

DENSO



Annual Report 2016 DIGEST

For the year ended March 31, 2016



DENSO's Mission

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

On This Booklet (Digest Edition)

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

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

Cover Story [P.1](#)

A Message from the President [P.2](#)

Corporate Value Creation Process

- Management Principles and Code of Conduct
- Value Creation Model [P.4](#)
- Strengths That the Company Has Nurtured Since Its Founding [P.6](#)
- DENSO's History of Corporate Value Creation [P.8](#)

Business Growth Strategy

- Overview by Segment / Overview by Product [P.10](#)

The Foundation That Supports Our Business Growth

- Corporate Governance [P.11](#)
- Environmental Management [P.12](#)
- Quality Assurance
- Intellectual Property Activities
- Engagement with Society [P.13](#)

Corporate Data

- Facts & Figures
- Company Overview
- Stock Information

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

We hope...

Spearheading *Monozukuri*,
"we aim to create a bright future."

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

Koji Arima, President & CEO

On a global scale

Expanding onto the world stage

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

Manager, North American Regional Headquarters

To connect to society

That feeling of satisfaction when delivering to society

"A corporation representative of the local area, DENSO is a company that I have known since childhood. It is not only a business but also proactively serves as a member of our community, for example, by participating in local cleanup activities. I find its attitude of trying to coexist with society very impressive. DENSO is a company that is indispensable to this area."

Local resident living in the vicinity of DENSO headquarters

A Message from the President

Further details can be found on pages 8–11 of the annual report.

To Our Stakeholders



We will engage in R&D and *Monozukuri* (the art of making things) by paying close attention to global trends while maintaining a future orientation and a strong sense of ownership.

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

In 2015, with a view to realizing its aspirations for 2020, the Company formulated its Mid-term Policy for which 2019 is deemed as the fiscal year of its achievement, set three focus fields—the environment, safety and security; aftermarket and new business; and the global market—and started to address new challenges. In fiscal 2016 (the year ended March 31, 2016), the first year for the policy's initiatives, we accelerated development of environmental products that contribute to fuel consumption reduction and safety and security products that prevent traffic accidents while launching products in the field of agricultural production support that leverage the technologies the Company has accumulated in the automotive field. In addition to

extending our *DANTOTSU* (outstanding) plant activities to Group companies in Japan and overseas, we commenced initiatives such as setting up the DP-Factory IoT Innovation Department and initiatives designed to bring about dramatic improvements in quality and further innovative technology for *Monozukuri*.

By fiscal 2019, having further raised our R&D and *Monozukuri* capabilities and accelerated the development of world-first and locally developed new technologies, I would like DENSO to have become a company capable of contributing to society on a global scale. With regard to the changes in the business environment in which we operate, so-called

paradigm shifts are occurring more and more quickly and to a greater extent. Amid such extreme changes, I feel it imperative that to bring the Mid-term Policy to fruition we need to pay close attention to global trends, maintain a future orientation, confront

whatever challenges that we might face while resolutely maintaining a healthy sense of crisis in decisively overcoming them with a strong sense of ownership and an unprecedented sense of speed.

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

The aspects that the Company values the most are its comprehensive wisdom and comprehensive capabilities in R&D, *Monozukuri* and *Hitozukuri* (human resource development). I believe that these will be the driving force behind DENSO's growth.

Focusing on being the first in the world, the Company has been working with automakers on R&D from a global viewpoint that looks ahead 10–20 years. Having constantly focused on in-house technologies since its establishment, in *Monozukuri* the Company carries out in-house manufacturing design, from facilities and production lines to materials and process methods. Furthermore, I believe that the Company's distinctive feature is its sophisticated and speedy product development that is brought about through the close collaboration between R&D and *Monozukuri*.

In a rapidly changing business environment, speed will take on even greater importance. However, there is a general belief that a principle of self-sufficiency that

brings everything under one roof will not in itself enable a company to respond with a sense of speed to its rivals and competition in development. Without being afraid of change, I would like to continue to further hone the technologies that incorporate a range of knowledge by collaborating with other companies and research institutions to make DENSO more agile than ever before.

