Securities Report

(Report based on Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

Fiscal year (the 98th) January 1, 2023 to December 31, 2023 (Fiscal 2023)

(The English translation of the Securities Report ("Yukashoken Houkokusho") for the year ended December 31, 2023)

Sanden Corporation

(E01913)

The 98th Fiscal Year (January 1, 2023 to December 31, 2023)

Securities Report

1. This document is a printout of the data of the Securities Report prepared under Article 24, Paragraph 1 of the Financial Instruments and Exchange Act with the table of contents and page numbers added. The data was submitted using EDINET, an electronic data processing system for disclosure stipulated in Article 27-30-2 of the said Act.
2. At the end of this document, the audit report attached to the Securities Report submitted by the above method and the internal control report and confirmation notes submitted together with the above-mentioned Securities Report are attached.

Sanden Corporation

Contents

【Cover】

【Document Submitted】	Securities Report (“Yukashoken Houkokusho”)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24, Paragraph 1 of the Financial Instruments and Exchange Law
【Filed to】	Director, Kanto Local Finance Bureau
【Date of Submission】	(March 28, 2024)
【Business Year】	The 98th Fiscal Year (January 1, 2023 to December 31, 2023)
【Company name】	Sanden Corporation
【Position and Name of Representative】	Zhu Dan, Representative Director and President
【Address of headquarters】	20 Kotobuki-cho, Isesaki- shi, Gunma, Japan
【Phone No.】	Isesaki: +81-(0)270-24-1211
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【Contact for Communications】	Zhang Ning, Executive Vice President
【Place Where Available for Public Inspection】	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Part I. Company Information

1. Overview of the Company

1. Key financial data and trends

(1) Consolidated financial data

Fiscal Year		93rd	94th	95th	96th	97th	98th
Year ended		March 31, 2019 (FY2018)	March 31, 2020 (FY2019)	March 31, 2021 (FY2020)	December 31, 2021 (FY2021)	December 31, 2022 (FY2022)	December 31, 2023 (FY2023)
Net sales	Millions of yen	273,934	204,880	137,477	119,587	175,683	179,279
Ordinary income (loss)	Millions of yen	564	(9,735)	(23,237)	(11,728)	(4,140)	(8,382)
Net income (loss) attributable to owners of parent	Millions of yen	(23,060)	2,287	(45,251)	15,888	(1,613)	(3,359)
Comprehensive income	Millions of yen	(27,070)	335	(41,189)	19,369	(424)	(2,530)
Net assets	Millions of yen	23,538	22,699	(16,956)	23,835	23,366	20,836
Total assets	Millions of yen	246,401	187,559	155,081	151,189	157,428	162,539
Net assets per share	Yen	685.04	747.92	(664.58)	205.51	201.75	181.18
Net income (loss) per share	Yen	(833.58)	82.54	(1,630.38)	167.79	(14.48)	(30.15)
Diluted net income per share	Yen	-	-	-	-	-	-
Capital adequacy ratio	(%)	7.7	11.1	(11.9)	15.1	14.3	12.4
Return on equity	(%)	(71.9)	11.5	-	713.3	(7.1)	(15.7)
Price earnings ratio	Times	-	4.4	-	1.4	-	-
Cash flows from operating activities	Millions of yen	3,043	7,219	3,234	(7,409)	(10,125)	9,371
Cash flows from investing activities	Millions of yen	(11,362)	28,452	(5,661)	(5,209)	(4,486)	(11,602)
Cash flows from financing activities	Millions of yen	2,679	(24,677)	(3,632)	19,735	5,077	5,794
Cash and cash equivalents at the end of the period	Millions of yen	13,030	23,711	18,203	25,912	17,102	21,620
Number of employees [outside of which, average number of temporally employees]	Persons	9,628 (3,055)	6,509 (2,051)	6,246 (2,278)	5,897 (1,430)	5,608 (2,037)	5,587 (2,286)

Notes:
1. Diluted net income per share for the 94th and 96th fiscal years (fiscal 2019 and 2021) are not stated because there was no dilutive share. Diluted net income per share for the 93rd, 95th, 97th and 98th fiscal years (fiscal 2018, 2020, 2022 and 2023) are not stated because a net loss per share was reported and there was no dilutive share.
2. In calculating the net assets per share, the Company shares held by the executive compensation Board Incentive Plan (BIP) Trust are included in the treasury stock deducted from the total number of issued shares at the end of the term. In calculating the net income per share or net loss, it is included in the number of treasury stock to be deducted in the calculation of the average number of common shares during the term.
3. Return on equity for the 95th fiscal year (fiscal 2020) is not stated because liabilities exceeded assets.
4. The “Accounting Standard for Revenue Recognition’” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the 96th fiscal year (fiscal 2021). The major management indicators, etc. for the 96th fiscal year (fiscal 2021) are the indicators after applying these accounting standards and so on.
5. The closing date of an accounting term was changed from March 31 to December 31 pursuant to a resolution of the 95th annual general meeting of shareholders held on June 25, 2021. Accordingly, the 96th fiscal year covers a 9-month period from April 1, 2021 to December 31, 2021.

(2) Non-consolidated financial data

Fiscal Year		93rd	94th	95th	96th	97th	98th
Year ended		March 31, 2019 (FY2018)	March 31, 2020 (FY2019)	March 31, 2021 (FY2020)	December 31, 2021 (FY2021)	December 31, 2022 (FY2022)	December 31, 2023 (FY2023)
Net sales	Millions of yen	-	-	-	-	75,107	71,946
Operating Revenue	Millions of yen	13,043	7,940	7,984	6,871	-	-
Ordinary income (loss)	Millions of yen	4,017	(926)	(13,734)	(32,919)	(3,767)	(7,932)
Net income (loss)	Millions of yen	2,506	8,312	(42,093)	19,023	(5,324)	(6,715)
Capital	Millions of yen	11,037	11,037	11,037	21,741	21,741	21,741
Total shares issued	(Shares)	28,066,313	28,066,313	28,066,313	111,693,313	111,693,313	111,693,313
Net assets	Millions of yen	16,883	25,070	(16,950)	23,586	18,201	11,548
Total assets	Millions of yen	105,019	111,462	75,725	77,383	99,877	104,058
Net assets per share	Yen	607.75	900.29	(608.41)	211.47	163.31	103.62
Dividend per share (of which, interim dividend)	Yen	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)
Net income (loss) per share	Yen	90.27	298.78	(1,510.99)	200.67	(47.78)	(60.26)
Diluted net income per share	Yen	-	-	-	-	-	-
Capital adequacy ratio	(%)	16.1	22.5	(22.4)	30.5	18.2	11.1
Return on equity	(%)	16.1	39.6	-	573.3	(25.5)	(45.1)
Price earnings ratio	Times	8.4	1.2	-	1.1	-	-
Payout ratio	(%)	-	-	-	-	-	-
Number of employees [outside of which, average number of temporally employees]	Persons	58 (6)	74 (8)	79 (6)	88 (7)	1,356 (67)	1,344 (86)
Total shareholder return	(%)	49.2	23.6	26.1	14.8	12.7	13.0
[Comparative index: TOPIX]	(%)	(92.7)	(81.7)	(113.8)	(116.1)	(110.2)	(137.9)
Highest stock price	Yen	1,823	942	507	409	305	232
Lowest stock price	Yen	642	297	216	208	165	145

Notes:
1. Diluted net income per share for the 93rd, 94th, and 96th fiscal years (fiscal 2018, 2019 and 2021) are not stated because there was no dilutive share. Diluted net income per share for the 95th, 97th, and 98th fiscal years (fiscal 2020, 2022 and 2023) are not stated because a net loss per share was reported and there was no dilutive share.
2. In calculating the net assets per share, the Company shares held by the executive compensation Board Incentive Plan (BIP) Trust are included in the treasury stock deducted from the total number of issued shares at the end of the term. In calculating the net income per share or net loss, it is included in the number of treasury stock to be deducted in the calculation of the average number of common shares during the term.
3. Return on equity for the 95th fiscal year (fiscal 2020) is not stated because liabilities exceeded assets.
4. The highest and lowest stock prices are the prices at the First Section of the Tokyo Stock Exchange before April 3, 2022, at the Prime Market of the Tokyo Stock Exchange on and after April 4, 2022, and at the Standard Market of the Tokyo Stock Exchange on and after October 20, 2023.
5. The “Accounting Standard for Revenue Recognition’” (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the 96th fiscal year (fiscal 2021). The major management indicators, etc. for the 96th fiscal year (fiscal 2021) are the indicators after applying these accounting standards and so on.
6. The closing date of an accounting term was changed from March 31 to December 31 pursuant to a resolution of the 95th annual general meeting of shareholders held on June 25, 2021. Accordingly, the 96th fiscal year covers a 9-month period from April 1, 2021 to December 31, 2021.
7. Significant fluctuations in management indicators and so on in the 97th fiscal year are mainly attributable to the shift to the business company structure through the absorption-type mergers of seven domestic subsidiaries in January 2022.

2. History

Month/Year	Items
July 1943	Established Sankyo Electric Company at No. 20 Kotobukicho, Isesaki-shi, Gunma Prefecture with a capital of ¥198 thousand to manufacture parts for wireless communication devices by synthetic resin molding, mica-condensers and paper-condensers.
March 1948	Started manufacturing the dynamo bicycle lamp.
June 1958	Started producing ice-cream refrigerating stockers, freezing and refrigerating showcases.
October 1961	Started producing fountain-type juice vending machines.
August 1962	Listed on the second section of Tokyo Stock Exchange.
July 1963	Started producing a pot-type oil heater.
December 1964	Established Sankyo Sales Company by spinning off the sales division from Sankyo Electric Company (Company name was changed to Sanden Sales Company in October 1973).
June 1970	Entered a technical collaboration agreement on automotive air-conditioner compressors with Mitchell Corporation in the U.S.
March 1971	Started producing automotive air-conditioner compressors.
April 1973	Established the Yattajima Factory (currently the Yattajima Plant) in the Yattajima Industrial Park in Isesaki-shi and started production of automotive air-conditioner compressors.
August 1973	Designated to the First Section of the Tokyo Stock Exchange. At the same time, changed the trademark from Sankyo to Sanden.
January 1974	Obtained worldwide marketing rights for automotive air-conditioner compressors from Mitchell.
November 1974	Established Sankyo International (U.S.A.), Inc. as an overseas company (currently Sanden International (U.S.A.), Inc.) in the United States.
November 1974	Established Sankyo International Co., Ltd. (changed the company name to Sanden International Co., Ltd. on October 1, 1982).
December 1977	Established Sankyo International (Singapore) Pte. Ltd. as an overseas company (currently Sanden International (Singapore) Pte. Ltd.) in Singapore
March 1980	Obtained patent rights for automotive air-conditioner compressors owned by Mitchell
April 1980	Established Sankyo International (U. K.) Ltd. as an overseas company (currently Sanden International (Europe) GmbH) in U. K.
October 1980	Sankyo International (U.S.A.), Inc. (currently Sanden International (U.S.A.), Inc.) established a plant to manufacture automotive air-conditioner compressors.
October 1982	Sankyo International (Singapore) Pte. Ltd. (currently Sanden International (Singapore) Pte. Ltd.) established a plant to manufacture automotive air-conditioner compressors.
	Changed the company name to Sanden Corporation.
August 1987	Established Sanden independent. System Engineering Co., Ltd. by making the computer department
August 1989	Sanden International (U.S.A.), Inc. begins operation of its second plant for producing automotive air-conditioner compressors in Wiley, Texas, USA.
July 1990	Opened Sanden Communication Plaza as a training facility in Honjo City, Saitama, Japan.
May 1994	Entered a Technical Assistance Agreement with Ford Motors Corporation (U.S.A.) for manufacturing of automotive air-conditioner compressors.
April 1995	Established Sanden Manufacturing Europe S. A.S. as an overseas company in Tinteniac, France.
October 1996	Awarded EPA prize (contribution to ozone layer preservation) by the US Environment Protection Agency.
April 1997	Absorbed the subsidiary Sanden Sales Co., Ltd. and Sanden International Co., Ltd.
October 1998	Awarded Deming Prize Implementation Award to evaluate companywide quality control.
July 1999	Acquired ISO14001 certification at every business base.
September 2000	Established Tianjin Sanden Automotive Air-Conditioning CO., LTD., which produces automotive air conditioning systems.
April 2002	Completed Sanden Forest and Akagi Plant in Seta Gun (currently Maebashi City), Gunma, Japan.
October 2002	Won a Japan Quality Control Award.

Month/Year	Items
February 2004	Established a joint venture company Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd, (currently Sanden Hasco Automotive Air conditioning Co., Ltd.) in China and manufactures automotive air-conditioner compressors. Manufactures automotive air-conditioner compressors.
April 2004	Established Sanden Manufacturing Poland sp. z o.o. in Polkowice, Poland
June 2005	Received “Europe's Best Investment Award” at the third World Investment Conference.
October 2006	Sanden International (U.S.A.), Inc. and Sanden International (Singapore) Pte. Ltd. received “Deming Prize Implementation Award”
November 2006	Received the third “France-Japan Investment Award”
September 2008	Opened Sanden Global Center (SGCT) in Isesaki Headquarters, Gunma Prefecture, Japan
	Established a consolidated subsidiary, Sanden (Suzhou) Precision Parts Co., Ltd. and built a die-cast plant of automotive air-conditioner compressors.
	Received “5th Asahi Corporate Citizen Award” for continuous environmental education at Sanden Forest.
April 2009	Began manufacturing electric compressors at Yattajima Plant.
March 2010	Established a consolidated subsidiary, Sanden Chongqing Automotive Air Conditioning Co., Ltd. (currently, Sanden (China) Automotive Air Conditioning System Co., Ltd.) in China to produce automotive air-conditioning systems.
October 2011	Sanden Vikas (India) Private Limited received “Deming Prize”
	Began manufacturing electric compressors at Sanden Manufacturing Europe S. A.S.
August 2012	Established a consolidated subsidiary Sanden Vikas Precision Parts Private Limited in New Delhi, India.
October 2012	Sanden Forest Akagi Plant received “Good Design Award”
November 2012	Acquired the second highest rank in “DBJ Environmental Rating” of the Development Bank of Japan
February 2013	Established a consolidated subsidiary Sanden Manufacturing Mexico S. A. DE C. V. in Mexico.
April 2013	Sanden Forest and Akagi Plant receive “2013 Prime Minister's Commendation for Greenery Promotion Personnel”
May 2014	Established 7 companies for preparatory company for transition to holding company structure by company split.
January 2015	Merged Chongqing Huaen Industry Co., Ltd. into Sanden Chongqing Automotive Air Conditioning Co., Ltd. (currently, Sanden (China) Automotive Air Conditioning System Co., Ltd.).
April 2015	Transferred to a holding company structure and change its company name to Sanden Holdings Corporation
October 2015	Established new production line of HVAC air-conditioning systems in Sanden Manufacturing Poland sp. z o.o.
February 2016	Expanded compressor production line in Sanden Manufacturing Poland sp. z o.o.
January 2017	Merged five domestic subsidiaries of the Automotive Systems Business into Sanwa Corporation, which was merged into Sanden Corporation in January 2022, and three domestic subsidiaries in the Commercial Store Systems Business into Sanden Logistics Co., Ltd., whose shares were assigned to SDRS Holdings, Inc. in October 2019.
August 2017	Established Climate Wind Tunnel which enables to produce any weather conditions in Tianjin, China and started operation.
April 2018	Completed construction of a new plant of Sanden Huayu Automotive Air-Conditioning Co., Ltd. in Shanghai, China and started production of electric compressors in August.
April 2019	Transferred shares and other assets of subsidiaries conducting the Automotive Systems Business and Commercial Store Systems Business and part of the rights and obligations related to the business of managing these subsidiaries to Sanden Automotive Components Corporation, which was merged into Sanden Corporation in January 2022, Sanden Automotive Climate Systems Corporation, which was merged into Sanden Corporation in January 2022, and Sanden Retail Systems Corporation, whose shares were transferred to SDRS Holdings, Inc. in October 2019, through simplified absorption-type company splits.

Month/Year	Items
October 2019	Executed transfer of all the issued shares of Sanden Retail Systems Corporation to SDRS Holdings Corporation formed through contributions from affiliated business entities operated by Integral Corporation.
June 2020	Formally applied for business revitalization ADR procedures to the Japanese Association of Turnaround Professionals.
May 2021	Business revitalization ADR procedures commenced.
	Increased capital through third-party allotment to Hisense Japan Automotive Air-Conditioning Systems as the allottee.
January 2022	Shifted to a business company structure and changed its company name to Sanden Corporation.
	Executed an absorption-type merger with seven domestic subsidiaries as dissolving companies.
	Succeeded businesses with Group companies through a simplified absorption-type company split from one domestic subsidiary as a splitting company.
April 2022	Moved from the First Section to the Prime Section of the Tokyo Stock Exchange following the TSE's market reclassification.
September 2022	Assigned all shares in a consolidated subsidiary, Sanden System Engineering Corporation, to EXEO Digital Solutions, Inc.
January 2023	Renamed Sanden Chongqing Automotive Air Conditioning Co., Ltd. as Sanden (China) Automotive Air Conditioning System Co., Ltd.
October 2023	Moved from the Prime Market to the Standard Market of the Tokyo Stock Exchange.
December 2023	Sanden International (USA), Inc. began manufacturing electric compressors, establishing a tetrapolar production system covering Japan, China, Europe and North America.

3. Businesses

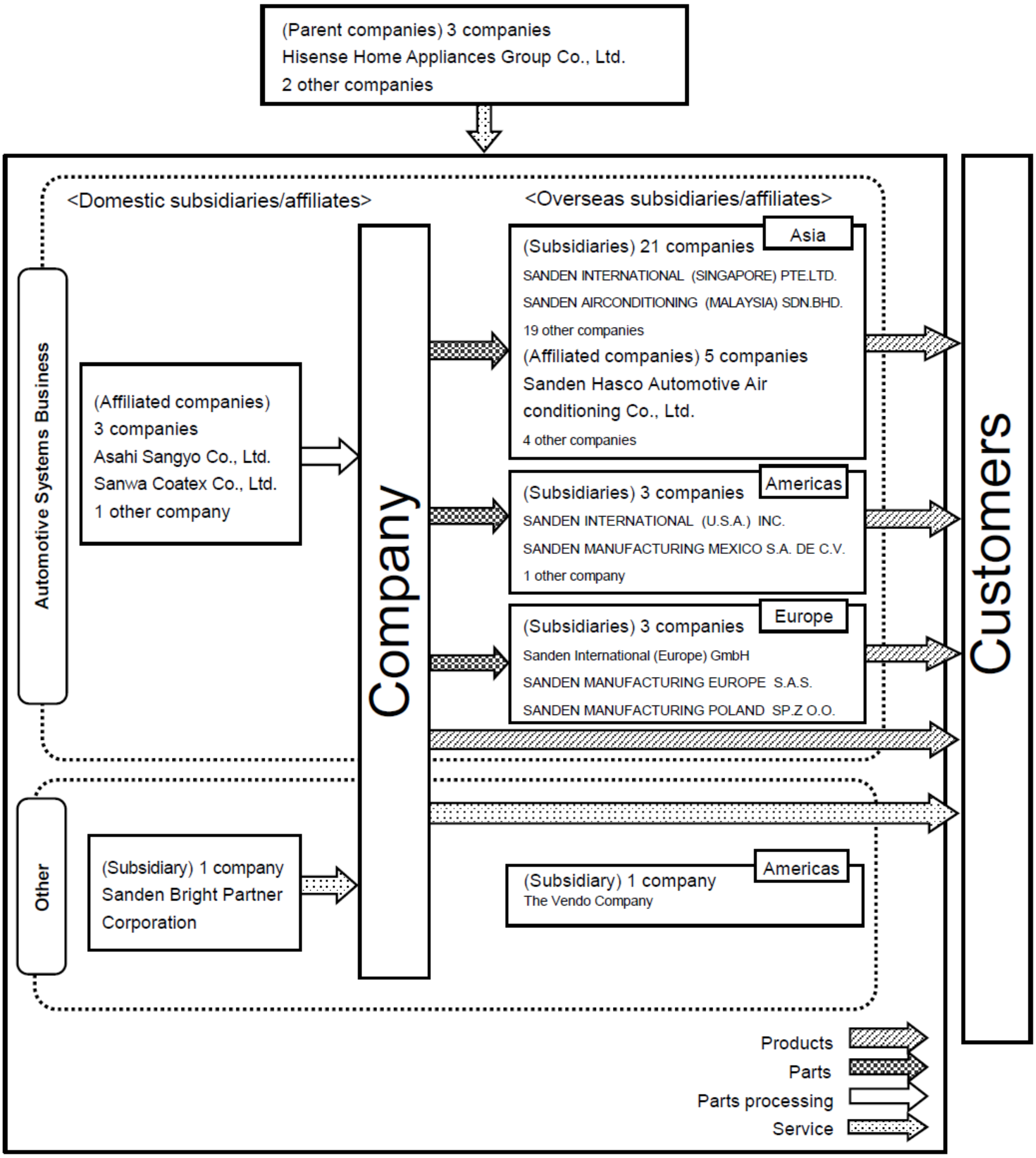
The Company and its related companies consist of the Company, three parent companies, 29 subsidiaries, 8 affiliated companies, and two other related companies, whose main businesses are the manufacturing and selling of automotive equipment systems and other products.

The positioning of the Group's businesses are as follows.

The “Group” in this report refers to the Company and its 29 subsidiaries and 8 affiliated companies, unless otherwise specifically defined.

Classification	Main products	Main manufacturing and sales companies
(1) Automotive Systems Business		
Automotive air-conditioning systems and air-conditioner compressors, Automotive heat exchanger	Automotive air-conditioner compressors Air-conditioning indoor unit Engine heat exchanger Air-conditioner heat exchanger	Company Sanden International (U.S.A.), Inc. Sanden International (Europe) GmbH Sanden Manufacturing Europe S. A.S. Sanden Manufacturing Poland sp. z o.o. Sanden International (Singapore) Pte. Ltd. Sanden Thailand Co., Ltd. Sanden Vikas (India) Limited Tianjin Sanden Automotive Air-Conditioning Co., Ltd. Sanden (China) Automotive Air Conditioning System Co., Ltd.
(2) Other		
Home hot water supply and environmental equipment	Eco-Cute	Company Sanden Manufacturing Europe S. A.S. Sanden International (Australia) Pty. Ltd.

The overview of the business structure is as follows. (As of December 31, 2023)



4. Information of subsidiaries and affiliates

(1) Consolidated subsidiaries

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Percentage of voting rights held by the Company	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Sanden Manufacturing Europe S. A.S. Note 2, 3	Tinteniac France	EUR 21,000 thousand	Automotive equipment systems Other	100.0% (100.0%)	Mainly manufacture and sell products and parts	Yes	-
Sanden Manufacturing Poland sp. z o.o. Note 2, 3	Polkowice Poland	PLN 152,000 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products and parts	Yes	-
Sanden International (Europe) GmbH Notes 2, 6	Bad Nauheim Germany	EUR 25 thousand	Automotive equipment systems	100.0%	Mainly sell products	Yes	Lending
Sanden International (U.S.A.), Inc. Notes 2, 6	Wylie Texas U.S.A.	USD 18,000 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products	Yes	Lending Debt excess ¥4,979 million
Sanden Manufacturing Mexico S. A. de C. V. Note 2, 3	Saltillo Coahuila Mexico	USD 66,785 thousand	Automotive equipment systems	100.0% (28.2%)	Mainly manufacture parts	-	-
The Vendo Company	Wylie, Texas U.S.A	USD 3,445 thousand	Other	100.0%	Other	-	Lending
Sanden Vikas (India) Private Limited Note 4	Haryana State India	INR 296,250 thousand	Automotive equipment systems	50.0%	Mainly manufacture and sell products	-	Lending
Sanden International (Singapore) Pte. Ltd.	Singapore	SGD 6,000 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products	Yes	Lending
Sanden Automotive Systems (Singapore) Pte. Ltd.	Singapore	SGD 9,625 thousand	Automotive equipment systems	100.0%	Mainly sell products	Yes	Borrowing
Sanden Airconditioning (Malaysia) Sdn. Bhd.	Shah Alam Selangor Darul Ehsan Malaysia	MYR 5,600 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products and parts	-	Lending
Tianjin Sanden Automotive Air-Conditioning Co., Ltd.	Tianjin, People's Republic of China	CNY 143,629 thousand	Automotive equipment systems	51.5%	Mainly manufacture and sell products	Yes	Debt excess ¥3,252 million
Sanden (Suzhou) Precision Parts Co., Ltd.	Suzhou City, Jiangsu, People's Republic of China	CNY 74,942 thousand	Automotive equipment systems	65.0%	Mainly manufacture parts	-	-
Sanden (China) Automotive Air Conditioning System Co., Ltd. Note 2, 5	Chongqing, the People's Republic of China	CNY 65,124 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products and parts	Yes	-

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Percentage of voting rights held by the Company	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Sanden International Taiwan Corporation	Taoyuan City, Taiwan	TWD 150,527 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products	Yes	Borrowing
Sanden International Philippines Inc.	Calamba Laguna Philippines	USD 3,138 thousand	Automotive equipment systems	99.4%	Mainly manufacture and sell products and parts	-	Lending Debt excess ¥1,406 million
P. T. Sanden Indonesia	Bekashi Indonesia	IDR 5,197 million	Automotive equipment systems	99.7%	Mainly manufacture and sell products and parts	Yes	-
Sanden International (Australia) Pty. Ltd.	Condell Park Nsw Australia	AUD 1,500 thousand	Automotive equipment systems Other	100.0%	Mainly sell products	-	-
Sanden Thailand Co., Ltd.	Ayutthaya Thailand	THB 100,000 thousand	Automotive equipment systems	95.0%	Mainly manufacture and sell products and parts	Yes	Lending Debt excess ¥3,416 million
Other 8 companies	-	-	-	-	-	-	-

Notes:
1. The “Principal businesses” show the business segments of the consolidated subsidiaries.
2. It is a specified subsidiary.
3. The percentage of voting rights held in parentheses is the percentage of indirect ownership as an internal number.
4. Although the ownership is 50% or less, it is a consolidated subsidiary because Sanden has substantial control.
5. Sanden Chongqing Automotive Air Conditioning Co., Ltd. was renamed as Sanden (China) Automotive Air Conditioning System Co., Ltd. as of January 12, 2023.
6. Of the consolidated subsidiaries, the following companies account for more than 10% of consolidated sales in net sales (excluding internal sales between consolidated companies).

(Millions of yen)

	Main income or loss information				
	Net sales	Ordinary income (loss)	Net income (loss)	Net assets	Total assets
Sanden International (Europe) GmbH	65,061	59	139	14,804	49,088
Sanden International (U.S.A.), Inc.	25,242	(822)	355	(4,979)	19,446

(2) Affiliated companies accounted for by the equity method

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Percentage of voting rights held by the Company	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Asahi Sangyo Co., Ltd.	Honjo-shi, Saitama, Japan	96	Automotive equipment systems	30.3%	Mainly manufacture parts	-	-
Sanwa Coatex Co., Ltd.	Isesaki-shi, Gunma	12	Automotive equipment systems Other	31.7%	Mainly manufacture parts	-	-

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Percentage of voting rights held by the Company	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Sanden Al Salam LLC Note 2	Dubai United Arab Emirates	USD 1,000 thousand	Automotive equipment systems	43.0% (43.0%)	Mainly sell products	-	-
Iranian Sanden Industries Note 2	Tehran Iran	IRR 5,000,000 million	Automotive equipment systems	17.0% (17.0%)	Mainly manufacture and sell products	-	-
Shenyang Sanden Automotive Air-Conditioning Co. Ltd.	Shenyang, the People's Republic of China	CNY 82,766 thousand	Automotive equipment systems	47.5%	Mainly manufacture and sell products	-	-
Sanden Hasco Automotive Air conditioning Co., Ltd.	Shanghai, the People's Republic of China	CNY 834,090 thousand	Automotive equipment systems	43.0%	Mainly manufacture and sell products	Yes	-

Notes: 1. "Principal businesses" show the business segments of the equity-method affiliated companies.
2. The percentage of voting rights held in parentheses is the percentage of indirect ownership as an internal number.

(3) Parent companies

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Ratio of voting rights (owned) (%)	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Hisense Home Appliances Group Co., Ltd.	Foshan, the People's Republic of China	CNY 1,362 million	Home appliances	(Owned) Indirect (75.0%)	-	Yes	Debt guaranteed
Kelon Development Company Limited	Hong Kong, People's Republic of China	HKD 10 million	Home appliances	(Owned) Indirect (75.0%)	-	Yes	-
Hisense Japan Automotive Air-Conditioning Systems Corporation	Kawasaki-shi, Kanagawa Prefecture, Japan	0	Business management of subsidiaries, etc.	(Owned) Direct (75.0%)	-	-	-

(4) Other related companies

Name	Address	Capital or investment (Millions of yen)	Principal businesses	Ratio of voting rights (owned) (%)	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Hisense Group Holdings Co., Ltd.	Qingdao, People's Republic of China	CNY 3,860 million	Investment activities, asset management service	(Owned) Indirect (33.4%)	-	-	-
Qingdao Hisense Air-conditioning Co., Ltd.	Qingdao, People's Republic of China	CNY 674 million	Home appliances	(Owned) Indirect (28.4%)	-	-	-

5. Employees

(1) Consolidated group companies

(As of December 31, 2023)

Segment	Number of employees (Persons)
Automotive Systems Business	5,587 (2,286)
Total	5,587 (2,286)

Notes:
1. The number of employees reflects the number of permanent employees; the number of temporary employees is stated in the parentheses as an external number using the average number of temporary employees for the year.
2. The seven Corporate Officers are not included in the number of employees.

(2) Corporate Information

(As of December 31, 2023)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Yen)
1,344 (86)	43.8	17.9	6,388,120

Segment	Number of employees (Persons)
Automotive Systems Business	1,344 (86)
Total	1,344 (86)

Notes:
1. The number of employees reflects the number of permanent employees; the number of temporary employees is stated in the parentheses as an external number using the average number of temporary employees for the year.
2. Seventy-eight part-time and rehired employees are included in the above number of temporary employees.
3. The seven Corporate Officers are not included in the number of employees.
4. Average annual salary includes bonus and non-standard wage.

(3) Trade union

The labor union of the Company is referred to as JAM Sanden Labor Union, and the number of Sanden Group union members is 1,025. The following subsidiaries also have their own labor unions: Sanden Manufacturing Mexico SA de CV, a consolidated subsidiary in Mexico; Sanden Manufacturing Europe S. A.S., a consolidated subsidiary in France; Sanden Manufacturing Poland sp. z o.o., a consolidated subsidiary in Poland; Tianjin Sanden Automotive Air-Conditioning Co., Ltd., Sanden (Suzhou) Precision Parts Co., Ltd., and Sanden (China) Automotive Air Conditioning System Co., Ltd., consolidated subsidiaries in China; and Sanden Airconditioning (Malaysia) Sdn. Bhd., a consolidated subsidiary in Malaysia. The relationship between labor and management has remained favorable, and there are currently no matters to note.

(4) Percentage of female managers, childcare leave usage rate by male workers, and wage differences between male and female workers

1) The Company

Fiscal 2023				
Percentage of female managers (%) (Note 1)	Childcare leave usage rate by male workers (%) (Note 2)	Wage differences between male and female workers (%) (Notes 1, 3)		
		All workers	Full-time workers	Part-time/fixed-term workers
6.3	56.5	58.2	78.5	66.9

Notes:
1. This was calculated pursuant to the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).
2. This is the calculation result of the usage rate of childcare leave and so on in Article 71-4, Item 1 of the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labour No. 25 of 1991) pursuant to the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).
3. Supplementary information on wage differences between male and female workers
   Wages: Payments made in consideration for labor including salaries and bonuses

2) Consolidated subsidiaries

Information on consolidated subsidiaries is not stated because they are not obliged to make disclosures under the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015) and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

2. Business Overview

1. Management policy, management environment, and issues to be tackled, etc.

Based on the business revitalization plan agreed to in the Turnaround ADR process in 2021, our group has been working on the following five reform plans of “drastic review of production system,” “improvement of basic profitability,” “growth through active ‘co-creation’,” “cash flow generation through capital reform,” and “mechanism reform for implementation.” In line with the electrification of the automotive market, we have strengthened our Integrated Thermal Management System area, with a focus on electric compressors, by active investment in technologies and products for New Energy Vehicles (NEVs). As a result, in addition to global OEMs in Europe, our main market, we also took full advantage of synergies within the Hisense Group to win new commercial rights in China, the largest automotive market, with our new products, resulting in a 37% increase in new commercial rights won globally in 2023 over the previous year.

