



# Corporate Governance

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# Corporate Governance

## Basic Stance

DENSO recognizes the establishment of corporate governance as a priority initiative for achieving sustainable long-term increases in corporate performance in a fast-changing global market. Based on its Basic Policies on Corporate Governance, DENSO has adopted a corporate auditor system under which it has established the General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, and Accounting Auditors as statutory bodies. In addition to these legal functions, the Company has established various governance-related frameworks. At the same time, the Company provides information regarding its business conditions to its shareholders and other investors on an ongoing basis, thereby implementing sound, efficient, and transparent management.



Basic Policies on Corporate Governance:

<https://www.denso.com/global/en/-/media/global/about-us/sustainability/governance/management/management-doc-corporate-governance-policy-2019-en.pdf>



## Efforts to Improve Corporate Governance

DENSO is working to evolve its corporate governance to realize sustainable increases in corporate value even amid a dramatically changing world. To that end, in addition to strengthening discussion on Companywide strategies, we have been appointing officers with a higher awareness of gender distinction and internationality while working to reduce the number of our overall officers. In January 2021, we took steps to make our organization more flexible by revising our corporate officer system (integrating the executive officer, executive fellow, and senior director positions into one senior director position). In these ways, we have been working to accelerate the speed of management decision-making and business execution.

Going forward, we will continue to implement sound, efficient, and transparent management including through the significant reduction of cross-shareholdings.

## Change in Corporate Governance Structure

(Fiscal year)

	2015	2016	2017	2018	2019	2020	2021	2022
Number of officers	52	50	51	53	56	28	27	25
Number of members of the Board	14	13	13	9	7	8	8	8
Number of outside directors	2	2	2	2	2	3	3	3
Number of female directors						1	1	1
Number of Audit & Supervisory Board members	5	5	5	5	5	4	4	4
Number of outside Audit & Supervisory Board members	3	3	3	3	3	2	2	2
Number of female Audit & Supervisory Board members						1	1	1
Basic Policies on Corporate Governance		June 2015 Formulated						
Separation of management and execution	June 2014	• Separated and clarified the roles between members of the Board, who are responsible for management (decision-making and supervision), and senior executive directors (newly established position) and executive directors, who are responsible for the execution of business operations • Appointed outside directors				April 2019	January 2021	
			June 2016	• Established the Officer Nomination and Compensation Advisory Council, comprising independent outside directors, as an ad-hoc committee that corresponds to the Nomination Committee and the Compensation Committee		January 2020	March 2021	
				April 2017	• Reduced the number of appointed members of the Board • Changed the timing of appointment of officers from the date of the General Meeting of Shareholders in June to April, which is the beginning of the fiscal year		January 2021	
							• Integrated the positions of executive officer, executive fellow, and senior director into the role of senior director  • Changed the name of the Officer Nomination and Compensation Advisory Council to the Executive Nomination and Remuneration Council, adopting a new structure under which independent outside directors make up the majority and an independent outside director serves as chair  • Changed the appointment timing of senior executive officers and senior directors to January in conjunction with the changes to our Companywide organization and position structure	

## Corporate Governance System

### Corporate Governance System and Principal Organizations

DENSO has adopted a corporate auditor system under which it has established the General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, and Accounting Auditors as statutory bodies. Through a corporate officer system that separates and clarifies the roles between members of the Board, who are responsible for management (decision-making and supervision), and senior executive officers, who are responsible for the execution of business operations, DENSO CORPORATION is streamlining the number of members of the Board and is realizing swift decision-making and business operations.

Under this system, depending on the circumstances, members of the Board serve concurrently as senior executive officers to ensure that the Board maintains an overall balance of knowledge, experience, and ability. DENSO CORPORATION sets the term of office for members of the Board at one year, with the aim of building a flexible management structure that responds to changes in the management environment and further clarifying management responsibility during the business year.

### Reason for Selecting Our Current Corporate Governance System

In addition to performing management decision-making that emphasizes *Genchi Genbutsu* (on-site verification), DENSO believes that it is important to build a system that can verify whether management decision-making has met shareholder expectations and whether there is a problem from the point of view of governance. Accordingly, we believe that the current system to supervise and audit the execution of business duties by the Board of Directors including outside directors, as well as Audit & Supervisory Board members including outside Audit & Supervisory Board members, is most suitable.

### Board of Directors

The Board of Directors resolves matters stipulated by laws and regulations, as well as matters of importance to the Company's decision-making. Where possible, the Board delegates authority to those in charge of business execution. This approach simultaneously accelerates execution and enables the Board to spend more time deliberating on management policies and strategies.

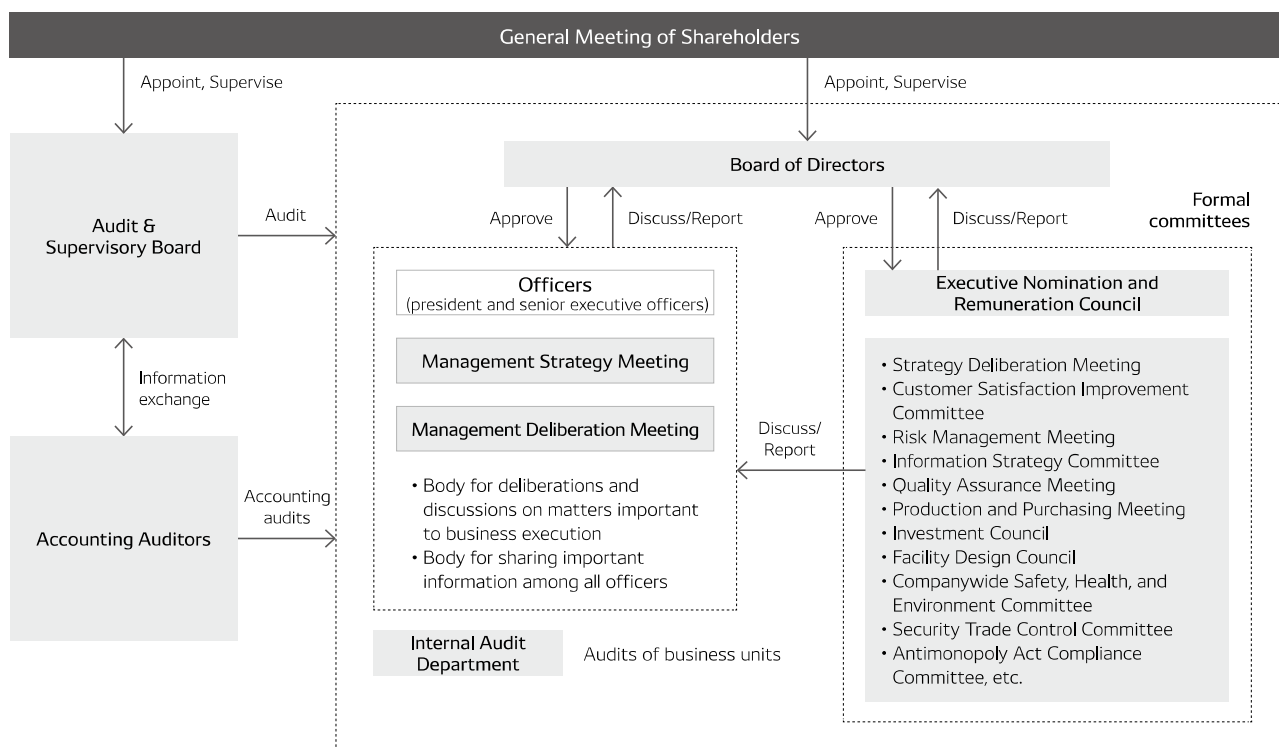
The Board of Directors meets once a month, in principle, and is composed of 12 members: eight directors (including three outside directors), two inside Audit & Supervisory Board members, and two outside Audit & Supervisory Board members. With respect to the independence of outside directors and outside Audit & Supervisory Board members, the Company has selected a total of five independent officers (three outside directors and two outside Audit & Supervisory Board members) based on the assumption that they fulfill the independence criteria stipulated by the Financial Instruments and Exchange Act.

