</b>	24.00	20.00	18.00	—
Shareholders' equity	<b>1,990.48</b>	1,809.55	1,656.93	1,641.72	—
<b>Ratios:</b>					
Return on Sales (%)	<b>4.7</b>	4.3	4.8	3.0	3.2
Current Ratio (%)	<b>161.4</b>	163.0	161.2	174.0	—
Fixed Ratio (%)	<b>98.2</b>	97.2	97.3	95.2	—
Return on Equity (%)	<b>8.4</b>	7.6	7.9	5.0	4.9
<b>Average Number of Shares</b> (in thousands)	<b>830,869</b>	842,005	860,828	901,489	—
<b>Number of Employees</b>	<b>104,183</b>	95,461	89,380	86,639	—

Notes: 1. As of March 31, 2005, DENSO CORPORATION had 171 consolidated subsidiaries and applied the equity method of accounting with respect to 29 affiliates.

2. The figures for the year ended March 31, 2002 include the effect of an irregular 15-month reporting period, due to certain major overseas consolidated subsidiaries and overseas affiliates (45 companies) deciding to change their year-end to March 31 from December 31.

\*1 The italicized figures for the year ended March 31, 2002 represent unaudited amounts calculated by management to reflect comparative income statement information including the results of these overseas companies for the 12-month period ended December 31, 2001.

## SALES BY BUSINESS SEGMENT

	2005	2004	2003	2002	Millions of yen (percentage of net sales)		Thousands of U.S. dollars
					2002 <sup>*1</sup> unaudited	2001	
<b>Thermal Systems</b>	<b>¥ 931,568</b> <i>(33.3%)</i>	¥ 893,548 (34.9%)	¥ 830,018 (35.6%)	¥ 870,676 (36.2%)	¥ <i>764,244</i> <i>(35.0%)</i>	¥ 690,502 (34.3%)	<b>\$ 8,706,243</b>
<b>Powertrain Control Systems</b>	<b>646,166</b> <i>(23.0)</i>	580,826 (22.7)	514,604 (22.1)	500,892 (20.8)	<i>460,974</i> <i>(21.1)</i>	402,829 (20.0)	<b>6,038,935</b>
<b>Electronic Systems</b>	<b>424,377</b> <i>(15.2)</i>	378,835 (14.8)	345,543 (14.8)	353,052 (14.7)	<i>324,274</i> <i>(14.8)</i>	315,740 (15.6)	<b>3,966,140</b>
<b>Electric Systems</b>	<b>331,426</b> <i>(11.9)</i>	293,372 (11.4)	269,567 (11.5)	288,004 (12.0)	<i>261,097</i> <i>(12.0)</i>	250,136 (12.4)	<b>3,097,439</b>
<b>Small Motors</b>	<b>193,646</b> <i>(6.9)</i>	181,634 (7.1)	171,914 (7.4)	167,460 (7.0)	<i>156,810</i> <i>(7.2)</i>	156,608 (7.8)	<b>1,809,776</b>
<b>ITS</b>	<b>120,938</b> <i>(4.3)</i>	92,521 (3.6)	60,328 (2.6)	57,015 (2.4)	<i>55,878</i> <i>(2.6)</i>	39,438 (2.0)	<b>1,130,262</b>
<b>Other Automotive</b>	<b>42,677</b> <i>(1.5)</i>	35,444 (1.4)	30,816 (1.3)	22,562 (1.0)	<i>21,806</i> <i>(1.0)</i>	15,908 (0.8)	<b>398,850</b>
Automotive sub-total	<b>2,690,798</b> <i>(96.1)</i>	2,456,180 (95.9)	2,222,790 (95.3)	2,259,661 (94.1)	<i>2,045,083</i> <i>(93.7)</i>	1,871,161 (92.9)	<b>25,147,645</b>
<b>Industrial Systems and Consumer Products</b>	<b>58,920</b> <i>(2.1)</i>	53,686 (2.1)	53,353 (2.3)	48,167 (2.0)	<i>45,530</i> <i>(2.1)</i>	42,800 (2.1)	<b>550,654</b>
<b>Others</b>	<b>50,231</b> <i>(1.8)</i>	52,545 (2.0)	56,617 (2.4)	93,270 (3.9)	<i>92,449</i> <i>(4.2)</i>	101,017 (5.0)	<b>469,449</b>
New businesses sub-total	<b>109,151</b> <i>(3.9)</i>	106,231 (4.1)	109,970 (4.7)	141,437 (5.9)	<i>137,979</i> <i>(6.3)</i>	143,817 (7.1)	<b>1,020,103</b>
<b>Total</b>	<b>¥2,799,949</b> <i>(100.0)</i>	¥2,562,411 (100.0)	¥2,332,760 (100.0)	¥2,401,098 (100.0)	¥2,183,062 <i>(100.0)</i>	¥2,014,978 (100.0)	<b>\$26,167,748</b>

Notes: 1. The figures for the year ended March 31, 2002 include the effect of an irregular 15-month reporting period, due to certain major overseas consolidated subsidiaries and overseas affiliates (45 companies) deciding to change their year-end to March 31 from December 31.

\*1 The italicized figures for the year ended March 31, 2002 represent unaudited amounts calculated by management to reflect comparative income statement information including the results of these overseas companies for the 12-month period ended December 31, 2001.

2. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107=US\$1, the approximate exchange rate prevailing on March 31, 2005, the last trading day of the fiscal year.

Millions of yen						Thousands of U.S. dollars
2001	2000	1999	1998	1997	1996	2005
¥2,014,978	¥1,883,407	¥1,758,842	¥1,667,311	¥1,624,906	¥1,422,607	\$26,167,748
1,245,830	1,161,016	1,104,579	1,135,834	1,153,392	1,035,664	14,530,795
769,148	722,391	654,263	531,477	471,514	386,943	11,636,953
123,526	116,682	101,663	112,786	132,383	87,022	1,999,019
60,799	61,913	58,969	71,158	71,376	49,845	1,239,439
2,343,328	2,154,251	1,917,192	1,745,329	1,701,825	1,576,979	25,990,486
1,451,211	1,304,400	1,121,171	1,057,173	978,378	904,100	15,356,841
140,447	169,953	212,745	177,757	124,789	96,632	2,198,673
134,416	134,706	124,289	103,068	94,890	91,167	1,504,607
176,959	160,055	154,207	157,615	151,928	130,827	2,226,551
202,127	196,020	155,540	148,735	197,860	165,396	2,554,168
Yen						U.S. dollars
¥ 66.51	¥ 68.15	¥ 65.46	¥ 79.93	¥ 81.68	¥ 57.33	\$ 1.49
65.51	66.73	63.51	76.31	76.24	53.52	1.49
17.00	17.00	15.00	15.00	16.00	14.00	0.30
1,587.77	1,426.70	1,238.33	1,178.53	1,110.25	1,039.37	18.60
3.0	3.3	3.4	4.3	4.4	3.5	
199.0	227.1	223.2	209.2	211.4	251.9	
91.4	77.1	77.4	73.8	70.6	73.1	
4.4	4.9	5.4	7.0	7.6	5.6	
914,121	908,519	900,836	890,226	873,869	869,442	
85,371	80,795	72,359	57,084	56,961	56,385	

3. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107=US\$1, the approximate exchange rate prevailing on March 31, 2005, the last trading day of the fiscal year.

## SALES BY COMPANY LOCATION

Millions of yen							Thousands of U.S. dollars	
		2005	2004	2003	2002	2002 <sup>1</sup> unaudited	2001	2005
Japan	Customers	¥1,590,666	¥1,469,552	¥1,355,925	¥1,304,249	¥1,304,249	¥1,277,731	\$14,866,037
	Intersegment	469,891	416,245	374,770	338,858	338,858	301,300	4,391,505
	Total	2,060,557	1,885,797	1,730,695	1,643,107	1,643,107	1,579,031	19,257,542
The Americas	Customers	571,053	549,208	531,303	630,714	501,831	457,627	5,336,944
	Intersegment	9,189	8,532	9,267	12,602	10,082	9,802	85,879
	Total	580,242	557,740	540,570	643,316	511,913	467,429	5,422,823
Europe	Customers	367,082	333,486	269,499	304,194	238,238	158,205	3,430,673
	Intersegment	6,968	4,809	4,489	5,073	4,058	1,708	65,121
	Total	374,050	338,295	273,988	309,267	242,296	159,913	3,495,794
Asia & Oceania	Customers	271,148	210,165	176,033	161,941	138,744	121,415	2,534,094
	Intersegment	19,757	13,438	9,837	7,456	5,965	6,878	184,645
	Total	290,905	223,603	185,870	169,397	144,709	128,293	2,718,739
Eliminations	(505,805)	(443,024)	(398,363)	(363,989)	(358,963)	(319,688)	(4,727,150)	
Consolidated	¥2,799,949	¥2,562,411	¥2,332,760	¥2,401,098	¥2,183,062	¥2,014,978	\$26,167,748	

Notes: 1. The figures for the year ended March 31, 2002 include the effect of an irregular 15-month reporting period, due to certain major overseas consolidated subsidiaries and overseas affiliates (45 companies) deciding to change their year-end to March 31 from December 31.

\*1 The italicized figures for the year ended March 31, 2002 represent unaudited amounts calculated by management to reflect comparative income statement information including the results of these overseas companies for the 12-month period ended December 31, 2001.

2. U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107=US\$1, the approximate exchange rate prevailing on March 31, 2005, the last trading day of the fiscal year.

**BUSINESS OVERVIEW**

In the year ended March 31, 2005, the world economy showed strong growth supported by buoyant U.S. and Chinese economies. The Japanese economy saw increases in exports and capital expenditures to post its third consecutive year of positive growth. The strong world economy brought good results for the automotive industry. Sales in the U.S., a major market for automobiles, were buoyant, and there were significant signs of recovery in Western Europe. In Asia, increased sales were recorded in China, India and the ASEAN nations. In Japan, demand due to stringent regulations for exhaust gas emissions slackened, slowing sales. This was offset, however, by robust exports that exceeded 10 million vehicles for the third consecutive year.

**SALES**

DENSO Group continued efforts on several fronts to expand its global operations. As a direct result of DENSO emphasizing the key concepts of safety, environment, comfort and convenience to develop value-added products of the highest quality, sales for the year ended March 31, 2005 were ¥2,799.9 billion, a 9.3% (¥237.5 billion) increase over the previous year.

**SALES BY GEOGRAPHIC SEGMENT**

Sales in Japan rose 9.3% year-on-year, or ¥174.8 billion, to ¥2,060.6 billion. This was a result of increased vehicle production and exports of components used in overseas final assembly.

Sales in the Americas grew 4.0%, an increase of ¥22.5 billion, to ¥580.2 billion. An appreciating yen had a negative impact on these results, however this was offset by expanded sales and production of Japanese automobile manufacturers.

Sales in Europe saw an increase of 10.6%, or ¥35.8 billion, to stand at ¥374.1 billion. This increase was due to expanded sales to Japanese and European automobile manufacturers.

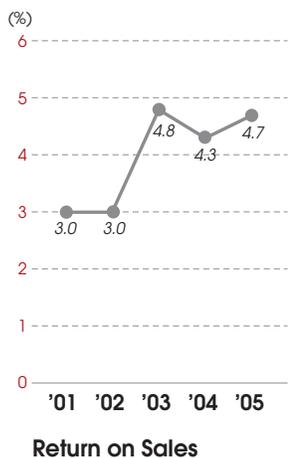
Sales in Asia and Oceania swelled 30.1%, or ¥67.3 billion to reach ¥290.9 billion, due to the full operation of the IMV Project and increased production of Japanese automobile manufacturers.

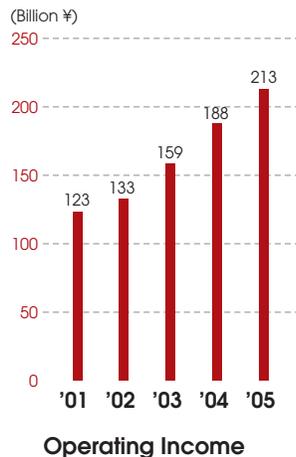
**SALES BY BUSINESS SEGMENT**

In the year under review, DENSO recorded ¥2,690.8 billion in net sales in the automotive field for a year-on-year increase of 9.6%. The following six automobile-related business segments mainly generated 96.1% of sales.

**Thermal Systems:** sales rose 4.3% to ¥931.5 billion due to higher automobile production in Japan, increased sales to GM and Japanese automakers in North America and expanded sales to ASEAN nations for Toyota's IMV Project. **Powertrain Control Systems:** sales increased 11.2% year on year to ¥646.1 billion rising across the board for diesel common rail systems for European-based Japanese manufacturers and Toyota's IMV Project, variable cam timing (VCT) components. Similar gains were seen for integrated air-fuel modules, automatic transmissions and other system control components. **Electronic Systems:** sales rose 12.0% to ¥424.3 billion, thanks to strong demand for body electronic systems, such as keyless entry systems and tire pressure monitoring systems, as well as sensors and other new high-end automotive components.

**Electric Systems:** sales grew 13.0% to ¥331.4 billion, chiefly due to increased installation of traction control, vehicle stability control and brake-assist functions added to anti-lock brake systems as well as airbag systems with side airbags and other sophisticated functional products. **Small Motors:** sales increased by 6.6% to ¥193.6 billion due to robust sales of wiper systems, power sheet motors and motors for sliding door closers. **Intelligent Transport Systems (ITS):** sales surged 30.7% to ¥120.9 billion as sales of car navigation systems and demand for ETC products in Japan expanded.





## OPERATING INCOME

Operating income rose 13.4%, or ¥25.2 billion, to ¥213.8 billion. Operating income mainly generated in the Japan and Asia & Oceania regions compensated for decreased income in the Americas and expanded losses in Europe.

### OPERATING INCOME BY GEOGRAPHIC SEGMENT

In Japan, operating income rose 17.3%, or ¥26.5 billion, to ¥180.0 billion, due to efforts to rationalize operation and higher capacity utilization caused by increased sales.

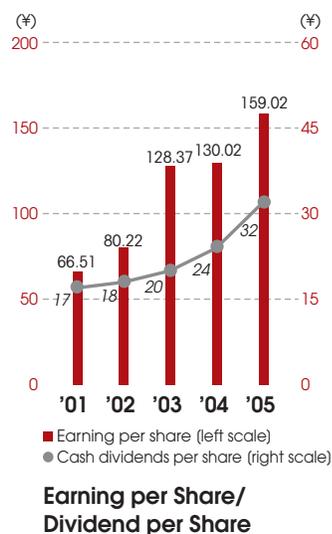
In the Americas, operating income declined 4.8%, or ¥1.2 billion, to ¥23.6 billion. Although improved capacity utilization resulted in higher margins, this was outweighed by the negative impact of the appreciating yen against the U.S. dollar, rising costs from starting operations at a new plant, the changeover of products and other factors.

In Europe, DENSO posted an operating loss of ¥8.8 billion, ¥4.5 billion larger than that in the previous period. Although efforts were made to rationalize operations, up-front investment related to a plant in the Czech Republic, sluggish car sales of certain car model in Europe, leading to lower capacity utilization, and capital expenditures in a plant in Hungary for diesel common rail systems had a negative impact.

In Asia & Oceania, operating income increased 34.7%, or ¥5.2 billion, to ¥20.1 billion. This was due to improved capacity utilization in line with the Toyota's IMV Project achieving full operation.

## OTHER INCOME (EXPENSES)

Other income rose ¥12.4 billion to ¥9.6 billion, mainly due to ¥12.1 billion loss from the governmental pension program due to return of corresponding plan assets recorded in the previous period.



## NET INCOME

DENSO recorded income before income taxes and minority interests of ¥223.4 billion for the year ended March 31, 2005, a rise of 20.2%, or ¥37.6 billion, over the results of the previous period. Income taxes for the year under review increased 21.7%, or ¥14.9 billion, to ¥83.3 billion. Minority interests in net income was ¥7.5 billion. As a result, net income stood at ¥132.6 billion, up 20.5%, or ¥22.6 billion.

ROE increased from 7.6% to 8.4%, and net income per share of common stock increased from ¥130.02 to ¥159.02. Diluted net income per share of common stock was ¥158.96, against ¥130.01 in the previous period.

## POLICY ON ALLOCATION OF EARNINGS

### DIVIDENDS

DENSO is committed to paying shareholders a stably increased dividend over the long term, while taking into consideration the company's operating results and the dividend payout ratio. In line with this policy, DENSO has set a dividend applicable to the fiscal year that represents a payout ratio of 24.7% of non-consolidated net income, or 20.1% of consolidated net income. As a result, the end-of-term dividend is ¥19.00 per share, giving an annual dividend for the year ended March 31, 2005 of ¥32.00 per share, an increase of ¥8 per share compared with the previous fiscal year.