Under these circumstances, we recognize that in order for our group to achieve sustainable growth, it is an important management issue to continuously invest in growth to ensure that acquired commercial rights are converted into revenue, implement a thorough region strategy, further improve profitability, and enhance the efficiency of human resource development and organizational management to support these efforts.

Against this background, we have concluded the business revitalization plan period up to last fiscal year. In order to accelerate business growth, we have once again reviewed our medium-term business plan and formulated a new one with the aim of ensuring that we can achieve a new phase of growth by clarifying our corporate policy to resolve issues.

While revenue stagnated until fiscal 2024 due to the impact of commercial rights acquisitions that declined during the period of the Turnaround ADR process through 2021, we were able to acquire a number of new commercial rights last year. Due to the characteristics of the automotive market, continuous technological development and production investment are required before they are reflected in revenue, but we will establish a foundation for business growth by promoting these efforts.

Under the new medium-term management plan, we will transform from being a component supplier to a “Full solution system supplier” and achieve sustainable growth as a leading company in Integrated Thermal Management Systems.

1. Medium-Term Management Targets (consolidated basis for fiscal 2028)
   1) Plan Name: SHIFT2028
   2) Planning Period: January 1, 2024 to December 31, 2028
   3) Consolidated Management Indicators:
      Revenue 300 billion yen
      Ordinary income 9 billion yen

2. Basic Policy
   Focusing on the NEV market and always have a customer-first perspective, we provide competitive and flexible Integrated Thermal Management System Solutions based on its electric compressor product capabilities.

3. Key Strategies
   In order to achieve our medium-term business target, we will engage in six key strategies.
   (1) Expand market shares by strengthening thermal management systems sales to global OEMs in Europe
   (2) Maximize group synergy to capture growth in the Chinese integrated thermal management systems market
   (3) Expand the North American business for NEV products by strengthening investment in the North American market
   (4) Promote product platforming and respond flexibly to various customer needs by leveraging the strengths of independent companies
   (5) Optimize our global production layout and supply chain to achieve sustainability
   (6) Strengthen and standardize human resource development and improve the efficiency of the organizational operations by promoting digitalization

   To “provide comfort to vehicles and the earth through innovative technologies,” we will steadily implement this medium-term management plan under the new corporate slogan, “Innovating Comfort,” and create new corporate value.

   Please note that the above matters regarding the future description were determined by the Group as of the end of the consolidated fiscal year.

2. Our approach to and initiatives for sustainability

The Group's approach to and initiatives for sustainability are as follows.

Please note that forward-looking statements below are based on the Group's judgments made at the end of the fiscal year under review.

(1) Governance and risk management for sustainability in general

1) Governance

The Group discusses our challenges concerning sustainability in general from multifaceted viewpoints at the Management Committee comprising executive directors and at other forums based on an analysis of feasibility and investment impacts. Any themes that have been discussed and deemed to have a material impact on our business are reviewed by the Management Committee and reported to the Board of Directors.

The Global Environment Committee that takes actions on and discusses climate change issues, which the Company considers as one of the material social issues that the global community faces, meets once every quarter as part of the Global Health and Safety Environment Committee to develop policies and confirm the progress of the Group's initiatives. By developing company-wide policies, evaluating the actions taken, and confirming the progress made on the measures taken, the Committee clarifies the scope of responsibilities regarding environmental issues including climate change and works toward resolving these issues.

2) Risk management

With respect to matters concerning the Group's risk management of sustainability in general, any important risks that have a material impact on the Group's business management are discussed by the Management Committee as needed and reported to the Board of Directors to ensure speedy response. See "3. Business and other risks" in "2. Business Overview" for the details of the risks concerning the Group's business and other risks.

(2) Climate change

1) Strategy

The Company expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) in 2023 and performed scenario analysis considering that it would be important to make contribution to control the temperature rise to 1.5 degrees Celsius or less.

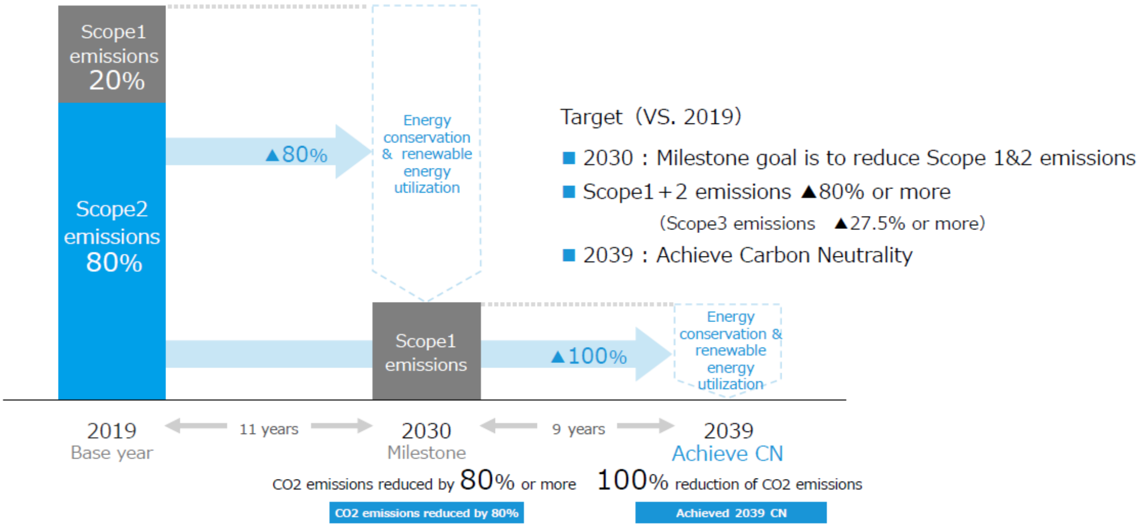
Furthermore, anticipating that the electrification of the new car market will be mostly completed in key regions on the premise that power generation will shift toward renewable energy in response to the growing sustainability awareness worldwide and tighter GHG emissions and environmental regulations, the Company will promote the manufacturing of electric compressors, its key product, and proactively work on technological innovation including ITMS.

2) Indicators and targets

As we move toward a decarbonized society, we have set and are working on environmental impact reduction targets based on the fuel consumption and emission regulations introduced in response to climate change and the social demand for electrification.

Our environmental footprint reduction targets are to "reduce Scope 1 and Scope 2 emissions by 80% or more and Scope 3 emissions by 27.5% by 2030 (compared with fiscal 2019) and achieve carbon neutrality by 2039." To achieve these targets, we will utilize renewable energy, make our products lighter, and cooperate with our suppliers in reducing CO_2 emissions through enhanced communication, among other things.

In addition, we obtained Science Based Targets (SBT) certification in October 2023 based on the recognition that our medium-term targets by 2030 follow scenarios presented by the SBT initiative, which use scientific evidence and are aligned with the Paris Agreement's target of limiting the increase in the global average temperature to 1.5°C above pre-industrial levels.



The indicators and track record concerning the above targets are as follows.

Item		Target FY	Target	Fiscal 2022 result	
Climate change (CO_2 emissions)	Scope 1	2030	Reduce Scope 1+2 emissions by 80% or more	20,118 t-CO_2	-9.7%
	Scope 2	2030		80,812 t-CO_2	-9.6%
	Scope 3	2030	Reduce emissions by 27.5% or more	16,455,933 t-CO_2	-22.2%

Notes: 1. The results for fiscal 2022 show the ratio of reduction compared to fiscal 2019 as 100.
2. Data on fiscal 2023 are currently aggregated and will be provided in the Company’s website once they are finalized.

The Company’s CO_2 emissions data for fiscal 2022 which the Company has disclosed have been verified by the Japan Audit and Certification Organization for Environment and Quality (JACO) and have received limited guarantee subject to ISO14064-3:2019.

(3) Human capital

1) Strategy

(Human capital development policy and internal environment organization policy)

Recognizing that human resource development is the most important management challenge that determines the future of a company, the Company provides employee education based on the basic principle of developing human resources that have *technical capabilities* with *human capabilities* as the basis.

Human capabilities: Capabilities to promote the development of a company
⇒ Leadership, strong spirit, passion, etc.
Technical capabilities: Methodology to efficiently perform work
⇒ TQC, marketing, strategy, etc.

In terms of the work environment, we aim to create an environment where our employees feel safe to make best use of their abilities from their perspectives. To this end, we conduct an annual engagement survey with a particular focus on employee satisfaction. In the globally changing business environment, we consider it important to promote diversity, respecting and accepting diverse values and proactively utilizing differences.

With the increasing globalization of economic activities in recent years, the impact of corporate activities on the earth’s environment and our lives has been further growing. Against this background, companies are required by stakeholders surrounding them (such as consumers, workers, customers, business partners, local communities, and shareholders) to seriously address issues including respect for human rights. In response to this demand, the Company adopted a new Human Rights Policy in 2023. The Policy shows a direction we should take in our future human rights activities in general to comprehend, avoid, mitigate, and prevent potential and actual risks of all stakeholders. We will make necessary improvements to move toward this direction.

(Human resource development and internal environment organization initiatives)

a. Career management

As our career management policy, the Company provides equal opportunities for career development and growth and endeavor to act equitably without any bias in our recruitment practice.

In addition, we try to increase transparency in our recruitment and performance evaluation processes, offer regular feedback and training to support professional development of our employees, and respect the rights and dignity of all our employees through their careers in the Company.

b. Human resource development mechanism

Each of our education and training courses is centered on leadership training and comprises programs on corporate philosophy, business skills, management skills, and so on. These courses are offered for all levels of employees starting at younger employees.

To achieve a high learning impact, we make the roles/responsibilities and knowledge/skills required of each level or position visible in these courses and present them to our employees.

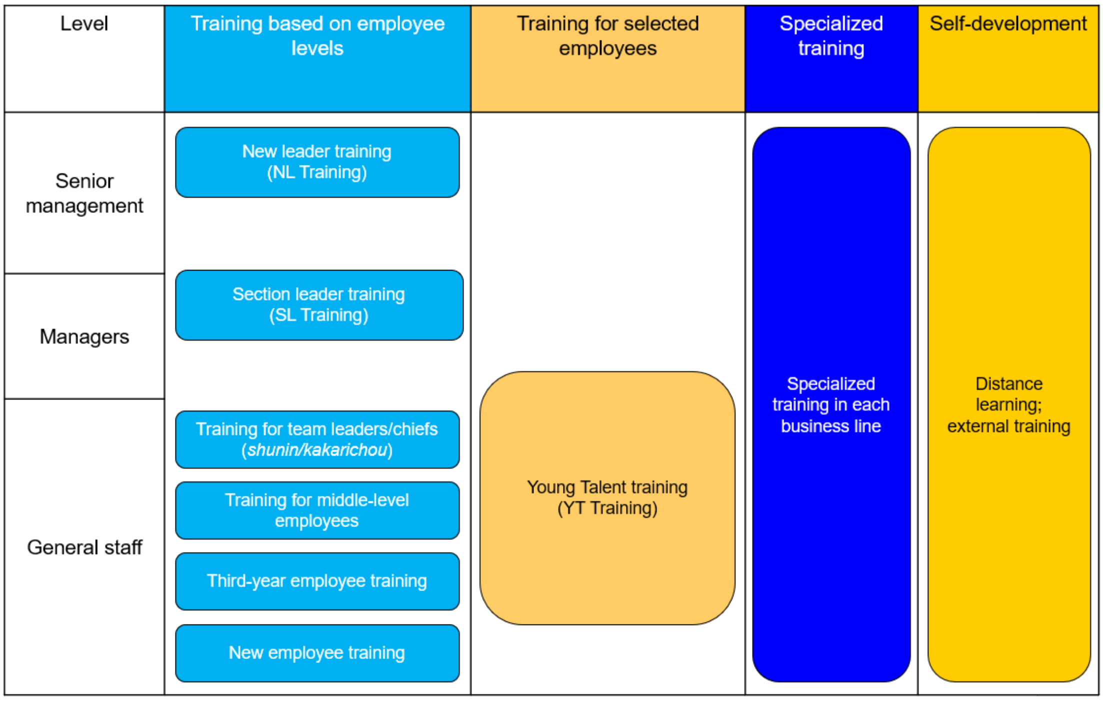
Training based on employee levels: Acquire knowledge/skills needed for each level

Training for selected employees: Training to nurture future executives and for employees identified as future executive candidates

Specialized training: Specialized, technical education offered in each business line

Self-development: Initiatives to support employees' self-development efforts

<Domestic Education System>



c. Active recruitment of non-Japanese nationals

To further accelerate the global development of our business, we view the securing and training of human resources across the globe as one of our highest priorities and continuously promote the employment of foreign nationals—both new graduates and mid-career human resources—every year. Currently, 85 foreign nationals work for our business sites in Japan, 51 of which play an active role as executive officers or in managerial positions. (As of December 31, 2023)

d. Engagement survey

To make the Company a better company, we collect candid opinions of our employees about their current workplace environment and use them as the basic data to uncover the challenges we face as an organization. We continue conducting an engagement survey to understand the challenges we face to improve employees' productivity together with them, to energize the organization and workplaces, to develop human resources, and to use the survey results to implement various measures to create a workplace environment that supports proactive and positive engagement of our employees.

- Survey details

Survey participants: Employees of the Company working in sites in Japan

Including permanent employees, non-permanent employees, fixed-term employees, rehired employees, fixed-term contract employees(full time), full-time trade union members, seconded employees, and temporary staff.

e. Promoting women in the workplace

To support women playing active roles in the Company, we have set targets and developed action plans based on our understanding of the following challenges we face as an organization. Detailed information on our activities is available in the Ministry of Health, Labour and Welfare's Database of Companies Promoting Women's Participation and Advancement.

- Challenges
  1. Increase female candidates for managerial positions
  2. Raise the ratio of female employees
  3. Enhance the development of human resources for leadership positions
  4. Develop workstyles that raise productivity

2) Indicators and targets

The Group uses the following targets for its human resource development policy including the securing of diverse human resources and its internal environment organization policy. Our targets and track record concerning these targets are as follows.

Initiatives	Indicators		FY2022 result	FY2023 result	FY2024 target	Applicable company
Human resource development	Training based on employee levels	Attendance rate of section leader training by newly appointed managers	95%	91%	Exceed the previous fiscal year's result	Sanden Corporation
		Attendance rate of new leader training	81%	82%	Exceed the previous fiscal year's result	
	Training for selected employees	Attendance rate of Young Talent training	83%	91%	Exceed the previous fiscal year's result	
Promoting diversity	Active recruitment of non-Japanese nationals	Total number employed (Of this, those in managerial positions)	70 (42)	85 (51)	At par with the previous fiscal year's result	
General	Engagement survey	Average score of satisfaction level	3.38	3.39	Exceed the previous fiscal year's result	

(Note) It is difficult to provide data on our consolidated group because although the Company manages data concerning relevant indicators and implements specific initiatives, this is not the case in all companies belonging to our consolidated group. The targets and results concerning the above indicators therefore only include those of the Company that operates the main business of the consolidated group.

3. Business and other risks

The following is an overview of major business and other risks faced by the Group that may significantly affect investors' decisions. The Group examines risks and takes appropriate measures to control risks.

Please note that forward-looking statements below are based on the Group's judgments made at the end of the fiscal year under review.

(1) Natural disasters

The Group operates its businesses through 46 bases in 22 countries and regions around the world. There is a risk of unforeseen circumstances, including harm to employees, and damage to offices and production facilities due to natural disasters such as unforeseen large-scale earthquakes, heavy rains, floods, heavy snows, and the spread of infectious diseases; an accident during product transportation or storage at an external warehouse; and the suspension of operations due to a significant drop in the employee attendance rate.

These events may adversely affect the Group's business performance and financial position due to them hindering factory operations and supply to customers. Furthermore, by hindering the product supply to customers it may lead to a decline in the social evaluation of the Group.

We have adopted measures such as preparing an initial response plan for disasters, formulating standards for supply chain business continuity management, establishing an employee safety confirmation system, taking earthquake resistance measures, and conducting disaster prevention drills. Against the spread of infectious diseases such as COVID-19, we have created a system that can respond promptly on a global basis, together with rigorous infection prevention measures and regular PCR tests, placing the highest priority on the health and safety of all our stakeholders and on efforts to prevent the spread of infections, while continuing our business activities. In addition, we are ensuring that all our global employees are aware of their reporting lines in times of disasters through the provision of labor, safety, and health education. It is, however, not possible to eliminate damage caused by natural disasters, infectious diseases, etc. that are beyond our expectations, and such events may adversely affect the Group's business performance and social evaluation.

(2) Climate change-related risks

The Group operates its businesses through 46 bases in 22 countries and regions around the world. Climate change is one of the most critical social challenges faced by the global community.

Environmental problems such as climate change are aggravating in the world. Japan is also under the material impact of environmental problems such as large-scale natural disasters caused by extreme climate events. We recognize that a four-degree Celsius rise in the average temperature in the world caused by climate change will have a tremendous impact on society and consider it important that we make contribution to controlling the temperature rise at or below 1.5 degrees Celsius. Climate change-related risks may negatively affect the Group's consolidated business results and financial position. As we make a transition to a decarbonized society, delayed responses to regulations on fuel efficiency and gas emissions as well as the electrification of vehicles in relation to climate change may result in the loss of sales opportunities and commercial rights.

We will therefore accelerate our research and development to cope with new fuel efficiency regulations and the electrification of vehicles, and enhance supply chain risk management by, for instance, procuring parts from multiple suppliers as our measures against meteorological disasters which cause physical damage. In addition, we will disclose climate-related data on four disclosure items recommended by the Task Force on Climate-related Financial Disclosures, namely Governance, Risk Management, Strategy, and Metrics and Targets.

On CO_2 emissions reduction, we will proactively promote the production and procurement of green electricity to achieve zero Scope 2 emissions by 2030 and carbon neutrality by 2039.

(3) Economic conditions

The Group mainly sells automotive air-conditioning systems, and air-conditioner compressors throughout the world. Demand for these products is affected by economic conditions in the various countries and regions in which these products are sold.

We are therefore improving our productivity and reducing fixed and variable expenses to establish an earnings base that is impervious to the impact of changes in the business environment. As we operate our automotive systems business mainly in North America, Europe, Asia, and China, however, conditions of the car market in respective regions may affect our business results and financial position.

(4) Fluctuations in exchange rates

The Group's global operations involve foreign currency transactions. In addition, the currencies stated in the financial statements of consolidated overseas subsidiaries and companies accounted for by the equity method have been translated into Japanese yen and recorded in the Company's consolidated financial statements. Therefore, the translation rate may affect the value of the assets that make up the financial statements.

To address short-term foreign exchange rate fluctuations, the Group is taking measures such as hedging and endeavoring to reduce risks associated with foreign exchanges. If, however, US dollar and Euro, which are our main transaction currencies, fluctuate or currencies fluctuate in Asia and China, it may impact the Group's business results and financial position.

(5) Changes in raw material and parts market conditions

The Group engages in the manufacture and sale of products and systems. Although we promote bulk purchases of parts and materials to control rising costs and avoid supply shortages, rises in market prices of raw materials and parts, including aluminum, copper, resin, and electronic parts, and logistics costs, may result in higher manufacturing costs. This situation and supply shortages may affect our business results and financial position.

(6) Price competition

Price competition in the business environment surrounding the Group is becoming extremely severe. Due to an increase in companies entering the automotive thermal management system market and air-conditioning electric compressor market and huge investments made by car makers in electric vehicles and driverless technologies, auto makers are increasingly demanding lower prices.

In addition, quality competition among local competitors is escalating each year in some geographic areas, which is leading to severer cost competition.

We believe that the Group's products possess competitive advantages in terms of quality, cost, and technology. However, there is no guarantee that the Group can maintain such advantages if, for instance, competition intensifies with the market entries of new competitors, especially in the market for the Integrated Thermal Management System (ITMS), which improves drive efficiency of electric vehicles, and with market entries from other industries. Such a situation may affect the Group's business results and financial position.

(7) Dependence on sales performance

The Group sells its products to car makers worldwide and we consider that this reduces the risk of dependence on specific buyers.

However, factors that are beyond our control, such as the impact of recent geopolitical risks (including the Russia-Ukraine conflict, Israel-Palestinian conflict, and US-China trade frictions) and natural disasters on the vehicle production of certain customers, and the rise of transactions with new companies in addition to the existing car maker customers as the car market shifts toward EVs, may affect our business results and financial position.

(8) Potential risks associated with international operations and entry into overseas markets

The Group operates its businesses through 46 bases in 22 countries and regions including North America, Europe, Asia and China, and operates its business activities through development, production and sales bases.

Although the Group establishes risk management rules and monitors transactions exposed to country risk as one of risk management items, business activities in these countries and regions are subject to the risks described below. If any of these risks materializes, it may affect the Group's business results and financial position.

Risks: changes in and revisions to national laws and regulations, changes in the political and economic climate, social unrest caused by wars and other factors, labor disputes, and supply chain disruptions

(9) New product development

Given the automotive industry trend of rapidly shifting from gasoline cars to new energy cars including electric vehicles, the Group is concentrating resources in the environmental products field and promoting active collaboration with other companies and universities. As part of these efforts, we are conducting R&D activities on new products including the Integrated Thermal Management System (ITMS) adapted to next-generation eco-friendly vehicles and electric compressors, among other things, as well as on the elemental technology that becomes the basis for these products.

In addition, we are conducting R&D activities in all our global bases to accurately deliver the values our customers seek in the form of our products in the markets that have been changing and becoming more diverse globally in recent years.

If, however, we fail to keep up with the rapid changes in the markets worldwide and fail to smoothly develop and launch new products, this may affect our business results and financial position.

(10) Limitations on intellectual property protection

Since its founding, the Group has independently developed technologies and accumulated them as intellectual property rights and know-how, and has taken measures for intellectual property rights owned by third parties based on the intellectual property guarantee system that is closely aligned with our development activities. The accumulated intellectual property rights and know-how are subject to the intellectual property system in the countries and regions in which the Group does business, but there is a possibility the Group cannot completely protect them in certain countries or regions due to legal restrictions. This may prevent a third party from completely controlling the manufacture or sale of similar products that use our technology. In addition, the Group is taking measures to deal with intellectual property rights owned by third parties that have used intellectual property information published based on the intellectual property disclosure system of each country. However, there is a possibility that we may not be able to fully grasp the situation with the intellectual property rights of third parties due to environmental constraints for each country and region. As a result, it may not be possible to completely judge whether or not there is a conflict with the intellectual property rights of a third party.

Accordingly, a decrease in sales in a region due to the manufacture and sale of similar products by third parties and an occurrence of disputes due to the alleged infringement of intellectual property rights of third parties may affect our business performance and financial condition. To minimize such risks, the Group will strengthen cooperation with the law and patent offices of each country to form an intellectual property portfolio of our own technological strengths, while we will continue to expand our capabilities to collect information on the intellectual property held by third parties in our company.

(11) Risk concerning quality

Under our unique quality policy, the Group is conducting activities to improve our product quality based on the customer first and quality first principles and developing and manufacturing our products according to the quality control standard required by the automotive industry’s international quality management system.

In addition, in case the Group is required to pay compensation based on product liability arising from unforeseen product faults and so on, the Group has purchased insurance policies. However, there is no guarantee that such insurance policies can cover compensations the Group may need to pay for all product faults. If any large-scale recall or compensation for product liability materializes, a large sum of expenses may be incurred and our sales may decline due to the loss of confidence in our products. This may have a negative impact on the Group’s business results and financial position.

(12) Legal and regulatory risks

The Group is subject to various laws and regulations in the countries and regions in which it operates, including permits and licenses relating to businesses and investments, export restrictions, taxation and environmental regulations, antitrust and competition laws, and subcontracting laws. If any laws and regulations applicable to the Group’s business activities are introduced, or if the Group’s business activities violate any of applicable laws and regulations, our business activities may be restricted, or the Group may receive a criminal or administrative punishment, and lose the trust of society. This may affect the Group’s business results and financial position.

By appointing legal personnel to major overseas bases, the Group endeavors to accurately understand the laws and regulations related to the Group and any revisions to these laws and regulations. In addition, the Group takes necessary measures such as establishing internal regulations and providing employee training to ensure that our business activities comply with all laws and regulations.

In addition, the Group is currently building an internal structure to address the Corporate Sustainability Reporting Directive (CSRD), a European regulation scheduled to take effect in 2026.

(13) Litigation, etc.

In the event of unfavorable results for the Group in relation to the Group's business activities, by litigation and legal procedures in which the Group is or may become a party, it may affect the Group's business performance and financial condition.

The Group endeavors to reduce the risk of disputes and the likelihood of adverse outcome for the Group in the event any dispute occurs through measures such as the preliminary review of contracts before signing and adjustments to their contents. We strive to reduce the risk of dispute escalation by, for instance, requiring group companies to report to the Company any sign of dispute.

In addition, we have established a system to appropriately protect the Company's interests in litigations and so on through everyday collaboration with Japanese and overseas law firms.

(14) Employee compliance

The Group positions compliance as the most important management issue and strives to ensure it. More specifically, we have established a compliance system in each entity appointing the persons responsible for compliance and for its promotion, organized internal regulations that include the separation of duties to enable the appropriate granting of job authorities and mutual checking, and created and operated internal control systems consisting of a compliance education system for employees offering training for each job level, whistle-blowing system, internal audit system, among others. In addition, we strive to eliminate the so-called triangle of misconduct (three factors), namely motivation, opportunity, and justification, by appropriately organizing and operating a fair and well-accepted performance evaluation and personnel evaluation system and a strict disciplinary system, to remove the risk of employee misconduct.

The Group operates in many countries and regions, and it is not impossible for employees of the Group to engage in acts that violate the laws or regulations of any of these countries or regions. If this occurs, the relevant employee will receive a criminal or administrative punishment as a result of his or her misconduct. The damage caused by the employee's misconduct may also directly, or indirectly through the loss of the Group's social credibility, affect the Group's business results and financial position.

(15) Risk related to securing human resources

The Group strives to secure diverse and excellent human resources to achieve its global business goals. At the same time, the Group is developing human resources and engineers who will shoulder its global business to secure personnel and successors who will promote the Group's management. In addition, the Group is promoting employee communication and creating workplaces where all employees can fulfill their potentials with high levels of productivity. However, competition over excellent human resources is intensifying, which makes it imperative for the Group to further strengthen its recruitment efforts and to prevent the outflow of its human resources. On the other hand, with the growth of the digital revolution, the declining birthrate and aging population, and the promotion of ESG, the employment situation and the values of working styles are changing.

If it is not possible to systematically promote the retention, recruitment, development, and allocation of personnel and leaders with the expertise required in each field and the ability to respond to changes in the environment, there is a possibility that the Group's business performance may be adversely affected by the stagnation of business activities.

(16) Matters related to information security

The Group uses various information systems and networks for our business activities and products. To protect these information assets, we endeavor to keep enhancing the security of our networks, hardware, software, and various data, pursuant to the Basic IT Security Policy. Furthermore, to raise an information security awareness in workplaces and to ensure that our employees are informed of and familiar with rules, we offer IT security education programs each year to all IT users and conduct regular IT security checks to enhance our IT governance under the information security activity structure we have established for the entire company.

The risk of cyber attacks, however, is growing, and if our information systems are attacked through unauthorized access or computer viruses, we may suffer information leakage, system stoppage, suspension of important operations, or other damage. Such events may adversely affect our image, trust placed by society, or business operations and results.

4. Analysis of financial position, operating results, and cash flows by management

(1) Overview of the operating results, etc.

The overview of the Group's (the Company, its consolidated subsidiaries and equity method affiliate) financial position, operating results and cash flows (hereinafter the "operating results, etc.") for the fiscal year under review is as follows:

Please note that forward-looking statements below are based on the Group's judgments made at the end of the fiscal year under review.

1) Financial position and operating results

The Group endeavors to offer products and services that accurately capture our customers' environmental interests in the automotive industry that is facing a period of major transformation. We do so through the further enhancement of our "solutions that utilize most advanced technologies" for electric vehicles, which are the source of our competitiveness, our "presence in China and Europe," which are growing markets, and our "broad customer base," based on the vision of "becoming the world's leading supplier of automotive compressors and integrated thermal management systems."

During the consolidated fiscal year under review, the global economy saw a recovery in demand with the relaxation of the restrictions placed on economic activities during the COVID-19 pandemic. Meanwhile, uncertain conditions continued such as the situation in Ukraine where troubles were drawn out, a military crash in the Middle East, interest rate hikes by central banks worldwide to control inflations, globally rising raw materials prices, and the continued supply shortages of certain parts including semiconductors.

In this environment, the Group posted ¥179,279 million in net sales (up 2.0% year on year) for the consolidated fiscal year under review, mainly due to a year-on-year rise in the number of vehicles manufactured in all regions, especially in Europe which is the Group's key business area, and the impact of the rapid depreciation of the Japanese yen in the foreign exchange market. Despite larger net sales and improvement in profitability resulting from the better operating rate following a recovery in sales, the Group posted an operating loss of ¥11,018 million (compared with an operating loss of ¥5,729 million in the same period of the previous fiscal year). This was mainly due to the following factors: the rising raw materials prices; an increase in R&D expenses (up 22.8% year on year) to acquire new commercial rights which rose 37% from the same period of the previous fiscal year and to ensure medium- and long-term growth; and the posting of additional reserves for quality-related expenses concerning past designs (up 128.9% year on year). The Group posted an ordinary loss of ¥8,382 million (compared with an ordinary loss of ¥4,140 million in the same period of the previous fiscal year), reflecting improvement to equity-method investment income and other factors. Net loss before income taxes was ¥4,093 million (compared to a net loss before income taxes of ¥610 million in the same period of the previous year), reflecting factors such as a gain on the reversal of the provision for business restructuring and the posting of impairment loss on non-current assets. As a result of the above, net loss attributable to owners of parent was ¥3,359 million (compared to a net loss attributable to owners of parent of ¥1,613 million in the same period of the previous fiscal year).

We do not provide segment information because we only have one reporting segment, which is the Automotive Systems Business.

Total assets at the end of the consolidated fiscal year under review increased by ¥5,111 million from the end of the previous consolidated fiscal year to ¥162,539 million mainly due to an increase in property, plant and equipment through capital investments, while progress was made in reducing inventories.

Liabilities rose ¥7,642 million from the end of the previous consolidated fiscal year to ¥141,703 million mainly due to an increase in short-term borrowings.

Net assets shrank ¥2,530 million from the end of the previous consolidated fiscal year to ¥20,836 million due to a fall in retained earnings.

2) Cash flows

Cash and cash equivalents at the end of the consolidated fiscal year under review increased by ¥4,518 million from the end of the previous consolidated fiscal year to ¥21,620 million.

Net cash provided by operating activities was ¥9,371 million (an increase of ¥19,497 million in income compared to the same period of the previous fiscal year) reflecting falls in trade receivables and inventories, among other factors.

Net cash used in investing activities was ¥11,602 million (an increase of ¥7,116 million in spending compared to the same period of the previous fiscal year) mainly due to the spending of ¥11,224 million for the purchase of property, plant and equipment.

Net cash provided by financing activities was ¥5,794 million (an increase of ¥717 million in income compared to the same period of the previous fiscal year) mainly reflecting an increase in short-term borrowings.

3) Production, orders and sales results

A. Production results

The production results for the fiscal year under review are as follows.

