



MANAGEMENT MESSAGE

To Our Stakeholders

**Embracing DENSO's heritage and culture,
we have started this year as a new DENSO,
striving to bring smiles to all people through
new value creation.**

Koji Arima

Chairman & CEO
Representative Member of the Board

Shinnosuke Hayashi

President & COO
Representative Member of the Board



Message from the President & COO

Continuing to Create New Value to Become a Company That Thrives in This Era of Change

My Ambitions and Determination as the Newly Appointed President

In June 2023, I was appointed as president & COO, inheriting the management baton that has been gradually passed down over the more than 70 years since DENSO's founding. Taking on this new position has been a truly awe-inspiring experience for me. I have taken over the business foundation built up by my predecessors and will strive to further reinforce it moving forward. At the same time, I will draw on DENSO's culture that has been cultivated through our long history as I put forth every effort in my new position to ensure that we evolve and prosper as a company that creates new value in this era of change, backed by the support of all of our stakeholders.

Recently, the world has been dealing with dramatic changes, including the global spread of COVID-19 and the economic disruptions that followed as well as worsening environmental issues. While the automotive industry has been grappling with the serious issue of semiconductor shortages, the stable supply of resources and materials has become a significant issue for society at large due to the emergence of geo-economic divisions. Internally, we have found ourselves in a period where we must reexamine the very essence of who we are as a company, as we strive to move beyond a quality-related issue that was unprecedented in scale.

What exactly kind of company is DENSO? And, can we continue to succeed as society undergoes tremendous change? As we ask ourselves these questions regarding our fundamental existence as a company, I view my appointment as president as a call to contribute to the automotive industry in a way that addresses these changing times. This is a very heavy responsibility as I take on this

major role. However, I am extremely grateful for this opportunity to lead and will do so with a firm awareness that I must drive the growth of DENSO and ensure that we fully realize our management philosophy.

We adopted the Long-term Policy for 2030 under the concept of "Bringing hope for the future for our planet, society, and all people" through our efforts toward green and peace of mind. We have promoted our business activities in accordance with this policy. To bring hope to all people in the future amid the rapid changes occurring in the automotive industry and across society as a whole, we must create a cycle of joy that ensures mutual happiness between people and extend it throughout society. To do so, we must help realize a circular society through the promotion of high-value-added businesses that are green and offer peace of mind.

Accordingly, I believe my mission is to promote this cycle of joy by ensuring that our approximately 170,000 global employees mutually enhance their ability to drive future value creation by thinking intrinsically and pursuing a shared ambition.

My Roots and Conviction as a Member of Senior Management

My life has always been connected to *Monozukuri* (manufacturing). I was born to a family that operated a small factory in Mie Prefecture, so I have grown up since childhood interacting with *Monozukuri*. When considering my path after finishing high school, I decided to learn about production management and quality control at university. Upon graduation, I was led to DENSO, a company boasting strengths in *Monozukuri* and quality assurance. When I

joined the Company, however, I was placed in charge of software development in an electronics engineering division. To be honest, I was quite disoriented at the time, as this was not quite the way I had imagined starting my career as a working adult. Now looking back at that time, software development really helped me start to build my foundation as an engineer and led me to where I am today.

In the Electronics Engineering Department, my job was to design electronic control units (ECUs) for diesel engines. At that time, major barriers stood in the way of realizing the 100% electronic control of an engine from the perspectives of both performance and functional safety, and it was believed by many to be practically impossible. Nevertheless, under the strong leadership of the department's head, all members of my team believed that the 100% electronic control of a diesel engine was the most effective way of eliminating the pollution it causes and took on the challenge to make this a reality. Our efforts ultimately led to the practical application of the world's first diesel common rail system.

My team members came from different technical backgrounds in the fields of systems, mechanical parts, electronics, and software and had different approaches to their work. Sharing the same aspiration to build something from nothing and to change the world by doing so, our team maintained its focus on the challenges before us and pushed forward day by day to overcome them. Trying to accomplish a world first with no precedent on which to base anything was an extremely tough endeavor. Accordingly, we dealt with many issues, failures, concerns, and pain as a team, including technological barriers that could not be overcome, unmanageable tasks, looming deadlines, and problems with team unity.

