

Risk Management

Basic Stance

To minimize the impact of constantly diversifying risks, DENSO is working to strengthen its risk management structure as a part of internal controls. Specifically, we have divided matters that have the potential to damage our businesses into “risks,” which refer to circumstances where such matters have yet to manifest, and “crises,” which refer to states of emergency where such matters have manifested. Based on these classifications, we are focusing our efforts on implementing preventive measures, which stop risks before they occur, and swift and accurate initial-response and recovery measures, which minimize damage in the event a crisis occurs.

Recently, DENSO has been facing a variety of risks the likes of which it had previously never experienced. Since 2019, we have been dealing with the fallout from the quality-related issue, which has impacted the trust our customers place in us and has shaken our management foundation. Additionally, risks stemming from the external environment, such as the COVID-19 pandemic, tight supply-demand for production materials, and cyberattacks, have had a major impact on our business activities.

In light of these circumstances, we have once again recognized risk management as an important management issue. Going forward, we will pursue dramatic reforms to our risk management structure in order to strengthen our response capabilities.

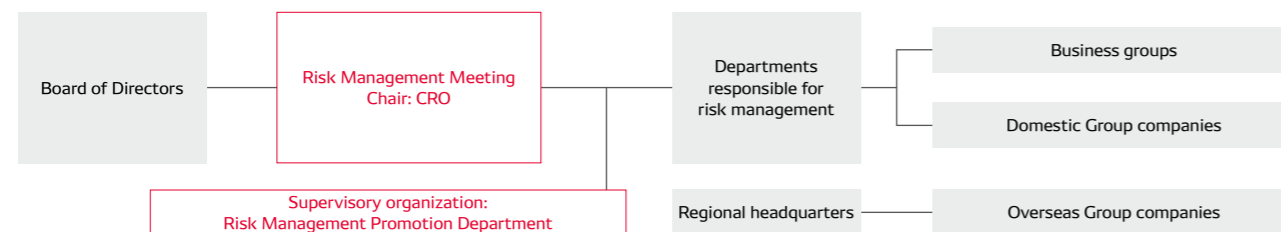
Promotion Structure

DENSO has established the Risk Management Meeting, chaired by the chief risk officer (CRO), who is responsible for Groupwide risk management. The Risk Management Meeting is a Groupwide organization that confirms improvements to the Company's risk management structure and framework and discusses and determines the direction of important risk management activities based on the conditions and trends both inside and outside the Company. Through this organization, we are

taking steps to strengthen measures to prevent damage to our businesses during normal times and measures to minimize damage during times of emergency.

In addition, we have created the Crisis Communication Manual in order to respond promptly and accurately in the event of a crisis. Depending on the severity and level of urgency of the situation, we assemble special countermeasure organizations to enact an agile response geared toward minimizing damage.

Risk Management Structure (under normal circumstances)



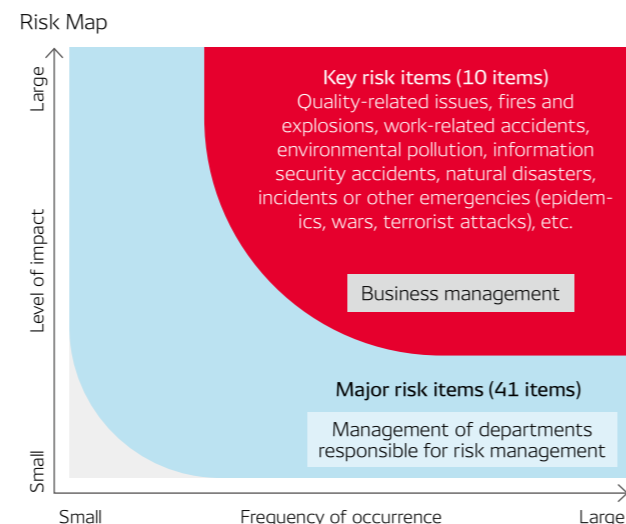
Ascertaining Risks and Clarifying Response

DENSO makes efforts to constantly ascertain the risks it faces and manage these risks from the perspectives of damage mitigation and business continuity.

The Company has identified major risk items related to life, credit, property, and business activities based on frequency of occurrence, level of impact, and the surrounding business environment. The Company designates responsible departments for each risk item and clarifies various factors pertaining to these items, including level of impact, reason for occurrence, preventive measures, initial response, and recovery efforts. The Company also strives to enhance its preventive measures, initial response, and recovery efforts. In particular, DENSO is identifying risks toward which it invests resources to promote countermeasures as “key risk items.” The Company has also established plans and targets toward further enhancing its crisis management, and the progress made toward these plans and targets is reported to the Risk Management Meeting. At the same time, DENSO has been incorporating risk management into Companywide targets, and the status of risk management activities is now also confirmed by the Board of Directors.