Segment	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	173,582	106.2
Other	680	29.7
Total	174,262	105.1

Note: 1. The price is based on the selling price.

B. Product purchase results

The results of product purchases for the fiscal year under review are as follows.

Segment	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	1,334	60.9
Other	237	76.6
Total	1,571	62.8

Note: 1. The price is based on the actual purchasing price.

C. Orders received

The Group (the Company and its consolidated subsidiaries) conducts make-to-stock production based on information such as the status of orders received in Japan and overseas, recent sales results, and sales prospects.

D. Sales results

The sales results for the fiscal year under review are as follows.

Segment	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	177,923	103.0
Other	1,356	46.9
Total	179,279	102.0

Note: 1. Sales results to main customers and their share in total sales

Partner company	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)		FY2023 (Jan. 1, 2023 to Dec. 31, 2023)	
	(Millions of yen)	Percentage share (%)	(Millions of yen)	Percentage share (%)
Volkswagen Group	24,280	13.8	25,482	14.2
Sanden Hasco Automotive Air conditioning Co., Ltd.	27,575	15.7	27,770	15.5

(2) Analysis and discussions of the operating results from the viewpoint of management

The following analysis and discussions of the Group’s operating results from the viewpoint of management are as follows.

Please note that forward-looking statements below are based on the Group’s judgments made at the end of the fiscal year under review.

1) Significant accounting policies and estimate

The consolidated financial statements of the Group are prepared in accordance with accounting standards generally accepted in Japan. In preparing these consolidated financial statements, it is necessary to make estimates and forecasts that will affect the financial position, operating results, and cash flow in the consolidated fiscal year under review. The Group makes continuous estimates and forecasts based on assumptions that are judged to be reasonable based on past performance values and circumstances. The Group believes that the following significant accounting policies have a considerable impact on the estimates and judgments used in the preparation of consolidated financial statements.

The Company’s significant accounting policies and estimates are described in “Significant accounting estimates” in (1) Notes to consolidated financial statements, “1. Consolidated Financial Statements, 5. Financial Information.” We consider that the following significant accounting policies especially have a material impact on the estimates used and decisions made for the preparation of consolidated financial statements.

A. Allowance for doubtful accounts

To prepare for losses arising from irrecoverable monetary claims, the Group considers the collectability of specific claims such as doubtful debts individually based on the actual loan loss rate of general claims and posts the estimated irrecoverable amount. Overseas consolidated subsidiaries have provided an allowance for doubtful accounts at the estimated amounts of possible losses mainly for specific receivables.

Therefore, if the customer's financial condition deteriorates and their solvency declines, re-calculation of allowance for doubtful accounts may be required.

B. Provision for product warranties

To cover the free post-sales service costs of products, the Group records a provision for product warranties for costs that can be estimated individually in addition to the amount by the accrual rate in the past fiscal years for sales.

If the product defect rate or warranty cost estimate of the Group differs from the actual estimate, the product warranty cost estimate may need to be revised.

C. Impairment of investment

The Group may be required to post a valuation loss when it is determined that the significant decline in the investment value of the stocks held is not temporary considering the future deterioration of market conditions and poor performance of investees.

D. Impairment of non-current assets

The Group holds non-current assets and calculates the recoverable amount of non-current assets based on assumptions such as future cash flows, discount rate, and net selling price. Therefore, there is a possibility that non- current assets may be impaired if the initially expected earnings are not obtained or if assumptions such as future cash flows are changed.

E. Deferred tax assets

The Group records deferred tax assets by analyzing and examining future taxable income and highly probable ongoing tax planning.

If it is determined that all or part of deferred tax assets cannot be recovered in the future, deferred tax assets will be reduced during the period when the decision is made. On the other hand, if it is determined that the deferred tax assets can be newly recovered in the future, the deferred tax assets will be increased by recording the amount of income taxes—deferred.

F. Accounting method for retirement benefits

To prepare for employee retirement benefits, the Group records a retirement benefit liability based on the estimated amount of retirement benefit obligations and plan assets at the end of the consolidated fiscal year.

If the assumptions such as the discount rate, retirement rate, salary increase rate, and investment interest rate in the calculation of the Group's retirement benefit obligation change in the future, there is a possibility that it will affect the costs recognized in the future period and the debt recorded.

- Method of attributing expected retirement benefits to periods

  In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to the end of the fiscal year under review is calculated using the benefit calculation formula.
- Amortization of actuarial differences and past service costs.

  Past service costs are amortized on a straight-line method over a fixed number of years within the average remaining service period of employee at the time they are incurred.

  Actuarial differences are amortized by the straight-line method over a certain number of years within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year. Actuarial differences are treated as a lump-sum expense in the fiscal year of occurrence.

G. Provision for environmental measures

To cover the costs of cleaning the soil and water pollution of the location of the old factory of The Vendo Company, the consolidated subsidiary in the US, and the neighboring areas, it records the allowance calculated by deducting the balance of the fund that can be used for environmental cleanup costs from the estimated amount generated in future. There is a possibility that additional or reduced provisions may be required depending on the progress of the cleaning process.

H. Provision for business restructuring

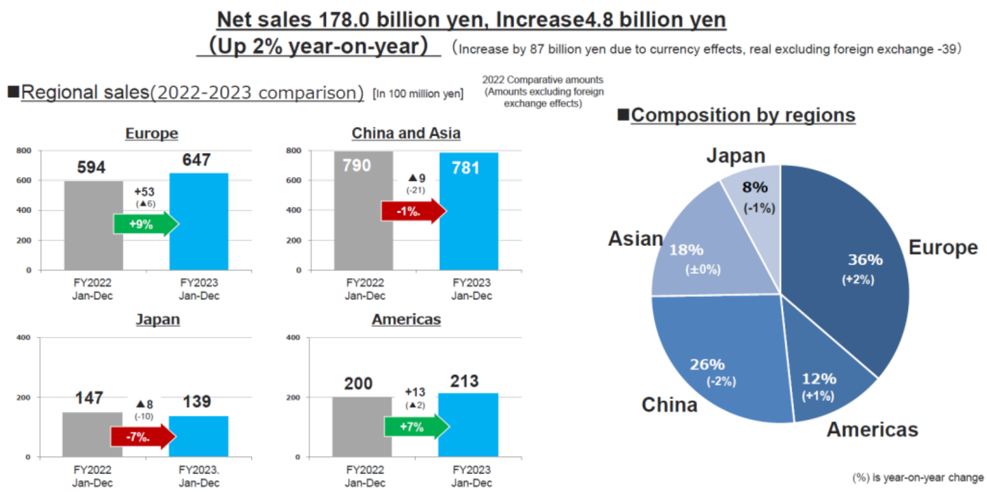
To prepare for future expenses for business structural reforms, the Group posts an estimated amount of such expenses. We may need to revise a posted amount of provision for business restructuring, if estimates and assumptions made by the Company or our consolidated subsidiaries are changed due, for instance, to a review of business strategies or changes in the external environment.

I. Provision for outstanding claims

To prepare for the payment of settlements and other payments related to the violations of antitrust laws in connection with past transactions of certain automotive parts, the Company records an estimated amount of losses that may occur in the future.

2) Analysis and discussions of the operating results for the fiscal year under review

Major factors of change in net sales



In the Automotive Systems Business, net sales rose ¥4.8 billion from the same period of the previous year to ¥178.0 billion. However, net sales shrank by ¥3.9 billion excluding the ¥8.7 billion impact of foreign exchanges.

In Europe, strong compressor sales to key customers and in the aftermarket made up for a reduction in electric compressor commercial rights caused by shifts in vehicles. Combined with the impact of foreign exchanges, net sales grew significantly year on year.

In China and Asia, net sales slightly shrank in China due to the country's customer sales trend, and net sales in Asia as a whole also declined slightly from the same period of the previous fiscal year reflecting the continuous expansion of the Indian market.

Net sales in Japan fell due to the termination of models targeting key customers.

In the Americas, net sales grew year on year as the impact of foreign exchanges and an increase in sales to key customers made up for a sales drop as a reaction to aftermarket sales that had rapidly increased in the previous fiscal year.

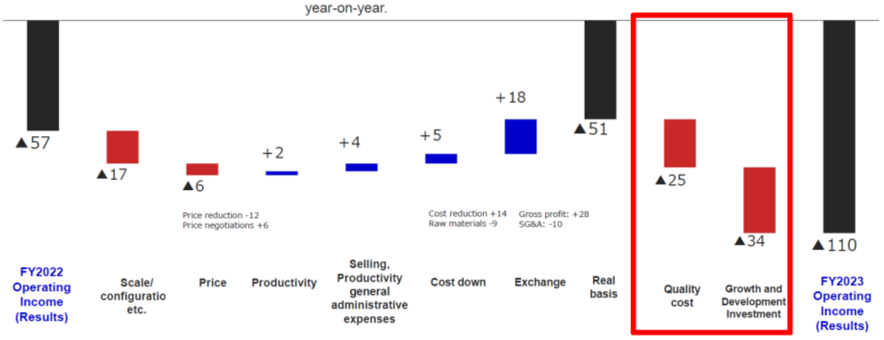
By region, overseas net sales accounted for 92% of total net sales, with net sales in Europe and China representing approximately 60% of total net sales.

Major factors of change in operating income

[In 100 million yen]

	Previous FY	Current FY	Difference
Net sales	1,756	1,793	+36
Operating Income	(57)	(110)	(53)

- Real terms revenue decline excluding foreign exchange effects and worsening profitability due to changes in the sales mix.
- Manufacturing cost improvements are progressing, but not enough to absorb sales fluctuations.
- Increased provision for quality costs arising from past
- Continued strengthening of development and other capabilities for future growth
  ⇒ Improvement in real terms excluding quality costs and growth investments: +0.6 billion yen year-on-year.



Operating loss for fiscal 2023 was ¥11.0 billion, an increase in loss of ¥5.3 billion compared with the same period of the previous fiscal year.

In terms of scale and configuration, the larger loss largely reflects a real drop in the size of sales and change in the sales model structure. The change in the sales model structure refers to the impact of a reduction in aftermarket compressor models and a switch from the former model to the new model for electric compressors. With respect to price differences, although we raised prices to transfer the additional cost arising from the changing environment to customers, the annual price decrease had a main impact.

We are structurally rectifying these negative factors including the impact of foreign exchange gains by, for instance, reducing the cost of production while absorbing the rise in raw materials prices and reviewing selling, general and administrative expenses.

Meanwhile, we made growth investments to cultivate and acquire new businesses and new commercial rights, as well as posting an additional reserve for quality-related expenses concerning the quality of past designs. As a result, our profit declined. As we addressed the quality issue of designs and its resolution was in sight, we posted an additional reserve for quality-related expenses to eliminate any concerns for the future.

Source of capital and liquidity of funds

The Group's working capital is used for the purchase of materials and parts for manufacturing products, as well as for operating expenses such as manufacturing costs, selling, general and administrative expenses.

The main capital investments include the investments for local and in-house production and development facilities along with strengthening of the global production system; the maintenance and renewal of facilities along with rationalization; and the acquisition of production dies. Major capital investments in fiscal 2023 were related to the Automotive Systems Business in Japan and overseas.

We normally raise the funds necessary for these investments by cash flow from operating activities and our own funds, as well as financing such as borrowings from financial institutions and the parent companies. As a result, our current liabilities are in excess of current assets.

Financing

The Group decides financing according to the purpose of the funds and the time, period, and region where the funds are needed.

The Company extends loans to Group companies to finance their operating capital as needed with a maturity of up to one year.

The balance of short-term borrowings at the end of fiscal 2023 was ¥56,102 million, denominated mainly in Japanese yen, US dollar, Euro and Chinese yuan. On the other hand, our basic policy is to procure the long-term funds required for production equipment investment, etc. with long-term loans.

A major portion of the ¥1,122 million in outstanding long-term borrowings at the end of the consolidated fiscal year under review was fixed-rate borrowings from financial institutions.

Means of procuring long-term funds is determined by comprehensively examining the ratio of direct and indirect financing and the status of transactions with financial institutions in addition to the interest rate conditions and market environment.

The total amount of borrowings at the end of the consolidated fiscal year under review stood at ¥57,224 million, which was at an appropriate level compared to ¥21,620 million in cash on hand.

5. Important business contracts

Not applicable

6. Research and development activities

Given the automotive industry trend of rapidly shifting from gasoline cars to new energy cars including electric vehicles, the Group is concentrating resources in the environmental products field and promoting active collaboration with other companies and universities. As part of these efforts, we are conducting R&D activities on new products including the Integrated Thermal Management System (ITMS) adapted to next-generation eco-friendly vehicles and electric compressors, among other things, as well as on the elemental technology that becomes the basis for these products.

Meanwhile, to respond to the global markets that have diversified in recent years and to ensure that we turn the values customers seek into products, we are conducting development activities in our four global poles (Japan, Europe, North America, Asia/China). In particular, development departments in Japan are actively taking initiative in developing basic new technologies, focusing on new product and technology proposals to customers. At the same time, we are striving to further increase customer value through globally integrated development that broadly expands technical support such as material technology, reliability technology and production technology.

The total amount of R&D expenses in the consolidated fiscal year under review was ¥6,782 million. Their outline and outcome are as follows.

We have strengthened and continued cooperation with the Sanden Technical Centers located in Japan, China, the United States, and Germany and the development departments in France, and enhanced the global development system to accelerate the development of air-conditioning systems and components for electric vehicles.

To become an essential system partner for environmental cars, we are developing state-of-the-art environmental products using the technologies we have cultivated to date with our integrated thermal management systems at the core. These products include small, light and highly efficient compressors, electric compressors, electric coolant heaters (ECH), small and light HVAC systems for automobiles, and heat pump systems.

In addition to the above, we aim to offer air-conditioning systems that can automatically create comfortable conditions suited to individual characteristics and particular situations, while receiving various types of support from the Hisense Group such as technological know-how and necessary resources related to image technology, sensing technology, and air-conditioning controls using the internet connectivity of vehicles and AI.

3. Equipment and Facilities

1. Overview of capital expenditures

The Group made a total capital investment of ¥12.8 billion for the purpose of strengthening its production system based on its global production strategy and promoting local procurement and in-house production, etc.

In the Automotive Systems Business, we spent a total of ¥12.8 billion in capital investments mainly for the production facilities of automotive air-conditioning compressors and automotive air-conditioning systems, including ¥2.5 billion in Japan, ¥1.0 billion in Asia, ¥2.9 billion in Europe, ¥4.7 billion in the Americas, and ¥1.4 billion in China.

In Japan, we made capital investments for production and research facilities of mainly electric compressors for electric vehicles. In the Americas, we made capital investments in production facilities to start producing compressors for electric vehicles.

2. Major equipment and facilities

The major equipment and facilities in the Group are as follows.

(1) The Company

(As of December 31, 2023)

Location (Address)	Segment	Description	Net book value (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land [Area: m^2]	Leased assets	Other	Total	
Headquarters (Isesaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	84	0	91 (2,862)	-	8	184	18 (2)
Sanden Global Center (Isesaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	1,098	0	74 (26,529)	0	4	1,177	178 (13)
Yattajima Plant (Isesaki-shi, Gunma)	Automotive equipment systems	Office facilities Rental facilities	1,306	20	789 (87,776)	0	24	2,141	974 (51)
Akagi Plant (Isesaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	2,854	22	2,054 (687,654)	0	0	4,931	71 (11)

(2) Overseas subsidiaries

(As of December 31, 2023)

Company	Location (Address)	Segment	Description	Net book value (Millions of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land [Area: m^2]	Leased assets	Other	Total	
Sanden Manufacturing Poland sp. z o.o.	Headquarters Plant (Polkowice Poland)	Automotive equipment systems	Production facility	2,539	2,474	66 (174,561)	522	778	6,380	804 (109)
Sanden Manufacturing Europe S. A.S	Headquarters plant (Tinteniac France)	Automotive equipment systems	Production facility	194	296	28 (173,360)	3	1,932	2,455	500 (-)
Sanden International (U.S.A.), Inc.	Wylie plant (Wylie Texas, U.S.A.)	Automotive equipment systems	Production facility	711	4,677	250 (33,107)	57	730	6,427	240 (2)
Sanden (Suzhou) Precision Parts Co., Ltd.	Headquarters Plant (Suzhou City, Jiangsu, People's Republic of China)	Automotive equipment systems	Production facility	856	1,223	-	-	901	2,982	222 (153)
Sanden Thailand Co., Ltd	Headquarters Plant (Ayutthaya, Thailand)	Automotive equipment systems	Production facility	622	1,494	145 (30,955)	-	1,141	3,403	262 (49)
Sanden Vikas (India) Private Limited	Headquarters plant (Haryana State, India)	Automotive equipment systems	Production facility	366	1,589	57 (20,786)	182	1,008	3,204	580 (1,512)
Sanden Chongqing Automotive Air Conditioning Co., Ltd	Headquarters plant (Chongqing, People's Republic of China)	Automotive equipment systems	Production facility	8	595	-	704	638	1,946	404 (160)

Notes: 1. “Other” in the book value is tools, furniture and fixtures and includes construction in progress.
2. The number of employees reflects the number of permanent employees; the number of temporary employees is stated in the parentheses as an external number using the average number of temporary employees for the year.
3. The Company leases part of the land it owns to companies other than its consolidated companies.

3. Plans for new additions or disposals

The Group plans sustainable capital investment for growth, taking into consideration industry trends and equipment efficiency.

For fiscal 2024, we plan to make capital investments totaling ¥19.3 billion, mainly for the purpose of strengthening our production system and promoting local procurement and in-house production.

Of this amount, we plan to make capital investments of ¥8.5 billion in Europe, ¥6.4 billion in Japan, ¥2.5 billion in China, and ¥1.0 billion in the Americas.

The planned capital investments in Japan and Europe include investments to strengthen the production system of electric compressors.

4. Corporate Information

1. Information on the Company's shares

(1) Number of shares and other

1) Number of shares

Type	Number of shares authorized to be issued
Common stock	112,200,000
Total	112,200,000

2) Number of issued shares

Type	Number of issued shares as of the end of fiscal 2023 (December 31, 2023)	Number of issued shares as of the filing date of this Securities Report (March 28, 2024)	Stock exchanges on which the Company is listed or authorized financial instruments business association in which the Company is registered	Description
Common stock	111,693,313	111,693,313	Standard Market of Tokyo Stock Exchange	It is a standard stock in the Company with no restrictions on rights and the number of shares constituting a standard unit is 100.
Total	111,693,313	111,693,313	-	-

(2) Status of the share subscription rights

1) Stock option plans

Not applicable

2) Right plans

Not applicable

3) Other share subscription rights

Not applicable

(3) Exercise status of corporate bonds with share subscription rights containing a clause for exercise price adjustment

Not applicable

(4) Changes in the number of issued shares and the amount of common stock

Period	Changes in the number of issued shares (shares)	Balance of the number of issued shares (shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in capital surplus (Millions of yen)	Balance of capital surplus (Millions of yen)
May 31, 2021 Note 1	83,627,000	111,693,313	10,704	21,741	10,704	15,158

Note: 1. Third-party allotment with payment: Issue price ¥256, Amount credited to share capital ¥10,704,256,000
Main allottee: Hisense Japan Automotive Air-Conditioning Systems Corporation

(5) Details of shareholders

(As of December 31, 2023)

Classification	Status of shares (1 unit = 100 shares)								Stocks of less than a standard unit
	National and governments	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other	Total	
					Other than individuals	Individuals only			
Total Number of shareholders (Persons)	1	12	20	132	51	70	9,690	9,976	-
Number of shares held (Units)	6	23,099	7,465	852,473	31,292	2,968	198,913	1,116,216	71,713
Shareholding ratio (%)	0.00	2.07	0.67	76.37	2.80	0.27	17.82	100.00	-

Notes:
1. Of 119,742 shares in treasury stock, 1,197 units are included in “Individuals and other” and 42 shares are included in “Stocks of less than a standard unit.”
2. The number of shares held by “Financial institutions” stated above includes 1,233 units of shares held by the Master Trust Bank of Japan, Ltd. (Executive Compensation Board Incentive Plan (BIP) Trust Account/75837).
3. The number of shares held by “Other corporations” stated above includes four units of shares under the name of Japan Securities Depository Center, Inc.

(6) Major shareholders

(As of December 31, 2023)

Name	Address	Number of shares owned (Shares)	Number of shares (excluding treasury stock) held as a percentage of total number of issued shares (%)
Hisense Japan Automotive Air-Conditioning Systems Corporation	Shin Kawasaki Mitsui Building West Tower, 1-1-2, Kashimada, Saiwai-ku, Kawasaki-shi, Kanagawa, Japan	83,627,000	74.95
BBH (LUX) for Fidelity Funds Pacific Pool (Standing agent: MUFG Bank, Ltd.)	2A Rue Albert Bors Chette Luxembourg L-1246	2,150,000	1.93
Sanden’s Business Partner Share Holding Association	20 Kotobuki-cho, Isesaki- shi, Gunma, Japan	1,533,805	1.37
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan	1,309,500	1.17
Li Xiuli	Shinagawa-ku, Tokyo	459,200	0.41
Sanden’s Employee Share Holding Association	20 Kotobuki-cho, Isesaki- shi, Gunma, Japan	429,299	0.38
Clearstream Banking S. A. (Standing agent: Custody Business Department, Tokyo Branch, The Hong Kong and Shanghai Banking Corporation Limited)	42 Avenue JF Kennedy L-1855 Luxembourg	425,299	0.38
Sumitomo Life Insurance Company	2-2-1 Yaesu, Chuo-ku, Tokyo, Japan	309,400	0.28
Ushikubo/Amada Ikueizaidan	20 Kotobuki-cho, Isesaki- shi, Gunma, Japan	240,000	0.22
Custody Bank of Japan, Ltd. (Trust account)	1-8-12 Harumi, Chuo-ku, Tokyo, Japan	230,200	0.21
Total	-	90,713,703	81.30

Notes:
1. Of the above major shareholders, all shares held by The Master Trust Bank of Japan, Ltd. (Trust Account) and Custody Bank of Japan, Ltd. (Trust account) are shares relating to trust business.
2. Hisense Japan Automotive Air-Conditioning Systems Corporation became a major shareholder following the subscription of all the shares issued by the Company on May 31, 2021 in a third-party allotment.

(7) Status of voting rights

1) Issued shares

(As of December 31, 2023)

Classification	Number of shares held by the Company		Number of voting rights (Units)	Description
Shares without voting rights	-		-	-
Shares with restricted voting rights (Treasury stock, etc.)	-		-	-
Shares with restricted voting rights (Other)	-		-	-
Shares with full voting rights (Treasury stock, etc.)	(Treasury stock) Common stock	119,700	-	-
Shares with full voting rights (Other)	Common stock	111,501,900	1,115,019	-
Stocks of less than a standard unit	Common stock	71,713	-	-
Total shares issued		111,693,313	-	-
Total voting rights held by all shareholders	-		1,115,019	-

Note: The “Shares with full voting rights (Other)” include 400 shares under the name of Japan Securities Depository Center, Inc. (4 voting rights).

2) Treasury stock, etc.

(As of December 31, 2023)

Shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total (Shares)	Ratio of number of shares owned to total number of issued shares (%)
(Treasury stock) Sanden Corporation	20 Kotobuki-cho, Isesaki-shi, Gunma, Japan	119,700	-	119,700	0.11
Total	-	119,700	-	119,700	0.11

Note: The Company's shares held by the Master Trust Bank of Japan, Ltd. (Executive compensation Board Incentive Plan (BIP) Trust Account/75837) are not included in the above-mentioned treasury stock.

2. Acquisition of treasury stock

Type of stock: Acquisition of shares of common stock pursuant to Article 155, Item 7 of the Companies Act

(1) Acquisition of treasury stock based on a resolution approved at the annual general meeting of the shareholders

Not applicable

(2) Acquisition of treasury stock based on a resolution approved by the Board of Directors

Not applicable

(3) Acquisition of treasury stock not based on a resolution approved at the annual general meeting of the shareholders or on a resolution approved by the Board of Directors

Classification	Number of shares held by the Company	Total amount (Yen)
Treasury stock acquired during the fiscal year under review	371	74,671
Treasury stock acquired during the period for acquisition	129	25,446

Notes: 1. Treasury stock acquired during the period for acquisition does not include the number of shares of less than a standard unit purchased during the period from March 1, 2024, to the filing date of this securities report.
2. Treasury stock does not include the number of stocks acquired by the executive compensation Board Incentive Plan (BIP) Trust.

(4) Current status of the disposition and holding of acquired treasury stock

Classification	Fiscal 2023		Period for acquisition	
	Number of shares held by the Company	Total disposition amount (Yen)	Number of shares held by the Company	Total disposition amount (Yen)
Acquired treasury stock for which subscribers were solicited	-	-	-	-
Acquired treasury stock that was disposed of	-	-	-	-
Acquired treasury stock for which transfer of shares was conducted in association with a merger, share exchange, share issuance, or company split	-	-	-	-
Other (the number of shares of less than a standard unit sold subject to a demand for sale)	-	-	-	-
Number of shares of treasury stock held	119,742	-	119,871	-

Notes: 1. The number of shares of treasury stock disposed of during the period for acquisition does not include the number of shares of less than a standard unit sold subject to a demand for sale on or after March 1, 2024 and on or before the filing date of this securities report.
2. The number of shares of treasury stock held during the period for acquisition does not include the number of shares of less than a standard unit purchased or sold on or after March 1, 2024 and on or before the filing date of this securities report.
3. The above number of treasury stocks disposed of and number of treasury stocks held do not include the number of the Company's shares (123,315 shares at the end of the fiscal year under review) owned by the Master Trust Bank of Japan, Ltd. (Executive Compensation Board Incentive Plan (BIP) Trust Account/75837 Accounts).

3. Dividend Policy

The Company positions returning profits to our shareholders as one of our important management policies, and our basic policy is to pay stable and continuous dividends based on profit distribution according to consolidated operating performance.

We, however, posted a net loss attributable to owners of the parent in the fiscal year under review. We are therefore sincerely sorry to announce that we have decided not to pay any term-end dividend for the fiscal year ended December 31, 2023.

We are also sorry to announce our decision not to pay any dividend for the fiscal year ending December 31, 2024 given that we will continue our efforts to strengthen our financial position and growth investments to respond to the accelerated shift toward the electrification of the car market.

Going forward, we will make utmost effort to promptly resume dividend payment by achieving the growth of our business and improving our earnings power and financial position based on the new medium-term plan announced in February 2024.

4. Corporate Governance

(1) Status of corporate governance

1) Basic corporate governance policy

Since its founding in 1943, Sanden's Founding Spirit of, "Let Us Develop with Wisdom and Prosper in Harmony" has formed the basis of corporate culture. In 2003, we newly established our Corporate Philosophy—which includes "Basic Principles (Universal Values Shared by the Global Community)" and "Basic Stance toward Stakeholders." In accordance with this "Corporate Philosophy," which has been embraced throughout Group, Sanden has been working to enhance corporate governance from the perspective of improving the quality of its management, including fairness, transparency and efficiency.

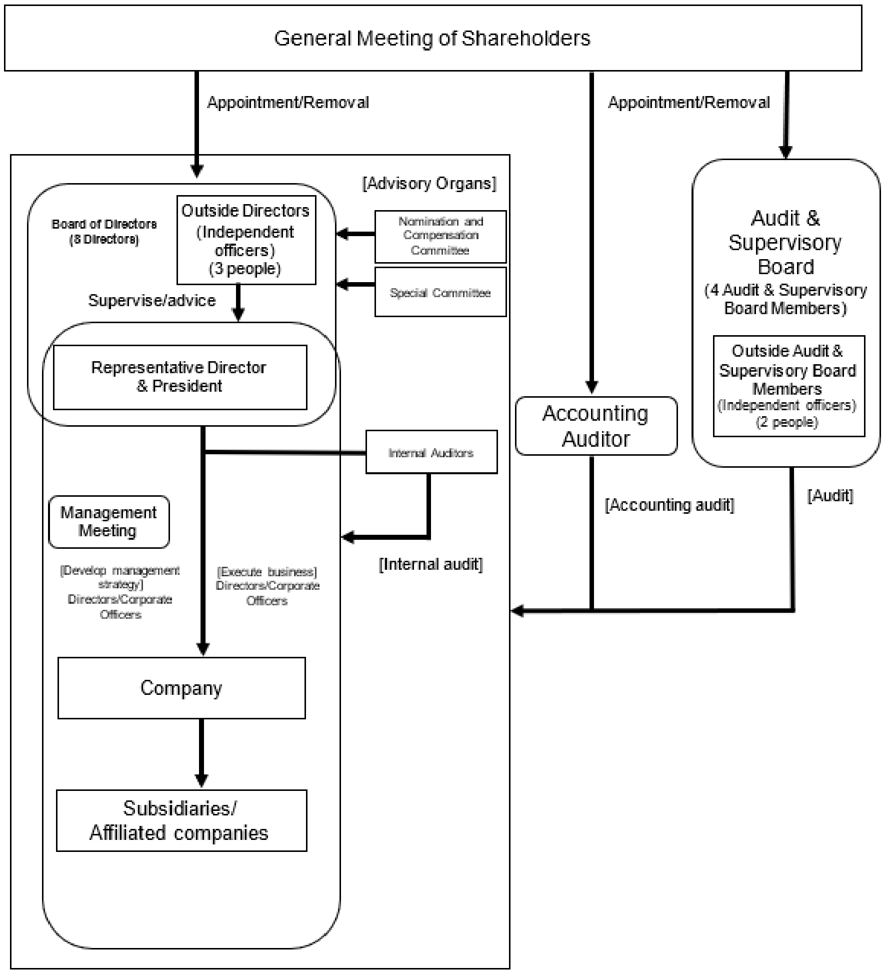
Sanden is committed to creating new corporate value in line with our "Vision" of "Become the world's leading supplier of automotive thermal systems and vehicle compressors."

2) Summary of the Company's corporate governance system and the reason for adopting this system

Employing the "Company with Audit & Supervisory Board Member," Sanden has established the Board of Directors and the Audit & Supervisory Board and appointed the Audit & Supervisory Board Members and Accounting Auditor. Our Board of Directors has 8 Directors, including 3 Outside Directors. This system ensures accountability of management, strengthens the supervisory function and ensures the objectivity and independence of our corporate governance. The Audit & Supervisory Board has 4 members, including 2 Outside Audit & Supervisory Board Members. To strengthen management oversight functions, Sanden has established and disclosed the "Independence Criteria for Outside Officers," and based on the Criteria, we have designated five Outside Directors/Audit & Supervisory Board Members and notified the Tokyo Stock Exchange of the designation. Sanden has established the Nomination and Compensation Committee, which advises and makes recommendations to the Board of Directors in consultation with the Board of Directors, to ensure the transparency and objectivity of the decision-making process of appointing Directors and determining their compensation. The Committee consists of five members, including three Independent Outside Directors (Outside Director Zhao Fuquan (Chairman), Outside Director Ju Dongying, Outside Director Wang Zhenpo, Representative Director Dai Hui Zhong, and Representative Director Zhu Dan). Furthermore, the third-party allotment executed on May 31, 2021 created a controlling shareholder who owns 75% of the voting rights. In response, we established a Special Committee on February 25, 2022 to monitor important transactions between the Company and the controlling shareholder and to prevent any unlawful violation of the interests of minority shareholders. The Committee comprises a total of five members including three Independent Outside Directors and two Independent Outside Audit & Supervisory Board Members (Outside Directors Ju Dongying (Chairperson), Zhao Fuquan, and Wang Zhenpo, and Outside Audit & Supervisory Board Members Masahiko Imura and Takahide Toyama). In addition, by setting Directors' terms to one year, we have put in place a system that ensures management transparency and enables speedy responses to changes in the market environment. Also, by adopting a corporate officer system, we aim to strengthen the business execution function and increase management efficiency. Moreover, the Management Committee and Board of Directors deliberate in a timely fashion on important matters in compliance and risk management. Furthermore, by putting in place internal and external hot lines as an internal reporting system, Sanden is working to strengthen risk management, corporate ethics, and legal compliance.

