

TO OUR SHAREHOLDERS

HIGHLIGHTS OF THE YEAR:

THRIVING IN AN UNCERTAIN ENVIRONMENT

The year ended March 31, 2003, was an excellent year for DENSO. Although net sales dipped 2.8% to ¥2,333 billion, due to the irregular 15-month reporting period at overseas subsidiaries and affiliates in the previous fiscal year, net sales rose 6.9% excluding this effect. We also posted net income of ¥111 billion. On a comparable 12-month basis, net income was 56.8% or ¥40.2 billion higher.

These results were achieved in a varied and uncertain operating environment: while demand in our home market was flat, an increase in car exports, particularly to North America, boosted domestic car production. And despite global geopolitical instability, which dragged down overall car sales in both the United States and Europe, we expanded sales of components to automakers in these markets. These were the primary factors behind our higher sales.

The increase in sales, a relentless drive to develop the most technologically advanced and cost-competitive components, and an ongoing program of corporate restructuring, were the main factors behind our improved bottom-line profitability. Even after excluding non-recurring extraordinary items, we still achieved an impressive 20.2% increase in net income on a comparable 12-month basis.

Returning profits to shareholders remains a high priority for DENSO. And the year under review was no exception. We repurchased 40 million shares of treasury stock to boost capital efficiency and maximize value for shareholders, while ROE improved to 7.9%, or 6.3% after excluding the impact of the above-mentioned extraordinary items. We also announced an annual dividend of ¥20 per share, an increase of ¥2 per share on the previous period.

DENSO VISION 2005:

INTO THE FINAL STRETCH

We are now into the last stage of DENSO Vision 2005, our long-term management initiative announced in January 1997. With the completion date fast approaching, **we formulated a three-year medium-term plan in the fall of 2002, replete with measures to guide us to our final objectives of net sales of ¥2.5 trillion and ROE of 8%.**

KOICHI FUKAYA
President and CEO



**AUTOMOTIVE TECHNOLOGIES:
A RESERVOIR OF EXPERTISE**

Our R&D efforts are focused on three strategic areas: the environment, safety, and information and communications.

In the environmental field, our technologies and products are already having a positive impact on reducing the car's footprint on the environment. In the year under review, these included the world's first non-fluorocarbon air conditioner using carbon dioxide (CO₂) as the refrigerant, an integral component of Toyota Motor Corporation's fuel cell hybrid vehicle (FCHV). Our diesel common rail system was also chosen by Mazda Motor Corporation for its MPV and Mazda 6 models, now on sale in Europe. These systems achieve world-leading standards in reducing exhaust gas emissions, and also comfortably clear the EURO 4 emission regulations that come into force in 2005.

In safety, we worked closely with Toyota to develop the world's first pre-crash safety system that automatically tightens passenger seatbelts in the instant before a collision. And we achieved another pioneering first with the development of an electronic control unit (ECU) for an adaptive front lighting system (AFS). This new system realizes significant improvements in visibility for nighttime cornering.

In the information and communications field, we have been channeling our resources into car navigation and data communication technologies. This has paid off, with a four-fold increase in our production of car navigation systems over the last four years and the successful development of a data communications module for Toyota's G-BOOK telematics system. We believe our considerable expertise in this field will hold us in good stead as navigation systems evolve into advanced information terminals providing a vast array of data services for car users.



In order to reach our top-line target, we are working to increase sales to automakers overseas, wherever they choose to operate. Strengthening our presence in new growth markets such as China and the ASEAN* region will also be key to growing sales. We believe we are making good advances in all these areas. To attain our goal of ROE of 8%, we are working to find additional cost savings, increase returns on investments in new automotive fields, and improve the profitability of our European operations. These steps go hand-in-hand with efforts to streamline our capital structure through an ongoing share buyback program, and initiatives to improve asset turnover by optimizing fixed assets.

Based on this approach, we are confident of achieving the goals in DENSO Vision 2005. Therefore, we are now looking further into the future to ensure that we continue to deliver sustainable growth over the long term.

* Association of Southeast Asian Nations

ACHIEVING SUSTAINABLE GROWTH: STAYING TRUE TO THE BASICS

With automakers under intense pressure to become more competitive, the goalposts for DENSO are constantly being moved. A round of mega-mergers and business tie-ups in the auto industry has also thrown up new challenges for automotive component suppliers, as automakers develop common platforms to reduce sourcing costs and shorten development cycles. At DENSO, we must respond to these

fundamental shifts and rolling demands from automakers for the global supply of lower-priced, higher-quality, more functional components. Overcoming these challenges will not be easy.

But underpinned by our unshakeable commitment to “Quality First,” we are confident we can rapidly develop and supply more cost-competitive, high value-added products that anticipate the needs of automakers and society.

To some people, the idea that quality can be improved while paring back costs may seem contradictory. Not at DENSO. In fact we believe that we can translate cost savings into higher quality and enhanced functionality by using our renowned technological and *mono-zukuri** capabilities. Continuing to build an optimal global supply network, will also be vital to quickly take advantage of business opportunities and efficiently provide customers with competitively priced, high-quality components—anywhere in the world.

Of course, realizing sustainable long-term growth is not something that is achieved overnight, but we believe our track record shows we have the ability and the fundamentals in place to deliver.

* The art of making (*zukuri*) things (*mono*)

For more than 50 years, DENSO has worked to create a pool of expertise in core automotive technology fields.

Maintaining and broadening this vital resource is now more important than ever, as global trends show that the lines between technological fields are blurring and new products are increasingly the result of interdisciplinary development.

For DENSO, this represents a real growth opportunity:

our proven success in adapting technologies to new applications, and our expertise in a wide range of fields, means we are ideally positioned to develop an entirely new generation of products that transcend traditional technological boundaries.

This, we believe, together with our commitment to “Quality First,” represents another strength that sets us apart from our peers.

DENSO: A COMPANY TO RELY ON

In an increasingly unpredictable world, characterized by seismic shifts in operating environments and breathtaking technological innovation, companies like DENSO are few and far between—we have shown time and again that we can stay the course and deliver stable growth, no matter what changes have occurred. And importantly, we have achieved this organically, based on our ability to supply automakers with a steady stream of highly reliable products. As a result, we have been able to provide shareholders with a stable return on their investment.

Finally, I am greatly honored to have been appointed DENSO’s new president and CEO. I am wholly committed to leading your company to further success as we take on the challenges of a new era in the automotive industry. I ask you to join us as we open an exciting new chapter in DENSO’s corporate history.

July 2003



KOICHI FUKAYA President and CEO