

**DENSO**

# Annual Report 2016

For the year ended March 31, 2016





# 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

"Clearing a 1,000-hour endurance test to bring to fruition absolutely unbreakable products was astonishingly brief. It's a battle of one in a million. Although not a soaring achievement, I would like to repeat the seesawing and move forward little by little."

Masahiko Miyaki, Executive Vice President and Board member who oversees overall production

"Continuing to demonstrate theories that exceed customer expectations is essential in gaining trust. For that reason, we must not assume that customer trends have their own logical categories. We have to gather more multi-faceted information, rack our brains for wisdom and form every hypothesis."

Haruya Maruyama, Executive Vice President and Board member who oversees sales & marketing

"When taking on new challenges, the more we know, the more the thinking is that we are never likely to succeed and the normal thing to do in the end is to give up. However, a company that will not give up under those circumstances is DENSO. The thought that 'we view development as really something for the benefit of the world' has become a driving force."

Yasushi Yamanaka, Executive Vice President and Board member who oversees future creation technology

## DENSO's Mission

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

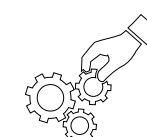
### KEY FIGURES



R&D expenditure  
(as a proportion of revenue)



399.3 billion yen (9%)



Number of worldwide patents held



Approx. 38,000





"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

"Maintaining close relationships with customers and following a way of working that emphasizes teamwork are of vital importance in verifying the real situation on the front line of manufacturing. Doing things that our competitors have yet to do—that is what I feel is the essence of DENSO."

Manager, European Regional Headquarters

"The way we see it, we are strongly committed to turning the negative aspects of society into positive situations. In other words, beyond society we would like to be of immediate assistance to someone and make them smile."

Manager, South China Regional Headquarters

# On a global scale

Expanding onto the world stage

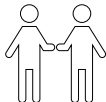
## KEY FIGURES



Development regions /  
Number of bases  
(Number of consolidated  
subsidiaries)

35 countries and regions

188 bases



Number  
of employees

151,775





“The overcoming of a number of difficulties together, that is what DENSO means to me. Going forward with high aspirations, I would like to continue to confront challenges that makes the impossible possible. I am fully expecting that DENSO will propose technologies that provide new value to society in the years to come.”  
Manager in charge of development at automaker

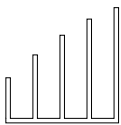
“A corporation representative of the local area, DENSO is a company that I have known since childhood. It is not only a business but also proactively serves as a member of our community, for example, by participating in local cleanup activities. I find its attitude of trying to coexist with society very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



# To connect to society

That feeling of satisfaction when delivering to society

KEY FIGURES



Revenue

> **4,524.5** billion yen

Note: All the numerical data published on pages 1~4 is for the fiscal year ended March 31, 2016, or as at March 31, 2016.

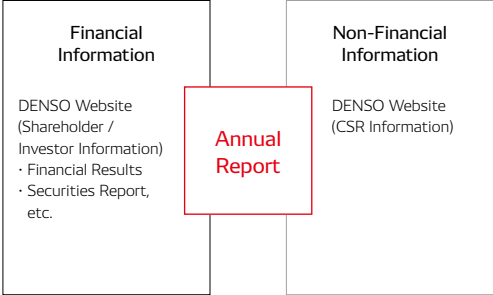
SLOGAN

Protecting Lives,  
Preserving the Planet,  
and Preparing a Bright Future  
for Generations to Come





Positioning of Annual Report



Editorial Policy

In addition to providing financial information, such as results and sales overviews as well as management strategy, *Annual Report 2016* is edited as an integrated report that reports, in an easily understood manner, on what value DENSO is providing society and on the process of improving that corporate value. This we achieved by introducing, in an integrated manner, information of a non-financial nature on intangible assets, including on the environment, society and governance (ESG) that are seen as the foundation underpinning growth.

DENSO creates long-term corporate value for all of its stakeholders, including shareholders and other investors, and would appreciate understanding for the efforts the Company is making in aiming to realize a sustainable society.