We believe that Sanden's current system is fully capable of demonstrating the effectiveness of corporate governance in light of the actual conditions of our business type, history and corporate culture.

The diagram below shows the relationships among the Company's organs and internal controls.



3) Other matters concerning corporate governance

A. Status of the Company's internal control systems and risk management systems

The details of the decisions made by the Board of Directors as a system for ensuring the appropriateness of business (Basic Policy for Internal Control System) and the operational status of the system are as follows.

<Basic Policy for Internal Control System>

The Company organizes its Group business management structure as below.

a. Structures/systems to ensure that Directors and Employees carry out their operation and practices in full compliance with laws, regulations and corporate by-laws

Recognizing "Compliance" is one of the most important management issues, we clearly declare so in the regulations, and define the Group's Compliance Management in order to make certain that it is fully implemented, we establish the following structure:

1) Compliance shall be a fundamental principle of actions in daily operations and practices. Sanden's Legal Department shall be responsible for ensuring compliance. Important matters related to compliance shall be discussed and decided at the Management Committee and the Board of Directors meetings.
2) We shall appoint responsible Compliance officers and persons for each Company, who shall make sure the Company maintains full Compliance.
3) The contents of Compliance are described in "The Handbook of Company Principles (Handbook)."
4) The Legal Division shall provide education and guidance on Compliance at various levels to Directors, Corporate Officers and Employees on a periodic basis. We shall also establish internal and external "hot-lines" so that an employee can immediately and easily report a Compliance issue through the "hot-line."
5) We shall periodically report progress on Compliance promotion activity to the Board of Directors Meeting and the Audit & Supervisory Board.
6) We shall establish the Internal Audit Division and conduct Compliance audits on a periodic basis.

b. Structures/systems to save and control information related to the execution of the duties of Directors

To fully implement proper storage and control/management of Sanden's documents and electronic data, we shall establish the following system, and clearly stipulate regulations:

1) The Administration Division shall be responsible for documents and electronic data respectively. Each division shall designate persons who shall be responsible for documents and also for electronic data. They shall be accountable for control and management of documents and electronic data, covering their creation, storage and disposal.
2) The storage and management of such documents and/or electronic data shall be filed in a manner such that Directors and Audit & Supervisory Board Members shall have access, whenever and wherever it is necessary.

c. Structures/systems to manage risks that could lead to losses
We recognize Risk Management as an important management issue. We clearly declare so in the regulations, and define the Group's Risk Management Structure in order to make certain that it is fully implemented, we establish the following structure:

1) To comprehensively understand company-wide risks that could have a material impact on business management and to implement thorough risk management measures, the Corporate Financial Management Division shall be appointed as the responsible division.
2) Each Group Company shall be responsible for Risk Management. Each Group Company shall designate persons who shall perform periodic risk assessment and risk control activities and promote preventive risk avoidance through normal business practices.
3) We shall establish a business continuity plan and structure based on regulations, in preparation for unforeseen and unplanned circumstances which could significantly impact management of the company. We shall discuss and decide on important risk control issues at the Management Committee and the Board of Directors Meeting.
4) Administration Division shall be responsible for Crisis Management and for streamlining the Crisis Management Structure.
5) The Internal Audit division shall audit effectiveness of risk control and risk management activities, and shall report the result in the Board of Directors Meeting, Audit & Supervisory Board Members meeting and Management Committee.

d. Structures/systems that assure Directors execute their duties/jobs efficiently
1) We appoint a number of external Directors in order to ensure appropriateness and to enhance the transparency of our decision-making process.
2) To assure the effective execution of the Board of Directors' duties, the Board of Directors authorizes Corporate Officers to promote speedy decision making and timely execution of duties in terms of operations.
3) We recognize the Mid-Term Plan and the annual Execution Plan as most important management tools as means to realize our Corporate Vision. The plan target and action items shall be determined based on "Sanden Total Quality Management - STQM" - Corporate-wide management quality innovation system - so that Operating Officers shall be able to perform their assigned activities and carry out operations and duties efficiently.
4) With the previous directions as guides, we shall constantly promote efficiency of operational execution utilizing business process reviews, continuous improvement activities and IT tools.

e. Structures that assure operations/practices are carried out with full appropriateness at Sanden and its subsidiary companies (Subsidiaries) - collectively The Group (G-SDC)
We establish various basic business management policies at the Company and its Group companies as well as create the following structure to ensure adherence to such policies.

1) We shall develop systems/structures to ensure that operations and practices at Group Companies are in full Compliance with laws, regulations and corporate by-laws. The Handbook and a Whistle-blower System (WBS) shall be utilized commonly throughout Group Companies. We shall ensure that the same level of Compliance is implemented throughout the Group.
2) To ensure the rigorous management of Group companies, we dispatch our officers and staff to their board members. We also appoint the Human Resources Division as the responsible division and deliberate and determine important issues concerning the management of subsidiaries and affiliates at the Management Committee and Board of Directors meetings.
3) General Managers of Divisions and Departments in the Company and Presidents of Japanese and overseas Group companies have the responsibility and authority to establish and implement internal controls to ensure the appropriateness of business execution at each company, Division, and Department.
4) The Schedule of Approvals of each Group Company is described in the Decision-Making Policy and the Affiliates Management Policy. We shall exchange the information and discuss important management issues.

5) We shall streamline the Internal Control as and assure the sound and creditability of Financial Report.
6) The Internal Audit division shall conduct internal audits. It shall issue the Audit Report to the President and each DGM of Divisions/ Subsidiaries, as well as provide guidance and recommendations for improvement of internal controls.

f. Employees assisting Audit & Supervisory Board Members and their independence

1) Directors, in accordance with requests from Audit & Supervisory Board Members, shall appoint appropriate employees as Audit & Supervisory Board staff to assist Audit & Supervisory Board Members in increasing overall effectiveness and timely execution of audits.
2) The secretariat for Audit & Supervisory Board Members and the Audit & Supervisory Board is established in the Audit Unit.
3) Audit & Supervisory Board Members shall oversee Audit & Supervisory Board staff. Audit & Supervisory Board staff shall be empowered to collect data and information for audits.
4) Audit & Supervisory Board staff shall have primary roles/duties other than assisting Audit & Supervisory Board Members, and they shall not be directed by Directors in their role of assistance to Audit & Supervisory Board Members. Anticipated transfer, performance evaluation, or disciplinary action of the Audit & Supervisory Board staff shall not be decided without prior consultation to Audit & Supervisory Board Members.

g. Structures/systems for Director and Employee reporting to Audit & Supervisory Board Members

1) Directors, Corporate Officers and Employees (including Group Companies) shall periodically report Company performance, business circumstances, financial status, and other important management issues to Audit & Supervisory Board Members.
2) Directors, Corporate Officers and Employees (including Group Companies) shall report immediately to Audit & Supervisory Board Members, when they become aware of any fact which may cause a substantial loss; any fraudulent act of a Director while performing their duties; important facts related to Compliance with laws, regulations or corporate by-laws; any facts made known to management through the WBS; or any occurrence of other important relevant facts.
3) The Company shall organize a structure that prevents anyone who reports to Audit & Supervisory Board Members in relation to 1) or 2) above from being treated unfairly because of such reporting.

h. Structures/systems that assure Audit & Supervisory Board Members shall be able to perform audit effectively

1) Audit & Supervisory Board Members shall have periodical meetings with Representative Directors and external auditors.
2) Audit & Supervisory Board Members shall have periodical meetings with the Internal Audit division and Statutory Auditors of Affiliates to exchange information and enhance cooperation.
3) When Audit & Supervisory Board Members receive reports, which may have significant detrimental impact on the company, the Audit & Supervisory Board Members shall conduct necessary investigations, and provide recommendation to Directors, or take appropriate corrective actions depending on the circumstances.

<Status of operation of our basic policy>

Based on the Basic Policy for Internal Control System," the Company is striving to develop a system for ensuring the appropriateness of business and to operate it appropriately, and a summary of the operating status for the fiscal year under review is as followings.

a. Compliance system

The Company has organized basic compliance rules for the Group and rolled them out to all Group companies. The Company is also implementing various measures for compliance officers and compliance promotion officers of each company who have been appointed based on the rules. For the Legal Division and overseas offices, this is done through the dedicated legal staff assigned at the headquarters overseeing them. During the fiscal year under review, we made efforts to reduce compliance risks for the entire Group through compliance education (prevention of insider trading, compliance with antitrust laws, compliance with copyright laws, protection of trade secrets, prevention of bribery), among other things.

For the next term, we plan to roll out new policies on the common themes of the Group and offer employee education programs based on the annual plans prepared by the Company and other Group companies in consideration for the activities conducted during the term under review.

b. Risk management system

The Company has a basic risk management system in place and operate based on this. During the fiscal year under review, we also conducted regular risk assessments for the Company and Group companies. Risks include not only risks that directly affect business continuity such as large earthquakes, natural disasters, and pandemics, but also risks related to corporate credit and management strategies.

To mitigate information risks, the Company is endeavoring to enhance its IT governance through, for instance, the annual IT security education program for all IT users and regular checks on IT security.

In addition, the general status of risk management was reported to the Board of Directors by the Corporate Financial Management Division, and the measures to address important risks were deliberated at the monthly meeting of the Management Committee to reduce the risks.

c. Efficient business execution system

The Company's Board of Directors is composed of eight directors, including three Outside Directors. The Board of Directors supervises the execution of duties by directors, while ensuring the transparency of management and prompt response to environmental changes. In addition, the Board of Directors appoints corporate officers, and each corporate officer executes his/her duties within the scope of his/her authority and responsibility.

With respect to major subsidiaries, the Company strives to ensure that they understand the Group’s management policy, etc. through reports and discussions at the monthly meetings their executive officers attend, thus ensuring the unity of group management.

d. Group management system

With respect to our subsidiaries, the Company received reports from them in accordance with the Affiliates Management Policy, etc. and its Management Committee and Board of Directors deliberated on important matters in an effort to ensure the proper management and operation of subsidiaries. In accordance with these regulations that require the subsidiary to seek prior agreement from the Company, or stipulate matters to be reported, subsidiaries have submitted applications and reports to the Company for prior consultation.

B. Outline of the limited liability contract

Based on the provisions of Article 427, Paragraph 1, of the Companies Act, the Company, each Outside Director, and each Audit & Supervisory Board Member has entered into an agreement limiting liability for damages under Article 423, Paragraph 1 of the same act. The maximum amount of liability for damages under the agreement is the amount stipulated by law for each Outside Director and each corporate auditor. Note that the limitation of liability will be granted only when each Outside Director or each auditor is in good faith and have no gross negligence in performing the duties that caused the liability.

C. Directors and officers (D&O) liability insurance

The Company has purchased from an insurance company a directors and officers (D&O) liability insurance policy stipulated in Article 430-3, Paragraph 1 of the Companies Act to pay statutory damages and legal costs in the event any claim for compensation is made against the insured during the insurance period as a result of an action taken by the insured in relation to his or her duties as an officer of the Company. The insurance policy, however, has certain exclusions: for instance, it does not cover damages arising from an act committed by the insured with an awareness that such an act violates laws and regulations.

The insured covered by the D&O liability insurance policy are Directors, Audit & Supervisory Board Members, Corporate Officers, and all employees in managerial positions of the Company and its subsidiaries. The Company fully pays insurance premiums for all the insured.

D. Basic policy regarding company control

Outline of the Company's basic policy regarding corporate control “Other matters” listed in Article 118, Item 3 of the Ordinance for Enforcement Regulation of Corporate Act are as follows.

a. Basic policy regarding company control

The Company is based on mutual relationships with various stakeholders such as shareholders/investors, customers, business partners, local communities, employees, etc. Mutual relationships with stakeholders are the Company’s important component for the source of corporate value. Therefore, the Company will strive to build and strengthen relationships of trust with our stakeholders and conduct balanced management in all aspects of society, environment and economy. At the same time as fulfilling our social responsibility to all stakeholders, the Company will strive to secure and improve its corporate value and the common interests of our shareholders.

Since Sanden is a listed company, we understand that all shareholders who have invested in the Company agreed with our thoughts, and in so doing, entrust the management to the Company’s management team.

Going forward, the Company will continue to implement various measures to achieve the medium-term management goals and sustainable growth, and further strengthen corporate governance to improve our corporate value and the common interests of our shareholders. In addition, the Company will take appropriate measures based on the Financial Instruments and Exchange Act, the Companies Act, and other related laws and regulations. Such measures may include efforts to secure the time and information needed for shareholders to examine issues concerning the Company by disclosing the opinions and so on of the Board of Directors while respecting the opinions of Outside Directors and Outside Audit & Supervisory Board Members who have independent positions.

b. Initiatives contributing to the realization of the Company's basic policy regarding company control such as the effective use of the Company's properties and creation of an appropriate corporate group

The Company implements the following measures as initiatives to secure and improve our corporate value and the common interests of the Company's shareholders so that many of our investors will continue investing in the Company for a medium- to long-term.

1) Initiatives to improve corporate value through management strategy
As described in "1. Management policy, management environment, and issues to be tackled, etc." in "2. Business Overview."

2) Initiatives to improve corporate value through enhancement and improvement to corporate governance
Since its founding in 1943, Sanden's Founding Spirit of, "Let Us Develop with Wisdom and Prosper in Harmony" has formed the basis of corporate culture. In 2003, we newly established our Corporate Philosophy—which includes "Basic Principles (Universal Values Shared by the Global Community)" and "Basic Stance toward Stakeholders." In accordance with this "Corporate Philosophy," which has been embraced throughout Group, Sanden has been working to enhance corporate governance from the perspective of improving the quality of its management, including fairness, transparency and efficiency.
To achieve the Group's vision of "becoming the world's leading supplier of automotive compressors and integrated thermal management systems," the Group will steadily implement its medium-term management plan to create new corporate values.

c. Initiatives to prevent parties that are deemed inappropriate in light of our basic policy regarding company control from dominating decision-making concerning the Company's finance and business

The Company had introduced countermeasures (anti-takeover measures) against the large-scale acquisition of its shares as initiatives to prevent parties deemed inappropriate in light of the above basic policy regarding company control from making decisions on the Company's financial and business policies, thereby securing and improving the corporate value of the Company and common interests of its shareholders. Due to the expiration of their effective period, these countermeasures expired at the end of the 94th Ordinary General Meeting of Shareholders of the Company held on July 29, 2020.

d. Outline of decisions made by the Board of Directors concerning initiatives to prevent inappropriate control

The initiatives contributing to the realization of the Company's basic policy regarding company control such as the effective use of the Company's properties and creation of an appropriate corporate group in b. above are specific measures to increase the Company's corporate value and subsequently the common interests of its shareholders. They are not designed to maintain the positions of the Company's officers and are aligned with the Company's basic policies.

E. Number of directors

The Company's Articles of Incorporation stipulates that the number of directors of the Company be 20 or less.

F. Requirements for resolutions to appoint directors

The Company's Articles of Incorporation stipulate that resolutions to appoint directors shall be attended by the shareholders who have one-third or more of the voting rights and who are able to exercise their voting rights at the general meeting of shareholders. It is also stipulated that the majority of the voting rights are exercised. The Company's Articles of Incorporation stipulate that resolutions for the election of directors do not depend on cumulative votes.

G. Items to be resolved at the general meeting of shareholders that can be resolved by the Board of Directors

Based on the provisions of Article 454, Paragraph 5 of the Companies Act, the Company's Articles of Incorporation stipulate that an interim dividend can be paid by resolution of the Board of Directors. This is intended to flexibly return profits to shareholders. Based on the provisions of Article 165, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company's shares can be acquired through market transactions, etc. by resolution of the Board of Directors. This is to allow for the flexible acquisition of treasury stock. In addition, in accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company can exempt liabilities of directors (including those who were directors) and Audit & Supervisory Board Members (including those who were Audit & Supervisory Board Members) in relation to behavior outlined in Article 423, Paragraph 1 within the limits of laws and regulations by the resolution of the Board of Directors. The purpose is to create an environment in which directors and Audit & Supervisory Board Members can fully exercise their capabilities and fulfill their expected roles in performing their duties.

H. Requirements for special resolutions at general meetings of shareholders

The Company's Articles of Incorporation stipulate that the special resolution of the general meeting of shareholders, Article 309, Paragraph 2 of the Companies Act, requires the attendance of shareholders who have one-third or more of the voting rights of shareholders who are able to exercise their voting rights, and two-thirds or more of such attended voting rights are exercised. This is intended to facilitate the smooth conduct of the general meeting of shareholders by relaxing the quorum of special resolutions at the general meeting of shareholders.

I. Status of activities of the Board of Directors and Nomination and Compensation Committee

(a) Meeting frequency and attendance of Directors

The numbers of meetings of the Board of Directors and the Nomination and Compensation Committee during the fiscal year under review and the attendance situation of each Director are as shown below.

Name	Number of meetings and attendance situation	
	Board of Directors	Nomination and Compensation Committee
Dai Hui Zhong	33% (4/12)	100% (2/2)
Zhu Dan	100% (12/12)	100% (2/2)
Yu Zhitao	56% (5/9)	-
Xiong Hao	100% (12/12)	-
Hideyuki Kobayashi	◯ 100% (12/12)	-
Zhao Fuquan*	66% (8/12)	◯ 100% (2/2)
Ju Dongying*	100% (12/12)	100% (2/2)
Wang Zhenpo*	100% (12/12)	100% (2/2)

Notes:
1. The numbers in the parentheses show the number of meetings attended/number of meetings held during one's tenure.
2. "◯" indicates the chairperson.
3. "*" indicates Independent Outside Director.
4. The differences in the number of meetings held may result from the different timings of appointment or resignation.
5. Directors are offered pre-briefings or pre-meetings in case they are unable to attend the Board of Directors meetings due to business trips or other reasons.

(b) Matters discussed

The Board of Directors (which met 12 times during the fiscal year under review) discussed and deliberated on management strategy, financial results, personnel related matters, business execution status, and matters related to investments and corporate governance, among others. The Rules of the Board of Directors stipulate matters that need to be submitted to the Board of Directors, while the rules on internal accountability and authorities provide for a clear decision-making process on important business matters.

The Nomination and Compensation Committee (which met twice during the fiscal year under review) discussed and examined the candidates for Inside and Outside Directors, remuneration policy and system, and the appointment and resignation of officers and directors.

(2) Members of the Board of Directors and Audit & Supervisory Board Members

1) List of executives

11 males, 1 female (Out of the directors, female ratio of 8.3%)

<table>
<tr><th>Position</th><th>Name</th><th>Date of birth</th><th colspan="2">Career profile</th><th>Term of office (Period)</th><th>Number of shares owned (Shares)</th></tr>
<tr><td rowspan="14">Representative Director and Chairman</td><td rowspan="14">Dai Hui Zhong</td><td rowspan="14">October 13, 1966</td><td>November 2005</td><td>Vice President, Qingdao Hisense Mould Co., Ltd.</td><td rowspan="14">Note 3</td><td rowspan="14">-</td></tr>
<tr><td>July 2012</td><td>Vice President, Qingdao Hisense Electric Co., Ltd. (currently, Hisense Visual Technology Co., Ltd.; the same shall apply hereinafter)</td></tr>
<tr><td>November 2014</td><td>President, Qingdao Hisense Electric Co., Ltd.</td></tr>
<tr><td>June 2015</td><td>Director and President, Qingdao Hisense Electric Co., Ltd.</td></tr>
<tr><td>January 2016</td><td>Director, Qingdao Hisense Electric Co., Ltd.
President of Hisense Home Appliances Group Co., Ltd.</td></tr>
<tr><td>June 2016</td><td>Director and President, Hisense Home Appliances Group Co., Ltd.</td></tr>
<tr><td>March 2017</td><td>Director and President, Qingdao Hisense Electric Co., Ltd.
Director, Hisense Home Appliances Group Co., Ltd.</td></tr>
<tr><td>May 2018</td><td>Director, Hisense Visual Technology Co., Ltd.
Director, Chairman of the Board, and President, Hisense Broadband Multimedia Technology (BVI) Inc.</td></tr>
<tr><td>October 2021</td><td>Director and Chairman of the Board, Hisense Home Appliances Group Co., Ltd. (current position)</td></tr>
<tr><td>December 2021</td><td>Representative Director and Chairman, the Company (current position)
Nomination and Compensation Committee member (current position)</td></tr>
<tr><td>[Major double-hatting positions]</td><td>Director and Chairman of the Board, Hisense Home Appliances Group Co., Ltd.</td></tr>
</table>

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Representative Director and President	Zhu Dan	November 12, 1974	June 2003 February 2010 December 2010 February 2012 January 2014 December 2017 February 2020 June 2021 June 2021 April 2023 July 2023 [Major double-hatting positions]	Hisense International Co., Ltd Manager and General Manager of North African Office of African Sales Department, General Manager in charge of sales in African Sales Department President of South Africa Development Company, Hisense International Co., Ltd. General Manager of Middle East / Africa Sales Department, President of South Africa Development Company, Hisense International Co., Ltd. Assistant to President, General Manager of Middle East / Africa Sales Department, Hisense International Co., Ltd. Vice President, General Manager in charge of Middle East / Africa, Hisense International Co., Ltd. Vice President, General Manager in charge of Middle East / Africa, President of the Russian branch, General Manager in charge of the Americas, General Manager in charge of Africa, Chief of the American Research and Development Center, General Manager in charge of the United States, General Manager in charge of Argentina, Hisense International Co., Ltd. Vice President of Hisense Electric Co., Ltd. Hisense International Co., Ltd President, General Manager in charge of Europe, and European region representative Corporate Officer of the Company Representative Director and President, the Company (current position) Nomination and Compensation Committee member (current position) Hisense International Co., Ltd Chairman (current position) Senior Vice President, Hisense Group (current position) Hisense International Co., Ltd Chairman Senior Vice President, Hisense Group	Note 3	-
Director	Yu Zhitao	April 6, 1976	July 1998 May 2005 April 2008 January 2014 April 2015 April 2016 March 2017 January 2019 February 2023 March 2023 July 2023 [Major double-hatting positions]	Engineer, Research Center, Hisense Communication Co., Ltd. Vice General Manager, Qingdao Hisense Mobile Technology Co., Ltd. Assistant General Manager, Vice General Manager, Qingdao Hisense Media Network Technology Co., Ltd. Assistant General Manager, Qingdao Hisense Electric Co., Ltd. (now renamed as Hisense Visual Technology Co., Ltd.) Executive Vice General Manager, Qingdao Hisense Communication Co., Ltd. Vice General Manager, Qingdao Hisense Electric Co., Ltd. (now renamed as Hisense Visual Technology Co., Ltd.) and General Manager, Qingdao Hisense Media Network Technology Co., Ltd. General Manager, Juhaokan Technology Co., Ltd. General Manager, Hisense Electric Co., Ltd. (now renamed as Hisense Visual Technology Co., Ltd.) and General Manager, Juhaokan Technology Co., Ltd. Executive Vice President, Hisense Group President, Hisense Electronic Information Group Chairman, Hisense Visual Technology Co., Ltd. (current position) Director of the Company (current position) President, Hisense Group (current position) President, Hisense Group Chairman, Hisense Visual Technology Co., Ltd.	Note 3	-

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Director Vice President and Corporate Officer In charge of quality, safety and health, and environmental management, and General Manager of business in Japan	Xiong Hao	July 9, 1982	August 2004 February 2008 August 2014 July 2018 February 2019 February 2020 June 2021 November 2021 November 2021	Quality control and production control, Qingdao Hisense Hitachi Air Conditioning Systems Co., Ltd. Deputy Manager / Manager of Manufacturing Section, Qingdao Hisense Hitachi Air Conditioning Systems Co., Ltd. General Manager of Manufacturing Department, Qingdao Hisense Hitachi Air Conditioning Systems Co., Ltd. Deputy General Manager of Quality and Manufacturing Control Department, Hisense Home Appliances Group Co., Ltd. President of Manufacturing Department, Qingdao Hisense Hitachi Air Conditioning Systems Co., Ltd. Assistant to President, General Manager of Manufacturing Center, General Manager of Process Department, General Manager of Chip Business Department, Hisense Broadband Multimedia Technologies, Ltd. Vice President of Hisense Broadband Multimedia Technologies, Ltd., General Manager of Manufacturing Center, General Manager of Process Department, General Manager of Chip Business Department Director and Executive Vice President, the Company (current position) In charge of manufacturing, quality, production planning, procurement, logistics, IT, safety and hygiene, and environment, and General Manager of business in Japan, the Company In charge of quality, safety and health, and environment, and General Manager of business in Japan, the Company (current position)	Note 3	-
Director Vice President and Corporate Officer In charge of general affairs, legal affairs, and internal corporate communication, and overseeing Australian and Asian businesses	Hideyuki Kobayashi	April 26, 1967	April 1991 September 2012 June 2013 April 2015 January 2016 June 2017 June 2019 April 2020 June 2021 November 2021 March 2022 November 2022	Joined the Company Plant Manager of Compressor Business Plant Deputy General Manager of Compressor Business Plant General Manager of Product Strategy Department, Business Division, Sanden Automotive Components Corporation General Manager of Business Strategy Department, Corporate Planning Office Corporate Officer, General Manager of Corporate Planning Office Director and Executive Corporate Officer, General Manager of Corporate Planning Division and in charge of Business Development Director, Executive Corporate Officer, in charge of corporate strategy and public relations/SDGs, General Manager of Corporate Planning Office Director and Executive Vice President, the Company (current position) In charge of general affairs, legal affairs, strategic management, and business innovation Member of Special Committee In charge of general affairs, legal affairs, and internal corporate communications, and General Manager of business in Asia (current position)	Note 3	6,000

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Director	Zhao Fuquan	December 23, 1963	April 1992 July 1993 May 1994 September 1997 November 1998 September 1999 June 2003 April 2004 November 2006 May 2013 May 2020 June 2021 March 2022 [Major double-hatting positions]	Post doctoral researcher, mechanical engineering, Hiroshima University Research Fellow, Imperial College London Post doctoral researcher and assistant to Professor in mechanical engineering, Wayne State University Product engineer, Chrysler (USA) / Daimler Chrysler Process expert, Chrysler (USA) / Daimler Chrysler Senior process expert, Chrysler (USA) / Daimler Chrysler Research Executive, Technology Center, Chrysler (USA) / Daimler Chrysler Vice President, Brilliance Jinbei Automotive Co. Ltd. and General Manager, R&D Center Assistant President, Brilliance Auto Group Vice President of Zhejiang Geely Group Holding Co., Ltd. Professor, School of Vehicle and Mobility, Tsinghua University (current position), supervisor of PhD students (current position), Director of the Tsinghua Automotive Strategy Research Institute (TASRI) (current position) Independent Outside Director, Guangzhou Automobile Group Co., Ltd. (current position) Outside Director of the Company (current position) Chairman of Nomination and Compensation Committee (current position) Member of Special Committee (current position) Professor, School of Vehicle and Mobility, Tsinghua University, supervisor of PhD students Director of the Tsinghua Automotive Strategy Research Institute (TASRI) Independent Outside Director, Guangzhou Automobile Group Co., Ltd.	Note 3	-
Director	Ju Dongying	July 17, 1954	April 1992 December 1992 December 1996 April 2002 April 2011 April 2014 June 2017 April 2020 June 2021 March 2022 [Major double-hatting positions]	Special researcher, Kyoto University Lecturer, Saitama Institute of Technology Assistant Professor, Saitama Institute of Technology Professor, Saitama Institute of Technology Vice President, Saitama Institute of Technology Director, Hitech Technology Research Center, Saitama Institute of Technology Representative Director, Japan China Science, Technology and Culture Center (current position) Guest member, Engineering Academy of Japan (current position) Outside Director of the Company (current position) Nomination and Compensation Committee member (current position) Chairperson of Special Committee (current position) Representative Director, Japan China Science, Technology and Culture Center Guest member, Engineering Academy of Japan	Note 3	-

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Director	Wang Zhenpo	August 21, 1976	March 2005 July 2013 December 2015 September 2017 February 2018 April 2018 January 2022 March 2022 November 2022 July 2023 [Major double-hatting positions]	Lecturer, Vehicle Engineering, Beijing Institute of Technology Professor, Vehicle Engineering, Beijing Institute of Technology Representative Director, Beijing Institute of Technology Xinyuan Information Technology Co., Ltd. (current position) Outside Director, Yinyi Co., Ltd. Outside Director, Guangxi Shuangying Group Co., Ltd. (current position) Representative Director, Zhuhai Automation Technologies Co., Ltd. (current position) Director, National Engineering Research Center for Electric Vehicle, Beijing Institute of Technology (current position) Outside Director, ActBlue Co., Ltd. (current position) Outside Director of the Company (current position) Nomination and Compensation Committee member (current position) Member of Special Committee (current position) Representative Director, Beijing Institute of Technology Xinyuan Information Technology Co., Ltd. Representative Director, Zhuhai Automation Technologies Co., Ltd. Outside Director, Guangxi Shuangying Group Co., Ltd. Outside Director, ActBlue Co., Ltd.	Note 3	-
Audit & Supervisory Board Member	Sun Jiahui	September 11, 1988	February 2012 October 2012 September 2014 August 2017 January 2019 June 2020 June 2021 [Major double-hatting positions]	Assistant Accountant, TMF Group Auditor, Tianzhi International Accounting Firm Auditor, Audit Department, Hisense Group Co., Ltd. Management analysis, Management and Financial Administration Department, Hisense Group Co., Ltd. Deputy General Manager, Management and Financial Administration Department, Hisense Visual Technology Co., Ltd. Deputy General Manager, Management and Financial Administration Department, Hisense Group Holdings Co., Ltd. (current position) Audit & Supervisory Board Member of the Company (current position) Deputy General Manager, Management and Financial Administration Department, Hisense Group Holdings Co., Ltd.	Note 4	-
Full-time Audit & Supervisory Board Member	Shoichi Kaneko	May 17, 1963	April 1988 September 2003 March 2004 April 2008 December 2013 June 2019 June 2021	Joined the Company General Manager, Sanden System Engineering Corporation In charge of IT Division Sanden International (Europe) Ltd. Deputy General Manager General Manager of Management Audit Department, Business Administration Division General Manager, Audit Department, Business Administration Division Full-time Audit & Supervisory Board Member (current position)	Note 4	1,200

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Audit & Supervisory Board Member	Masahiko Imura	March 27, 1957	April 1980	Joined Daiwa Securities Co., Ltd.	Note 4	-
			April 2000	General Manager, SMBC Corporate Business Division IV, Daiwa Securities Co., Ltd.		
			April 2001	General Manager, Mito Branch, Daiwa Securities Co., Ltd.		
			August 2004	General Manager, SMBC Nagoya Corporate Business Division I, Daiwa Securities Co., Ltd.		
			April 2007	Deputy General Manager, Nagoya Branch / General Manager Corporate Business Division I, Daiwa Securities Co., Ltd.		
			April 2008	General Manager in charge of overseeing corporate business, Daiwa Securities Co., Ltd.		
			April 2009	Director, Daiwa Investor Relations Co., Ltd.		
			April 2010	Managing Director, Daiwa Investor Relations Co., Ltd.		
			April 2014	Managing Director, Daiwa Office Services Co., Ltd.		
			April 2017	Director, Hikari Business Form Co., Ltd.		
			June 2021	Outside Audit & Supervisory Board Member of the Company (current position)		
			July 2023	Member of Special Committee (current position)		
Audit & Supervisory Board Member	Takahide Toyama	January 17, 1973	April 1996	Joined the Kita-Nippon Bank, Ltd.	Note 6	-
			April 1997	Joined NIWS Co. HQ Ltd.		
			June 2007	Joined SBI Holdings, Inc.		
			January 2008	Joined BMW Japan Finance Corp.		
			March 2009	Transferred to BWM Japan Corp.		
			May 2018	Kiyosumi-Shirakawa Accounting Office (current position)		
			February 2019	Advisor, Knowledge Creation Technology Co., Ltd. (current position)		
			July 2019	Registered as a Certified Public Accountant		
			June 2020	Appointed as Koto-ku Comprehensive External Auditor		
			February 2022	Part-time staff of SKIP Audit Corporation (current position)		
			June 2023	Outside Audit & Supervisory Board Member of the Company (current position)		
			July 2023	Member of Special Committee (current position)		
Total						7,200

Notes:
1. Directors Zhao Fuquan, Ju Dongying and Wang Zhenpo are Outside Directors stipulated in Article 2, Item 15 of the Companies Act.
2. Audit & Supervisory Board Members Masahiko Imura and Takahide Toyama are Outside Corporate Auditors as stipulated in Article 2, Item 16 of the Companies Act.
3. One year from the close of the annual general meeting of shareholders held on March 28, 2024
4. Four years from the close of the annual general meeting of shareholders held on June 25, 2021
5. The Company has introduced a corporate officer system to strengthen its business execution function and improve management efficiency, and has appointed one President (Zhu Dan), eight Executive Vice Presidents (Xiong Hao, Hideyuki Kobayashi, Zhang Ning, Wang Zhigang, Liu Hongju, Stanka Pejanovic, Xu Zhan, and Li Sujiang), and two Executive Corporate Officers (Yoshihiro Tachikawa and Maria Wünsch-Guaraldi).
6. Mr. Takahide Toyama was appointed as an Audit & Supervisory Board Member at the extraordinary shareholders' meeting held on June 29, 2023.
   Because he was appointed following the resignation of his predecessor, his tenure will expire at the expiry date of the predecessor's tenure according to the provisions of the Company's Articles of Incorporation. The predecessor's tenure is four years from the close of the annual general meeting of shareholders held on June 25, 2021.