Feeling overwhelmed and somewhat deflated by the situation, there were days when I could not even come to work. Extremely displeased with myself, I even considered quitting the Company. It was at this time when my supervisor said to me, "Take the load you have been carrying off your shoulders; I can handle the rest." These are words I still remember to this day. Looking back on it, his words and the kindness embodied in them truly helped me reevaluate who I was as a person and reinvigorate my motivation.

From then on, I made sure to give it my all every day, tackling each task as it arose. When confronted with difficulties from a setback, I would consult with my supervisor, my seniors, and my friends, and borrow the wisdom of my predecessors from the various writings they published. In addition to honing my technical skills, I would study various approaches to overcoming challenges, including organizational management methods and ways to adjust my mental attitude, and would put what I learned into practice. This is all that I focused my efforts on, and through the repeated experience of taking on challenges, dealing with failures, and learning from them, I developed my own outlook on history and the world and refined my personal value system. I made it my policy to look at the positives in every situation, learn openly from those around me, and always engage in my work with a positive attitude and a sense of gratitude. I still maintain this approach in my actions and decision-making today. My experience of having someone with perspective and who was kind enough to pull me out from the depths of despair and place me on a positive trajectory laid the cornerstone of my approach to organizational management.

Understanding DENSO and the Three Elements of Its Culture

DENSO Culture represents the Company's core and its strengths that have been steadily cultivated over time.

The first element of DENSO Culture is its people, who serve as the wellspring for the creation of new social value. Since our establishment in 1949, we have positioned our people as the most important management resource and have therefore focused our efforts on *Hitozukuri* (the development of human resources), which underpins our *Monozukuri*. DENSO is a professional organization comprising roughly 170,000 diverse employees spanning the globe who, with a strong commitment to achieving results, take on the challenge of creating value that is ahead of its time. This employee base is not something that can be built up overnight, and I therefore can say with confidence that it serves as our greatest strength.

The second element is our genuine technological and manufacturing capabilities that allow us to make products that cater closely to the needs of a broad range of customers. Throughout our history, we have cultivated technological and manufacturing capabilities that have helped us refine technologies in all of our business domains, including the mechanical parts domain, which we have been pursuing since our founding, as well as electronics and software. In addition, these capabilities have allowed us to combine such technologies in an optimized fashion to create high-quality products that can be practically applied and mass-produced. These capabilities have been and will continue to be a tremendous tool that enables us to resolve social issues.

The third element is our free and open organizational culture. To have our employees and our organization aim for even higher growth, it is essential to have an organizational culture brimming with vitality that is created based on mutual trust between labor and management. Throughout the numerous crises we have overcome, we have fostered an organizational culture focused on problem solving in which our employees can exchange differing opinions without having to quickly compromise, can gain wisdom from each other's opinions, and can draw on their mutual strengths to the greatest extent possible. This kind of culture gives us the ability to unify our diverse human resources, who are our greatest strength, bringing them together to achieve a common goal by looking beyond any differences they may have in their approach to doing so.

Initiatives and Targets for Further Corporate Growth

We view our long-cultivated strengths as the capital for our current and future creation of social value. Supported by this capital, we will seek to resolve social issues by maximizing the value of green and peace of mind and being truly inspiring while at the same time achieving further corporate growth.

Under our Mid-term Policy for 2025, we have adopted ROE of 10% or higher as our most important financial target with the aim of maximizing our value creation. To transition to a management approach better focused on capital costs, we have been striving to foster an understanding of the significance of ROIC-minded management and instill an awareness of corporate value enhancement among all employees. By introducing ROIC as an indicator for determining the performance-linked compensation of Board members and disclosing ROE and other relevant targets, we have clarified the commitment of our management to enhancing ROIC.



Through repeated implementation of such initiatives, I feel that we have genuinely been improving ROIC, and moving forward, we will further enhance our corporate structure with a view toward achieving our targets.

In addition, with an operating margin of 10% and ROE of 10% or higher as our medium-term targets for fiscal 2026, in fiscal 2024 we forecast revenue of ¥6.7 trillion, an operating margin of 9.0%, and ROE of 9.3% (as of the release of our first quarter financial results for fiscal 2024). This means that the probability of achieving our fiscal 2026 targets is becoming even greater. To meet the expectations of the market, we are striving to realize record-high revenue for the second consecutive year while adopting a balanced approach to highly disciplined growth investments.