Resolutions must be approved by a majority of the members present at a Board of Directors' meeting, and the meeting itself must be attended by a majority of directors. We have been enhancing our support structure for the outside directors to ensure the productive and efficient operation of the Board of Directors when making resolutions.

### Results of Board Meetings Held in Fiscal 2021

Number of meetings held	13
Attendance rate	Directors: 99% Audit & Supervisory Board members: 100%

## Corporate Governance System



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## Overview of Deliberating Bodies on Business Execution

	Deliberating Bodies	
	Management Strategy Meeting	Management Deliberation Meeting
Chairperson	President	President
Composition	President, the heads of each business group and functional department, general managers, and Audit & Supervisory Board members	President, the heads of each business group and functional department, general managers, and Audit & Supervisory Board members
Purpose	Hold strategic discussions from a medium- to long-term perspective, focused on businesses, functions, and regions	Deliberate on important items related to the Company's overall management, starting with the agenda items at meetings of the Board of Directors. In addition, sharing important information regarding business management and promptly utilizing such information to facilitate swift business execution
Number of meetings held in fiscal 2021	34	32

### Support Structure for Outside Officers

When holding Board meetings, we provide outside directors and outside Audit & Supervisory Board members with explanations on important agenda items before the meetings with the aim of ensuring access to information between the inside and outside officers and maximizing the performance of our outside officers. In this way, we make concerted efforts to ensure the efficient operation of Board meetings. Furthermore, the senior executive officers provide preliminary explanations to the outside officers on a regular basis so that the outside officers can deepen their understanding regarding the details of our businesses.

In addition, we have established the Audit & Supervisory Board Office as an organization dedicated to supporting the Audit & Supervisory Board members in conducting their duties. The office reports the condition of audits at meetings of the Audit & Supervisory Board. Additionally, we hold meetings twice a year between the Audit & Supervisory Board members and the outside directors to exchange opinions, in addition to regular meetings of the Independent Officer Meeting. Through these means, we are striving to actively provide information to our outside officers as well as invigorate communication between them.

### Structure for Business Execution

DENSO CORPORATION separates the functions of the Board of Directors, which conducts management oversight, and the executive directors, who handle business execution.

As bodies for deliberating important matters pertaining to business execution, the Company has established the Management Strategy Meeting and the Management Deliberation Meeting. These two bodies, together with the Board of Directors, are positioned as executive committees.

### Management Oversight Function

Two inside Audit & Supervisory Board members and two outside Audit & Supervisory Board members with dedicated staff

are responsible for monitoring the execution of duties by directors as well as the business operations and financial conditions of the Group.

In accordance with in-house regulations, the Internal Audit Department conducts internal audits on the legality, validity, and efficiency of the Company's operations. Based on the issues pointed out in these audits, each department of the Company is working to establish and subsequently enhance operational control and management systems. Audit & Supervisory Board members attend important meetings including meetings of the Board of Directors and audit directors' execution of their business duties through the exchange of information with the Internal Audit Department and Internal Control Department, as well as with the Accounting Auditors, thereby fulfilling their management oversight function.

### Analysis and Evaluation of the Effectiveness of the Board of Directors as a Whole

DENSO has all Board members take a survey involving an evaluation of the operation of the Board of Directors, the agenda items discussed, the process for making resolutions, and support for outside officers. The Company also holds interviews with the inside officers with the aim of obtaining the frank opinions of Board members regarding issues and areas of improvement. The results of these surveys and interviews are discussed by the outside officers at meetings of the Independent Officer Meeting.

The issues and areas for improvement identified through these surveys and interviews are reported to the Board of Directors and shared between all members who attend Board meetings. By doing so, these surveys and interviews help enhance the effectiveness of the Board of Directors. The issues and measures for improvement for fiscal 2021, identified through these surveys and interviews, are as follows.

Issues	Measures for Improvement
Enhancement of discussion and communication <ul style="list-style-type: none"> <li>Deepening discussion between Board members</li> <li>Increasing opportunities for communication outside of Board meetings</li> </ul>	<ul style="list-style-type: none"> <li>Examine the possibility of holding off-site meetings as a means to deepen discussion on medium- to long-term strategies and DENSO's Great Cause as a company</li> <li>Create opportunities for the exchange of opinions between the president, inside directors, and outside directors</li> </ul>
Role and responsibilities of the Board of Directors <ul style="list-style-type: none"> <li>Establishing the rule that medium- to long-term policies should be decided by the Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>Clarify the positioning of reporting/decision-making of medium- to long-term strategies and implement decisions by the Board of Directors</li> </ul>
Operation of the Board of Directors <ul style="list-style-type: none"> <li>Invigorating the free exchange of opinions</li> <li>Enhancing the exchange of opinions during meetings held online</li> <li>Providing on-the-day explanations focused on the main points of the meeting</li> </ul>	<ul style="list-style-type: none"> <li>Establish an environment in which it is easy to exchange opinions freely, even when participating via the internet</li> <li>Simplify on-the-day explanations and allocate ample time for opinion exchanges and discussion</li> </ul>
Support for outside officers <ul style="list-style-type: none"> <li>Enhancing the understanding of DENSO's businesses through on-site observation</li> <li>Sharing internal discussion processes before meetings</li> <li>Sharing information on monthly business status, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Restart and enhance on-site tours and inspections (examine the utilization of the internet)</li> <li>Provide beforehand explanations of the discussion process at the Management Deliberation Meeting, etc.</li> <li>Distribute materials used at meetings of the Management Deliberation Meeting and complement such materials with beforehand explanations</li> </ul>

### Approach to Balance and Diversity among Directors and Audit & Supervisory Board Members

The Board of Directors consists of members who are familiar with the management of each business and its pressing issues. The composition of the Board strikes a strong balance between expertise, experience, skills, and global perspectives, including those of the outside directors. For the Audit & Supervisory

Board, the Company selects persons who possess knowledge related to not only business management but also finance, accounting, and law. In this way, the Company aims to achieve a balance between diverse opinions and secure the necessary level of expertise to ensure that the Board of Directors functions properly.

### Policy and Procedures for the Appointment of Directors and Audit & Supervisory Board Members

Policy	Without consideration of gender or age, nominate directors and Audit & Supervisory Board members with an emphasis on diversity, including gender and internationality, and from the viewpoint of striking a balance between experience, skills, and expertise so as to promote accurate and swift decision-making.
Procedures	<ol style="list-style-type: none"> <li>1. The president and relevant directors listen to opinions based on various perspectives and select suitable candidates to serve as a member of the Board of Directors, comprehensively taking into account their background, personality, insight, and other factors. The Executive Nomination and Remuneration Council, which is chaired by an independent outside director and also has a majority of independent outside directors serving as its members, then holds debate on these candidates and lists the candidates for selection for the current fiscal year.</li> <li>2. Directors are selected based on an informal resolution by the Board of Directors and deliberation at the General Meeting of Shareholders. Audit &amp; Supervisory Board members are selected based on an informal resolution by the Board of Directors and deliberation at the General Meeting of Shareholders, with the consent of the Audit &amp; Supervisory Board.</li> </ol>