2) Status of outside officers

The Company has three Outside Directors and two Outside Audit & Supervisory Board Members. Outside Directors of the Company have the role and function of ensuring the appropriateness of management by providing advice from a professional standpoint by expressing their opinions at meetings of Board of Directors, Management Committees and other important meetings, while supervising the Company’s management from the perspective of objectivity and neutrality. The Outside Audit & Supervisory Board Members of the Company have the role and function of ensuring effective legality and appropriateness of management by conducting effective audits from the perspective of objectivity and neutrality. To enable appropriate supervision and effective auditing of management when appointing Outside Directors or Outside Audit & Supervisory Board Members, the Company considers the personal relationship, capital relationship, business relationship, or other relationships between the person and the company of origin, and from the perspective of objectivity and neutrality, the Company put great importance to ensuring substantial independence.

Outside Director Zhao Fuquan has deep academic insights and technological prowess cultivated through long years of research on the automotive industry and has deep insights and a high level of skills in management strategy and business administration based on his broad range of experience in corporate management in the automotive industry. We have appointed Mr. Zhao to utilize such skills and experience in the Company’s management and to strengthen our management foundation. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

Outside Director Ju Dongying has researched technologies related to automobiles for a long time and has deep academic insights and technological prowess based on this experience. We have appointed Mr. Ju to utilize his skills and experience in the management of the Company and to strengthen the Company’s management foundation. The Company appointed him to reflect his insight and capabilities to the management of the Company and strengthen its management base. The Company appointed him to reflect his insight and capabilities to the management of the Company and strengthen its management base. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

Outside Director Wang Zhenpo has been involved in the research and development of technologies related to automobiles for a long time, through which he has gained deep academic insights and technological prowess. We have appointed Mr. Wang to utilize such skills and experience in the management of the Company and to strengthen the Company’s management foundation. The Company appointed him to reflect his insight and capabilities to the management of the Company and strengthen its management base. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

Outside Audit & Supervisory Board Member Masahiko Imura has extensive experience and insights cultivated through long years of management and other experience in the securities and related industries. We have appointed Mr. Imura as we expect that he will be able to conduct audits and provide advice in an appropriate manner as an Audit & Supervisory Board Member of the Company based on his experience and insights. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

Outside Audit & Supervisory Board Member Takahide Toyama is a Certified Public Accountant and has knowledge and experience in the automotive industry. We have appointed Mr. Toyama as we expect that he will be able to perform audits and provide advice in an appropriate manner as an Audit & Supervisory Board Member of the Company based on his knowledge and experience. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

3) Alignment of supervision or audits by Outside Directors or Outside Audit & Supervisory Board Members and internal audits, audits by the Audit & Supervisory Board Members, and accounting audits; and relationships with internal control sections

Outside Directors and Outside Audit & Supervisory Board Members attend Board of Directors meetings and other important meetings to exchange opinions with other attendees and audit and supervise the appropriate execution of business. In addition, the Audit & Supervisory Board closely collaborates with the internal audit section and accounting auditors through the exchange of information and opinions, as needed, to perform appropriate audits and to raise their effectiveness.

(3) Status of Audit

1) Audit by the Audit & Supervisory Board Members

(i) Organization and personnel

The Company adopts the "Company with an Audit & Supervisory Board" model, and its Audit & Supervisory Board consists of one full-time internal, one part-time internal, and two part-time outside members. Full-time Audit & Supervisory Board Member Shoichi Kaneko (Chair of the Audit & Supervisory Board) has extensive experience and deep insights in planning, management and other aspects concerning the areas of information systems and auditing, and is particularly conversant in internal controls and internal auditing. He also has experience working in Europe and has operational knowledge from a global perspective. Part-time internal Audit & Supervisory Board Member Sun Jiahui has worked in the areas of auditing, finance and management analysis over long years and has broad knowledge and experience in each of those areas. Outside Audit & Supervisory Board Member Masahiko Imura has experience in the field of securities through long years of services with financial institutions. Outside Audit & Supervisory Board Member Takahide Toyama is a Certified Public Accountant and has knowledge and experience in the automotive industry.

To ensure the smooth implementation of auditing duties, the Company has appointed one staff member in the Audit Unit to concurrently serve to the Audit & Supervisory Board members.

(ii) Status of activities of the Audit & Supervisory Board

(Holding frequency and attendance status)

During the fiscal year under review, the Company held the Audit & Supervisory Board once a month. The attendance status of each Audit & Supervisory Board Member is as follows. It took about 3 hours and 21 minutes to complete each session.

Name	Number of times held	Attendance
Shoichi Kaneko	16	16 (100%)
Sun Jiahui	16	10 (63%)
Masahiko Imura	16	16 (100%)
Katsuhiko Kato	9	3 (33%)
Takahide Toyama	7	7 (100%)

Notes: 1. The number of meetings attended by Audit & Supervisory Board Member Katsuhiko Kato is the number of meetings he attended until June 28, 2023 when he resigned his position as Audit & Supervisory Board Member which he was serving for the fulfillment of legal requirements placed on the Company.

2. The number of meetings attended by Audit & Supervisory Board Member Takahide Toyama is the number of Audit & Supervisory Board meetings he attended after his appointment at the extraordinary shareholders' meeting held on June 29, 2023.

Throughout the year, the following resolutions, reports, and deliberations and consultations were conducted.

10 resolutions: Audit policy/audit plan/division of duties for audits by the Audit & Supervisory Board Members in the fiscal year, appropriateness of the reappointment of the accounting auditor, policy on discharge/appointment of the accounting auditor, draft audit report, acceptance of remuneration of the accounting auditor, etc.

28 reports: Department status report, report on the status of the auditing of subsidiaries conducted by Audit & Supervisory Board Members, financial statement report, financial statement review report, accounting audit report, etc.

3 consultations: Draft audit report by Audit & Supervisory Board Members, compensation of Audit & Supervisory Board Members, discussion with accounting auditors, etc.

(Matters discussed)

The Audit & Supervisory Board determined the Company's audit policy, audit plan, and division of duties for the fiscal year 2023 and received reports from each Audit & Supervisory Board Member on the implementation status and results of audits. In addition, it received reports from Directors and others (responsible persons of each division of the Company) and accounting auditors regarding the status of the execution of duties, discussed the legal compliance and appropriateness of business execution, and monitored business management including whether corporate governance functioned effectively. In fiscal 2023, the Audit & Supervisory Board conducted audits with the following items as focal points: 1) the execution status of management plans (business revitalization plan (medium-term plan), execution plan, investment plan, R&D investment plan and so on); 2) the operation status of risk management and internal controls of the Group, especially the status of the Group's governance and compliance; and 3) the execution side's efforts concerning important management matters.

(Activity status)

Each Audit & Supervisory Board Member complied with the Auditing Standards established by the Audit & Supervisory Board, attended the Board of Directors meetings and other important meetings in accordance with the audit plan, etc. for fiscal 2023, received reports from Directors, employees and others regarding the execution status of their duties, monitored and examined the organization and operation status of internal control systems, and monitored whether group governance was effectively functioning. Furthermore, the Audit & Supervisory Board exchanged opinions with Representative Directors and Outside Directors and collaborated with the internal audit section and accounting auditors to enhance the effectiveness of audits by the Audit & Supervisory Board Members.

In addition, full-time Audit & Supervisory Board Members attended important meetings of the Company other than the above, inspected important documents such as internal approval documents, conducted department audits, and made recommendations as needed through interviews and exchanges of opinions with division managers and others. Furthermore, onsite audits of overseas subsidiaries resumed during fiscal 2023 as the worldwide COVID-19 pandemic came to an end. Moreover, the Audit & Supervisory Board established an Auditor Liaison Committee with the Legal Affairs Division, Corporate Financial Management Division, Human Resources Division, and the Audit Unit, and regularly exchanged opinions and information with them to enhance the effectiveness of audits by the Audit & Supervisory Board Members.

In fiscal 2023, there was no shortage of budget to carry out audits in accordance with the audit plan.

2) Internal audit

The Audit Unit is an internal audit section that audits the appropriateness of business of the Company and its Group companies pursuant to the Internal Audit Regulations, as well as conducting evaluations by management with regard to the organization and operation status of internal control systems and processes including internal controls related to financial reporting. The Audit Unit consists of five employees.

The Audit Unit implemented a total of eight audit projects of the Company and its multiple overseas subsidiaries in operation areas including internal controls, funds management, and investment in technological improvement.

With respect to the evaluation of internal controls related to financial reporting, the Audit Unit conducted company-wide internal control evaluations of the Company, 11 consolidated subsidiaries, and one company accounted for using equity method. In addition, the Unit evaluated internal controls related to the business processes of the Company and four of its consolidated subsidiaries.

The results of these internal audits were reported to the Company’s Board of Directors and Audit & Supervisory Board. Furthermore, the Audit Unit reported the results of its internal audits and the improvements made at monthly meetings with Audit & Supervisory Board Members and the head of the division in charge of the Group’s internal control function to facilitate collaboration.

3) Audit of financial statements

a. Name of auditing firm

Mazars Audit LLC

b. Audit Duration

Since 2021

c. Certified Public Accountants engaged in the financial statements audit

Shota Oya

Toshiki Kitao

Masanao Goto

d. Composition of assistants involved in audit

Assistants for the auditing operation of the financial statements in the consolidated fiscal year under review consisted of eight Certified Public Accountants and seven others.

e. Policy and reasons for appointing the Independent Auditor

The Company policy for selecting certified public accountants is stipulated as: assuring independence from the Company; Building and operating a quality control system for audits; and ensuring there is global network for conducting the Group audits. In addition, the “policy for dismissal or non-reappointment of an accounting auditor” stipulates that a certified public accountant auditor, etc. be dismissed if the Audit & Supervisory Board determines that they fall under any item of Article 340, Paragraph 1 of the Companies Act, and that the decisions regarding their reappointment or non-reappointment be made considering the status of the performance of their duties.

The Audit & Supervisory Board is provided with the necessary materials and receives reports from the certified public accountant auditors and execution divisions (Corporate Financial Management Division), and examines the appropriateness of the reappointment of certified public accountant auditors.

Specifically, the Company selects certified public accountant auditors by comprehensively assessing the execution status of their duties, quality control systems, external inspections, review result reports, etc., based on communication such as quarterly financial statement review reports and audit result reports provided by certified public accountant auditors, exchanges of opinions with certified public accountant auditors, and execution division reports (Accounting Division, Internal Audit Division) and the results of the eligibility evaluation related to the reappointment of accounting auditors conducted by the Audit & Supervisory Board.

f. Evaluation of auditing firm by the Audit & Supervisory Board and its members

The Audit & Supervisory Board of the Company evaluates certified public accountants. Specifically, according to the “Evaluation of Reappointment of Accounting Auditor” established by the Audit & Supervisory Board for each fiscal year, the Audit & Supervisory Board examines the following items: (1) quality control of certified public accountant auditors and others, (2) audit team, (3) compensation for audit work, etc. (including the level of reliance on the Group in terms of compensation), (4) communication with the Audit & Supervisory Board Members and others, (5) relationship with management and others, (6) Group audits, and (7) misconduct risks, etc. In fiscal 2023, the Audit & Supervisory Board likewise conducted an evaluation and concluded that the certified public accountant auditors, etc. had independent positions and performed their duties appropriately.

4) Compensation for audit work

a. Compensation for auditors, CPA, etc.

(Millions of yen)

Classification	FY2022		FY2023	
	Compensation based on audit certification work	Compensation based on non-audit work	Compensation based on audit certification work	Compensation based on non-audit work
The Company	118	5	120	5
Consolidated subsidiaries	-	-	-	-
Total	118	5	120	5

Note: Compensation based on non-audit work is paid for the work done based on request by the auditors of the parent company.

b. Compensation for member firms of Mazars, the network that the certified public accountant auditors, etc. also belong to (excluding a.)

(Millions of yen)

Classification	FY2022		FY2023	
	Compensation based on audit certification work	Compensation based on non-audit work	Compensation based on audit certification work	Compensation based on non-audit work
The Company	-	-	-	-
Consolidated subsidiaries	83	0	91	0
Total	83	0	91	0

Note: Mainly, compensation for advisory services regarding tax returns is paid as compensation based on non-audit work.

c. Compensation based on other important audit certification work

Not applicable

d. Policy for determining auditors' compensation

The Company's policy for determining compensation for auditing work provided by certified public accountant auditors, etc. is to pay the necessary and appropriate compensation in order to carry out a reliable audit by an independent third party from the perspective of protecting the public interest or investors. More specifically, the Company receives the details of the audit from the certified public accountant auditor, etc. and reviews the appropriateness of the compensation based on the history of previous audit contracts, hours required, and other factors. The results of these deliberations are proposed to the Board of Corporate Auditors, and the compensation auditing work is determined with the consent of the Board of Corporate Auditors.

e. Reasons why the Audit & Supervisory Board has agreed to the Independent Auditor Compensation

The Audit & Supervisory Board has received explanations on the following matters from the execution division based on the audit compensation proposal provided by the certified public accountant auditors, etc.: (1) evaluation of the number of audit days in the account audit plan in comparison of the actual number in the previous year, and (2) the results of the examination of the basis for the estimates that form the premise of the compensation. After receiving these explanations, the Audit & Supervisory Board compared them with the audit performance of the certified public account auditors, etc. of the previous fiscal year and agreed to the compensation for the certified public accountant auditors, etc.

(4) Executive compensation

1) Policy Pertaining to Determination of Amounts of Executive Compensation and Calculation Methodology Thereof

The Company has established a policy for determining the amount and calculation method of compensation for its officers. Compensation for the Company's Directors and Corporate Officers is determined by taking into account such factors as the Company's performance, the nature of its business operations and economic conditions.

In addition, the Board of Directors has confirmed that the determination method and details of individual remuneration and so on for Directors in relation to the fiscal year under review were consistent with the determination policy approved by the Board of Directors, respecting the recommendations of the Nomination and Compensation Committee. The Board has thus judged that they were in line with the said determination policy.

(i) Basic Policy

Compensation and compositional ratios reflect the role and annual performance of the Company and motivate the officers to increase medium- and long-term corporate value.

(ii) Policy for determining compensation

Compensation for Directors comprises basic compensation and performance-linked compensation (bonus) to better clarify its link to the Company’s performance and shareholder values. Audit & Supervisory Board Members are paid only basic compensation as their position is independent of business execution.

(iii) Basic compensation (fixed)

The amount of basic compensation for Directors shall be commensurate with their positions and duties, with reference to industry standards and the results of surveys on executive compensation by external research organizations.

(iv) Performance-linked compensation (bonus)

Performance-linked compensation for Directors is determined based on consolidated business results to provide an incentive to improve the Company’s business results. It consists of compensation reflecting year-on-year increases in sales and profits and compensation reflecting the achievement of management indicators, and is allocated according to titles, duties, and evaluations. These indicators have been selected because they are the most appropriate indicators of the Company's performance.

Consolidated financial results for fiscal 2022 (the 97th period) based on which performance-linked compensation for fiscal 2023 is determined are as follows: ¥175,683 million in net sales and ¥610 million in net loss before income taxes. Both revenue and profit rose compared with the same period of the previous fiscal year.

(“The same period of the previous fiscal year” means the period starting on January 1, 2021 and ending on December 31, 2021, which corresponds to fiscal 2022 that covers a period starting on January 1, 2022 and ending on December 31, 2022.)

(v) Procedure for determining remuneration

To ensure the transparency of the decision-making process and the objectivity of decisions concerning Directors’ compensation, the Nomination and Compensation Committee (chaired by an Independent Outside Director), consisting of five Directors including three Independent Outside Directors, has been established, and the Board of Directors deliberates and decides on Directors' compensation based on the Committee's deliberations and recommendations. The compensation of the Audit & Supervisory Board Members is determined by the decision of the Audit & Supervisory Board.

The amount of compensation for directors shall not exceed ¥500 million per year, as resolved at the 81st Ordinary General Meeting of Shareholders held on June 22, 2007. The total amount of compensation for Audit & Supervisory Board Members shall not exceed ¥60 million per year, as resolved at the 82nd annual general meeting of shareholders held on June 24, 2008.

(vi) Scope of decision-making authority and discretion and activities

The Nominating and Compensation Committee, in consultation with the Board of Directors, shall discuss and advise and make recommendations to the Board of Directors on the following matters.

- Establishment, revision or abolition of the basic policy and standards for determining directors' compensation, etc.
- Details of the amount of compensation for each director
- Other matters deemed necessary by the Nomination and Compensation Committee in relation to the compensation of directors

The Board of Directors deliberates and decides on director compensation based on the advice and recommendations of the Nomination and Compensation Committee.

In the determination process of compensation for the Company’s Directors for fiscal 2023, the Nomination and Compensation Committee held a total of one meeting and the Board of Directors made a resolution at its meeting held on March 30, 2023.

2) Total amount of compensation by category of executives, total amount of compensation by type of compensation and number of eligible executives.

Category of executives	Total amount of compensation Millions of yen	Breakdown of total amount of compensation				Number of eligible executives (Persons)
		Annual basic salary	Short-term performance-linked compensation	Performance-linked stock compensation	Of remuneration on the left, non-monetary compensation, etc.	
Directors (Excluding Outside Directors)	83	61	22	-	-	3
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	14	14	-	-	-	1
Outside officer	19	19	-	-	-	6

Notes:
1. The amount of compensation paid to directors does not include the employee's salary for directors who serve concurrently as employees.
2. The above does not include three Directors and one Audit & Supervisory Board Member who do not receive any compensation.
3. The above includes one Outside Audit & Supervisory Board Member who resigned his position as Audit & Supervisory Board Member on June 28, 2023 which he was serving for the fulfillment of legal requirements placed on the Company.
4. The maximum annual compensation limit for directors was resolved at the 81st Annual General Meeting of Shareholders held on June 22, 2007 to be ¥500 million (not including employee salaries).
5. The maximum annual compensation limit for Audit & Supervisory Board Members was set at ¥60 million at the 82nd Annual General Meeting of Shareholders held on June 24, 2008.
6. Non-monetary compensation above (performance-linked stock compensation) was discontinued as of August 31, 2021 when the trust period expired.

3) Total amount of compensation by category of executives

Since there is no one whose total amount of compensation is more than ¥100 million, this information is not provided.

(5) Status of stocks held

1) Criteria and concept on stocks for investment

The Company has a policy for stocks other than net investment purposes as crossholding of stocks.

2) Stocks for investment held for any purposes other than net investment purpose

a. Method for verifying the holding policy and rationality of holding, and details of the verification by the Board of Directors, etc. of the appropriateness of holding individual stocks

The Company will hold shares if it believes that maintaining and expanding transactions with that company will contribute to the sustained enhancement of the Group's corporate value, taking into account the overall rationality of the business relationship and economic rationale from a medium- to long-term global perspective. Therefore, the Company will reduce its crossholdings of stocks that are inconsistent with this policy in a timely manner. As a specific decision-making process, the Board of Directors shall annually review the rationality and necessity of holding of major crossholding stocks from a medium- to long-term perspective in light of the returns and risks involved, and confirm the aims and rationality of the holdings reflected in the review. In addition, the cost of capital and other criteria is used to determine the rationality of holding the shares, and the returns are verified based on the risk of holding the shares.

b. Number of brands and total balance sheet value

	Number of brands	Total balance sheet amount (Millions of yen)
Unlisted stocks	11	155
Stocks other than unlisted stocks	1	298

(Stocks for which the number of shares increased in the fiscal year under review)

	Number of brands	Total value of acquisition related to the increase in the number of shares (Millions of yen)	Reason for increase in number of shares
Unlisted stocks	-	-	-
Stocks other than unlisted stocks	1	18	Increase due to the regular acquisition by the stock ownership association.

(Stocks for which the number of shares decreased in the fiscal year under review)

	Number of brands	Total value of acquisition related to the decrease in the number of shares (Millions of yen)
Unlisted stocks	1	1
Stocks other than unlisted stocks	-	-

c. Information regarding the number of shares, amounts recorded in the balance sheet, etc., by each stock for "Specific stocks for investment" and "Stocks subject to deemed holding"

Specific stocks for investment

Stocks	Fiscal 2023	Fiscal 2022	Purpose of shareholding, outline of business alliance, etc., quantitative impact of shareholding, and reason for the increased number of shares	Holding of the Company's shares (Yes/None)
	Number of shares held by the Company	Number of shares held by the Company		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
Honda Motor Co., Ltd.	203,449	63,315	Increased due to the regular acquisition by the stock ownership association to help continue and expand sales of air-conditioning parts to be installed on the customer's cars.	None
	298	191		

Notes: 1. Although it is difficult to state the quantitative effects of holding shares for each issue, the Company verifies the profitability and advantage of each issue based on factors such as annual dividend income and stock valuation gains or losses, and verifies the rationality of holding shares by comprehensively considering its business strategies and business relationships.

2. As of October 1, 2023, shares of Honda Motor Co., Ltd. were split at a ratio of one share of common stock into three shares of common stock.

Stocks subject to deemed holding

Not applicable

3) Stocks for investment held solely for investment purpose

Not applicable

4) The purpose of holding investment shares was changed during the fiscal year under review from net investment purposes to purposes other than net investment purposes.

Not applicable

5) The purpose of holding investment shares was changed during the fiscal year under review from solely for investment purpose to purposes other than solely for investment purpose.

Not applicable

5. Financial Information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Order No. 28 of 1976, “Regulations on the Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (hereinafter, the “Regulations for Consolidated Financial Statements”).

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Order No. 59 of 1963, “Regulations on the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements” (hereinafter, the “Regulations for Non-Consolidated Financial Statements”).
As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-Consolidated Financial Statements.

2. Auditing and attestation

The Company’s consolidated and non-consolidated financial statements for the fiscal year that started on January 1, 2023 and ended on December 31, 2023 were audited by Mazars Audit LLC in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Particular efforts to secure the appropriateness of the consolidated financial statements

The Company takes particular efforts to secure the appropriateness of the consolidated financial statements. Specifically, to ensure correct understanding of the accounting standards, etc., and to establish a system that can be reflected appropriately in the consolidated financial statements, the Company acquires membership in the Financial Accounting Standards Foundation and receives e-mail regularly to ensure the changes in the accounting standards. The Company also endeavors to understand the changes in accounting standards, etc. by participating in seminars on changes in accounting standards conducted by auditing firm and other institutions.

1. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated balance sheets

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Assets		
Current assets		
Cash and deposits	*1 18,620	*1 22,749
Notes and accounts receivable-trade, and contract assets	*2 47,667	*2 47,008
Merchandise and finished goods	*3 15,016	*3 13,450
Work in process	*4 8,050	*4 9,450
Raw materials	*5 10,755	*5 7,235
Other inventories	1,789	1,204
Accounts receivable-other	3,378	3,451
Consumption taxes receivable	4,540	2,443
Other	9,338	6,917
Allowance for doubtful accounts	(17,317)	(17,262)
Total current assets	101,840	96,647
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	14,016	13,782
Machinery, equipment and vehicles, net	7,008	12,828
Tools, furniture and fixtures, net	2,810	3,374
Land	6,552	6,600
Leased assets, net	1,868	1,779
Construction in progress	3,011	4,291
Total property, plant and equipment	*6 35,267	*6 42,657
Intangible assets		
Other	1,138	1,435
Total intangible assets	1,138	1,435
Investments and other assets		
Investment securities	*7 18,188	*7 20,276
Retirement benefit assets	88	100
Deferred tax assets	14	430
Other	2,051	3,684
Allowance for doubtful accounts	(1,160)	(2,693)
Total investments and other assets	19,181	21,799
Total non-current assets	55,588	65,892
Total assets	157,428	162,539

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	35,737	38,099
Short-term borrowings	*8 48,381	*8 56,102
Current portion of long-term borrowings	*9 268	*9 300
Accounts payable-other	7,344	8,680
Lease obligations	1,921	1,498
Income taxes payable	1,155	1,267
Provision for bonuses	1,692	1,966
Provision for product warranties	4,798	6,738
Provision for outstanding claims	2,356	2,130
Provision for business restructuring	9,749	3,364
Other	9,838	11,285
Total current liabilities	123,244	131,434
Non-current liabilities		
Long-term borrowings	*10 355	*10 822
Lease obligations	4,408	3,403
Deferred tax liabilities	1,772	1,821
Net defined benefit liability	2,229	2,118
Provision for environmental measures	532	512
Other	1,518	1,589
Total non-current liabilities	10,816	10,269
Total liabilities	134,061	141,703
Net assets		
Shareholders' equity		
Capital	21,741	21,741
Capital surplus	14,081	14,081
Retained earnings	(16,765)	(20,125)
Treasury stock	(531)	(531)
Total shareholders' equity	18,525	15,165
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(12)	60
Deferred gains or losses on hedges	-	(19)
Foreign currency translation adjustment	3,561	4,138
Remeasurements of defined benefit plans	410	847
Total accumulated other comprehensive income	3,959	5,027
Non-controlling interests	881	643
Total net assets	23,366	20,836
Total liabilities and net assets	157,428	162,539

2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net sales	*1 175,683	*1 179,279
Cost of sales	*2 154,030	*2 157,476
Gross profit	21,653	21,803
Selling, general and administrative expenses	*3 27,382	*3 32,821
Operating income (loss)	(5,729)	(11,018)
Non-operating income		
Interest income	48	130
Dividend income	25	35
Equity in net income of affiliates	3,439	4,339
Rental income	772	798
Other	1,146	1,076
Total non-operating income	5,432	6,381
Non-operating expenses		
Interest expenses	1,142	1,299
Foreign exchange losses	612	392
Provision of allowance for doubtful accounts	481	32
Other	1,605	2,021
Total non-operating expenses	3,842	3,745
Ordinary income (loss)	(4,140)	(8,382)
Extraordinary income		
Gain on sales of non-current assets	*4 73	*4 112
Gain on sales of shares of subsidiaries and affiliates	1,050	-
Reversal of allowance for doubtful accounts	*5 2,487	*5 1,061
Reversal of provision for business restructuring	*6 3,732	*6 5,805
Other	133	120
Total extraordinary income	7,477	7,100
Extraordinary losses		
Impairment loss	*7 2,906	*7 2,442
Loss on disposal of non-current assets	*8 131	*8 102
Other	909	265
Total extraordinary losses	3,947	2,811
Net income (loss) before income taxes	(610)	(4,093)
Income taxes-current	842	(208)
Income taxes-deferred	221	(236)
Total income taxes	1,064	(445)
Net income (loss)	(1,674)	(3,648)
Net income (loss) attributable to non-controlling interest	(60)	(288)
Net income (loss) attributable to owners of parent	(1,613)	(3,359)

Consolidated statements of comprehensive income

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net income (loss)	(1,674)	(3,648)
Other comprehensive income		
Valuation difference on available-for-sale securities	(11)	63
Deferred gains or losses on hedges	-	(19)
Foreign currency translation adjustment	(296)	(224)
Remeasurements of defined benefit plans	695	436
Share of other comprehensive income of affiliates accounted for using equity method	862	861
Total other comprehensive income	*1 1,249	*1 1,117
Comprehensive income	(424)	(2,530)
Total comprehensive income attributable to:		
Owners of parent	(449)	(2,292)
Non-controlling interests	24	(238)

3) Consolidated statements of changes in net assets

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	21,741	14,081	(15,151)	(565)	20,105
Changes during period					
Net income (loss) attributable to owners of parent			(1,613)		(1,613)
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				34	34
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(1,613)	33	(1,580)
Balance at the end of period	21,741	14,081	(16,765)	(531)	18,525

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of period	(4)	-	3,084	(284)	2,795	934	23,835
Changes during period							
Net income (loss) attributable to owners of parent							(1,613)
Purchase of treasury stock							(0)
Disposal of treasury stock							34
Net changes in items other than shareholders' equity	(7)	-	476	695	1,164	(53)	1,111
Total changes during period	(7)	-	476	695	1,164	(53)	(469)
Balance at the end of period	(12)	-	3,561	410	3,959	881	23,366

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	21,741	14,081	(16,765)	(531)	18,525
Changes during period					
Net income (loss) attributable to owners of parent			(3,359)		(3,359)
Purchase of treasury stock				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(3,359)	(0)	(3,359)
Balance at the end of period	21,741	14,081	(20,125)	(531)	15,165

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at the beginning of period	(12)	-	3,561	410	3,959	881	23,366
Changes during period							
Net income (loss) attributable to owners of parent							(3,359)
Purchase of treasury stock							(0)
Net changes in items other than shareholders' equity	73	(19)	576	436	1,067	(238)	829
Total changes during period	73	(19)	576	436	1,067	(238)	(2,530)
Balance at the end of period	60	(19)	4,138	847	5,027	643	20,836

4) Consolidated statement of cash flows

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Cash flows from operating activities		
Net income (loss) before income taxes	(610)	(4,093)
Depreciation	4,462	4,965
Increase (decrease) in provision for bonuses	116	217
Increase (decrease) in retirement benefit liability	(700)	(281)
Increase (decrease) in allowance for doubtful accounts	(2,811)	410
Increase (decrease) in provision for product warranties	(92)	1,844
Increase (decrease) in provision for environmental measures	43	(19)
Increase (decrease) in provision for outstanding claims	(71)	(223)
Interest and dividend income	(73)	(166)
Interest expenses	1,142	1,299
Equity in net income (loss) of affiliates	(3,439)	(4,339)
Gain on sales of non-current assets	(73)	(112)
Loss on disposal of non-current assets	131	102
Gain (loss) on sales of shares of subsidiaries and affiliates	(1,050)	-
Reversal of provision for business restructuring	(3,732)	(5,805)
Impairment loss	2,906	2,442
Decrease (increase) in trade receivables	(1,178)	3,642
Decrease (increase) in inventories	(966)	6,615
Decrease (increase) in accounts receivable-other	130	(17)
Decrease (increase) in consumption taxes receivable	(1,751)	2,357
Increase (decrease) in other non-current liabilities	(420)	(109)
Increase (decrease) in trade payables	3,610	1,353
Increase (decrease) in accounts payable-other	(1,764)	157
Increase (decrease) in accrued expenses	901	(228)
Decrease (increase) in other current assets	(918)	683
Increase (decrease) in other current liabilities	3	455
Other	(4,995)	(6,669)
Subtotal	(11,202)	4,480
Interest and dividends received	2,907	6,319
Interest paid	(1,163)	(1,296)
Income taxes (paid) refund	(667)	(131)
Cash flows from operating activities	(10,125)	9,371

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,905)	(11,224)
Proceeds from sales of property, plant and equipment	175	366
Purchase of intangible assets	(84)	(691)
Purchase of investment securities	(17)	(18)
Payments into time deposits	-	(0)
Proceeds from withdrawal of term deposits	2	18
Proceeds from sales of shares of subsidiaries and affiliates	1,166	-
Other	176	(52)
Cash flows from investing activities	(4,486)	(11,602)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	7,829	7,320
Proceeds from long-term borrowings	-	1,140
Repayment of long-term borrowings	(341)	(688)
Repayments of lease obligations	(2,444)	(1,976)
Purchase of treasury stock	(0)	(0)
Proceeds from sales of treasury stock	34	-
Other	(0)	(0)
Cash flows from financing activities	5,077	5,794
Effect of exchange rate change on cash and cash equivalents	725	954
Net increase (decrease) in cash and cash equivalents	(8,809)	4,518
Cash and cash equivalents at beginning of period	25,912	17,102
Cash and cash equivalents at the end of the period	*1 17,102	*1 21,620

[Notes]

(Major notes to consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated group companies: 26

The details of consolidated subsidiaries are omitted as these are presented in “4 Information on subsidiaries and affiliates” in “1. Overview of the Company.”