To realize the principle of green, we will step up our efforts to popularize BEVs and other EVs in order to contribute to carbon neutrality. DENSO has led the way with technological development in the electrification domain and the enhancement of global production structures. With the shift toward EVs gaining speed, our ample product lineup that covers extensive output domains and our proposal-making capabilities that meet the diverse needs of customers provide us with a significant competitive advantage. We have commenced the mass production of inverters—our mainstay product in the electrification field for which we possess the leading global share—in Japan, North America, and China. In fiscal 2024, we will begin the mass production of inverters in Europe, thereby bolstering production capacity and steadily expanding sales with a view toward realizing an annual production of 12 million inverters by fiscal 2026.

To achieve the principle of peace of mind, we will aim for the development of advanced safety technologies to realize a society without fatalities from traffic accidents and in which people can move freely and safely. From an early stage, we have been striving to reduce fatalities from traffic accidents around the world, including the provision of collision-prevention and other safety products since the 1980s. In fiscal 2023, we realized the full-scale mass production of Global Safety Package 3, our third generation of advanced driver assistance systems that greatly expands the scope of traffic accident prevention, in an effort to steadily expand the value of peace of mind across the globe. Going forward, we will combine the strengths we possess in terms of sensing and semiconductor technologies and algorithm and software

technologies to provide high-value-added products, thereby enhancing our growth and profitability.

Creating a society with peace of mind and where fatalities from traffic accidents do not occur cannot be done on our own. It requires collaboration between relevant government agencies, car manufacturers, and companies from other industries in efforts that encompass people, automobiles, and traffic environments. As a member of the Japan Auto Parts Industries Association, DENSO will take the initiative in reaching out to relevant organizations to pursue such efforts.

As vehicles become more electrified and advanced, we will strive to evolve our semiconductor technologies that enhance vehicle performance and ensure the stable procurement and supply of semiconductors themselves. Recently, due to such factors as the COVID-19 pandemic, the automobile industry has dealt with a severe shortage of semiconductors. While the tight supply situation is starting to improve, there is still a great need for the further development of semiconductor technologies and the bolstering of a procurement foundation in order to deliver even better products to society, as the importance of semiconductors in automobiles continues to grow.

Guided by the experience and insight we have cultivated in our 50 years of involvement in the automobile and semiconductor domains, we are working to strengthen all aspects of our activities in these domains, from advanced technology development to production structures. In addition to promoting the development of cutting-edge technologies at subsidiaries specializing in R&D, we have invested in Rapidus Corporation, a company established for the domestic production of advanced semiconductors. Through these means, we are promoting the development of next-generation 2nm semiconductors. In terms of semiconductor production and supply, we are taking steps to secure a more stable supply structure, including through collaboration with United Semiconductor Japan Co., Ltd. and joint investment with partner companies in a subsidiary of Taiwan Semiconductor Manufacturing Company Limited. Regarding procurement, we have been concluding long-term fixed order contracts with suppliers and establishing structures for transitioning to alternative parts. In these ways, we have been moving forward with activities to ensure a stable supply that even go so far as to rethink business practices specific to the automotive industry. As a company that has long been involved in

both automobiles and semiconductors and that has a deep understanding of both, we will serve as a bridge that connects both industries and helps them achieve growth and will lead the way with efforts to optimize supply chains.

Software continues to play an even greater role in realizing the principles of green and peace of mind, including in terms of the electricity management of EVs and automated driving via AI. DENSO has led the way in the industry by establishing software as a focus field and, going forward, will accelerate the following three strategies as pillars of this focus field.

The first strategy is to strengthen cross-domain development from a perspective that encompasses the entire automobile. We have accumulated software know-how in all functional domains of automobiles. As cars become more advanced in the future and the connections between cars, people, and society at large become more diverse, we will promote proposals to maximize value for our customers by offering cross-domain solutions.

The second strategy is to promote the standardization of foundational software. The increasing scale and complexity of software development has become an industry-wide issue. To that end, we will contribute to the standardization of fundamental software in domains that require industry-wide coordination by engaging in discussion with other companies in the automotive industry. By doing so, we will enable car manufacturers to focus their efforts on enhancing the appeal of their specific vehicles.