In compiling this report, references have been made to the “international integrated reporting framework” that is proposed by the International Integrated Reporting Council (IIRC). In addition, with regard to social reporting and the environment, please refer to the Company’s website as it contains detailed CSR information.

**Cautionary Note: Forward-Looking Statements**  
Of the content published in this report, what is not historical fact comprises future predictions based on expectations or on plans for the future. As they include contributory factors, such as risks and uncertain elements, the possibility exists that actual achievements and results may differ materially from this report.

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# A Message from the President

## 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.

Koji Arima  
President & CEO

### Q1 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 the year since my appointment as president, I maintained a global viewpoint and a sense of speed when making decisions to fulfill DENSO's mission of assisting broader society through products that contribute to the environment as well as to security and safety.

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*.

In an environment that is rapidly changing, we were able to overcome difficulties thanks to the efforts of each and every one of the DENSO Group's 150,000 employees and the support of all stakeholders, for which I would like to take this opportunity to express my heartfelt gratitude.

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. Fiscal 2017 is the second year of the Mid-term Policy, but as we are aware of its extreme importance for future growth it is positioned as "the first year of reform." Without wavering, I myself will continue to promote reforms in both awareness and actions.

### Q2 Could you please provide some examples of your initiatives up to now?

As a current important issue, I would like to introduce ADAS, our advanced driver assistance system, and IoT, as examples of efforts in which we are engaged based on society's needs.

#### ADAS Initiatives

Amid fears of a significant rise in traffic accident fatalities associated with the rapid increase in the global population, there is a greater need for advanced driver assistance technologies that will lead to automated driving to resolve this social problem. Competitive developments are being accelerated at each automaker toward the full-scale commercialization of automated driving in 2020, and DENSO is ascertaining areas in which to compete and areas in which to collaborate while proactively engaging in strategic mechanisms through alliances.

To accelerate technological developments related to automated driving, the Company integrated related internal business units that were formerly separate entities and established the ADAS Promotion Division in January 2016. The Company will give added impetus to promoting the commercialization of such systems by integrating and accelerating research and technological development that had been conducted individually by functional divisions and business divisions.

### IoT Initiatives

At the same time, as represented by Industry 4.0 (Fourth Industrial Revolution), there is increasing attention being paid to IoT across the world.

DENSO's policy is to bring about the evolution of *Monozukuri* on a global basis by utilizing IoT to realize further improvements in competitiveness in the years to come. Firstly, with the aim of bringing about a 30% improvement in productivity by 2020, the Company established and commenced the operations of its DP-Factory IoT Innovation Department. I would like to place importance on the *Monozukuri* front line, which is underpinned by people's capabilities. I would like to unleash further improvements in our global *Monozukuri* competencies by utilizing IoT in the management of plants and facilities, so that we have visual representations of information which we were previously unable to see and can take measures before a problem occurs, so that cases of improvements go back and forth, transcending the corporate group and national boundaries. At the same time, I would also like to realize a manufacturing front line that has even more of a creative dynamism by drawing on people's unbounded wisdom and taking advantage of progressive improvements.

### Q3 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*.

While placing value on this strength, it is my firm belief that there are things that we should change and things that we must not change.

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.

Continuing to confront challenges with a stance of always predicting change, DENSO will attach importance to three areas: "advances" that continue efforts to create new value unique to the Company through creativity and ingenuity; "trust" to offer values that exceed the expectations of our customers and society by showing a thorough commitment to quality and tireless day-to-day improvements based on local products; and "comprehensive wisdom and capabilities" that share targets with Company employees, bring together wisdom and capabilities, and continue to confront high-set targets as a unified Company. 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.



### Q4 President Arima, in closing, could you please tell us about your hopes and aspirations with regard to the further growth of the DENSO Group?

In the years to come, we will aim to remain a company that is sought after and needed by people and conduct our business activities by contributing to the creation of a better society.

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.