(2) Major non-consolidated subsidiary: Sanden Bright Partner Corporation

(Reason for exclusion from the scope of consolidation)

Total assets, net sales, net income or loss (as calculated by the equity method) and retained earnings (as calculated by the equity method) of unconsolidated subsidiaries do not have a material impact on the consolidated financial statements.

2. Equity method

(1) Number of companies accounted for by the equity method: 6

Main company names

Sanden Hasco Automotive Air conditioning Co., Ltd.

Shenyang Sanden Automotive Air-Conditioning Co. Ltd.

(2) Of the non-consolidated subsidiaries and affiliates not accounted for by the equity method, the major one is Sanpak Engineering Industries (Pvt) Ltd. Non-equity-method companies are excluded from the scope of application of the equity method because their net income or loss (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., would not have a material impact on the consolidated financial statements if they were excluded from the scope of application of the equity method, and their overall importance would not be significant.

(3) For those companies accounted for under the equity method whose fiscal year end differs from the consolidated fiscal year end, the financial statements of these companies for their respective fiscal years are used.

(4) Accounting treatment in hyperinflationary economies

The equity method is applied to the financial statements of an Iranian affiliated company after making adjustments in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies.”

3. Accounting period of consolidated subsidiaries

Consolidated subsidiaries whose closing date differs from the consolidated closing date are as follows. They use financial statements based on provisional account settlements conducted as of the consolidated closing date. Other consolidated subsidiaries have the same closing date as the consolidated closing date.

Sanden Vikas (India) Private Limited

Sanden Vikas Precision Parts Private Limited

Sanden International Philippines Inc.

4. Accounting policies

(1) Valuation criteria and methods for significant assets

A. Securities

Other securities

- Other than shares without market price, etc.
  Derivative financial instruments are stated at fair value.
  Any changes in unrealized gain or loss are directly included in net assets and the costs of securities sold are generally calculated by the moving average method.
- Shares without market price, etc.
  Non-marketable securities are carried at cost determined by the moving average method.
  For those securities whose real value has been significantly reduced, a substantial reduction has been made.

B. Derivative financial instruments

Derivative financial instruments are stated at fair value.

C. Inventories

Inventories are primarily stated at cost method determined by the weighted average method (values on the balance sheet are subject to the book value reduction method based on decreased profitability.)

(2) Depreciation method for significant depreciable assets

A. Property, plant and equipment (excluding leased assets)

The straight-line method is adopted.

The main useful lives are as follows.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-15 years

The Company adopts a method of depreciation where assets are depreciated in equal amounts over three years if their acquisition cost was ¥100,000 or more and less than ¥200,000.

B. Intangible assets (excluding leased assets)

The straight-line method is adopted.

Depreciation of software for internal use is calculated by the straight-line method based on its useful life in the Company.

C. Leased assets

Leased assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

The financial statements of overseas consolidated subsidiaries are prepared in accordance with International Financial Reporting Standards. However, the Company has applied International Financial Reporting Standards No. 16, “Leases” (“IFRS 16”). Under IFRS 16, all leases as lessee are recorded as assets and liabilities in the consolidated balance sheets, in principle, and right-of-use assets capitalized are depreciated using the straight-line method. Lease transactions under IFRS 16 are classified as 1. Finance lease transactions in (Lease transactions).

(3) Basis for accounting for significant provisions

A. Allowance for doubtful accounts

To prepare for losses due to the credit loss of monetary claims, the Company considers the actual loan loss rate for general claims and the collectability of specific claims such as doubtful debts individually and records the estimated uncollectible amount. Overseas consolidated subsidiaries have provided an allowance for doubtful accounts at the estimated amounts of possible losses mainly for specific receivables.

B. Provision for bonuses

To provide for the payment of bonuses to employees, an estimated amount of bonus payments corresponding to the consolidated fiscal year under review is recorded.

C. Provision for product warranties

To provide for the free post-sales service costs of products, product warranties for costs that can be estimated individually in addition to the amount based on the rate of occurrence in the past fiscal years as a percentage of net sales are recoded.

D. Provision for outstanding claims

To prepare for the payment of settlements and other payments related to the violations of antitrust laws in connection with past transactions of certain automotive parts, the Company records an estimated amount of losses that may occur in the future.

E. Provision for business restructuring

To prepare for future expenses for business structural reforms, the Group posts an estimated amount of such expenses.

F. Provision for environmental measures

Costs related to soil and water contamination at the location and neighboring areas of former plants of The Vendo Company, a consolidated subsidiary in the U.S., are recorded based on an estimated amount of future costs.

(4) Accounting method for retirement benefits

- Method of attributing expected retirement benefits to periods

  In calculating retirement benefit obligations, the estimated amount of retirement benefits attributed to the end of the fiscal year under review is calculated using the benefit calculation formula.

- Amortization of actuarial differences and past service costs.
  Past service costs are amortized on a straight-line method over a fixed number of years within the average remaining service period of employee at the time they are incurred.
  Actuarial differences are amortized by the straight-line method over a certain number of years within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year. The Company amortizes them in a lump sum in the year of occurrence.

(5) Important accounting standards for revenues and expenses

The Group's net sales do not include revenues from transactions related to financial instruments included in the scope of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) and revenues from leasing transactions, etc. included in the scope of the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13).

The Group recognizes its revenues at the time when control over the promised good or service is transferred to a customer at an amount the Group is expected to receive in exchange for such property or service. The Group therefore applies the following five steps for recognizing its revenues.

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Calculate the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenues when or as performance obligations are met.

The Group sells products such as automotive air-conditioner compressors, air-conditioning indoor units, engine heat exchangers, and air-conditioner heat exchangers in the Automotive Systems Business and is obliged to deliver products based on sales contracts with customers.

For domestic product sales, if the time it takes from shipping to the transfer of control over the relevant product to a customer is a normal length of time, the Group recognizes revenue at the time of shipping.

For overseas product sales, the Group recognizes revenue as of the issue date of a bill of lading (B/L date). The Group mainly adopts FOB (Free on Board), CIF (Cost, Insurance and Freight), and CIP (Carriage and Insurance Paid to) as the conditions of Incoterms, which are rules defining transaction conditions for international trades.

The Group engages in contract manufacturing transactions of automotive air-conditioner compressor parts where the Group supplies parts for a fee in the Automotive Systems Business. In these transactions, the Group does not recognize revenue related to the transfer of supplied parts, and when the Group is obliged to buy back the supplied parts, the Group does not recognize the extinguishment of the said supplied parts.

The Group's payment conditions for customers mainly require customers to make payment within three months for domestic sales and within six months for overseas sales. The promised consideration therefore does not contain a significant financing component.

(6) Basis for translating significant foreign currency-denominated assets and liabilities into Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot rates of exchange in effect at the consolidated balance sheet date and the translation differences are treated as profit or loss. Assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the spot rate of exchange on the consolidated closing date. Revenues and expenses are translated into Japanese yen at the average exchange rate for the period, with translation differences included in foreign currency translation adjustments and non-controlling interests in net assets.

(7) Significant hedge accounting methods

A. Hedge accounting method

Deferred hedge accounting is adopted.

B. Hedging instruments and hedged items

- Hedging instruments
  Forward foreign exchange contracts
- Hedged items
  Monetary receivables denominated in foreign currencies and forecasted transactions denominated in foreign currencies

C. Hedging policy

In principle, the Company enters into forward foreign exchange contracts for the purpose of hedging the portion of foreign exchange fluctuation risks related to foreign currency-denominated trade receivables concerning sales made in Japan.

D. Assessment of hedge effectiveness

We do not assess hedge effectiveness because important conditions of forward foreign exchange contracts, which are the means of hedging, and of foreign currency-denominated trade receivables and forecasted transactions, which are being hedged, are identical.

(8) Method and period of amortization of goodwill

Goodwill is amortized using the straight-line method over five years.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn from time to time, and short-term investments that are easily converted to cash and that mature within three months of the date of acquisition and are subject to insignificant risk of change in value.

(10) Other important matters for the preparation of consolidated financial statements

A. Accounting treatment of overseas subsidiaries

The Company has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force No. 18, June 28, 2019) and has made the necessary adjustments to its consolidated accounts.

B. Adoption of the group tax sharing system

The Company adopts the group tax sharing system.

(Significant accounting estimates)

FY2022 (as of Dec. 31, 2022)

(1) Posting of provision for business restructuring in the Automotive Systems Business

1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

The Company posted ¥3,732 million as the reversal of the provision for business restructuring in the consolidated financial statements for fiscal 2022. As a result, the provision for business restructuring came to ¥9,749 million.

(Millions of yen)

	Provision for business restructuring
Early retirement payment, etc.	5,658
Advisory expenses, etc.	633
Other	3,458
Total	9,749

2) Information on significant accounting estimates for the items identified

We are currently working on the following five reform plans under our business revitalization plan as we accelerate business revitalization activities through the maximization of synergy with the Hisense Group: “drastic review of production system,” “improvement of basic profitability,” “growth through active ‘co-creation’,” “cash flow generation through capital reform,” and “mechanism reform for implementation.”

In this situation, we used assumptions such as estimates on operation transfer-related expenses for the transfer of facilities resulting from the consolidation or closure of bases for the optimization of the global production and supply structure, real estate-related expenses for the transfer of bases, etc., and personnel expenses related to personnel transfers and so forth. These expenses are used to promote the restructuring of our production structures in a global scale so as to improve our market competitiveness through production sharing reflecting products’ life cycles and sales volume as well as the consolidation of parts procurement.

While the Company and its consolidated subsidiaries consider that a necessary and sufficient amount was posted for the expected business structural reform cost, if it becomes necessary to review related estimates and assumptions due to a review of our business strategy, changes in the external environment, etc., this could have a material impact on the amount of the provision for business restructuring to be recognized in the consolidated financial statements in the next and subsequent fiscal years.

(2) Impairment loss of non-current assets of manufacturing subsidiaries in the Automotive Systems Business

1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

An impairment loss of ¥2,906 million was recorded in the consolidated financial statements for the consolidated fiscal year under review. After the impairment loss, the book value of property, plant and equipment and intangible assets (hereinafter, “Non-Current Assets”) is ¥36,405 million. Of this amount, the amounts related to Non-Current Assets of Sanden Manufacturing Poland sp. z o.o. (hereinafter, “SMP”) and Sanden Thailand Co., Ltd. (hereinafter, “STC”), which are manufacturing subsidiaries in the Automotive Systems Business, are as follows.

(Millions of yen)

	SMP	STC
Book value	5,585	2,983

2) Information on significant accounting estimates for the items identified

The Group’s grouping assets are mainly grouped based on management accounting categories that are continuously monitored for income and expenditure. If any indication of impairment is found for Non-Current Assets, whether an impairment loss should be recognized needs to be determined by comparing the total amount of undiscounted future cash flows with the book value of the Non-Current Assets. If it is determined that an impairment loss should be recognized, the book value is written down to the recoverable amount, and the resulting decrease in the book value is recognized as an impairment loss. As SMP and STC adopt the International Financial Reporting Standards (IFRS), if any indication of impairment is found in relation to their Non-Current Assets, we need to calculate their recoverable amount and compare it with the book value (hereinafter, the “Impairment Test”).

Given the planned review of the Group's compressor sales plan in the consolidated fiscal year under review in response to the prolonged impact of COVID-19 as part of the business revitalization plan formulated by the

Company and the five reform plans of “drastic review of production system,” “improvement of basic profitability,” “growth through active ‘co-creation’,” “cash flow generation through capital reform,” and “mechanism reform for implementation,” based on which the business revitalization plan was prepared, we conducted the Impairment Test for Non-Current Assets of SMP and STC considering that there must be signs of their impairment.

In the Impairment Test of Non-Current Assets of SMP and STC, the recoverable amount was calculated using the value in use, and the forecasted unit sales of automotive air-conditioning systems and discount rate that serve as the basis for estimating future cash flows used to measure the value in use are incorporated as major assumptions.

Under the current conditions in which the impact of COVID-19 has not contained yet, the forecasting of unit sales and the estimation of the discount rate involve a high degree of uncertainty. Therefore, if the forecast and future results differ, the difference may have a significant impact on the amount of Non-Current Assets in the consolidated financial statements for the next consolidated fiscal year.

FY2023 (as of Dec. 31, 2023)

(1) Posting of provision for business restructuring in the Automotive Systems Business

1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

The Company posted ¥5,805 million as the reversal of the provision for business restructuring in the consolidated financial statements for fiscal 2023. As a result, the provision for business restructuring came to ¥3,364 million.

(Millions of yen)

	Provision for business restructuring
Early retirement payment, etc.	964
Other	2,399
Total	3,364

2) Information on significant accounting estimates for the items identified

The Group endeavors to offer products and services that accurately capture our customers’ environmental interests in the automotive industry that is facing a period of major transformation. We do so through the further enhancement of our “solutions that utilize most advanced technologies” for electric vehicles, which are the source of our competitiveness, our “presence in China and Europe,” which are growing markets, and our “broad customer base,” based on the vision of “becoming the world’s leading supplier of automotive compressors and integrated thermal management systems.”

In this situation, we used assumptions such as estimates on operation transfer-related expenses for the transfer of facilities resulting from the consolidation or closure of bases for the optimization of the global production and supply structure, real estate-related expenses for the transfer of bases, etc., and personnel expenses related to personnel transfers and so forth. These expenses are used to promote the restructuring of our production structures in a global scale so as to improve our market competitiveness through production sharing reflecting products’ life cycles and sales volume as well as the consolidation of parts procurement.

While the Company and its consolidated subsidiaries consider that a necessary and sufficient amount was posted for the expected business structural reform cost, if it becomes necessary to review related estimates and assumptions due to a review of our business strategy, changes in the external environment, etc., this could have a material impact on the amount of the provision for business restructuring to be recognized in the consolidated financial statements in the next and subsequent fiscal years.

(2) Impairment loss of non-current assets of manufacturing subsidiaries in the Automotive Systems Business

1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

An impairment loss of ¥2,442 million was recorded in the consolidated financial statements for the consolidated fiscal year under review. After the impairment loss, the book value of property, plant and equipment and intangible assets (hereinafter, “Non-Current Assets”) is ¥44,093 million. Of this amount, the amounts related to Non-Current Assets of Sanden Manufacturing Poland sp. z o.o. (hereinafter, “SMP”) and Sanden Thailand Co., Ltd. (hereinafter, “STC”), which are manufacturing subsidiaries in the Automotive Systems Business, are as follows.

(Millions of yen)

	SMP	STC
Book value	6,211	3,304

2) Information on significant accounting estimates for the items identified

The Group's grouping assets are mainly grouped based on management accounting categories that are continuously monitored for income and expenditure. If any indication of impairment is found for Non-Current Assets, whether an impairment loss should be recognized needs to be determined by comparing the total amount of undiscounted future cash flows with the book value of the Non-Current Assets. If it is determined that an impairment loss should be recognized, the book value is written down to the recoverable amount, and the resulting decrease in the book value is recognized as an impairment loss. As SMP and STC adopt the International Financial Reporting Standards (IFRS), if any indication of impairment is found in relation to their Non-Current Assets, we need to calculate their recoverable amount and compare it with the book value (hereinafter, the "Impairment Test").

We conducted an impairment test during the consolidated fiscal year under review because we recognized signs of impairment loss on Non-Current Assets of SMP and STC partly due to the impact of factors such as the situation in Ukraine where troubles were drawn out, the Middle Eastern situation, interest rate hikes by central banks worldwide to control inflations, globally rising raw materials prices, and supply shortages of certain parts including semiconductors, although demand recovered due to the relaxation of the restrictions placed on economic activities during the COVID-19 pandemic.

In the Impairment Test of Non-Current Assets of SMP and STC, the recoverable amount was calculated using the value in use, and the forecasted unit sales of automotive air-conditioning systems and discount rate that serve as the basis for estimating future cash flows used to measure the value in use are incorporated as major assumptions.

As troubles are still drawn out in Ukraine and the Middle East, central banks worldwide are raising interest rates to control inflations, raw materials prices are rising globally, and supply shortages of certain parts including semiconductors continue, there is a high level of uncertainty concerning our prediction of vehicle sales and estimates of discount rates. Accordingly, if such predictions and actual future results differ, this may have a material impact on the value of Non-Current Assets on the consolidated financial statements for the next consolidated fiscal year.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company started applying the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, the "Fair Value Measurement Accounting Standard Implementation Guidance") from the beginning of fiscal 2023, and will apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard Implementation Guidance into the future pursuant to the transitional treatment stipulated in Paragraph 27-2 of the Fair Value Measurement Accounting Standard Implementation Guidance. This does not have any impact on the Company's consolidated financial statements.

(Accounting standards and so on that are not applied)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27; October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25; October 28, 2022)
- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28; October 28, 2022)

(1) Overview

These stipulate the accounting category of income taxes imposed on other comprehensive income and tax effect accounting of the sale of subsidiary shares when the group income tax system is applied.

(2) Application date

These are scheduled to be applied from the beginning of the fiscal year ending December 31, 2025.

(3) Impact of these standards and so on

We are currently assessing the potential impact of these accounting standards and guidance on our consolidated financial statements.

(Notes to the consolidated financial statements)

Note 1: *6

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Accumulated depreciation of property, plant and equipment	188,777	192,054

Note: Accumulated depreciation of property, plant and equipment includes the accumulated impairment loss

Note 2: *7

Items related to non-consolidated subsidiaries and affiliates are as follows.

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Investment securities	17,839	19,822

Note 3: *1, *2, *3, *4, *5, *6, *8, *9, *10

Assets pledged as collateral and secured debt are as follows.

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Assets pledged as collateral		
Buildings and structures	823	782
Machinery and equipment	1,572	1,554
Merchandise and finished goods	2,215	2,685
Land	53	57
Notes and accounts receivable-trade, and contract assets	2,067	2,592
Other	885	1,149
Total	7,618	8,821
Secured debt		
Short-term borrowings	1,445	1,511
Current portion of long-term borrowings	140	298
Long-term borrowings	355	817
Total	1,941	2,627

Note 4: *2

The notes that mature as of the last day of the fiscal year are settled on the clearance date.

As the last day of the fiscal year was a holiday for financial institutions, the following notes that matured at the end of the fiscal year were included in the balance at the end of the fiscal year.

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Notes and accounts receivable-trade, and contract assets	74	255

Note 5: *2

Of notes and accounts receivable-trade and contract assets, the amounts of receivables and contract assets arising from contracts with customers are stated in “2. Balances of contract assets and liabilities” under “(Revenue recognition)” in notes to the consolidated financial statements.

(Notes to the consolidated statements of income)

Note 1: *1

Revenues from contracts with customers

Net sales are not divided into revenues arising from contracts with customers and other revenues. The amount of revenues arising from contracts with customers is stated in “1. Information on the breakdown of revenues arising from contracts with customers” under “(Revenue recognition)” in notes to the consolidated financial statements.

Note 2: *3

Selling, general and administrative expenses:

The main items in selling, general and administrative expenses are as follows.

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Salary	10,284	10,887
Fare	2,460	1,530
Depreciation	1,259	1,366
Provision for bonuses	1,291	1,404
Provision for product warranties	1,059	2,527
Retirement benefit expenses	520	428

Note 3: *2, *3

Research and development expenses

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Research and development expenses included in general and administrative expenses and total manufacturing costs for the fiscal year	5,522	6,782

Note 4: *4

Gain on sales of non-current assets

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Buildings and structures	0	-
Machinery, equipment and vehicles	69	52
Tools, furniture and fixtures	2	36
Land	-	4
Other	0	19
Total	73	112

Note 5: *8

Loss on disposal of non-current assets

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Buildings and structures	56	2
Machinery, equipment and vehicles	59	33
Tools, furniture and fixtures	8	27
Land	-	15
Other	7	23
Total	131	102

Note 6: *5

Reversal of allowance for doubtful accounts

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

An allowance for doubtful accounts had been posted for some of the Company's consolidated subsidiaries for their accounts receivable in the Middle East. Given the recovery of some of these accounts receivable, ¥2,487 million was posted as the reversal of an allowance for doubtful accounts corresponding to the recovered amount.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

An allowance for doubtful accounts had been posted for some of the Company's consolidated subsidiaries for their accounts receivable in the Middle East. Given the recovery of some of these accounts receivable, ¥1,061 million was posted as the reversal of an allowance for doubtful accounts corresponding to the recovered amount.

Note 7: *6

Reversal of provision for business restructuring

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

The Company posted ¥3,732 million as the reversal of the provision for business restructuring as the difference between the revised estimate of business restructuring cost and the initial amount of the provision following a review of the estimated cost to be incurred in bases such as those in China, Europe, and the United States in relation to the following: improvement of market competitiveness through global production sharing according to products' life cycles and sales volume as well as through concentrated parts procurement; and establishment of the optimal personnel structure through measures such as restructuring bases and incidental headcount reduction.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

The Company posted ¥5,805 million as the reversal of the provision for business restructuring following a review of its structural reform measures based on the newly developed medium-term management plan for its bases in China, Europe, the United States, and elsewhere in relation to the following: improvement of market competitiveness through global production sharing according to products' life cycles and sales volume as well as through concentrated parts procurement; and establishment of the optimal personnel structure through measures such as the restructuring of bases and the subsequent headcount reduction.

Note 8: *7

Impairment loss

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

For fiscal 2022, the Group recorded an impairment loss of ¥2,906 million as extraordinary losses on the following asset groups.

(1) Major components of impairment losses

(Millions of yen)

Location	Use	Type	Amount
Isesaki-shi, Gunma	Automotive Systems Business	Machinery, equipment, vehicles, tools, furniture, fixture, construction in progress, etc.	1,810
Tinteniac France	Automotive Systems Business	Machinery, equipment, vehicles (including leased assets), tools, furniture, fixture, construction in progress, etc.	634
Tianjin, People's Republic of China	Automotive Systems Business	Machinery, equipment, vehicles, tools, furniture, fixture, construction in progress, etc.	461

* Major components of impairment losses and, amount of impairment losses of major asset groups, by location

- Isesaki-shi, Gunma
  Major components: ¥873 million of machinery, equipment, and vehicles, ¥580 million of tools, furniture, and fixture, ¥195 million of construction in progress, and other
- Tinteniac France
  Major components: ¥205 million of machinery, equipment, and vehicles, ¥189 million of tools, furniture, and fixture, ¥216 million of construction in progress, and other
- Tianjin, People's Republic of China
  Major components: ¥139 million of tools, furniture, and fixture, ¥259 million of construction in progress, and other

(2) Grouping Methods

The Group’s grouping assets are mainly grouped based on management accounting categories that are continuously monitored for income and expenditure. In addition, leased properties and idle assets are grouped into the smallest possible unit. In addition, the land and buildings of the headquarters and welfare facilities are classified as shared assets because they do not generate independent cash flows.

(3) Background to the recognition of the impairment loss

Under its business revitalization plan, as of the end of fiscal 2022, the Company reduced the book value of the production facilities, etc. to their recoverable amount when it was unlikely to recover the invested amount within the remaining life of key facilities. This was done based on the Company’s five reform plans of “drastic review of production system,” “improvement of basic profitability,” “growth through active ‘co-creation’,” “cash flow generation through capital reform,” and “mechanism reform for implementation.”

(4) Method of calculating the recoverable amount

The recoverable amount is measured at the higher of value in use or net sales value. The net sales value is mainly valued at the appraisal value by a real estate appraiser or the appraisal value of movable assets by an expert.

Business assets that are not expected to generate future cash flows from use and are not expected to be sold at a price that exceeds the cost of disposal are valued at residual value.

* Method of calculating the recoverable amount of major asset groups

The recoverable amount of domestic asset groups is measured at their net sales value, estimation of which is mainly based on appraisal values by real estate appraisers and the value of movable assets based on market values of used machines and equipment.

The recoverable amount of overseas asset groups is measured at value in use. Information on accounting estimates such as the method of calculating value in use is provided in notes on significant accounting estimates.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

For fiscal 2023, the Group recorded an impairment loss of ¥2,442 million as an extraordinary loss on the following asset group.

(1) Major components of impairment losses

(Millions of yen)

Location	Use	Type	Amount
Isesaki-shi, Gunma	Automotive Systems Business	Machinery, equipment, vehicles, tools, furniture, fixture, construction in progress, etc.	2,400

* Major components of impairment losses and, amount of impairment losses of major asset groups, by location
  - Isesaki-shi, Gunma
    Major components: ¥875 million of machinery, equipment, and vehicles, ¥900 million of tools, furniture, and fixture, ¥250 million of construction in progress, and other

(2) Grouping Methods

The Group's grouping assets are mainly grouped based on management accounting categories that are continuously monitored for income and expenditure. In addition, leased properties and idle assets are grouped into the smallest possible unit. In addition, the land and buildings of the headquarters and welfare facilities are classified as shared assets because they do not generate independent cash flows.

(3) Background to the recognition of the impairment loss

As of the end of fiscal 2023, the Company reduced the book value of the production facilities, etc. to their recoverable amount when it was unlikely to recover the invested amount within the remaining life of key facilities, given the impact of factors such as the situation in Ukraine where troubles were drawn out, the Middle Eastern situation, interest rate hikes by central banks worldwide to control inflations, globally rising raw materials prices, and supply shortages of certain parts including semiconductors, although demand recovered due to the relaxation of the restrictions placed on economic activities during the spreading of COVID-19.

(4) Method of calculating the recoverable amount

The recoverable amount is measured at the higher of value in use or net sales value. The net sales value is mainly valued at the appraisal value by a real estate appraiser or the appraisal value of movable assets by an expert.

Business assets that are not expected to generate future cash flows from use and are not expected to be sold at a price that exceeds the cost of disposal are valued at residual value.

* Method of calculating the recoverable amount of major asset groups

  The recoverable amount of domestic asset groups is measured at their net sales value, estimation of which is mainly based on appraisal values by real estate appraisers and the value of movable assets based on market values of used machines and equipment.

  The recoverable amount of overseas asset groups is measured at value in use. Information on accounting estimates such as the method of calculating value in use is provided in notes on significant accounting estimates.

(Consolidated statements of comprehensive income)

*1 Reclassification adjustments and tax effects concerning other comprehensive income

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Valuation difference on available-for-sale securities		
Amount arising during period	(13)	88
Reclassification adjustments for gains and losses realized in net income	-	-
Before tax-effect adjustment	(13)	88
Amount of tax effects	1	(25)
Valuation difference on available-for-sale securities	(11)	63
Deferred gains or losses on hedges		
Amount arising during period	-	(19)
Reclassification adjustments for gains and losses realized in net income	-	-
Before tax-effect adjustment	-	(19)
Amount of tax effects	-	-
Deferred gains or losses on hedges	-	(19)
Foreign currency translation adjustment		
Amount arising during period	(63)	(224)
Reclassification adjustments for gains and losses realized in net income	(232)	-
Foreign currency translation adjustment	(296)	(224)
Remeasurements of defined benefit plans		
Amount arising during period	507	384
Reclassification adjustments for gains and losses realized in net income	162	44
Before tax-effect adjustment	670	429
Amount of tax effects	24	6
Remeasurements of defined benefit plans	695	436
Share of other comprehensive income of affiliates accounted for using equity method		
Amount arising during period	862	861
Reclassification adjustments for gains and losses realized in net income	-	-
Share of other comprehensive income of affiliates accounted for using equity method	862	861
Total other comprehensive income	1,249	1,117

(Consolidated statements of changes in net assets)

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

1. Shares issued and outstanding / Treasury stock

(Thousands of shares)

	At the beginning of period	Increase during period	Decrease during period	At the end of period
Issued shares				
Common stock	111,693	-	-	111,693
Total	111,693	-	-	111,693
Treasury stock				
Common stock (Note) 1, 2, 3	259	1	18	242
Total	259	1	18	242

Notes:
1. The number of shares of common stock held as treasury stock includes the Company's shares held by the Executive Compensation Board Incentive Plan (BIP) Trust (141 thousand shares at the beginning of fiscal 2022 and 123 thousand shares at the end of fiscal 2022).
2. The increase of 1 thousand shares in common stock held as treasury stock is due to purchasing of shares constituting less than one standard unit.
3. The decrease of 18 thousand shares of common stock held as treasury stock was due to the provision of 18 thousand shares to retired directors and others.

2. Dividends

a. Dividends paid

Not applicable

b. Of the dividends whose record date belongs to fiscal 2022, those whose effective date belongs to the following fiscal year

Not applicable

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

1. Shares issued and outstanding / Treasury stock

(Thousands of shares)

	At the beginning of period	Increase during period	Decrease during period	At the end of period
Issued shares				
Common stock	111,693	-	-	111,693
Total	111,693	-	-	111,693
Treasury stock				
Common stock (Notes) 1, 2	242	0	-	243
Total	242	0	-	243

Notes:
1. The number of shares of common stock held as treasury stock includes the Company's shares held by the Executive Compensation Board Incentive Plan (BIP) Trust (123 thousand shares at the beginning of fiscal 2023 and 123 thousand shares at the end of fiscal 2023).
2. The increase of 0 thousand shares in common stock held as treasury stock is due to the purchasing of shares constituting less than one standard unit.

2. Dividends

a. Dividends paid

Not applicable

b. Of the dividends whose record date belongs to fiscal 2023, those whose effective date belongs to the

following fiscal year
Not applicable

(Consolidated statements of cash flows)

*1 Cash and cash equivalents as of the end of the fiscal year are reconciled to the accounts reported in the consolidated balance sheets as follows.

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Cash and deposits	18,620	22,749
Time deposits with maturities of more than three months	(1,518)	(1,129)
Cash and cash equivalents	17,102	21,620

Note: There was a significant delay in the collection of trade receivables for the sale of products to the Iranian market due to the impact of financial sanctions against Iran and other reasons. Because a portion of such receivables were recovered in Iran, cash and cash equivalents at the end of fiscal 2022 and fiscal 2023 included foreign currency ordinary deposits held by the Group in Iran.

(Lease transactions)

1. Finance lease transactions

(Lessees' accounting)

Finance lease transactions that do not transfer ownership

1) Leased assets

- Property, plant and equipment

The main items are production facilities and computer terminals ("Buildings and structures," "Machinery, equipment and vehicles," and "Tools, furniture and fixtures") in the Automotive Systems Business.

- Intangible assets

Includes software.

2) Depreciation of leased assets

As described in "4. Accounting Policies, (2) Depreciation and Amortization of Significant Depreciable Assets" in "Major notes to consolidated financial statements."

(Financial instruments)

1. Financial Instruments

(1) Policies on financial instruments

The Group raises the necessary long-term funds (mainly through bank loans and the issuance of bonds) and short-term working capital through bank loans and other means in light of its medium-term capital plan, which is based on the capital investment plan.

Temporary surplus funds are mainly invested in highly liquid financial assets and derivatives are used to avoid the risks described later, and it is the Group's policy not to engage in speculative transactions.