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

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

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

In resolving social issues through business and continuously providing value, I believe that we have been improving our earnings, strengthening our financial base, and realizing an improvement in DENSO's

corporate value. As a result, under the policy that continues to be linked to dividend returns to all shareholders, I recognize it as an important mission of the DENSO Group to stably bring about improvements in the dividend threshold over the long term.

So that we are able to contribute to the creation of a better society from now on, I would like DENSO to remain a company that is full of enthusiasm and smiling faces and in which each and every employee takes steps to go further and higher with courage.

I would like to take this opportunity to thank everyone for their continued and unflagging support.

Koji Arima
President & CEO

Corporate Value Creation Process

Further details can be found on pages 12-25 of the annual report.

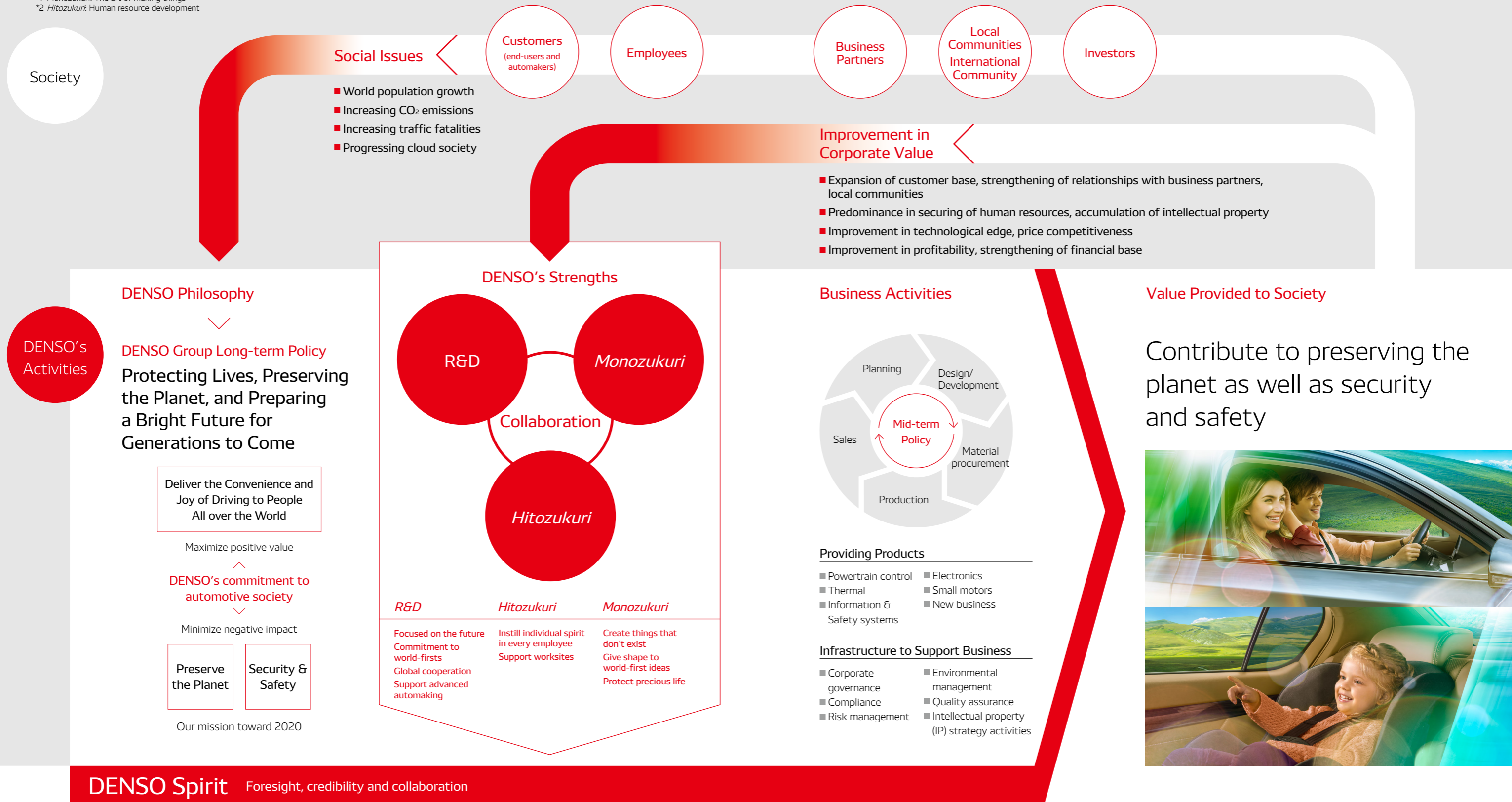
Value Creation Model

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

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

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

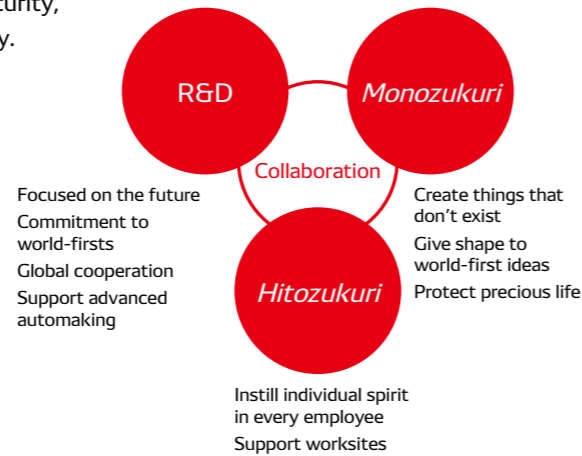
*1 *Monozukuri*: The art of making things
*2 *Hitozukuri*: Human resource development



Strengths That the Company Has Nurtured Since Its Founding

Details on The Key to Our Strength can be found on pages 18-21 of the annual report.

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



Research and Development (R&D)

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

Monozukuri