It sometimes happens that there is a tendency for corporate value, such as the sales and profits resulting from business activities, to be misunderstood when shown only in numerical values. It is my belief, however, that activities that can neither be seen nor recorded in numerical terms yet underpin corporate value—such as governance, environmental and social activities—are indispensable in improving that value. To create a foundation by which we contribute to a better society on an ongoing basis, we will further strengthen those kinds of activities.

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.

# Corporate Value Creation Process

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

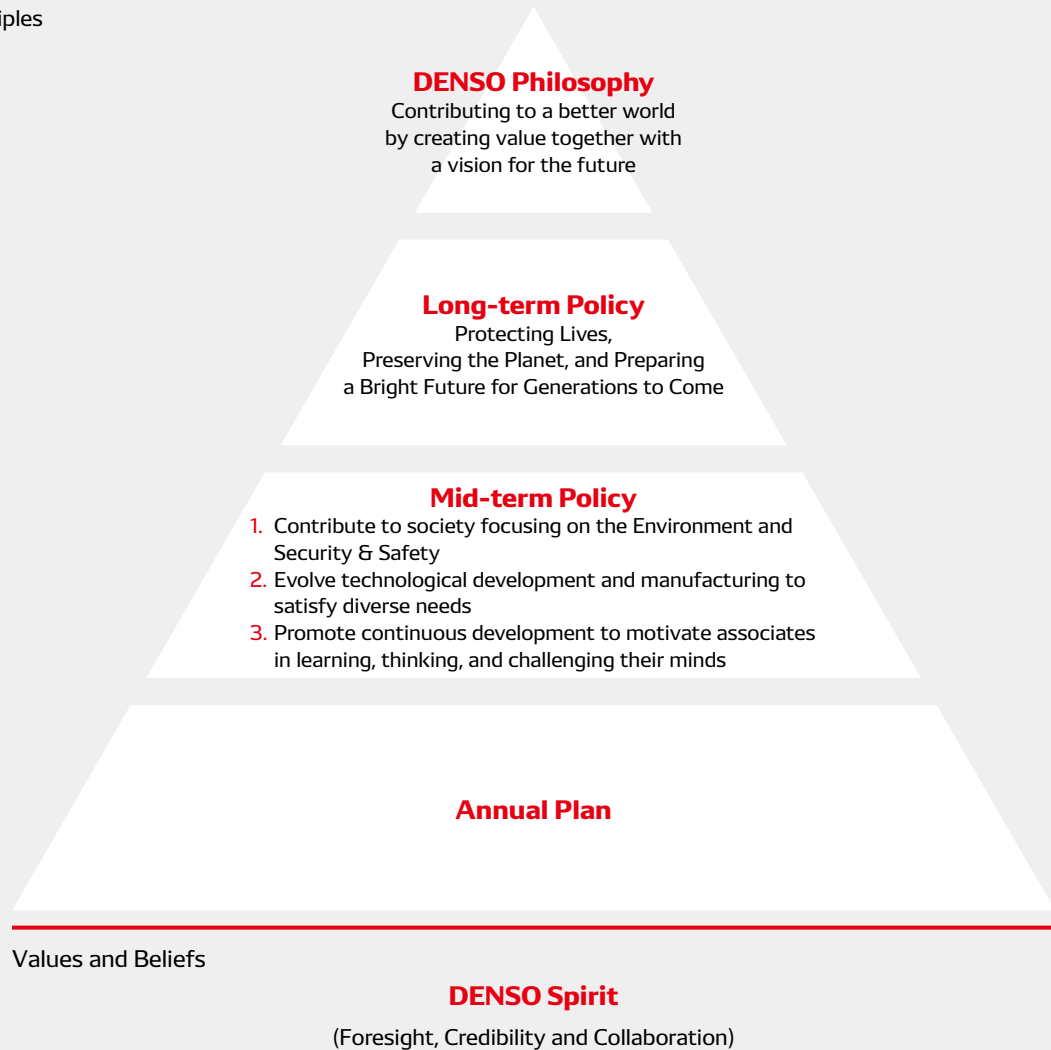
To continue as a company that has earned the trust and meets the expectations of people all over the world, DENSO helps to deliver the convenience and joy of cars to people all over the world while aiming to realize its Long-term Policy of “preserving the Earth’s environment” and “creating a society that ensures security and safety.” For that reason, DENSO has been sharing among all its employees the DENSO Spirit passed down since its establishment and contributing to the creation of a better society by leveraging its strengths in unique R&D, *Monozukuri* and *Hitozukuri* (human resource development).