(2) Description of financial instruments and related risks

Notes and accounts receivable-trade, and contract assets are trade receivables and therefore exposed to the credit risk of customers. In addition, trade receivables denominated in foreign currencies arising in the course of doing business overseas are exposed to the risk of exchange rate fluctuations, but are generally hedged through the use of forward exchange contracts, except to the extent that they are within the balance of accounts payable in the same foreign currency.

Marketable securities and investment securities are primarily stocks of companies with which the Group has business relationships and are exposed to market price volatility risk; however, the risk is limited as the Group owns shares of only one listed company following its efforts to reduce shareholdings.

Notes and accounts payable, which are trade payables, are mostly due within four months. Certain trade payables denominated in foreign currencies are exposed to the risk of exchange rate fluctuations, but are generally hedged through the use of forward exchange contracts, except to the extent that they are within the balance of accounts receivable in the same foreign currency.

Long-term borrowings and lease obligations related to finance leases are mainly for the purpose of raising funds for capital investments, with the longest repayment date being seven years from the closing date. Most of these are fixed rate and therefore not subject to interest rate volatility risk. Debts with variable rate terms are exposed to the risk of interest rate fluctuations, but are partially hedged through the use of derivative instruments (interest rate swaps).

(3) Supplemental explanation on the fair value of financial instruments

The calculation of fair values of financial instruments reflects variable factors. As a result, such values may fluctuate if different assumptions, etc. are used.

In addition, the contract amounts and so forth of derivatives transactions in “2. Fair value of financial instruments” do not in themselves represent the market risk associated with the derivative transactions.

2. Fair value of financial instruments

The following tables show consolidated balance sheet amounts, fair values, and their difference.

FY2022 (as of Dec. 31, 2022) (Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities (*2)	191	191	-
Total assets	191	191	-

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Lease obligations (Current liabilities)	1,921	1,915	(5)
(2) Long-term borrowings (including current portion of long-term borrowings)	623	616	(6)
(3) Lease obligations (Non-current liabilities)	4,408	4,397	(11)
Total liabilities	6,952	6,930	(22)
Derivative transactions (*3)	368	368	-

*1 Cash and deposits, notes and accounts receivable-trade, and contract assets, accounts receivable-other, consumption taxes receivable, notes and accounts payable-trade, short-term borrowings, accounts payable-other, and income taxes payable are omitted because they are settled within a short period and as a result their fair values are close to their book values.

*2 Shares without market price, etc. are not included in “(1) Investment securities.” The amount of such financial instruments in the consolidated balance sheet is as follows.

(Millions of yen)

Classification	FY2022
Unlisted stocks	156
Investment in Trade Union (*)	72

(*) Investment in the Trade Union and so on whose value is posted on the balance sheet as the net amount of equity holdings is not subject to fair value disclosure pursuant to the provisions of Article 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; June 17, 2021).

*3 Net receivables and payables arising from derivative transactions are shown on a net basis and items that are net liabilities in total are shown in parentheses.

FY2023 (as of Dec. 31, 2023) (Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Investment securities (*2)	298	298	-
Total assets	298	298	-

(Millions of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Lease obligations (Current liabilities)	1,498	1,488	(9)
(2) Long-term borrowings (including current portion of long-term borrowings)	1,122	1,086	(36)
(3) Lease obligations (Non-current liabilities)	3,403	3,380	(23)
Total liabilities	6,025	5,955	(69)
Derivative transactions (*3)	(722)	(722)	-

*1 Cash and deposits, notes and accounts receivable-trade, and contract assets, accounts receivable-other, consumption taxes receivable, notes and accounts payable-trade, short-term borrowings, accounts payable-other, and income taxes payable are omitted because they are settled within a short period and as a result their fair values are close to their book values.

*2 Shares without market price, etc. are not included in “(1) Investment securities.” The amount of such financial instruments in the consolidated balance sheet is as follows.

(Millions of yen)

Classification	FY2023
Unlisted stocks	155
Investment in Trade Union (*)	72

(*) Investment in the Trade Union and so on whose value is posted on the balance sheet as the net amount of equity holdings is not subject to fair value disclosure pursuant to the provisions of Article 24-16 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31; June 17, 2021).

*3 Net receivables and payables arising from derivative transactions are shown on a net basis and items that are net liabilities in total are shown in parentheses.

Note: Scheduled repayment amounts of long-term borrowings and lease obligations after the closing date of consolidated financial accounts

FY2022 (as of Dec. 31, 2022) (Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Long-term borrowings	268	153	155	44	1	-
Lease obligations	1,921	1,333	987	723	637	726
Total	2,189	1,486	1,143	767	638	726

FY2023 (as of Dec. 31, 2023) (Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Long-term borrowings	300	328	201	161	83	47
Lease obligations	1,498	1,108	747	648	424	474
Total	1,798	1,436	948	810	507	522

3. Matters concerning the breakdown of financial instruments based on the level of fair value

Fair values of financial instruments are classified into the following three levels depending on the observability and importance of inputs related to the calculation of fair values.

Level 1: Of observable inputs that are related to the calculation of fair value, fair value calculated using the market value of an asset or a liability subject to the calculation of the said fair value formed in an active market.

Level 2: Of observable inputs that are related to the calculation of fair value, fair value calculated using observable inputs related to the calculation of fair value other than Level 1 inputs.

Level 3: Fair value calculated using unobservable inputs that are related to the calculation of fair value.

When using multiple inputs that have a material impact on the calculation of fair value, a fair value is classified into the level that is the lowest in priority in the calculation of fair value among the levels to which such inputs belong to.

(1) Financial instruments posted on consolidated balance sheet at fair value

FY2022 (as of Dec. 31, 2022)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Stocks	191	-	-	191
Derivatives transactions				
Currency-related transactions	-	368	-	368
Total assets	191	368	-	560

FY2023 (as of Dec. 31, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Stocks	298	-	-	298
Derivatives transactions				
Currency-related transactions	-	-	-	-
Total assets	298	-	-	298
Derivatives transactions				
Currency-related transactions	-	722	-	722
Total liabilities	-	722	-	722

(2) Financial instruments other than those posted on consolidated balance sheet at fair value

FY2022 (as of Dec. 31, 2022)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Lease obligations (Current liabilities)	-	1,915	-	1,915
Long-term borrowings (Including the current portion of long-term borrowings)	-	616	-	616
Lease obligations (Non-current liabilities)	-	4,397	-	4,397
Total liabilities	-	6,930	-	6,930

FY2023 (as of Dec. 31, 2023)

Classification	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Lease obligations (Current liabilities)	-	1,488	-	1,488
Long-term borrowings (Including the current portion of long-term borrowings)	-	1,086	-	1,086
Lease obligations (Non-current liabilities)	-	3,380	-	3,380
Total liabilities	-	5,955	-	5,955

(Note) Description of evaluation methods used for fair value calculation and inputs related to fair value calculation

Investment securities

Listed stocks are evaluated using their market price. Because they are traded in active markets, their fair values are classified into Level 1.

Derivatives transactions

Fair value of forward exchange contracts is calculated using observable inputs such as foreign exchange rates and is classified into Level 2.

Long-term borrowings and lease obligations

Their fair values are calculated using the discounted present value method based on the total amount of the principal and interest as well as the interest rate that factors in their remaining period and credit risk, and are classified into Level 2.

(Securities)

1. Other securities

FY2022 (as of Dec. 31, 2022) (Millions of yen)

Classification	Consolidated balance sheet amount	Fair value	Difference
Securities whose carrying value exceeds their acquisition cost			
(1) Stocks	-	-	-
(2) Bonds	-	-	-
(3) Other	-	-	-
Subtotal	-	-	-
Securities whose carrying value does not exceed their acquisition cost			
(1) Stocks	191	199	(7)
(2) Bonds	-	-	-
(3) Other	-	-	-
Subtotal	191	199	(7)
Total	191	199	(7)

Note: Unlisted stocks (consolidated financial statement amount: ¥156 million) are not included in "Other securities" in the table above because they are shares without market price, etc.

FY2023 (as of Dec. 31, 2023) (Millions of yen)

Classification	Consolidated balance sheet amount	Fair value	Difference
Securities whose carrying value exceeds their acquisition cost			
(1) Stocks	298	218	79
(2) Bonds	-	-	-
(3) Other	-	-	-
Subtotal	298	218	79
Securities whose carrying value does not exceed their acquisition cost			
(1) Stocks	-	-	-
(2) Bonds	-	-	-
(3) Other	-	-	-
Subtotal	-	-	-
Total	298	218	79

Note: Unlisted stocks (consolidated financial statement amount: ¥155 million) are not included in "Other securities" in the table above because they are shares without market price, etc.

2. Other securities sold during the fiscal year

FY2022 (Jan. 1, 2022 to Dec. 31, 2022) (Millions of yen)

Type	Amount of sale	Total profit on sale	Total loss on sale
(1) Stocks	26	23	0
(2) Bonds			
1) Government and municipal bonds, etc.	-	-	-
2) Corporate bonds	-	-	-
3) Other	-	-	-
(3) Other	-	-	-
Total	26	23	0

FY2023 (Jan. 1, 2023 to Dec. 31, 2023) (Millions of yen)

Type	Amount of sale	Total profit on sale	Total loss on sale
(1) Stocks	1	-	-
(2) Bonds			
1) Government and municipal bonds, etc.	-	-	-
2) Corporate bonds	-	-	-
3) Other	-	-	-
(3) Other	-	-	-
Total	1	-	-

(Derivative transactions)

1. Derivative transactions for which hedge accounting is not adopted

Currency-related transactions

FY2022 (as of Dec. 31, 2022) (Millions of yen)

Classification	Type of transactions	Contract amounts	Portion due after one year included herein	Fair value	Valuation gain or loss
Non-market transactions	Forward foreign exchange contracts:				
	Sell:				
	USD	1,143	-	97	97
	EUR	18,746	-	192	192
	SGD	717	-	3	3
	THB	7,436	-	78	78
	Buy:				
	USD	218	-	(3)	(3)
	JPY	20	-	(0)	(0)
	THB	-	-	-	-
Total		28,283	-	368	368

FY2023 (as of Dec. 31, 2023) (Millions of yen)

Classification	Type of transactions	Contract amounts	Portion due after one year included herein	Fair value	Valuation gain or loss
Non-market transactions	Forward foreign exchange contracts:				
	Sell:				
	USD	8,173	-	(532)	(532)
	EUR	8,802	-	(256)	(256)
	SGD	-	-	-	-
	THB	-	-	-	-
	CNY	4,143	-	86	86
	Buy:				
	USD	38	-	(0)	(0)
	JPY	30	-	(0)	(0)
	THB	-	-	-	-
Total		21,188	-	(703)	(703)

2. Derivative transactions for which hedge accounting is adopted

Currency-related transactions

FY2023 (as of Dec. 31, 2023) (Millions of yen)

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amounts	Portion due after one year included herein	Fair value
Deferral hedge accounting for forward exchange contracts, etc.	Forward foreign exchange contracts:				
	Buy:				
	USD	Accounts payable-trade	425	-	(9)
	JPY	Accounts payable-trade	939	-	(10)
Total			1,364	-	(19)

(Retirement benefits)

1. Description of retirement benefit plans

Effective March 1, 2014, the Company has adopted a defined contribution pension plan for its enrolled employees. Pension beneficiaries are recorded based on the estimated amount of retirement benefit obligations and plan assets at the end of the fiscal year under review. As of the end of the fiscal year under review, the estimated amount of pension plan assets exceeded the balance of the retirement benefit obligation, and the excess amount was recorded as “net defined benefit asset” in assets.

Some consolidated overseas subsidiaries have adopted a retirement benefit plan. The retirement benefit plans of the consolidated overseas subsidiaries include a defined benefit lump-sum retirement plan, a retirement pension plan and a post-retirement medical care plan, a defined contribution retirement plan, and a public plan in the country where the company is located, which is used by some companies in combination.

2. Defined benefit plans (including plans to which the simplified method is applied)

(1) Adjustments between the beginning and ending balances of retirement benefit obligation

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Retirement benefit obligation at the beginning of the year	8,383	7,229
Service cost	61	65
Interest cost	225	332
Actuarial gain and loss generated	(2,219)	176
Retirement benefits paid	(315)	(284)
Termination of defined benefit plans	(82)	-
Effect of foreign exchange translation	1,176	475
Retirement benefit obligation at the end of the year	7,229	7,994

(2) Adjustments between the beginning and ending balances of pension plan assets

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Plan assets at the beginning of the year	5,867	5,088
Expected return on plan assets	429	344
Actuarial gain and loss generated	(1,798)	458
Contribution from employers	45	48
Retirement benefits paid	(278)	(297)
Effect of foreign exchange translation	823	333
Plan assets at the end of the year	5,088	5,976

(3) Adjustments between the beginning and ending balances of net defined benefit liability and net defined benefit assets

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Retirement benefit obligation for funded plans	6,621	7,307
Plan assets	(5,088)	(5,976)
	1,532	1,330
Retirement benefit obligation for unfunded plans	608	686
Net defined benefit liability and assets reported on the consolidated balance sheets	2,140	2,017
Net defined benefit liability	2,229	2,118
Retirement benefit assets	(88)	(100)
Net defined benefit liability and assets reported on the consolidated balance sheets	2,140	2,017

(4) Breakdown of retirement benefit expenses

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Service cost	61	65
Interest cost	225	332
Expected return on plan assets	(429)	(344)
Amortization of actuarial gain or loss	127	44
Other	(13)	-
Retirement benefit expenses related to defined benefit plans	(28)	98

(5) Remeasurements of defined benefit plans

A breakdown of the items recorded as remeasurements of defined benefit plans (before tax effect deductions) is as follows.

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Actuarial gains and losses	670	429
Total	670	429

(6) Remeasurements of defined benefit plans

A breakdown of the items recorded as remeasurements of defined benefit plans (before tax effect deductions) is as follows.

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Unrecognized actuarial gains and losses	345	775
Total	345	775

(7) Matters regarding plan assets

1) Major components of plan assets

Plan assets consist of the following.

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Bonds	42%	38%
Stocks	57%	61%
Cash and deposits	1%	1%
Other	0%	0%
Total	100%	100%

2) Method for determining the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company considers the current and expected allocation of plan assets and the current and expected long-term rate of return from the various assets that make up the plan assets.

(8) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Discount rate	0.3% - 5.5%	0.3% - 4.8%
Long-term expected rate of return on plan assets	0.3% - 7.0%	0.3% - 7.0%

3. Defined-contribution pension plans

The required amounts of contribution to the defined-contribution pension plans of the Company and its consolidated subsidiaries were ¥659 million in the previous consolidated fiscal year and ¥603 million in the fiscal year under review.

(Tax effect accounting)

1. Breakdown of the main causes of deferred tax assets and deferred tax liabilities

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Deferred tax assets		
Net operating loss carryforward (*2)	26,548	21,019
Unrealized gains or losses on inventories	12	19
Accounts payable and accrued expenses	407	663
Provision for product warranties	1,141	1,738
Allowance for doubtful accounts	3,922	3,920
Loss on valuation of inventories	218	512
Provision for outstanding claims	718	649
Provision for bonuses	352	286
Taxation of investment privileges	64	102
Unrealized gain on fixed assets	1	1
Depreciable assets, etc.	369	248
Net defined benefit liability	109	84
Provision for environmental measures	143	107
Impairment loss	3,670	3,728
Tax adjustments related to business revitalization	737	1
Other	1,377	1,257
Subtotal of deferred tax assets	39,796	34,340
Valuation allowance for net operating loss carryforward (Note 2)	(26,548)	(21,019)
Valuation allowance for total amount of future reduction for temporary differences	(13,008)	(12,655)
Subtotal of valuation allowance (Note 1)	(39,556)	(33,674)
Offsetting deferred tax assets and liabilities of the same taxpayer	(225)	(234)
Total deferred tax assets	14	430
Deferred tax liabilities		
Depreciable assets, etc.	106	448
Valuation difference on available-for-sale securities	-	24
Retained earnings of foreign affiliates	972	854
Tax adjustments related to business revitalization	683	682
Other	236	46
Subtotal of deferred tax liabilities	1,997	2,056
Offsetting deferred tax assets and liabilities of the same taxpayer	(225)	(234)
Total deferred tax liabilities	1,772	1,821
Net deferred tax assets (liabilities)	(1,758)	(1,391)

Notes: 1. The valuation allowance decreased by ¥5,881 million. This decrease was mainly due to a drop in the Group's valuation allowance for net operating loss carryforward.

2. The amounts of net operating loss carryforward and corresponding deferred tax assets by due period.

FY2022 (as of Dec. 31, 2022) (Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Net operating loss carryforward (a)	278	1,283	2,487	952	1	21,544	26,548
Valuation allowance	(278)	(1,283)	(2,487)	(952)	(1)	(21,544)	(26,548)
Deferred tax assets	-	-	-	-	-	-	-

(a) Net operating loss carryforward was calculated by the effective statutory tax rate.

FY2023 (as of Dec. 31, 2023) (Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Net operating loss carryforward (a)	181	279	585	365	567	19,038	21,019
Valuation allowance	(181)	(279)	(585)	(365)	(567)	(19,038)	(21,019)
Deferred tax assets	-	-	-	-	-	-	-

(a) Net operating loss carryforward was calculated by the effective statutory tax rate.

2. The reconciliation between the statutory effective tax rate and the actual tax rate after applying tax effect accounting is summarized as follows

Because a net loss before income taxes was recorded in the previous consolidated fiscal year and the consolidated fiscal year under review, there is no information to be disclosed here.

3. Accounting treatment of national and local income taxes or their tax effect accounting

The Company has adopted the group tax sharing system in the consolidated fiscal year under review. The Company also discloses accounting treatment of national and local income taxes or their tax effect accounting in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System“ (Practical Solution No. 42; August 12, 2021).

(Asset retirement obligations)

FY2022 (as of Dec. 31, 2022)

Notes are omitted due to lack of materiality

FY2023 (as of Dec. 31, 2023)

Notes are omitted due to lack of materiality

(Rental and other real estate)

The Company owns for-lease plants and warehouse buildings (including land) in Gunma Prefecture.

In the fiscal year ended December 31, 2022, net rental income from these rental and other real estate is ¥171 million (rental income is recorded as non-operating income and major rental expenses are recorded as non-operating expenses).

In the fiscal year ended December 31, 2023, net rental income from these rental and other real estate is ¥269 million (rental income is recorded as non-operating income and major rental expenses are recorded as non-operating expenses).

The carrying amount of rental and other real estate on the consolidated balance sheet, changes during the period, and their fair value are as follows.

(Millions of yen)

		FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Consolidated balance sheet amount	Balance at the beginning of period	3,964	3,841
	Changes during the period	(123)	(168)
	Balance at the end of period	3,841	3,672
Fair value at the end of period		4,282	4,125

Notes:
1. The consolidated balance sheet amount is calculated by subtracting from the acquisition cost the cumulative depreciation costs and cumulative impairment losses.
2. Of the changes during the period, the decrease in fiscal 2022 is mainly due to the depreciation of the plants and warehouse buildings. The decrease in fiscal 2023 is mainly due to the depreciation of the plants and warehouse buildings.
3. The fair value at the end of the fiscal year is primarily the amount based on the appraisal value by a real estate appraiser.

(Revenue recognition)

1. Information on the breakdown of revenues arising from contracts with customers

The Group's net sales are revenues recognized from our contracts with customers. Their breakdown by geographical market is as follows.

FY2022 (Jan. 1, 2022 to Dec. 31, 2022) (Millions of yen)

	Automotive Systems Business
Japan	15,067
Europe	57,539
Americas	20,749
Asia	82,326
Revenues from contracts with customers	175,683

Note: The Group has only one reporting segment, the Automotive Systems Business.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023) (Millions of yen)

	Automotive Systems Business
Japan	13,534
Europe	61,550
Americas	21,913
Asia	82,282
Revenues from contracts with customers	179,279

Note: The Group has only one reporting segment, the Automotive Systems Business.

2. Balances of contract assets and liabilities

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Receivables and contract assets arising from contracts with customers	47,667	47,008

Note: Contract assets are posted together with receivables arising from contracts with customers as a single account title because its quantitative importance is low. Contract liabilities are omitted because their quantitative importance is low.

3. Transaction price allocated to the remaining performance obligations

The Group (the Company and its consolidated subsidiaries) conducts make-to-stock production based on information such as the status of orders received in Japan and overseas, recent sales results, and sales prospects. There is therefore no significance in transaction prices allocated to the remaining performance obligation.

(Segments of the Company and related information)

Segment information

I. FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

This information is omitted because the Group has only one reporting segment, the Automotive Systems Business.

II. FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

This information is omitted because the Group has only one reporting segment, the Automotive Systems Business.

[Related information]

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

1. Information by product and service

This information is omitted because the product and service categories are the same as those of the reportable segments.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	Asia			Europe	Americas	Total
		Contributed by China	Contributed by India			
15,067	82,326	49,474	17,727	57,539	20,749	175,683

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Europe		Americas		Total
		Contributed by China		Contributed by Poland		Contributed by the U.S.	
12,694	12,877	5,940	6,895	5,555	2,799	1,753	35,267

3. Information by major customer

(Millions of yen)

Name	Net sales	Segment name
Volkswagen Group	24,280	Automotive Systems Business
Sanden Hasco Automotive Air conditioning Co., Ltd.	27,575	Automotive Systems Business

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

1. Information by product and service

This information is omitted because the product and service categories are the same as those of the reportable segments.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	Asia			Europe	Americas	Total
		Contributed by China	Contributed by India			
13,534	82,282	48,632	18,129	61,550	21,913	179,279

(2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Europe		Americas		Total
		Contributed by China		Contributed by Poland		Contributed by the U.S.	
12,245	13,480	5,627	9,642	6,189	7,288	6,216	42,657

3. Information by major customer

(Millions of yen)

Name	Net sales	Segment name
Volkswagen Group	25,482	Automotive Systems Business
Sanden Hasco Automotive Air conditioning Co., Ltd.	27,770	Automotive Systems Business

[Information on impairment losses on non-current assets by reportable segment]

This information is omitted because the Group has only one reporting segment, the Automotive Systems Business.

[Information on amortization of goodwill and unamortized balance by reportable segment]

This information is omitted because the Group has only one reporting segment, the Automotive Systems Business.

[Gain on negative goodwill by reporting segment]

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Not applicable

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Not applicable

[Related Party Information]

1. Transactions with related parties

(1) Transactions between the Company submitting consolidated financial statements and related parties

Parent companies and major shareholders (limited to companies, etc.) of the Company submitting consolidated financial statements

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Parent company	Hisense Japan Automotive Air-Conditioning Systems Corporation	Kawasaki-shi, Kanagawa Prefecture, Japan	0 million yen	Business management of subsidiaries, etc. that conduct businesses and businesses incidental or related to it	(Owned) Direct 74.9	Borrowing of funds	Repayment of borrowings Note 1	19,000	Short-term borrowings	-
							Interest paid Note 1	50	Accrued interest expenses	-
Parent company	Kelon Development Company Limited	Hong Kong, People's Republic of China	HKD 10 million	Development, manufacturing, and sales of home appliances, communication equipment, information equipment, and other electronic equipment	(Owned) Indirect 74.9	Borrowing of funds Concurrent officer	Borrowing of funds Note 2	5,000	Short-term borrowings	5,000
							Repayment of borrowings Note 2	11,000		
							Interest paid Note 2	104	Accrued interest expenses	5
Parent company	Hisense Home Appliances Group Co., Ltd.	Foshan, the People's Republic of China	CNY 1,362 million	Development, manufacturing of refrigerators and other home appliances, domestic and overseas product sales and after-service, transportation of own products	(Owned) Indirect 74.9	Debt guaranteed Concurrent officer	Debt guaranteed Note 3	10,000	-	-
							Guarantee fees paid Note 3	7	Accrued expenses	7

Notes:
1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of eight months.
2. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.
3. The Company has received a debt guarantee for borrowings from financial institutions. The amount of debts guaranteed is the amount of borrowings at term end. For the payment of guarantee fees, the rates are reasonably determined taking into account market rates.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Parent company	Kelon Development Company Limited	Hong Kong, People's Republic of China	HKD 10 million	Development, manufacturing, and sales of home appliances, communication equipment, information equipment, and other electronic equipment	(Owned) Indirect 75.0	Borrowing of funds Concurrent officer	Repayment of borrowings Note 1	5,000	Short-term borrowings	-
							Interest paid Note 1	4	Accrued interest expenses	-
Parent company	Hisense Home Appliances Group Co., Ltd.	Foshan, the People's Republic of China	CNY 1,362 million	Development, manufacturing of refrigerators and other home appliances, domestic and overseas product sales and after-service, transportation of own products	(Owned) Indirect 75.0	Debt guaranteed Concurrent officer	Debt guaranteed Note 2	46,930	-	-
							Guarantee fees paid Note 2	182	Accrued expenses	189

Notes: 1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.

2. The Company has received a debt guarantee for borrowings from financial institutions. The amount of debts guaranteed is the amount of borrowings at term end. For the payment of guarantee fees, the rates are reasonably determined taking into account market rates.

Affiliates of the Company submitting consolidated financial statements, etc.

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden Hasco Automotive Air conditioning Co., Ltd.	Shanghai, the People's Republic of China	CNY 834,090 thousand	Manufacture and sale of automotive systems	(Own) Direct 43.0	Manufacture and sale of the Company' s products in China Concurrent officers	Sales	25,434	Accounts receivable －trade	6,524
							-	-	Accrued dividends receivable	2,915

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden Hasco Automotive Air conditioning Co., Ltd.	Shanghai, the People's Republic of China	CNY 834,090 thousand	Manufacture and sale of automotive systems	(Own) Direct 43.0	Manufacture and sale of the Company' s products in China Concurrent officers	Sales	24,591	Accounts receivable －trade	5,171

Transactions between the Company submitting consolidated financial statements or its subsidiaries and the parent company or a company that has the same parent company, etc.

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliates of other related companies	Hisense CKL (HK) Co., Ltd.	Hong Kong, People's Republic of China	HKD 35 million	Company management, business advisory, foreign currency and asset management consulting, and technological support	-	Borrowing of funds	Borrowing of funds	24,044	Short-term borrowings	24,044
							Interest paid	315	Accrued interest expenses	52

Note: 1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliates of other related companies	Hisense CKL (HK) Co., Ltd.	Hong Kong, People's Republic of China	HKD 35 million	Company management, business advisory, foreign currency and asset management consulting, and technological support	-	Borrowing of funds	Borrowing of funds	1,003	Short-term borrowings	-
							Repayment of borrowings	25,048		
							Interest paid	266	Accrued interest expenses	-

Note: 1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.

(2) Transactions between consolidated subsidiaries of the Company submitting consolidated financial statements and related parties

Parent companies and major shareholders (limited to companies, etc.) of the Company submitting consolidated financial statements

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Other subsidiaries and affiliates	Hisense Group Holdings Co., Ltd.	Qingdao, People's Republic of China	CNY 3,860 million	Investment activities and asset management service	(Owned) Indirect 33.3	Borrowing of funds	Repayment of borrowings Note 1	7,600	Short-term borrowings	-
							Interest paid Note 1	25	Accrued interest expenses	-
Parent company	Hisense Home Appliances Group Co., Ltd.	Foshan, the People's Republic of China	CNY 1,362 million	Development, manufacturing of refrigerators and other home appliances, domestic and overseas product sales and after-service, transportation of own products	(Owned) Indirect 74.9	Borrowing of funds Concurrent officer	Borrowing of funds Note 1	9,028	Short-term borrowings Note 2	9,028
							Interest paid Note 1	228	Accrued interest expenses	10

Notes: 1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.
2. For some short-term borrowings, buildings and leaseholds of consolidated subsidiaries are pledged as collateral.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Parent company	Hisense Home Appliances Group Co., Ltd.	Foshan, the People's Republic of China	CNY 1,362 million	Development, manufacturing of refrigerators and other home appliances, domestic and overseas product sales and after-service, transportation of own products	(Owned) Indirect 75.0	Borrowing of funds Concurrent officer	Borrowing of funds Note 1	99	Short-term borrowings Note 2	6,337
							Repayment of borrowings Note 1	2,590		
							Interest paid Note 1	240	Accrued interest expenses	7

Notes: 1. For the borrowing of funds, the borrowing rates are reasonably determined taking into account market rates. The repayment condition is a bullet repayment with a tenor of one year.
2. For some short-term borrowings, buildings and leaseholds of consolidated subsidiaries are pledged as collateral.

Affiliates of the Company submitting consolidated financial statements, etc.

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden Al Salam LLC	Dubai United Arab Emirates	USD 1,000 thousand	Sale of automotive systems	Owned (Indirect) 43.0	Manufacture and sale of the Company' s products in the Middle East	-	-	Accounts receivable —trade	12,021
							-	-	Other investment	4,538
							-	-	Accrued dividends receivable	2,895
Affiliated company	Sanden Hasco Automotive Air conditioning Co., Ltd.	Shanghai, the People's Republic of China	CNY 834,090 thousand	Manufacture and sale of automotive systems	Owned (direct) 43.0	Manufacture and sale of the Company' s products in China Concurrent officers	Sales	2,140	Accounts receivable —trade	1,405

Notes: 1. Terms and conditions of transactions and the policy for determining terms and conditions, etc., are determined in the same way as for general transactions.
2. An allowance for doubtful accounts of ¥19,454 million is posted for accounts receivable from, other investments in, and accrued dividends receivable from affiliated companies.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Type	Name	Location	Capital or investment	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden Al Salam LLC	Dubai United Arab Emirates	USD 1,000 thousand	Sale of automotive systems	Owned (Indirect) 43.0	Manufacture and sale of the Company' s products in the Middle East	-	-	Accounts receivable —trade	12,848
							-	-	Other investment	4,850
							-	-	Accrued dividends receivable	3,094
Affiliated company	Sanden Hasco Automotive Air conditioning Co., Ltd.	Shanghai, the People's Republic of China	CNY 834,090 thousand	Manufacture and sale of automotive systems	Owned (direct) 43.0	Manufacture and sale of the Company' s products in China Concurrent officers	Sales	3,209	Accounts receivable —trade	912

Notes: 1. Terms and conditions of transactions and the policy for determining terms and conditions, etc., are determined in the same way as for general transactions.
2. An allowance for doubtful accounts of ¥20,793 million is posted for accounts receivable from, other investments in, and accrued dividends receivable from affiliated companies.

2. Notes on parent companies or important affiliated companies

(1) Information on parent companies

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Hisense Home Appliances Group Co., Ltd. (listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange)
Kelon Development Company Limited
Hisense Japan Automotive Air-Conditioning Systems Corporation

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Hisense Home Appliances Group Co., Ltd. (listed on the Hong Kong Stock Exchange and Shenzhen Stock Exchange)
Kelon Development Company Limited
Hisense Japan Automotive Air-Conditioning Systems Corporation

(2) Summary Financial Statements of Significant Affiliates

For the consolidated fiscal year ended December 31, 2023, the Company's significant affiliates were Sanden Al Salam LLC and Sanden Hasco Automotive Air conditioning Co., Ltd. and their summary financial statements are provided below.

(Millions of yen)

	Sanden Al Salam LLC		Sanden Hasco Automotive Air conditioning Co., Ltd.	
	FY2022	FY2023	FY2022	FY2023
Total current assets	37,903	45,040	54,693	60,876
Total non-current assets	7,491	9,154	37,751	41,973
Total current liabilities	53,860	49,028	51,838	56,930
Total non-current liabilities	-	10,951	307	126
Total net assets	(8,465)	(5,784)	40,300	45,792
Net sales	28,359	35,816	117,624	130,592
Income (loss) before income taxes	(2,836)	1,380	8,453	12,248
Net income (loss)	(3,079)	1,360	7,689	11,022

(Per share information)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net assets per share	201.75	181.18
Net income (loss) per share	(14.48)	(30.15)

Notes:
1. Diluted net income per share is not stated because a net loss per share was reported and there was no dilutive share.
2. The Company's shares held in the Executive Compensation BIP Trust are included in the treasury stock to be deducted from the average number of shares during the year for the purpose of calculating net income or loss per share. They are also included in the number of treasury stock to be deducted from the total number of issued shares at the end of the fiscal year for the purpose of calculating net assets per share.
The average number of shares held by the trust during the year was 129,595 in the previous consolidated fiscal year and 123,315 in the consolidated fiscal year under review. The number of shares held by the trust at the end of the fiscal year was 123,315 in the previous consolidated fiscal year and 123,315 in the consolidated fiscal year under review.
3. The basis for calculating net loss per share is as follows.