Additionally, for fiscal 2023 the Company has determined 41 major risk items and 10 key risk items. DENSO revises these major risk and key risk items appropriately, giving consideration to the issues currently facing society as well as the frequency of risks occurring at DENSO and the level of impact they have on the Company.

Assuming risks could well materialize, DENSO is strengthening its ability to address risks to minimize their impact on management by taking thorough measures on the systems, personnel, and governance fronts to address possible risks.



Examples of Response to Key Risks

Risk Prevention and Responses to Risk Events

Corporations have been facing an increasing number of serious risks recently. For example, in addition to the progression of global warming, there are concerns over the frequent occurrence and greater severity of natural disasters caused by climate change. Furthermore, we are currently seeing a surge in unprecedented risks, such as shortages of semiconductors and other important components, as well as logistics disruptions, as the pandemic has not fully subsided, in addition to rising geopolitical risks and incidents.

Under these circumstances, while placing the most importance on protecting people's lives, it is imperative that we are able to swiftly recover our business operations in the event an emergency occurs and take steps to minimize any damage it may cause to our businesses. From the standpoint of business continuity management, we are taking action in such ways as creating emergency situation manuals and promoting countermeasures for minimizing the impact from disasters.

Strengthening Our Response to Quality Risks:

Establishing an Unwavering, Robust Business Foundation Based on the “Customer First” Principle

Having encountered one of our largest-ever quality problems in 2019, we unified together in Companywide efforts to reform our knowledge, awareness, and corporate culture under the slogan “recommit to quality.” We updated our systems across the Company, led by quality experts in each core technology field, nurtured a corporate culture that puts quality first, and improved our track record on quality. We also improved our corporate structure, slimming it down into a leaner form. With the aim of establishing an unwavering, robust business foundation as stated in our Mid-term Policy for 2025, we are moving forward with bold reforms with a “Customer First” perspective.

Examples of Initiatives

- We are accelerating the development of fundamental quality-related technologies in fields such as advanced safety, while aiming to become carbon neutral and realize our principles (i.e., “green” and “peace of mind”) in our Companywide systems for quality management.
- We are using tools to improve quality in upstream development while identifying areas of concern for quality by using specification data for newly developed products and AI, as well as our accumulated technical knowledge.
- We are improving our corporate culture by making small team activities more practical for ongoing improvements at production sites, and by increasing the involvement of managers and section chiefs in on-site activities.

Response to Tight Supply-Demand Conditions for Semiconductors

With no sign of improvement in semiconductor supply shortages, current conditions are likely to persist for a while. To minimize supply risk, DENSO is working closely with suppliers while managing risks at hand. For example, high-risk inventories are not stored in a single location, and instead they are distributed across production sites and demand areas. In addition to in-house production, the Company is placing orders at multiple suppliers, putting in place a structure that can switch suppliers in case of an emergency. By applying DX

to high-risk inventories, the Company is establishing a first-mover advantage by unifying information about internal and external inventories (visualization), and is thoroughly reinforcing its relationships with suppliers as bedrock partners.

At this juncture, DENSO has been able to deliver products to customers without delay, and is advancing efforts to solidify relationships with suppliers throughout the supply chain in order to secure sufficient supplies.

Addressing Risk of Increasingly Sophisticated Cyberattacks and Preparing for Digitalization

At DENSO, Group companies in North America and Europe confirmed that they were subject to cyberattacks that gained illicit access to their IT systems in fiscal 2022. Determined to prevent such incidents from ever occurring again, we are sparing no effort to prevent a recurrence by 1) re-training and thoroughly drilling each and every employee about basic operations in order to change their awareness of cybersecurity; 2) strengthening global systems for detecting threats and monitoring systems by deploying the latest technologies, including AI; and 3) double-checking the security of our systems with the help of external entities, in addition to a comprehensive inspection of key servers and equipment.

Along with advances in self-driving cars and IoT, addressing cyber risks in cars and production facilities has become an extremely important issue. To that extent, we are developing technologies that protect in-vehicle products, such as

advanced driver support and automated driving systems, from cyberattacks to ensure that people can drive cars safely and with peace of mind. We are also establishing a unique framework for ensuring that such technologies are steadily installed in vehicles. Furthermore, we are reinforcing security measures toward plant networks, production lines, and other facilities.

Additionally, we are advancing digitalization within the Company, and this will increase the quality and speed of work by allowing various information to be delivered to and used by employees the instant they need it. To ensure we do not infringe upon the rights and interests of the information provider, we are working to forecast risks from a broad range of perspectives, including contract conditions and adherence to laws and regulations, formulate relevant rules, and establish a structure to appropriately manage and operate these assets.