### Outside Directors and Outside Audit & Supervisory Board Members

Outside Directors	Reason for Appointment	Attendance at Meetings of the Board of Directors (Fiscal 2021)
George Olcott*	George Olcott has managerial experience at foreign capital companies, including his experience as the head of the Tokyo Branch of a U.K.-based investment advisory company. He currently serves as a Guest Professor at Keio University, Faculty of Business and Commerce, specializing in human resource development and corporate governance in global management. Since assuming the position of Outside Director of the Company in June 2014, he has contributed to the improvement of the Company's corporate value from the perspective of global management. The Company appointed him as an Outside Director in the expectation that he will continue to provide insight that will be reflected in the Company's management.	13/13
Shigeki Kushida*	Shigeki Kushida has the experience of having led diverse activities toward the development and stability of the Japanese economy at Japan's central bank, which serves as the center of the Japanese economy, by filling the posts of Director-General and Executive Director of the Bank of Japan. He currently serves as Director, Representative Executive Officer & President at Japan Securities Finance Co., Ltd. The Company has appointed him as an Outside Director in the expectation that he will continue to apply his broad expertise in the global monetary economy in the Company's management.	13/13
Yuko Mitsuya*	Yuko Mitsuya has an abundance of experience and knowledge in many fields, having long been in management at several corporations and associations and filling the posts of officer and committee member at several sports associations. She currently serves in such positions as Outside Director, The Fukui Bank, Ltd.; Outside Director (Audit and Supervisory Committee Member), ENEOS Holdings, Inc.; and President, Japan Basketball Association. The Company has appointed her as an Outside Director in the expectation that she will continue to apply her abundance of corporate management-related expertise in the Company's management.	13/13
Outside Audit & Supervisory Board Members	Reason for Appointment	Attendance at Meetings of the Board of Directors and Audit & Supervisory Board (Fiscal 2021)
Yasuko Goto*	Yasuko Goto serves as a director and audit & supervisory committee member at Kyushu Railway Company. She has a broad range of experience as an administrator for the Ministry of Land, Infrastructure, Transport and Tourism as well as the vice governor of Yamagata Prefecture, the head of the JNTO New York Office, and the managing director of Kyushu Railway Company. She also has abundant insight on finance, accounting, and legal compliance as she currently serves in such roles as director and audit & supervisory committee member at Kyushu Railway Company and external audit & supervisory committee member at Shiseido Company, Limited. The Company has appointed her as an outside Audit & Supervisory Board member in the expectation that she will leverage her extensive experience and insight in the Company's auditing activities.	(Board of Directors) 13/13 (Audit & Supervisory Board) 15/15
Haruo Kitamura*	Haruo Kitamura serves as chief of Kitamura Certified Public Accountant Office. He has vast experience in corporate management at many corporations in addition to his extensive career and considerable knowledge as a certified public accountant. The Company has appointed him as an outside Audit & Supervisory Board member in the expectation that he will leverage his deep insight related to accounting and his years of experience in corporate management in the Company's auditing activities.	(Board of Directors) 13/13 (Audit & Supervisory Board) 15/15

\* Independent officers

### Criteria for Judging the Independence of Outside Directors and Outside Audit & Supervisory Board Members

With respect to the independence of outside directors and outside Audit & Supervisory Board members, assuming that they fulfill the independence criteria stipulated by the Financial Instruments and Exchange Act, they must possess a wealth of

experience and knowledge in specialized areas such as corporate management, law, accounting, and finance and are required to be able to proactively make proposals, suggestions, and give opinions about management issues. The Company declares that five outside officers who meet the qualifications for independent director and Audit & Supervisory Board member are independent officers.

### Executive Compensation Compensation System

In fiscal 2021, we introduced a restricted stock compensation plan for eligible directors, which is designed to have the eligible directors further share value with the shareholders and to

provide them with more incentives to enhance corporate value over the medium to long term. With the addition of this plan, our new system for the compensation of directors (excluding non-executive directors and outside directors; hereinafter, "eligible



directors") consists of basic compensation (fixed amount), a bonus (short-term incentive), and share-based compensation (medium- to long-term incentive). The ratios of basic compensation, bonus, and share-based compensation are set at roughly 60%, 30%, and 10%, respectively. Also, we will continue to monitor the impact of introducing share-based compensation and will consider increasing the ratio of share-based compensation accordingly.

Also, we do not have a system in place for retirement benefits and stock options.

#### (a) Determination policy and determination process

Regarding the policy on determining remuneration for directors (hereinafter, "determination policy"), the Company's Board of Directors adopts resolutions based on the content of deliberations by the Executive Nomination and Remuneration Council, which comprises a majority of independent outside directors.

The Company's compensation system for directors is designed to:

- Facilitate initiatives to achieve medium- to long-term enhancement of corporate value and management from the perspective of shareholders
- Incentivize eligible directors to enhance business performance by linking the Company's performance with individual performance

The Company's compensation system for eligible directors consists of basic compensation and bonuses, which serve as a short-term incentive, as well as a restricted stock compensation plan, introduced in fiscal 2021, which serves as a medium- to long-term incentive.

Compensation payable to non-executive directors and outside directors comprises only basic compensation (fixed amount) to ensure independence from management.

Compensation payable to Audit & Supervisory Board members also comprises only basic compensation (fixed amount) based on the fact that their role includes the implementation of legal compliance audits.

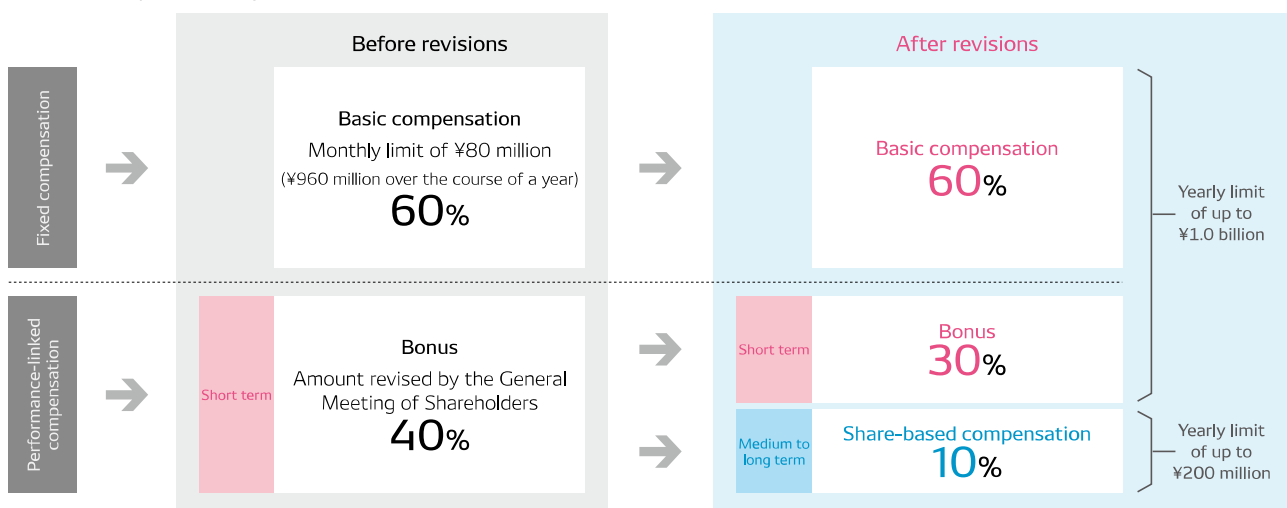
Regarding compensation payable to directors, in accordance with the resolution adopted by the 97th Ordinary General Meeting of Shareholders held on June 19, 2020, the maximum amount of basic compensation is set at ¥1.0 billion (including compensation for outside directors of up to ¥150 million) and the maximum amount of share-based compensation is set at ¥200 million per year.

In accordance with the resolution adopted by the 91st Ordinary General Meeting of Shareholders held on June 19, 2014, the maximum amount of compensation payable to Audit & Supervisory Board members is set at ¥15 million per month.

The amount of compensation payable to directors and the compensation system itself are determined by the Executive Nomination and Remuneration Council, which is chaired by an independent outside director and whose majority consists of independent outside directors, from the viewpoint of ensuring objectivity, fairness, and transparency. The council comprises five members: Independent Outside Director Shigeki Kushida (chair), Independent Outside Director George Olcott, Independent Outside Director Yuko Mitsuya, Representative Director Koji Arima, and Audit & Supervisory Board Member Shingo Kuwamura.

The Board of Directors has adopted a resolution to entrust the determination of the total amount of compensation for the relevant fiscal year and the determination of the amount of compensation for each director to the Executive Nomination and Remuneration Council. The Executive Nomination and Remuneration Council deliberates on the officer compensation system and determines the amount of compensation for each

#### Director Compensation System



#### Compensation of Directors and Audit & Supervisory Board Members

Position	Total Compensation (¥ million)	Total Compensation by Type (¥ million)			Directors / Audit & Supervisory Board Members
		Basic	Bonus	Share-based compensation	
Directors (excluding outside directors)	360	256	90	14	6
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	83	83	—	—	2
Outside directors	68	68	—	—	5

Note: The amounts above include the remuneration paid to Shoji Tsuzuki, who retired from the post of director at the conclusion of the 97th Ordinary General Meeting of Shareholders held on June 19, 2020.

director in consideration of such factors as the Company's business results and the responsibilities and performance of said director.