### TREASURY STOCK REPURCHASES

During the year under review, DENSO repurchased 9.1 million shares of stock at an aggregate

cost of ¥23.8 billion, as part of the strategy to increase ROE and return profits to shareholders as well as undertake the DENSO's policy of retaining flexible capital to respond to changes in the business environment. DENSO has repurchased accumulated total of 131.8 million shares, including repurchases made in the year under review at an aggregate cost of ¥264.1 billion, since the beginning of its share buyback program in the year ended March 31, 1997. This represents 15% of all DENSO's outstanding shares as of March 31, 1997. In the future, while giving due consideration to cash flows, DENSO will maintain this strategy as an important tool in improving ROE and increasing shareholder value.

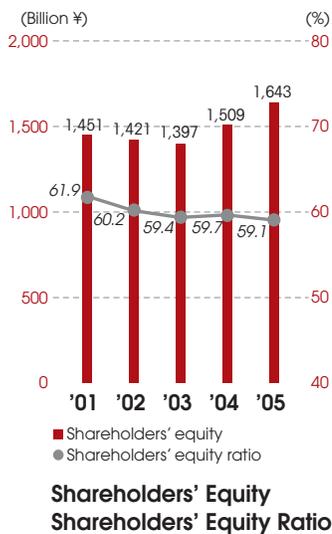
### SOURCE OF FUNDS AND LIQUIDITY RISK MANAGEMENT

DENSO's fundamental financial policy is designed to: ensure efficient funding of the operational activities of the entire DENSO Group; secure an optimum level of funds and liquidity; and maintain a sound financial position.

### GLOBAL CASH MANAGEMENT SYSTEM

In July 2000, a subsidiary to conduct the accounting operations of DENSO Corporation, DENSO Finance & Accounting Center Co., Ltd., was established in Japan, together with regional headquarter subsidiaries in North America, Europe and Asia. By integrating financing functions at these locations, DENSO is creating a structure that enables the optimum management of group-wide funds. Based on this structure, in which each subsidiary is responsible for managing funds within its respective region, DENSO can procure capital resources and manage excess or deficient funds in a more centralized manner.

Furthermore DENSO has created a cash pooling system for yen and U.S. dollars in order to increase global efficiency of financing and to do away with uneven distribution of funds between regions. In line with this policy, DENSO commenced the pooling of yen in 2002 and concentrated yen held by Group companies, which is often the currency used for Europe transactions, to headquarters in Japan for centralized administration. This system allows DENSO to transfer excess fund to underfunded operations thereby reducing commissions and interest normally paid to financial institutions.



### FINANCIAL POSITION

The Group's total assets as of March 31, 2005, increased by 10.1%, or ¥254.4 billion, to ¥2,780.9 billion.

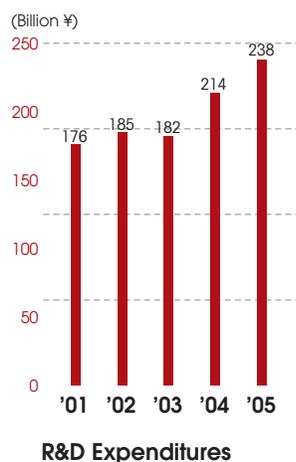
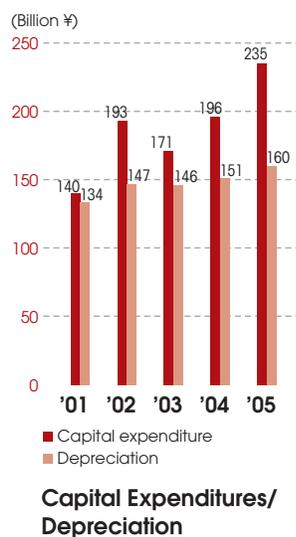
Current assets as of March 31, 2005, stood at ¥1,167.7 billion, 10.3%, or ¥108.7 billion increase, due to increases of short-term investments, notes and accounts receivable and inventories.

Property, plant and equipment increased 9.8%, or ¥75.7 billion, to ¥852.8 billion, primarily attributable to capital expenditures in Japan, the U.S., Mexico, Hungary and Thailand.

Investments and other assets increased 10.1%, or ¥70.0 billion, to ¥760.4 billion. This mainly reflected increases of investments in securities and prepaid pension costs.

The total of current and long-term liabilities rose 12.4%, or ¥117 billion, to ¥1,062.1 billion. Interest-bearing debt rose 16.8%, or ¥29.5 billion, to ¥205.7 billion due to increased long-term debt.

Total shareholders' equity was ¥1,643.2 billion, an 8.9%, or ¥133.7 billion, increase over the previous year end reflecting mainly an increase in net income.



## CASH FLOWS

Net cash provided by operating activities for the year ended March 31, 2005 was ¥273.3 billion. Investing activities used net cash of ¥268.8 billion and net cash used in financing activities was ¥20.1 billion. As a result, cash and cash equivalents as of March 31, 2005 stood at ¥231.8 billion, ¥12.7 billion less than at the end of the previous period. Net cash provided by operating activities was ¥41.5 billion higher than the previous year at ¥273.3 billion, due to higher capacity utilization supported by increased sales and group-wide efforts to reduce costs, rationalize operations and enhance efficiency.

Investing activities used net cash of ¥268.8 billion, ¥74.1 billion more than the previous year due to an increased outflow by ¥29.8 billion to acquire property, plant and equipment and a lower inflow from proceeds from sale and redemption of available-for-sale securities.

Net cash used in financing activities was ¥20.1 billion, or ¥28.9 billion less than the previous year. This was mainly attributable to no repayment of long-term bonds (¥40.0 billion was repaid in the previous year) offset by increases for repurchasing treasury stock and the payments of dividends, ¥4.5 billion and ¥4.0 billion higher than the previous year, respectively.

## CAPITAL EXPENDITURES / DEPRECIATION

DENSO applies a number of benchmarks to ensure appropriate decisions are made related to capital expenditures. These benchmarks include projected free cash flow, ROA, number of years to recover investments and forecasts of profitability. As part of its efforts to pare back medium-term fixed costs, DENSO is reducing the size and complexity of production lines, standardizing components, and using global procurement to achieve a reduction in capital expenditures.

Capital expenditures during the year under review totaled ¥235.3 billion, a 19.7%, or ¥38.9 billion increase over the previous fiscal year. Depreciation increased 6.5%, or ¥9.8 billion year on year, to ¥160.9 billion.

## BY GEOGRAPHIC SEGMENT

In Japan, capital expenditures increased 19.5%, or ¥23.8 billion, to ¥145.1 billion, while in the Americas, capital expenditures rose 28.2%, or ¥7.6 billion, to ¥34.6 billion, due to preparations related to the start of air conditioner and radiator manufacturing at DENSO Manufacturing Arkansas, Inc. in the U.S., and other investment projects. In Europe, capital expenditures increased 40.9%, or ¥8.9 billion, to ¥30.6 billion as plant expansion was carried out for the production of common rail diesel injection systems and VCT components at DENSO Manufacturing Hungary Ltd. In Asia & Oceania, capital expenditures decreased 5.0%, or ¥1.4 billion, to ¥25.0 billion, as preparations in response to Toyota's IMV Project in the previous year wound down.

Depreciation by region was as follows: 3.4% higher in Japan, at ¥111.7 billion; 3.3% higher in the Americas, at ¥19.8 billion; 16.5% higher in Europe, at ¥17.6 billion; and, 34.7% higher in Asia & Oceania, at ¥11.8 billion.

## RESEARCH AND DEVELOPMENT (R&D) ACTIVITIES

DENSO Group utilizes R&D to carry out its mission of creating new value to contribute to people's happiness. Not stopping at technological development to increase safety, comfort and convenience, and create a better natural environment in the automotive field, DENSO Group is making significant contributions to intelligent transport systems (ITS), which is anticipated to become a major component of the social infrastructure. Furthermore, DENSO is expanding research to industrial equipment and lifestyle devices by utilizing its extensive know-how acquired in the automotive field.

In the automotive field, DENSO hosted a booth at the World ITS Summit and the Tokyo Motor Show for Commercial Vehicles in 2004. DENSO used these opportunities to share details of the Group's technology and products in line with the four functions mentioned earlier. Furthermore, in order to build a global development framework, DENSO is strengthening development systems in Europe and Asia. In Europe, DENSO has established DENSO Automotive Deutschland GmbH to expand its material testing and air-conditioner testing capacity. Within this company, DENSO has founded the Aachen Engineering Center for performance evaluation of diesel engine components in addition to other R&D applications. In Asia, DENSO is expanding its design center at DENSO Manufacturing Vietnam Co., Ltd. to carry out simulations and design components destined for Japan.

In the year under review, Group R&D expenses were ¥238.2 billion. DENSO Group is meeting the latest automotive needs by continuously developing new competitive products supported by unique technologies. DENSO is applying technological prowess acquired through developments in the automotive sector to products that span multiple business segments by actively exploring new ideas from basic research to product development.

## **RISK MANAGEMENT**

### ***ECONOMIC RISK***

Demand for auto parts, which account for the major part of the Group's operating revenue around the globe, is easily affected by the economic situation in the countries and regions where the Group has its sales base. Accordingly, an economic downturn and resulting decrease in demand for auto parts in our major markets, including Japan, the Americas, Europe, Asia and Oceania, may have an adverse effect on our operating results and financial conditions.

Further, Group operations can be indirectly affected by the economic situation in regions where competitors have their manufacturing bases. For example, if a competitor is able to employ local labor at a lower cost and provide equivalent products at prices below ours, then, as a result, there is a chance that it may adversely affect our sales. Further, if the local currency of regions where parts and raw materials are sourced falls, there is a chance that the manufacturing cost not only for the Group but also other manufacturers will fall. As a result of these trends, export and price wars may intensify, with the possibility that this will have an adverse effect on our operating results and financial conditions.

### ***EXCHANGE RATE RISK***

Operations within the Group include the sale and manufacture of products around the world. All regional items in local currency including sales, costs and assets are converted to yen for the purpose of creating consolidated financial statements. Based on the exchange rate used in conversion, even though items have not changed as an amount of local currency, there is a possibility that the amount expressed in yen after the conversion has changed. In general, a strong yen (in particular against U.S.-dollar and Euro-denominated currencies that constitute a major part of Group sales) has an adverse effect on the Group's operations, and a weak yen has a positive effect on the Group's operations.

For Group operations that manufacture in Japan and export, a strong yen against other currencies decreases the worldwide comparative price competitiveness of our products and can have an adverse effect on operating results. The Group performs currency hedging, and makes efforts to minimize the adverse effect of short-term fluctuations in the exchange rates of major currencies including the U.S. dollar, Euro and yen. However, as a result of mid-term movements in exchange rates, there are cases where procurement, manufacturing, distribution and

sales cannot be performed exactly as planned and, as a result, movements of the exchange rate may have an adverse effect on our operating results and financial conditions.

#### **NEW PRODUCT DEVELOPMENT RISK**

While the Group believes that it can continue to develop original and attractive new products, the product development and sales process is by its nature complex and uncertain, and is subject to the following risks:

There is no guarantee of acquiring sufficient funds and resources for investment in new products and new technologies.

There is no guarantee that long-term investment and allocation of large amounts of resources will lead to the development of successful new products and the creation of new technologies.

It is not certain that the Group will be able to correctly predict which new products and new technologies will earn the support of our customers, and there is no guarantee that the sales of these products will be successful.

There is no guarantee that newly developed products and technologies will be protected as original intellectual property.

As a result of fast-paced technological advances and changes in market needs, there is a possibility that the Group's products will become outdated.

As a result of delays in product commercialization of new technologies under development, there is a possibility that market demands might not be met.

Beginning with the risks outlined above, if the Group is unable to fully anticipate industry and market changes, and is unable to develop attractive new products, then this may result in a decrease in future growth and profitability and may have an adverse effect on our operating results and financial conditions.

#### **PRICING RISK**

Price competition in the automotive industry is very fierce. In particular demands for price cuts by finished car manufacturers have increased in the past few years.

Further, it can be foreseen that the Group will face intensified competition in the parts and regional markets that it operates in. Competitors include other parts manufacturers, and a portion of these manufacturers are providing products at lower price than us. Also, in line with the evolution of the car electronics business, there has been a rise in new competitors, such as consumer-electronics manufacturers and tie-ups between existing competitors, and there is a chance that they will quickly gain a large share in the market.

While we believe that the Group is the leading parts manufacturer in the world and continues to develop automobile parts that are highly technically advanced, of high quality and high added value, this is not a guarantee that we will be able to compete effectively in the future. There is always the possibility that pricing pressure and ineffective competitive practices on our part will lead to a decrease in customers that may have an adverse effect on our operating results and financial conditions.

#### **POTENTIAL RISKS OF INTERNATIONAL ACTIVITIES AND OVERSEAS EXPANSION**

The proportion of manufacturing and sales activities occurring in the Americas and Europe, as well as in developing and emerging markets in Asia and Oceania, has been increasing in recent years. Expansion into these overseas markets has the following inherent risks:

Unforeseen changes in laws or regulations.

Unfavorable political or economic factors.

Difficulties in employing and retaining personnel.

Substandard technical infrastructure may have an adverse effect on the Group's activities such as manufacturing or cause a drop in customer support of Group products and services.

Other such risks include potentially adverse tax effects and social turmoil resulting from terrorist acts, war or other causes.

For example, the Group is continuing to increase its manufacturing and part procurement presence in China. However, as a result of unforeseen circumstances in China, such as changes in the political or legal environment, labor shortages, strikes or changes in the economic environment, there is a possibility that the Group will be hampered from managing its production resources or carrying out its business.

#### ***OEM CUSTOMER RISK***

The OEM business that constitutes the majority of the Group's business serves automobile manufacturers around the world and supplies a wide range of products including air-conditioning products, engine products, driving control and safety products and information and communication products. Sales to OEM customers are liable to be affected by factors that the Group cannot control such as the operating results of the OEM customer. Further, price reduction demands by customers can lead to a decrease in the Group's profit margin. There is a possibility that OEM customer business downturns, unforeseen contract cancellations, changes in OEM customer procurement policies, and price cuts to satisfy large customers may have an adverse effect on our operating results and financial standing.

Sales to the Toyota Group account for roughly half of the Group's sales. Such sales made to a specific client group can be impacted largely by the operating results of the customer.

#### ***PRODUCT DEFECT RISK***

The Group manufactures a variety of products to meet internationally recognized quality control standards at factories around the world. However, there is no guarantee that all of our products are defect-free and that there will be no product recalls in the future. Also, while we do have product liability insurance coverage, there is no guarantee that this insurance will completely cover any compensation that we may be forced to pay. Further, we may not be able to continue to subscribe to this insurance under conditions acceptable to us. Product defects that lead to large-scale product recalls or product liability compensation have a huge cost and large impact on the Group's reputation, and this may lead to a decrease in sales and adversely affect our operating results and financial conditions.

#### ***RISKS OF NATURAL DISASTERS AND POWER OUTAGES***

In order to minimize the potential negative impact of our manufacturing lines being shut down, we carry out disaster-prevention inspections and equipment checks on a regular basis. However, there is no guarantee that we can totally prevent or reduce the impact of natural disasters, power outages or other stoppages of our manufacturing lines. For example, many of our places of business are in the Tokai region, and if an earthquake were to hit this region, there is a possibility that our production and delivery activities would be suspended.

#### ***PENSION LIABILITY RISK***

Costs and liabilities for employees' retirement benefits are calculated based on actuarial assumptions such as a discount rate and the expected rate of return on the pension assets.

When actual results differ from the assumptions used for calculation, or when changes are made to the assumptions, the effect is accumulated and brought forward into future calculations as well, generally resulting in an impact on reported future costs and liabilities.

#### **RISK MANAGEMENT COMMITTEE**

As a result of the expansion of overseas operations, the fast pace of IT advances and the increase of social responsibility and responsibility for the environment, the risks we face have diversified. In light of the importance of managing these risks from a global perspective, we have established a Risk Management Committee and strengthened our risk management capability. In addition to increasing the number of risk items that we manage from 36 items to 59 items, we have also put in place group-wide initiatives to reduce management impact such as enforcing preventative measures and establishing first response measures when disaster occurs.