The last strategy is to further strengthen our structure of global software developers. To realize a structure comprising 12,000 software developers by fiscal 2026 and to significantly enhance the quality of these developers, we will enhance our human resource development and portfolio by strengthening skill enhancement and career development programs for software developers, including recurrent training for talent coming from other fields.

The essence of these strategies is to enhance value for our customers, with software serving as the means to do so. Remaining committed to this belief, we will strengthen our software development capabilities going forward.

In these growth domains of semiconductors and software, we will transform our development structure to promote more refined technological development and maintain an awareness of the development speed needed to meet market needs. Through the combination of R&D investment and capital expenditures over the past 10 years, we have allocated roughly ¥8 trillion to investments in future growth fields, the highest level of such investments in the industry. Through these investments, we have welcomed companies with development styles that differ from DENSO's, including various foreign-owned companies and IT companies. While doing so, it is important that we promote balanced R&D investments linked with our management strategies to ensure that we enhance our competitiveness while maintaining the strengths that we have cultivated to date. We will continue to aggressively invest in R&D, which provides us with a competitive edge for creating future value, while transitioning to a resource allocation approach that leads to higher quality output. Through the results gained by doing so, we will pursue investments in future growth domains at the scale of ¥10 trillion over the next 10 years.

From the perspective of enhancing development speed, we will take decisive action to revise the way we work throughout the entire supply chain, from development to manufacturing. To that end, we will redefine the roles of our global headquarters in Japan and our bases located around the world. In Japan, which serves as the leader for development-related strategies, we will bolster our

ability in each region to collect and analyze information and to draft strategies. We will also enhance our capabilities to monitor business execution. At the same time, we will increase our focus on development at our overseas bases while assessing signs of change in the markets of each region. Through these efforts, we will promote bold, cutting-edge development activities.

In pursuit of the optimal operating structure for sustainable growth into the future, we are steadily moving forward with the reshuffling of our business portfolio. Accordingly, we have determined our business direction based on the three elements of realizing our principles, accelerating growth, and boosting profitability in terms of ROIC, and are moving forward with internal discussions to clarify growth domains and domains that are to be de-emphasized or discontinued. In the growth domains of CASE and new businesses, we will strengthen and expand the competitiveness of our in-house manufacturing capabilities and make use of business alliances with partner companies with which we can demonstrate synergies.

In the five-year period until fiscal 2023, we invested roughly ¥270 billion in alliances with approximately 40 companies, and we will continue to accelerate our business alliance strategy with a view toward further growth. Meanwhile, for businesses nearing their final stage, we aim to enhance the power of internal combustion engines as a product by providing the best owners of reliable quality, cost, and delivery with our technologies and *Monozukuri* capabilities. Through this effort, we will enhance our lineup of products attractive to consumers from both the perspectives of performance and cost across the entire automotive industry, including internal combustion engine vehicles and EVs. We will also contribute to the swift realization of a carbon-neutral society. We have thus far implemented the transfer of our fuel pump module and type III alternator businesses, and in fiscal 2024, we have commenced examinations on the transfer of our spark plug and exhaust gas sensor business as well. In turn, we will shift to new corporate value creation by leveraging the elemental technologies, know-how, and human resources that we have cultivated through these businesses in future growth fields.

By earnestly working to achieve our targets for the near term as well as the medium to long term and striving together with our stakeholders to overcome challenges, I firmly believe that we can continue to achieve record-high revenue in fiscal 2024.

Closing

Based on the principles of green and peace of mind, DENSO will continue to push forward with its efforts to create a cycle of joy that ensures mutual happiness between people. By doing so, we will enhance our corporate value on a sustainable basis and become a company that inspires society.

We will actively engage in open dialogue with various stakeholders, including not only our employees but also suppliers, car manufacturers, and shareholders, and reflect in our management the various things we notice and learn in order to continue to be a company that provides value to society. Valuing these opportunities for dialogue with investors and all of our stakeholders, we will step up our efforts to communicate the progress and accomplishments of our various strategies as we work to accelerate them going forward.

