

Financial Capital

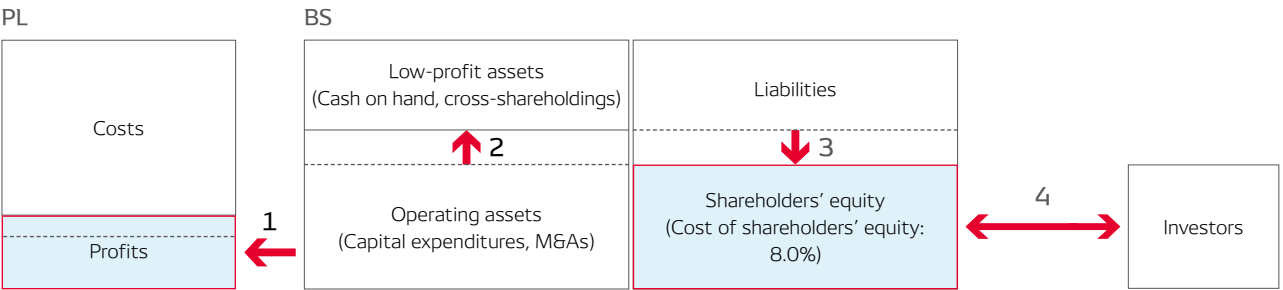
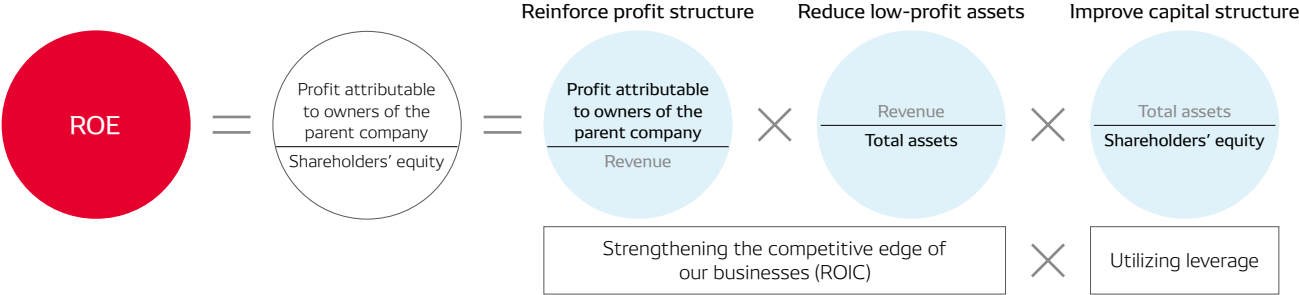
Financial Strategy for Realizing the Mid-term Policy for 2025

By “resolving social issues by maximizing the value of green and peace of mind to be inspiring” and “expanding genuine equity spread over the medium to long term,” DENSO aims to enhance its corporate value in a sustainable manner. As we do so, we have established return on equity (ROE) as our most important KPI from a financial perspective, guided by management with an awareness of capital cost.

Under the Mid-term Policy for 2025, we have set a target for ROE of 10% or higher with the aim of maximizing value creation by having ROE exceed the Company’s current cost of shareholders’ equity and the minimum level expected by society, as indicated in documents like *Ito Report 2.0*, of 8%.

DENSO will seek to realize this target through the agile promotion of a financial strategy supported by four pillars: (1) reinforce profit structure, (2) reduce low-profit assets, (3) improve capital structure, and (4) engage in dialogue with markets.

Initiatives for Creating Corporate Value



- 1 Reinforce profit structure: Improve ROIC
- 2 Reduce low-profit assets: Reduce cash on hand and cross-shareholdings
- 3 Improve capital structure: Leverage loans, diversify fund procurement, renew policy for shareholder returns
- 4 Engage in dialogue with markets

Evolution of Financial Strategy

Since fiscal 2020, DENSO has continued to strategically and steadily evolve its financial strategy with a view toward corporate value creation. In fiscal 2024, we not only reduced the number of shares held in the Toyota Group but also sought to transform our shareholder composition through public offerings as a means to reduce the cost of shareholders’ equity. By doing so, we further enhanced the sophistication of our financial strategy. (Dialogue with an Analyst [□ P.50–51](#))

Fiscal 2020–Fiscal 2022 Revamping of Financial Strategy		Fiscal 2022–Fiscal 2024 Thorough Implementation of Management Focused on Capital Costs		Fiscal 2024 Enhancement of Financial Management
Drafting of financial strategy based on four pillars and formulation and disclosure of relevant KPIs		Improvement in ROE and ROIC through the steady promotion of a sophisticated financial strategy		Advancement of individual strategies and maximization of corporate value
Improvement in ROIC	Reinforce profit structure	Introduction of hurdle rates in investment decision-making criteria	Promotion of business portfolio transformation focused on DENSO Philosophy, ROIC, and growth	Full-scale implementation of business disposals and business partnerships, including M&As
	Reduce low-profit assets	Reduction of cash on hand and cross-shareholdings	Increased reduction of shares and optimization of inventories	Promotion of extensive cost share reductions, including shares in the Toyota Group
Reduction in WACC*1	Improve capital structure	Introduction of DOE*2 and increased treasury stock acquisitions	Diversification of fundraising foundation through foreign bonds	Implementation of the Company's largest-ever treasury stock acquisition (¥200.0 billion)
	Engage in dialogue with markets	Communication of strategies and targets via DENSO DIALOG DAY	Enhancement of comprehensive communication of financial and non-financial information	Strengthening of efforts to appeal to individual investors and improvement of shareholder composition via public offerings

*1 WACC: Weighted average cost of capital *2 DOE: Dividend on equity

Message from the Chief Financial Officer

Further enhancing our ability to continuously create corporate value by executing our financial strategy and steadily achieving results

Yasushi Matsui

Executive Vice President
Representative Member of the Board
Chief Financial Officer (CFO)



DENSO's Important KPIs (Results for Fiscal 2024 → Targets for Fiscal 2026)

Reinforce profit structure

- ROE: 6.3% → **10% or higher**
- Operating margin: 5.3% → **10%**

Reduce low-profit assets

- Cash on hand compared with monthly turnover: 1.0 months → **Maintain current level**
- Cross-shareholdings: 14 stocks → **Further reduction**

Improve capital structure

- Equity ratio: 60.9% → **50% or higher**
- DOE: 3.3% → **Stable long-term improvement**
- Treasury stock acquisition: ¥200.0 billion → **Flexibly implement and strengthen**

Overview of Performance in Fiscal 2024: Efforts to Realize Further Growth and Corporate Value Creation

In fiscal 2024, revenue reached a record high of ¥7,144.7 billion, up 11.6% year on year, due to robust vehicle sales primarily in Japan and North America following the easing of the semiconductor shortage, as well as the progression of yen depreciation and expanded sales in focus fields, such as electrification and safety products. On the other hand, operating profit came to ¥380.6 billion, down 10.7%, due mainly to the impact of allocating ¥201.5 billion to address quality-related issues, centered on fuel pumps. This offset our efforts to counter soaring material costs, primarily for electronic components, and labor costs through rationalization and the passing on of costs to customers.

In fiscal 2025, we anticipate a challenging operating environment, including difficulties in selling Japanese cars in China due to the expansion of local automakers and market downturns in Asia following the tightening of credit policies. In such an environment, we will strive to increase sales of high-value-added products primarily in our mainstay businesses and further

enhance our rationalization efforts and ability to respond to change, all while steadily strengthening investments in R&D and human capital with a view toward future growth. Through these efforts, we will aim to achieve revenue of ¥7,330.0 billion and operating profit of ¥692.0 billion, marking record highs for both.

ROE came to 6.3%, down 1 percentage point from the previous fiscal year, due to the funds allocated to address quality-related issues in fiscal 2024 (ROE of 9.0% when excluding these funds). For fiscal 2025, we will aim to achieve ROE of 9.3% by steadily enhancing our profitability with a firm commitment to reaching our target for fiscal 2026 of ROE of 10% or higher.

Furthermore, under the Mid-term Policy for 2025, we have made clear our intention to create social value by realizing a carbon-neutral society and eliminating traffic accident fatalities.

From here, I will explain specific initiatives we are implementing to resolve both social issues and realize business growth, in accordance with the four pillars of our financial strategy.

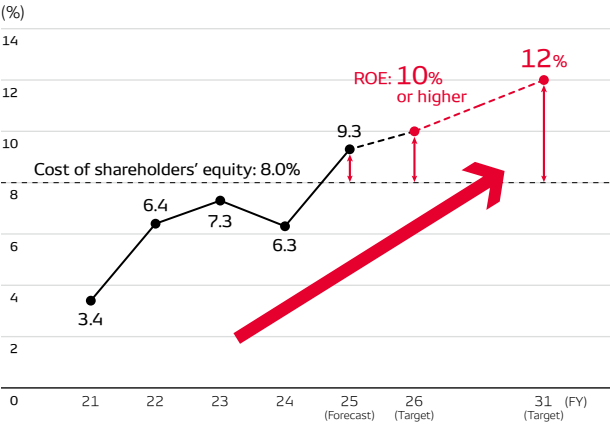
1. Reinforce Profit Structure: Aiming to Realize the DENSO Philosophy through the Pursuit of Three Bold Initiatives

(1) Entrenching ROIC-minded Management to Realize Sustainable Value Enhancement

DENSO's ROIC-minded management is not a method for short-term improvement in financial indicators but rather aims to enhance corporate value over the medium to long term. It is something that is realized by having all members of management and all employees thoroughly understand the significance of ROIC and act accordingly.

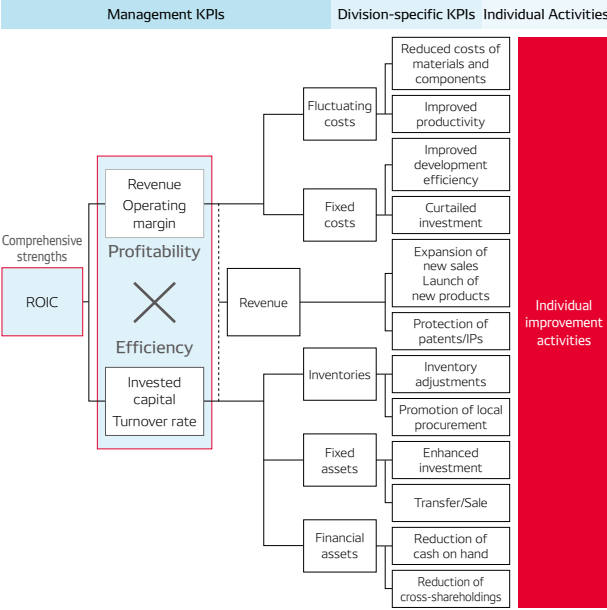
To that end, we are implementing initiatives to facilitate an understanding of financial indicators among employees that cover various angles, including the in-house rollout of an “ROIC tree,” which shows the relationship between management KPIs, such as ROIC, and individual actions; regular educational activities; and the sharing of ROIC improvement examples in global in-house publications. At the same time, we have included ROIC as an indicator for determining the performance-linked compensation of Board members and are disclosing ROIC targets as

ROE and Equity Spread



one of our KPIs. In these ways, we have clarified the awareness and commitment of our management. Moving forward, we will continue to entrench and advance ROIC-minded management with a view toward sustainable value enhancement.

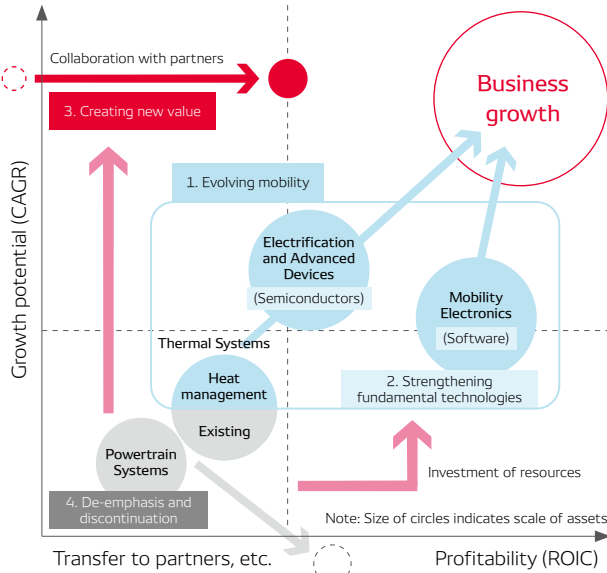
ROIC Tree Showing the Relationship between Management KPIs and Individual Activities



(2) Reshuffling Business Portfolio through Three Bold Initiatives

DENSO has achieved growth by creating social value through the principles of green and peace of mind and inspiring stakeholders while doing so. As social demand becomes greater for companies in the automotive domain to address social issues, we are pursuing the three bold initiatives of “evolving mobility,” “strengthening fundamental technologies,” and “creating new value,” in accordance with the DENSO Philosophy. By doing so, we will create social value in a more extensive and sustainable manner while also achieving business growth.

Overview of Business Portfolio Reshuffling



To ensure the success of these initiatives, it is imperative that we reshuffle our business portfolio on an ongoing basis. We will therefore revise our portfolio to ensure an appropriate business composition for the current generation based on the perspectives of realizing the DENSO Philosophy, accelerating growth, and boosting profitability in terms of ROIC, thereby working to create value. In this way, we will aim to achieve revenue of ¥7.5 trillion and an operating margin and ROE of around 12% by fiscal 2031.

I will now explain our individual targets and efforts based on the perspectives of the three bold initiatives and the de-emphasis and discontinuation of primarily the internal combustion engine business.

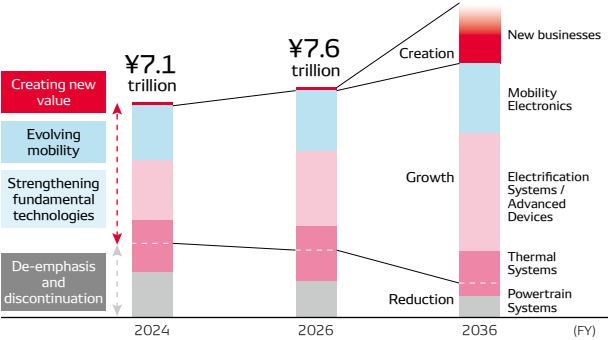
① Evolving Mobility (Electrification and ADAS)

Electrification and advanced driver assistance systems (ADAS) are two domains that are crucial for the realization of the principles of green and peace of mind and sustainable growth. By continuing to deliver new value that fully leverages DENSO's strengths, we have helped evolve mobility and achieved growth that exceeded that of the market on a continuous basis.

First, in the electrification domain, as the electrification of mobility progresses further, centered on battery electric vehicles (BEVs), we are proceeding with efforts to achieve differentiation through our technological capabilities, which are backed by years of experience, and our extensive lineup of products that meet diversifying customer needs. In fiscal 2024, we sold a total of 4.77 million inverters, which is a 1.4-fold increase from the previous fiscal year, thanks to expanded sales in North America and China. Moreover, we will seek to further contribute to the electrification of vehicles through our lineup of energy management systems, which include power supply systems, steering and braking systems, and heat management systems. We will also advance efforts to enhance our environmental value and expand global sales. By doing so, we aim to achieve ¥1.7 trillion in sales in the electrification domain in fiscal 2031 (a 1.9-fold increase compared with fiscal 2024). (Green Strategy □□P.38–39)

Next, for the ADAS domain, we have been achieving solid sales with Global Safety Package 3 (GSP3) (up 1.8-fold compared with the previous fiscal year), which now covers a range of up to 37% of potential accident scenarios. In addition, we have completed preparations for introducing next-generation products into GSP3 that extend the system's detection range with the aim of providing even greater safety value. By introducing such products, we expect to increase the range of potential accident scenarios covered by GSP3 to 56% by fiscal 2026. Looking ahead, we will promote the development of advanced technologies integrated with infrastructure such as

Changes in Revenue Composition through Business Portfolio Reshuffling (Trillions of yen)



human-machine interface (HMI) and traffic environments. Through such efforts, we will aim to achieve sales of ¥1.0 trillion in fiscal 2031 (2.1 times the level of fiscal 2024) in the ADAS field and extend the range of coverage of GSP3 to 80%. Additionally, by fiscal 2036, we will draw on GSP3 technology to help realize a society without fatalities from traffic accidents and in which people can move freely and safely, thereby contributing to the resolution of social issues. (Peace of Mind Strategy □□P.40–41)

② Strengthening Fundamental Technologies (Semiconductors and Software)

To evolve mobility, which I just talked about, it is imperative that we strengthen our fundamental technologies. DENSO has positioned semiconductors and software as its fundamental technologies, as they both provide the key for promoting the electrification and evolution of vehicles. By actively investing resources in these technologies and promoting relevant collaboration with business partners, we will refine our technological capabilities and reinforce our supply structure.

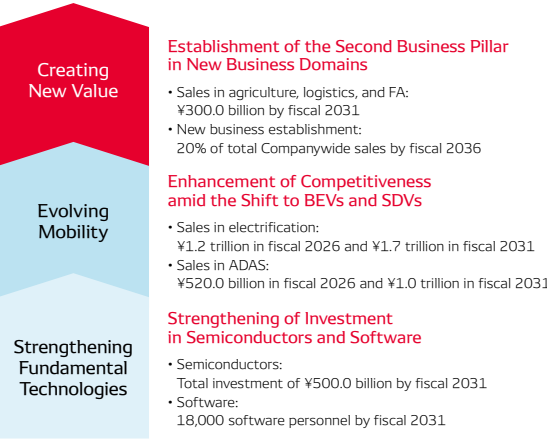
In the semiconductor domain, we are advancing investment primarily in power semiconductors that contribute to the longer driving distances of electric vehicles. In 2023, we launched our first silicon carbide (SiC) inverter on the market. Moreover, in the System on a Chip (SoC) domain, we became a member of Japan's Advanced SoC Research for Automotive (ASRA) initiative through which we are advancing R&D activities across various industries.

From the perspective of supply, we are not only enhancing our production capacity but also strengthening the entire value chain through collaboration with our business partners. As part of these efforts, in fiscal 2024 we invested in Silicon Carbide LLC, which handles SiC manufacturing for the U.S.-based Coherent Corp., in a bid to enhance our competitiveness through vertical integration. We also carried out an additional investment in Japan Advanced Semiconductor Manufacturing, Inc. for the purpose of securing a supply structure with even greater stability.

Through these kinds of efforts, we plan on investing a total of ¥500.0 billion in the semiconductor domain by fiscal 2031. Additionally, by fiscal 2036, we will increase the size of our semiconductor business to ¥700.0 billion (2.7 times the level in fiscal 2024).

Next, we position software as a core technology for making vehicles more advanced, including through automated driving, electrification, and connectedness, and will thus seek to bolster our development capabilities. The term “software-defined vehicles (SDVs)” refers to the idea of dramatically enhancing the value of vehicles and services through software. As this concept becomes more widespread, it is important that we are able to support increasingly more complex and larger systems. We have been developing in-vehicle software for over 40 years, which has honed our ability to fulfill OEM requirements through software. Leveraging this experience and our development assets, we will actively pursue strategic partnerships with external organizations and adopt advanced development techniques that incorporate IT, AI, and other cutting-edge technologies. Simultaneously, by expanding recruitment of software-savvy personnel and promoting reskilling within our organization, we aim to enhance our development capabilities both qualitatively and quantitatively. By fiscal 2031, we will establish a development structure comprising 18,000 employees (1.5 times the level in fiscal 2024), and by fiscal 2036, we aim to achieve a software business scale of ¥800.0 billion (4.0 times the level in fiscal 2024). (Intellectual Capital □□P.60–67)

Mid- to Long-term Plan for the Three Bold Initiatives



③ Creating New Value

To date, DENSO has created social value by contributing to the evolution of mobility. Moving ahead, we will go beyond the mobility domain to execute further investments in domains offering new value, such as energy, food and agriculture (AgTech), and factory automation (FA), so that we can both resolve social issues in new areas and achieve further business growth by leveraging the strengths we have cultivated in car manufacturing.

In all these domains, we will stray away from a go-it-alone approach and actively pursue strategic partnerships to accelerate our business expansion. In fiscal 2024, we made the Certhon Group, which possesses world-class, cutting-edge technologies in the horticultural facility domain, a wholly owned subsidiary.