Since its inception, DENSO's *Monozukuri* has thoroughly integrated in-house technologies. Through *Monozukuri* positive steps are taken to design and manufacture equipment, production lines, materials and processing methods. This enables us to provide society with the world's most advanced groundbreaking technologies and products conceived by our R&D. We have strived to develop speedy and efficient production lines and compact unique facilities, as well as streamline distribution and inspection with our own production technology, and we have built a *DANTOTSU** plant that performs *Monozukuri* at a *DANTOTSU* price.

* *DANTOTSU*: A *DANTOTSU* plant is one that undertakes *Monozukuri* at a *DANTOTSU* (outstanding) cost. A *DANTOTSU* plant is at such a high level that it cannot be compared to other plants.

Hitozukuri

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



Glossary What is HVAC?

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

Development Background

Improvement of environmental performance and comfort, a challenge that automotive society currently faces, as well as a Company theme, is the basis of development. The societal need for greater fuel economy, which significantly affects environmental performance, is further increasing. At the same time, if we can ensure a higher degree of design freedom, a comfortable interior, and eliminate noise, we can make more competitive products. The Company is working to create smaller, lighter, and higher performance air-conditioning units (HVACs) that currently take up a considerable amount of space in vehicles' instrument

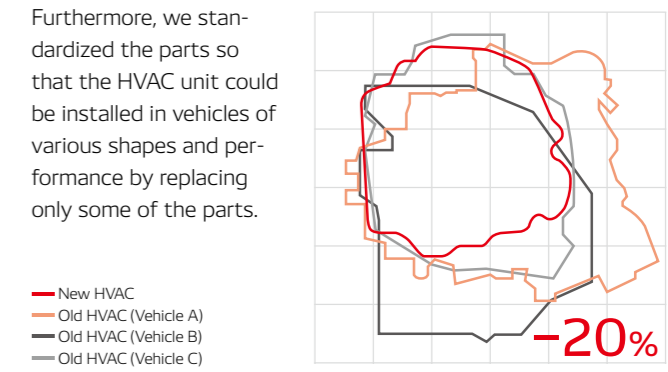
panels, and curtail costs through standardization with the idea that they could be installed in even more vehicles. In other words, one HVAC unit would be compatible with a wide range of vehicles including compact cars, SUVs, luxury cars, hybrid cars, and idling-stop vehicles across automakers, car models, and powertrains. In past HVAC development, an enormous variety existed because they were specially designed for each car model. By overturning that major premise, however, we tackled the challenge of developing a general-purpose HVAC while meeting the needs of many customers.