Through stable, long-term shareholder returns with an awareness of DOE (dividend on equity ratio) and the flexible acquisition of treasury stock, we will seek to meet the expectations of all of

the stakeholders who have supported us as a company. Recently, the improvement in the PBR (price-to-book ratio) of Japanese companies has been garnering significant attention, and thanks to the support of many of our stakeholders, DENSO has been able to maintain its PBR at a relatively high level within the automotive industry. Without becoming complacent with the current situation, we will continue to aim for steady corporate growth and appropriate increases in share prices linked to the value we provide. I would like to ask our stakeholders for their continued support as we strive to do so.

I believe my most important mission as president is to unleash the full potential of our employees. To steadily achieve growth as we aim to reach the aforementioned targets, I will strive to create environments in which all employees can continue to pursue individual challenges with peace of mind so that each one of them can deliver value to society. This particular aspect of my vision for management is what I inherited from my supervisor from all those years ago.

With our many years of experience in electronics and software, we believe that there are many accomplishments we can make as the automotive industry undergoes a paradigm shift due to the progression of CASE. By promoting management that draws on our uniqueness that our predecessors have cultivated, we promise to engage in business execution that allows us to create social value and steadily achieve growth.

September 2023



Shinnosuke Hayashi
President & COO
Representative Member of the Board





Message from the Chairman & CEO

With our sights always set on the external environment, we will boldly pursue the resolution of social issues with great passion while evolving DENSO Culture.

Fiscal 2023—A Year When an Air of Positivity Returned

Looking back on fiscal 2023, economic activities and various in-person events that had been suspended during the COVID-19 pandemic resumed, and interaction between people started to become livelier again. In this environment, we saw an increase in positive developments during the year, including the strong performance of Japan's teams in the FIFA Men's World Cup and the World Baseball Classic. For DENSO, we started to see a positive response to our efforts to promote management reforms and enhance our corporate structure, and in terms of performance, we successfully achieved record highs for both revenue and operating profit.

In other good news for the Company, we were awarded the IEEE Corporate Innovation Award for helping the world benefit from the dynamic capabilities of the QR Code®. The IEEE Corporate Innovation Award, one of the most prestigious technical awards in the world, is presented to organizations that have made a significant global impact with innovative technologies and products and contributed to the development of electrical and electronic engineering. Established by the Institute of Electrical and Electronics Engineers (IEEE) in 1985, the award has been presented to leading companies and organizations worldwide. The QR Code® was developed in 1994 by DENSO (currently DENSO WAVE) as a next-generation code with high capacity, high speed, and high reliability that can serve as a replacement for barcodes. The code was

originally used for inventory management at our manufacturing plants, but later its use expanded significantly across the globe, including for electronic tickets and cashless payments. The use of QR Codes® for vaccination verification during the COVID-19 pandemic is a very recent example of their new application.

DENSO's Culture Embodied through the QR Code®

While I will not get into the details regarding the creation and development of the QR Code®, DENSO's ability to lead the way with the development of such groundbreaking information technology stems from the massive volume of data it has handled within its production activities as a global automotive components manufacturer. We have carried out these activities while exchanging a large volume of parts and materials with suppliers around the globe. Additionally, the receipt of the IEEE Corporate Innovation Award has given us an opportunity to reflect on the technological value and academic significance of the QR Code®. It also gave us a chance to reexamine DENSO's culture, which helped support the code's development. At the time of the code's creation, we were promoting a shift in our *Monozukuri* activities from mass production to the production of a wide variety of products in small volumes. In addition to our ability to anticipate the trends of an era in which electronic transactions between companies were starting to become mainstream, the code's development was made possible by rigorous research and benchmark-setting activities geared toward highly reliable code development. Its development was also

made possible through collaboration with our business partners around the world in making patents free of charge to promote popularization of the QR Code®. In these ways, the QR Code® development process embodied the DENSO Creed at every step. The process also encapsulated DENSO Culture in terms of being pioneering, innovative, and creative while cherishing modesty, sincerity, and cooperation. I believe that these are the reasons why the QR Code® was able to inspire people and society at large and be adopted around the world as a truly useful technology.

