

Message from the President & CEO

DENSO's Corporate Management Centered on Its Purpose as a Company

Aiming to Resolve Social Issues
While Ensuring the Well-Being and Growth of People

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Representative Member of the Board

Importance of Returning to Our Purpose as a Company—Our Universal Starting Point

One year has passed since I was appointed as president. Taking the baton of management that has been passed down continuously since DENSO's founding in 1949, I feel a sense of gratitude every day for the predecessors who built the DENSO of today, for the employees who currently support DENSO, and for all of our stakeholders. I would like to offer you my deepest appreciation.

Now, in my second year as president, I feel it is truly important for us to return to our universal starting point, which is our purpose as a company, and shift the gears of management accordingly.

We currently find ourselves in an era of significant change. The automotive industry has entered a transitional period through the emergence of CASE^{*1} vehicles, and in this period, we are seeing the further progression of vehicle electrification and the introduction of more intelligent vehicles such as SDVs.^{*2} Furthermore, greater advancements are being made with semiconductor and software technologies. As a result, vehicles are becoming more connected with society and are starting to offer new kinds of value. Also, looking at society at large, the world itself has become more connected due to advanced communication technologies, and the evolution of generative AI on a global scale is reshaping how we live and work.

In these times of change, it is important to actively anticipate change with a sense of urgency. While we will of course take steps to do so, we must also remember not to lose sight of our original purpose as a company by becoming too preoccupied with trying to keep pace with change and limiting ourselves to short-term targets. When that happens, we run the risk of becoming disoriented, losing our perspective, and we stagnate as a company. Even amid this period of constant change, we need to adopt our purpose and mission as a company as an unshakable core, based on which we will conduct consistent management practices for all of our corporate activities, including drafting management strategies and business policies and building a corporate culture.

Empowered by our purpose and mission, we are set to resolve social issues through the principles of green and peace of mind.

Since its establishment, DENSO has confronted social issues caused by vehicles head on, including air pollution from

exhaust gas and traffic accidents. By continuing to develop new products that address such issues, we have contributed extensively to the automotive industry. Branching out from the mechanics domain, which we have engaged in since our founding, we have expanded into new domains such as electronics and software while honing the strengths we possess in each domain. By maintaining an optimal balance between our operations in each domain, we have bolstered our system development capabilities.

We will steadily lead the way with the evolution of mobility through the use of these system development capabilities, combining a broad range of technologies in a sophisticated manner. At the same time, we will help advance systems that connect vehicles with society at large. By doing so, we will tackle complex social issues moving forward, including the realization of a carbon-neutral society and a circular economy as well as the elimination of traffic accident fatalities. Moreover, drawing on the technologies we cultivated in the mobility domain, we will expand into new areas such as energy, factory automation (FA), and food and agriculture (AgTech), thereby making even greater contributions to the resolution of social issues from the perspectives of green and peace of mind.

*1 CASE: A new trend in the automotive industry involving connected, autonomous, shared, and electric vehicles

*2 SDVs (Software-defined vehicles): Vehicles manufactured with greater value and functionality through the use of software

Three Bold Initiatives to Create a Brighter Future Based on Mobility

By resolving social issues centered on green and peace of mind, we will create a brighter future based on mobility. I will now explain the three bold initiatives that we will pursue to that end.

The first initiative is evolving mobility. No matter how greatly we expand our business domains, mobility and vehicles remain a vital domain to which we should contribute. As such, we will pursue the realization of our management philosophy of green and peace of mind through this domain.

Regarding our perspective on green, we are striving to promote the widespread adoption of EVs with a view toward achieving carbon neutrality. While the expansion of the BEV market seems to have slowed down, we believe the transition to electrification will remain a vital part of the major trend for reducing environmental burden over the medium to long term,

DENSO
Crafting the Core





and, therefore, we are steadily pursuing the electrification of vehicles. Meanwhile, as the situation with energy and related infrastructure differs by country and region, it is important that our transition to EVs focuses closely on market and customer needs. DENSO's customers comprise automakers from around the world, and this is precisely why we will enhance our lineups for systems, components, and parts for each customer layer so that we can meet a wide range of electrification needs. At the same time, to meet the market needs in each region, which vary due to each region's respective situation with energy, we will work closely with automakers and business partners to offer a diverse range of options across the industry, thereby contributing to the realization of a carbon-neutral society.