#### **OUTLOOK**

Taking an overview of the future economic situation, while growth will slow in the U.S. and China as a result of interest rate increases, etc., the global economy can be expected to develop steadily. However, there are a number of unstable factors such as the price hike of crude oil and other materials, and sudden movements in foreign exchange rates, and the impact of these factors on company operating results is a cause of concern.

In the automotive industry, with underlying sales in the U.S. and other major markets, the favorable conditions in China and other Asian markets are expected to result in an increase of car sales outpacing the level of this period. In the domestic market, as manufacturers release new models, it is expected that sales will increase, and as exports maintain a high level led by export of hybrid cars to North America, it is forecasted that car manufacturers will again record total output exceeding 10 million vehicles.

In this climate, we plan to further enhance the competitiveness of our products and implement an aggressive sales strategy, and based on an exchange rate of 1US\$ = ¥105 and 1 Euro = ¥130, we forecast net sales of ¥2,950.0 billion, an increase of 5.4%, or ¥150.1 billion, operating income of ¥233.0 billion, rising 8.9%, or ¥19.2 billion, and net income of ¥134.0 billion, an increase of 1.0%, or ¥1.4 billion.

#### **FORWARD-LOOKING STATEMENTS**

The above forecasts are based on information available as of the date of this report. There is a possibility that actual results could differ significantly from those noted here as a result of changes in internal and external circumstances such as business operation, foreign exchange rate fluctuation, etc.

# CONSOLIDATED BALANCE SHEETS

DENSO CORPORATION and Subsidiaries  
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current Assets:</b>			
Cash and cash equivalents	¥ 231,846	¥ 244,509	\$ 2,166,785
Short-term investments (Note 3)	55,878	28,709	522,224
Notes and accounts receivable:			
Trade (Note 7)	508,450	464,965	4,751,869
Affiliates	11,258	10,474	105,215
	519,708	475,439	4,857,084
Less: Allowance for doubtful accounts	(2,489)	(2,261)	(23,262)
	517,219	473,178	4,833,822
Inventories (Note 4)	248,821	214,751	2,325,430
Deferred tax assets (Note 5)	49,450	43,745	462,150
Other current assets	64,501	54,104	602,813
Total current assets	1,167,715	1,058,996	10,913,224
 <b>Property, Plant and Equipment (Note 7):</b>			
Land	143,262	142,858	1,338,898
Buildings and structures	586,642	563,439	5,482,636
Machinery and equipment	1,904,873	1,766,964	17,802,551
Construction in progress	76,286	62,076	712,953
	2,711,063	2,535,337	25,337,038
Less: Accumulated depreciation	(1,858,242)	(1,758,281)	(17,366,748)
Net property, plant and equipment	852,821	777,056	7,970,290
 <b>Investments and Other Assets:</b>			
Investment securities (Note 3)	576,224	516,226	5,385,271
Investments in and advances to affiliates	40,479	38,077	378,308
Prepaid pension cost (Note 8)	90,918	84,250	849,701
Intangible assets	12,257	9,964	114,551
Other assets (Note 5)	40,568	41,933	379,141
Total investments and other assets	760,446	690,450	7,106,972
<b>Total</b>	¥2,780,982	¥2,526,502	\$25,990,486

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Current Liabilities:</b>			
Short-term borrowings (Notes 6 and 7)	¥ 59,993	¥ 49,996	\$ 560,682
Current portion of long-term debt (Notes 6 and 7)	4,064	3,325	37,981
Notes and accounts payable:			
Trade	359,844	320,908	3,363,028
Affiliates	23,316	23,766	217,907
	383,160	344,674	3,580,935
Income taxes payable	45,519	43,556	425,411
Accrued expenses	172,482	154,449	1,611,982
Other current liabilities (Notes 5 and 8)	58,432	53,817	546,093
Total current liabilities	723,650	649,817	6,763,084
<b>Long-Term Liabilities:</b>			
Long-term debt (Notes 6 and 7)	141,641	122,826	1,323,748
Liability for employees' retirement benefits (Note 8)	151,842	143,160	1,419,084
Deferred tax liabilities (Note 5)	35,908	15,293	335,589
Other long-term liabilities (Note 8)	9,061	13,982	84,682
Total long-term liabilities	338,452	295,261	3,163,103
<b>Minority Interests</b>	75,698	71,935	707,458
<b>Contingent Liabilities</b> (Note 9)			
<b>Shareholders' Equity</b> (Note 10):			
Common stock:			
Authorized: 1,426,942,000 shares in 2005 and 2004			
Issued: 884,068,713 shares in 2005 and 2004	187,457	187,457	1,751,935
Capital surplus	266,051	266,005	2,486,458
Retained earnings	1,191,370	1,080,996	11,134,298
Net unrealized gain on available-for-sale securities	173,730	142,588	1,623,645
Foreign currency translation adjustments	(55,608)	(70,577)	(519,701)
Treasury stock at cost: 58,793,679 shares in 2005 and 50,195,355 shares in 2004	(119,818)	(96,980)	(1,119,794)
Total shareholders' equity	1,643,182	1,509,489	15,356,841
<b>Total</b>	¥2,780,982	¥2,526,502	\$25,990,486

# CONSOLIDATED STATEMENTS OF INCOME

DENSO CORPORATION and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Net Sales</b> (Note 11)	<b>¥ 2,799,949</b>	¥2,562,411	¥2,332,760	<b>\$26,167,748</b>
<b>Cost of Sales</b> (Note 12)	<b>2,309,713</b>	2,128,604	1,948,636	<b>21,586,103</b>
Gross profit	<b>490,236</b>	433,807	384,124	<b>4,581,645</b>
<b>Selling, General and Administrative Expenses</b> (Note 12)	<b>276,341</b>	245,148	224,231	<b>2,582,626</b>
Operating income	<b>213,895</b>	188,659	159,893	<b>1,999,019</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income	<b>9,118</b>	8,311	9,358	<b>85,215</b>
Interest expense	<b>(3,541)</b>	(3,448)	(4,103)	<b>(33,093)</b>
Equity in earnings of affiliates	<b>2,340</b>	2,333	2,322	<b>21,869</b>
Foreign exchange gain (loss)	<b>4,051</b>	(1,171)	(1,156)	<b>37,860</b>
Impairment loss on long-lived assets	<b>(1,206)</b>	—	—	<b>(11,271)</b>
Gain on exemption from future pension obligation of the governmental program (Note 8)	—	1,429	112,172	—
Gain on transfer to defined contribution pension plans (Note 8)	—	667	6,206	—
Loss on settlement of the substitutional portion of governmental pension program due to return of corresponding plan assets (Note 8)	—	(12,132)	—	—
Loss on redemption of bonds (Note 6)	—	—	(4,964)	—
Restructuring charges	—	—	(6,912)	—
Impairment loss on goodwill	—	—	(37,226)	—
Other, net	<b>(1,211)</b>	1,244	(2,056)	<b>(11,319)</b>
Total	<b>9,551</b>	(2,767)	73,641	<b>89,261</b>
Income before income taxes and minority interests	<b>223,446</b>	185,892	233,534	<b>2,088,280</b>
<b>Income Taxes</b> (Note 5):				
Current	<b>90,110</b>	88,990	78,193	<b>842,150</b>
Deferred	<b>(6,824)</b>	(20,579)	39,126	<b>(63,776)</b>
Total	<b>83,286</b>	68,411	117,319	<b>778,374</b>
<b>Minority Interests in Net Income</b>	<b>7,540</b>	7,454	5,197	<b>70,467</b>
Net income	<b>¥ 132,620</b>	¥ 110,027	¥ 111,018	<b>\$ 1,239,439</b>

	Yen			U.S. dollars (Note 1)
<b>Per Share of Common Stock</b> (Notes 2(Q) and 16):				
Basic net income	<b>¥ 159.02</b>	¥ 130.02	¥ 128.37	<b>\$ 1.49</b>
Diluted net income	<b>158.96</b>	130.01	126.65	<b>1.49</b>
Cash dividends applicable to the year	<b>32.00</b>	24.00	20.00	<b>0.30</b>
<b>Average Number of Shares</b> (in thousands)	<b>830,869</b>	842,005	860,828	

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

DENSO CORPORATION and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Common Stock:</b>				
Balance at beginning of period	¥ 187,457	¥ 187,457	¥ 173,098	\$ 1,751,935
Conversion of convertible bonds	—	—	14,359	—
Balance at end of period	¥ 187,457	¥ 187,457	¥ 187,457	\$ 1,751,935
<b>Capital Surplus:</b>				
Balance at beginning of period	¥ 266,005	¥ 266,005	¥ 251,644	\$ 2,486,028
Gain on disposal of treasury stock	46	—	20	430
Conversion of convertible bonds	—	—	14,341	—
Balance at end of period	¥ 266,051	¥ 266,005	¥ 266,005	\$ 2,486,458
<b>Retained Earnings:</b>				
Balance at beginning of period	¥1,080,996	¥ 989,198	¥ 895,522	\$10,102,766
Net income	132,620	110,027	111,018	1,239,439
Cash dividends	(21,686)	(17,711)	(16,848)	(202,673)
Bonuses to directors and corporate auditors	(560)	(518)	(465)	(5,234)
Decrease in retained earnings due to change of consolidation scope	—	—	(29)	—
Balance at end of period	¥1,191,370	¥1,080,996	¥ 989,198	\$11,134,298
<b>Net Unrealized Gain on Available-for-sale Securities at End of Period</b>				
	¥ 173,730	¥ 142,588	¥ 73,237	\$ 1,623,645
<b>Foreign Currency Translation Adjustments at End of Period</b>				
	¥ (55,608)	¥ (70,577)	¥ (40,452)	\$ (519,701)
<b>Treasury Stock:</b>				
Balance at beginning of period	¥(96,980)	¥ (77,557)	¥ (1,245)	\$ (906,355)
Repurchase of treasury stock	(23,800)	(19,391)	(76,123)	(222,430)
Disposal of treasury stock due to exercise of stock options	1,031	—	—	9,636
Other increase/decrease in treasury stock	(69)	(32)	(189)	(645)
Balance at end of period	¥ (119,818)	¥ (96,980)	¥ (77,557)	\$ (1,119,794)
<b>Total Shareholders' Equity at End of Period</b>	<b>¥1,643,182</b>	<b>¥1,509,489</b>	<b>¥1,397,888</b>	<b>\$15,356,841</b>

	Thousands of shares		
<b>Outstanding Number of Shares:</b>			
Balance at beginning of period	833,873	843,352	865,686
Repurchase of treasury stock	(9,100)	(9,462)	(40,000)
Disposal of treasury stock due to exercise of stock options	528	—	—
Issued on conversion of convertible bonds	—	—	17,793
Other increase/decrease in treasury stock	(26)	(17)	(127)
Balance at end of period	825,275	833,873	843,352

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

DENSO CORPORATION and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Operating Activities:</b>				
Income before income taxes and minority interests	¥223,446	¥185,892	¥233,534	\$2,088,280
Adjustments for:				
Payment of income taxes	(92,606)	(85,063)	(62,483)	(865,477)
Depreciation	160,993	151,169	146,651	1,504,607
Impairment loss on long-lived assets	1,206	—	—	11,271
Amortization of goodwill including impairment	225	425	37,349	2,103
Increase (Decrease) in liability for retirement benefits	7,927	2,859	(37,936)	74,084
Equity in earnings of affiliates	(2,340)	(2,333)	(2,322)	(21,869)
Loss on sale or disposal of property, plant and equipment, net	5,422	4,130	4,691	50,673
Foreign exchange (gain) loss	(2,758)	(749)	1,004	(25,776)
Changes in assets and liabilities:				
(Increase) Decrease in notes and accounts receivable	(35,411)	(65,469)	4,682	(330,944)
Increase in inventories	(27,932)	(26,097)	(12,640)	(261,047)
Increase in notes and accounts payable	29,132	41,870	10,495	272,262
(Decrease) Increase in defined contribution pension payable	(7,622)	(4,741)	18,063	(71,234)
(Increase) Decrease in prepaid pension cost	(6,668)	15,885	(100,135)	(62,318)
Other, net	20,282	14,036	26,391	189,553
Total adjustments	49,850	45,922	33,810	465,888
Net cash provided by operating activities	273,296	231,814	267,344	2,554,168
<b>Investing Activities:</b>				
Acquisition of property, plant and equipment	(226,246)	(196,443)	(179,339)	(2,114,448)
Proceeds from sale of property, plant and equipment	4,334	9,580	9,313	40,505
Purchase of available-for-sale securities	(89,623)	(97,593)	(53,864)	(837,598)
Proceeds from sale and redemption of available-for-sale securities	54,229	100,904	31,253	506,813
Proceeds from (Payment for) purchase of consolidated subsidiaries, net of cash acquired	85	(883)	(443)	794
Other, net	(11,561)	(10,218)	(17,538)	(108,047)
Net cash used in investing activities	(268,782)	(194,653)	(210,618)	(2,511,981)
<b>Financing Activities:</b>				
Net increase(decrease) in short-term borrowings	8,387	12,333	(8,491)	78,383
Proceeds from long-term borrowings	22,797	19,744	675	213,056
Repayments of long-term borrowings	(5,539)	(4,741)	(6,728)	(51,766)
Issuance of bonds	—	—	99,985	—
Repayments of long-term bonds	—	(40,000)	(64,964)	—
Dividends paid	(21,686)	(17,711)	(16,848)	(202,673)
Purchase of treasury stock	(23,875)	(19,423)	(76,315)	(223,131)
Other, net	(181)	838	(1,244)	(1,692)
Net cash used in financing activities	(20,097)	(48,960)	(73,930)	(187,823)
<b>Foreign Currency Translation Adjustments on Cash and Cash Equivalents</b>				
	2,920	(3,537)	(1,758)	27,290
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(12,663)</b>	<b>(15,336)</b>	<b>(18,962)</b>	<b>(118,346)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>244,509</b>	<b>259,845</b>	<b>277,894</b>	<b>2,285,131</b>
<b>Cash and Cash Equivalents of Newly Consolidated Subsidiaries</b>	<b>—</b>	<b>—</b>	<b>913</b>	<b>—</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>¥231,846</b>	<b>¥244,509</b>	<b>¥259,845</b>	<b>\$2,166,785</b>
<b>Additional cash flow information:</b>				
Non-cash investing and financing activities:				
Conversion of convertible bonds to common stock and capital surplus	—	—	¥ 28,700	—
<b>Assets and liabilities increased due to purchase of consolidated subsidiaries:</b>				
Fair value of assets acquired	¥ 1,934	¥ 1,708	¥ 6,508	\$ 18,074
Liabilities assumed	(984)	(411)	(4,639)	(9,196)
Cash paid for the acquisitions	481	1,213	567	4,495

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DENSO CORPORATION and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained by DENSO CORPORATION (the "Company"), and its domestic and foreign subsidiaries (together, referred to as the "Group") in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accounts and records of foreign consolidated subsidiaries are maintained in conformity with accounting principles of the countries of their domicile.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. Certain reclassifications of the consolidated financial statements for the years ended March 31, 2004 and 2003 have been made to conform with the presentation for the year ended March 31, 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to U.S.\$1, the approximate rate of exchange at March 31, 2005, the last trading day of the fiscal year. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### (A) PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR INVESTMENTS IN AFFILIATES

The Company had 171 subsidiaries at March 31, 2005 (164 for 2004 and 155 for 2003).

The Company applied the "control" concept for its consolidation policy. Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated. The consolidated financial statements for the year ended March 31, 2005 include all 171 subsidiaries (164 for 2004 and 155 for 2003). The Company applied the "power to exercise significant influence" concept to determine affiliates to be accounted for by the equity method. Under the influence concept, those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. The Company applied the equity method to all 29 affiliates for the year ended March 31, 2005 (27 affiliates for 2004 and 25 affiliates for 2003).

The fiscal years of subsidiaries are not necessarily the same as that of the Company. Accounts of subsidiaries, which have different fiscal years, have been adjusted for significant transactions to properly reflect their financial position at March 31 of each year and the results of operations and cash flows for the years then ended. In the year ended March 31, 2005, 3 of the Company's foreign subsidiaries and affiliates (20 foreign subsidiaries and affiliates in 2004 and 6 foreign subsidiaries in 2003), which are consolidated or accounted for by the equity method, decided to change their fiscal year-end from December 31 to March 31. Additionally, in the year ended March 31, 2005, a foreign subsidiary changed its closing date from December 31 to March 31. The Company's consolidated financial statements thus include 15 months of operating results at the 4 subsidiaries and affiliates that changed their fiscal year-end or closing date in the year ended March 31, 2005 (20 subsidiaries and affiliates in 2004 and 6 subsidiaries in 2003).