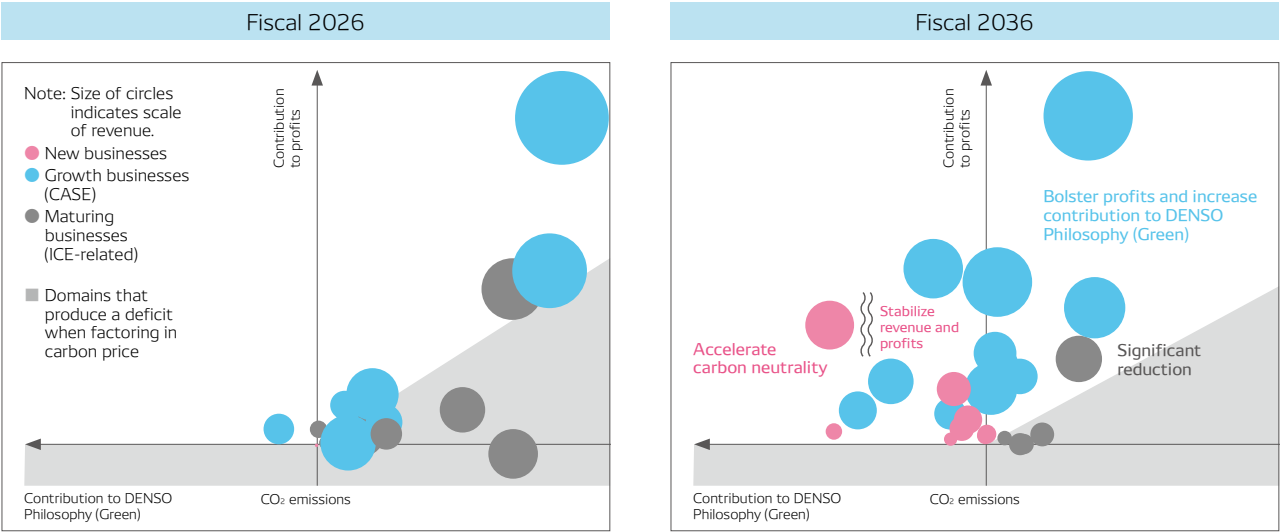
Through these efforts, we aim to achieve sales in new value domains of ¥300.0 billion by fiscal 2031 and to continue growing sales in these domains so that they account for 20% of total Companywide sales by fiscal 2036. (Intellectual Capital □□P.60–67)

④ De-Emphasis and Discontinuation (Internal Combustion Engine Business)

In tandem with realizing growth in core domains, it is important that we scale down or withdraw from maturing businesses at appropriate times if we are to realize an optimized business portfolio. Although there are short-term difficulties when decreasing the size of a business or withdrawing from it altogether, we are pursuing Companywide efforts to de-emphasize and discontinue maturing businesses as a means to contribute to future growth and new value creation.

Specifically, we have divided the Company's businesses into 112 product groups and, on a regular basis, are determining the future direction of each group based on its contribution to the following criteria: realizing the DENSO Philosophy, accelerating growth, and boosting profitability in terms of ROIC. Recently, the fuel pump module, type III alternator, and spark plug and exhaust gas sensor businesses have been the targets of business transfers. These are all core products for internal combustion engines, which have underpinned DENSO's growth, and currently remain highly profitable. Nevertheless, selection and concentration across various companies is crucial for achieving the further growth of not just DENSO but the automotive industry as a whole. With a strong desire to realize the DENSO Philosophy, we will lead reorganization efforts within the automotive industry with the aim of achieving medium- to long-term growth for the Company and the greater industry.

Example of the Reshuffling of Our Business Portfolio



Create a portfolio that can realize the DENSO Philosophy and improve profits by enhancing profitability in the CASE domain and expanding new businesses that contribute to a carbon-neutral society

By creating new resources through these endeavors and boldly redirecting them to new growth domains, we will steadily realize the aims of our three bold initiatives.

(3) Transforming Business Model to Respond to Change

As we seek to transform our business portfolio, we are also working to transform our business model to respond to changes in the external operating environment and the content of our businesses.

The external operating environment is undergoing various changes, including increases in material costs, energy expenses, and wages due to inflation. To respond to these changes, we are building frameworks to appropriately reflect cost fluctuations in our transaction prices with the aim of enhancing our competitiveness across the supply chain and realizing a circular economy.

As a Tier 1 supplier, we are involved with a broad range of suppliers and also engage in direct transactions with automakers. As such, we occupy an important position in the supply chain. With regard to supplier impact, we proactively inquire about the situation at each supplier and earnestly respond to any price increases. At the same time, we provide thorough explanations to our customers to ensure that these price increases are appropriately reflected in our transaction prices. Furthermore, we introduce examples of the successes we have achieved with our pricing initiatives to affiliated organizations such as the Japan Auto Parts Industries Association. In this way, we are actively participating in price adjustment initiatives across the entire automotive industry and will lead the way with efforts to bolster the industry's competitiveness.

We are also working to transform our business model to respond to changes in the content of our businesses. Amid the rapid changes in the market environment, we will continue to deliver value through our technological and supply capabilities that provide benefit to our customers. At the same time, we will work to enhance the competitiveness of both our customers and DENSO by qualitatively demonstrating the value we offer to our customers and ensuring that such value is properly recognized.

For example, in the software domain, software that was conventionally sold as part of an electronic control unit (ECU) is now being sold more commonly as stand-alone software separate from the ECU. To respond to this change, when setting the

transaction price for software, we will quantify the value our software offers customers and market the software based on such value, rather than the workload required to develop it.

(4) Executing Strategic Investments for the Future

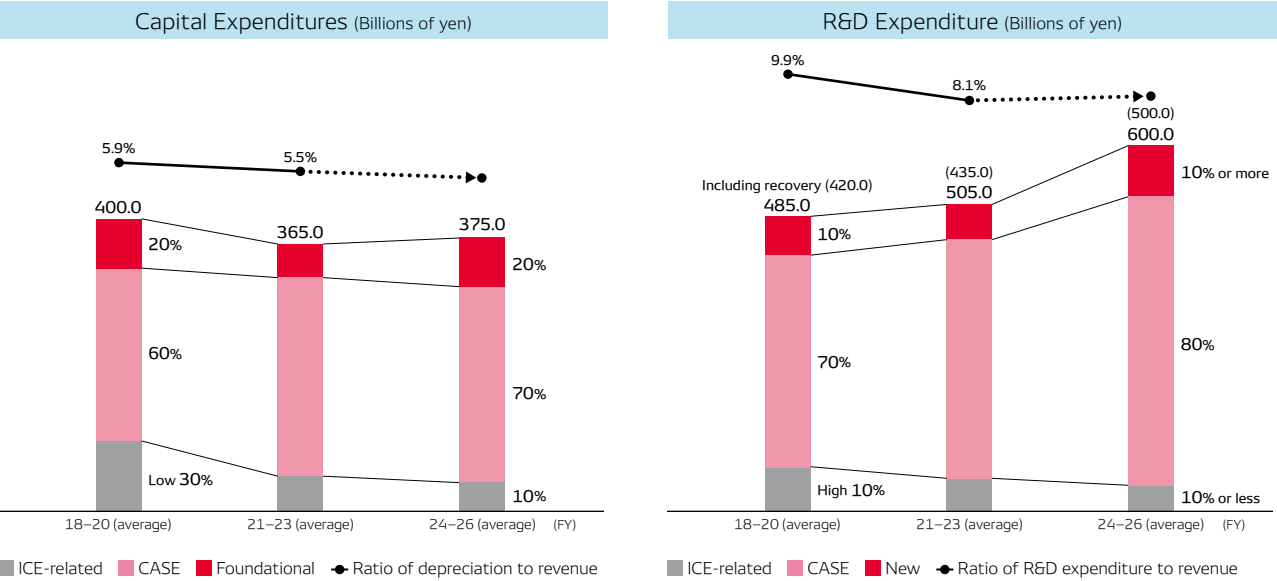
The well-balanced allocation of resources is key to achieving sustainable growth while bolstering our profit structure. Our *Monozukuri* and technological capabilities provide us with a significant competitive edge, and to further sharpen this edge, we are executing capital expenditures and R&D investment in an optimized fashion.

First, in terms of capital expenditures, we are expanding investment in the electrification and semiconductor fields and implementing disciplined investment in internal combustion engines in accordance with the direction of our business portfolio reshuffling. In addition to new products, we will continue to invest in measures to strengthen our production infrastructure in terms of safety and quality and in automation and digital technologies with the aim of boosting productivity. In these ways, we will maintain and enhance a robust production structure.

Next, in fiscal 2025, we intend to invest a total of ¥640.0 billion in R&D, an increase of ¥90.0 billion compared with fiscal 2024, as we work to build an industry-leading development structure. We have established green, peace of mind, and fundamental technologies as priority development fields and have formulated a technological development road map for each, taking into account medium- to long-term social trends and technological needs. Based on these priority development fields, we will clarify core technologies and pursue our current R&D activities by adopting a backcasting approach. In this way, we will refine the technological capabilities that serve as the source for our sustainable competitiveness. Moreover, we will seek to enhance development efficiency through digital transformation (DX), including the utilization of AI, and advance efforts to communicate to our customers the true value that we offer them, as I mentioned earlier. By doing so, we will simultaneously bolster our competitiveness and improve profits.

Also, as the operating environment continues to change and needs become more diverse, we must pursue partnerships (M&As), rather than acting entirely on our own, if we are to transform our business portfolio and achieve sustainable growth.

Resource Allocation



To that end, we have established a Companywide task force for priority domains under which we are continuously formulating and executing partnership strategies so that we can further accelerate the transformation of our business portfolio, which comprises key growth fields and fields that we are seeking to de-emphasize and discontinue.

To engage in decision-making that fully considers the significance of partnerships and pursues the greatest possible returns, as well as to prevent excessive spending on partnerships, we have adopted a strict decision-making process and evaluation criteria. For example, we have set up a framework to rigorously evaluate (qualitative assessment) the appropriateness of an investment from such perspectives as its alignment with Companywide growth strategies and the potential to generate synergies. We have also adopted a hurdle rate (quantitative assessment) that covers investment risks by country and business in addition to capital costs. While swiftly and continuously formulating strategies and narrowing down partner candidates

in the focus fields of electrification, ADAS, semiconductors, software, and new businesses, we will pursue every good opportunity possible to collaborate with our business partners.

Considerations for Executing M&As	
Examination and Determination Based on Investment Significance (Qualitative) and Economic Rationale (Quantitative)	
Investment significance	Investment returns and alignment/synergies with growth strategies
Potential	Business plans, structure, and action plans
Hurdle rate	Investment criteria that include risks in addition to capital costs
Risks	Multifaceted measures to hedge obstacles and risks
Exits	Clear exit conditions

2. Reduce Low-Profit Assets:
Improving Asset Efficiency by Reducing Assets
While Determining Ideal Asset Levels

DENSO seeks to utilize its asset portfolio with the greatest levels of efficiency by determining the necessary levels of certain types of assets in order to reduce asset amounts.

(1) Optimizing Cash on Hand

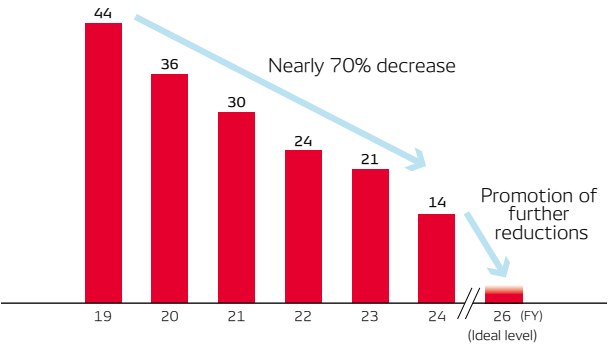
We have been working to optimize cash on hand by minimizing the funds needed for business operation (standard business funds) and reducing uneven asset distribution by region through the use of the Global Cash Management System (GCMS). By enhancing the precision of our day-to-day cash management in fiscal 2024, we were essentially able to achieve the fiscal 2026 target for cash on hand of 1.0 times* the amount of monthly revenue for the total of standard business funds and rainy-day funds for emergency circumstances. Going forward, we will continue to promote the efficient utilization of cash as we seek to grow.

* In the financial statements, funds under the GCMS are treated as deposits by the lending company and loans by the borrowing company, which means that they are recorded as both deposits and loans. However, the figure for actual cash on hand excludes the impact of the GCMS.

(2) Reducing Cross-Shareholdings

DENSO has a basic policy of not owning strategic shareholdings unless ownership of them is deemed rational. Under this policy, we are steadily reducing cross-shareholdings across all areas. In fiscal 2024, we accelerated reduction efforts by commencing the reduction of shares in the Toyota Group. When including partial sales, we sold 11 stocks for a total of ¥125.8 billion. Accelerating the pace of these reduction efforts, as of the first half of fiscal 2025 we had sold over ¥300.0 billion in cross-shareholdings through the partial reduction of shares in Renesas Electronics Corporation and Toyota Industries Corporation, among others. (Dialogue with an Analyst [□ P.50–51](#))

Cross-Shareholdings
(Stocks)



(3) Optimizing Inventories

We have broken down inventories into the three categories of temporary inventories, strategic inventories, and standard inventories, and track each accordingly. Temporary inventories refer to those held in response to logistics disruptions and other external factors. Strategic inventories are those held to hedge against natural disasters and various other risks. Standard inventories are those held for use in production activities under normal circumstances.

In fiscal 2024, we worked on a Companywide basis to strengthen management of inventories based on holding purposes and worked with customers to make detailed adjustments to order volumes. As a result, we were able to reduce inventory levels to 1.9 times the amount of monthly revenue, compared with 2.4 times the amount of monthly revenue in June 2022.

In fiscal 2025, we will engage in activities to strengthen our corporate structure through global collaboration, while promoting further inventory reductions by accelerating the management cycle through the utilization of tools that monitor inventory status. In these ways, we will aim for inventory levels of 1.8 times the amount of monthly revenue.

Moving forward, we will continue to make concerted efforts toward reducing inventory levels, thereby further cementing our operating foundations.

3. Improve Capital Structure:

Pursuing Targeted Capital Structure by Bolstering Funding Platform and Issuing Proactive Shareholder Returns

We seek to reduce capital costs while maintaining a balance between safety and efficiency, and to diversify funding sources, utilize borrowings, and issue proactive shareholder returns in order to create corporate value. In these ways, we will improve our capital structure.

For fiscal 2026, we target an equity ratio of 50% or more. We believe that this is a level that will allow us to maintain a credit score that enables fundraising even during an economic crisis.

(1) Diversifying Funding Sources and Utilizing Borrowings

DENSO prepares for future investments in growth domains, new businesses, M&As, and business alliances, by diversifying funding sources through such means as utilizing bank loans, domestic corporate bonds, and foreign-denominated funds via overseas corporate bonds. Through such efforts, we are able to maintain a stable funding platform.

Additionally, through the ongoing utilization of sustainability financing (bonds and loans), we will further accelerate efforts to resolve environmental and social issues, centered on the sustainability management initiatives that we have been implementing since our founding.

Going forward, we will seek to further improve capital efficiency by actively utilizing borrowings and bonds while maintaining a high degree of financial health.

(2) Shareholder Return Policy

DENSO aims to realize and further enhance total shareholder return (TSR)* that exceeds the cost of shareholders' equity steadily over the long term by increasing both dividends (income gain) and share price (capital gain). With regard to TSR results, we have been steadily working to enhance shareholder returns with a focus on improving income gains and to strengthen our financial structure with a view toward greater capital gains. Through such efforts, over the past five years following the revamping of our financial strategy, we have achieved returns that significantly exceed the cost of shareholders' equity of 8.0% as well as the Tokyo Stock Price Index (TOPIX).

For dividends, we have adopted a basic policy of consistently growing dividend on equity (DOE: Dividends ÷ Shareholders' equity) using the level of 3.0% as our baseline. Guided by this policy, we increased DOE by 0.1 percentage point year on year in fiscal 2024, to 3.3%, marking the third consecutive year of increases. As for treasury stock acquisition, we acquired ¥200.0

Status of Long-term Credit Rating (As of July 20, 2024)

Rating company	Credit rating
Rating and Investment Information, Inc. (R&I)	AAA
S&P Global Ratings	A+
Moody's Investors Service, Inc.	A2

billion in treasury stock in fiscal 2024, which made for our largest-ever acquisition. The scale of this acquisition was determined by comparing our targeted capital structure and theoretical share price with actual figures as well as taking into account the robust market demand following the public offering of shares. Looking ahead, we will continue to promote the flexible acquisition of treasury stock while expanding the scale of this acquisition.

Through our efforts to enhance stable, long-term shareholder returns, we will realize TSR that exceeds the cost of shareholders' equity. At the same time, we will curtail increases in capital and enhance our corporate value.

* TSR: Total return on investment that combines capital gains and dividends

(3) Cash Allocation

DENSO has steadily reinforced its profit structure through ROIC-minded management. As a result, we 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, even amid the COVID-19 pandemic and a worsening external operating environment that included semiconductor shortages. Over the next three-year period starting from fiscal 2024, we will aim to generate ¥3.0 trillion or more in cash through the further reshuffling of our business portfolio and the accelerated reduction of low-profit assets.

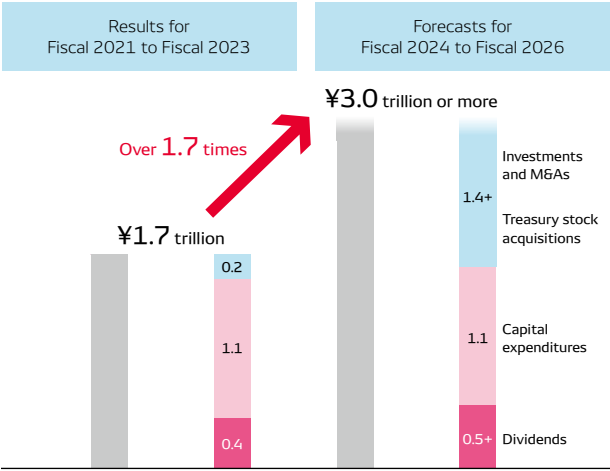
We will seek to control capital expenditure projects in a highly disciplined manner, taking into account the growth potential and profitability of each business. In addition, we will examine growth investments such as M&As and business alliances in key growth domains with the aim of accelerating our business portfolio transformation. We also believe that such growth investments are essential to the growth of our businesses and the realization of the DENSO Philosophy. To that end, we will proactively utilize borrowings to implement large-scale investments, as needed, in an effort to achieve business growth and improve our capital structure.

We will also seek to strengthen stable, long-term shareholder returns through continuous increases in dividend levels and the proactive acquisition of treasury stock. We will comprehensively consider the scale of such acquisitions by taking into account targeted capital structure and theoretical share price as well as the scale of potential growth investments.

Through these initiatives, we will strive to maximize ROE and enhance corporate value on an ongoing basis.

Cash Allocation

(Trillions of yen)



4. Engage in Dialogue with Markets:
Increasing Communication Regarding Our Long-Cultivated Non-Financial Capital and Promoting the Appeal of Our Value Provision

DENSO is communicating information to investors and analysts in a timely and appropriate manner and advancing dialogue through efforts by corporate officers. Through these activities, we aim to reduce information gaps with capital markets and expand our equity spread by reducing the cost of shareholders' equity.

In fiscal 2024, we held roughly 1,750 dialogues with companies including through the utilization of online meetings. At the same time, we held DENSO DIALOG DAY, an event where executive directors explain our corporate strategies and exchange opinions with the media and investors. The opinions received at this event were communicated at official in-house meetings and reflected in various initiatives, including the determination of management policies and efforts to reduce cross-shareholdings. In addition, guided by our sustainability management, we are stepping up investments in non-financial capital to reduce business risks and expand opportunities over the medium to long term. For example, we have positioned investments in intangible assets, such as R&D, as growth investments that contribute directly to corporate growth. Based on this approach, we plan on executing ¥640.0 billion in R&D expenditure in fiscal 2025, up ¥90.0 billion year on year, in an effort to bolster our overall investment activities. Through these activities, in Japan and overseas, our number of patent applications filed came to roughly 3,600 as of the fiscal 2024 year-end, with approximately 39,000 patents held. Through our patents, we have steadily enhanced the value we provide to customers and society with a view to the next generation. Quantitatively demonstrating the relationship between investments in non-financial capital and the creation of financial value in this manner is extremely important in appropriately evaluating DENSO's medium- to long-term business growth. As such, we introduce such information and its impacts from a variety of perspectives in *DENSO Integrated Report 2024*. (Our Accumulated Capitals [□ P.24–25](#))

Furthermore, when making the public offering of our shares in November 2023, we focused on sales to individual investors with the aim of stabilizing our share price to reduce capital costs. By utilizing various advertising media to ensure that our strengths and business strategies are thoroughly understood by the market, we have secured strong demand from individual investors. In fact, as of March 31, 2024, the number of individual shareholders was 182,000, an increase of 98,000 compared with the previous fiscal year.

In fiscal 2024, we received a second-place ranking in the Automobiles/Parts/Tires division of the 2023 Award for Excellence in Corporate Disclosure, in recognition of our IR activities. Furthermore, *DENSO Integrated Report 2023* received the Gold Award for excellence of the WICI Japan Integrated Report Award 2023, becoming the first company in the automotive industry to do so. We also received the Grand Prix E (Environment) Award of the Third Annual NIKKEI Integrated Report Award, the highest award given related to the disclosure of environmental information. In these ways, our IR activities and stance on information disclosure have been highly evaluated by numerous institutions.

Additionally, we are working to enhance employee awareness of corporate value by actively utilizing our integrated report in-house. Moving ahead, we will reflect the various opinions we receive through dialogue with markets in our efforts to enhance the quality of our management.

TSR (Cumulative / Annual Rate)

Investment period	1 year	3 years		5 years		10 years	
	Cumulative / Annual rate	Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
DENSO	57.9%	64.7%	18.1%	186.8%	23.5%	162.8%	10.1%
TOPIX	41.3%	52.5%	15.1%	96.2%	14.4%	188.6%	11.2%
TOPIX (Transportation equipment)	47.5%	61.0%	17.2%	102.6%	15.2%	137.7%	9.0%

Source: DENSO CORPORATION



(From left)

Shiro Sakamaki

Director
BofA Global Research
BofA Securities Japan Co., Ltd.
(At the time of the dialogue,
Chief Analyst,
Daiwa Securities Co. Ltd.)