Compensation for Audit & Supervisory Board members is determined through consultation by the Audit & Supervisory Board in consideration of the maximum amount of compensation payable stipulated by the resolution adopted by the General Meeting of Shareholders.

At the meetings of the Executive Nomination and Remuneration Council held in July and October 2020 and in February and April 2021, discussions were held on determining the amount of compensation for fiscal 2021.

Compensation payable to directors was determined with the consent of all members of the Executive Nomination and Remuneration Council.

The Board of Directors deems the details of determination to be in line with the determination policy due to the fact that the amount of compensation for each director was determined by the Executive Nomination and Remuneration Council, whose majority consists of independent outside directors.

#### Main topics discussed by the Executive Nomination and Remuneration Council

- Policy for and approach to the officer compensation system
- Level of compensation according to role and responsibilities
- Evaluation of performance indicators for fiscal 2021
- Evaluation of the assessment of individual performance
- Determination of the amount of compensation for each director

#### (b) Determination method for each type of compensation

The level of compensation for directors and Audit & Supervisory Board members is determined each year after confirming its appropriateness by referring to levels of executive compensation paid by major manufacturers that are similar in size, industry, and business format to the Company according to data of an executive compensation survey conducted by an external research agency.

Each type of compensation for eligible directors is outlined below.

#### i) Basic compensation

Paid as monthly fixed compensation according to officer role

As of April 2021, the amount of basic compensation is determined in reflection of an individual performance assessment, which evaluates the performance and achievements of each officer.

#### ii) Bonus

A bonus is paid based on the "bonus table" determined according to the degree of achievement of consolidated operating profit for the relevant fiscal year for which the reference amount of ¥320.0 billion was set in 2012. This amount was set as the amount of consolidated operating profit necessary for the Company's sustainable growth. The bonus is also paid based on an individual performance assessment, which evaluates the performance and achievements of each officer.

The "bonus table" is set in a manner such that if the degree of achievement of consolidated operating profit is 200% compared with the reference amount, the standard annual personal income will be roughly in the top 35% of the market, and if the degree of achievement of consolidated operating profit is 50% compared with the reference amount, the standard annual personal income will be roughly in the bottom 25% of the market. Consolidated operating profit for the fiscal year under review was ¥155.1 billion.

#### iii) Share-based compensation

The Board of Directors has adopted a resolution on share-based compensation in consideration of the maximum amount of share-based compensation payable (up to ¥200 million per year) determined by the 97th Ordinary General Meeting of Shareholders held on June 19, 2020. The main details of the share-based compensation are as follows.

Eligible persons	Directors of the Company (excluding non-executive directors and outside directors)
Total amount of share-based compensation	Up to ¥200 million per year
Amount of share-based compensation for each director	Determined each year considering factors such as the Company's business results and the responsibilities and achievements of the director
Class of shares to be allocated and method of allotment	Issue or disposal of shares of common stock (those with restrictions on transfer under the Allotment Agreement)
Total number of shares to be allocated	Up to a total of 100,000 shares per year to eligible directors
Amount to be paid	Determined by the Board of Directors based on the closing price of shares of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of each resolution of the Board of Directors, within a range that is not particularly advantageous to eligible directors
Transfer restriction period	During the period predetermined by the Board of Directors, ranging from three years to 30 years from the allotment date. Under the Allotment Agreement, eligible directors must not dispose of the shares of the Company's common stock by transferring or creating a security right on the shares allotted or by other measures.
Condition 1 for removal of transfer restrictions	Restrictions will be removed regarding the expiration of the transfer restriction period. However, the restrictions will also be removed in the event that the eligible director leaves the position due to the expiration of their term of office, their death, or other justifiable reason.
Condition 2 for removal of transfer restrictions	If a proposal for restructuring the Company—such as a merger agreement whereby the Company will be an absorbed company to the merger, or a share exchange agreement or share transfer plan whereby the Company will become a wholly owned subsidiary of another party—is approved by the Company's General Meeting of Shareholders (or by the Company's Board of Directors if such organizational restructuring does not require approval of the General Meeting of Shareholders) during the transfer restriction period, the Company shall remove, based on a resolution of the Board of Directors, the transfer restriction of the allotted shares at a date prior to the effective date of the organizational restructuring. The number of such allotted shares subject to removal of the transfer restriction shall be reasonably determined in light of the period from the start date of the transfer restriction period and the date of approval for such organizational restructuring.
Acquisition by the Company without consideration	The Company will be able to acquire all allotted shares without consideration in the event of violations of laws and regulations, or other reasons specified by the Board of Directors, during the transfer restriction period.

## Strategic Shareholdings

### Basic Stance

To maintain and improve corporate value over the long term in a fast-changing global market, it is essential that we collaborate with outside parties, including promoting joint technological development with various other companies and maintaining and strengthening relationships with business partners. To that end, we hold the number of strategic shareholdings necessary for our business strategies.

### Details of Examination to Determine the Appropriateness of Strategic Shareholdings

Every year, the Board of Directors comprehensively determines the appropriateness of cross-shareholdings by examining the management significance of holding each individual stock, including in terms of promoting joint development and strengthening business collaboration, as well as whether the return on holding said stock (dividend payments, increased share prices, relevant business profit, etc.) is greater than the Company's weighted average cost of capital. The Company

takes steps to reduce the number of cross-shareholdings in the event that the continued holding of such shares is no longer deemed rational through the above process.

### Standard for Exercising Voting Rights

DENSO believes that its investee companies should engage in management that emphasizes improving shareholder interest over the medium to long term, rather than pursuing shareholder returns only in the short term. Giving first and foremost priority to our investee companies that contribute to our profits, we exercise voting rights in an effort to help our investee companies realize sustainable growth and improve their corporate value over the medium to long term.

We comprehensively consider the merits of each item under examination regarding the exercising of votes based on our established internal guidelines. When necessary, we hold dialogues with our investee companies regarding the content of our proposals.

### Shares Held for Purposes Other Than Pure Investments

Number of stocks Balance sheet amounts		Stocks for which the number of shares increased during the fiscal year under review	Stocks for which the number of shares decreased during the fiscal year under review
Unlisted shares	81 stocks ¥36,960 million (year-on-year change: ¥751 million)	3 stocks ¥2,357 million	7 stocks ¥1,813 million
Shares other than unlisted shares	29 stocks ¥721,652 million (year-on-year change: ¥335,325 million)	—	9 stocks ¥24,406 million

Note: The increase in stocks for which the number of shares rose is due to the acquisition of shares necessary for business strategies toward realizing the Group's sustainable growth.

## Establishing and Strengthening Internal Controls

With the aim of fair and efficient business operations, the Company formulated the DENSO Basic Policies for Internal Control. We have stipulated basic policies for control, various rules, and systems in areas that form the basis of our management such as the code of conduct, management systems, risk management, and compliance. We make revisions and changes when necessary after undertaking regularly scheduled annual verifications of the status of implementation.



DENSO Basic Policies for Internal Control:  
<https://www.denso.com/global/en/-/media/global/about-us/sustainability/governance/management/management-internal-control-policy-2019-en.pdf>



### Internal Reporting System

In accordance with the circumstances in each region of operation, the DENSO Group has set up internal reporting systems at its regional headquarters and each business site. These systems allow employees to report their concerns and receive consultation on matters related to legal and regulatory violations via email, telephone, written correspondence, or face-to-face interaction.

For example, at DENSO CORPORATION, we have established a Business Ethics Hotline that allows anonymous reporting; is independent from the normal chain of command; and is administered by outside attorneys and the Risk Management Promotion Department in accordance with Japan's Whistleblower Protection Act. This hotline can be used by all persons working at DENSO CORPORATION, including employees, temporary employees, and employees contracted from other companies, in addition to principal suppliers (300 companies). In fiscal 2021, the hotline received 74 consultations and reports regarding matters such as employment, labor, work environment, information management, business transactions, and accounting, all of which were addressed appropriately after staff investigated the situation and confirmed the facts.

