

# 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 promotes the direction of important risk management activities based on the conditions and trends both inside and outside the Company. We have also appointed risk officers and risk managers responsible for risk management in each business unit and at each regional headquarters and domestic and overseas Group company. In these ways, 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 Emergency First Response Manual in order to respond promptly and accurately in the event of a crisis. This manual clarifies such matters as the

criteria for determining the level of urgency for a crisis, reporting standards, reporting routes, and basic policy for internal and external responses. Furthermore, depending on the severity and level of urgency of the situation, we assemble special countermeasure organizations through which the functional departments lead the way with measures to enact an agile response geared toward minimizing damage.

## Ascertaining Risks and Clarifying Response

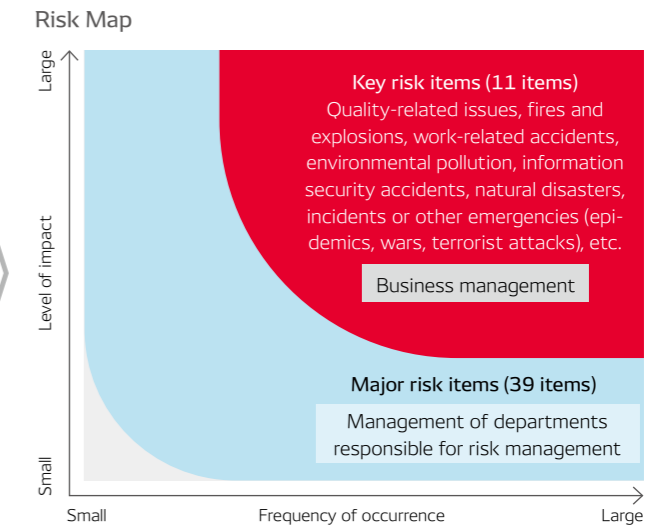
DENSO makes efforts to actively ascertain the risks it faces and manage these risks from the perspectives of damage mitigation and business continuity. Every year, risk assessment activities are carried out by each functional division, business unit, regional headquarters, and domestic and overseas Group company.

The Company has identified potential risks related to life, the environment, credit, property, and business activities based on the surrounding business environment and established major risk items from the perspectives of frequency of occurrence and level of impact. The Company designates responsible functional departments for each risk item and clarifies the reason for occurrence, preventive measures, initial response, and recovery efforts for these items, thereby working to enhance its risk resiliency.

In particular, DENSO is identifying risks toward which it invests resources to promote countermeasures as “key risk items.” The Company has also established activity 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 established quantitative KPIs for Companywide targets pertaining to each risk item, and the status of risk management activities is also confirmed by the Board of Directors. Furthermore, DENSO implements inspections of this risk management process through internal audits and audits performed by external organizations.

Additionally, for fiscal 2024 the Company has determined 39 major risk items and, among these, 11 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 in order to minimize their impact on management by taking thorough measures to protect the systems, personnel, and governance fronts.

Factors	Risk Item
Internal factors (accidents and mistakes)	Environmental pollution, work-related accidents, fires and explosions, quality-related issues, information security-related accidents, personnel- and work-related incidents, traffic accidents, etc.
Internal factors (legal violations)	Violation of the Antimonopoly Act, tax evasion, inappropriate employee dispatch or use of contract work, violation of product laws and regulations, violation of anti-bribery laws, etc.
External factors (natural disasters)	Earthquakes, typhoons, concentrated heavy rains, lightning strikes, etc.
External factors (political and social)	Product liability litigation, fluctuating exchange rates, human rights-related issues, supplier-related issues, incidents or other emergencies (infectious diseases, wars, terrorist attacks, etc.)