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The net excess of the acquisition cost of the Company's investments in consolidated subsidiaries and affiliates accounted for under the equity method over the fair value of the net assets of those companies is amortized over the estimated available life or five years.

### (B) CASH AND CASH EQUIVALENTS

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, commercial paper and money management funds, all of which mature or become due within three months of the date of acquisition.

### **(C) INVENTORIES**

Inventories other than raw materials are stated principally at cost. Raw materials are stated principally at the lower of cost or market. In both cases, cost is determined by the annual average method.

### **(D) SECURITIES**

All securities are classified as available-for-sale securities and are stated at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

### **(E) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION**

Property, plant and equipment are stated at cost. Depreciation is computed, with minor exceptions, by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 10 to 45 years for buildings and structures and mainly seven years for machinery. Additional depreciation is charged for machinery operated in excess of normal usage.

### **(F) LONG-LIVED ASSETS**

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

As a result of the adoption of this new accounting standard, an impairment loss on long-lived assets relating to unused land in Japan in the amount of ¥1,206 million (\$11,271 thousand) was recognized. The effect of this was to decrease income before income taxes and minority interests for the year ended March 31, 2005 by the same amount.

### **(G) INTANGIBLE ASSETS**

Intangible assets consisted of in-house software and the net excess of the acquisition cost of the Company's investments in consolidated subsidiaries over the fair value of the net assets of those companies. The straight-line method is primarily used to amortize intangible assets. The amortization of in-house software, which is available to reduce operating costs, is computed using the straight-line method based on the estimated useful life of five years.

### **(H) ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

### **(I) LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS**

The Group accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

## **(J) RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses are charged to income as incurred.

## **(K) LEASES**

Leases are accounted for mainly as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

## **(L) INCOME TAXES**

The provision for current income taxes is computed based on the pretax income included in the consolidated statements of income.

The asset and liability approach is used to recognize deferred tax assets and liabilities, which are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Future tax benefits are recognized to the extent that such benefits are likely to be realized.

## **(M) APPROPRIATIONS OF RETAINED EARNINGS**

Appropriations of retained earnings at each year-end are reflected in the financial statements for the following year on shareholders' approval.

## **(N) TRANSLATION OF FOREIGN CURRENCY ACCOUNTS**

All short-term and long-term monetary receivable and payable accounts denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

## **(O) TRANSLATION OF FINANCIAL STATEMENTS FOR CONSOLIDATED FOREIGN SUBSIDIARIES**

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates at the balance sheet date, except for shareholders' equity, which is translated at the historical rates. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the annual average rates.

## **(P) DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts, currency options and currency swap contracts employed to hedge foreign exchange exposures to the subsidiaries are measured at fair value, and the unrealized gains/losses are recognized in income.

Interest rate swaps are utilized to hedge interest rate exposures of financial assets and long-term debt (bonds). These swaps, which qualify for hedge accounting, are measured at market value at the balance sheet date and the unrealized gains and losses are deferred until maturity as other liability or asset.

## **(Q) NET INCOME AND DIVIDENDS PER SHARE**

Basic net income per share is computed by dividing net income available to common shareholders by the

### 3. Short-term Investments and Investment Securities

weighted-average number of common shares outstanding in each period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding stock option.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

Short-term investments consisted of time deposits not classified as cash equivalents in the amount of ¥7,854 million (\$73,402 thousand) and debt securities.

Investment securities consisted of equity securities and debt securities.

The carrying amounts and aggregate fair values of available-for-sale securities included in short-term investments and in investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Cost	Unrealized Gain	Unrealized Loss	Fair Value	Cost	Unrealized Gain	Unrealized Loss	Fair Value
	<b>2005</b>				<b>2005</b>			
Equity securities	¥151,322	¥288,433	¥(10)	¥439,745	\$1,414,224	\$2,695,635	\$ (93)	\$4,109,766
Debt securities	163,998	1,070	(28)	165,040	1,532,692	10,000	(262)	1,542,430
Total	¥315,320	¥289,503	¥(38)	¥604,785	\$2,946,916	\$2,705,635	\$(355)	\$5,652,196
	<b>2004</b>				<b>2004</b>			
Equity securities					¥138,737	¥236,751	¥ (62)	¥375,426
Debt securities					140,788	1,137	(89)	141,836
Total					¥279,525	¥237,888	¥(151)	¥517,262

The carrying amounts of available-for-sale securities whose fair value was not readily determinable included in short-term investments and in investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Equity securities	¥17,257	¥17,692	\$161,281
Debt securities	2,205	2,173	20,607
Total	¥19,462	¥19,865	\$181,888

The carrying amounts of debt securities by contractual maturities for available-for-sale securities at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Due in one year or less	¥ 48,024	\$ 448,822
Due after one year through five years	118,146	1,104,168
Due after five years through ten years	1,075	10,047
Total	¥167,245	\$1,563,037

### 4. Inventories

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished products	¥102,591	¥ 92,889	\$ 958,794
Work in process	67,517	59,663	631,000
Raw materials and supplies	78,713	62,199	735,636
Total	¥248,821	¥214,751	\$2,325,430

## 5. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in aggregate, resulted in normal statutory tax rates of approximately 40% for the year ended March 31, 2005 (41% in 2004 and 2003).

The tax effects of significant temporary differences that resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred tax assets:			
Depreciation	¥ 59,634	¥ 60,421	\$ 557,327
Retirement benefits	52,156	45,182	487,439
Accrued bonuses to employees	19,565	19,106	182,850
Long-term prepaid expenses	13,597	11,548	127,075
Accrued contributions of transfer to defined contribution pension plans	2,665	5,313	24,907
Other	58,890	46,965	550,374
Less: Valuation allowance	(8,560)	(6,637)	(80,000)
Total deferred tax assets	¥197,947	¥181,898	\$1,849,972
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥115,472	¥ 94,798	\$1,079,178
Prepaid pension cost	28,377	25,718	265,206
Other	21,988	15,559	205,495
Total deferred tax liabilities	¥165,837	¥136,075	\$1,549,879
Net deferred tax assets	¥ 32,110	¥45,823	\$ 300,093

Net deferred tax assets are presented in the consolidated balance sheets at March 31, 2005 and 2004 as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets-Deferred tax assets	¥49,450	¥43,745	\$462,150
Investments and other assets-Other assets	18,980	17,456	177,382
Current liabilities-Other current liabilities	(412)	(85)	(3,850)
Long-term liabilities-Deferred tax liabilities	(35,908)	(15,293)	(335,589)
Net deferred tax assets	¥32,110	¥45,823	\$300,093

The reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2005, 2004 and 2003 was as follows:

	2005	2004	2003
Normal effective statutory tax rate	39.89%	41.24%	41.24%
Tax credit of R&D expenses and other	(5.10)	(5.58)	—
Tax benefits not recognized on operating losses of subsidiaries	2.39	2.57	1.23
Dividend received from foreign subsidiaries	1.24	—	—
Items permanently non-taxable such as dividend received	(0.51)	—	—
Lower income tax rates applicable to income in certain foreign countries	(0.26)	(1.67)	—
Adjustment of deferred tax assets due to tax rate change	—	—	1.11
Amortization of goodwill	—	—	6.60
Other	(0.38)	0.24	0.06
Actual effective tax rate	37.27%	36.80%	50.24%

## 6. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2005 and 2004 consisted of notes to banks and bank overdrafts. The weighted average interest rates applicable to short-term borrowings at March 31, 2005 and 2004 were 2.5% and 1.9%, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unsecured 0.34% yen bonds due 2007	¥ 50,000	¥ 50,000	\$ 467,290
Unsecured 1.11% yen bonds due 2012	50,000	50,000	467,290
Other long-term debt (weighted average interest rates of 2.2% in 2005 and 2.0% in 2004)	45,705	26,151	427,149
Total	¥145,705	¥126,151	\$1,361,729
Less: Current portion	4,064	3,325	37,981
Long-term debt, less current portion	¥141,641	¥122,826	\$1,323,748

The Company assigned the obligation to repay its 1.9% unsecured bonds issued on June 23, 1998 to a financial institution during the year ended March 31, 2003. Accordingly, these bonds have been treated as redeemed and a loss on redemption of bonds, in the amount of ¥4,964 million, was recognized. Contingent liabilities to bond holders with respect to this transaction are described in Note 9.

On November 13, 2002, the Company issued 0.34% unsecured bonds of ¥50,000 million due September 2007 and 1.11% unsecured bonds of ¥50,000 million due September 2012, all payable in Japanese yen. All bonds were issued by public placement.

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 4,064	\$ 37,981
2007	11,695	109,299
2008	53,109	496,346
2009	17,088	159,701
2010	329	3,075
2011 and thereafter	59,420	555,327
Total	¥145,705	\$1,361,729

## 7. Pledged Assets

The following assets were pledged as collateral for short-term borrowings of ¥373 million (\$3,486 thousand), current portion of long-term debt of ¥13 million (\$121 thousand) and long-term debt of ¥135 million (\$1,262 thousand) at March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
Accounts receivable	¥ 692	\$ 6,467
Buildings and structures, net of accumulated depreciation	936	8,748
Land	1,726	16,131
Total	¥3,354	\$31,346

## 8. Liability for Employees' Retirement Benefits

Employees are generally entitled to lump-sum severance indemnities determined by current basic rates of pay, length of service, and the conditions under which the termination occurs. The Company and its domestic consolidated subsidiaries have unfunded retirement benefit plans and funded non-contributory pension plans for employees. Under the unfunded retirement benefit plans, the amount of severance indemnities to be paid by the Company and domestic subsidiaries is, in most cases, reduced by the benefits payable under the funded pension plan. The foreign consolidated subsidiaries do not recognize such cost. However, certain foreign subsidiaries adopted individual pension plans.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company implemented a defined contribution pension plan in October 2002 by which a portion of the severance lump-sum payment plan was terminated. The Company applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan. The effect of this transfer was to increase income before income taxes and minority interests by ¥6,206 million and record a gain on transfer to a defined contribution pension plan in the statement of income for the year ended March 31, 2003. As a result of this transition, the projected benefit obligations and the unrecognized actuarial losses decreased by ¥32,245 million and ¥1,922 million, respectively.

The domestic subsidiaries, GAC CORPORATION and ASMO CO., LTD., implemented a defined contribution

pension plan in April and October 2003, respectively, by which a portion of the severance lump-sum payment plan was terminated. GAC CORPORATION and ASMO CO., LTD applied accounting treatments specified in the guidance issued by the Accounting Standards Board of Japan. The effects of these transfers were to increase income before income taxes and minority interests by ¥667 million and were recorded as gain on transfer to defined contribution pension plans in the consolidated statement of income for the year ended March 31, 2004. As a result of this transition, the projected benefit obligations and the unrecognized actuarial losses decreased by ¥3,323 million and ¥440 million, respectively, and the liability for employees' retirement benefits decreased by ¥2,883 million at March 31, 2004. Plan assets of ¥2,217 million will be transferred over a period of four years.

The Company and certain domestic subsidiaries also have contributory funded defined benefit pension plans. The contributory funded defined benefit pension plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The Company obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on April 1, 2002.

As a result of this exemption, the Company recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥112,172 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

Following approval on September 1, 2003 from the Ministry of Health, Labor and Welfare for exemption from past pension obligation related to the substitutional portion of the governmental program, the Company returned ¥115,894 million to the government in cash on January 26, 2004. Since the Company applied a transitional measurement of the accounting standard for employees' retirement benefits at the time of approval of exemption from future obligation, the Company recorded a loss on settlement of the substitutional portion of the governmental pension program due to return of corresponding plan assets in the amount of ¥12,132 million in the consolidated statements of income for the year ended March 31, 2004.

ANDEN CO., LTD. obtained an approval of exemption from future obligation by the Ministry of Health, Labor and Welfare on April 15, 2003. As a result of this exemption, ANDEN CO., LTD recognized a gain on exemption from future pension obligation of the governmental program in the amount of ¥1,429 million in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2004. Estimated plan assets to be returned to the government at March 31, 2005 were ¥1,803 million (\$16,850 thousand).

The liability (asset) for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	<b>¥490,122</b>	¥554,057	<b>\$4,580,580</b>
Fair value of plan assets	<b>(369,354)</b>	(331,105)	<b>(3,451,907)</b>
Unrecognized actuarial loss	<b>(140,766)</b>	(165,758)	<b>(1,315,570)</b>
Unrecognized prior service benefit	<b>80,922</b>	1,716	<b>756,280</b>
Net liability	<b>60,924</b>	58,910	<b>569,383</b>
Prepaid pension cost	<b>90,918</b>	84,250	<b>849,701</b>
Liability for employees' retirement benefits	<b>¥151,842</b>	¥143,160	<b>\$1,419,084</b>

The components of net periodic retirement benefit costs for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost	<b>¥22,824</b>	¥23,770	¥ 24,321	<b>\$213,309</b>
Interest cost	<b>8,920</b>	11,062	10,861	<b>83,364</b>
Expected return on plan assets	<b>(7,360)</b>	(5,488)	(9,497)	<b>(68,785)</b>
Recognized actuarial loss	<b>19,729</b>	18,526	11,397	<b>184,383</b>
Amortization of prior service benefit	<b>(9,023)</b>	(199)	(109)	<b>(84,327)</b>
Net periodic retirement benefit costs	<b>¥35,090</b>	¥47,671	¥ 36,973	<b>\$327,944</b>
Gain on exemption from future pension obligation of the governmental program	—	¥(1,429)	¥(112,172)	—
Loss on settlement of the substitutional portion of governmental pension program due to return of corresponding plan assets	—	12,132	—	—
Gain on transfer to defined contribution pension plans	—	(667)	(6,206)	—
Contribution to defined contribution pension plans fund	<b>3,006</b>	2,828	10,089	<b>28,093</b>
Total	<b>¥38,096</b>	¥60,535	¥ (71,316)	<b>\$356,037</b>

Assumptions used for the years ended March 31, 2005, 2004 and 2003 were set forth as follows:

	2005	2004	2003
Discount rate	<b>mainly 2.0%</b>	(Beginning of period) mainly 2.5% (End of period) mainly 2.0%	mainly 2.5%
Expected rate of return on plan assets	<b>mainly 3.0%</b>	mainly 3.0%	mainly 4.5%
Amortization period of prior service benefit	<b>10 years</b>	10 years	10 years
Recognition period of actuarial gain/loss	<b>10 years</b>	10 years	10 years

## 9. Contingent Liabilities

At March 31, 2005, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of loans from financial institutions to the Group's employees and others	<b>¥ 2,395</b>	<b>\$ 22,383</b>
Trade notes sold with recourse	<b>5,658</b>	<b>52,879</b>
Redemption of 1.9% yen bonds transferred to a third party under a debt assumption agreement	<b>60,000</b>	<b>560,748</b>
Bank guarantees for customs duty	<b>196</b>	<b>1,831</b>
Total	<b>¥68,249</b>	<b>\$637,841</b>

## 10. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥753,620 million (\$7,043,178 thousand) at March 31, 2005, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under certain stock option plans approved by the Company's shareholders, the Company has granted stock options to directors, managing officers general, managers, key employees and directors of subsidiaries. Each option permits the holder to purchase one hundred shares of the Company's common stock at a specified exercise price, during a specified period.

Information about the outstanding stock option plans is as follows:

Date of Approval	Option Holder	Total Number of Outstanding Options	Exercise Period	Exercise Price*
June 29, 2000	Directors	1,910	From July 1, 2002 to June 30, 2006	¥2,717
	General Managers			
June 28, 2001	Directors	1,912	From July 1, 2003 to June 30, 2007	¥2,397
	General Managers			
June 27, 2002	Directors	3,223	From July 1, 2004 to June 30, 2008	¥2,003
	General Managers			
June 27, 2003	Directors	10,570	From July 1, 2005 to June 30, 2009	¥2,090
	General Managers			
	Directors of subsidiaries			
June 24, 2004	Directors	11,950	From July 1, 2006 to June 30, 2010	¥2,740
	Managing Officers			
	Key Employees			
	Directors of subsidiaries			

\*Subject to adjustment for subsequent stock splits and other circumstances.

## 11. Significant Shareholder

Toyota Motor Corporation ("Toyota") directly owned 203,127 thousand shares, 205,127 thousand shares and 207,626 thousand shares of common stock of the Company at March 31, 2005, 2004 and 2003, respectively, which accounted for 22.98%, 23.20% and 23.48% of the total shares of the Company issued at the respective dates.