Yasushi Matsui

Executive Vice President
Representative Member
of the Board
Chief Financial Officer

Dialogue with an Analyst

Aiming to Heighten Capital Efficiency and Corporate Value through Bold Initiatives to Transform Entrenched Industrial Structures

Shiro Sakamaki, who is known as the leading analyst in the automotive components sector, and DENSO's CFO, Yasushi Matsui, discuss the direction in which DENSO should move forward and the role it should play in these turbulent times.

Transforming Existing Industrial Structure

Sakamaki In November 2023, three Toyota Group companies—namely, Toyota Motor Corporation, Toyota Industries Corporation, and AISIN CORPORATION—announced the disposal of their DENSO shares. Subsequently, DENSO also announced that it would dispose of all its shares of Toyota Industries and AISIN. What is causing these changes?

Matsui I have always had doubts about the business practice of cross-shareholding. When I became the officer in charge of financial strategy in 2016, we began systematically disposing of shareholdings. We reached a point where any further reduction in our cross-shareholdings would inevitably involve tackling the issue of our Toyota Group company shares. What is important to us is strong governance, capital efficiency, and shareholder-oriented business management. In order to accelerate investment in growth and develop competitive businesses, we must be prepared to transform existing industrial structures. Even though capital ties may to some small degree strengthen intra-group unity, the rationale for a subsidiary to hold shares of other group companies is weak and out of step with the times.

Based on our commitment to unwinding cross-shareholdings, we steadfastly discussed the matter with each company over the span of two years. Recently, we reached a general agreement on cross-shareholdings. DENSO shares were disposed of first to precipitate a trend toward the dissolution of cross-shareholdings. In fiscal 2024, we disposed of all our shares in eight companies, including seven Toyota Group companies, and this trend will not be reversed.

Sakamaki Although I had been aware of this trend, I was actually surprised when I heard the news. I was very impressed both by the scale of the disposal and by the fact that DENSO actually took the lead in carrying it out.

Reducing Cross-shareholdings Decisively and without Exception

Sakamaki Recently, you mentioned acquiring a substantial amount of treasury stock. Many thought this would entail buying back all the DENSO shares disposed of in the unwinding of cross-shareholdings. In reality, however, only a portion of the shares were bought back.

Matsui Regarding the use of cash, we must give priority to investing in growth. The unwinding was also a perfect opportunity to adjust our shareholder composition. Increasing the number of non-Japanese institutional investors and individual shareholders, who have different investment patterns, has been a major management task for some time. The achievement of an optimal balance between these two types of investor will stabilize our share price and lower the cost of capital.

Therefore, in the fall of 2023 we made our shares appealing to a wider group of investors by executing a four-for-one stock split and allocating 80% of the DENSO shares available for disposal to individual investors. As a result, DENSO's individual shareholders have increased by approximately 100,000 compared with their level at the end of the previous fiscal year. We will continue efforts to gain support from a broadened base of shareholders.

Sakamaki What will you do with the cross-shareholdings that remain in your possession?

Matsui Decisively and without exception, we will reduce cross-shareholdings in line with the disposal policy determined annually by the Board of Directors. As we have previously explained, by the end of this year at the latest we will dispose of the shares of all the component companies of the Toyota Group with respect to which an announcement was made in November 2023 on our policy of reducing cross-shareholdings, or we will set out concrete steps toward their ultimate disposal. While our shares of Toyota Motor itself are not defined as cross-shareholdings, we are including them in our considerations on cross-shareholding reduction rather than making them an exception. Outside the Toyota Group, in May 2024 we disposed of more than half of our stake in Renesas Electronics Corporation. How has the market viewed these efforts?

Sakamaki DENSO is seen as having stiffened its resolve to dispose of cross-shareholdings. At least that is how I view DENSO.

Matsui Both Toyota Motor and Renesas Electronics are very important partners for us. Even if our capital relationships cease, I am confident that we will be able to maintain and further strengthen our existing relationships. In principle, we will dispose of all cross-shareholdings except those that are reasonable to hold in terms of business strategy.

Accelerating Growth Investment and Providing Value beyond the Automotive Field

Sakamaki How will you use the huge amount of cash generated through the disposal of shares in other companies?

Matsui The cross-shareholdings and other assets to be disposed of amount to roughly ¥2 trillion. The proceeds will be used to invest in growth and return profits to shareholders. Our growth investments will expand businesses by extending them along two vectors: from internal combustion engine products toward CASE-related products and from automotive fields toward non-automotive fields.

In particular, we are currently focusing on the field of power semiconductors, which are indispensable for the electrification of cars. We have technologies and products for next-generation power semiconductors. However, we believe that we can further strengthen our position in this field by stepping up the pace of vertical integration efforts, including active consideration of large-scale M&As. As this field presents us with potential not only for expansion in the automotive industry but also for horizontal expansion into industrial equipment and other fields, we want to grow the semiconductor business into a new earnings mainstay. In determining the feasibility of M&As, however, we use more than 100 different hurdle rates. Rather than acquiring companies at high prices, we will consider M&As that can generate the most powerful synergies.

Next after the power semiconductor field is the software field. As cars become more electrified and sophisticated, in-vehicle systems must be controlled in complex, coordinated ways. Software is key to such control. Accordingly, we will focus on acquiring and training personnel capable of designing larger-scale software that is challenging to realize.

In parallel with active investment in the aforementioned fields, we will endeavor to enhance shareholder returns even further by keeping DOE (dividend on equity ratio) in mind and steadily raising the level of dividends. Also, given our currently undervalued share price, we will continue considering flexible, large-scale acquisitions of treasury stock. Through these measures, we intend to reduce the equity ratio to around 50% and create a more leveraged capital structure.

Sakamaki In the past, DENSO was plagued by a chronic decline in capital efficiency due to the accumulation of cash. However, now that you have clearly set out your policy, my expectations have changed, and I believe that sustained improvement in ROE is likely in the future. I think the views of investors are changing as well.

Considering the Significance of the Increased Use of In-vehicle Software

Sakamaki The key to the future of the automotive industry is the trend toward software-defined vehicles (SDVs). If the key to the value of cars shifts from hardware to software, and added value begins to stem from a different set of processes, companies like Tesla, Inc. could emerge in Japan. When thinking about exactly where such companies might come from, I get the strong impression that DENSO has this type of potential.

Matsui Software creation is a business that requires the investment of enormous resources and straddles multiple original equipment manufacturers (OEMs) (automotive manufacturers). For OEMs to realistically go beyond the vertically integrated business models that they have created would be quite difficult. Only Tier 1 companies capable of developing comprehensive systems can create such software, and we are just such a company. As well as having a strong financial position and technological capabilities, we have built a track record through the accomplishment of many projects. Moreover, we are adept at designing business models.

With the aim of creating future value in a wide range of fields beyond the boundaries of an automotive component manufacturer, I want to enable as many people as possible to see that DENSO is a company with solid growth potential.

Sakamaki Japan's automotive industry has long been a contributor to the country's economy. Unfortunately, however, Japan has not developed any other industries with similar international competitiveness. Recent years have made this absence even more conspicuous. As Japanese society as a whole loses its dynamism, the emergence of a company that is from the very same automotive industry and that breaks through existing industrial structures would be immeasurably significant. I look forward to seeing DENSO make even more dramatic advances globally and growing into a new driver of Japan's economy.

Shiro Sakamaki

After graduating from the School of Political Science and Economics at Waseda University in 2000, Shiro Sakamaki joined Daiwa Institute of Research Ltd., where he was assigned to a division engaged in corporate research. In 2004, he transferred to the company's New York office and covered the European and U.S. automotive sectors, including GM, Ford, VW, and Renault. Since 2010, he has been an analyst in charge of the automotive and tire sectors. In 2024, he transferred to BofA Securities Co., Ltd. For six consecutive years (2019–2024), he has been the No. 1 analyst of the auto parts sector in the Nikkei Veritas Popular Analysts Survey and in the Institutional Investor All-Japan Research Team rankings.

Human Capital

Message from the Chief Human Resources Officer

Our employees and teams that embrace challenges are the driving force behind DENSO. We create social value through the ability of our employees and organizations to turn ideas into reality.

Yasuhiko Yamazaki

Executive Vice President
Chief Human Resources Officer (CHRO)



Outline of Efforts to Strengthen Human Capital

The foundation of DENSO's management lies in balancing the happiness of all employees with the realization of the Company's philosophy, while striving for the sustainable enhancement of corporate value. Under "PROGRESS," a vision and action plan for our people and organization, DENSO's ideal employees are professionals committed to taking on the challenge of achieving new personal bests, while the Company's ideal organization provides a platform for co-creation initiatives and the interaction of diverse professionals. We promote human capital-focused management, with the maximization of the value of human capital at the core of management, while reforming our human resource policies and systems.

DENSO's Approach to Human Capital-Focused Management

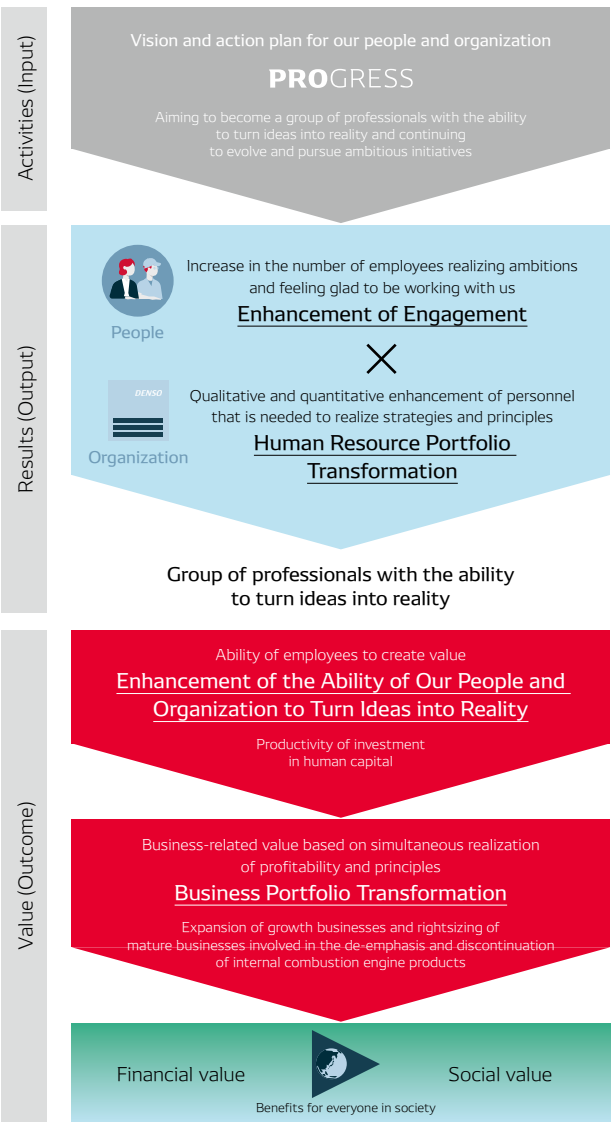
Since its establishment in 1949, DENSO has viewed people as the most important form of management capital and practiced human capital-focused management that values people. In 1954, DENSO established technical training schools to strengthen its technologies and skills, marking the beginning of its focus on human resource development. Through these efforts, we have continuously honed our ability to turn ideas into reality, i.e., the ability to create things that did not previously exist in this world. As a result, DENSO has created over 180 world-first technologies and products. Marking its 75th anniversary in 2024, DENSO recognizes the importance of returning to its founding roots during this period of rapid change. We are determined to improve corporate value further by enhancing the ability of our people and organizations to turn ideas into reality.

I believe that the key to putting human capital-focused management into practice is linking human resource strategies with business and management strategies. This involves clearly defining how activities that enhance the value of human capital (input) lead to specific results (output) that ultimately contribute to business and financial value, and by extension, the creation of new value for society (outcome). This approach embodies the principle we have upheld since our founding: "Monozukuri is Hitozukuri (Our performance relies on our people)." This, I believe, is the essence of DENSO's human capital-focused management.

Our Approach to Human Capital-Focused Management (Value Creation Path)

Activities (Input): Activities encompass reforms to our human resource policies and systems under the "PROGRESS" vision and action plan for our people and organization. These reforms include helping employees realize their career goals, promoting

Our Approach to Human Capital-Focused Management (Value Creation Path)



learning and growth, and creating open workplaces full of vitality. We are also changing welfare benefits that no longer align with the times and environment and increasing investments in activities that effectively enhance the value of human capital while efficiently generating funds.

Results (Output): From the perspective of our people, our goal is to have more employees feel that working at DENSO is a positive experience and that their dreams have come true. Essentially, our goal is to improve employee engagement. From an organizational standpoint, the objective is to move ahead with the transformation of our human capital portfolio with the quality and quantity of talent necessary to achieve our business and management strategies. We have set specific KPIs, clarified issues, and are working to increase the speed of addressing these issues.

Value (Outcome): From the perspective of our people, outcomes are the value we create for our customers and society as a result of fully developing our human resources to maximize

their potential. From an organizational standpoint, our goal is to balance the realization of profitability and the "green" and "peace of mind" principles through the inclusion in our business portfolio of growth businesses as replacements for businesses involved in the de-emphasis and discontinuation of internal combustion engine products. Essentially, this entails reforming our business portfolio. As a part of management, we continuously assess whether all people and organizations at DENSO are sustainably delivering value that pleases our customers and society—essentially, whether the ability of our employees and organizations to turn ideas into reality is improving. To this end, DENSO has established the "productivity of investment in human capital"* as a key indicator to monitor trends.

* Productivity of investment in human capital: Added value ÷ Investment in human capital

Targets Related to Value Creation Path

Investment in Human Capital (Input)

Increase in human capital investment from the previous fiscal year*1 FY2024: ¥29 billion FY2025: **¥35 billion** *1 Includes suppliers

Results (Output): Targeted KPIs and Achievements

Situational Definition of Output Sought	Item	Result	Target
Enhancement of Engagement Increase in the number of employees realizing ambitions and feeling glad to be working with us	Employee engagement indicator (percentage of affirmative responses) (non-consolidated)	FY2023: 73% FY2024: 75%	FY2026: 78%
Human Resource Portfolio Transformation Qualitative and quantitative enhancement of personnel that is needed to realize strategies and principles	Management Professionals Globally competent management leaders who are systematically developed and deployed	Number of management leader candidates FY2023: Approx. 400 employees FY2024: Approx. 400 employees	FY2026: 400 employees (increase diversity of human resources and likelihood of promotion)
		Ratio of non-Japanese employees promoted to leadership roles at overseas bases FY2023: 26% FY2024: 31%	FY2031: 50%
		Realization of human resource portfolio requirements (non-consolidated)	Clarified 535 specializations, from 40 fields, required to realize business portfolio transformation and then visualized the level of expertise of individual employees Realize human resource portfolio requirements in priority fields with sights set on FY2026
	Specialists Development of personnel in each field who can innovate and create value	Average level of expertise among all employees (out of 5 levels) (non-consolidated) FY2023: 2.7 FY2024: 2.9	FY2026: 3.0
		Development of personnel with competence in digital transformation (ratio of personnel capable of advanced utilization of the latest digital tools) (non-consolidated) FY2023: 18% FY2024: 35%	FY2025: 50%
	Diverse Professionals Diverse professionals whose individuality, values, and experience invigorate the Company	Number of female managers (in technical fields) (non-consolidated) FY2023: 139 employees FY2024: 153 employees	FY2026: 200 employees
		Number of female managers in technical positions (section heads and team leaders) (non-consolidated) FY2023: 136 employees FY2024: 152 employees	FY2026: 200 employees

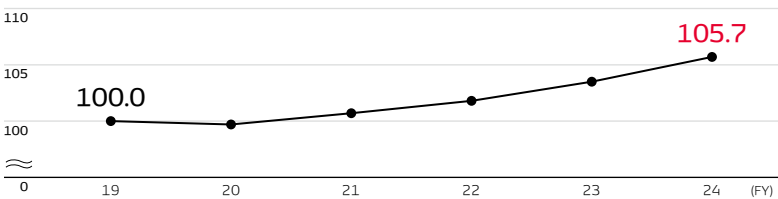
Value (Outcome)

Ability of our employees and organizations to turn ideas into reality*2

(Four-year moving average, indexed as FY2019 = 100)

*2 Productivity of investment in human capital: Added value ÷ Investment in human capital

Productivity of Investment in Human Capital



We believe that the ability of our employees and organizations to turn ideas into reality (productivity of investment in human capital) can be enhanced through better employee engagement and having the quality and quantity of talent needed to achieve business and management strategies (transformation of the human capital portfolio). Higher levels of engagement translate into a collective of individuals striving to achieve ambitious goals, and the transformation of the human capital portfolio means a stronger ability to achieve success as an organization. We are therefore committed to seeing progress on these two fronts as the results (output) we aim for in human capital-focused management.

Enhancing Employee Engagement

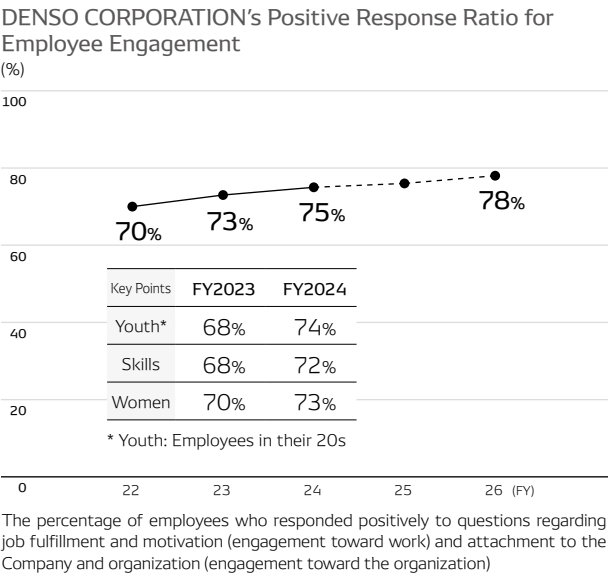
Improving the engagement of our approximately 160,000 employees working worldwide is one of our most important management challenges. With employee engagement positioned as a KPI for sustainability management, we regularly assess the current state of employee engagement at Group companies, visualize issues, and take actions to address them. At DENSO CORPORATION, we conduct an annual engagement survey that covers all employees and workplaces. The results of this survey are scientifically analyzed to identify factors that contribute to improving engagement and ultimately enhance the ability of our employees and organizations to turn ideas into reality. We also identify issues from various angles, such as line of work and age group, and take actions that contribute to the overall vitality of the workforce. From the survey results, we identified five factors that contribute to higher levels of engagement. Of these, three key factors—career realization, real sense of growth, and attitude toward work—motivate employees to take ownership and action in their own careers and roles. We understand that it is especially urgent to engage with young employees (employees younger than the average age of all employees), skilled employees, and female employees. With this in mind, we have implemented the following initiatives, resulting in significant improvement in engagement with these types of employees from fiscal 2023 to fiscal 2024.

Young employees: DENSO has created a systematic training program as part of the onboarding process for the first three years after a young person joins the Company. This includes creating a supportive environment within the workplace to accelerate early skill acquisition while fostering a mindset that encourages young

employees to take ownership of their career paths. Additionally, we have launched a program for dispatching young employees on external internships in other industries to gain challenging practical experience early in their careers. Ultimately, our goal is for new graduates who join DENSO to quickly develop into top-level talent able to perform on the world stage.

Skilled employees: In light of the need for reskilling and an increase in job transfers associated with the transformation of our business portfolio, we have implemented career training for 10,000 employees working in skilled labor positions. This training aims to enhance their adaptability to change and support their pursuit of independent and autonomous careers, moving beyond growth based solely on instruction and guidance from supervisors.

Female employees: For the first time since its founding, in fiscal 2025 DENSO is revamping the system for general staff (administrative positions), which has historically been focused on routine and support tasks. We will integrate general positions and career-track positions into a new job-based role system. By removing



barriers in evaluation, training, and workstyles, we aim to maximize the motivation and abilities of approximately 1,800 general staff, fostering a real sense of growth and career success.

Of the five factors that elevate engagement, the remaining two factors—openness of the workplace and corporate policies—entail actions to improve the awareness and behavior of management that influence the organization. In addition to ongoing and proactive activities to address issues identified in the survey results and employee–management meetings grounded in mutual trust, we began providing multifaceted feedback to approximately 3,000 managers in fiscal 2024. This initiative aims to enhance self-awareness among management and encourage improvement in behavior through self-reflection. Furthermore, to deepen the understanding of Company policies and encourage autonomous thinking and actions in workplaces and among employees, DENSO held Conversations with Our President and Vice Presidents in April 2024, where senior management directly communicated and engaged in dialogue with workplace leaders.

Additionally, we are strengthening support for employee health and well-being as well as work–life balance, including childcare and caregiving, as the basis for a good work environment. We have enhanced our health consultation system, offering health guidance for employees at their workplace, and offer personalized health guidance to employees interested in maintaining and improving their health, especially for preventing metabolic syndrome. We are also working to create a workplace environment and foster a work culture that makes it easier to balance work with childcare. The percentage of male employees taking childcare leave has increased to 53% as of fiscal 2024, and we aim to increase this to 70% in fiscal 2025.

As a result of these initiatives, the responses in the annual employee engagement survey have improved, centered on the five factors that lead to better employee engagement. The overall positive response rate in DENSO CORPORATION's engagement survey has improved from 70% in fiscal 2022 to 75% in fiscal 2024. We are targeting 78% in fiscal 2026. The factors that have led to better engagement vary depending on the region, country, and work environment. At each Group company, we are also implementing activities tailored to improving employee engagement based on the actual work conditions of employees in each region and country.