## Examples of Response to Key Risks

### Response to Quality-related risks

**Realizing Quality That Meets Customer Expectations**  
In 2019, a quality-related issue occurred that was unprecedented in scale. In response to this, we have been working to rebuild our foundation for quality management to ensure that no such issue occurs again. We have also been making Companywide efforts to enhance our knowledge and awareness and reform our organizational culture to bolster our commitment to quality. As a result of these efforts, both quality defects detected when our products are in the hands of our customers and when our products have launched on the market have been on a downward trend, and we have also been receiving quality-related awards from customers. In fiscal 2024, we have established the basic policy of meeting customer expectations by anticipating changes and adopting an appropriate approach to our work. Guided by this policy, we are accelerating a broad range of efforts to respond to the quality-related issues we are currently facing. These efforts include ensuring the quality of software, which is rapidly being introduced at a greater scale, reducing design and manufacturing processes dependent on people through the introduction of AI and the promotion of automation, striving to realize carbon neutrality and a circular economy with a focus on the future, establishing fundamental quality-related technologies that support advanced driver assistance systems (ADAS), and establishing quality evaluation criteria. Through a bold, aggressive approach and high ethical awareness, we will strive to increase quality to greater levels than ever before and continue to meet the needs of our customers.

### Adhering to Quality Compliance

DENSO has been making efforts to prevent the occurrence of a quality-related incident such as improper certification and inspection. In the design stage, rather than leaving the process for acquiring legal certification up to departments responsible for design, we implement independent checks by departments responsible for Companywide verification and outsource certification-related testing to an external third-party certification organization. In this way, we ensure high levels of reliability and transparency in the certification process. In our manufacturing divisions, during the final process for delivering products to customers, we carry out a functional inspection of quality via employees on the production front lines. We also have a department specializing in quality evaluation take samples of products to double-check their quality.

Furthermore, in our original “initial flow management” process, which covers everything from development through to mass

production, personnel responsible for decision-making for each distinct phase of the process ensure that we do not move into the next phase of the process if the decision or assumption made is limited to one particular person. Moreover, in accordance with our Total Quality Management principle, which serves as a universal value system for all DENSO Group employees, we ask that all employees adopt a customer-first approach and participate in bold reforms and continuous improvement activities in our frontline operations. By doing so, we are striving to establish a sound workplace that facilitates good communication.

### Adhering to Open, Fair, and Transparent Transactions

**Preventing the Abuse of a Superior Bargaining Position Based on the Antimonopoly Act**  
In December 2022, the Japan Fair Trade Commission (JFTC) announced that DENSO was a company engaging in behavior that falls under the category of “leaving transaction prices unchanged without explicitly discussing the need of suppliers to reflect increases in labor, raw material, energy, and other costs in their transaction prices at the price negotiation stage.”\* based on the JFTC's Emergency Survey relating to the Abuse of a Superior Bargaining Position Based on the Antimonopoly Act.

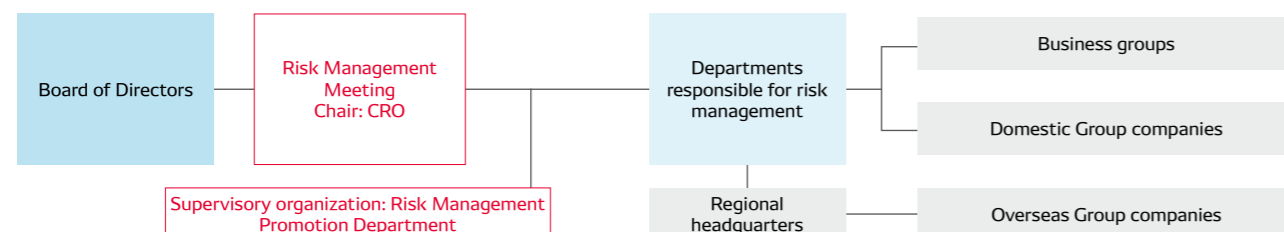
Although we have continued to engage in close communication with our suppliers, we will further enhance this communication going forward so that we can explicitly discuss the need of suppliers to reflect increases in labor, raw material, energy, and other costs in their transaction prices at the price negotiation stage. At the same time, we will rigorously adhere to laws and regulations as we seek to ensure the sustainable development of both the Company and our suppliers based on mutual trust.

\* This announcement does not mean that the Company was in violation of the Antimonopoly Act nor the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors.

### Promoting Communication with Suppliers

To ensure the mutual growth of DENSO and its suppliers, we create opportunities for dialogue and hold the Supplier Appreciation Meeting and other events, thereby working to facilitate mutual communication. At such events, we receive new technological proposals from suppliers and listen to their concerns and requests, while communicating information on such matters as our procurement policies, carbon neutrality-related efforts, and business trends. By doing

## Risk Management Structure



so, we aim to achieve future growth together with our suppliers.