Sales of the Group to Toyota for the years ended March 31, 2005, 2004 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Sales to Toyota (Japan headquarters only)	<b>¥883,652</b>	¥816,295	¥751,576	<b>\$8,258,430</b>

## 12. Research and Development Expenses

Research and development expenses charged to income were ¥238,241 million (\$2,226,551 thousand), ¥214,917 million, and ¥182,886 million for the years ended March 31, 2005, 2004 and 2003, respectively.

## 13. Leases

The Group leases certain machinery, computer equipment, and other assets. Total lease expense for finance leases for the years ended March 31, 2005, 2004 and 2003 were ¥2,383 million (\$22,271 thousand), ¥2,813 million and ¥3,432 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, and depreciation expenses of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of yen			
	Buildings and structures	Machinery and equipment	Software	Total
				<b>2005</b>
Acquisition cost	¥290	¥10,381	¥1,196	¥11,867
Accumulated depreciation	94	5,451	954	6,499
Net leased property	¥196	¥ 4,930	¥ 242	¥ 5,368

	Thousands of U.S. dollars			
	Buildings and structures	Machinery and equipment	Software	Total
				<b>2005</b>
Acquisition cost	\$2,710	\$97,018	\$11,178	\$110,906
Accumulated depreciation	879	50,943	8,916	60,738
Net leased property	\$1,831	\$46,075	\$ 2,262	\$ 50,168

	Millions of yen			
	Buildings and structures	Machinery and equipment	Software	Total
				<b>2004</b>
Acquisition cost	¥289	¥11,285	¥1,527	¥13,101
Accumulated depreciation	77	5,884	1,045	7,006
Net leased property	¥212	¥ 5,401	¥ 482	¥ 6,095

	Millions of yen		U.S. dollars
	2005	2004	2005
Obligations under finance leases			
Due within one year	¥2,045	¥2,183	\$19,112
Due after one year	3,323	3,912	31,056
Total	¥5,368	¥6,095	\$50,168

*Obligations under finance leases includes the imputed interest expense portion.*

Depreciation expenses, which were not reflected in the accompanying consolidated statements of income for the years ended March 31, 2005, 2004 and 2003, computed by the straight-line method, were ¥2,383 million (\$22,271 thousand), ¥2,813 million and ¥3,432 million, respectively.

The rental commitments under non-cancelable operating leases at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 613	\$ 5,729
Due after one year	2,694	25,178
Total	¥3,307	\$30,907

## 14. Segment Information

### (A) BUSINESS SEGMENTS

Business segment data for the years ended March 31, 2005, 2004 and 2003 is not presented as the automotive segment represented more than 90% of total sales and assets of all business segments and operating income in each fiscal year.

**(B) GEOGRAPHICAL SEGMENTS (BY COMPANY LOCATION)**

Year ended March 31,		Millions of yen			Thousands of U.S. dollars	
		2005	2004	2003	2005	
Sales	Japan	Customers	¥1,590,666	¥1,469,552	¥1,355,925	\$14,866,037
		Intersegment	469,891	416,245	374,770	4,391,505
		Total	2,060,557	1,885,797	1,730,695	19,257,542
	The Americas	Customers	571,053	549,208	531,303	5,336,944
		Intersegment	9,189	8,532	9,267	85,879
		Total	580,242	557,740	540,570	5,422,823
	Europe	Customers	367,082	333,486	269,499	3,430,673
		Intersegment	6,968	4,809	4,489	65,121
		Total	374,050	338,295	273,988	3,495,794
	Asia & Oceania	Customers	271,148	210,165	176,033	2,534,094
		Intersegment	19,757	13,438	9,837	184,645
		Total	290,905	223,603	185,870	2,718,739
	Eliminations		(505,805)	(443,024)	(398,363)	(4,727,150)
	Consolidated		¥2,799,949	¥2,562,411	¥2,332,760	\$26,167,748
	Operating Income (Loss)	Japan	¥ 180,000	¥ 153,473	¥ 123,235	\$ 1,682,243
The Americas		23,638	24,833	28,173	220,916	
Europe		(8,777)	(4,250)	(3,965)	(82,028)	
Asia & Oceania		20,067	14,903	12,360	187,542	
Eliminations		(1,033)	(300)	90	(9,654)	
Consolidated		¥ 213,895	¥ 188,659	¥ 159,893	\$ 1,999,019	
Assets	Japan	¥1,783,896	¥1,627,930	¥1,497,411	\$16,671,925	
	The Americas	287,455	248,500	287,457	2,686,495	
	Europe	251,753	231,332	239,946	2,352,832	
	Asia & Oceania	215,582	161,707	137,230	2,014,785	
	Corporate and Eliminations	242,296	257,033	192,613	2,264,449	
	Consolidated	¥2,780,982	¥2,526,502	¥2,354,657	\$25,990,486	

Assets in Japan were decreased by ¥1,206 million (\$11,271 thousand) as a result of the adoption of the new accounting standard for impairment of fixed assets for the year ended March 31, 2005 (see Note 2 (F)).

**(C) SALES BY CUSTOMER LOCATION**

Year ended March 31,	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Japan	¥1,554,795	¥1,442,645	¥1,325,637	\$14,530,795
	55.5%	56.3%	56.8%	55.5%
The Americas	582,769	557,035	539,299	5,446,439
	20.8%	21.7%	23.1%	20.8%
Europe	367,588	332,019	274,271	3,435,402
	13.1%	13.0%	11.8%	13.1%
Asia & Oceania	287,627	224,511	188,863	2,688,103
	10.3%	8.8%	8.1%	10.3%
Others	7,170	6,201	4,690	67,009
	0.3%	0.2%	0.2%	0.3%
Net Sales	¥2,799,949	¥2,562,411	¥2,332,760	\$26,167,748

The figures in table (B) Geographical Segments are determined based on the locations of the Group companies, and therefore, differ from the figures in table (C) Sales by Customer Location.

## 15. Derivatives

The Group uses derivatives for the purpose of reducing their exposures to adverse fluctuations in interest rates and foreign exchange rates. Derivatives used include forward exchange contracts, currency swaps, currency options, and interest rate swaps. The amounts of derivatives are limited by the Group's regulations.

Derivatives are subject to risk, such as fluctuations in interest rates and foreign exchange rates. Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

The execution and control of derivatives at the Company, as approved by the Board of Directors at the beginning of each fiscal period, are governed by internal regulations, which stipulate the purpose of derivatives, their scope of use, and the reporting system.

The fair values of the Group's derivative contracts at March 31, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)
	<b>2005</b>			<b>2005</b>		
Forward exchange contracts:						
Buying contracts —						
U.S. dollar	¥ 330	¥ 325	¥(5)	\$ 3,084	\$ 3,037	\$(47)
Euro	103	97	(6)	963	907	(56)
Interest rate swaps:						
Floating rate receipt,						
fixed rate payment	¥1,389	¥1,398	¥ 9	\$12,981	\$13,065	\$ 84
	Millions of yen					
	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)			
	2004					
Forward exchange contracts:						
Buying contracts —						
U.S. dollar	¥ 142	¥ 147	¥ 5			
Euro	96	99	3			
Others	240	237	(3)			
Currency options:						
Selling contracts —						
U.S. dollar call options	¥2,303					
	<19>	¥ 10	¥ 9			
Buying contracts —						
U.S. dollar put options	4,606					
	<50>	128	78			
Interest rate swaps:						
Floating rate receipt,						
fixed rate payment	¥1,289	¥1,310	¥21			

The fair value and net unrealized gain/loss on forward exchange contracts and currency swap contracts employed to hedge exchange rate and other risks on payables and receivables to/from consolidated subsidiaries that have been eliminated in consolidation, were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)
	2005			2005		
Forward exchange contracts:						
Selling contracts	¥27,336	¥27,924	¥(588)	\$255,477	\$260,972	\$(5,495)
Buying contracts	1,013	1,009	(4)	9,467	9,430	(37)
Currency swaps:						
Receipt Yen (*)	¥ 1,087	¥ 1,048	¥ 39	\$ 10,159	\$ 9,795	\$ 364
Payment U.S. dollar						
Receipt Yen (*)	450	446	4	4,205	4,168	37
Payment Euro						
Receipt Yen						
Payment Thailand Baht (*)	2,224	2,150	(74)	20,785	20,093	(692)
Receipt Sweden Krone						
Payment Euro (*)	649	660	11	6,065	6,168	103
	Millions of yen			2004		
	Contract or Notional Amounts	Fair Value	Net Unrealized Gain/(Loss)			
Forward exchange contracts:						
Selling contracts	¥18,448	¥18,168	¥280			
Buying contracts	721	703	(18)			
Currency swaps	¥ 3,210	¥ 3,225	¥(15)			

Notes: 1. The fair values of foreign currencies are translated at the spot rate at the balance sheet date.  
2. Option premiums within the consolidated balance sheets are disclosed, in brackets (< >), under the contract or notional amounts.  
3. Derivatives for which hedge accounting is applied are excluded from this disclosure.  
4. The contract or notional amounts of derivatives shown in the above tables do not measure the Companies' exposure to credit or market risks.  
5. (\*) indicates hedged items.

## 16.

### Net Income per Share

The reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2005 and 2004 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S.Dollars
	Net Income	Weighted Average Shares	EPS	EPS
	2005			
Basic EPS				
Net income available to common shareholders	¥132,128	830,869	¥159.02	\$1.49
Effect of Dilutive Securities				
Stock option	—	339		
Diluted EPS				
Net income for computation	¥132,128	831,208	¥158.96	\$1.49
	2004			
	Millions of yen	Thousands of shares	Yen	
	Net Income	Weighted Average Shares	EPS	
Basic EPS				
Net income available to common shareholders	¥109,476	842,005	¥130.02	
Effect of Dilutive Securities				
Stock option	—	29		
Diluted EPS				
Net income for computation	¥109,476	842,034	¥130.01	

## 17. Subsequent Events

On June 22, 2005, at a meeting of the shareholders of the Company, the following items were approved.

### (1) Appropriation of Retained Earnings

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥15,681	\$146,551
Bonuses to directors and corporate auditors	265	2,477
Total	¥15,946	\$149,028

### (2) Stock Option Plan

The plan provides for issuing stock options mainly to directors, managing officers, key employees and directors of subsidiaries. The options entitle the holders to purchase shares of the Company's common stock up to 1,400 thousand shares. The options will be generally granted at an exercise price of 105% of the average closing price of the per share value of the Company's common stock, according to the Tokyo Stock Exchange, for the month prior to the month in which the options are issued. The Company plans to issue acquired treasury stock on exercise of the stock options. The exercisable period is July 1, 2007 to June 30, 2011.

### (3) Purchase of Treasury Stock

The Company is authorized to repurchase up to 10,000 thousand shares of the Company's common stock (aggregate amount of ¥27,000 million (\$252,336 thousand)).



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To the Board of Directors of  
DENSO CORPORATION:

We have audited the accompanying consolidated balance sheets of DENSO CORPORATION (the "Company") and subsidiaries (together, the "Group") as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of three years in the period ended March 31, 2005, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DENSO CORPORATION and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

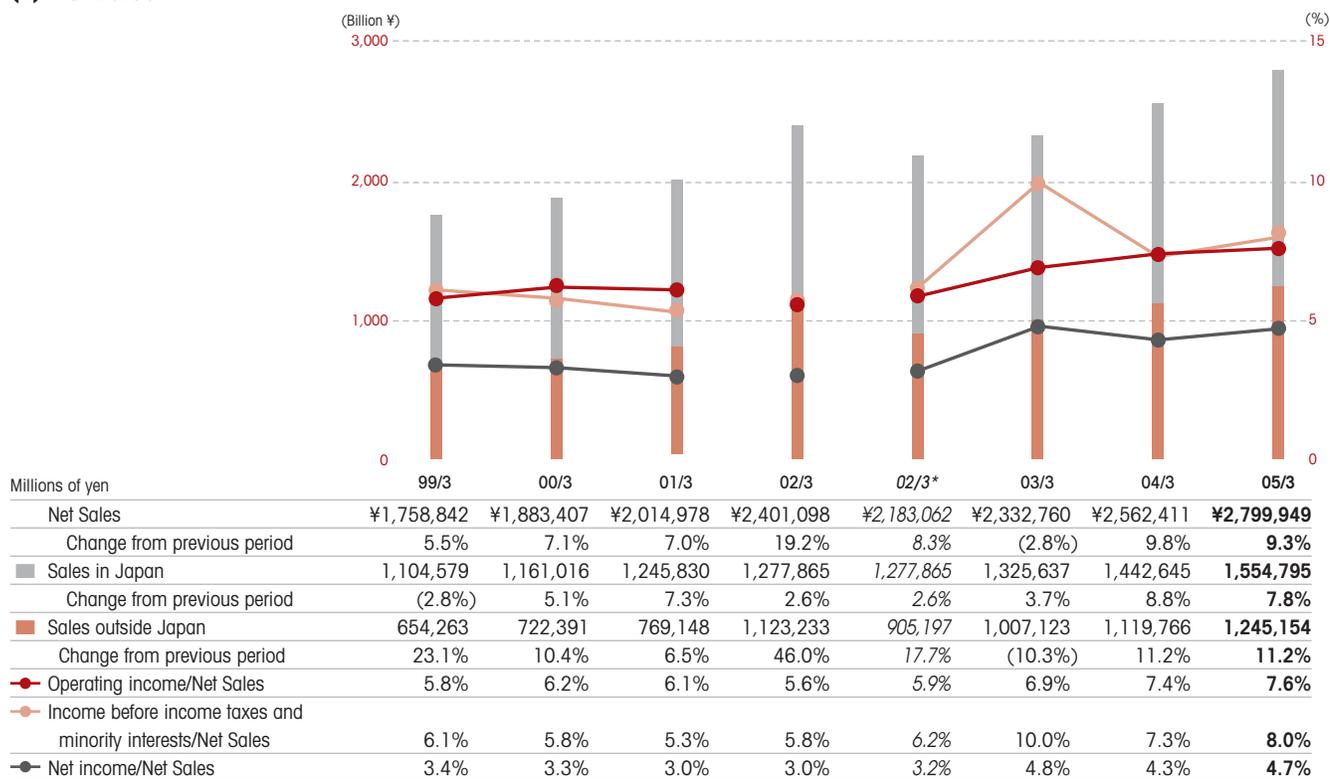
As discussed in Note 2(F) to the consolidated financial statements, the Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