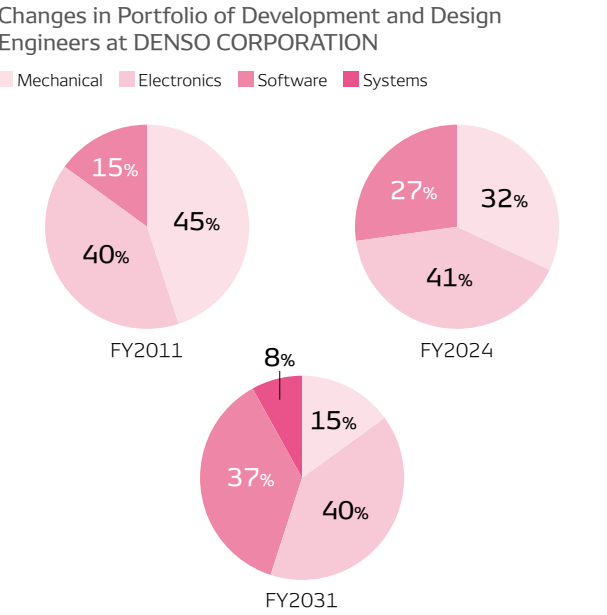
Transforming the Human Capital Portfolio

In alignment with the Companywide strategy of transforming the business portfolio, we are actively engaged in transforming the human capital portfolio through the acquisition, development, and optimal allocation of talent to ensure that we have the needed quality and quantity of human resources. From the standpoint of quality in human resources, we have defined 535 categories of expertise required across 40 fields Companywide. Approximately 15,000 administrative and technical employees have clarified their career goals and areas for skill development during discussions with their supervisors, referring to categorization on five levels. Based on this, we have set up human resource development committees in key areas, such as software, systems, digital technology, and semiconductors, to implement development and allocation strategies that enhance expertise. From the standpoint of quantity in human resources, by fiscal 2026, we plan to shift a large number of personnel, around 4,000 employees, to the vehicle electrification and software domains, which are priority areas, through external and internal recruitment. In the software domain, for example, approximately 200 engineers are being encouraged to

transition from hardware to software roles through a software recurrent program by the end of fiscal 2024. Looking ahead to 2030, DENSO aims to create an optimal portfolio of mechanical, electronics, and software talent while systematically increasing the number of systems personnel who can play a key role in DENSO's technological development by designing optimized functions across businesses, from the perspective of both society and automobiles.

Strengthening the IT and digital capabilities of all employees is also a key management priority. While encouraging employees to take on challenges that arise internally, we provide highly effective training through practical experience. For example, about 5,000 employees voluntarily participated in a basic course on digital transformation in a team learning environment, and we think that around 1,000 employees will be interested in participating in a machine learning study group in fiscal 2025, with a focus on the utilization of more advanced AI. We also launched a Digital Cross-Border Challenge (an internal side job program) where employees apply their IT and digital skills to solve challenges in other departments, with around 20 participants expected in fiscal 2025. Our goal is to have 50% of our employees proficient in advanced IT and digital tools by fiscal 2025, and we are intensifying efforts to achieve this goal.

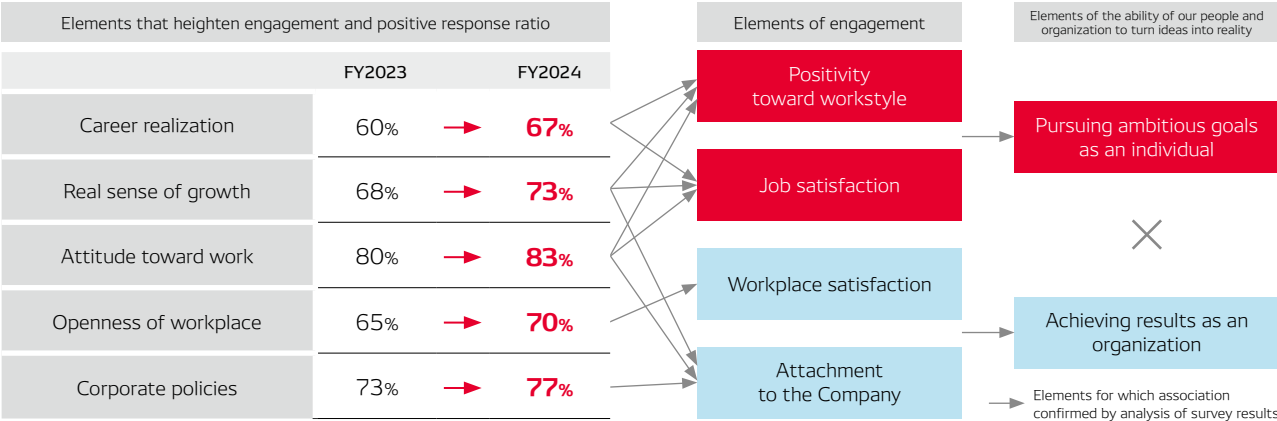
DENSO's competitive strength lies in the ability of highly specialized talent to drive innovation and create value across diverse businesses and domains. Through these activities, we are determined to ensure that we have the necessary quality and quantity of talent to achieve our business and management strategies.



The DENSO Way of Human Capital-Focused Management

DENSO is moving toward a new stage of management, where corporate value is enhanced by strategically increasing investment in human capital and providing greater support to employees and teams taking on new challenges, with the aim of strengthening the ability of our employees and organizations to turn ideas into reality. Moving forward, we will continue to cherish what makes DENSO unique, fostering talent on the front lines and advancing human capital-focused management that generates new value while addressing social issues.

Engagement Survey and Analysis of Its Results for All of DENSO CORPORATION's Nearly 45,000 Employees



MESSAGES



I will continue growing through work by taking on ambitious initiatives without being overly focused on my job description.

Risa Sakai
Brand Promotion Department
Public Relations Division

After joining the Company as a new graduate, I was assigned to a “practical position” that mainly involved routine duties. During my first three years, I mostly provided support to other employees. I then took on planning work, which included conducting brand education targeting managers of overseas regions and domestic Group companies as part of brand penetration activities. The more I gained a sense of personal growth from my various jobs, the more I felt the need to pass the mantle on to the next generation. In 2020, I switched to a career-track position, and since then I have worked with a greater sense of ownership.

In fiscal 2025, the Company abolished the division between practical and career-track positions. As the scope of my work has broadened, I have begun mapping out the kind of career that I would never have envisioned when first joining the Company. For this reason, I would like to convey to others the fulfillment and happiness work gives me.



Through recurrent training, I am envisioning a target profile for myself and building a new career as a software engineer.

Takayuki Hirose
Software Production Innovation Division

In the roughly 16 years since I joined the Company, I have developed a career as a hardware engineer in charge of designing car air conditioners. When I had reached a point where my growth as an engineer felt as if it were slowing in inverse proportion to the confidence I was gaining with experience, I learned about recurrent training in software development, which enables trainees to begin from the basics of programming. Although I had absolutely no experience in the field, the training seemed very supportive, bolstering my belief that I might be able to reskill. So, I decided to take on the challenge.

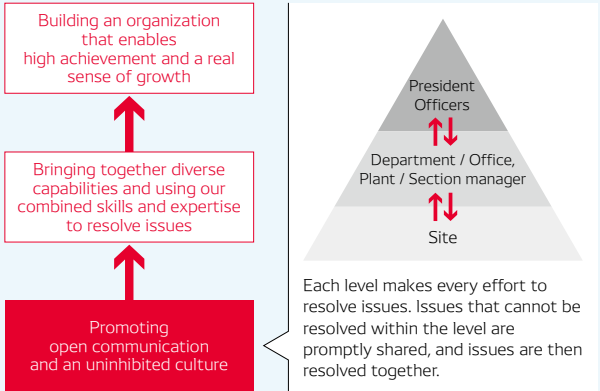
I acquired basic skills through around six months of classroom and practical training. I was then reassigned and am now engaged in process improvement-related software development in the Software Production Innovation Division. I have now taken the first step on the path I want to take. To become someone who can be relied on in this new field, however, I still need to acquire a huge amount of knowledge and build up more experience. Through continuous self-study and accumulation of on-the-job practice, I will move closer to the person I want to be one step at a time.

Value Creation Case Study

Creating Truly Open Workplaces through Mutual Understanding of Corporate Strategy and On-site Issues; Developing Organizations That Heighten Realization Capabilities and Grow

In April 2024, we held Conversations with Our President and Vice Presidents, in which more than 1,000 workplace leaders, the president & CEO, and our two executive vice presidents gathered for dialogue aimed at establishing mutual understanding of Companywide strategy and on-site issues. Rather than one-way explanations of strategy from the president and vice presidents, the meeting was interactive, with participating employees using a chat application to ask questions and share opinions in real time. These employees provided a great deal of immediate feedback on such issues as strategy and corporate culture improvement. The president went on to say, “We will create more opportunities for dialogue, and I hope that you convey the gist of our discussions to your teams.”

At DENSO, we believe on-site issues drive change. Accordingly, officers, department personnel, and plant personnel at each level of the Company work on solving such issues. However, if everyone pursues efforts with a different goal in mind, the overall workplace culture cannot be changed. To strengthen our realization capabilities, we aim to ensure that not just some but all workplace personnel have an in-depth understanding of Companywide strategy and that each employee and organization thinks and acts swiftly and with precision. To this end, as well as creating opportunities for dialogue with officers, we are establishing venues for dialogue within workplaces. Our goal is to develop organizations in which employees can experience growth through the creation of a workplace culture that enables them to meet any changes in the environment head-on and pursue new challenges.



Manufacturing Capital

Outline of Efforts to Strengthen Manufacturing Capital

DENSO’s strength lies in manufacturing foundations that the Company continuously evolves through production technology innovation and on-site improvements. We have accumulated an abundance of excellent manufacturing capital that includes a network of production bases throughout the world and organizations and employees with the expertise and skills needed to implement and realize initiatives. We will build a global production and supply system that can both adapt to uncertain external conditions and keep pace with the operational changes accompanying the revolution resulting from the increased production of connected, autonomous, shared & service, and electric (CASE) vehicles. At the same time, we will pursue ambitious, new-era manufacturing initiatives that address such social issues as environmental regulations and population decline. We will also evolve plants by establishing DENSO-style digital-twin plants that facilitate continuous improvement. This evolution will be achieved by combining our long-standing creative prowess—made possible by employees’ collective knowledge and efforts—with scientific, data-enabled analysis capabilities.

Manufacturing Capital Strengths and Strategies

To create new value and sustain growth in an era of rapidly changing conditions, further improvement of the manufacturing capital that we have accumulated to date is essential.

Anticipating changes in external conditions and risks, DENSO will realize forward-looking measures by leveraging accumulated strengths. Specifically, we will take advantage of our global production and supply capabilities—the result of a basic policy of manufacturing close to markets and customers—and our plants, which continuously create value by using advanced technologies and production sites to realize appealing products.

With respect to our global production and supply capabilities, we will replace portfolio businesses in line with the progress of the CASE revolution while optimizing production and supply capabilities in each region by shifting to growth businesses and consolidating production globally and within regions. In conjunction with these efforts, DENSO will bolster business continuity capabilities through bridge production, the maintenance of high-risk inventories at appropriate levels, and other measures. These measures will ensure stable production even in volatile conditions, thereby minimizing costs. In addition, we will build a resilient supply chain by taking on the challenge of addressing social issues, such as a declining and aging workforce and Japan’s “2024 logistics problem” (shortage of truck drivers).

Meanwhile, we are strengthening our plants by accelerating initiatives aimed at carbon neutrality and productivity improvement initiatives that are based on data analysis and production line automation and by strategically investing in CASE-related projects and production infrastructure. Also, with our sights set on the period from 2030 to 2035, we will introduce innovative production lines to such growth fields as vehicle electrification. Further, we will boost engineering and the development of production technologies in relation to the hydrogen business and other new business fields and the manufacturing circular economy (utilization of recycled materials) by employing original technologies and advanced skills developed for internal combustion engine products. DENSO will continue undertaking ambitious initiatives aimed at establishing ideal plants through the realization of such goals as 24-hour unattended operations, fully digitalized operations, and complete carbon neutrality.

Characteristics of DENSO’s Manufacturing Capital (Fiscal 2024 results)

Capital expenditures
¥394.6 billion

Total CO₂ emissions
50% reduction
(compared with fiscal 2021)

Number of regional production bases worldwide
127 plants in 25 countries

Global Production and Supply Capabilities

In line with its principle of manufacturing in close proximity to customers, DENSO has built highly competitive production structures in six countries and regions: North America, South America, Europe, Asia, China, and Japan. At our production bases worldwide, we aim to achieve leading levels of quality, cost, and delivery in each region. As well as reweighting our business portfolio to accommodate the CASE revolution, we are currently building a production and supply system with a resilience to change and fluctuation that enables stable delivery of products to customers even amid various geopolitical risks. For growth businesses, we aim to build a worldwide production system and raise production capacity. As part of these efforts, we will step up the manufacture of inverters—a key product for vehicle electrification—by seeking an early transition from internal combustion engine plants to electric vehicle component plants and by pursuing a plan to supplement existing production capabilities in Japan, North America, China, and Europe through the establishment of inverter production in other parts of Asia. (Overview by Product: Electrification Systems [P.82–83](#))

In Japan, DENSO will take the lead in solving the shortage of truck drivers in the supply chain that connects suppliers, production bases, and customers and in reducing CO₂ emissions resulting from the transport of materials and products. Rather than leaving supply chain matters solely to transportation companies and suppliers, we will take the initiative and streamline and digitalize the entire supply chain. We will establish and then roll out best practice for improvements in delivery logistics, which deliver products to customers; cargo handling operations, which form packing styles throughout the supply chain; and procurement logistics, through which component deliveries are received.

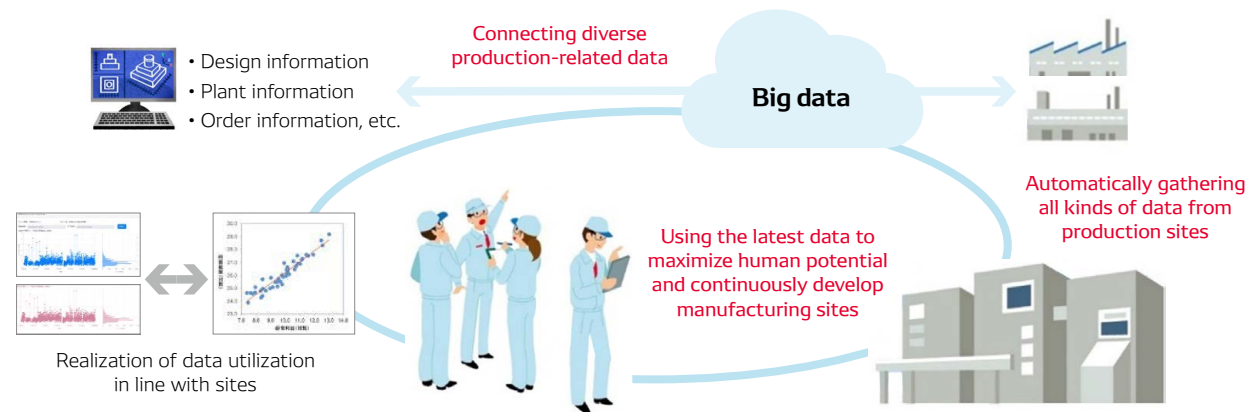
DENSO-style Digital-twin Plants

In DENSO-style digital-twin plants, people play leading roles. To create even better products and production lines, we have built a robust manufacturing foundation through Excellent Factory (EF) activities in which all employees participate on a daily basis. We will transform workstyles so that employees engaged in on-site production constantly evolve operations by actively utilizing on-site data and by combining their creativity, realization capabilities, and intrinsic abilities.

DENSO is developing a globally integrated data infrastructure by deploying in-house-developed Factory-IoT (F-IoT) systems to domestic and overseas Group companies and linking the systems. We are making steady progress in laying the foundations for digital-twin plants through these ambitious efforts to further advance our connected environment, which encompass software workshops to promote application development that originates from frontline operations, the training of personnel

with digital technology literacy, the accumulation and utilization of AI-enabled expertise (knowledge AI), and the distribution of digital terminals to all on-site employees (distribution completed to the approximately 20,000 on-site employees of DENSO CORPORATION).

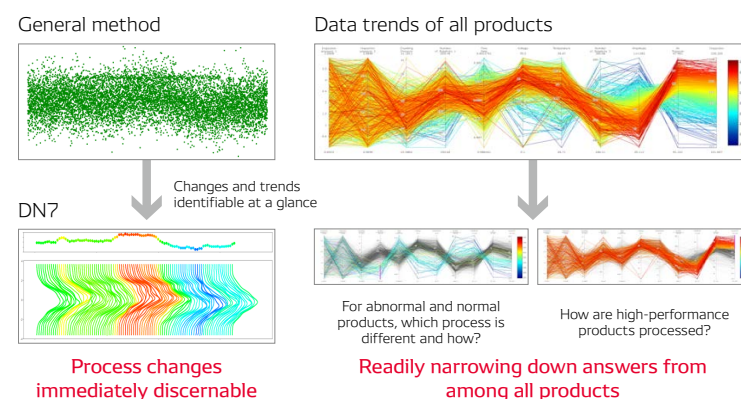
In the digital transformation era, DENSO remains focused on quality. For big data analysis and improvement, we have developed our own digitally transformed version of the Seven Basic Tools of Quality Control (QC7 tools), which we refer to as “DN7.” Moreover, we have not only introduced DN7 in-house but also made it publicly available through open source platforms. In addition, we are actively fostering junior personnel with expertise in data science and helping promote the practical introduction of digital technologies to the manufacturing industry. For example, a DENSO employee has become the first person to earn a data science doctorate in Japan.

How We Envision Manufacturing Sites in the Digital Transformation Era**Data-driven Process Improvement Initiatives—Leading Monozukuri Quality Improvement in the Digital Transformation Era**

DENSO is utilizing data to achieve new improvements in processes. Quality control at our production sites centers on QC7 tools, which collect, organize, analyze, and visualize various types of data related to manufacturing processes and quality. However, directly handling the large amount of data generated in each manufacturing process with conventional QC7 tools is challenging.

To solve this problem, DENSO has developed an application called “DN7” that provides a new set of QC7 tools for the digital transformation era. DN7 enables data-driven approaches to process improvement that create unprecedented new analytical value. The application processes large amounts of data so that it can be viewed and considered, enables immediate discernment of changes, identifies trends in the performance of all products, and automatically narrows down critical factors that cause defects. Our goal is not simply to have AI come up with all of the answers. Instead, we want to create further improvements by using data to support and augment the capabilities of on-site personnel and establish an interdependence between human ingenuity and data analysis.

In the digital transformation era, our commitment to quality is unchanged. Aiming to elevate the level of quality throughout the industry, we have made the in-house-developed DN7 publicly available through open source platforms. Feedback and suggestions from external experts have allowed us to hone and enhance the DN7 in a short period of time, helping to accelerate its deployment both inside and outside the Company. DENSO has received a great deal of positive feedback from users both inside and outside the Company to the effect that they have been able to solve chronic issues, change workflows, and benefit from using the full range of functions made available through open source platforms. By evolving and rolling out the DN7 tools, we will continue providing value in line with society's current needs and leading Monozukuri quality improvement initiatives that transcend organizational boundaries.

Example of the New Value Created by DN7**Message from the Chief Monozukuri Officer****DENSO Monozukuri:
Addressing Social Issues and
Realizing Employee Happiness****Jiro Ebihara**

Senior Executive Officer
Chief Monozukuri Officer (CMZO)



In accordance with our green and peace of mind principles, I believe that the roles of manufacturers in addressing social issues at home and abroad have been, are, and will continue to be the development of advanced technologies and the establishment of stable production and supply systems. DENSO's global resources for technology development and for production and supply are expected to play major roles in addressing social issues. At the same time, we cannot realize these roles unless our employees worldwide are satisfied with their jobs and are happy. Mindful of its roles, DENSO aims to make itself indispensable not only to direct customers but to society as well. To this end, in fiscal 2025 we will conduct production activities with an emphasis on the following two goals.

**1. Realizing Monozukuri That Contributes to an
Energy-recycling Society**

DENSO is already steering toward production free of CO₂ emissions to become carbon neutral by 2035 without the use of carbon credits. We are advancing ambitious initiatives that lead the way in the manufacturing industry's utilization of energy. For example, we are changing over to manufacturing methods that incorporate hydrogen utilization technologies to save

energy while meeting energy demand. In addition, we will develop materials and processing technologies for the realization of a resource-recycling society (circular economy), which has recently become a focus of attention. Our employees in Japan and overseas will collaborate to develop technologies that address social issues. (Our Cultivated Strengths, Special Feature: Value Creation in Action [P.23, 94–95])

**2. Passing on the Significance and Enjoyment of
Monozukuri and Developing Human Resources
in a New Era**

In every age, the realization of new value has stemmed from new Monozukuri technologies. I believe that the increasing integration of digital technologies and AI into society will bring about unprecedented innovation in Monozukuri. Such innovation will be driven by human ingenuity: our employees' skills will be needed to initiate and realize breakthroughs. Personnel engaged in DENSO's Monozukuri will derive job satisfaction from an awareness of their role in creating new value that addresses social issues. This sense of purpose will make DENSO a place where people want to continue working, which in turn will drive the Company's Monozukuri forward.