	Fiscal 2019	Fiscal 2020	Fiscal 2021
Number of consultations and reports received	89	130	74





## Dialogue with the Outside Directors

# Establishing a More Effective Governance Structure to Enhance Corporate Value with a Focus on the Turbulent Times Ahead

Japanese companies' corporate governance is being strengthened with the revision of Japan's Corporate Governance Code in June 2021, among other factors. We asked DENSO's three outside directors, who lead the way with the Company's governance reforms, to discuss these developments from their independent perspective.

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## George Olcott

Outside Director

Mr. Olcott has been serving as an outside director at the Company since 2014. He also teaches as a guest professor at Keio University, Faculty of Business and Commerce.

## Shigeki Kushida

Outside Director

Mr. Kushida has been serving as an outside director at the Company since 2019. He also serves as president and representative executive officer at Japan Securities Finance Co., Ltd., and has experience working at the Bank of Japan.

## Yuko Mitsuya

Outside Director

Ms. Mitsuya has been serving as an outside director at the Company since 2019. She also serves as representative director of SORA Corporation and has a long history in the sports world.

### What is your evaluation of DENSO's current corporate governance structure?

**Kushida:** I feel that DENSO is a company that has closely observed global trends, such as the revision to the Corporate Governance Code, and has taken steps to reinforce its governance in anticipation of such trends. The broad range of corporate organizational structures stipulated under the Companies Act are simply just that, structures, and this is why we are seeing various rules being added to the code that do not actually have a relationship with one particular structure. What is important with regard to corporate governance is not "structure" but rather "substance." Or, in other words, how an individual corporation endeavors to enhance its corporate governance. From this perspective, I personally feel that DENSO has made consistent, earnest efforts to enhance the substance of its governance.

**Mitsuya:** In the sports world, there is actually a "Governance Code for National Sport Federation Members," which calls for the establishment of targets for increasing the percentage of external members and women executives belonging to national sports federations. It truly depends on the organization whether to adopt an approach that prioritizes structure or one that prioritizes substance.

With that said, I believe that DENSO is a company that has intrinsically developed a motivation to strengthen its corporate governance. This means that DENSO views strengthening governance as a means to hedge risks and achieve sustainable growth. I therefore have a positive outlook regarding DENSO's level of commitment to governance.

**Olcott:** I am now in my eighth year of serving as an outside director. At the time I was appointed to this position, I was one of the Company's first two independent outside directors. During the past seven years, governance at DENSO has undergone dramatic change. A good example of this is succession planning. Established in 2016, the Officer Nomination and Compensation Advisory Council (hereinafter, the former advisory council) is where we have spent the last two to three years identifying potential successors to the CEO and engaging in thorough debate as to career path and development for the candidates we identified. In these and other ways, I believe that DENSO is in the process of modernizing its approach to governance.

**Kushida:** The former advisory council was reestablished as the Executive Nomination and Remuneration Council in 2021. Although the name of this body has changed, I have yet to see a substantial revision to its structure. The former advisory council was quite exceptional in terms of its advanced nature, and I believe its name was changed to better reflect this nature externally.

**Mitsuya:** Mr. Kushida has served as the chair of the former advisory council since fiscal 2020, helping to facilitate meaningful discussion. I believe the reestablishment of this council was due to the fact that it does not simply function as an advisory body to the Board of Directors. Rather, both in name and practice, the Executive Nomination and Remuneration Council is entrusted with actual decision-making. I view this as a significant step forward, as it showcases how DENSO gives priority to the judgment of its outside directors.

### What do you perceive to be issues for DENSO pertaining to corporate governance going forward?

**Kushida:** The original purpose of governance is to determine the future design of a company itself. I believe there is still capacity for the Board of Directors to hold deeper discussion on this matter.

Without a doubt, DENSO's strengths lie within the technological capabilities of its core businesses, and internal members of these businesses are naturally the ones who understand these strengths the most. When an issue is discovered, DENSO's dedication and ability to enact a swift, comprehensive response, almost instantaneously, from the top down is extremely impressive, as demonstrated by "Reborn21."

However, the situation surrounding the automotive industry is changing at an extraordinary rate. As no one is truly able to predict the future, DENSO cannot necessarily guarantee its own future as a company by simply building upon its existing technologies. For that reason, DENSO must be aware of elements other than technology and make use of external screening functions.

**Mitsuya:** Even during the COVID-19 pandemic and amid semiconductor shortages, which has been occurring since the fall of 2020, I have been extremely impressed with DENSO's

## DIALOGUE

ability to manage the crisis as well as the speed of the Company's initial actions to respond to the states of emergency. However, there are no guarantees that relying on past successes will allow DENSO to endure this once-in-a-century paradigm shift. With this being the case, it is even more important for the Board of Directors to tackle external uncertainties head-on and deepen discussion accordingly.

**Olcott:** While discussions around the fast-approaching CASE era have greatly increased over the past year, it is still imperative that the Board engage in broader conversations, focusing on how the automotive industry will look 10 years from now, the kind of competitive environment we will be operating in, the emergence of new competitors, as well as the resources the Company will need to survive and prosper in this different world. To preserve its competitive edge over the medium to long term, I believe DENSO needs to flexibly pursue partnerships with overseas companies as appropriate.

Moreover, regarding plans for developing future leaders, the skill set required for the Company's CEO in 10 years hence will not necessarily be the same as the one needed today. DENSO must therefore abandon the notion that a successor candidate should come from the group of Japanese male employees that joined the Company directly on graduation, which has formed the core management group hitherto.

**Mitsuya:** While I personally do not believe that DENSO must change its current structure no matter what, it certainly would benefit the Company to hold discussions on further increasing the percentage of external members belonging to the Executive Nomination and Remuneration Council and the Board of Directors.

**Olcott:** I have been an outside director at listed Japanese companies since 2008. Over this time, I have witnessed the governance of Japanese companies undergo remarkable change. Today, corporate governance rules in Japan have converged considerably with those of the United Kingdom. Going forward, I believe Japanese companies will inevitably place more emphasis on incorporating outside members and perspectives, and therefore, DENSO should proceed with pertinent discussion today to prepare for this development in the future.

### How do you evaluate DENSO's new strategies concerning "green" and "peace of mind"?

**Kushida:** Firstly, with regard to "green," the automotive industry has traditionally maintained a high level of awareness regarding the need to reduce CO<sub>2</sub> emissions. However, since the announcement of the 2050 Carbon Neutral Declaration by the Japanese government, there has been even greater impetus to promote initiatives aimed at reducing CO<sub>2</sub> emissions. DENSO's recently established strategy for achieving carbon neutrality by 2035 serves as an extremely ambitious target. In light of this target, the Company needs to make various preparations in order to ensure the success of this strategy. Without an incentive system that goes beyond short-term economic logic, efforts toward achieving this strategy—which will require a substantial cost to

implement—will never fully get off the ground. DENSO will formulate more specific efforts toward achieving its carbon-neutral strategy going forward, and it is our job as outside directors to thoroughly ascertain the effectiveness and consistency of such efforts. I believe the establishment of this strategy has provided us, as outside directors, with an important set of standards for evaluating DENSO's management.

**Olcott:** The Company's conversations on carbon neutrality have in fact been developing over a period of many years. DENSO has been formulating business division-specific targets for reducing CO<sub>2</sub> emissions and been taking action accordingly. Recently, in its strategic thinking on the Company's business portfolio and capital allocation, the impact of changes in the portfolio on carbon emissions has become an important factor, not just the impact on the bottom line.

**Mitsuya:** For a *Monozukuri* (manufacturing) company like DENSO, discussions on how to utilize green energy and other eco-friendly technologies are unavoidable. At the moment, thermal power is essentially one of Japan's only sources of stable energy. For that reason, even if the development of electrified vehicles is prioritized, the environmental impact of producing the energy required to move these vehicles cannot be ignored. Determining how we should tackle this issue within this small island country is an extremely challenging task.