With regard to peace of mind, we are working to popularize advanced driver assistance systems (ADAS) with the aim of eliminating traffic accident fatalities. Each country and region has its own traffic infrastructure and rules. To that end, in addition to enhancing the performance of safety technologies, we will offer a broad range of products tailored to the specific circumstances of each country and region, from simple and affordable components to ADAS equipped with state-of-the-art technologies such as AI and sensor technology. By doing so, we will commit ourselves to protecting as many lives as possible from traffic accidents as we work to realize a society where everyone can enjoy the benefits of safe and secure mobility.

The second initiative is creating new value. Guided by our management philosophy of green and peace of mind, we are pursuing technological development and commercialization in many other domains outside of mobility, including energy, factory automation (FA), and food and agriculture (AgTech).

For example, in the energy domain, we are working to commercialize hydrogen-based energy with the aim of achieving a carbon-neutral society. To that extent, we will launch energy systems driven by SOECs*3 on the market that create hydrogen from electricity. Water electrolysis—a key technology for these systems—makes use of many of the elemental technologies that DENSO has cultivated through its experience with vehicles, including air, heat, and electricity management as well as know-how on the creation of ceramic catalysts.

By bringing together DENSO's mobility technologies, we will work with our business partners to realize a hydrogen-based society that both preserves the global environment and enriches people's lives.

Furthermore, in the FA domain, we will leverage robot and IoT technologies to provide support for the advancement of *Monozukuri* based on considerations for green and safety. Additionally, in the food and agriculture (AgTech) domain, we will pursue efforts toward industrialized farming with the aim of realizing eco-friendly agriculture and stable food production.

The third initiative is strengthening fundamental technologies, centered on semiconductors and software. The role that semiconductors play in mobility is rapidly increasing following the progress of vehicle electrification and automated driving. DENSO has sharpened its competitive edge through over 50 years of dedicated R&D activities for semiconductors as well as 40 years of experience in the development of in-vehicle software. Looking ahead, we will further accelerate R&D activities for semiconductors and software, which are core technologies for the mobility domain and domains for new value creation, thereby strengthening our fundamental technologies.

Although the semiconductor shortages across industries that occurred in the wake of the COVID-19 pandemic are still fresh in our minds, we must realize a stable supply of high-performance semiconductors at a low cost if we are to achieve genuine business growth and value creation. To that end, we will accelerate semiconductor development while strengthening domestic and international partnerships and establishing collaborative models, thereby solidifying the industry's foundation for a stable semiconductor supply.

In the same manner as semiconductors, software is also becoming more important in the mobility domain. We are entering the era of SDVs, where the performance of a vehicle can be enhanced simply through a software update. In this era, software development is becoming more large scale and complex. In addition, as long as vehicles are responsible for protecting the lives of their passengers, absolutely no compromises can be made in terms of quality and reliability. Throughout our 40 years in software development, we have honed the ability to realize systems that integrate software, electronics, and mechanics; accumulated know-how on ensuring the safety of the entire vehicle at all times; and strengthened our co-creation capabilities with various development partners. I am confident that these strengths will provide us with an unrivaled competitive edge in the SDV era, in which software development is becoming dramatically more challenging.

We will also seek to standardize software across the automotive industry. The value of mobility will increase tremendously through the use of software. For this to happen, however, a significant amount of investment is required throughout the entire industry. To push forward with the utilization of software to enhance value, we must thoroughly identify the areas of competition and collaboration within software development. With regard to collaboration, actively working toward standardization across the industry and boosting efficiency will be essential. We have a history of collaborative development with many automakers and a strong track record in business. From such a position, we will seek to be a driving force behind vehicle software standardization and unification, thereby working to enhance industry-wide value.

Moreover, securing talented personnel in the rapidly growing software domain has become a pressing issue. Particularly in Japan, we continue to face intense competition in securing such talent. While building an optimized development structure on a global basis, we will provide reskilling opportunities to our hardware engineers, who have a thorough knowledge of vehicles. By doing so, we will transition them into software engineers, enabling them to play an active role in broader domains. As we transform our business portfolio, we expect changes to occur in terms of the balance of our internal personnel. We will therefore promote talent management to ensure that all of our employees can continue to play an active role with a high level of motivation well into the future.