Example of Value Creation**Logistics Reform Aimed at Both Solving the Logistics Labor Shortage and
Achieving Business Growth**

In response to the emerging social issue of logistics worker shortages, DENSO is advancing measures to create lean, worker-friendly logistics workplaces throughout the supply chain, extending from suppliers to customers.

For product delivery logistics, we have achieved a 34% reduction in the number of drivers required by introducing double articulated trucks, especially for long-distance transportation. In addition, we have adopted a truck transfer system to eliminate long working hours for drivers and improve their workstyle. Other initiatives include our construction of a highly efficient logistics network that uses the shortest routes and the minimum number of drivers. We are building this network through the in-house development of an optimal transportation route design system enabled by quantum computers and AI technologies. (Our Cultivated Strengths [P.21])

As for in-plant logistics, we have standardized cargo handling operations that were reliant on workers' experience-based know-how* and independently developed an AI technology-enabled algorithm for the calculation of optimal packing styles. A proving test of these in-plant logistics technologies at the Daian Plant confirmed reductions of 36% in product shipment work processes and 40% in the truck stoppage time of logistics partners.

In component procurement logistics, we have demonstrated a 30% improvement in loading efficiency through joint transportation with other companies. Also, DENSO is working on joint utilization of logistics relay sites and creating a system for the development and utilization of optimal logistics infrastructure for society as a whole.

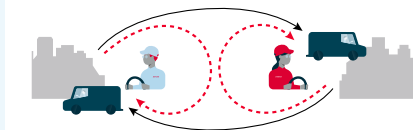
DENSO will continue to take on the challenge of solving social issues in logistics by working with various partners to realize highly efficient logistics.

* Highly experienced workers' skills that are difficult to translate into a standardized manual

Reducing the number of required drivers by introducing double articulated trucks



Eliminating long driving hours through a truck transfer system



Intellectual Capital

Outline of Efforts to Strengthen Intellectual Capital

During a history of product development over more than 75 years, DENSO has driven business growth by expanding the scope of R&D from the mechanical parts field to encompass electronics and software, in line with the needs of society. In accordance with its green and peace of mind principles, the Company's intellectual capital accumulated through R&D and technological plans for the future is the source of DENSO's competitiveness.

Through intellectual property-focused management integrated with our business strategies, we will provide value ahead of the times and tackle increasingly complex social issues by advancing R&D with leading-edge technologies in semiconductors, materials, AI and ergonomics, in addition to mass production development, that anticipates long-term changes in social conditions and technology trends.

Characteristics of DENSO's Intellectual Capital (Fiscal 2024 results)

R&D expenditure (ratio to revenue) ¥550.9 billion (7.7%)
Total patent submissions (Japan and foreign countries) Approx. 3,600
Total patents owned (Japan and foreign countries) Approx. 39,000

Strengthening Intellectual Capital

An era is approaching where software plays a pivotal role in creating new value in mobility with self-driving cars that autonomously make decisions and control the vehicle based on an awareness of the surrounding environment, assisting the human driver. This includes optimal motor control and energy management based on road and driving conditions, as well as updating the vehicle software based on user needs. Amid increasing demand for vehicle electrification and autonomous driving, automotive semiconductors are becoming more important. The automobile industry is also witnessing a significant structural shift, from the traditional vertically integrated model with automakers at the top to a horizontally dispersed model where IT companies involved in software (cloud systems) and semiconductors stand shoulder to shoulder with the automakers.

Amid these changes in the business environment, DENSO is transforming its business model to adapt to medium- and long-term transitions in the business landscape. As we shift our business portfolio toward growth areas such as vehicle electrification and advanced driver assistance systems (ADAS), we will further enhance our competitiveness by creating intangible value through software, in addition to the tangible value through traditional hardware, in tune with the trend toward software-defined vehicles (SDVs).

In the semiconductor domain, which plays an increasingly important role in vehicle electrification and autonomous driving, DENSO is leveraging its strengths developed over more than half a century of semiconductor research. We are enhancing our capabilities in automotive semiconductor development through alliances, strengthening our internal R&D organization in sensor technology, collaborating with highly specialized semiconductor vendors, and applying cutting-edge consumer electronics technologies in the logic semiconductor domain, including microcontrollers and systems-on-chips (SoCs), which are crucial for advanced vehicle control such as ADAS. While visualizing our strengths and unique advantages in each field, we will steadily solidify our foundations of competitiveness and supply capacity.

To put capital-efficient management into practice at the same time, we are working to visualize how activities and KPIs aimed at strengthening intellectual capital at both the departmental and individual levels contribute to improving development efficiency, launching and expanding sales of new products, and ultimately enhancing return on invested capital (ROIC). DENSO is adopting ROIC-based management throughout the Company by implementing an "ROIC tree" internally. In the software development process, which is particularly labor

intensive, we are achieving significant gains in efficiency that far exceed the amounts invested, such as shortening development timeframes by automating the testing process, and we are further enhancing competitiveness through a commitment to these measures. The intellectual property (IP) we create through these efforts is effectively utilized to create world-first products through research in advanced technologies, expand sales in the CASE domain by entering growth areas, and increase the production of patents that can be utilized by other companies. This allows DENSO to carve out competitive advantages both inside and outside the automobile industry.

Moreover, the exchange of knowledge across organizational boundaries, including start-ups and other partners, as well as industry-government-academia collaborations, will translate into new solutions for businesses and industries using advanced and core technologies in academic and scientific settings. DENSO aims to draw out and leverage its inherent strengths that are not readily apparent in its own activities while promoting the flow of knowledge.

As a comprehensive system supplier, DENSO is committed to creating truly valuable products and systems that go beyond mere components, with the aim of enhancing corporate value by solving social issues, creating new value, expanding profits, and reducing capital costs.

Intellectual Property Management Creating Maximum Value through Asset Utilization

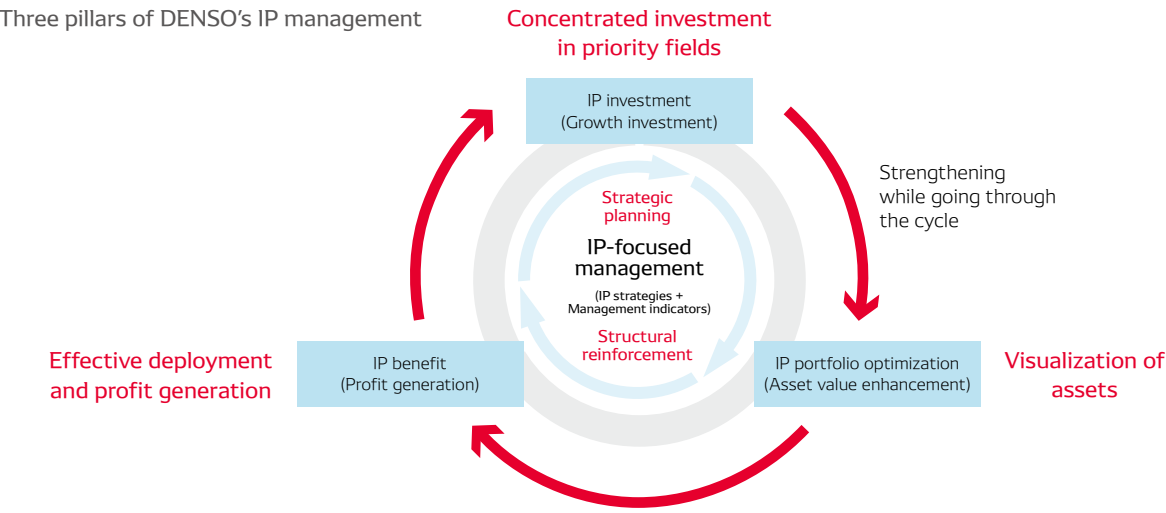
DENSO steadily applies the outcomes of R&D to future businesses and manages this extensive portfolio of intellectual property (patents, trademarks, copyrights, and other intellectual property in its portfolio) as an essential asset for ensuring competitiveness and securing alliances with partners.

On managing its intellectual property portfolio, DENSO aims to elevate the level of IP-focused management that benefits corporate management, leaning into IP strategies for each business and product line while bolstering the cycle of value creation, returns, profit generation, and growth investments through mutual dialogues among management and business, R&D, and IP divisions.

IP Portfolio Design Activities Aimed at Enhancing Corporate Value and Sustaining Growth

DENSO is focusing on R&D in growth fields and new fields. We design our IP portfolio by backcasting from a vision for the future, based on core technologies and a story about value creation that helps solve social issues.

Three pillars of DENSO's IP management



In designing our IP portfolio, we divide the portfolio into three levels—a Companywide level, a business level, and a development theme level—in accordance with our governance aims, and then we shuffle the portfolio based on a target profile for each level. IP indicators are based on the life cycle stage of technologies and products. Specifically, these indicators are a leading indicator, a current indicator, and a lagging indicator. As an indicator that expresses future portfolio trends, the leading indicator emphasizes non-mobility fields such as agriculture, hydrogen-related technology, and the circular economy. The current indicator, which expresses the strength of our current portfolio, emphasizes growth fields in the mobility domain, such as BEVs, ADAS, and self-driving cars. As a picture of our portfolio outcomes, the lagging indicator emphasizes domains that may be de-emphasized or discontinued, such as engine-related products. Based on IP information, we make investments in IP that contribute to the realization of our vision and the strengthening of our IP competitiveness.

Furthermore, we are working to clarify the causal relationship (value creation path) between the value our products provide to customers and the associated technology and IP. By reassessing DENSO's sources of competitiveness from an IP perspective, considering both its own and competitors' situations, DENSO is advancing activities to realize IP investments in this context.

Through these activities, DENSO's Patent Asset Index (PAI) score* in the environmental and safety domains of the automotive business has continued to increase. Compared with 2014, this score has increased approximately two-fold in the environmental domain and 1.5 times in the safety domain. Moreover,

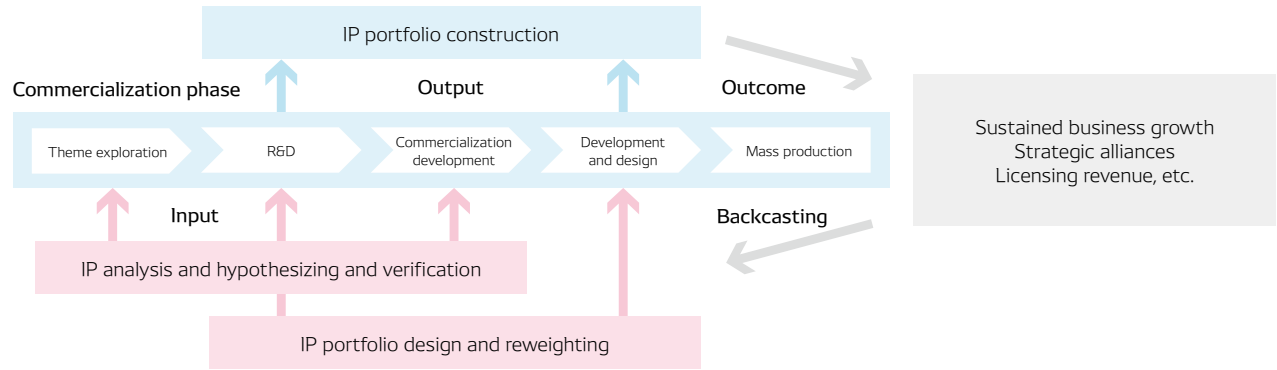
even when compared with major automakers and auto parts suppliers, DENSO maintains a competitive advantage in PAI scores, underscoring its strong IP competitiveness. Looking ahead, we will continue to leverage this high level of IP competitiveness to accelerate sustainable growth.

* The PAI is provided by LexisNexis through its patent analysis tool, PatentSight®. This index scores the quality of patents, rather than just their quantity.

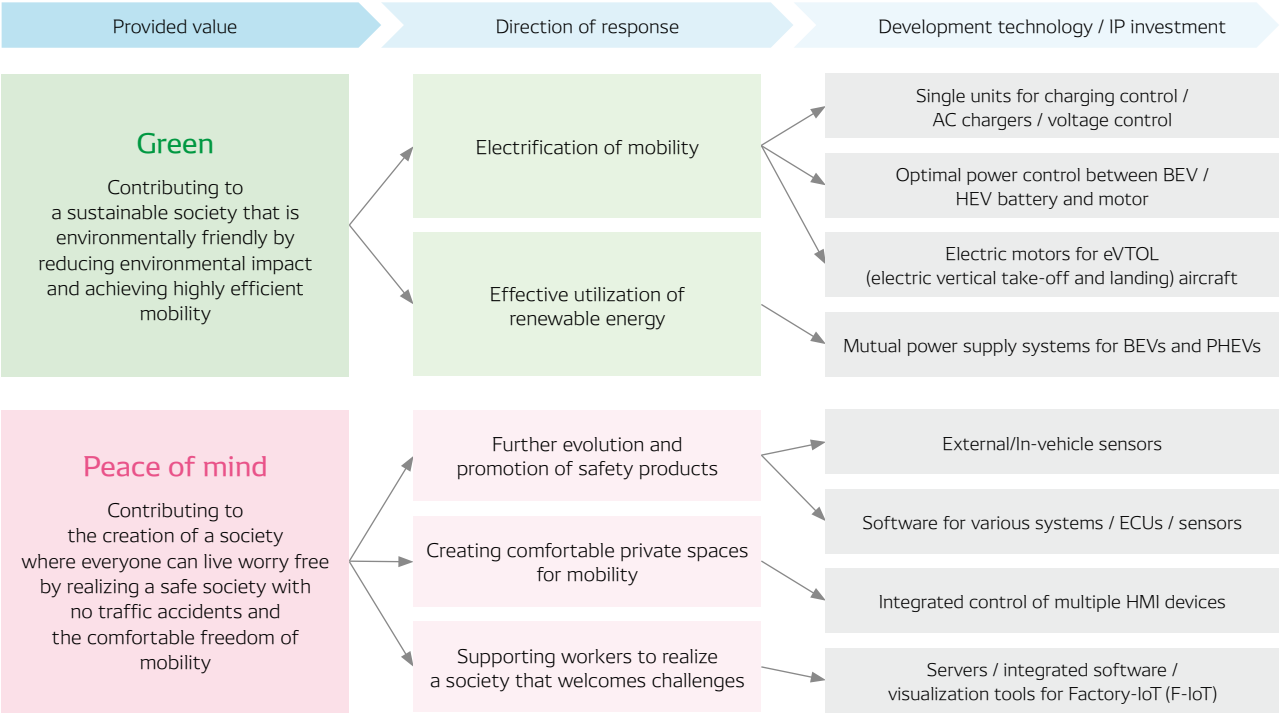
Example Metrics Related to Intellectual Property (IP)

IP investment*	Financial	Investment amount
	People	Number of engineers, etc.
Leading indicators (future trends)	Comparisons to other companies	Number of patent applications by country Number of inventors, etc.
	Internal assessments	Feasibility of implementing patents owned by DENSO or other companies, etc.
Current indicators (current strengths)	Comparisons to other companies	Number of patents owned by country Share of patents owned by technology domain, etc.
	Internal assessments	Implementation status of patents owned by DENSO or other companies, etc.
Lagging indicators (results)	Comparisons to other companies	Number of times patents cited, etc.
	Internal assessments	Patent revenue, etc.

Business Growth and Our IP Portfolio



Value Creation Pathway for Technology and Intellectual Property (Excerpt)



Initiatives to Strengthen and Maximize Use of Intellectual Capital in R&D

Revolutionizing the Mass Production Engineering Process

With the rapid advances and widespread adoption of AI technologies, including large-scale language models, a world is coming into view where generative AI will help automate tasks in the mass production engineering field that only people could do previously, such as interpreting and analyzing requirement specifications, calculating design parameters based on these specifications, and software coding. The output of generative AI depends on the quality and quantity of data it uses to learn. For this reason, the accumulation and possession of intangible intellectual capital, such as technical information, design know-how, and experiences from failures, are key to successful

automation and creating a competitive edge in revolutionizing the engineering process.

Since its founding, DENSO has proactively standardized, accumulated, and digitized its intellectual capital. Between 1957 and 1961, the Company established internal technical standards and research report systems, and in 1997, it digitized all of these technical standards and fully transitioned to a Companywide web-based search system. Currently, all business groups are beginning to leverage these intangible assets and generative AI to streamline and automate the engineering process, aiming to achieve significant efficiency gains in mass production engineering within the next few years.

By incorporating lean production principles to optimize production processes and eliminate wasteful manufacturing, as

well as by standardizing products and parts, enhancing and digitizing the engineering environment, and automating design using AI, DENSO intends to reduce the management resources allocated to mass production engineering and redirect them toward research and advanced development. The aim is to balance near-term business growth with investments in future growth.

Maximizing Intellectual Capital Cultivated in Mature Businesses

To enhance competitiveness in the growth businesses of electrification and automation, DENSO is vigorously advancing R&D in semiconductors & sensors and AI & software. At the same time, the core technologies developed in mature businesses are vital intellectual capital for DENSO. We are keen to further R&D aimed at evolving these core technologies.

These technologies, which involve chemical reactions and ceramic sintering and are honed in the development of internal combustion engines and exhaust gas purification systems, as well as thermal fluid dynamics gained in engine cooling systems, are being utilized as core technologies in solutions for achieving carbon neutrality, such as solid oxide fuel cells (SOFCs) and solid oxide electrolysis cells (SOECs). Additionally, we are reassigning engineers who have been involved in the development of internal combustion engine and exhaust gas purification technology to focus on the carbon neutrality domain (hydrogen business). This reallocation of knowledge and resources ensures that the intellectual capital developed in mature businesses is fully utilized to drive further expansion in growth and priority fields. (Special Feature: Value Creation in Action [P.94-95](#))

Maximizing and Optimizing Companywide Management Resources

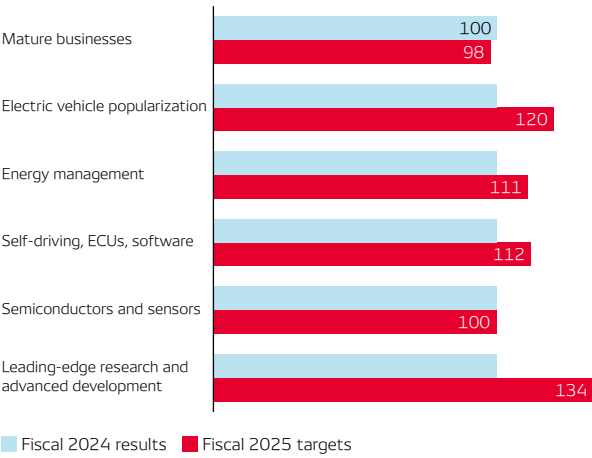
In response to signs of change in the business environment, DENSO launched the Companywide R&D Project System in fiscal 2024 to enable flexible and agile allocation of management resources and the reconfiguration of intellectual capital. The scope of this system includes medium- to long-term R&D projects led by functional departments and short- to medium-term development projects led by business groups. It also encompasses cross-disciplinary projects that span business and technological domains, addressing new areas of development that were out of scope for businesses in the past. All business groups contribute a portion of their profits to these projects, which are then reallocated Companywide and managed by cross-functional teams.

Management of Companywide Projects

- The Companywide Technology Strategy Team plans and proposes new projects through research and dialogues with internal and external stakeholders.
- Project approval is based on technological innovation and potential business impact, with final decisions made by the CTO, head of the R&D Center, and heads of business groups.
- Project outcomes are evaluated annually, with potential for modifications or discontinuation, as well as additions or revisions throughout the fiscal year.

In fiscal 2025, the number of Companywide projects will be doubled along with plans to increase R&D investment directed toward advanced research and preemptive development for the future. Through R&D that anticipates future changes, we will continue to strengthen our intellectual capital for success in the future.

R&D Budget for Fiscal 2025 (Fiscal 2024 = 100)



Key R&D Activities in Environmental and Safety Domains

Green Domain

In the electrification field, DENSO's approach to development centers on offering optimal solutions tailored to the energy situation and markets of various countries, with a focus on the three essential elements of vehicle electrification: motors, inverters, and energy management. Also, as a potential game-changing technology for the future, DENSO is advancing R&D on systems that enable wireless charging while driving. This innovation aims to significantly reduce the size of batteries required in battery electric vehicles (BEVs), lower vehicle costs, and eliminate charging times altogether.