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

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

air mix section. Furthermore, we standardized the parts so that the HVAC unit could be installed in vehicles of various shapes and performance by replacing only some of the parts.

Side Area View: Size Comparison



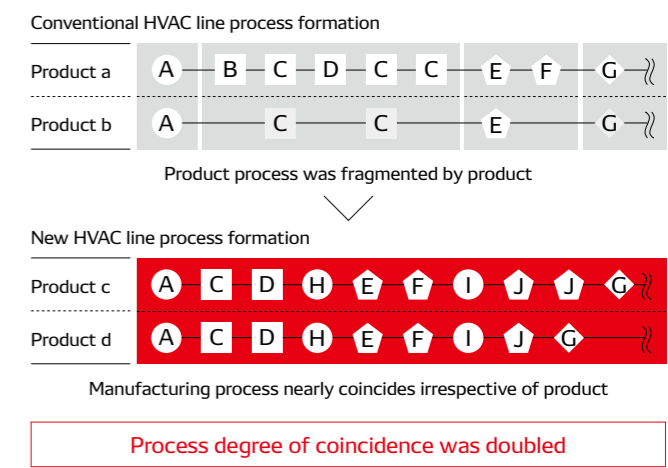
Innovative Monozukuri:

Production Technology That Gives Shape to World-First Ideas

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

* Process degree of coincidence = Number of processes that coincide ÷ Maximum number of processes × 100

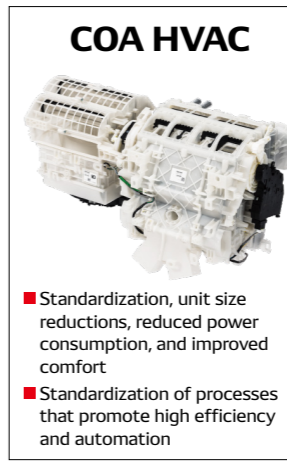
Image of Doubled Process Degree of Coincidence



DENSO's Strength

- R&D**
Partnerships that support advanced automaking
- Monozukuri**
Rigorous standardization
- Concurrent Engineering**
Collaboration system that transcends the boundaries of each division and Group company
- DENSO Spirit**
Foresight, Credibility and Collaboration

Input



- Standardization, unit size reductions, reduced power consumption, and improved comfort
- Standardization of processes that promote high efficiency and automation

Outcome

- Value to Society**
- Relationships of trust with customers
- Achieve comfortable car interiors
- Consideration of the environmental impact of fuel economy improvement
- Globally fair and stable product supply
- Energy efficiency through low cost and productivity improvement

Concurrent Engineering

Concurrent engineering, which transcends development and manufacturing departments, was essential to the creation of the COA HVAC. Up until completion, we ran into a number of challenges and obstacles and those that could not be resolved by the development department alone we repeatedly discussed, using things in the training camp and worksite outside the Company, and we solved them one by one with the cooperation of Group companies. In the production process as well, in the concurrent engineering activities, in order to make an easy-to-build product configuration significant changes were made to

the *Monozukuri* system, such as approving the manufacturing department's request that it be involved from the design phase of each part.

Manifestation of the DENSO Spirit

Initially, everyone thought that this project would be "impossible," but the goals of making a world-first HVAC and transforming *Monozukuri* were shared beyond the development, manufacturing departments, and Group companies. The COA HVAC was completed by mobilizing the collective wisdom and strength of everyone involved.