*3 SOECs: Solid oxide electrolysis cells

Continuing to Enhance Corporate Value in Order to Resolve Social Issues

To realize our management philosophy of green and peace of mind and enhance corporate value in a sustainable manner, we are committed to achieving our financial target for ROE of 10% or higher by fiscal 2026 and are steadily advancing efforts to improve our profit structure accordingly.

With implementation of ROIC-minded management, our aim is not to improve near-term indicators but rather to enhance corporate value over the medium to long term. We have carefully communicated the significance of this aim to members of management and all employees, and this has helped them engage in efforts to make improvements on their own initiative. Also, to balance sustainable social value creation with business growth, we have been working to reshuffle our business portfolio. In these efforts, each year we evaluate businesses on whether they align with our efforts to realize the management philosophy of green and peace of mind and assess their growth potential and profitability. Based on this assessment, which considers both financial and non-financial perspectives, we work to drive the growth of core businesses while downsizing or withdrawing from mature ones.

To respond to recent changes in the operating environment, including the rising costs of materials and higher wage levels, we have made appropriate adjustments to our transaction prices through earnest engagement with our suppliers, thorough explanations to our customers, and impact assessments of the supply chain. Additionally, we have been working to encourage price adjustments and bolster competitiveness across the industry by engaging with relevant organizations such as the Japan Auto Parts Industries Association.

We have also been working to reform the assets we possess. In 2023, we significantly reduced cross-shareholdings, including shares held in each Toyota Group company. Rather than being satisfied with the status quo, we carefully assess the changing times and engage in logical decision-making and business execution. This unique approach is also reflected in our process for optimizing our financial capital. Looking ahead, we will continue to reduce cross-shareholdings in an appropriate manner. At the same time, we will strive to enhance asset efficiency through the reduction of cash on hand and the optimization of inventories.

Through these kinds of efforts to reshuffle our business portfolio and reduce low-profit assets, we achieved record-high revenue of ¥7,144.7 billion in fiscal 2024 and have generated a total of ¥1.7 trillion in cash flows from operating

activities over the three-year period from fiscal 2021 to fiscal 2023. In the upcoming three-year period starting from fiscal 2024, we will further accelerate these initiatives with the aim of generating over ¥3.0 trillion in cash flows from operating activities. The cash we generate will be allocated to growth investments and shareholder returns. In terms of growth investments, we will pick up the pace of M&As and business alliances in key growth domains highlighted by the aforementioned three bold initiatives. By fiscal 2031, we aim to achieve net sales of ¥7.5 trillion and an operating margin and ROE of around 12%.

For our shareholders, who understand and support our business activities, we will continue to offer long-term, stable returns with a focus on dividend on equity (DOE). In fiscal 2024, not only did we improve DOE for the third consecutive year, we also carried out our largest-ever share buyback, totaling ¥200.0 billion. In the current market environment, there is growing pressure on Japanese companies to improve price-to-book ratio (PBR). For many years, we have pursued management with a keen awareness of capital costs, and since 2020, we have consistently maintained a PBR level that exceeds the minimum benchmark of 1.0 times. Moving forward, we will steadily advance efforts aimed at creating value that we can offer society and promote genuine dialogue with members of society, starting with our shareholders and other investors, who understand and support our initiatives with the aim of further growth. Through such efforts, we will strive to achieve appropriate increases in our share price.

Our purpose and mission of resolving social issues through the principles of green and peace of mind is not something we can accomplish as just one company. As the competitive landscape becomes more complex, we will promote industry restructuring through selection and concentration initiatives aimed at medium- to long-term industry-wide growth. At the same time, we will collaborate with a diverse range of partners who share our aspirations, transcending industry boundaries to pursue structural reforms within the industry to ensure continued growth into the future. Rather than focusing solely on the growth of our own business, we believe it is our responsibility to aim for the advancement of the entire industry. This approach will help us maintain and evolve logical systems that facilitate social progress within a capitalist market economy. To that end, we will first transform ourselves by enhancing capital efficiency and improving corporate value. While doing so, we will commit ourselves to creating an environment that enables us to advance efforts toward realizing a brighter future for the entire industry.

Pursuing a Corporate Culture That Sets in Motion a Cycle for Resolving Social Issues While Ensuring the Well-Being and Growth of People

Our people are the driving force that realize the many pursuits that I have discussed so far.