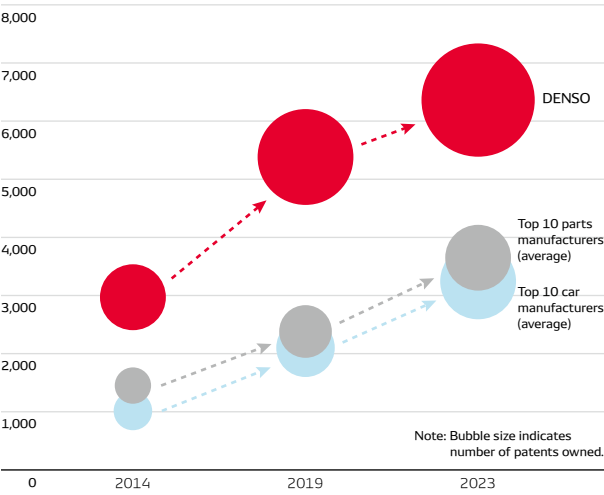
With the aim of establishing a resource-circulating ecosystem for vehicles, DENSO is developing materials suited for disassembly and rejuvenation through reverse engineering techniques that leverage its manufacturing technologies. The Company is also working on technologies to extract high-purity materials from end-of-life vehicles and recycle them into new, environmentally friendly vehicles. (Our Cultivated Strengths [P.23](#))

Peace of Mind Domain

To make self-driving cars a reality, DENSO is developing integrated control computers for multiple domains, such as functions for driving, turning, and stopping, as well as monitoring surroundings, while enhancing the performance of cameras, radar, LiDAR, sonar, and other sensors that serve as the "eyes" of the vehicle. The Company is also looking beyond these incremental advancements in technological development by also advancing research in game-changing technologies, including applications for generative AI that use large language models (LLMs), which could potentially handle the entire process of recognizing objects in the surrounding environment, making decisions, and controlling the vehicle without the need for expensive sensors.

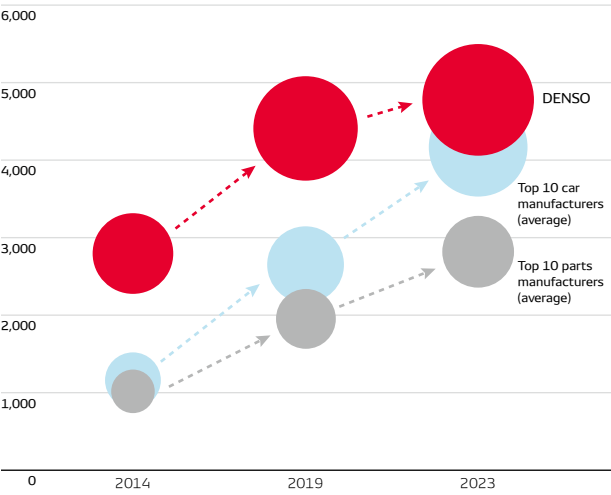
In the field of information management, DENSO is responding to growing social needs for greater visibility in manufacturing and distribution processes. The Company is developing traceability technologies that securely link data through a combination of DENSO-developed QR Codes® with blockchain technology, working toward the construction of a standardized data platform. Additionally, DENSO is focused on developing technologies that securely share data across industries, such as product information on batteries for electric vehicles and Scope 3 CO₂ emissions.

Green Domain: PAI Scores Related to Electric Vehicles (PAI scores)



Source: Created by DENSO using LexisNexis PatentSight®

Peace of Mind Domain: PAI Scores Related to ADAS (PAI scores)



Message from the Chief Technology Officer

Strengthening Our R&D Management and Technological Foundation to Consistently Provide Value in a Rapidly Changing Era

Yoshifumi Kato

Senior Executive Officer
Chief Technology Officer (CTO)



Highly Flexible and Agile R&D Management

The automobile industry is constantly evolving. The vehicle electrification trend, which had seemingly been dominated by the switch to BEVs, is now seeing a resurgence of interest in HEVs and PHEVs in some regions. This underscores the increasingly diverse and complex nature of today's needs in society and the market. Technological trends are advancing at an even faster pace, with significant developments and widespread adoption of new technologies occurring within the span of just a few months.

DENSO's medium- to long-term technology strategy puts the focus on electrification, automation, and carbon neutrality as well as semiconductors and software as the core technologies that support these areas. In these rapidly changing times, the Company is taking a two-pronged approach to technology management: a bottom-up approach to free-spirited R&D that anticipates future trends and a top-down approach with senior management guiding the direction and swiftly modifying strategies in tune with changes.

Long-term Stable R&D Investment

To ensure continued corporate growth and the sustainable provision of value in a rapidly changing business environment, it is essential that we secure and maintain long-term management resources for R&D. Despite the challenging business environment, DENSO has consistently allocated 8% to 9% of its sales to R&D. Moving forward, we will maintain this level of spending to continue advancing our R&D efforts.

Internal and External Strategies for Intellectual Capital

As vehicles become more tightly integrated with society, automobiles will be built with a larger number of semiconductors, including high-performance logic chips (SoCs) for large-scale integrated electronic control units (ECUs), microcontrollers (MCUs) for single ECUs, application-specific integrated circuits (ASICs) used in all ECUs, and power semiconductors for driving motors. The automotive semiconductor market is expected to expand 3.5 times by 2030 compared with 2020. Recognizing semiconductors as a core technology, DENSO is taking the following three strategies to strengthen its intellectual capital in this area.

1. Logic semiconductors:

Leveraging external intellectual capital and collaboration
To ensure it can reliably procure advanced logic semiconductors, DENSO presents strategic specifications for automotive semiconductors and collaborates with semiconductor manufacturers and foundries to co-develop driving assistance SoCs through a strategic separation of operations. For example, the Company is accelerating preparations to ensure reliable procurement by investing in Japan Advanced Semiconductor

Manufacturing, Inc. (JASM) along with Taiwan Semiconductor Manufacturing Company Limited (TSMC) and Sony Semiconductor Solutions Corporation to support domestic production of 28nm microcontrollers.

In anticipation of more intelligent vehicles in the future, DENSO is also engaged in cutting-edge research in logic semiconductors. In 2022, DENSO co-founded Rapidus Corporation, which focuses on developing and manufacturing logic semiconductors employing miniaturized processes that determine the performance of these semiconductors. In 2023, DENSO joined Advanced SoC Research for Automotive (ASRA), an industry-government-academia group dedicated to technological research in high-performance automotive semiconductors, and is actively involved in the development of automotive-specific SoCs.

2. Analog semiconductors for sensor signal control:
Strengthening internal intellectual capital

Analog semiconductors are embedded with DENSO's expertise in automotive control specifications. DENSO aims to balance competitive advantages and reliable supply by optimizing in-house production and external procurement of analog semiconductors.

3. Power semiconductors:

Strengthening internal intellectual capital

Power semiconductors are a key area where DENSO can differentiate itself. Leveraging over half a century of research and production experience in automotive semiconductors, DENSO prioritizes internal research in this area to maximize system competitiveness. For HEVs, DENSO supplies compact, low-loss devices made from silicon (Si) on large-diameter 300mm wafers to enhance cost competitiveness.

For BEVs, DENSO is focusing on silicon carbide (SiC) power semiconductors that feature significantly reduced power loss. To support mass production of SiC devices, DENSO is developing a proprietary "gas method" for producing high-quality SiC wafers at low cost. This formation technique aims to accelerate crystal growth and reduce production costs by 30%.

DENSO combines its world-class development, technological, and manufacturing capabilities to develop technologies that can be implemented across a wide range of fields, ultimately enriching and enhancing people's lives.

Message from the Chief Software Officer

Software Strategies That Deliver Real Value in a Mobility Society

Atsushi Hayashida

Chief Software Officer (CSwO)



Accelerating the Evolution of Cars Based on Our Three Competitive Advantages

In an age of software-defined vehicles (SDVs), where cars are connected to society, software will dramatically increase the value of cars. In realizing safe, comfortable, and enjoyable mobility, we must make assured safety a premise and incorporate IT into vehicles that enables application downloads and other advances. By 2030, in-vehicle software is expected to require approximately 600 million lines of code, more than six times the number in 2020 and an order of magnitude greater than the 20 million lines of code needed for the Android OS.

DENSO's three competitive advantages are integration capabilities: the formation of large-scale projects that make full use of cutting-edge technologies; human resource capabilities: co-creation among various in-house and external experts; and deployment capabilities: leadership in the establishment of industry standards. We have been involved in the development of in-vehicle software for more than 40 years and in the large-scale development required to realize SDVs for more than 20 years. Going forward, DENSO will extend the aforementioned advantages even further.

Strengthening Competitiveness by Co-Creating with Partners and Introducing Leading-Edge Technologies

Cars must be highly reliable because, in essence, people entrust their lives to cars when using them for transportation. DENSO provides a wide range of software and hardware for cars. Our strength lies in our expertise in developing cars through a three-pronged approach that integrates mechanical parts, electronics, and software. With the aim of adding IT to this integrated strength in order to provide user value from a broader perspective, we are advancing new partnerships and co-creation with related industries. As part of these efforts, we formed a comprehensive alliance with NTT DATA JAPAN CORPORATION in June 2024. We will continue working with diverse partners to boost our ability to provide customers with solutions.

Furthermore, we will use AI and software tools to accelerate the automation of evaluation, verification, and design processes so that anyone involved in product development can efficiently benefit from our long-standing expertise in the field of in-vehicle software development.

In forming large-scale projects that make full use of leading-edge technologies, securing a significant number of highly skilled software engineers is vital. Aiming to build a development system comprising 18,000 people by fiscal 2031, which is 1.5 times the number in fiscal 2024, DENSO is stepping up branding activities to enhance recruiting capabilities, reskilling personnel from other job categories, and strengthening relationships with partner companies globally.

In addition, through the Career Innovation Program we have defined common skills and standards worldwide, enabling us to

visualize the skills of our engineers globally. The program provides in-house certification to encourage personnel with advanced skills to take on important roles in diverse fields.

Leading Industry Software Standardization in Terms of Both People and Technologies

Given the diminishing number of software engineers, Japan's car industry cannot survive on a global scale if companies develop software in isolation. By leveraging its relationships of trust with customers, DENSO is leading the way in software standardization and building an industry-coordinated ecosystem.

With respect to human resources, we have begun working with related ministries and agencies to make our Career Innovation Program a standard in the industry. In the technological field, we participate in Japan Automotive Software Platform and Architecture (JASPAR), a standardization body for automotive software, as the sole supplier sitting on its five-company board and promote standardization in relation to SDV technology themes, such as functional safety and security. We will also actively contribute to the standardization of industry software for the digital transformation of mobility strategy that is being promoted by the Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism.

My Commitment as CSwO

We are fast approaching the SDV era, in which DENSO will increasingly be able to demonstrate the competitiveness of the software it has developed. DENSO aims to create a software business worth ¥800 billion by fiscal 2036, roughly four times its scale in fiscal 2024. The business has already won orders not only for conventional hardware-embedded software but also for stand-alone software. To accelerate the business, DENSO will further heighten the software development and value provision capabilities of the entire Group. The goal is to reach a position whereby a mobility society cannot be created without DENSO software.

As software development grows in scale, more than 1,000 engineers can be involved in a single project. In other words, the difference in scale is like changing from constructing a house to constructing a huge building. By working hard together and proceeding through many development processes, our designers are incorporating value into products in the form of high quality. The *Hitozukuri* (development of human resources) and *Monozukuri* capabilities required for software projects are already part of DENSO's long-cultivated DNA. By strengthening its software capabilities as a manufacturer, DENSO will strengthen the Company as a whole. With the pride and vigor of a software engineer, I will focus on creating social value through our software business.

Message from the Chief Digital Officer

Strengthening Competitiveness of Businesses and Organization through DENSO's Digital Transformation

Hirotsugu Takeuchi

Senior Executive Officer
Chief Digital Officer (CDO)



Digital technology is essential to shaping the future of our business and enhancing organizational competitiveness. I believe it is my mission to create an environment where all employees can leverage information assets to find data-driven solutions to current issues.

As we advance digital transformation (DX) and use more digital technology, the feedback we hear from various workplaces has revealed some issues, such as concerns about information sharing, a lack of individual skills and managerial understanding, and the inability to invest time and resources due to the demands of regular duties.

In light of this, DENSO is taking a pragmatic approach to DX aimed at enhancing competitiveness. Rather than rushing ahead with digitalization, we are first simplifying and standardizing current work processes, aggregating data and knowledge, and then moving toward automation in a methodical manner. This approach ensures that the IT Digital Center, which is spearheading our DX, is advancing digitalization with a keen awareness of on-the-ground realities and issues. In fiscal 2025, we are advancing our digital strategy along the following three objectives.

The first objective is establishing a digital platform. In fiscal 2022, DENSO confirmed that multiple cyberattacks had taken place, including unauthorized access, targeting Group

companies in North America and Europe. Determined to prevent such incidents from affecting stakeholders, we reinforced our security platform with more effective countermeasures across the entire Group. Moving forward, we will extend our security platform to companies in our supply and value chains, ensuring a safer, more secure and comfortable working environment.

Additionally, we are upgrading infrastructure that digitally connects approximately 160,000 Group employees worldwide. We are transforming work practices through the creative use of data generated on the front lines, with all employees using digital handsets, including those in manufacturing. We intend to enhance this platform by incorporating generative AI in the future.

The second objective is cultivating a digital mindset. No matter how advanced digital tools become, the tools themselves are not the main actors. We are conducting training for all employees to cultivate digital talent capable of leveraging advanced digital technologies and data to improve competitiveness. This initiative is positioned as a Companywide measure, with human resources and IT departments working as one team to visualize the use of digital technologies across organizations, positions, and individuals, and provide support tailored to each workplace and individual. (Human Capital [P.52-56](#))

The third objective is standardizing and automating business processes. Building on DENSO's core idea of lean automation,

i.e., an automated production system that eliminates as much waste as possible, the Company is advancing the transformation of business processes through simplification, standardization, centralization, and automation. By digitizing core information, we are dramatically improving the integration of information across processes and domains. Employees who have become digital talent will take the initiative to review and improve their workflows, utilizing our digital platforms to drive improvements and transformation.

In fiscal 2025, one of our priority initiatives is the application of generative AI to enhance operational efficiency and reduce costs, in order to free up capacity and increase vitality in the workplace. In the medium to long term, we plan to harness this extra capacity and vitality to drive comprehensive DX across

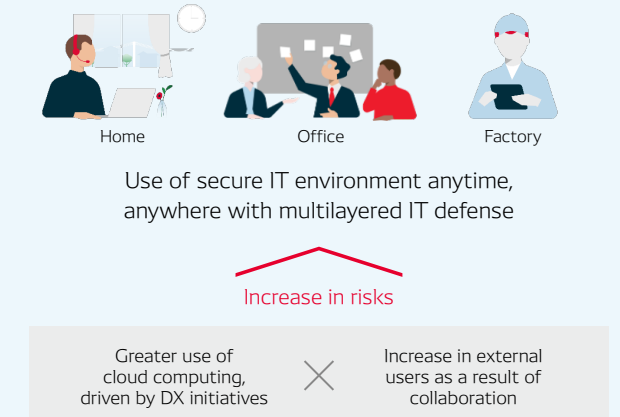
DENSO, changing business processes that support operations, as well as enhancing the capabilities and competitiveness of our organization, with the ultimate aim of sustaining growth.

From a broad perspective, DENSO's ability to identify and use technology to solve workplace issues will translate into value that benefits society. The QR Code® that DENSO introduced in 1994 is a prime example of how the Company's innovations have become deeply integrated into daily life around the world, contributing to society's advancement. By embedding the power of digital technologies into DENSO's businesses and organization, the Company will enhance its competitiveness and transform itself into a company that provides even greater value to society.

Examples of Value Creation through Digitalization

Industry-wide Collaboration for Secure IT Environments, Initiatives in Information Security

In response to a series of cyberattacks in fiscal 2022, DENSO has strengthened its cybersecurity measures across the entire Group. This includes (1) building up a multilayered defense by reinforcing the management of confidential information and using AI to filter out suspicious emails, (2) raising security awareness through training for all employees, and (3) implementing rigorous global governance to prevent a recurrence of cyberattacks. Moving forward, DENSO will continue to rely on advanced IT to accurately detect and defend against suspicious attacks while regularly conducting crisis response drills to prepare for potential cyberattacks. Additionally, to build a robust supply chain resilient to cyberattacks, DENSO will collaborate with stakeholders to continuously enhance security quality, based on the Automobile Industry Cybersecurity Guidelines, which aim to create a secure IT environment across the industry.



Digital Workplaces and IT Infrastructure That Facilitate New Value Creation

Since fiscal 2020, DENSO has been progressively rolling out the One Digital Device and M365 per Employee project, which equips all global employees of the DENSO Group with digital devices that enable two-way connectivity at all times across offices and plants. This initiative has created a work environment free from the constraints of time, place, and device. Building on this foundation of "always connected anywhere with anyone" devices and communications tools, DENSO aims to further automate work processes and promote DX while leveraging generative AI and other technologies in fiscal 2025. By fully utilizing AI, including the integration of generative AI with data-driven development, DENSO supports all employees in using digital tools equally, allowing them to spend more time on creative tasks that drive new value creation.



Supporting Advances in Sustainability Management through Global Collaboration and Data Centralization for Core Operations

DENSO aims to dramatically improve the speed and quality of its operations by globally standardizing, digitizing, and linking its core information. As part of this effort, DENSO's Management Platform DX initiative involves centralizing financial and non-financial information to visualize management conditions on a dashboard, which helps in spotting issues while facilitating rapid business decisions from a global perspective. By the end of 2024, DENSO plans to complete the development of and deployment to major bases a business profit & loss management system that standardizes and automates business planning processes. In 2025, DENSO aims to enhance analysis and decision-making through the use of AI and optimized novel technologies that enable simulations of ways to maximize profit based on different scenarios (changes in conditions). Looking beyond 2025, DENSO will integrate non-financial data into this system, further supporting its evolution of sustainability management.

Vision Enhance organizational capabilities and competitiveness through digital-driven reforms to business processes
Significant improvement in operational speed / More complex decision-making based on data



Standardize and automate processes

Take a holistic view of all operations and establish optimal processes that span across the organization



Establish a digital platform

Build an environment where employees can work safely, securely, and comfortably



Cultivate a digital mindset

All employees naturally use digital technologies and data in their daily work

Realization of Companywide DX

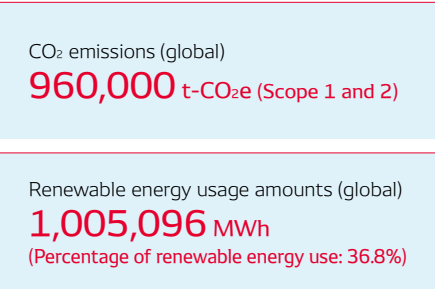
Natural Capital

Outline of Efforts to Strengthen Natural Capital

DENSO's business activities have a close relationship with natural capital, including through the utilization of industrial water and the use of mineral resources as raw materials for its products. Maintaining and preserving natural capital directly impacts our corporate management. In particular, we can help minimize the negative impact of climate change on natural capital by applying our long-cultivated environmental technologies to develop and popularize innovative environmental products. Initiatives to strengthen our natural capital help us to reduce invested capital, including by reducing the costs of our response to environmental risks and the costs of production.

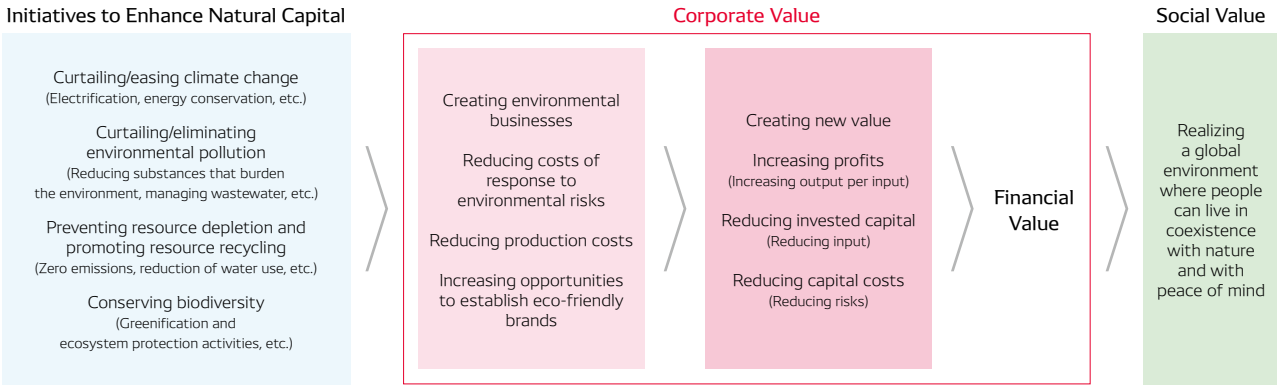
Based on our Eco Vision 2025 environmental management policy, we are enhancing the efficiency of natural capital use and reducing our environmental burden, thereby working to conserve the global environment and create economic value.

Characteristics of DENSO's Natural Capital (Fiscal 2024 results)



Notes: 1. The results figures reflect the use of carbon credits.
2. The targets are production bases in Japan and overseas (including the Group's manufacturing companies).

Relationships between Natural Capital, Corporate Value, and Social Value (Value Creation Path)



Climate Change Countermeasure: Zero CO₂ Monozukuri

DENSO is promoting the development of technologies for the production process and engaging in rigorous energy-saving activities with the participation of all employees. In addition, we have been proactively promoting energy-saving activities, including Just-in-Time (JIT) activities that aim for the utilization and supply of just the right amount of energy at the necessary time. Under Eco Vision 2025, we established the “energy half” target (reducing CO₂ emissions per unit by half compared with fiscal 2013) and have been promoting efforts to reach this target accordingly. In fiscal 2023, DENSO CORPORATION achieved this target three years ahead of schedule, while Group companies achieved the target in fiscal 2024, two years ahead of schedule. (Fiscal 2024 results [compared with fiscal 2013]: DENSO CORPORATION, 43 [reduction of 58%]; domestic and overseas Group companies, 46 [reduction of 54%])

Going forward, we will continue to enhance energy-saving activities utilizing Factory-IoT (F-IoT) and other technologies, and, at the same time, we will purchase electricity and gas derived from economically rational renewable energy sources and introduce self-power generation (solar power). Through such efforts, we will aim to make our *Monozukuri* completely carbon neutral.