DENSO's History of Corporate Value Creation

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

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

Value Provided to Society

Environment



Smaller inverters that utilize cooling on both sides



ISS (idle-stop system) tandem solenoid starter that can immediately start up even when engine speed decreases



Motor generators that utilize a unique winding configuration



i-ART injectors for optimal fuel injection



Radiator tank made from plant-derived resin



Smaller and lighter air-conditioning units that can be installed across manufacturers, car models, and powertrains



Heat-pump water heaters using natural refrigerant (CO₂)

Security & Safety



Millimeter-wave radar that lessens damage at time of collision

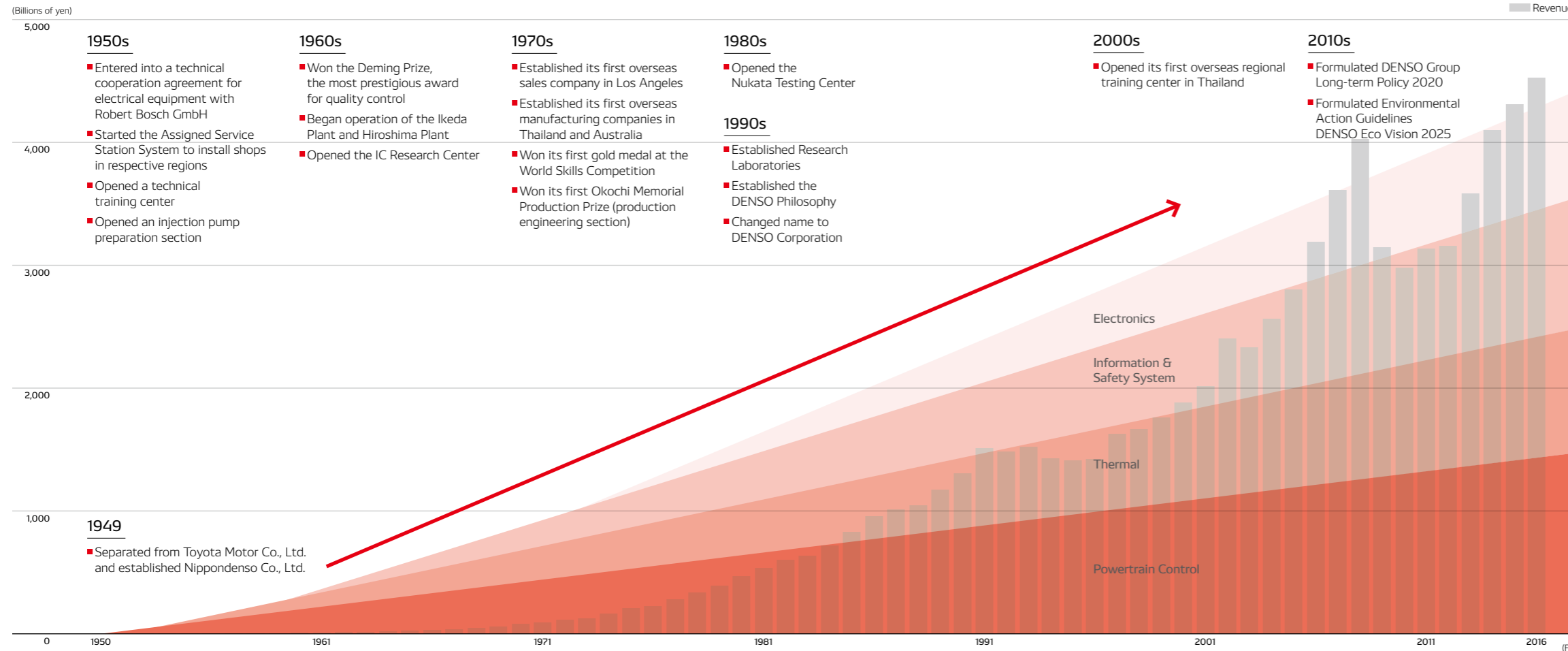


Pedestrian collision detection sensors that accurately detect along the entire bumper