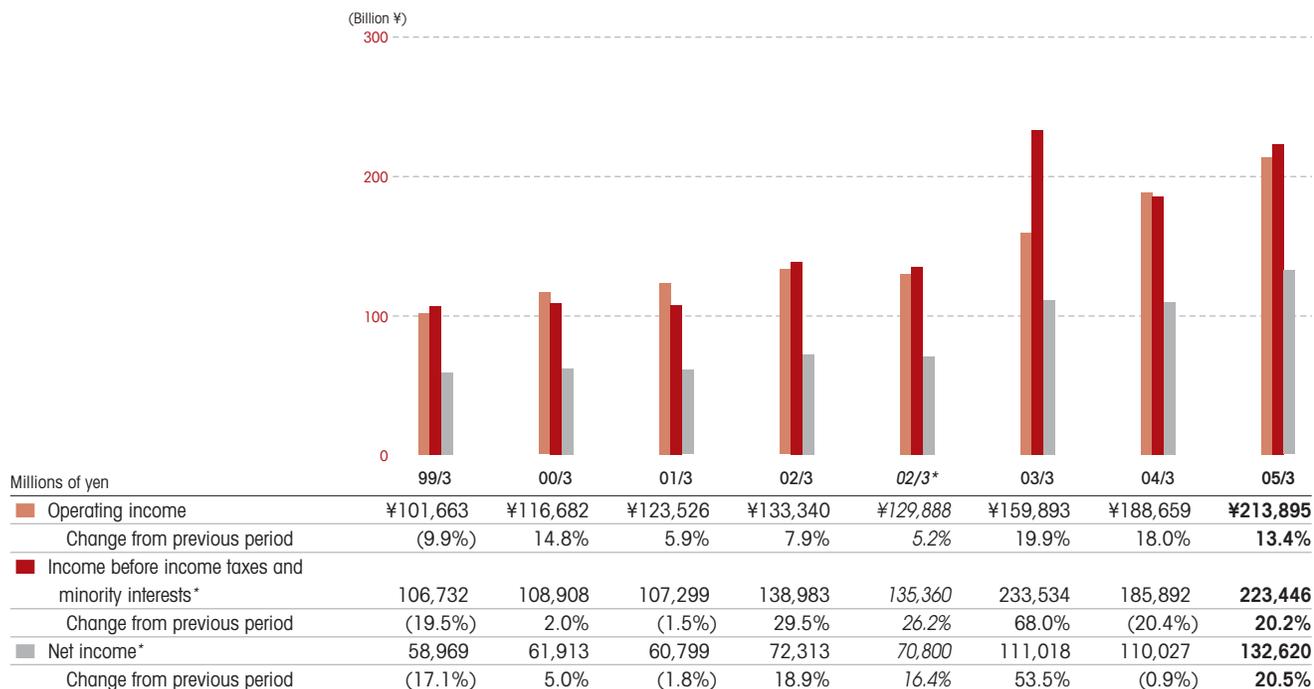
June 22, 2005

■ OPERATING RESULTS

(1) Net Sales



(2) Profits

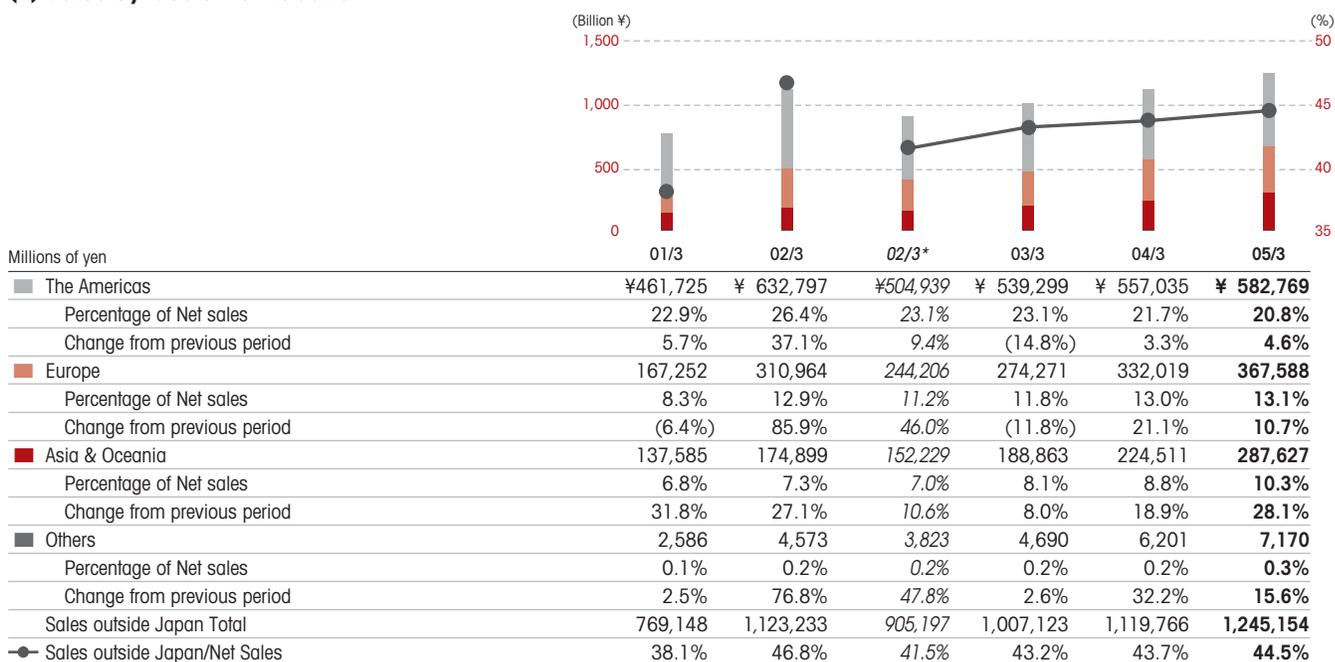


\*Income before income taxes and minority interests and Net income for the year ended March 31, 2003 include a non-recurring gain on exemption from future pension obligation of the governmental program.

Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

## SALES

### (1) Sales by Customer Location



### (2) Breakdown of Sales by Customer

Percentage of net sales	01/3	02/3	02/3*	03/3	04/3	05/3* <sup>1</sup>
TOYOTA	45.7%	44.2%	45.4%	46.0%	46.9%	45.2%
DAIHATSU	3.4	2.9	3.1	2.8	2.6	2.9
HINO	1.1	0.9	1.0	1.1	1.5	1.4
<b>TOYOTA Group sub-total</b>	50.2	48.0	49.5	49.9	51.0	49.5
<b>HONDA</b>	7.0	7.5	7.4	8.3	7.9	7.8
GM	1.8	2.8	2.3	2.7	2.6	2.6
FIAT	1.5	2.7	2.5	2.2	2.8	2.5
SUZUKI	4.0	3.3	3.5	3.5	3.0	3.0
ISUZU	1.1	1.1	1.1	1.1	1.6	1.4
FUJI	1.1	1.0	1.1	1.0	1.3	1.9
<b>GM Group sub-total</b>	9.5	10.9	10.5	10.5	11.3	11.4
FORD	0.8	1.1	0.9	1.0	1.3	1.1
JAGUAR	0.5	0.6	0.5	0.5	0.6	0.4
VOLVO/LAND ROVER	0.4	0.8	0.7	0.6	0.5	0.6
MAZDA	1.9	1.5	1.6	1.6	1.6	1.4
<b>FORD Group sub-total</b>	3.6	4.0	3.7	3.7	4.0	3.5
CHRYSLER	4.7	4.6	4.0	3.5	3.1	2.5
BENZ	0.9	1.4	1.3	1.2	1.0	0.8
MITSUBISHI* <sup>2</sup>	4.0	2.9	2.9	2.9	2.5	1.7
<b>DC Group sub-total</b>	9.6	8.9	8.2	7.6	6.6	5.0
<b>HYUNDAI/KIA</b>	0.7	1.0	1.1	1.1	1.3	1.5
<b>VW/AUDI</b>	0.9	1.7	1.5	1.6	1.5	1.2
<b>RENAULT/NISSAN</b>	0.1	0.3	0.2	0.3	0.6	0.8
<b>BMW</b>	0.5	0.7	0.6	0.6	0.5	0.5
<b>PSA</b>	0.1	0.3	0.3	0.4	0.3	0.3
<b>OE Sales for others*<sup>3</sup></b>	—	—	—	—	—	5.9
<b>OE Sales sub-total</b>	—	—	—	—	—	87.4
<b>After Market, New business &amp; others*<sup>4</sup></b>	—	—	—	—	—	12.6
<b>Others</b>	17.8	16.7	17.0	16.0	15.0	—
<b>Total</b>	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

NOTES\*1: From the fiscal year ended March 31, 2005, categories are changed to "OE Sales (Sales for Automotive Manufacturers)" and "After Market, New business & others".

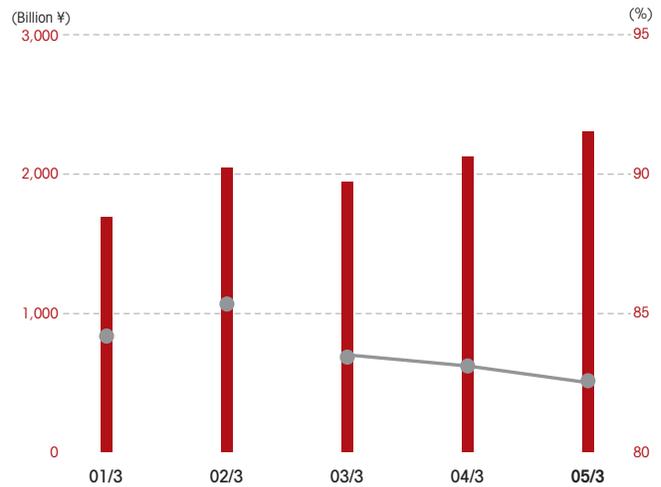
NOTES\*2: Including "MITSUBISHI FUSO TRUCK & BUS CORPORATION".

NOTES\*3: Until the year ended March 31, 2004, "OE Sales for others" was included in "Others".

NOTES\*4: Until the year ended March 31, 2004, "Sales for After Market by way of Automotive Manufacturers" was included in each category of "OE Sales" respectively, but it is included in "After Market, New business & others" from the fiscal year ended March 31, 2005, due to the category changes.

Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

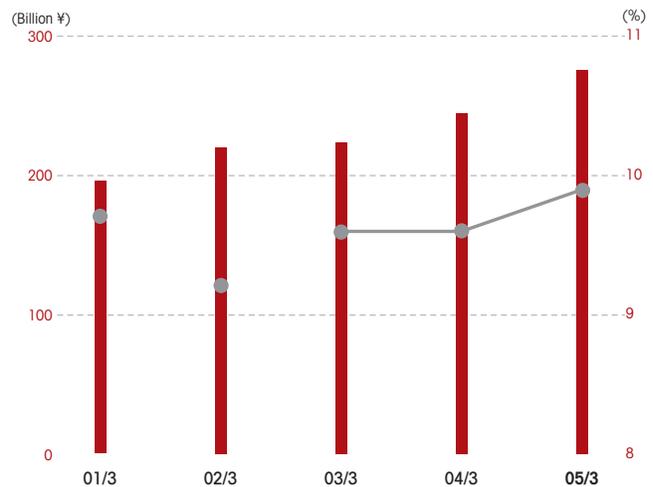
## ■ COST OF SALES



Millions of yen

■ Cost of Sales	¥1,695,344	¥2,047,171	¥1,948,636	¥2,128,604	<b>¥2,309,713</b>
Change from previous period	7.2%	20.8%	(4.8%)	9.2%	<b>8.5%</b>
● Cost of Sales/Net Sales	84.1%	85.3%	83.5%	83.1%	<b>82.5%</b>

## ■ S.G. & A. EXPENSES



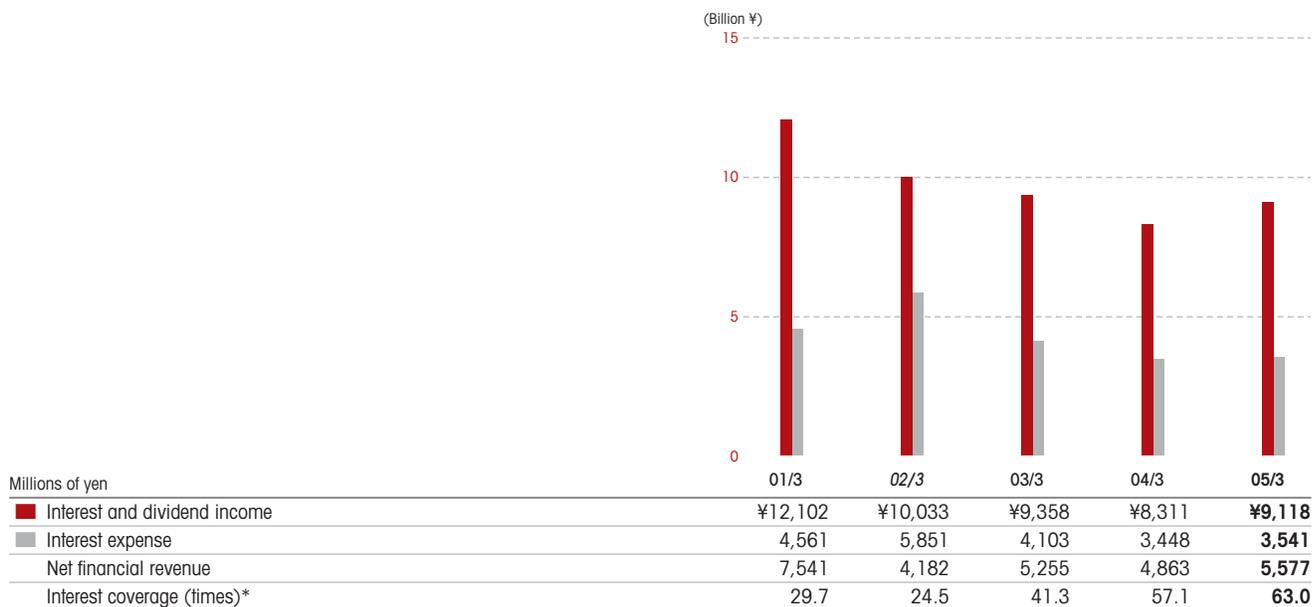
Millions of yen

■ S.G. & A. Expenses	¥196,108	¥220,587	¥224,231	¥245,148	<b>¥276,341</b>
Change from previous period	6.1%	12.5%	1.7%	9.3%	<b>12.7%</b>
● S.G. & A. Expenses/Net Sales	9.7%	9.2%	9.6%	9.6%	<b>9.9%</b>

Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

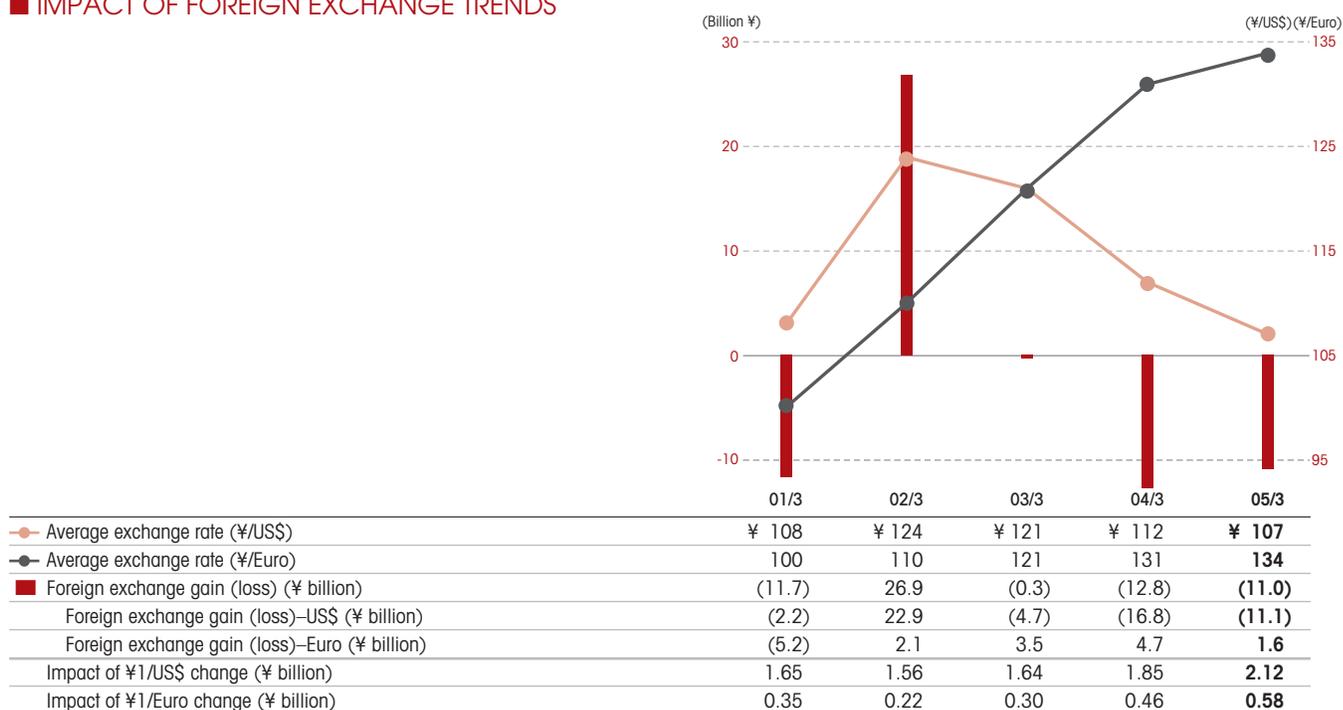
## OTHER INCOME AND EXPENSES

### Net Financial Revenue



NOTE: Interest coverage = (Operating income+Interest and dividend income) / Interest expense

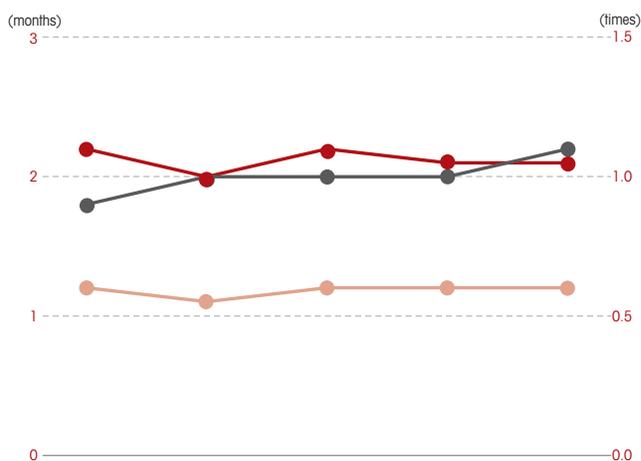
## IMPACT OF FOREIGN EXCHANGE TRENDS



Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

## OTHER FINANCIAL INDICES

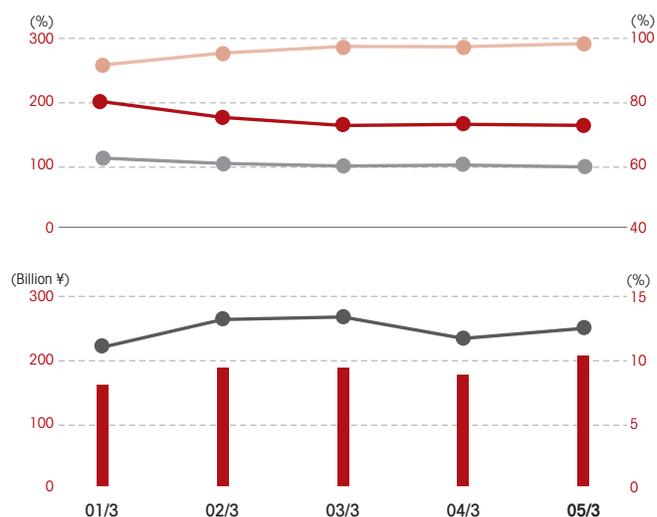
### (1) Operational Efficiency



Millions of yen	01/3	02/3	03/3	04/3	05/3
Notes and accounts receivable	¥ 391,040	¥ 426,354	¥ 419,924	¥ 475,439	¥ 519,708
● Average collection period (months)	2.2	2.0	2.2	2.1	2.1
Inventories	186,878	188,418	196,581	214,751	248,821
○ Average age of inventory (months)	1.2	1.1	1.2	1.2	1.2
Total assets	2,343,328	2,361,048	2,354,657	2,526,502	2,780,982
● Total assets turnover (times)	0.9	1.0	1.0	1.0	1.1

NOTE: The figures for average collection period, average age of inventory and total assets turnover are calculated based on average trade receivable, inventories and total assets at the beginning and the end of each fiscal year.