Prevention of Environmental Pollution

DENSO is working to reduce the use of environmentally hazardous substances in its products in accordance with a basic policy of minimizing the use of chemical substances throughout product life cycles and taking into consideration trends in relation to the European Union's End-of-Life Vehicles Directive*1

and REACH Regulation*2 as well as other laws and regulations in respective countries and regions. In addition, chemicals handled at our plants are classified into “prohibited,” “targeted for reduction,” and “controlled” categories, and all chemicals used in our products are subject to integrated management under a proprietary control system. Based on these systems, we continuously promote efforts to reduce the usage and emissions of chemicals. At the same time, we are advancing the development of alternative technologies.

*1 This directive came into force on October 21, 2000 and, in principle, prohibits the use of certain chemicals in new vehicles sold from July 2003 onward.
*2 This comprehensive regulation on chemicals came into force on June 1, 2007.

Resource Depletion Prevention and Resource Recycling

With a view to achieving a recycling-based society, DENSO advances activities for the effective use of resources, which include reducing waste and emissions (zero emissions), recycling, and reducing water consumption. For example, we are reducing waste for main materials (metals and plastics) and subsidiary materials (fats, oils, and chemicals) by developing resource-saving processing methods and designing products that result in less waste. Also, we are taking measures to reduce water consumption through the introduction of JIT water management, which supplies the necessary amount of water to the necessary place. Further, DENSO has established a recycling network through cooperation among customers, DENSO service stations (centers), DENSO SOLUTION JAPAN CORPORATION, and DENSO REMANI CORPORATION. By utilizing this network, we operate a component rebuilding business that recovers, reconditions, and ships alternators and starters whose quality is assured through performance testing of the same stringency as that used for new products. As of fiscal 2021, we have achieved zero emissions at all global business sites.

Biodiversity

DENSO has contributed to ecosystem conservation through initiatives aimed at addressing climate change, preventing environmental pollution and resource depletion, and promoting resource recycling. In addition, our employees have collaborated with local communities to advance activities such as preserving and restoring ecosystems in the areas around our business sites and protecting endangered species.

Recently, in addition to climate change, there are rising global concerns regarding the loss of biodiversity. The loss of biodiversity ties in directly with the degradation of natural capital and therefore has a major impact on our corporate activities. Accordingly, we believe it is essential that we accurately assess the relationship between biodiversity and our business activities and enact measures, when necessary, if we are to enhance the stability of these activities.

To that end, we have recently been utilizing the Taskforce on Nature-related Financial Disclosures (TNFD), an international framework for the disclosure of biodiversity-related information, to carry out a trial analysis of our dependence and impact on nature and identify relevant risks and opportunities. In this section, we report the latest progress we are making in this endeavor.

Governance

Important items regarding our dependence and impact on nature and the relevant risks and opportunities are being deliberated on by the Companywide Safety, Health, and Environment Committee. This committee monitors and supervises the progress made toward qualitative and quantitative targets regarding our response to nature-related issues and evaluates business opportunities and risks. In this way, the committee will engage in decision-making based on comprehensive assessments.

Strategy

Centered on the Safety, Health & Environment Division, we conducted an analysis in collaboration with external experts. This analysis was carried out with a high level of objectivity, utilizing the LEAP approach* stipulated by the TNFD as well as analysis tools such as Aqueduct of the World Resources Institute and the Integrated Biodiversity Assessment Tool of the International Union for Conservation of Nature and other organizations. The analysis focused on a long-term timeframe, around 20 years in the future.

The results of the current analysis are as indicated below. Moving forward, we will continue to conduct analyses and reflect their results in our policies and plans for environmental activities.

* The LEAP approach is a recommended set of steps by the TNFD for TNFD-based information disclosures. It involves four steps: Locate (interface with nature), Evaluate (dependencies & impacts), Assess (material risks & opportunities), and Prepare (respond & report).

Direct Operations

We conducted an analysis of our production sites. Based on the results of this analysis, we identified Japan among our regions of operation as the region with the highest risk exposure from the perspective of the risk of biodiversity loss, making it our top priority area. At DENSO, we promote various activities to preserve nature. Taking into account the results of the recent analysis, we will conduct further analysis regarding the effectiveness of our current initiatives and any relevant issues.

(Number of exposure points in Japan for the risk of biodiversity loss: IUCN Red List: 2,120; Protected Planet preservation areas: 134; Key Biodiversity Areas: 11)

Value Chain

In the upstream of our value chain, we believe the risk of biodiversity loss is high, especially at our overseas suppliers of raw

materials. Accordingly, we conducted an analysis and evaluation of mining sites for bauxite, which is a raw material for aluminum used in such representative products as inverters and HVAC systems. The results of this analysis and evaluation are as follows.

Analysis and Evaluation of Risks and Opportunities Related to Mining Locations for Raw Material Bauxite

		Dependence/ Impact on Nature	Details of Major Risks and Opportunities	Response Measures
Risks	Nature	Dependence	• Destruction of ecosystems due to resource mining or wastewater	• Support for efforts by mining operators to restore ecosystems
		Impact	• Movement of invasive species due to land and marine transport (under investigation)	• Establishment of measures to prevent movement of invasive species
	Physical	Dependence	• Suspension of operations due to mining accidents (landslides, etc.) (short term)	• Disaster relief support for mining operators
		Dependence	• Decrease of reserves (under investigation) (long term)	• Diversification of alternative mines and suppliers
	Transition	Dependence	• Rise in prices due to the international situation	• Examination of alternative materials • Diversification of alternative mines and suppliers
		Impact	• Decline in supply amounts / Suspend production due to tightening regulations on mining	
Opportunities		Dependence	• Technologies to reduce dependence on mineral resources	• Development of alternative aluminum products and alternative aluminum materials
		Impact	• Growing need for mining technology with low environmental burden	• Joint R&D on new mining technologies leveraging long-cultivated environmental technologies

Management of Risks and Impacts

The risks identified in the analysis and evaluation will be reported to the Companywide Safety, Health, and Environment Committee, which will discuss such matters as relevant response policies and action plans. For risks that were determined to be particularly important, the Risk Management Meeting will invest resources into measures to address such risks, thereby controlling them from the perspective of Companywide risk management.

Measurement Indicators and Targets

With a focus on contributing to a nature-positive* global society, we will continue to utilize the TNFD to conduct ongoing analyses of nature-related risks and opportunities. The results of such analyses will be reflected in the next Eco Vision and Environmental Action Plan (Eighth Phase of Environmental Action Plan) and used to examine the formulation of indicators and targets. At the same time, we will incorporate the results into our environmental management systems (EMS).

* Nature positive: The concept of stopping biodiversity loss and shifting toward a path for recovery



Efforts to Maximize the Value of “Green” (TCFD)

Amid the pressing crisis of climate change, DENSO is exploring the ideal vision for a sustainable mobility society and is accelerating its sustainability management with a view to maximizing the value of “green,” which is a target adopted under its Long-term Policy for 2030. In 2019, we pledged our support for the Task Force on Climate-related Financial Disclosures (TCFD). Since doing so, we have been carrying out a scenario analysis regarding the impact of climate change on our businesses and the opportunities and risks related to this impact. We have also been examining ways to reflect the results of this analysis in our business strategies. In this section, we introduce the status of the initiatives we are promoting in accordance with the TCFD.

Scenario Analysis of Business Opportunities and Risks

To understand the impact of climate change on our businesses and to identify climate-related opportunities and risks, we referenced the external scenarios of the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) and used them as benchmarks for our scenario analysis. Also, while confirming the scenario analysis for the automotive industry, we compared and contrasted this analysis with our awareness of the business environment existing under the Company’s medium- to long-term strategies to hypothesize comprehensive scenarios. Upon doing so, we were able to identify climate-related opportunities and risks by analyzing the differences between our medium- to long-term strategies and these scenarios.

Hypothesizing Scenarios

In terms of transition risk, we have defined the Beyond 2 Degrees Scenario (B2DS) as a “promotional” scenario, and the Sustainable Development Scenario (SDS) and the Net Zero Emissions by 2050 Scenario (NZE) of the IEA’s World Energy Outlook as “ambitious” scenarios. For the scope of these scenarios, we quantified Group CO₂ emissions, the carbon tax, crude oil prices, the renewable energy rate, and the rate of new electric vehicle (xEV) introduction by 2040, and analyzed opportunities and risks based on the differences between these scenarios and Group strategies. Also, with regard to physical risks, we have defined the RCP8.5 and RCP6.0 scenarios of the Fifth Report of the IPCC as “stagnant” and “promotional” scenarios, respectively. We visualized aspects such as weather disasters, rising sea levels, deteriorating eco systems, and water and food shortages in a qualitative manner and analyzed opportunities and risks based on the differences between these scenarios and Group strategies.

Analysis of Climate-related Opportunities and Risks

We performed an analysis on the differences between our awareness of the business environment, which forms the basis of our medium- to long-term strategies, and the circumstances under the scenarios above. Items expected to have an impact on our businesses of over ¥10.0 billion were identified as key items and categorized into opportunities and risks. In our business strategies and financial strategies, we will incorporate measures that address these opportunities and risks, thereby simultaneously tackling social issues and enhancing our corporate value. Major opportunities and risks identified through the aforementioned analysis are as follows.

Major Opportunities

Key items	Timeframe / Impact	Major potential financial impact	Financial impact (fiscal 2026)	Response measures	Response cost (fiscal 2024)
Development of new products and services through R&D and technological innovation	Medium-term / High	Increase in revenue due to higher demand for xEVs Rise in demand for inverters and thermal products related to electrification and for technologies such as heat pumps that improve the heat efficiency of xEVs	¥300.0 billion	• Accelerate the development of technologies related to electrification—including power-saving technologies and compact high-output technologies—as well as the development of heat management technologies • Promote the development of engine control systems and other technologies that respond to alternative fuel (e-fuel, hydrogen, etc.)	¥90.0 billion
Diversification of business activities	Long-term / Medium	Increase in revenue following higher demand for decarbonization technologies Creation of business opportunities in such non-automotive fields as food and agriculture (AgTech), factory automation (FA), and hydrogen (SOEC*1 and SOFC*2) by applying environmental technologies fostered in the automotive field	Food and agriculture (AgTech), FA, and hydrogen, etc. ¥300.0 billion (FY2031)	• Create technologies such as AgTech that leverage sensor, control, and robot technologies and create energy utilization technologies, such as those that leverage exhaust gas purification and heat management technologies • Actively use business alliances	¥17.0 billion
Utilization of more effective production and logistics processes	Medium-term / Relatively high	Reduced energy costs through the promotion of energy conservation at plants worldwide If we promote enhanced energy efficiency and are able to achieve our target under Eco Vision 2025 of reducing the amount of energy used per unit by half compared with fiscal 2013, we could achieve a CO ₂ emissions reduction of approximately 1.65 million tons per year and reduce energy costs.	¥102.0 billion	Continue rigorous energy-saving activities; adopt low-carbon materials, equipment, and production processes; enhance production process efficiency through the introduction of Factory-IoT (F-IoT); and promote the development of energy-saving production technologies	¥10.0 billion

*1 SOEC: Solid oxide electrolysis cell *2 SOFC: Solid oxide fuel cell

Major Risks

Key items	Timeframe / Impact	Major potential financial impact	Financial impact (fiscal 2026)	Response measures	Response cost (fiscal 2024)
New controls and regulations placed on our existing products and services	Long-term / Relatively high	Decline in revenue against the backdrop of increasingly strict regulations on fuel efficiency and exhaust gas We expect even tighter regulations on fuel efficiency as well as acceleration in the transition to xEVs, including HEVs (comprising 47% of all vehicles in 2030). Non-compliance with regulations resulting from an inability to adapt to changes could cause a decline in unit sales.	¥300.0 billion	• Accelerate the development of energy-saving technologies for products powered by electricity with a view to extending driving distance • Accelerate development aimed at enhancing fuel efficiency of internal combustion engines in HEVs and other vehicles to respond to new regulations on fuel efficiency	¥80.0 billion
Increased severity and occurrence of abnormal weather such as typhoons and floods	Long-term / Relatively high	Decline in revenue due to suspended plant operations and supply chain disruptions Revenue could decline due to damage to in-house plants or supply chain interruptions that result in a suspension of plant operations in Japan and greater Asia, where we conduct 65% of our overall production and where the possibility of abnormal weather occurring is high.	¥120.0 billion	• Implement measures to mitigate the impact of disasters on buildings, etc., and strengthen risk management in the supply chain through such measures as ensuring multiple suppliers for components • Connect our plants across the globe by using IT and IoT and establish a global production structure that can immediately respond to changing production needs	¥9.3 billion
Carbon pricing mechanism	Medium-term / High	Decline in cost competitiveness due to the accelerated introduction of carbon pricing Carbon costs could be added to all in-vehicle products due to the expansion and increasing strictness of international regulations, such as carbon taxes and emissions trading systems.	¥12.0 billion	• Strategically and incrementally transition to renewable energy in manufacturing activities • Continue to promote activities to conserve energy and enhance energy efficiency in the production process	¥3.0 billion

Impact on Management Strategy

As mentioned previously, based on the results of our analysis, we have come to understand the significant impact that the climate change-related opportunities and risks expected to occur by 2030 will have on our product development and production activities, particularly the trend toward carbon neutrality.

Based on this understanding, we have set ourselves the ambitious target of becoming carbon neutral and have reflected this target in our management strategies.

Specifically, we have added the perspective of carbon neutrality to our CO₂ reduction plans under Eco Vision 2025, the Company’s environmental management policy formulated in 2016. For our *Monozukuri* activities, we have adopted the target of realizing carbon-neutral electricity by fiscal 2026 (carbon credits to be used with respect to gas) and becoming completely carbon neutral, including gas, by fiscal 2036. To achieve this target, we will continue to promote energy-saving activities, an area in which we excel as a company. At the same time, we will introduce electricity derived from high-quality renewable energy that is optimally economic and utilize carbon credits, among other initiatives. To accelerate investments toward these kinds of efforts to reduce CO₂ emissions, including energy conservation and renewable energy, we have introduced internal carbon pricing (ICP) within our investment decision-making approach.

For mobility products, we are working to reduce CO₂ emissions to the greatest extent possible by promoting the development of electrification technologies. Furthermore, we are working to achieve negative CO₂ emissions through technologies that create green energy using hydrogen. Through these efforts, we will aim to achieve carbon neutrality across all of society. Moreover, to balance contributions to the environment with business growth, we are holding regular discussions on reshuffling our business portfolio based not only on profitability and growth potential but also on CO₂ emissions and the reduction of these emissions and are promoting reshuffling efforts accordingly. (Message from the Chief Financial Officer [□□P 43–49](#)) We launched an expert team within the Safety, Health & Environment Division to serve as a structure for steadily promoting our carbon neutral strategy. At the same time, we have established the Environment Neutral Systems Development Division and the Hydrogen Business Promotion Division in a Companywide effort to realize carbon-neutral manufacturing, encompassing carbon neutrality throughout all processes through to the production activities at our plants.

Meanwhile, to respond to physical risks such as floods, which are increasing in frequency due to climate change, we are carrying out disaster mitigation measures at plants (including buildings and structures) and ensuring multiple suppliers for components and other materials so that we can minimize the risk of suspended operations due to damage at plants or disruptions in the supply chain. For additional support, we are introducing Factory-IoT (F-IoT) platforms. Through such efforts, we will build a global production and supply structure that can immediately respond to production fluctuations caused by weather disasters or other adverse events.



Please see the following URL for more information on DENSO’s Eco Vision 2025.
<https://www.denso.com/global/en/csr/environment-report/management/ecovision/ecovision/>



Impact on Financial Planning

Given the trend toward carbon neutrality, we must further accelerate the development of electrification technologies and transition to components compatible with such alternative fuels as hydrogen fuel and biofuel. Furthermore, in order to realize carbon-neutral *Monozukuri*, we need to allocate funds to procure electricity derived from renewable energy sources and purchase CO₂ offset certificates and carbon credits. To that end, in our financial planning, we have reflected an increase in R&D costs related to electrification and efforts to respond to alternative fuel needs. We have also reflected costs related to the introduction of renewable energy.

In addition, we have incorporated costs related to measures to address climate change risks (reinforcing buildings and structures), such as tornadoes, floods, and other abnormal weather events that are becoming ever more frequent and more severe.

Governance

DENSO has established the Companywide Safety, Health, and Environment Committee, which shares short-, medium-, and long-term targets set with the aim of realizing Eco Vision 2025. The committee also shares the issues and progress of activities related to the environment in general, including the results of scenario analysis, and issues instructions on measures to be taken. Chaired by an executive vice president, the committee convenes twice a year. Matters deemed to significantly affect businesses, such as medium-term management strategies and major investments, are discussed at meetings of the Management Deliberation Meeting or the Board of Directors.

In particular, with respect to carbon neutrality initiatives, the Board of Directors determines the Company’s targets. Based on these targets, the Strategy Deliberation Meeting and the Executive Workshop deliberate on medium- and long-term policies and strategies, while the Annual Plan Meeting deliberates on short-term policies, targets, and plans. Progress toward achieving the aforementioned targets is monitored at the Management Deliberation Meeting and meetings of the Board of Directors in which all officers participate.

Risk Management

In a volatile business environment, DENSO always strives to actively identify diversifying risks and conduct risk management from the perspectives of minimizing damage and ensuring business continuity. Climate change-related risks are reported to the Companywide Safety, Health, and Environment Committee, which identifies key items and clarifies the Company’s response.

Also, we have designated climate change-related risks (physical risks) as one of the major risks toward which the Risk Management Meeting should particularly invest resources and promote initiatives. Based on this designation, we are strengthening our response to these risks on a Groupwide basis from the perspective of overall risk management. (Risk Management [□□P 110–111](#))



Metrics and Targets

In light of society’s expectations and the progress of our activities based on Eco Vision 2025, in fiscal 2022 we set ourselves the more ambitious goal of becoming carbon neutral. Since then, we have been advancing activities with our sights set on this goal.

We clarified specific targets for this goal in the Mid-term Policy for 2025. At the same time, we incorporated a sustainability target pertaining to our material issues into part of our management targets. As previously mentioned, the status of progress and follow-up regarding these targets are shared not only with the Companywide Safety, Health, and Environment Committee but also with the Management Deliberation Meeting and the Board of Directors.

Please see the Green Strategy section for our road map for achieving each metric and target (Green Strategy [P39](#)).

Climate Change-related Targets
(CO₂ Emissions Reduction) (Benchmark year: Fiscal 2021)

Component procurement	FY2031	Reduction of 25% (equivalent to well below 2°C*)
	Scope 3 (Upstream)	FY2051 Carbon neutral
Monozukuri	FY2026	Carbon neutral
	Scope 1 and 2	FY2036 Carbon neutral (without carbon credits)
Product use	FY2031	Reduction of 25% (equivalent to well below 2°C*)
	Scope 3 (Downstream)	

* The target of keeping temperature increases well below 2°C, which is a Scope 3 target under the 1.5°C standard

Scope 3 (Upstream) Reduction of CO₂ Emissions in the Supply Chain

Aim Realize Carbon Neutrality through Collaboration between DENSO and Suppliers

Through dialogue and based on a mutual understanding, we are promoting activities together with our suppliers aimed at achieving carbon neutrality.

Specifically, after visualizing our emissions within the supply chain, we have been sharing with suppliers our medium-term goal of reducing CO₂ emissions by 25% by fiscal 2031, compared with levels in fiscal 2021 (equivalent to an annual reduction of 2.5%), and our long-term target of achieving carbon neutrality by fiscal 2051. We also request that our suppliers promote activities toward achieving these targets. In October 2021, we established a permanent showroom displaying examples of how to promote energy conservation. To date, a total of 1,500 people have visited the showroom, including customers, suppliers, and members of national and local government agencies. By providing support in such ways as lending energy-saving diagnostic and energy measurement equipment to suppliers, we help them promote energy conservation activities. Also, we provide support for the introduction of renewable energy and actively make use of materials with low CO₂ emissions (aluminum and resins, etc.).

Furthermore, through such activities we gather information on the issues and requests of suppliers based on which we make suggestions to industrial organizations and other groups. With these efforts, we are helping to create environments that facilitate sustainable activities across the entire supply chain.



Permanent showroom (Agui Plant)

Scope 1 and 2 Carbon-Neutral Monozukuri

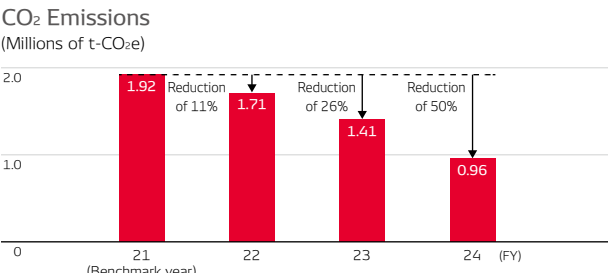
Aim Achieve Complete Carbon Neutrality in Monozukuri

We aim to achieve carbon neutrality in *Monozukuri* by lowering CO₂ emissions through a reduction in energy consumption based on more-efficient manufacturing processes; by using such renewable energy sources as sunlight; and by reducing CO₂ emitted in production processes through the utilization of green hydrogen created through the use of renewable energy.