**Olcott:** That being said, if DENSO is too inward-looking and focuses only on the domestic market, we will not be able to establish DENSO's—and, for that matter, Toyota's—technologies as global standards. Recently, DENSO has entered into an alliance with the U.S.-based Honeywell International, developing electric propulsion units to meet new aerospace needs. DENSO also boasts globally competitive technologies in the field of agriculture. Going forward, I believe DENSO must accelerate its global expansion by continuing to explore collaboration with optimal partners around the world.

Next, in regard to "peace of mind," DENSO has an extremely high level of prowess in terms of image recognition and other technologies. The Company is also able to offer competitive products in fields related to "peace of mind." However, DENSO's software development capabilities are still lacking, compared to its leading position in hardware. This will limit its abilities to play a leading role in developing key technologies in such areas as "connected" driving, where cloud engineering capabilities are so important. The lack of software engineering capabilities in areas such as cloud is an issue that generally affects all Japanese companies. In that sense, this is not a problem that can be resolved by the efforts of DENSO and the Toyota Group alone.

**Kushida:** That is correct. Even with the technological capabilities of individual corporations, Japan will begin to fall behind in its response to this issue without government policies to provide support to these corporations. For automated driving in particular, it is relatively more difficult to collect and accumulate actual data from cars driving on public roads in Japan than it is overseas. If DENSO focuses its efforts overseas from the initial stages of developing a technology, it may very well lead to achieving the practical application of that technology in a shorter timeframe. In the generation to come,

CONTENTS	PROLOGUE	CEO MESSAGE	DENSO's Value Creation Story	Growth Strategy	Foundation for Creating New Value	Overview by Product	Corporate Governance	Corporate Data
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it will become even more important for DENSO to cultivate integrated capabilities that are separate from its existing automotive technologies, including through the selection of optimal partners, as Mr. Olcott mentioned.

**Mitsuya:** Although the DENSO-style approach of requiring the best possible quality within the software domain is admirable, in order to increase development speed, there are likely cases where it is best to discover bugs as you develop software and then fine-tune the software while making revisions after the fact. I feel that collaborating with exceptional start-up companies will provide DENSO with a breakthrough for realizing such an approach to software development.

**In closing, could you please tell us how you aspire to enhance DENSO's corporate value in the future?**

**Kushida:** From an overall perspective, DENSO is a company that adopts an extremely forward approach in addressing governance-related issues. I will work to further my understanding of DENSO's governance-related initiatives while providing a perspective that differs from that of officers in charge of business execution. I also aim to serve as a check-point for monitoring the progress of initiatives. In these ways, I hope to play a significant role in helping DENSO achieve sustainable growth in a rapidly changing business environment.

**Olcott:** The role of the outside director is not to formulate or execute corporate strategy. Rather, his or her role is to oversee the decision-making process at the Board. Our role is to agree upon DENSO's overall corporate mission and vision in order to ensure that the strategy to meet the Company's medium- to long-term goals is rational and achievable and that the Company has the resources to deliver the strategy, as well as to hold management accountable for achieving those goals. In order to do this, we need to understand the

competitive and technological environment that the Company operates in, and what that environment is likely to look like in the medium to long term. Consistency between this vision of the future and the Company's strategy will enable us to confirm that the Company will remain competitive, enhance corporate value, and be able to deliver the returns that are expected of its stakeholders, especially the shareholders.

DENSO's head office is located in the city of Kariya in Aichi Prefecture. At the General Meeting of Shareholders, you can feel the extraordinary level of local support DENSO receives from its shareholders, exemplifying the intimate links the Company has with the local community. Furthermore, DENSO's management maintains a close relationship with its employees, and they are extremely open in their communication with us. Building on its close relationship with local society and employees, I hope to assist DENSO, using my outsider's perspective, to continue to build links with shareholders and other important stakeholders.

**Mitsuya:** Being the frontrunner of the industrial world, the automotive industry is the one in which you can clearly see how quickly changes manifest themselves in these modern times. Automobiles were first developed in the second half of the 19th century. Comparing the circumstances then to those of today, you can gain a sense that we are in a completely different world. Moreover, the changes that will occur in the next 10 years will likely rival the changes that have occurred over the past 100. Giving consideration to this idea, there is a possibility that the work we engage in today may not even exist in five years' time. The outside directors, in addition to the Company's management, must understand this point and possess a sense of urgency. To that end, I will work to provide DENSO's management with more objective perspectives while maintaining a global awareness and external network from the independent standpoint of an outside director.



# Directors and Audit & Supervisory Board Members

(As of June 22, 2021)

## Directors



Representative Director,  
President & CEO  
**Koji Arima**  
(Date of birth: February 23, 1958)  
1981 Joined DENSO CORPORATION  
2008 Executive Director,  
DENSO CORPORATION  
2014 Senior Executive Director,  
DENSO CORPORATION  
2015 President & CEO, DENSO  
CORPORATION (current position)



Representative Director  
**Yukihiko Shinohara**  
(Date of birth: March 9, 1960)  
1982 Joined DENSO CORPORATION  
2011 Executive Director, DENSO CORPORATION  
2018 Senior Executive Director,  
DENSO CORPORATION  
2019 Senior Executive Officer,  
DENSO CORPORATION  
2021 Representative Director and Senior  
Executive Officer, DENSO CORPORATION  
(current position)



Director  
**Kenichiro Ito**  
(Date of birth: October 1, 1962)  
1985 Joined DENSO CORPORATION  
2012 Executive Director, DENSO CORPORATION  
2019 Senior Executive Officer,  
DENSO CORPORATION  
2021 Director and Senior Executive Officer  
(current position)



Director  
**Yasushi Matsui**  
(Date of birth: July 3, 1964)  
1987 Joined DENSO CORPORATION  
2014 Executive Director, DENSO CORPORATION  
2019 Senior Executive Officer,  
DENSO CORPORATION  
2021 Director and Senior Executive Officer,  
DENSO CORPORATION (current position)



Member of the Board  
**Akio Toyoda**  
(Date of birth: May 3, 1956)  
1984 Joined Toyota Motor Corporation  
2000 Member of the Board of Directors,  
Toyota Motor Corporation  
2002 Managing Director, Toyota Motor Corporation  
2003 Senior Managing Director, Toyota Motor Corporation  
2005 Executive Vice President, Toyota Motor Corporation

2005 Outside Member of the Audit & Supervisory Board,  
Koyo Seiko Co., Ltd. (currently JTEKT CORPORATION)  
2006 Outside Audit & Supervisory Board Member,  
TOYOTA BOSHOKU CORPORATION  
2009 President, Toyota Motor Corporation (current position)  
2018 Chairman, Japan Automobile Manufacturers Association,  
Inc. (current position)  
2019 Director, Member of the Board, DENSO CORPORATION  
(current position)



Outside Director **Independent Officer**  
**George Olcott**  
(Date of birth: May 7, 1955)  
1986 Joined S.G. Warburg & Co., Ltd.  
1991 Director, S.G. Warburg & Co., Ltd.  
1993 Executive Director, Equity Capital Market Group,  
S.G. Warburg Securities London  
1997 Head of Tokyo Branch, SBC Warburg  
1998 Vice President, LTCB-UBS-Brinson Asset Management  
1999 President, UBS Asset Management (Japan) President,  
Japan UBS Brinson  
2000 Managing Director, Equity Capital Market,  
UBS Warburg Tokyo  
2001 Judge Business School, University of Cambridge  
2005 FME Teaching Fellow, Judge Business School,  
University of Cambridge  
2008 Senior Fellow, Judge Business School,  
University of Cambridge

2008 Outside Director, Nippon Sheet Glass Co., Ltd.  
2010 Outside Director, NKSJ Holdings, Inc.  
2010 Project Professor, Research Center for Advanced Science  
and Technology, The University of Tokyo  
2014 Guest Professor, Keio University Faculty of Business and  
Commerce (current position)  
2014 Director, Member of the Board, DENSO CORPORATION  
(current position)  
2015 Outside Director,  
The Dai-ichi Life Insurance Company, Limited  
2016 Outside Director, BlueOptima Limited (current position)  
2016 Outside Director, Dai-ichi Life Holdings, Inc.  
(current position)  
2020 Outside Director, Kirin Holdings Company, Limited  
(current position)