Shifts in the social environment have transformed the role and value of our people, making their importance to our management increasingly significant. As information becomes more borderless and homogenized, and the competitive capabilities of regions and companies become more evenly matched, the abilities of the people who execute strategies are becoming as important as the strategies themselves. Furthermore, as society becomes more mature, we are

entering into an era in which people are placing greater value on job satisfaction and a sense of purpose as they shape their own careers. In this era, companies are viewed as a place where people can realize their desired careers. Also, innovative technologies such as generative AI continue to advance. Under such circumstances, an important management issue is to define the role of people and workstyles based on the significance of work itself and on what makes people happy. Against this backdrop, we will seek to build a corporate culture where each employee engages in their work based on intrinsic actions, feels a sense of fulfillment while doing so, and ultimately achieves growth. Through such a culture, we will enhance the capabilities of our employees.

Intrinsic action—or simply put, motivation—differs from person to person. For example, there are various factors that motivate people. Some people want to hone their own skills while doing valuable work for the future. Some want to value the feeling they receive from the smiles and gratitude of their co-workers and offer that same feeling to others. Other people want to do all that they can to contribute to the country or region in which they were born and support their families. With all the diverse factors that motivate employees, it is important to ensure that their motivations align with the aims that we wish to achieve as a company. To that end, we aim to create an environment that ensures that DENSO's purpose and mission of "resolving social issues through the principles of green and peace of mind" resonates with each employee and that motivates them to achieve said purpose and mission. We also aim to foster a fulfilling work environment that values the motivation and intrinsic actions of all employees and encourages them to take on challenges. I believe it is essential that we create a corporate culture that sets in motion a cycle where the purpose of DENSO resonates with the motivation of employees and drives them to fulfill the purpose.

In 2017, we formulated the Long-term Policy for 2030, which adopts the slogan of "Bringing hope for the future for our planet, society, and all people" through initiatives toward green and peace of mind. Since then, we have been promoting our business activities in accordance with this policy. The policy has been shared in such an extensive manner that we are confident that it is well-known among all employees. On the other hand, I would have to say that we are only about "halfway there" in terms of thoroughly entrenching our management philosophy from the members of management down to the frontline personnel and in terms of engaging in dialogue, decision-making, and actions with a consistent focus on achieving our purpose and mission.

In order to deeply embed DENSO's purpose and mission within the Company and ensure they serve as guiding principles for each employee's awareness and actions as part of our corporate culture, we need to unify our management philosophy, strategies, and corporate culture. This requires integrating hard measures, such as systems and frameworks, with soft measures, such as open dialogue between management and employees.

To date, we have rolled out a broad range of initiatives toward this aim, including implementing the engagement survey and establishing KPIs for improving employee satisfaction, conducting training to support the career plans of employees, and holding Conversations with Our President and Vice Presidents, where management speaks directly with

leaders of each workplace. Moving forward, we will strive to further enhance these initiatives while establishing better linkages between them so that they can generate synergies more organically. Fostering a corporate culture is the essence of my role as president. To that end, I will dedicate even more time and energy than ever before to continue to pursue the fostering of an ideal corporate culture as my most important mission.

Closing: Showing Our Determination to Forge a New Path toward the Future

Even though we have been making efforts to resolve social issues and offer new value, we would like to offer our sincerest apologies for the distress and trouble caused by the series of recalls of DENSO fuel pumps that have been issued by various automakers since March 2020. Since our founding, we have declared our company motto as "Safety and Quality First" and have continued to pass down this ideal from generation to generation. Despite this ideal, a major quality-related issue occurred. I take the occurrence of this issue extremely seriously and reflect upon it deeply. We would like to once again commit ourselves to the notion that quality is the life-line of management. As president, I will lead the way with Groupwide efforts to restore trust, ensuring that we all work together, step by step and side by side, in pursuit of this goal.

In 2024, DENSO celebrated its 75th anniversary. In reaching this milestone, I would like for us to return to the spirit of our founding as we seek to enhance our corporate culture and forge a new path toward the future. Guided by this ambition, I will push ahead with our endeavors together with all 160,000-plus DENSO Group employees. I would like to ask our stakeholders for their continued support as we strive to do so.