Achievements to Date

We have reduced CO₂ emissions by 50% compared with fiscal 2021, achieving our fiscal 2024 target for a 50% reduction, by thoroughly implementing energy-saving activities, which are one of our long-standing strengths; by introducing renewable energy; and by utilizing carbon credits.

In addition, as of fiscal 2023, we achieved carbon neutrality at the Anjo, Nishio, and Hirose plants, DENSO FUKUSHIMA CORPORATION, and all DENSO plants in Europe. As of fiscal 2024, we also achieved carbon neutrality at the Takatana, Daian, Kota, Zenmyo, and Kosai plants.



Notes: 1. The results figures reflect the use of carbon credits.
2. The targets are production bases in Japan and overseas (including the Group’s manufacturing companies).
3. Fiscal 2021 results have been adjusted for the effect of the reduced production that accompanied the COVID-19 pandemic.

Scope 3 (Downstream) Carbon Neutrality for Electric Vehicle Components

Aim Contribute to the Electrification of Cars to Reduce CO₂ Emissions to the Greatest Extent Possible

We will help reduce CO₂ emissions from vehicle use by developing products and systems that support the popularization of HEVs, BEVs, FCEVs, and other xEVs. In addition, we will apply the electrification technologies cultivated in the automotive industry to the field of air mobility in an effort to significantly reduce CO₂ emissions.

Contribution to the Reduction of CO₂ Emissions from Energy Use

Aim Realize an Energy-Recycling Society through the Development and Popularization of Technologies That Make Effective Use of Renewable Energy

We will establish technologies that use energy in a highly efficient manner, regardless of location or time, and work to popularize them on a global basis. By doing so, we will help realize an energy-recycling society.

For example, we have commenced verification tests for SOFCs, which create electricity from hydrogen, and SOECs, which produce hydrogen from electricity, by utilizing the heat management and material technologies that we have cultivated in the automotive field. Through these kinds of verification tests, we will pursue the efficiency of fully utilizing green hydrogen energy and the durability of being able to safely use energy systems over long periods of time. By doing so, we will take on the challenges of development aimed at balancing environmental sustainability and economic viability.

International Certification of Reduction Targets

We have established targets for the reduction of greenhouse gas emissions by fiscal 2031. These targets are based on scientific evidence and consistent with the goal of limiting the global average temperature increase to 1.5°C above pre-industrial levels, which is set forth by the Paris Agreement. As a result, our targets have obtained Science Based Targets (SBT) certification from the internationally recognized Science Based Targets initiative (SBTi).*

* The SBTi is a joint initiative established by World Wide Fund for Nature, the CDP, the World Resources Institute, and the United Nations Global Compact. The SBTi formulates guidance that enables companies to set specific targets for the volumes and timeframes of greenhouse gas emission reductions. SBT certification is granted to companies whose targets are recognized to be in conformity with scientific findings (Science Based Targets).



We will continue conducting extensive studies and analyze in even greater detail the quantitative financial effects of key items as well as the specific business opportunities and risks that accompany them. We will then reflect our findings in business strategies and action plans.

TOPIC

At the Partnership Building Symposium, held by the Ministry of Economy, Trade and Industry, DENSO’s procurement business group was awarded the Partnership Building Grand Prize, “Special Theme Award (GX Award),” in recognition of its efforts to help small to medium-sized suppliers become carbon neutral. This marked the first time this award was won by an organization in the automotive industry.

MESSAGE



Striving to Become Carbon Neutral Together with Our Suppliers

Kazutoshi Ohyama
Supply Chain Purchasing Planning Division

We believe we must realize carbon neutrality not only at DENSO but also across the entire supply chain. To achieve this, it is essential that we gain the understanding of and collaborate with our suppliers. Through efforts such as holding study sessions on carbon neutrality, providing support for energy conservation, and

offering briefings on DENSO’s policies, we have gradually enhanced the understanding of our suppliers and have encouraged them to actively engage in carbon-neutral initiatives. Thanks to these efforts, we have received a great deal of positive feedback from suppliers, including comments such as “energy conservation has helped us significantly reduce energy costs” and “our employees have gained an opportunity to consider their connection with society.”

By continuing to collaborate with suppliers, we will aim to realize carbon neutrality across the entire supply chain. At the same time, we will take steps to ensure that society recognizes the added value that carbon neutrality provides to the supply chain.

Social and Relationship Capital

Outline of Efforts to Strengthen Social and Relationship Capital

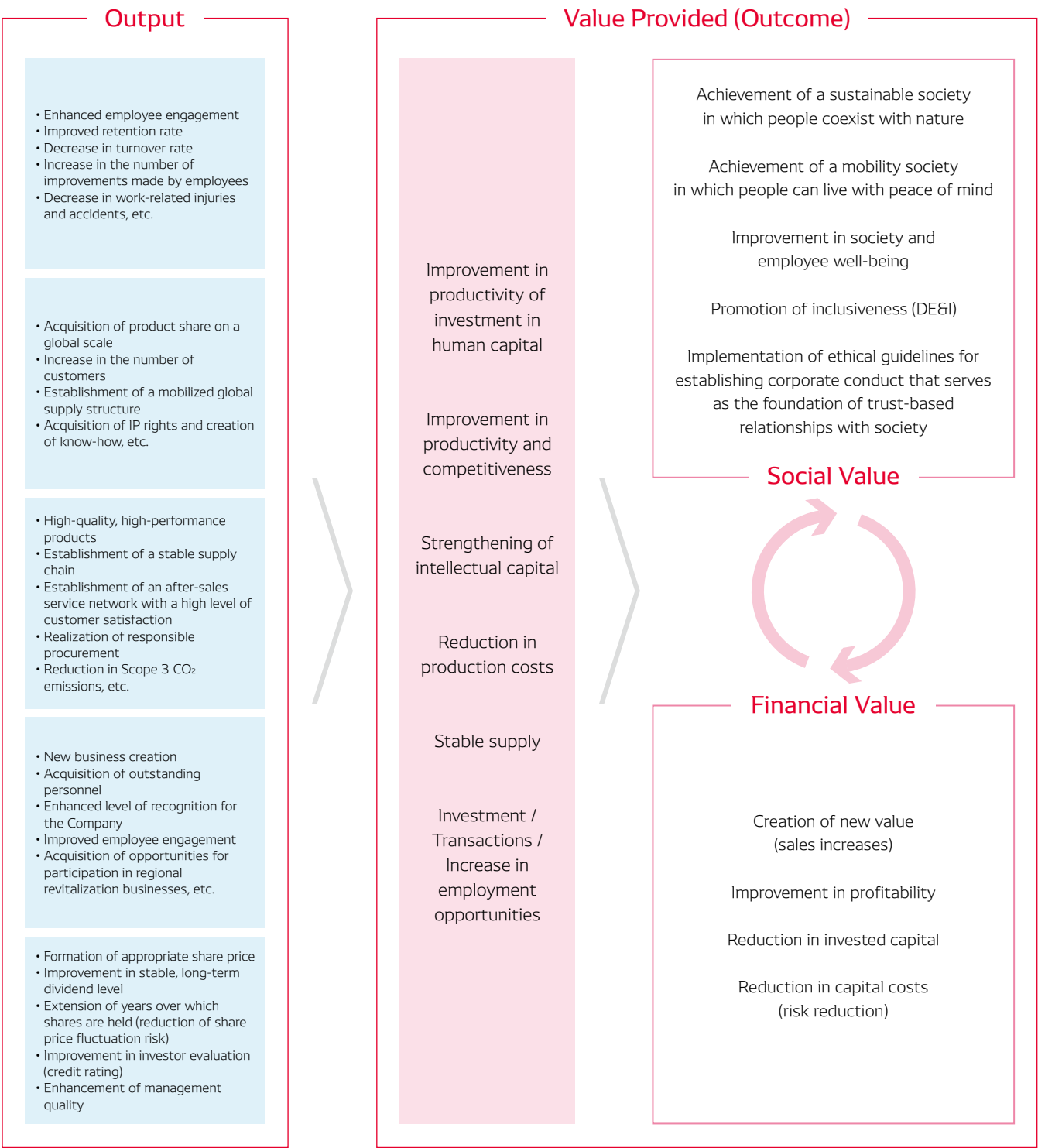
In an era with an uncertain outlook, flexibly responding to social changes and needs on our own is extremely challenging. We therefore believe that building good relationships with stakeholders and expanding our circle of associates is essential to enhancing corporate value. Furthermore, to avoid self-satisfying activities that are biased by our own logic and preconceptions, we are deepening our understanding of stakeholder expectations and options through dialogue with them and reflecting that understanding in our corporate activities. By doing so, we aim to become a company that is deeply inspiring by realizing growth together with our stakeholders and society as a whole.

Initiatives to Enhance Corporate Value by Strengthening Relationships with Our Stakeholders (Value Creation Path)

Stakeholders	Relationships between Social and Relationship Capital, Corporate Value, and Each Other Type of Capital	Related Capital	Initiatives to Strengthen Relationships (Input)	
			Expectations of and Points of Concern for DENSO	Initiatives
Employees	To create new value through the collective wisdom and strengths of DENSO's employees worldwide and realize growth for the Company, enhancing employee engagement is essential. Mindful of this, we will develop a corporate culture that encourages employees to work with enthusiasm and realize their talents. As part of these efforts, the Company will reform workstyles and human resource systems and create employee-friendly work environments in which employees can work with peace of mind.	Financial capital ▶ Human capital ▶ Manufacturing capital ▶ Intellectual capital Natural capital	Employee fulfillment, workplaces that facilitate good communication, flexible workstyles, fair and appropriate personnel evaluation systems, active roles of diverse human resources, workplace environments that are safe, comfortable, and promote health, etc.	Employee awareness surveys, in-house publications and information dissemination via intranet, consultation centers (hotlines, general consultation office), social gatherings between labor and management, etc.
Customers Automobile manufacturers, automobile users, and customers in non-automotive fields such as agriculture and FA, etc.	In addition to expanding financial capital by encouraging adoption of the Company's products and services, robust relationships with customers help us build an optimized supply structure, accumulate technologies and know-how through transactions, and cultivate our employees. Through dialogue with customers, DENSO will deepen its understanding of what they need and expect from the Company, thereby enabling the creation of products and services that satisfy customers and earn their trust.	▶ Financial capital ▶ Human capital ▶ Manufacturing capital ▶ Intellectual capital Natural capital	Provision of high-quality, high-performance products and services, products that address social issues, a stable product supply, a service network with a high level of customer satisfaction, etc.	Communication via day-to-day sales activities, new product exhibitions, joint R&D activities, establishment of new companies through joint investment, a customer consultation center, etc.
Business Partners Suppliers, service stations, and M&A business alliance partners, etc.	The competitiveness of our products and services is underpinned by the high technological capabilities and stable supply of our business partners. In addition, our efforts toward such matters as carbon neutrality and human rights due diligence require the understanding and cooperation of our business partners. Accordingly, we will strengthen our partnerships, provide products and services that are chosen by society, and engage in corporate conduct that helps us gain the support of society. By doing so, we will grow together with our business partners.	▶ Financial capital Human capital ▶ Manufacturing capital ▶ Intellectual capital Natural capital	Business expansion, business alliances, cross-industry exchange, support for responding to sustainability needs (the environment, human rights, etc.), leadership in addressing industry issues, etc.	Day-to-day communication, Supplier Appreciation Meeting, sustainability self-assessments, participation in industry bodies, General Meeting of DENSO Service Stations, servicing skills competition, etc.
Local Communities Local community members, governments, NPOs and NGOs, people of the next generation, etc.	We must realize coexistence and co-prosperity with the regions of operation and gain acceptance as a good corporate citizen in these regions. Also, confronting regional issues creates opportunities to develop an awareness of the need to address social issues, which is an important facet of business activities. We will therefore identify the needs of local communities through dialogue. By solving issues in partnership with local communities, we will contribute to their development.	Financial capital ▶ Human capital ▶ Manufacturing capital Intellectual capital ▶ Natural capital	Local employment and procurement, regional promotion (sports, culture), support for the development of the next generation, traffic safety activities, regional environment conservation, etc.	Conferences with local community members and governments, plant tours, Monazukuri schools, social contribution programs in collaboration with local NPOs, agreements with local governments for regional revitalization, etc.
Shareholders and Investors	Financial capital to invest in such areas as facility enhancement, R&D activities, and human resource development is required in order to realize sustainable growth and enhance corporate value. For that reason, we understand that our shareholders and other investors are valuable supporters who provide us with advice on how to promote sound management. We therefore believe it is important to build solid trust-based relationships with them. By enhancing the transparency of our management through timely and appropriate information disclosure and dialogue, we will aim to enhance our corporate value.	▶ Financial capital ▶ Human capital ▶ Manufacturing capital ▶ Intellectual capital ▶ Natural capital	Appropriate share price, implementation of dividends and other shareholder returns, timely and appropriate information disclosure and opportunities for dialogue, disclosure of non-financial information, etc.	General Meeting of Shareholders, DENSO DIALOG DAY, financial presentations, technology briefings, briefings for individual investors, integrated report, securities report, etc.

Characteristics of DENSO's Social and Relationship Capital (Fiscal 2024 results)

Number of suppliers Approx. 7,540	Number of dialogues with institutional investors (total number of companies) 1,750
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Undertaking Initiatives toward Respecting Human Rights

Against the backdrop of the rising interest toward sustainability around the globe, corporations are strongly expected to consider human rights within their business activities.

A workplace free of harassment and discrimination helps lower the risks of quality-related issues and work-related injuries. Further, conducting business activities with due consideration for human rights increases business opportunities, helps ensure stable supplies of products, and improves employee engagement.

Viewing respect for human rights as an important issue, DENSO has established it as a material issue of sustainability management and is advancing initiatives accordingly.

Promotion Structure

To clarify our approach and policies toward respecting human rights and in consideration of the Universal Declaration of Human Rights, the Guiding Principles on Business and Human Rights, and other international norms, we have formulated the DENSO Group Human Rights Policy.

With the chief human resources officer (CHRO), who is a member of the Board of Directors, as a leader and the Human Resources Division as the leading organization with regard to human rights issues, we are promoting activities in collaboration with related divisions, including the Corporate Strategy, Purchasing, and Legal Affairs and Compliance divisions. In addition, we exchange information and engage in discussions with human rights experts, such as third-party organizations and external stakeholders, when appropriate, to gain a clear understanding of human rights and appropriately respond to international situations and legislative trends.

Promoting Employee Education and Enlightenment

DENSO promotes education and enlightenment activities for employees at each Group company with the aim of encouraging employees to act based on the DENSO Group Human Rights Policy.

Through education programs by grade and compliance tests that target all employees, including those at domestic Group companies, DENSO CORPORATION is engaging in education and enlightenment activities to deepen employee awareness and understanding of human rights.

Overseas Group companies also conduct awareness-raising activities based on important issues in their respective regions. For example, in North America our bases establish internal policies prohibiting harassment and conduct education on mutual respect and sexual harassment prevention for all employees, from members of senior management to new hires.

Human Rights Due Diligence

We identify and evaluate human rights-related risks that can occur as a result of our business activities and promote human rights due diligence, which is aimed at implementing measures to prevent such risks and reduce their impact should they occur.

(1) Implementation of a Risk Assessment

With the cooperation of a third-party organization specializing in human rights, we have conducted a risk assessment to identify and evaluate potential human rights risks. As a result, four issues have been identified as potential human rights risks that are highly relevant to the DENSO Group. These include the rights of non-Japanese workers in Japan and complicity in forced labor in the supply chain. Establishing an order of priority, we will review the situation regarding each human rights risk

and, as necessary, implement impact assessments to promote preventive measures and mitigation efforts for these risks.

(2) Implementation of an Impact Assessment—Non-Japanese Workers in Japan (Non-Japanese Technical Interns and Skilled Workers)

Human rights issues facing non-Japanese workers in Japan (non-Japanese technical interns and skilled workers) are highly relevant, important human rights risks in the automotive supply chain. DENSO assesses the actual conditions at major domestic Group companies and suppliers through written surveys. At the same time, for these surveys the Company prioritizes companies that utilize non-Japanese workers. In fiscal 2024, DENSO once again held direct interviews with such non-Japanese workers.

As a result, the Company confirmed that, although some improvements are needed at the surveyed companies, there are no major issues that could lead to human rights violations. We were also able to confirm that the surveyed companies are taking various measures to ensure that the human rights of non-Japanese workers are not negatively affected. DENSO shared the efforts of these surveyed companies with other domestic Group companies and suppliers as an example of good practice.



Interviews with non-Japanese technical interns working at domestic Group companies

Grievance Mechanism

We have established an internal whistleblowing system that can be used by domestic Group companies and suppliers. In the event an issue arises that impacts human rights or contributes to an impact on human rights, this system provides relief to the affected party.



For details on initiatives related to the DENSO Group Human Rights Policy and our respect for human rights, please visit the website below.
<https://www.denso.com/global/en/about-us/sustainability/society/humanrights/>



Supply Chain Management

DENSO aims to achieve mutual growth with its suppliers across the globe. Guided by our basic policy of ensuring open and fair business practices and responsible procurement activities, we are promoting a broad range of activities to not only ensure a stable supply of products to customers but also realize sustainable procurement across the supply chain.

Solidifying Our Foundation for Ensuring a Stable Supply

To respond to more diverse and frequently occurring risks, such as recent natural disasters (earthquakes, floods, fires, etc.), cyberattacks, and unexpected events (epidemics, wars, and terrorism), and to ensure that we can continue our supply to customers, we are moving forward with a broad range of activities, together with our suppliers, with the aim of solidifying our foundation for a stable supply.

As part of our risk-prevention efforts, we will work to clearly define our supply chain on a global scale while seeking to bolster our disaster mitigation measures and fire-prevention structure. We will also conduct information security inspection activities to prevent production disruptions and confidential information leaks caused by cyberattacks.

Meanwhile, in an effort to prepare for risks, we are working to enhance continuity by standardizing components and spreading out production activities across multiple plants so that we can ensure backup production throughout the supply chain when a risk occurs. We are also taking steps to secure the amount of risk inventories needed until production is restored, in the event of a disruption. Furthermore, to enact swift measures to stabilize supply when a risk occurs, we are leveraging systems that visualize supply chain information and ensuring that we are able at all times to ascertain information at our suppliers in the areas where a risk occurred.

Promoting Activities to Enhance Quality

To continue to provide products that satisfy our customers, DENSO and its suppliers must promote efforts to maintain and improve quality control. To that end, we share quality targets with suppliers and provide various kinds of support to help suppliers maintain and improve their quality assurance structure. By doing so, we verify on an ongoing basis that the parts and materials supplied to us meet the quality requirements of our customers.

Examples of Specific Initiatives

- Formulation of quality assurance manual for suppliers geared and responding to the IATF 16949 international standard for quality assurance
- Implementation of self-inspections based on quality control check lists (once a year)
- Establishment of quality targets at suppliers and confirmation of performance (monthly)
- Offering of advice and support through dialogue for resolving issues facing suppliers, etc.

Promotion of Sustainable Business Activities Based on Guidelines

DENSO asks all suppliers to endorse the DENSO Group Sustainability Policy. At the same time, we have established the Supplier Sustainability Guidelines, which set forth the behavior expected of suppliers in more concrete terms, including benchmarks to ensure compliance, human rights protection, environmental conservation, and workplace safety. In addition, we request that suppliers clarify their sustainability policy and assign a sustainability manager to advance activities based on these guidelines.

Also, we ask our major suppliers to periodically conduct self-checks using a self-evaluation form. When necessary, DENSO managers visit suppliers to confirm the results of these self-checks and engage in dialogue, thereby encouraging improvements.

Initiatives for Responsible Procurement of Resources and Raw Materials

The responsible procurement of mineral resources and raw materials is an important task in supply chains. With the globalization of businesses, supply chains are becoming increasingly global and diversified. In certain regions of the world, however, workers' rights are not taken into consideration. In particular, mineral mines involve a great deal of dangerous work. At such mines, cash outflows to armed groups and such human rights issues as child and forced labor have been reported.

We have formulated a policy on conflict minerals, which we share with our suppliers. Also, we conduct an annual survey on conflict minerals with the cooperation of suppliers. From fiscal 2025, we will include cobalt and mica in the list of minerals subject to investigation and steadily conduct surveys of relevant suppliers. Moving forward, we will periodically review the minerals subject to risk and consider the appropriate methods of response and work with suppliers to avoid the use of minerals of concern throughout our supply chain.

Green Procurement and the Promotion of Carbon Neutrality in the Supply Chain

We have formulated the Green Procurement Guidelines, which stipulate the management and reduction of environmentally hazardous substances (substances of concern) and the establishment of environmental management systems, and we ask suppliers to conduct procurement and management in strict compliance with these guidelines.

Particularly with regard to climate change, DENSO has visualized its CO₂ emissions within the supply chain and shares medium- to long-term targets with suppliers. We also request that suppliers promote activities to reach these targets. At the same time, we provide support that caters to the preferences and conditions of each supplier. (Green Strategy, Efforts to Maximize the Value of "Green" (TCFD) P.38–39, 70–73)



For details on the DENSO Group's procurement policies, please visit the website below.
<https://www.denso.com/global/en/about-us/sustainability/society/procurement-policy/>



For details on the DENSO Group's initiatives focused on promoting sustainability throughout the supply chain, please visit the website below.
<https://www.denso.com/global/en/about-us/sustainability/society/supply-chain/>