Assuredly leading to the creation of corporate value, this “Business to Society” viewpoint has been underpinning DENSO’s growth.

## Management Principles and Code of Conduct

DENSO has positioned three elements under the framework shown below: its Long-term Policy, which tackles issues in critical operational fields heading toward 2020 based on the DENSO Philosophy that outlines the Company’s corporate stance and mission; its Mid-term Policy that shows the strategies designed to achieve the Long-term Policy; and the DENSO Spirit that forms a day-to-day code of conduct.

### Basic Principles



## Long-term Policy

### Slogan

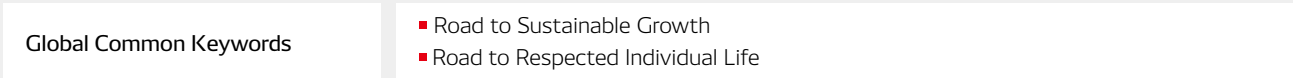
### Protecting Lives, Preserving the Planet, and Preparing a Bright Future for Generations to Come

In light of difficult times expected caused by severe environmental changes, DENSO formulated the DENSO Group Long-term Policy 2020 in 2013 while keeping in mind its strong motivation to contribute to society and taking aggressive action on its own accord to remain a company that has earned the trust and meets the expectations of people all over the world.

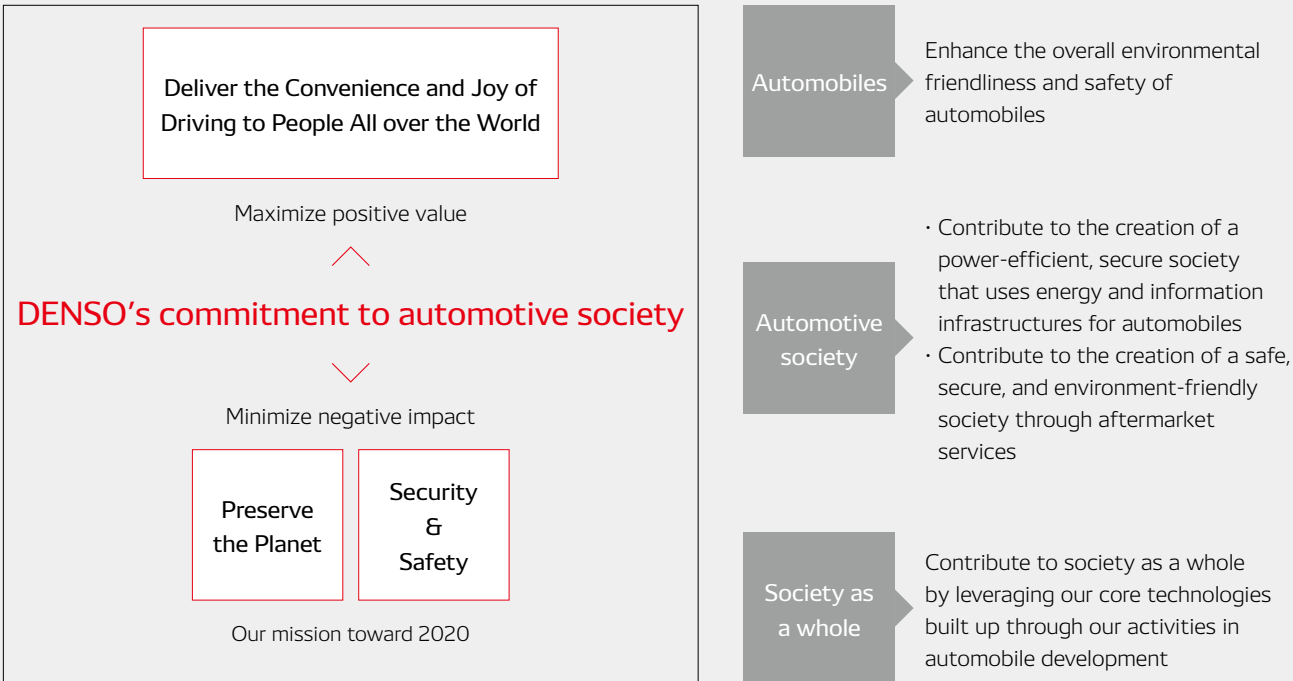
### 2025 Business Environment



### 2025 Society of the Future



### Value Delivered to Society



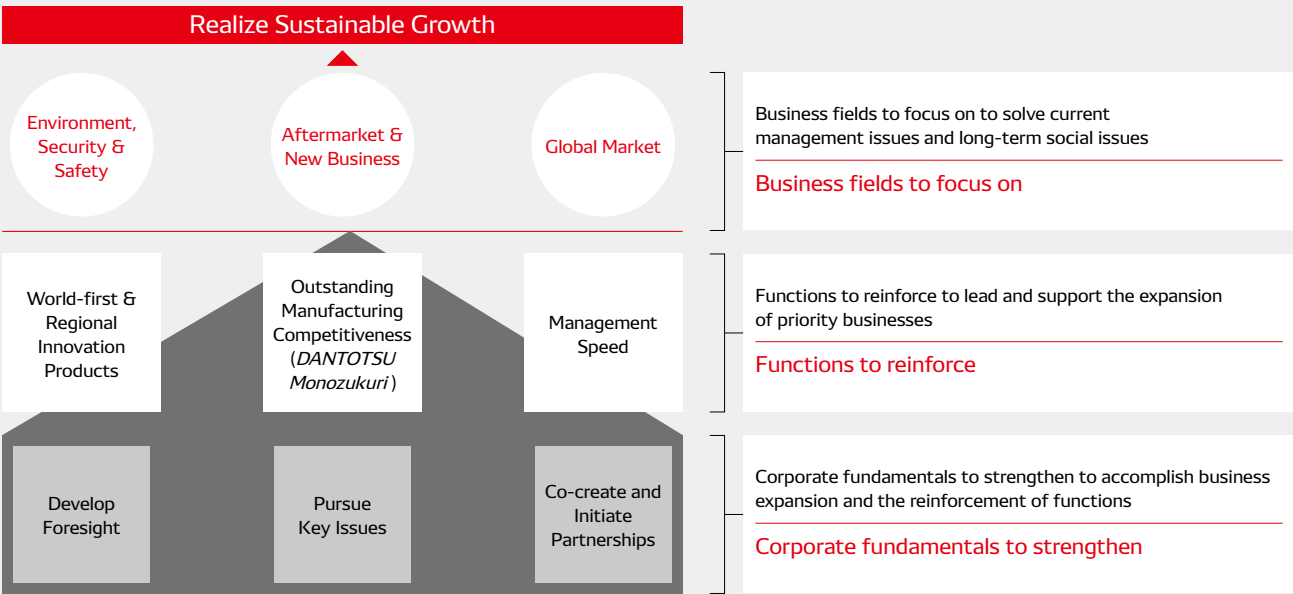


Mid-term Policy

Business fields to focus on

Environment, Security & Safety, Aftermarket & New Business, and Global Market

DENSO Group Mid-term Policy describes the key business fields to focus on, the functions to reinforce, and the corporate fundamentals to strengthen through fiscal 2019 in order to achieve the goals of Long-term Policy 2020.