### (2) Safety



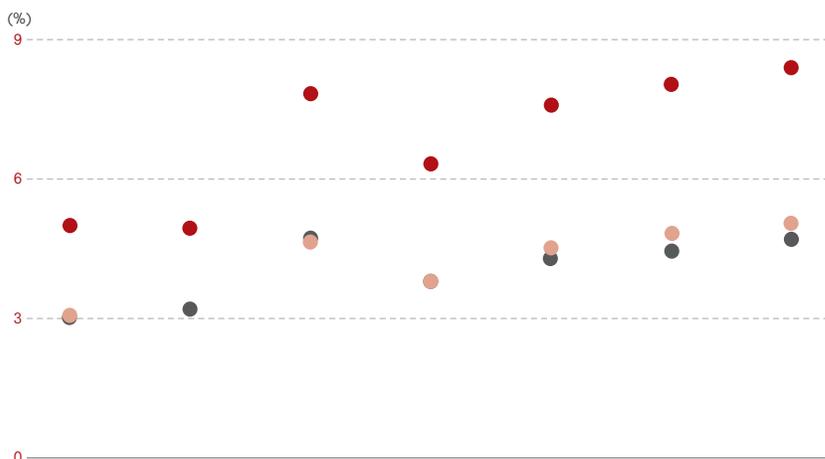
Millions of yen	01/3	02/3	03/3	04/3	05/3
Current assets	¥1,017,646	¥1,007,476	¥ 994,690	¥1,058,996	¥1,167,715
Fixed assets	1,325,682	1,353,572	1,359,967	1,467,506	1,613,267
Current liabilities	511,427	578,889	617,060	649,817	723,650
Long-term liabilities	322,435	297,482	273,051	295,261	338,452
■ Interest-bearing debt*	159,537	187,702	187,107	176,147	205,698
Shareholders' equity	1,451,211	1,421,212	1,397,888	1,509,489	1,643,182
● Current ratio [left scale]	199.0%	174.0%	161.2%	163.0%	161.4%
○ Fixed ratio [right scale]	91.4%	95.2%	97.3%	97.2%	98.2%
● Debt*/equity ratio	11.0%	13.2%	13.4%	11.7%	12.5%
● Shareholders' equity ratio [right scale]	61.9%	60.2%	59.4%	59.7%	59.1%

NOTE: Interest-bearing debt\* = Short-term borrowings + Current portion of long-term debt + Long-term debt  
Debt\*/equity ratio = Interest-bearing debt / Shareholders' equity ratio

Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

### (3) Profitability and Investment Analysis Ratios

- Return on equity, Return on total assets and Return on sales



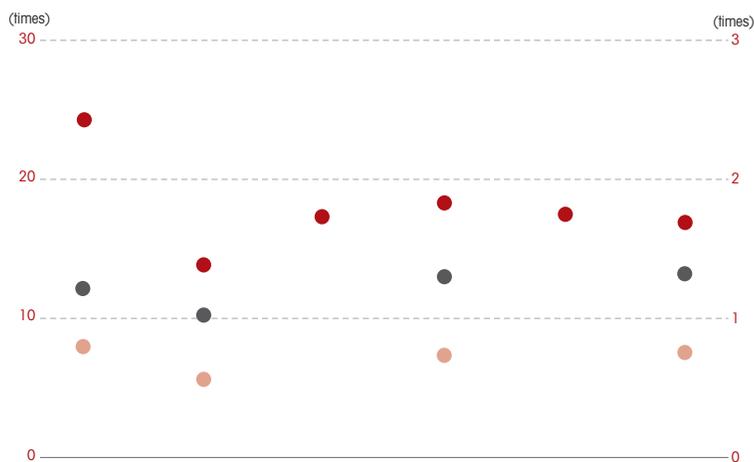
Yen	02/3	02/3*	03/3	03/3*	04/3	04/3*	05/3
● Return on equity	5.0%	4.9%	7.9%	6.3%	7.6%	8.0%	8.4%
● Return on total assets	3.1%	—	4.7%	3.8%	4.5%	4.8%	5.0%
● Return on sales	3.0%	3.2%	4.8%	3.8%	4.3%	4.5%	4.7%
Average number of shares outstanding (in thousands)	901,489	901,489	860,828	860,828	842,005	842,005	830,869
Earnings per share	¥ 80.22	¥ 78.54	¥ 128.37	¥ 102.60	¥ 130.02	¥ 137.27	¥ 159.02
Cash dividends per share	18.00	—	20.00	20.00	24.00	24.00	32.00
Cash flow per share*	243.59	233.83	299.33	—	310.21	—	353.38
Number of shares outstanding as of the respective balance sheet dates (in thousands)	865,686	865,686	843,352	843,352	833,873	833,873	825,275
Shareholders' equity per share	1,641.72	1,641.72	1,656.93	—	1,809.55	—	1,990.48

NOTES1: The figures for ratios involving shareholders' equity and total assets are calculated based on average shareholders' equity and total assets at the beginning and the end of each fiscal year.

Cash flow per share = (Net income + Depreciation) / Average number of shares outstanding

NOTES2: The italicized figures for the years ended March 31, 2003 and 2004 exclude non-recurring items in other income and expenses for reference.

- PER, PCFR and PBR



	02/3	03/3	03/3*	04/3	04/3*	05/3
Stock price at the end of fiscal year (yen)	¥1,953	¥1,732	¥1,732	¥2,370	¥2,370	¥2,670
● Price earning ratio (times) *	24.3	13.5	16.9	18.2	17.3	16.8
● Price cash flow ratio (times)*	8.0	5.8	—	7.6	—	7.6
● Price book value ratio (times)*	1.2	1.0	—	1.3	—	1.3

NOTES1: Price earning ratio = Stock price at the end of fiscal year / Earnings per share

Price cash flow ratio = Stock price at the end of fiscal year / Cash flow per share

Price book value ratio = Stock price at the end of fiscal year / Shareholders' equity per share

NOTES2: The italicized figures for the years ended March 31, 2003 and 2004 exclude non-recurring items in other income and expenses for reference.

Cautionary Note: The figures of year ended March 31, 2002 included the effect of the irregular 15-month reporting period, due to the shift of the end of the fiscal year from December to March for major overseas consolidated subsidiaries and affiliates (45 companies), and italicized figures\* are included for reference based on 12 months that exclude the effect of 15-month irregular reporting.

## OPERATIONS IN JAPAN

	Main Products/Research Fields	Start of Operations	Employees	Location (Prefecture)
Headquarters		1949*	9,964	Aichi
Ikeda Plant	Radiators, oil coolers, and inter coolers	1965	739	Aichi
Hiroshima Plant	Radiators, electric fans, integrated air fuel modules, and heater units	1965	145	Hiroshima
Anjo Plant	Starters, alternators, and hybrid electric vehicle components	1967	2,438	Aichi
Nishio Plant	Air conditioners, radiators, fuel injection systems for diesel, and electronic fuel injection components	1970	7,002	Aichi
Takatana Plant	Instrument clusters, displays, and navigation systems	1974	2,133	Aichi
Daian Plant	Ignition devices, safety-related equipment, oxygen sensors, and various other actuators and sensors	1982	3,812	Mie
Kota Plant	Integrated circuits, and electronic control components	1987	3,744	Aichi
Toyohashi Plant	Air conditioners, and CO <sub>2</sub> refrigerant heat-pump water heaters	1987	1,036	Aichi
Agui Plant	Machinery , tools, and robots	1990	882	Aichi
Kitakyushu Plant	Air conditioners	1993	165	Fukuoka
Zenmyo Plant	Electronic fuel injection systems	1998	636	Aichi
DENSO Research Laboratories	Semiconductors, information and communications systems, and human machine interface technologies	1991	372	Aichi

\* The start of operations at the headquarters is recorded as the date of DENSO's independence from Toyota Motor Co. Ltd. (now Toyota Motor Corporation)

(As of March 31, 2005)

## GROUP COMPANIES IN JAPAN

## Subsidiary

Company	% Owned by DENSO*	Employees
ASMO CO., LTD.	73.4	4,642
ANDEN CO., LTD.	100.0	1,194
HAMANAKODENSO CO., LTD.	76.5	1,288
DAISHINSEIKI CO., LTD.	99.2	639
KYOSANDENKI CO., LTD.	62.3	1,651
GAC CORPORATION	57.5	792
ASAHI MANUFACTURING CO., LTD.	100.0	357
SANKYO RADIATOR CO., LTD.	70.9	279
TECHMA CORPORATION	100.0	1,031
DENSO AIRS CORPORATION	62.5	605
DENSO ELECS CO., LTD.	100.0	256
DENSO KATSUYAMA CO., LTD.	96.4	159
DENSO KIKO CO., LTD.	100.0	207
DENSO TAIYO CO., LTD.	51.0	222
DENSOTRIM CO., LTD.	80.0	538
DENSO PREAS CO., LTD.	100.0	145
NIPPON WIPER BLADE CO., LTD.	70.0	920
IPICS CORPORATION	100.0	68
DENSO EMC ENGINEERING SERVICE CORPORATION	100.0	27
DENSO ISM CORPORATION	100.0	188
DENSO IT LABORATORY, INC.	100.0	30
DENSO INFORMATION TECHNOLOGY CORPORATION	100.0	101
DENSO ABASHIRI TEST CENTER CORPORATION	100.0	9
DENSO WAVE INC.	75.0	491
DENSO WELL CORPORATION	100.0	61
DENSO SI CORPORATION	100.0	71
DENSO MTEC CORPORATION	100.0	116
DENSO E & TS TRAINING CENTER CORPORATION	100.0	161
DENSO KYUYO SERVICE CORPORATION	100.0	21
DENSO CREATE INC.	100.0	161
DENSO FINANCE & ACCOUNTING CENTER CO., LTD.	100.0	78
DENSO SQUARE CORPORATION	100.0	3

## Affiliate under the Equity Method

ADVANCED DRIVER INFORMATION TECHNOLOGY CORPORATION  
 ADVICS CO., LTD.  
 ITOH SEIKO CO., LTD.  
 G. S. ELECTECH INC.  
 JECO CO., LTD.

Company	% Owned by DENSO*	Employees
DENSO SEIBI CO., LTD.	100.0	53
DENSO TECHNO CO., LTD.	100.0	1,154
DENSO FACILITIES CORPORATION	100.0	486
DENSO YUSEN TRAVEL CORPORATION	70.0	12
DENSO UNITY SERVICE CORPORATION	100.0	632
DENSO REMANI CORPORATION	100.0	49
DENSO LOGITEM CORPORATION	100.0	185
NIPPON SOKEN, INC.	75.0	375
MOBILE MEDIANET INC.	58.0	28
OSAWA INC.	100.0	61
DENSO ACE CORPORATION	100.0	128
DENSO HOKKAIDO CORPORATION	100.0	132
DENSO TOHOKU CORPORATION	100.0	104
DENSO TOKYO CORPORATION	100.0	432
DENSO CHUBU CORPORATION	100.0	323
DENSO KANSAI CORPORATION	100.0	136
DENSO CHUGOKU CORPORATION	100.0	72
DENSO SHIKOKU CORPORATION	100.0	117
DENSO KYUSHU CORPORATION	100.0	126
DENSO SERVICE OKINAWA CO., LTD.	100.0	39
MIYAZAKI ASMO CO., LTD.	100.0	314
APINES CO., LTD.	100.0	109
SUAB CO., LTD.	100.0	39
HAMADEN P & S CO., LTD.	100.0	77
KYOSAN TECS CO., LTD.	100.0	77
KYOSAN SERVICE CORPORATION	100.0	24
OTARI GAC CO., LTD.	100.0	48
GAC HUMAN CO., LTD.	100.0	203
GAC MECHATRONICS CO., LTD.	100.0	10
YASAKA GAC CO., LTD.	100.0	54
DENSO SERVICE NISHISAITAMA CO., LTD.	51.0	15
DS SHIZUOKA CO., LTD.	100.0	10

\* including DENSO Corporation and its subsidiaries

SHIMIZU INDUSTRY CO., LTD.  
 SHINSEI INDUSTRIAL CO., LTD.  
 SOHWA CORPORATION  
 TSUDA INDUSTRIES CO., LTD.  
 NIHON PAKKIN CO., LTD.