Restoring DENSO Culture as We Move into the Future

In my time as president, I devoted my efforts to restoring DENSO Culture. My eight years in this position were marked with various chaotic events, including the once-in-a-century paradigm shift due in part to the progression of CASE as well as the occurrence of a quality-related issue, the COVID-19 pandemic, material shortages, and rapid price increases. Throughout this time, I endeavored to bring the Company back to its starting point and restore the spirit of our founding. As we expanded our business operations over the years, we lost sight of some very important things, including our commitment to quality, our customer-first approach, and our organizational culture of close relationships and open communication between employees. I therefore continued to engage in honest dialogue with employees in each workplace in a sincere effort to change their awareness and behavior.

As a result of Companywide initiatives, we have steadily fortified our management foundation and culture, which is a major prerequisite for corporate growth. I also feel that we have formulated a strong future outlook, including the vision for our business portfolio in 2035. In terms of our management indicators, in fiscal 2024 we forecast revenue of ¥6.7 trillion, an operating margin of 9.0%, and ROE of 9.3% (as of the release of our first quarter financial results for fiscal 2024). This means that we are well within the range of achieving our targets under the Mid-term Policy for 2025, which include an operating margin of 10% and ROE of 10% or higher. What has allowed us to reach this position has undoubtedly been the support of not only the customers and global suppliers who have assisted us on a daily basis, starting with car manufacturers, but also our shareholders and other investors, who have offered us their wholehearted encouragement. As a result of the many years of support from these stakeholders, our market capitalization has increased from roughly ¥3.9 trillion in 2015 to approximately ¥7.6 trillion in 2023, nearly doubling over this eight-year period (as of June 30, 2023). We are deeply grateful for the unrelenting support of all of our stakeholders, throughout the good times and the bad, and we are firmly committed to continue offering them good news and to meet their expectations moving forward.

Continuing to Provide Value to Society While Always Keeping Our Sights on the External Environment

As we boldly pursue the resolution of significant social issues, including the pressing global issues of carbon neutrality and circular economies, we will focus our attention on the flow of five essential elements in order to keep society in motion: people, goods, energy, resources, and data. By connecting these elements and managing them in an integrated manner, we aim to create a cycle of joy that ensures mutual happiness between people. To

that end, we will further refine the three-pronged approach of mechanical parts, electronics, and software, which we have cultivated in the mobility domain, and seek to expand this approach into social domains. In addition, we will leverage our accumulated cutting-edge information technologies, such as the QR Code®. By doing so, we will pursue value creation that is uniquely DENSO. To accomplish this, it is imperative that we keep our sights on the external environment and maintain a firm understanding of society itself. In my role as chairman, I will put forth every effort to support internal business execution while striving to further enhance our involvement with external organizations. I also serve as chairman of the Japan Auto Parts Industries Association, and in this position I aim to lead efforts that help strengthen the competitiveness of the overall supply chain in the automotive industry while closely collaborating with small and medium-sized enterprises. Furthermore, I will strengthen connections with companies that are outside of the automotive industry and seek to reflect insight and ideas from other industries and opinions from a diverse range of customers in DENSO's internal operations. With a firm awareness that DENSO's growth is made possible by the support of its customers, I will strive to ensure that we remain a company that is truly useful to society through proactive dialogue with our customers.

Passionately Taking On Challenges under a New Management Structure to Bring Smiles to People and Greater Society

Looking at the world today, the operating environment continues to be challenging and the outlook of the global economy remains uncertain. In such an era, our resilience, willpower, and insight as a company are needed more than ever. If we lose our passion as a company, we then cannot face the changes occurring in the world and pursue bold challenges without the fear of failure. As we seek to restore DENSO Culture, we transitioned to a new management structure in June 2023, in which I finally passed the baton of management to the new president. It is my hope that, under this new structure, we can further boost our level of passion and push ahead with greater speed. The impetus for doing so is the passion we receive from our employees across the globe. As long as we can remain a passionate company empowered by the passion displayed by our employees in their interactions with each other, I believe that under this new structure we will surely be able to resolve social issues and create a future brimming with smiles. No matter what changes occur ahead of us, we will always cherish our starting point and continue our efforts to bring smiles to people and greater society, evolving DENSO Culture to cater to each generation. I kindly ask for the continued support of our shareholders and other investors as we endeavor to do so.

September 2023

Koji Arima
Chairman & CEO
Representative Member of the Board