For DENSO, suppliers are a partner with whom we strive to achieve growth and foster trust through open dialogue and ongoing communication. In addition to spreading knowledge on and rigorously enforcing appropriate transactions both internally and externally, we are working to create environments that make it easy for suppliers to voice their concerns with us and are making efforts to alleviate said concerns.



#### Adhering to Laws and Regulations and Implementing Open, Fair, and Transparent Transactions

At DENSO, our procurement divisions distribute the Code of Conduct for DENSO Group Associates, which clearly indicates the standards of conduct for each and every employee, to all members of the Group in order to entrench the principle of open, fair, and transparent transactions. At the same time, we distribute the Business Etiquette for Buyers, which lays out standards of behavior that should be adhered to within procurement activities, to all employees involved in procurement, thereby working to further increase awareness.

Moreover, we encourage suppliers to utilize our Internal Reporting System. We also ensure strict compliance in a variety of ways, including distributing the DENSO Compliance Declaration, which clarifies items to be observed in conducting business, to suppliers and procurement departments.

Looking ahead, we will seek to strengthen our partnerships with suppliers so that we can procure components, materials, equipment and services that excel in terms of quality, technology, cost, delivery, environmental and safety performance, and compliance. By doing so, we aim to continue to offer products and services that satisfy our customers while also realizing mutual growth with our suppliers. To that end, we will step up our efforts to establish a positive economic cycle that encompasses all stakeholders, from customers to suppliers.

#### Response to Information Security

##### Addressing Increasingly Sophisticated Cyberattacks and Preparing for Digitalization

At DENSO, Group companies in North America and Europe confirmed that they were subject to cyberattacks which 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 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) bolstering security and steadily implementing routine inspections of key servers and equipment, making full use of IT technologies such as hacking detection tools.

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 throughout the Company, and this will increase the quality and speed of work by allowing information to be delivered to and utilized 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.

#### Response to Tight Supply–Demand Conditions for Semiconductors

##### Promoting Initiatives to Ensure a Stable Supply That Underpins Automobile Production

Semiconductors are used in a broad range of products, and given their importance, the procurement of semiconductors is crucial to the stable production of automobiles. The tight supply–demand situation for semiconductors continues across the globe. In light of this, the automobile industry has been significantly impacted by the stagnation in semiconductor supply. Guided by our mission of delivering outstanding products and services to customers under any circumstances, we are moving forward with various efforts to secure a stable supply of semiconductors.

As part of these efforts, we are working to strengthen trust-based relationships and collaboration with suppliers so that we can build a stable supply foundation. As we formulate medium- to long-term production plans in an environment where market trends are changing significantly, we are actively communicating information to suppliers on such matters as future product and technology trends and production plans. We are also entering into medium- to long-term semiconductor procurement contracts and placing semiconductor orders on an annual basis. In these ways, we are striving to build a foundation for the steady supply of components.

##### Collaborating with Our Suppliers to Prevent Supply Risks

Since fiscal 2022, we have been rolling out fire prevention and inspection activities to prevent fires at the factories of our suppliers. We have also been engaging in information security inspection activities to ensure that a cyberattack does not lead to production disruptions or confidential information leaks. We visit the factories of our suppliers in person to work together with them to improve their fire prevention and information security structures. By doing so, we are promoting risk-prevention activities across the entire supply chain.

As part of our efforts to anticipate the occurrence of risks such as natural disasters, we are working to promote standardization of components, enhance alternative production methods, and secure risk inventories. To ensure our ability to promote backup production across the entire supply chain in the event a risk occurs, we are striving to standardize components throughout the supply chain and secure alternative production methods such as setting up production at multiple plants. In addition to revising design plans to make it easier for suppliers to produce components, we will prepare production lines at numerous plants, working in close collaboration with our suppliers.

In our initiatives toward risk inventories, since the Great East Japan Earthquake, we have been maintaining risk inventories at a certain level for each component to prepare for the risk of an earthquake or other natural disaster. In the event that our suppliers are hit by a natural disaster, we make sure to have a certain risk inventory level on hand until production resumes, thereby putting in place a structure for the continuous supply of components to customers.

With the progression of CASE, DENSO's need for semiconductors continues to rise. In response to this, we will continue to pursue and strengthen efforts to establish a foundation for the stable supply of semiconductors across the supply chain.