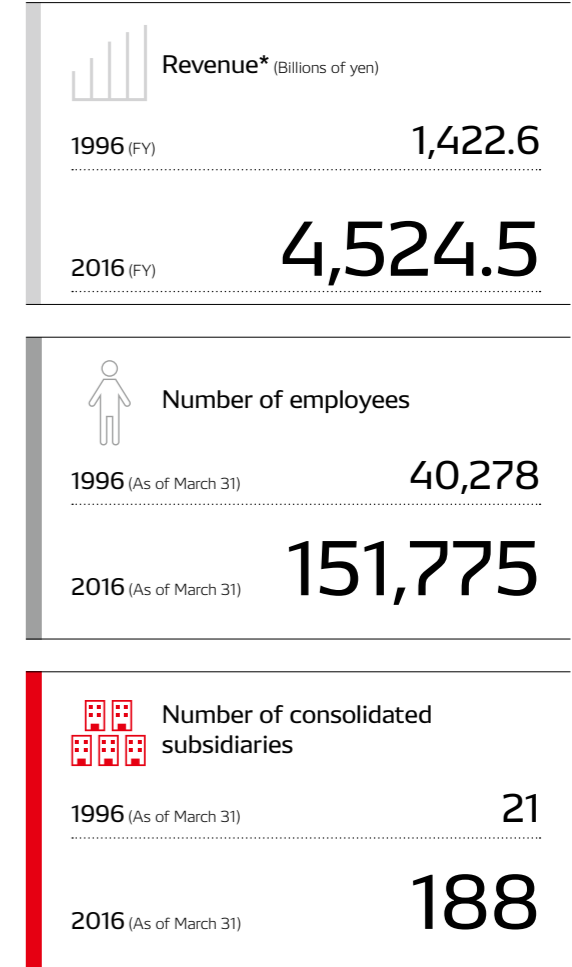


Driver status monitoring systems that detect driver abnormalities such as falling asleep at the wheel

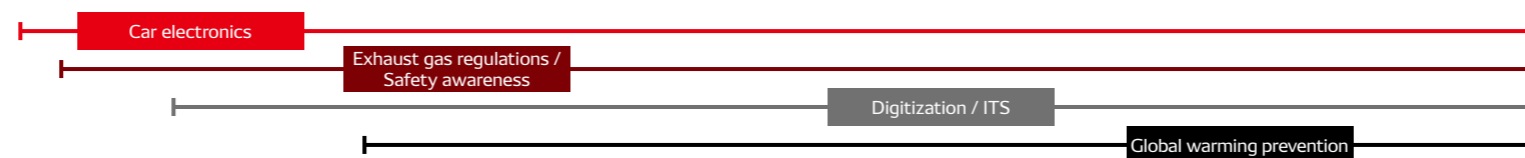
Corporate Value Creation



20 Years of Growth in Figures



Changing Societal Needs



* Fiscal years 1951 to 1978 show non-consolidated revenue, while fiscal years 1979 and after show consolidated revenue. In addition, from fiscal 2014, the financial statements have been prepared based on International Financial Reporting Standards (IFRS). (Japanese accounting standards were employed up to and including fiscal 2013.)

Business Growth Strategy

Further details can be found on pages 26–39 of the annual report.

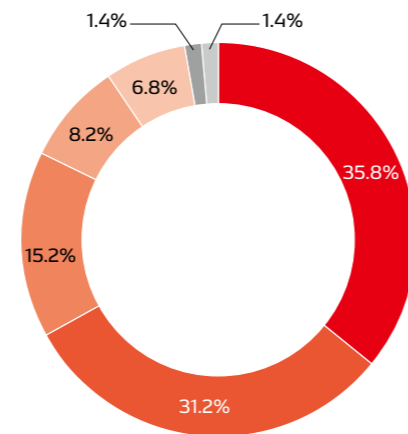
Overview by Product

While focusing mainly on its automotive-related operations, DENSO also pursues a wide range of business opportunities, from new businesses that utilize automotive technologies to consumer-, industrial-, and other related products. Details of the composition of revenue for each business are presented briefly as follows.