Outside Director **Independent Officer**  
**Shigeki Kushida**  
(Date of birth: June 8, 1958)  
1981 Joined Bank of Japan  
2004 Branch Manager, Kochi Branch, Bank of Japan  
2009 Director-General, Personnel and Corporate Affairs  
Department, Bank of Japan  
2010 Director-General, Planning Department, Bank of Japan  
2011 Branch Manager, Nagoya Branch, Bank of Japan

2013 Executive Director, Bank of Japan  
Entrusted Branch Manager, Nagoya Branch and  
Osaka Branch, Bank of Japan  
2017 Senior Advisor, American Family Life Assurance Company  
(currently Aflac Life Insurance Japan Ltd.)  
2019 Director, Representative Executive Officer & President,  
Japan Securities Finance Co., Ltd. (current position)  
2019 Director, Member of the Board,  
DENSO CORPORATION (current position)



Outside Director **Independent Officer**  
**Yuko Mitsuya**  
(Date of birth: July 29, 1958)  
1981 Joined Hitachi, Ltd.  
2007 Representative Director, PSY-fa Co., Ltd.  
2014 Outside Audit & Supervisory Board Member,  
ASICS Corporation  
2015 Outside Director, Fujita Kanko Inc.  
2015 Outside Director, Paloma Co., Ltd.

2016 President, Japan Basketball Association (current position)  
2018 Representative Director, SORA Corporation  
(current position)  
2018 Outside Director, The Fukui Bank, Ltd. (current position)  
2019 Outside Director and Audit and Supervisory Committee  
Member, JXTG Holdings, Inc.  
(currently ENEOS Holdings, Inc.) (current position)  
2019 Director, Member of the Board,  
DENSO CORPORATION (current position)



### Audit & Supervisory Board Members



#### Standing Audit & Supervisory Board Member Shingo Kuwamura

(Date of birth: August 16, 1959)  
 1982 Joined DENSO CORPORATION  
 2009 Executive Director, DENSO CORPORATION  
 2017 Senior Executive Director, DENSO CORPORATION  
 2019 Senior Executive Officer, DENSO CORPORATION  
 2021 Standing Audit & Supervisory Board Member (current position)



#### Standing Audit & Supervisory Board Member Motomi Niwa

(Date of birth: November 3, 1962)  
 1985 Joined DENSO CORPORATION  
 2007 Head of Function Products Planning Division (currently Mechatronics Components Business Unit, Mechatronics Components Planning Department), DENSO CORPORATION  
 2013 Director, Human Resources Division, DENSO CORPORATION  
 2014 Vice President, DENSO Manufacturing Athens Tennessee, Inc.  
 2018 Standing Audit & Supervisory Board Member, DENSO CORPORATION (current position)



#### Outside Audit & Supervisory Board Member **Independent Officer** Yasuko Goto

(Date of birth: February 19, 1958)  
 1980 Joined the Ministry of Transport  
 2004 Head, New York Office, Japan National Tourism Organization  
 2005 Vice Governor, Yamagata Prefecture  
 2008 Director, Regional Transport Bureau of Hokuriku and Shinetsu Regions, Ministry of Land, Infrastructure, Transport and Tourism (MLIT)  
 2013 President, Policy Research Institute for Land, Infrastructure, Transport and Tourism, MLIT

2015 Managing Director, Deputy General Manager of Railway Operations Headquarters and General Manager of Tourism Business Headquarters, Kyushu Railway Company  
 2017 Managing Director in charge of Finance Department, Kyushu Railway Company  
 2018 Director, Audit & Supervisory Committee Member, Kyushu Railway Company  
 2019 External Audit & Supervisory Committee Member, Shiseido Company, Limited (current position)  
 2019 Outside Audit & Supervisory Board Member, DENSO CORPORATION (current position)



#### Outside Audit & Supervisory Board Member **Independent Officer** Haruo Kitamura

(Date of birth: August 21, 1958)  
 1983 Joined Arthur Andersen Konin Kaikeshi Kyodo Jimusho (currently KPMG AZSA LLC)  
 1987 Registered as a Certified Public Accountant  
 2002 Chief, Kitamura Certified Public Accountant Office (current position)  
 2004 Outside Auditor, ROHM Co., Ltd.  
 2005 Outside Director, Sumisho Grainger Co., Ltd. (currently MonotaRO Co., Ltd.) (current position)  
 2006 Supervisory Director, MID REIT, Inc. (currently Japan Metropolitan Fund Investment Corporation) (current position)

2009 Outside Corporate Auditor, Yamaha Corporation  
 2010 Outside Director, Yamaha Corporation  
 2015 Outside Corporate Auditor, ASMO Co., Ltd. (currently DENSO CORPORATION)  
 2015 Outside Corporate Auditor, LEGAL CORPORATION (currently LeTech CORPORATION) (current position)  
 2016 Outside Corporate Auditor, Toyo Aluminium K.K. (current position)  
 2019 Outside Audit & Supervisory Board Member, DENSO CORPORATION (current position)

### Expertise and Abilities That Can Be Leveraged in the Management of the Board of Directors and Audit & Supervisory Board

Koji Arima	Excellent management prowess and leadership
Yukihiro Shinohara	Knowledge gained through an abundance of experience in business operations and experience in promoting Companywide projects
Kenichiro Ito	Knowledge gained through experience in corporate and regional management
Yasushi Matsui	Knowledge gained through wide-ranging experience in functional and operating departments
Akio Toyoda	Abundant experience and extensive insight as a leader of the automotive industry
George Olcott	Relevant expertise as well as abundant experience and deep insight related to corporate management
Shigeki Kushida	Wealth of experience leading activities that developed and stabilized the Japanese economy and extensive insight on the global monetary economy
Yuko Mitsuya	Abundant experience in corporate management and many other fields, including as an officer and committee member at several sports associations
Shingo Kuwamura	Broad expertise in the management of overseas and domestic subsidiaries as well as in manufacturing departments
Motomi Niwa	Managerial experience at overseas subsidiary and extensive expertise gained from positions in functional and operating departments
Yasuko Goto	Broad range of experience in administrative and corporate management as well as in-depth audit knowledge in finance, accounting, and compliance
Haruo Kitamura	High level of insight related to accounting as a certified public accountant and vast experience in corporate management

# Risk Management

## Basic Stance

To minimize the impact of constantly diversifying risks, DENSO is working to expand and strengthen its risk management structure. 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 cyber terrorism, 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.

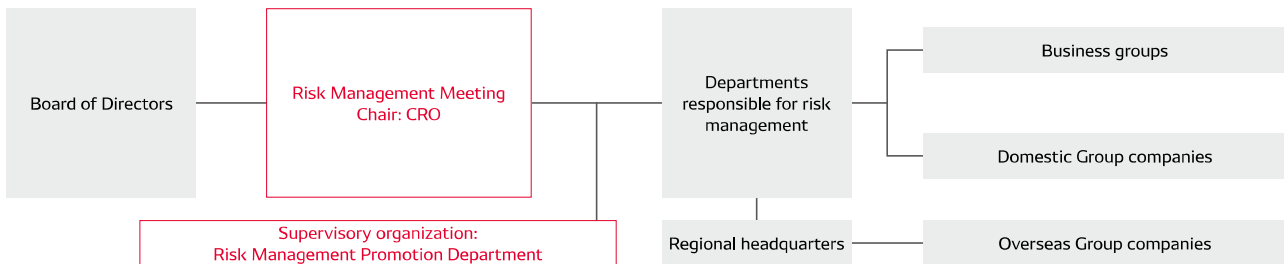
## Promotion Structure

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, from 2021 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 2022 the Company has determined 42 major risk items and 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.

Also, in 2020 DENSO established the Risk Management Promotion Department, which serves as an independent

organization that oversees the DENSO Group on a cross-organizational basis in order to steadily promote risk management. In 2021, the Company established the Economic Security Department with the aim of strengthening its internal preparedness in response to growing economic security risks, such as restrictions on transactions between companies stemming from economic power struggles between nations.