September 2024



Shinnosuke Hayashi
President & CEO
Representative Member of the Board

Message from the Chief Quality Officer

Reviving "The DENSO of Safety and Quality": Addressing the Fuel Pump Recall Issue

We would like to express our sincerest apologies for the distress and inconvenience caused by the series of recalls of our fuel pumps that have been filed by a number of automakers since March 2020.

As an automotive parts supplier, we understand that our products are important functional parts playing a crucial role in automobiles, to which people entrust their lives, and should operate flawlessly, as even a single malfunction in our products can cause a significant burden to our customers. With this understanding, we have pursued business activities that put quality at the center of our management. Since the establishment of the Company, we have adopted the company motto of "The DENSO of Safety and Quality" and have continued to pass down this spirit from generation to generation. Despite that, the largest-ever quality-related issue in our history occurred in 2020, and we deeply regret the concerns and inconvenience that this has caused for a large number of automobile users and automakers.

The fuel pumps were recalled because of the possibility that they could become inoperative in a worst-case scenario, due to possible deformation of the impeller* (one of the components of the fuel pump) with a lower resin density.

Reflecting on this experience from a quality control perspective, this was a



specific quality issue that was caused by specific factors in the manufacturing process of the recalled fuel pumps, where there were complicated interactions between several factors that had never happened before. This issue could not be foreseen with the available technical knowledge at that time, and it took a considerable amount of time to finally identify the root causes.

Subsequently, we have completed technical analysis to identify the root causes and implemented technical countermeasures. We are now making every effort on a Companywide basis to produce and supply replacement parts, in collaboration with relevant suppliers, to ensure that such parts are delivered to all of our customers at the earliest date possible.

* Impeller: A component of the axial fan designed to send fuel outward

To ensure the highest possible quality in the products we deliver worldwide, we take all conceivable precautions and maintain strict daily management in our production process. These include stringent gate management in the development process, quality verification and comprehensive inspections before mass production, and thorough on-site management during the mass production process.

Meanwhile, as a Monozukuri (manufacturing) company, we have continued our operations through technological advancement and contributed to the resolution of social issues while achieving growth in a sustainable manner. Taking on new challenges is indispensable to achieving technological advancement. While pursuing such challenges on an ongoing basis, we strive every day to make improvements so that we can deliver high-quality products that satisfy our customers.

In making these improvements, we mobilized the entire Company to launch the "Reborn21" plan so that we could reflect back on our starting point of "Quality First" to further improve quality. Under this plan, we are making ongoing efforts to enhance awareness, accumulate knowledge, and foster culture, which are all crucial elements of quality assurance.

Regarding awareness, we have been thoroughly entrenching a "customer first" level of awareness. To build unshakable trust-based relationships with customers, we will demonstrate our customer-first approach through the leadership of the

management team, including the president, and division heads.

As for knowledge, we have been steadily accumulating fundamental quality-related technologies for our current needs and for the future in an effort to shore up our foundation for quality. Looking ahead, we understand there will be many changes in the operating environment that will impact quality, including rapid software advancements, advanced driver assistance systems (ADAS), carbon neutrality, and the circular economy.

With culture, we value efforts to foster a corporate culture in which all employees participate and that revolves around the honest exchange of opinions between supervisors and employees so that both parties can understand the real issues at hand and work to tackle them together. Under such a culture, we will strive to promote further collaboration together with labor unions. (Human Capital □ P.52-56)

Underpinned by this awareness, knowledge, and culture, we have established a Safety and Quality Headquarters, independent from and placed directly under the Company, through which we are striving to enhance quality governance. With the urgent need to strengthen safety and quality countermeasures, we placed a senior director in charge of fundamental quality-related technologies in 2020, who promotes activities aimed at building such technologies on a cross-organizational basis. Additionally, I, as an executive vice president, was given the title of chief quality officer (CQO) in 2022, being placed in charge of promoting quality-related activities from a Companywide perspective.

Reflecting deeply on the first words appearing in the DENSO Creed, "Be trustworthy and responsible," we will seek to deliver safety and peace of mind to our customers. At the same time, we will make Companywide efforts aimed at meeting global expectations by anticipating future changes and applying proper work practices with a firm awareness of quality as the foundation underpinning our corporate activities and with a sense of integrity as a Monozukuri company. We ask for your continued support as we pursue these endeavors moving forward.

Yasuhiko Yamazaki
Executive Vice President
Chief Quality Officer