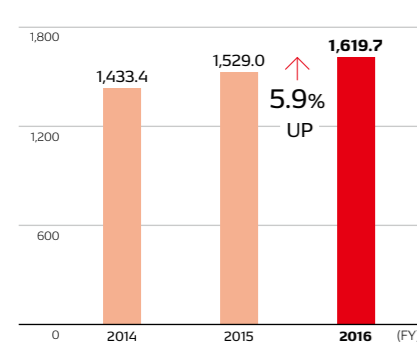
Revenue

4,524.5 billion yen

- Powertrain Control
- Thermal
- Information & Safety
- Electronics
- Small Motors
- Others
- New Business

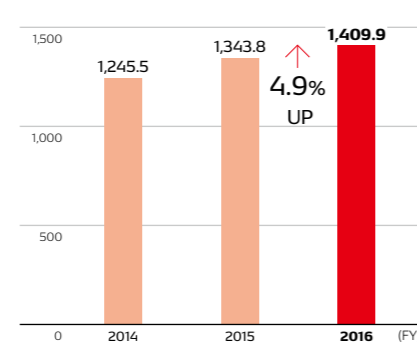


Powertrain Control



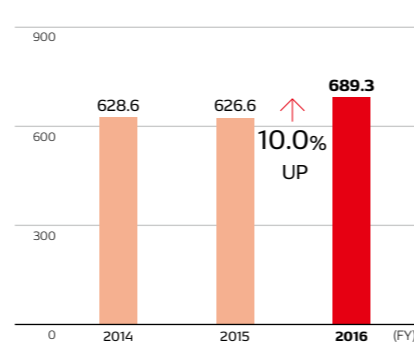
In fiscal 2016, the year ended March 31, 2016, revenue increased 5.9% compared with the previous fiscal year, to ¥1,619.7 billion. This was largely due to the increase in sales of gasoline direct injection products including injectors and pumps as well as variable valve timing (VVT)-related products, mainly in North America and China.

Thermal



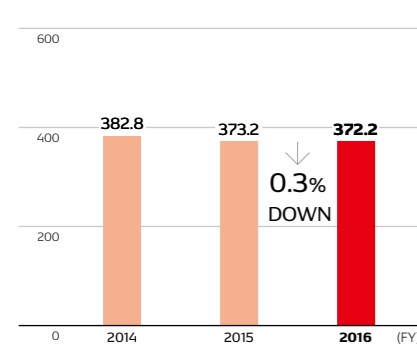
In fiscal 2016, revenue increased 4.9% compared with the previous fiscal year, to ¥1,409.9 billion. In addition to the volume production of global standard air conditioners, this increase largely reflected the upswing in sales of heating, ventilation, and air-conditioning (HVAC) in Europe.

Information & Safety



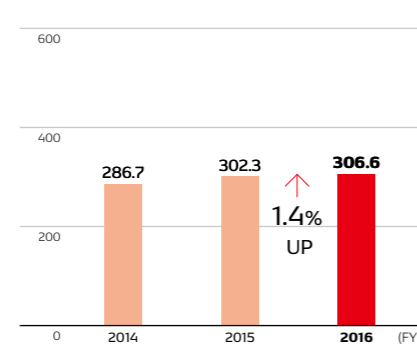
In fiscal 2016, revenue climbed 10.0% compared with the previous fiscal year, to ¥689.3 billion on the back of increased sales of meters in North America and safety products in Japan.

Electronics



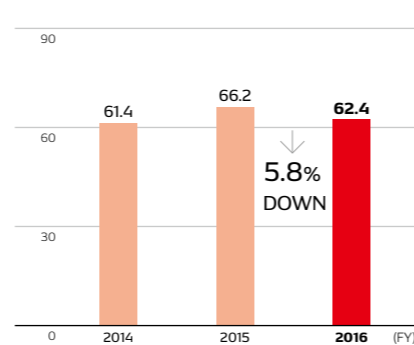
In fiscal 2016, revenue was roughly the same as the previous fiscal year, edging down 0.3%, to ¥372.2 billion. Results were significantly impacted by the decline in vehicle production in Japan.

Small Motors



In fiscal 2016, revenue grew 1.4% compared with the previous fiscal year, to ¥306.6 billion. While the Group's performance in this business was impacted by the decline in vehicle production in Japan, the improvement was mainly due to increased sales of windshield wiper systems in the U.S., South Korea, and China. Results were also supported by automobile sales growth in North America.