### Risk Map



## Examples of Response to Key Risks

### Strengthening Our Risk Prevention and Initial-Response Measures and Formulating BCPs\*

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 the spread of COVID-19 and rising geopolitical risks.

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. To that end, we have commenced the formulation of BCPs from the perspective of business continuity management. We are also taking action in such ways as creating emergency situation manuals and promoting countermeasures for minimizing the impact from disasters.

As there are a great deal of risk factors within the supply chain that could cause component supply issues, particularly natural disasters, geopolitical risks, and incidents and other emergencies, it is extremely important that we clarify our methods for responding to these kinds of issues within our supply chain.

To that end, in response to the risk of delays or stoppages in the supply of components from suppliers, which could lead to the delay in or suspension of our production activities and the delivery of products to customers, we are striving to enhance our risk resilience by strengthening our initial-response measures. While we have in place certain measures to secure inventories of such materials as semiconductors and resins, in light of the tightening supply-demand of such materials in 2020, we will examine new ways of securing a safe and appropriate level of inventory, based on maintaining the trust-based relationships we have cultivated with our suppliers and customers. This in turn should help us secure a stable supply of materials going forward. Furthermore, rather than pursuing a specified supply framework that is limited to materials from only certain regions, we will examine a standardized supply framework that enables us to receive materials from anywhere across the globe. In these ways, we will establish a stable supply system.

\* BCPs: Business continuity plans. In the event that operations are interrupted by an earthquake or other large-scale natural disaster, BCPs are designed to minimize damage to the Company's business by aiming to promptly restore operations.


### Measures to Combat Infectious Diseases

In the event there is an outbreak or spread of an infectious disease, we are formulating action plans to ensure that our response headquarters can implement swift and accurate decision-making. These plans work to make such decision-making possible by outlining basic policies and response measures based on anticipated damages as well as by clarifying the role of each division. In the case the spread of an infectious disease becomes severe, we will promote measures to combat the spread while placing the utmost priority on ensuring the safety of our employees and their families. At the same time, we will pursue all avenues to implement the best response possible in order to maintain business continuity.

In our response to the COVID-19 pandemic, we promptly established the COVID-19 Response Headquarters, led by the

CRO, when the virus first started to spread. Prioritizing the safety of our employees and their families, this response headquarters has been examining countermeasures and providing direction on how to prevent the further spread of the virus and minimize its impact on our businesses. At the same time, we have been holding conferences on countermeasures with each regional headquarters in order to collect information on the situation and needs in each country and region of operation in real time. In addition, we are thoroughly reinforcing basic measures to prevent infections while promoting measures such as off-peak commuting and working from home. Going forward, we will continue to collaborate on a global basis in response to this pandemic to ensure we can overcome the crisis it has caused.

### Enhancing Our Response to Quality-related Issues—Building a Robust Foundation of Quality through the Rigorous Enforcement of the "Three Pillars of Recommitment to Quality"

DENSO has long positioned "quality first" as its starting point. However, in 2019 the largest-ever quality-related issue in DENSO's history occurred. Taking this situation extremely seriously, all DENSO employees have recommitted themselves to "DENSO Quality First" with a strong determination and readiness. With this determination and readiness, we adopted and are making Groupwide efforts toward the "three pillars of recommitment to quality,"  which clarify issues from various angles, including technologies, frameworks, management, and corporate culture. Examples of Initiatives

- We conduct cross-organizational, comprehensive inspections of products under development in order to thoroughly uncover potential risks and eliminate technical issues. In addition, we are moving forward with efforts to shore up our fundamental quality technologies in response to future-

oriented technological domains such as CASE.

- To enhance the quality of our software, we are promoting automation and labor-saving activities by introducing tools throughout the entire course of development, from upstream to downstream.
- To further improve our quality assurance systems within each process, we are reconfirming the basics of manufacturing itself and working to thoroughly enhance and fully ensure compliance with operational manuals. We are also promoting activities to enhance the reliability of all processes, which seek to make systematic improvements. At the same time, in the unlikely event that a defective product makes its way through to the customer, we are establishing a route-tracking system to minimize any inconvenience this may cause our customers.

### Reinforcing Our Information Security Structure with a Focus on a "Connected Society"

Following the progression of automated driving, IoT, and other innovative technologies, promoting efforts to respond to cyber risks facing cars and production facilities has become an extremely important issue. In addition, with the increase in remote working and online conferences stemming from the COVID-19 pandemic, the threat of information security risks has become increasingly more severe. 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 internal/external networks, production lines, and other facilities, and stepping up educational activities geared toward improving our employees' information security literacy.

Meanwhile, we expect to accumulate various information assets internally as a result of progress toward a "connected society," and these assets will be used in a large number of company divisions. To ensure that the way we use information assets does 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.

# Compliance

## Basic Stance

We believe that key actions to earn the trust and understanding of society pertain to the DENSO Group's observance of all applicable national and regional laws and all employees' fair and faithful conduct that embodies the highest ethical standards.

Based on this recognition, in 2006 we adopted the Code of Conduct for DENSO Group Associates, which clearly indicates the standards of conduct for each and every employee. In training and at workplace conferences, we utilize the Code for raising employees' awareness of compliance, which includes all domestic Group companies. Overseas Group companies use a regional version of the Code of Conduct for DENSO Group Associates, formulated by their regional headquarters in accordance with national and regional laws and customs.

## Promotion Structure

In 1997, DENSO created a Business Ethics and Compliance Committee chaired by a director to provide oversight in that area (currently the Risk Management Meeting). We have also installed committee structures, such as the Compliance Committee, and compliance promotion officers, such as compliance leaders, at the regional headquarters of each region of our collective global base. In doing so, we are building global systems that promote compliance, while at the same time promoting the development of organizational structures that take differing regional characteristics into consideration, introducing and operating reporting systems, and pursuing enlightenment activities.

## Specific Initiatives

### Educational and Awareness Activities

DENSO implements various educational and enlightenment activities for employees on an ongoing basis with the aim of enhancing their overall awareness of compliance matters.

In Japan, we carry out educational and enlightenment activities related to compliance, including position-based training, various e-learning programs, and the "Business Ethics Month" (every October). We also roll out similar activities for employees in each region of operations, centered on our regional headquarters.

### Inspection and Improvement of Activities

DENSO conducts inspections to ascertain whether its compliance activities have sufficiently taken hold and to look for any potential compliance issues. If an issue is discovered, reports are made to top management when necessary, and steps are taken to prevent a recurrence of the issue.

For example, DENSO CORPORATION holds a sustainability survey every year in order to gain an understanding on the extent to which compliance-related measures have taken hold and on potential compliance risks.

## Response to Antitrust Laws

In February 2010, the U.S.-based subsidiary DENSO International America was investigated by the U.S. Department of Justice. Since then, we have established the Antitrust Laws Compliance Committee, chaired by the representative director. Under the guidance and supervision of this committee, we have endeavored to reinstitute strict compliance with the Antitrust Laws across the entire DENSO Group. These efforts have included ensuring strict adherence to laws and regulations, strengthening education about relevant rules, and conducting more precise audits regarding legal compliance.

## Response to Anti-Bribery Laws

DENSO formulated the "Global Anti-Bribery Policy" to serve as its basic approach to preventing bribery. At the same time, the Company established the Compliance and Anti-Bribery Committee, which is chaired by a relevant Company director. This committee takes the lead and provides supervision on the formulation of bribery prevention rules and the promotion of employee awareness and education measures through e-learning. We also have Sustainability Guidelines for Suppliers in place to prevent bribery between suppliers and third parties. In these ways, we are working to thoroughly prevent bribery throughout the supply chain.

## Response to Tax Compliance

DENSO has established the "Global Tax Policy" to meet its social responsibility through proper tax payment. Under this policy, we actively engage in activities for tax compliance on a Groupwide basis, such as providing training for employees and abiding by rules for cross-border transactions.



Please see the "Sustainability Information" section of DENSO's corporate website for more information.

Compliance:  
<https://www.denso.com/global/en/about-us/sustainability/governance/compliance/>



Please visit our corporate website for information on tax governance.

<https://www.denso.com/global/en/about-us/sustainability/governance/tax-policy/>