MARCON DENSO CO., LTD.  
 TOMEI BRAZING CO., LTD.  
 TD MOBILE CHUGOKU

(As of March 31, 2005)

## GLOBAL NETWORK

Country	Major Company	Main Business	% Owned by DENSO*	Employees
U.S.A.	☆ DENSO INTERNATIONAL AMERICA, INC.	<ul style="list-style-type: none"> <li>• Holding company and regional headquarters for North America</li> <li>• Sale of automotive components</li> <li>• Engineering services, design, testing, and R&amp;D</li> </ul>	100.0	548
	☆ DENSO SALES CALIFORNIA, INC.	• Sale of automotive components and spot-coolers	100.0	227
	☆ DENSO MANUFACTURING MICHIGAN, INC.	• Manufacture of air conditioners and radiators	100.0	2,575
	☆ AMERICAN INDUSTRIAL MANUFACTURING SERVICES, INC.	• Remanufacture of automotive electrical components	100.0	115
	☆ DENSO MANUFACTURING TENNESSEE, INC.	• Manufacture of automotive electrical components, instrument clusters, and automotive electronic products	100.0	2,255
	☆ DENSO MANUFACTURING ATHENS TENNESSEE, INC.	• Manufacture of injectors, oxygen sensors, and stick coils	100.0	880
	★ MICHIGAN AUTOMOTIVE COMPRESSOR, INC.	• Manufacture of compressors	40.0	1,051
	★ TBDN TENNESSEE COMPANY	• Manufacture of air filters and oil filters	49.0	559
	★ ASSOCIATED FUEL PUMP SYSTEMS CORPORATION	• Manufacture of fuel pumps	50.0	392
	☆ DENSO WIRELESS SYSTEMS AMERICA, INC.	• Manufacture of automotive electronic products	100.0	105
	★ ACTIS MANUFACTURING, LTD. LLC.	• Remanufacture of compressors	20.0	48
	☆ DENSO MANUFACTURING ARKANSAS, INC.	• Manufacture of air conditioners and radiators	100.0	237
	★ TD AUTOMOTIVE COMPRESSOR GEORGIA, LLC	• Manufacture of compressors for air conditioners (Starts operations in December 2005)	35.0	4
	☆ ASMO NORTH AMERICA, LLC.	• Holding company for ASMO U.S. operations	100.0	12
	☆ ASMO MANUFACTURING, INC.	• Manufacture of windshield washer systems and servo motors	100.0	317
	☆ ASMO NORTH CAROLINA, INC.	• Manufacture of power window motors, blower motors, and electric fan motors	100.0	463
	☆ ASMO DETROIT, INC.	• Engineering services and North American sales planning	100.0	31
	☆ AUTOMOTIVE MOTORS OF THOMASVILLE, INC.	• Manufacture of power window regulator motors	100.0	174
	☆ ASMO GREENVILLE OF NORTH CAROLINA, INC.	• Manufacture of windshield wiper systems and windshield washer systems	100.0	407
	☆ ASMO APPALACHIAN CORPORATION	• Manufacture of power window regulator motors	100.0	165
	☆ NORTH CAROLINA ASAHI, INC.	• Manufacture of wiper linkages	100.0	139
	☆ NWB USA, INC.	• Sale of wiper arms and wiper blades	91.0	15
	☆ TECHMA U.S.A., INC.	• Manufacture of wire harnesses and electronic components	100.0	190
☆ KYOSAN DENSO MANUFACTURING KENTUCKY, LLC.	• Manufacture of fuel pump modules	100.0	137	
★ TD SCAN (U.S.A.), INC.	• Sale of bar-code readers, two-dimensional code readers, and automatic recognition devices	26.9	5	
Canada	☆ DENSO MANUFACTURING CANADA, INC.	<ul style="list-style-type: none"> <li>• Manufacture and sale of air conditioners</li> <li>• Sale of radiators, pump components, and automotive electrical components</li> </ul>	100.0	284
Mexico	☆ DENSO MEXICO S.A. DE C.V.	• Manufacture of instrument clusters and valves	95.0	2,966
	☆ GAC CORPORATION DE MEXICO S.A. DE C.V.	• Manufacture and sale of spot-coolers and hoses for air conditioners	100.0	605
Brazil	☆ DENSO DO BRASIL LTDA.	• Manufacture and sale of air conditioners, compressors, and their constituent components	90.6	1,393
	☆ DENSO INDUSTRIAL DA AMAZONIA LTDA.	• Manufacture and sale of bus air conditioners and ignition components for motorbikes	100.0	212
	☆ DENSO MAQUINAS ROTANTES do BRASIL LTDA.	• Manufacture and sale of alternators and small motors	100.0	193
	☆ DENSO SISTEMAS TERMICOS do BRASIL LTDA.	• Manufacture and sale of air conditioners and modules	100.0	382
Argentina	☆ DENSO MANUFACTURING ARGENTINA S.A.	• Manufacture and sale of air conditioner-related products	98.3	99
Netherlands	☆ DENSO INTERNATIONAL EUROPE B.V.	• Holding company for European operations	100.0	—
	☆ DENSO EUROPE B.V.	<ul style="list-style-type: none"> <li>• Regional headquarters for Europe</li> <li>• Sale of automotive components</li> <li>• Remanufacture of automotive electrical components</li> </ul>	100.0	237
	☆ DENSO FINANCE HOLLAND B.V.	• Financing	100.0	—

☆ Subsidiary ★ Affiliate under the equity method  
\* Including DENSO Corporation and its subsidiaries

Country	Major Company	Main Business	% Owned by DENSO*	Employees
United Kingdom	☆ DENSO INTERNATIONAL UK LTD.	• Holding company for operations in the U.K.	100.0	—
	☆ DENSO SALES UK LTD.	• Sale of automotive components • Engineering services, design, and testing	100.0	223
	☆ DENSO MARSTON LTD.	• Manufacture and sale of radiators, oil coolers, and inter-coolers	100.0	1,153
	☆ DENSO MANUFACTURING UK LTD.	• Manufacture of heaters and air conditioners	100.0	1,605
	☆ DENSO MANUFACTURING MIDLANDS LTD.	• Manufacture and sale of starters and alternators	100.0	412
Germany	☆ DENSO AUTOMOTIVE Deutschland GmbH	• Sale of automotive components • Technology research and R&D support	100.0	254
	★ TD Deutsche Klimakompressor GmbH	• Manufacture of compressors and magnetic clutches • Remanufacture of compressors	35.0	312
Spain	☆ DENSO BARCELONA S.A.	• Manufacture of engine control components and automotive electronic products	100.0	613
	☆ DENSO SISTEMAS TERMICOS ESPANA S.A.	• Manufacture and sale of HVAC units, heaters and integrated cooling modules (Starts operations in April 2006)	100.0	23
Italy	☆ DENSO SALES ITALIA S.R.L.	• Sale of automotive components	100.0	13
	☆ DENSO THERMAL SYSTEMS S.p.A.	• Manufacture and sale of air conditioners, heaters, and radiators	100.0	2,278
	☆ DENSO MANUFACTURING ITALIA S.p.A.	• Manufacture and sale of starters, alternators, and small motors	100.0	1,645
France	☆ DENSO SALES FRANCE S.A.R.L.	• Sale of automotive components	100.0	21
Hungary	☆ DENSO MANUFACTURING HUNGARY LTD.	• Manufacture of diesel injection pumps	100.0	2,638
Sweden	☆ DENSO SALES SWEDEN AB	• Sale of automotive components • Engineering services	100.0	38
Poland	☆ DENSO THERMAL SYSTEMS POLSKA Sp.z.o.o.	• Manufacture and sale of heaters and cockpit modules	100.0	199
Belgium	☆ DENSO SALES BELGIUM N.V.	• Sale of automotive components	100.0	20
Portugal	☆ JOAO DE DEUS & FILHOS S.A.	• Manufacture and sale of radiators, inter-coolers, and heater cores	100.0	468
Czech Republic	☆ DENSO MANUFACTURING CZECH s.r.o.	• Manufacture of HVAC units, evaporators, condensers, and radiators	100.0	1,432
	☆ AIRS MANUFACTURING CZECH s.r.o.	• Manufacture of air conditioner-related components	100.0	242
	☆ ASMO CZECH s.r.o.	• Manufacture of power window motors, electronic throttle valve control motors, and blower motors	100.0	29
Turkey	☆ DENSO OTOMOTIV PARCALARI SANAYI ANONIM SIRKET	• Manufacture of air conditioners and heaters • Sale of starters and alternators	100.0	123
Australia	☆ DENSO INTERNATIONAL AUSTRALIA PTY. LTD.	• Holding company and regional headquarters for Australia • Sale of automotive components	100.0	55
	☆ AUSTRALIAN AUTOMOTIVE AIR PTY. LTD.	• Manufacture of air conditioners, radiators, and instrument clusters	100.0	591
Singapore	☆ DENSO INTERNATIONAL ASIA PTE. LTD.	• Holding company and regional headquarters for ASEAN and Taiwan • Promotion of product and component complementation • Promotion of localization	100.0	29
	☆ DENSO INTERNATIONAL SINGAPORE PTE. LTD.	• Sale of aftermarket products	100.0	33
Thailand	☆ DENSO INTERNATIONAL (THAILAND) CO., LTD.	• Sale of automotive components and regional headquarters for Thailand	100.0	282
	☆ DENSO (THAILAND) CO., LTD.	• Manufacture of electrical automotive components, air conditioners, magnetos, and spark plugs	51.3	2,121
	☆ DENSO TOOL & DIE (THAILAND) CO., LTD.	• Manufacture and sale of dies and jigs for automotive equipment	100.0	128
	☆ SIAM DENSO MANUFACTURING CO., LTD.	• Manufacture of fuel injection system products (fuel pumps and injectors)	100.0	1,736
	★ TOYODABO FILTRATION SYSTEM (THAILAND) CO., LTD.	• Manufacture of oil filters	40.0	653
	☆ ANDEN (THAILAND) CO., LTD.	• Manufacture of relays and flashers	100.0	118
	☆ SIAM KYOSAN DENSO CO., LTD.	• Manufacture of fuel pump modules	100.0	318

☆ Subsidiary ★ Affiliate under the equity method  
\* Including DENSO Corporation and its subsidiaries

Country	Major Company	Main Business	% Owned by DENSO*	Employees
Indonesia	☆ P.T. DENSO INDONESIA CORP.	• Manufacture of air conditioners, radiators, spark plugs, and filters	58.3	2,014
	☆ P.T. DENSO SALES INDONESIA	• Sale of automotive components	100.0	89
	☆ P.T. ASMO INDONESIA	• Manufacture of power window regulator motors	100.0	885
	☆ P.T. HAMADEN INDONESIA MANUFACTURING	• Manufacture of horns	100.0	276
Republic of Korea	☆ DENSO PS ELECTRONICS CORPORATION	• Manufacture and sale of instrument clusters	51.0	531
	☆ DENSO SALES KOREA CORP.	• Sales support for automotive components • Sale of non-automotive equipment and components	51.0	50
	☆ DENSO PS CORPORATION	• Manufacture and sale of small motors, fuel pumps, and electrical automotive components	72.9	1,754
	★ DOOWON CLIMATE CONTROL CO., LTD.	• Manufacture and sale of air conditioners	33.4	434
	☆ KOREA WIPER BLADE CO., LTD.	• Manufacture and sale of wiper arms, wiper blades, and wiper linkages	100.0	187
Malaysia	☆ DENSO (MALAYSIA) SDN. BHD.	• Manufacture and sale of electrical automotive components, air conditioners, engine ECUs, and programmable logic controller units	72.7	1,404
	☆ NIPPON WIPER BLADE (M) SDN. BHD.	• Manufacture of wiper arms and wiper blades	93.3	1,072
India	☆ DENSO INDIA LTD.	• Manufacture and sale of electrical automotive components, electric fans, ventilators, magnetos, and windshield wiper motors	52.9	843
	☆ DENSO HARYANA PVT. LTD.	• Manufacture and sale of fuel pumps, injectors, engine ECUs, and ISCV	100.0	453
	☆ DENSO KIRLOSAR INDUSTRIES PVT. LTD.	• Manufacture and sale of radiators and air conditioners	89.0	486
	☆ DENSO SALES INDIA PVT. LTD.	• Sale of automotive components manufactured by companies in India	100.0	46
	☆ DENSO FARIDABAD PVT. LTD.	• Manufacture and sale of HVAC units and heaters	100.0	52
Taiwan	☆ DENSO TAIWAN CORP.	• Manufacture and sale of automotive electrical components, radiators, and air conditioners	80.0	415
China	☆ DENSO (CHINA) INVESTMENT CO., LTD.	• Holding company and regional headquarters for China • Sale of automotive components manufactured by companies in China	100.0	100
	★ YANTAI SHOUGANG DENSO CO., LTD.	• Manufacture and sale of air conditioners, compressors and bus coolers	30.0	383
	☆ TIANJIN DENSO ENGINE ELECTRICAL PRODUCTS CO., LTD.	• Manufacture and sale of alternators and starters	95.0	424
	☆ CHONGQING DENSO CO., LTD.	• Manufacture and sale of magnetos, CDI amplifiers and ignition coils	100.0	160
	☆ TIANJIN DENSO ELECTRONICS CO., LTD.	• Manufacture and sale of automotive electronic control components	93.0	349
	☆ TIANJIN DENSO AIR-CONDITIONER CO., LTD.	• Manufacture and sale of air conditioners and radiators	74.2	377
	☆ GUANGZHOU DENSO CO., LTD.	• Manufacture and sale of air conditioners, bus coolers, and radiators	60.0	398
	★ SHANGHAI DENSO FUEL INJECTION CO., LTD.	• Manufacture and sale of diesel injection pumps	34.0	663
	☆ TIANJIN FAWER DENSO AIR-CONDITIONER CO., LTD.	• Manufacture and sale of air conditioners	60.0	69
	★ TOYODABO (TIANJIN) CO., LTD.	• Manufacture and sale of air cleaners and oil filters	40.0	21
	☆ DENSO (GUANGZHOU NANSHA) CO., LTD.	• Manufacture and sale of fuel injection systems for gasoline vehicles (Starts operations in the end of 2005)	100.0	28
	☆ DENSO (TIANJIN) THERMAL PRODUCTS CO., LTD.	• Manufacture and sale of heat exchangers for car air conditioners and radiators (Starts operations in July 2006)	100.0	—
	☆ WUXI DENSO HANSHIN AUTOMOTIVE PRODUCTS CO., LTD.	• Manufacture of ignition coils for automobiles (Starts operations in January 2007)	75.0	—
	★ J-WORKS PARTS SALES (TIANJIN) CO., LTD.	• Import and sale of aftermarket products for Japanese car makers	30.0	6
	☆ TIANJIN ASMO AUTOMOTIVE SMALL MOTOR CO., LTD.	• Manufacture and sale of windshield wiper systems, windshield washer systems, and electric fan motors	59.2	538
	☆ DENSO CREATE SHANGHAI INC.	• Development of software	100.0	21
	☆ TIANJIN GAC AIRCONDITIONER CORPORATION	• Manufacture and sale of hoses and pipes for air conditioners	100.0	58
Philippines	☆ PHILIPPINE AUTO COMPONENTS, INC.	• Manufacture and sale of instrument clusters and air conditioners	97.3	641
Saudi Arabia	★ DENSO ABDUL LATIF JAMEEL CO., LTD.	• Manufacture and sale of air conditioners	50.0	26
Vietnam	☆ DENSO MANUFACTURING VIETNAM CO., LTD.	• Manufacture and sale of air flow meters, TGV actuators, and other engine-related products	95.0	673

☆ Subsidiary ★ Affiliate under the equity method  
\* Including DENSO Corporation and its subsidiaries  
(As of March 31, 2005)



**Chairman**  
Hiromu Okabe



**Vice Chairman**  
Akihiko Saito



**President and CEO**  
Koichi Fukaya



**Executive Vice President**  
Takao Inukai



**Executive Vice President**  
Norio Omori



**Executive Vice President**  
Kazuo Matsumoto

### Board of Directors

**Chairman**  
Hiromu Okabe

**Vice Chairman**  
Akihiko Saito

**President & CEO**  
Koichi Fukaya

**Executive Vice Presidents**  
Takao Inukai  
Norio Omori  
Kazuo Matsumoto

### Senior Managing Directors

Shinro Iwatsuki  
Oyuki Ogawa  
Michio Fukuzaki  
Masatoshi Ano  
Nobuhiro Miyake  
Susumu Harada

**Director**  
Shoichiro Toyoda

### Managing Officers

Mitsuharu Kato  
Mineo Hanai  
Hiromi Tokuda  
Nobuaki Katoh  
Kenji Ohya  
Koji Kobayashi  
Mitsuo Matsushita  
Minoru Ohta  
Kazuo Hironaka  
Sojiro Tsuchiya  
Hikaru Sugi  
Shinji Shirasaki  
Shigehiro Nishimura  
Yasushi Nei

Akitoshi Sugiura  
Masayoshi Yagyu  
Mitsunori Takao  
Mitsuhiko Masegi  
Masahiko Miyaki  
Akio Shikamura  
Haruya Maruyama  
Manfredo Nicoletti  
Shohei Itoh  
Yoshikazu Makino  
Mikio Kumano  
Akio Tajima  
Yasushi Yamanaka

### Corporate Auditors

**Standing Corporate Auditors**  
Nobuaki Horiuchi  
Toshio Watanabe

**Corporate Auditors**  
Fujio Cho\*  
Tamiki Kishida\*  
Tsutomu Saitoh\*

\*External Corporate Auditors

## HEADQUARTERS

DENSO CORPORATION  
1-1, Showa-cho, Kariya,  
Aichi 448-8661, Japan  
Telephone: +81-566-25-5511

## DATE OF ESTABLISHMENT

December 16, 1949

## COMMON STOCK

Authorized: 1,426,942,000 shares  
Issued: 884,068,713 shares

## STOCK EXCHANGE LISTINGS

Tokyo, Osaka, and Nagoya stock exchanges

## NUMBER OF SHAREHOLDERS

43,479

## INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu

## TRANSFER AGENT

UFJ Trust Bank Limited  
1-4-3, Marunouchi, Chiyoda-ku,  
Tokyo 100-0005, Japan

## PUBLICATIONS

Financial Statements  
Fact Book "DENSO in Figures"  
Corporate Brochure  
Environmental & Social Report

## DENSO ON THE INTERNET

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<http://www.globaldenso.com/en/investors/>

## INVESTOR RELATIONS

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(As of March 31, 2005)

**DENSO'S COMMON STOCK PRICE RANGE AND TRADING VOLUME ON TOKYO STOCK EXCHANGE**  
 (adjusted to reflect free share distributions and stock splits)