Strategy for Mid-term Policy

Themes to Promote	Direction
<b>Business fields to focus on</b>	
<b>Environment, Security &amp; Safety</b> Create system products that address social issues and help reduce the environmental footprint and traffic accidents	<ul style="list-style-type: none"><li>Strengthen technological developments toward greater fuel saving, air purification, energy diversification (improve fuel efficiency, electrification, fuel economy, etc.), and system proposal capabilities</li><li>Strengthen technological developments in vehicle control, human machine interface (HMI), and information and communications systems toward the evolution of advanced driving support</li><li>Strengthen new product design and development in automobiles and social systems and related areas</li></ul>
<b>Aftermarket &amp; New Business</b> Expand aftermarket & new business markets to create new customer value from a societal needs and end-user perspective	<ul style="list-style-type: none"><li>Propose products that maintain a societal needs and end-user viewpoint and that create customer value</li><li>Improve speed from product planning to sales through initiatives that prioritize the front line (customers, markets) and through active collaboration with partners</li></ul>
<b>Global Market</b> Reinforce the relationship of mutual trust and raise DENSO's presence in each region so that people around the world can enjoy driving and the convenience of vehicles	<ul style="list-style-type: none"><li>Predict customers' essential expectations, continually provide value linked to customer brand improvements</li><li>Provide multifaceted value added—for example, in terms of quality, value, delivery and service—compatible with the needs of each region to become more region-centric</li></ul>
<b>Functions to reinforce</b>	
<b>World-first &amp; Regional Innovation Products</b> Take on the challenge of advanced technological development that creates the world-first and regional innovation products by realizing regional strengths and community-based wisdom	<ul style="list-style-type: none"><li>Accelerate advanced technology research and reinforce efforts in social science</li><li>By predicting the trend in regional needs, enhance the ability to design product concepts and develop advanced technologies</li></ul>
<b>Outstanding Manufacturing Competitiveness</b> Enhance <i>Monozukuri</i> capabilities and the global expansion of <i>DANTOTSU</i> through enhanced competitiveness to realize a regional No. 1 production structure, the <i>DANTOTSU</i> plant	<ul style="list-style-type: none"><li>Reinforce simultaneous development of products and <i>Monozukuri</i> for product evolution (high difficulty level, systems) and expansion of overseas production</li><li>Establish strong <i>Monozukuri</i> capabilities by One DENSO and realize regional No. 1 production supply structure and the <i>DANTOTSU</i> plant</li></ul>
<b>Management Speed</b> Accelerate management speed by promoting global collaboration and changing our way of working to improve the speed of business operations	<ul style="list-style-type: none"><li>Collaborate with diverse people</li><li>Implement global next-generation information systems and change our way of working to improve speed of business operations</li></ul>

DENSO Spirit

What is DENSO Spirit

A spirit of foresight, credibility and collaboration

The DENSO Spirit expresses values and beliefs shared by our employees around the world that have driven us to contribute to the automotive industry and society as a whole since our establishment in 1949.

<b>Foresight</b> Providing surprises and impressions in a way that only DENSO can	<b>Credibility</b> Providing quality and reliability beyond customer expectations	<b>Collaboration</b> Achieving the highest results by working as a team
<b>Vision</b> Anticipate change	<b>Quality First</b> Ensure the best quality for our customers	<b>Communication</b> Understand one another completely
<b>Creativity</b> Create new value	<b>On-site Verification</b> Grasp the facts firmly	<b>Teamwork</b> Do your best as a team
<b>Challenge</b> Overcome difficulties	<b><i>Kaizen</i>, Continuous Improvement</b> Strive to reach higher levels	<b>Human Development</b> Develop yourself and the next generation

COLUMN

Boldly Taking on New Challenges No Matter What the Circumstances

In 1950, soon after its establishment, DENSO released 50 “*Denso Go*” electric vehicles to the market. With the exception of the batteries and chassis, the core components for these vehicles were manufactured entirely in-house. Fighting to survive during a difficult time when automobile demand had fallen off, we developed *Denso Go* through ongoing R&D driven by the deep desire of employees to contribute to society by providing useful products on the back of our electric component-related technologies and equipment. While *Denso Go* went out of production approximately a year after it was launched due to the government’s lifting of the ban on gasoline control and surging lead prices, the spirit of challenge and technical legacy that emerged during that time led to the creation of the Electric Vehicle Equipment Department in 1970, 20 years after *Denso Go* was launched.