New Business



In fiscal 2016, revenue decreased 5.8% compared with the previous fiscal year, to ¥62.4 billion. Despite increased sales of industrial robots in the industrial products field, this downturn largely reflected the impact of the curtailment of capital investment by DENSO's customers.

The Foundation That Supports Our Business Growth

Further details can be found on pages 40–55 of the annual report.

Corporate Governance

Basic Stance

DENSO believes that establishing a corporate governance system designed to strengthen Group competitiveness is the key to maintaining and improving long-term corporate performance in a quickly changing global marketplace. DENSO Corporation has developed various governance mechanisms, implementing highly sound, efficient, and transparent

management by continuously providing shareholders and investors with information on the state of our business.

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

Corporate Governance System

System Overview

The Company has established a management system that performs accurate decision-making and rapid business execution, while enabling proper oversight and monitoring. As a system of decision-making for business execution, DENSO has established the Officer Meeting comprising the Board of Directors (which convenes once a month, in principle) as a "decision-making body" that resolves legal matters and important issues, as well as the Top Management Meeting (which convenes once a week, in principle) as a "deliberative body" that deliberates on matters from a Companywide perspective and submits motions to the Board of Directors. Through a corporate officer system that separates and clarifies the roles between Members of the Board, who are responsible for management (decision-making and supervision), and Senior Executive Directors and Executive Directors, who are responsible for the execution of business operations, DENSO Corporation is streamlining the number of Members of the Board and is realizing swift decision-making and business operations. Under this system, depending on the circumstances, Members of the Board serve concurrently as Senior Executive Directors to directly link management with

operational sites. DENSO Corporation sets the term of office for Members of the Board at one year, with the aim of building a flexible management structure that responds to changes in the management environment and to further clarify management responsibility during the business year.

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

Overview of Corporate Governance System (as of June 21, 2016)

Format	Audit & Supervisory Board system
Number of directors	13
Chairman of the Board	President & CEO
Number of outside directors	2
Term of directors	1 year
Number of Audit & Supervisory Board members	5
Number of outside Audit & Supervisory Board members	3
Number of meetings of the Board of Directors*	11
Number of independent officers	4

* Total for the period from April 2015 to March 2016

Dialogue with Outside Directors Details can be found on pages 44–45 of the annual report.

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

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

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



Outside Director
George Olcott



Outside Director
Takashi Nawa

Environmental Management

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

Basic Stance

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

Environmental Value Creation Management

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

DENSO Eco Vision 2025

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

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



Please visit our special Eco Vision 2025 website at:

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

Engagement with Society

Basic Stance

DENSO advances business activities while interacting with various stakeholders.

To create a better society, DENSO clarifies its responsibility to stakeholders in its business activities, and values engagement

with stakeholders as a helpful means of avoiding self-satisfying activities that are biased by its own logic and preconceptions. DENSO fulfills its social responsibility while reflecting stakeholder opinions and the needs of society in its corporate activities.

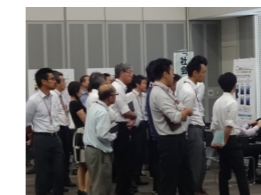
Examples of Engagement with Stakeholders

Customers

Customer Satisfaction (CS) Improvement Exhibition

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

Approx.
20,000 people
attended



Employees

Global Conference

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

Approx.
300 employees
participated from
around the world



Suppliers

General Meeting of Suppliers

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

Approx.
340 suppliers
participated from
around the world



Local Communities

DENSO Group Heartful Day

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

Approx.
30,000 employees
participated from
around the world



Cleanup activities to protect the green turtle

Shareholders and Investors

Results Briefings for Institutional Investors

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

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



Ordinary General Shareholders’ Meeting

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

Approx.
1,200 people
participated



Details on our initiatives for individual stakeholders can be found on the CSR information page of our website.

DENSO CORPORATION

1-1, Showa-cho, Kariya, Aichi 448-8661, Japan
Tel: +81-566-25-5511 (Information Center)
www.denso.com/global/en/