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net income (loss) attributable to owners of parent (Millions of yen)	(1,613)	(3,359)
Amount not attributable to common shareholders (Millions of yen)	-	-
Net income (loss) attributable to owners of common stock of parent (Millions of yen)	(1,613)	(3,359)
Average number of shares during the period (Shares)	111,444,871	111,450,389

(Significant subsequent events)

Not applicable

5) Consolidated Schedules

[Schedule of corporate bonds]

Not applicable

[Details of borrowings]

Classification	Balance at the beginning of period (Millions of yen)	Balance at the end of period (Millions of yen)	Average interest rate (%)	Repayment deadline
Short-term borrowings	48,381	56,102	0.79	-
Current portion of long-term borrowings	268	300	9.13	-
Current portion of lease obligations	1,921	1,498	3.28	-
Long-term borrowings (excluding current portion)	355	822	9.02	2025 to 2029
Lease obligations (excluding current portion)	4,408	3,403	2.51	2025 to 2031
Total	55,334	62,128	-	-

Notes: 1. The average interest rate is the weighted average rate of interest on the outstanding loans at the end of the fiscal year.

2. Amounts for long-term borrowings and lease obligations (excluding current portion) to be redeemed within 5 years from the consolidated balance sheet date is as follows.

(Millions of yen)

Classification	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term borrowings	328	201	161	83
Lease obligations	1,108	747	648	424

[Details of asset retirement obligations]

Notes are omitted due to lack of materiality

(2) Other

Quarterly information for the fiscal year under review

Accumulated period		1st quarter	2nd quarter	3rd quarter	FY2023
Net sales	Millions of yen	42,744	87,489	131,715	179,279
Net income (loss) before income taxes	Millions of yen	640	132	(982)	(4,093)
Net income (loss) attributable to owners of parent	Millions of yen	492	(315)	(1,773)	(3,359)
Net income (loss) per share	Yen	4.42	(2.83)	(15.92)	(30.15)

Accounting period		1st quarter	2nd quarter	3rd quarter	4th quarter
Net income (loss) per share	Yen	4.42	(7.25)	(13.08)	(14.23)

2. Non-consolidated financial statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheets

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Assets		
Current assets		
Cash and deposits	3,002	7,401
Notes receivable-trade	5	-
Accounts receivable －trade	*1 25,313	*1 16,557
Electronically recorded claims	2,268	2,268
Merchandise and finished goods	1,188	1,645
Work in process	3,996	3,732
Supplies	553	397
Accounts receivable-other	*2 6,468	*2 3,561
Prepaid expenses	599	773
Short-term borrowings receivable from subsidiaries and affiliates	33,473	37,608
Other	*3 2,157	*3 1,473
Allowance for doubtful accounts	(18,956)	(14,288)
Total current assets	60,070	61,130
Non-current assets		
Property, plant and equipment		
Buildings	6,585	6,181
Structures	608	575
Machinery and equipment	112	161
Vehicles	0	0
Tools, furniture and fixtures	68	39
Land	5,394	5,374
Leased assets	0	0
Construction in progress	1	1
Total property, plant and equipment	12,771	12,334
Intangible assets		
Software	0	0
Other	0	0
Total intangible assets	0	0
Investments and other assets		
Investment securities	348	454
Shares of subsidiaries and affiliates	3,415	3,411
Investments in capital of subsidiaries and affiliates	15,915	13,799
Long-term borrowings from subsidiaries and affiliates	9,393	12,685
Prepaid pension costs	88	100
Other	254	249
Allowance for doubtful accounts	(2,380)	(106)
Total investments and other assets	27,035	30,593
Total non-current assets	39,806	42,927
Total assets	99,877	104,058

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Liabilities		
Current liabilities		
Notes payable-trade	*4 347	*4 76
Electronically recorded obligations	15,830	13,745
Accounts payable-trade	*5 4,839	*5 5,598
Short-term borrowings	*6 40,138	*6 49,544
Lease obligations	1,502	973
Accounts payable-other	*7 2,710	*7 3,891
Accrued expenses	*8 1,341	*8 1,830
Provision for product warranties	3,413	5,372
Provision for outstanding claims	2,356	2,130
Provision for bonuses	940	922
Other	*9 2,156	*9 3,207
Total current liabilities	75,577	87,293
Non-current liabilities		
Lease obligations	3,252	2,274
Deferred tax liabilities	717	741
Provision for loss on business of subsidiaries and affiliates	2,003	2,149
Other	125	51
Total non-current liabilities	6,098	5,216
Total liabilities	81,675	92,509
Net assets		
Shareholders' equity		
Capital	21,741	21,741
Capital surplus		
Capital surplus	15,158	15,158
Total capital surplus	15,158	15,158
Retained earnings		
Other retained earnings		
Retained earnings carryforward	(18,348)	(25,063)
Total retained earnings	(18,348)	(25,063)
Treasury stock	(342)	(342)
Total shareholders' equity	18,208	11,493
Valuation and translation adjustments Valuation		
Valuation difference on available-for-sale securities	(7)	55
Total valuation and translation adjustments	(7)	55
Total net assets	18,201	11,548
Total liabilities and net assets	99,877	104,058

2) Non-consolidated statements of income

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net sales	*1 75,107	*1 71,946
Cost of sales	*2 66,755	*2 66,464
Gross profit	8,351	5,481
Selling, general and administrative expenses	*3 15,674	*3 19,272
Operating income (loss)	(7,322)	(13,790)
Non-operating income		
Interest income	*4 1,089	*4 2,274
Dividend income	*5 3,501	*5 4,828
Rental income	775	770
Proceeds from miscellaneous income	600	425
Total non-operating income	5,965	8,299
Non-operating expenses		
Interest expenses	*6 623	*6 565
Taxes and dues	209	181
Foreign exchange losses	124	659
Provision of allowance for doubtful accounts	*7 401	32
Miscellaneous loss	1,050	1,003
Total non-operating expenses	2,410	2,441
Ordinary income (loss)	(3,767)	(7,932)
Extraordinary income		
Gain on sales of shares of subsidiaries and affiliates	1,573	-
Reversal of allowance for doubtful accounts	1,193	*8 6,718
Reversal of provision for loss on business of subsidiaries and affiliates	*9 4,701	-
Other	93	2
Total extraordinary income	7,562	6,721
Extraordinary losses		
Provision for loss on business of subsidiaries and affiliates	-	145
Impairment loss	1,810	2,400
Loss on valuation of shares of subsidiaries and affiliates	*10 4,229	*10 3
Loss on valuation of investments in capital of subsidiaries and affiliates	-	*11 2,142
Provision for outstanding claims	38	-
Loss on extinguishment of tie-in shares	*12 2,292	-
Other	420	167
Total extraordinary losses	8,792	4,859
Net income (loss) before income taxes	(4,997)	(6,071)
Income taxes-current	321	644
Income taxes-deferred	6	-
Total income taxes	327	644
Net income (loss)	(5,324)	(6,715)

Details of manufacturing cost

Classification	Note number	FY2022 (Jan. 1, 2022 to Dec. 31, 2022) Amount (Millions of yen)	FY2022 Share (%)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023) Amount (Millions of yen)	FY2023 Share (%)
I. Materials cost		31,571	47.9	31,469	49.0
II. Labor cost		4,928	7.5	6,283	9.8
III. Expenses	*1	29,365	44.6	26,461	41.2
Total manufacturing cost for the period		65,865	100.0	64,214	100.0
Beginning work in progress inventory	*2	3,599		3,996	
Total		69,465		68,211	
Ending work in progress inventory		3,996		3,732	
Transfer to other accounts		(359)		(1,848)	
Product manufacturing cost for the period		65,828		66,327	

Note: *1. The major components of expenses are as follows.

Item	FY2022 (Millions of yen)	FY2023 (Millions of yen)
Subcontract processing cost	24,068	21,697

*2. Beginning work in progress inventory in fiscal 2022 includes increases due to the absorption-type mergers of subsidiaries executed on January 1, 2022.

(Cost calculation method)

The Company calculates actual costs using the process cost accounting method.

3) Non-consolidated statements of changes in net assets

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

(Millions of yen)

	Shareholders' equity					
	Capital	Capital surplus		Retained earnings		Treasury stock
		Capital surplus	Total capital surplus	Other retained earnings Retained earnings carryforward	Total retained earnings	
Balance at the beginning of period	21,741	15,158	15,158	(13,023)	(13,023)	(294)
Changes during period						
Increase due to mergers						(82)
Net income (loss)				(5,324)	(5,324)	
Purchase of treasury stock						(0)
Disposal of treasury stock						34
Net changes in items other than shareholders' equity						
Total changes during period	-	-	-	(5,324)	(5,324)	(48)
Balance at the end of period	21,741	15,158	15,158	(18,348)	(18,348)	(342)

	Shareholders' equity	Valuation and translation adjustments Valuation		Total net assets
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of period	23,582	4	4	23,586
Changes during period				
Increase due to mergers	(82)			(82)
Net income (loss)	(5,324)			(5,324)
Purchase of treasury stock	(0)			(0)
Disposal of treasury stock	34			34
Net changes in items other than shareholders' equity		(11)	(11)	(11)
Total changes during period	(5,373)	(11)	(11)	(5,384)
Balance at the end of period	18,208	(7)	(7)	18,201

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

(Millions of yen)

	Shareholders' equity					
	Capital	Capital surplus		Retained earnings		Treasury stock
		Capital surplus	Total capital surplus	Other retained earnings Retained earnings carryforward	Total retained earnings	
Balance at the beginning of period	21,741	15,158	15,158	(18,348)	(18,348)	(342)
Changes during period						
Net income (loss)				(6,715)	(6,715)	
Purchase of treasury stock						(0)
Net changes in items other than shareholders' equity						
Total changes during period	-	-	-	(6,715)	(6,715)	(0)
Balance at the end of period	21,741	15,158	15,158	(25,063)	(25,063)	(342)

	Shareholders' equity	Valuation and translation adjustments Valuation		Total net assets
	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of period	18,208	(7)	(7)	18,201
Changes during period				
Net income (loss)	(6,715)			(6,715)
Purchase of treasury stock	(0)			(0)
Net changes in items other than shareholders' equity		62	62	62
Total changes during period	(6,715)	62	62	(6,652)
Balance at the end of period	11,493	55	55	11,548

[Notes]

(Significant accounting policies)

1. Valuation standards and methods for securities

(1) Stock of subsidiaries and affiliates

Non-marketable securities are carried at cost determined by the moving average method.

(2) Other securities

- Other than shares without market price, etc.

Derivative financial instruments are stated at fair value.

Any changes in unrealized gain or loss are directly included in net assets and the costs of securities sold are generally calculated by the moving average method.

- Shares without market price, etc.

Non-marketable securities are carried at cost determined by the moving average method.

For those securities whose real value has been significantly reduced, a substantial reduction has been made.

2. Valuation standards and methods for derivatives

Derivative financial instruments are stated at fair value.

3. Valuation standards and methods for inventories

Inventories are primarily stated at cost method determined by the weighted average method (values on the balance sheet are subject to the book value reduction method based on decreased profitability.)

4. Depreciation method for non-current assets

(1) Property, plant and equipment (excluding leased assets)

The straight-line method is adopted.

The main useful lives are as follows.

Buildings and structures: 3-50 years

Machinery, equipment and vehicles: 2-15 years

The Company has adopted a method in which small amounts of depreciable assets with an acquisition cost of ¥100,000 or more but less than ¥200,000 are depreciated in equal amounts over three years.

(2) Intangible assets (excluding leased assets)

The straight-line method is adopted.

Depreciation of software for internal use is calculated by the straight-line method based on its useful life in the Company.

(3) Leased assets

Leased assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

5. Accounting standards for revenues and expenses

The Company has an obligation to deliver products based on the sales contracts it enters with its customers.
For domestic product sales, if the time it takes from shipping to the transfer of control over the relevant product to a customer is a normal length of time, the Group recognizes revenue at the time of shipping.
In these transactions, the Group does not recognize revenue related to the transfer of supplied parts, and when the Group is obliged to buy back the supplied parts, the Group does not recognize the extinguishment of the said supplied parts.

6. Basis for translating foreign currency-denominated assets and liabilities into Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot rates of exchange in effect at the balance sheet date and the translation differences are treated as profit or loss.

7. Basis for accounting for provisions

(1) Allowance for doubtful accounts

To prepare for losses due to the credit loss of monetary claims, the Company considers the actual loan loss rate for general claims and the collectability of specific claims such as doubtful debts individually and record the estimated uncollectible amount.

(2) Provision for bonuses

To provide for the payment of bonuses to employees, an estimated amount of bonus payments corresponding to the consolidated fiscal year under review is recorded.

(3) Provision for retirement benefits

To provide for the retirement benefits of pension beneficiaries, a provision is made based on the estimated amount of retirement benefit obligations and pension assets at the end of the fiscal year under review. If the amount of pension assets exceeds the amount of retirement benefit obligations, the excess is recorded as prepaid pension costs.

(4) Provision for outstanding claims

To prepare for the payment of settlements and other payments related to the violations of antitrust laws in connection with past transactions of certain automotive parts, the Company records an estimated amount of losses that may occur in the future.

(5) Provision for loss on business of subsidiaries and affiliates

To provide for losses on business of subsidiaries and affiliates, an amount expected to be borne by the Company in excess of the amount of claims to subsidiaries and affiliates, such as investments and loans, is recorded.

(6) Provision for product warranties

To provide for the free post-sales service costs of products, product warranties for costs that can be estimated individually in addition to the amount based on the rate of occurrence in the past fiscal years as a percentage of net sales are recoded.

8. Significant hedge accounting methods

A. Hedge accounting method

Exceptional treatment is applied to interest rate swaps that meet the requirements for exceptional treatment.

B. Hedging instruments and hedged items

- Hedging instruments

  Interest rate swaps

- Hedged items

  Interest on variable rate borrowings

C. Hedging policy

The Company enters into interest rate swaps to hedge the risk of interest rate fluctuations on interest payments.

D. Assessment of hedge effectiveness

The Company does not evaluate the effectiveness of interest rate swaps to which exceptional treatment is applied.

9. Other important matters for preparation of financial statements

(1) Adoption of the group tax sharing system

The Company adopts the group tax sharing system.

(2) Accounting treatment for retirement benefits

The accounting method for unrecognized actuarial gains and losses on retirement benefits is different from the accounting method in the consolidated financial statements.

(Significant accounting estimates)

FY2022 (as of Dec. 31, 2022)

Valuation of shares and investments in, claims to, and business of, subsidiaries and affiliates

1) Amount recorded in the financial statements for the fiscal year under review

A valuation loss on shares of subsidiaries and affiliates of ¥4,229 million was recorded in the fiscal year under review. Their book value after recording the valuation loss is ¥3,415 million for shares of subsidiaries and affiliates and ¥15,915 million for equity investments. In addition, the Company newly recorded an allowance for doubtful accounts of ¥15,282 million for loans to and operating accounts receivables from subsidiaries and affiliates whose liabilities exceed assets, and newly posted ¥2,003 million in the provision for loss on business of subsidiaries and affiliates.

(Millions of yen)

Loss on valuation of shares of subsidiaries and affiliates	4,229
Loss on valuation of shares of subsidiaries and affiliates after valuation loss	3,415
Loans receivable from subsidiaries and affiliates	15,197
(Allowance for doubtful accounts)	(15,197)
Accounts receivable-other	84
(Allowance for doubtful accounts)	(84)
Provision for loss on business of subsidiaries and affiliates	2,003

2) Information on significant accounting estimates for the items identified

A valuation loss is recognized for shares and investments in subsidiaries and affiliates if their real value calculated based on net assets significantly declines due to deterioration in the financial position of the issuer subsidiary or affiliate, except for cases in which their recoverability is supported by sufficient evidence. In addition, for claims to subsidiaries and affiliates whose financial position has deteriorated, an allowance for doubtful accounts is recorded by estimating the uncollectible amount individually based on the amount of net assets of relevant subsidiary or affiliate and, if the subsidiary or affiliate is in a state of excess debts and the amount of excess debts exceeds the book value of the claims, the excess amount is recorded in provision for loss on business of subsidiaries and affiliates.

As the Company holds shares and investments in its subsidiaries, unrealized profits and losses on those shares and investments held by the Company are calculated based on net assets of such subsidiaries and added to net assets of subsidiaries when calculating their net assets that serve as the basis for the valuation of provisions for losses on shares in, claims to and business of, the subsidiaries.

In the fiscal year under review, an indication of impairment was found in non-current assets of the Company's subsidiaries and the investee companies of the Company's subsidiaries. The Company therefore assessed whether it was necessary to recognize an impairment loss and measured the impairment loss. The recoverable amount to compare with the book value of non-current assets was mainly calculated using the value in use, and the forecasted unit sales of air-conditioning systems for automobiles that serve as the basis for estimating future cash flows and the discount rate used for the measurement of the value in use are incorporated as major assumptions.

Under the current conditions in which the impact of COVID-19 has not contained yet, the forecasting of unit sales for air-conditioning systems for automobiles and the estimation of the discount rate involve a high degree of uncertainty. Therefore, if the forecast and future results differ, the recognition of impairment loss may be required on the amounts of non-current assets of the Company's subsidiaries and their investee companies. In this case, deterioration in the financial position of the Company's subsidiaries and their investee companies and resulting damage to their net assets may have a significant impact on the amounts of shares and investments in, and claims to, subsidiaries and affiliates held by the Company, as well as of provision for loss on business of subsidiaries and affiliates, in the financial statements for the next fiscal year.

FY2023 (as of Dec. 31, 2023)

Valuation of shares and investments in, claims to, and business of, subsidiaries and affiliates

1) Amount recorded in the financial statements for the fiscal year under review

A valuation loss of ¥3 million on shares of subsidiaries and affiliates and a valuation loss of ¥2,142 million on investments in capital of subsidiaries and affiliates were recorded in the fiscal year under review. Their book value after recording the valuation loss is ¥3,411 million for shares of subsidiaries and affiliates and ¥13,799 million for equity investments. In addition, the Company newly recorded an allowance for doubtful accounts of ¥13,688 million for loans to and trade and accounts receivable-other from subsidiaries and affiliates whose liabilities exceed assets, and newly posted ¥2,149 million in the provision for loss on business of subsidiaries and affiliates.

(Millions of yen)

Loss on valuation of shares of subsidiaries and affiliates	3
Loss on valuation of investments in capital of subsidiaries and affiliates	2,142
Loss on valuation of shares of subsidiaries and affiliates after valuation loss	3,411
Investments in capital of subsidiaries and affiliates after valuation loss	13,799
Loans receivable from subsidiaries and affiliates (Allowance for doubtful accounts)	7,938 (7,938)
Accounts receivable－trade and other (Allowance for doubtful accounts)	5,749 (5,749)
Provision for loss on business of subsidiaries and affiliates	2,149

2) Information on significant accounting estimates for the items identified

A valuation loss is recognized for shares and investments in subsidiaries and affiliates if their real value calculated based on net assets significantly declines due to deterioration in the financial position of the issuer subsidiary or affiliate, except for cases in which their recoverability is supported by sufficient evidence. In addition, for claims to subsidiaries and affiliates whose financial position has deteriorated, an allowance for doubtful accounts is recorded by estimating the uncollectible amount individually based on the amount of net assets of relevant subsidiary or affiliate and, if the subsidiary or affiliate is in a state of excess debts and the amount of excess debts exceeds the book value of the claims, the excess amount is recorded in provision for loss on business of subsidiaries and affiliates.

As the Company holds shares and investments in its subsidiaries, unrealized profits and losses on those shares and investments held by the Company are calculated based on net assets of such subsidiaries and added to net assets of subsidiaries when calculating their net assets that serve as the basis for the valuation of provisions for losses on shares in, claims to and business of, the subsidiaries.

In the fiscal year under review, an indication of impairment was found in non-current assets of the Company's subsidiaries and the investee companies of the Company's subsidiaries. The Company therefore assessed whether it was necessary to recognize an impairment loss and measured the impairment loss. The recoverable amount to compare with the book value of non-current assets was mainly calculated using the value in use, and the forecasted unit sales of air-conditioning systems for automobiles that serve as the basis for estimating future cash flows and the discount rate used for the measurement of the value in use are incorporated as major assumptions.

As troubles are still drawn out in Ukraine and the Middle East, central banks worldwide are raising interest rates to control inflations, raw materials prices are rising globally, and supply shortages of certain parts including semiconductors continue, there is a high level of uncertainty concerning our prediction of the number of automotive air-conditioning products we can sell and their estimated discount rates. Accordingly, if such predictions and actual future results differ, this may necessitate the recognition of impairment losses on Non-Current Assets of the Company's subsidiaries and their investees. In this case, deterioration in the financial position of the Company's subsidiaries and their investee companies and resulting damage to their net assets may have a significant impact on the amounts of shares and investments in, and claims to, subsidiaries and affiliates held by the Company, as well as of provision for loss on business of subsidiaries and affiliates, in the financial statements for the next fiscal year.

(Changes in accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company started applying the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, the "Fair Value Measurement Accounting Standard Implementation Guidance") from the beginning of fiscal 2023, and will apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard Implementation Guidance into the future pursuant to the transitional treatment stipulated in Paragraph 27-2 of the Fair Value Measurement Accounting Standard Implementation Guidance. This does not have any impact on the Company's financial statements.

(Changes in presentation)

(Non-consolidated balance sheets)

Electronically recorded claims which were presented as part of accounts receivable-trade in current assets until the previous fiscal year are separately listed from the fiscal year under review to improve clarity. To reflect this change in presentation, the financial statements for fiscal 2022 have been reclassified.

As a result, ¥27,581 million in accounts receivable-trade in current assets on the financial statements of the previous fiscal year has been reclassified as ¥2,268 million of electronically recorded claims and ¥25,313 million of accounts receivable-trade.

(Non-consolidated balance sheets)

Note 1: *1, *2, *3, *4, *5, *6, *7, *8, *9

Monetary claims and liabilities to subsidiaries and affiliates (excluding those presented separately) are as follows.

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Short-term monetary claims	29,963	17,417
Short-term monetary liabilities	31,584	5,419

(Non-consolidated statements of income)

Note 1: *1, *2, *3, *4, *5, *6

Major transactions with affiliated companies are as follows

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Net sales	60,796	58,245
Goods purchased, selling, general and administrative expenses	8,502	10,290
Amount of transactions other than business transactions	1,110	2,621

Note 2: *3

Selling, general and administrative expenses:

The main items, their amounts, and approximate ratios of selling and general and administrative expenses are as follows.

(Millions of yen)

	FY2022 (Jan. 1, 2022 to Dec. 31, 2022)	FY2023 (Jan. 1, 2023 to Dec. 31, 2023)
Delivery and freightage expenses	2,918	1,450
Salaries and allowances	3,936	4,209
Bonus	1,220	1,184
Welfare Fee	1,284	1,515
Product warranties	1,812	1,982
Rent	143	115
Depreciation	270	242
Retirement benefit expenses	324	244
Fees	647	615
Provision for product warranties	24	1,963
Research study expenses	2,120	3,692

Approximate ratios		
Selling expense	33%	30%
General and administrative expense	67%	70%

Note 3: *7

Provision of allowance for doubtful accounts

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

The Company posted ¥401 million due to concerns over the collection of its loans to some of its consolidated subsidiaries.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Not applicable

Note 4: *8

Reversal of allowance for doubtful accounts

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Not applicable

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Following a review of costs needed to implement structural reform measures of consolidated subsidiaries, the Company posted ¥6,718 million in the reversal of the provision for doubtful accounts to subsidiaries and affiliates, which had been posted for potential losses the Company might incur with regard to some of its consolidated subsidiaries.

Note 5: *9

Reversal of provision for loss on business of subsidiaries and affiliates

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Given an increase in the amount of loans to its consolidated subsidiaries, the Company posted ¥4,701 million in the reversal of the provision for loss on business of subsidiaries and affiliates, which had been posted in preparation for potential losses the Company may incur with regard to some of its consolidated subsidiaries.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Not applicable

Note 6: *10

Loss on valuation of shares of subsidiaries and affiliates

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

The Company posted ¥4,229 million in valuation loss on shares of subsidiaries and affiliates for the shares of subsidiaries and affiliates whose real price had significantly decreased compared with their acquisition price.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

The Company posted ¥3 million in valuation loss on shares of subsidiaries and affiliates for the shares of subsidiaries and affiliates whose real price had significantly decreased compared with their acquisition price.

Note 7: *11

Loss on valuation of investments in capital of subsidiaries and affiliates

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

Not applicable

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

The Company posted ¥2,142 million as a loss on valuation of investments in capital of subsidiaries and affiliates where the real value of investments in capital of subsidiaries and affiliates had significantly decreased compared with their acquisition price.

Note 8: *12

Loss on extinguishment of tie-in shares

FY2022 (Jan. 1, 2022 to Dec. 31, 2022)

The Company executed absorption-type mergers with itself as the surviving company and its wholly-owned subsidiaries, namely Sanden Automotive Component Corporation, Sanden Automotive Climate Systems Corporation, Sanden Advanced Technology Corporation, Sanden Business Associate Corporation, Sanden Living & Environmental Systems Corporation, Sanden Environmental Products Corporation and Sanwa Corporation as dissolving companies, and a simplified absorption-type company split with the Company as the successor company and its wholly-owned subsidiary, Sanden System Engineering Corporation (hereinafter, “SSE”), as the company to be split, for the Company to succeed SSE’s business with Group companies. As a result of these transactions, the Company posted ¥2,292 million in loss on extinguishment of tie-in shares.

FY2023 (Jan. 1, 2023 to Dec. 31, 2023)

Not applicable

(Securities)

FY2022 (as of Dec. 31, 2022)

Stocks of subsidiaries and affiliates (balance sheet amount: ¥8,188 million for stocks of subsidiaries and investments in capital; and ¥11,141 million for stocks of affiliates and investments in capital) are not listed because they are shares, etc. without market prices.

FY2023 (as of Dec. 31, 2023)

Stocks of subsidiaries and affiliates (balance sheet amount: ¥6,226 million for stocks of and investments in subsidiaries; and ¥10,983 million for stocks of and investments in affiliates) are not listed because they are shares, etc. without market prices.

(Tax effect accounting)

1. Breakdown of the main causes of deferred tax assets and deferred tax liabilities

(Millions of yen)

	FY2022 (as of Dec. 31, 2022)	FY2023 (as of Dec. 31, 2023)
Deferred tax assets		
Net operating loss carryforward	18,895	10,592
Provision for bonuses	286	281
Loss on valuation of inventories	218	481
Allowance for doubtful accounts	6,507	4,390
Provision for outstanding claims	718	649
Loss on valuation of securities	6,478	6,478
Provision for product warranties	1,041	1,638
Provision for loss on business of subsidiaries and affiliates	611	655
Depreciable assets, etc.	79	43
Impairment loss	3,557	3,650
Tax adjustments related to business revitalization	737	1,392
Other	551	724
Subtotal of deferred tax assets	39,684	30,979
Valuation allowance for net operating loss carryforward	(18,895)	(10,592)
Valuation allowance for total amount of future reduction for temporary differences	(20,788)	(20,386)
Subtotal of valuation allowance	(39,684)	(30,979)
Total deferred tax assets	-	-
Deferred tax liabilities		
Valuation difference on available-for-sale securities	-	24
Tax adjustments related to business revitalization	683	682
Other	33	34
Total deferred tax liabilities	717	741
Net deferred tax assets (liabilities)	(717)	(741)

2. The reconciliation between the statutory effective tax rate and the actual tax rate after applying tax effect accounting is summarized as follows

Because a net loss before income taxes was recorded in the previous fiscal year and the fiscal year under review, there is no information to be disclosed here.

3. Accounting treatment of national and local income taxes or their tax effect accounting

The Company adopted the group tax sharing system from the fiscal year under review. The Company also discloses accounting treatment of national and local income taxes or their tax effect accounting in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (Practical Solution No. 42; August 12, 2021).

(Revenue recognition)

Notes on information that forms the basis for understanding revenues arising from contracts with customers are omitted because the same content is stated in “(Revenue recognition)” in notes to the consolidated financial statements.

(Significant subsequent events)

Not applicable

4) Non-consolidated schedules

[Details of property, plant and equipment]

(Millions of yen)

Classification	Type of assets	Balance at the beginning of period	Increase in FY2023	Decrease in FY2023	Depreciation in FY2023	Balance at the end of period	Accumulate depreciation
Property, plant and equipment	Buildings	6,585	176	0	580	6,181	22,886
	Structures	608	29	0	62	575	5,933
	Machinery and equipment	112	974	0	925 (875)	161	25,862
	Vehicles	0	-	-	- (-)	0	68
	Tools, furniture and fixtures	68	972	1	1,000 (900)	39	20,203
	Land	5,394	-	-	19 (19)	5,374	-
	Leased assets	0	4	0	4 (4)	0	9,634
	Construction in progress	1	2,583	2,333	250 (250)	1	-
	Total	12,771	4,740	2,334	2,842 (2,049)	12,334	84,589
Intangible assets	Software	0	340	-	340 (336)	0	-
	Other intangible assets	0	3	0	3 (3)	0	-
	Total	0	344	0	344 (339)	0	-

Notes: 1. The figures in the parentheses under “Depreciation in FY2023” represent the amount of impairment loss reported and are included in the respective amounts of depreciation presented above.

2. Details of major increases in the fiscal year under review are as follows

Machinery and equipment	Machinery and equipment in Yattajima Plant	¥871 million
Construction in progress	In relation to facilities in Yattajima Plant	¥1,432 million

[Details of provisions]

(Millions of yen)

Classification	Balance at the beginning of period	Increase in FY2023	Decrease in FY2023	Balance at the end of period
Allowance for doubtful accounts	21,337	-	6,942	14,395
Provision for loss on business of subsidiaries and affiliates	2,003	145	-	2,149
Provision for bonuses	940	1,638	1,656	922
Provision for outstanding claims	2,356	47	273	2,130
Provision for product warranties	3,413	2,343	384	5,372

Note: The reason for the appropriation and the method of calculating the amount are described in the “Significant accounting policies” section of this report.

(2) Assets and liabilities

Since the consolidated financial statements are prepared, this information is omitted.

(3) Other

Not applicable

6. Information on Transfer and Repurchase of the Company's Stock

Fiscal year	From January 1 to December 31
Annual general meeting of the shareholders	March
Record date	December 31
Record dates for dividends of surplus	June 30 December 31
Number of shares per unit of the Company's stock	100 shares
Purchase and sale of shares less than one unit	
Address for transaction	(Special account) Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Administrator of shareholders' register	(Special account) Sumitomo Mitsui Trust Bank, Limited, 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Agency	----
Charges of purchase and sale	Free
Method of public notice	Public notice shall be made by electronic public notice. However, in the event of an accident or other unavoidable circumstances that prevent electronic public notice from being made, it shall be published in the Nihon Keizai Shimbun (published in Tokyo) and the Jomo Shimbun (published in Maebashi City). URL for public notice: https://www.sanden.co.jp
Special benefits to shareholders	Not applicable

Note: Pursuant to the provisions of the Company's Articles of Incorporation, shareholders holding less than one standard unit of shares have no rights other than those set forth in each item of Article 189, paragraph 2 of the Companies Act, the right to receive an allotment of shares offered and stock acquisition rights offered in proportion to the number of shares held by shareholders, and the right to demand the sale of shares less than one unit.

7. Reference Information on the Company

1. Information on the parent company of the submitting company

The Company's parent companies, etc. as stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act are Hisense Home Appliances Group Co., Ltd., Kelon Development Company Limited, and Hisense Japan Automotive Air-Conditioning Systems Corporation.

2. Other reference information

The Company filed the following documents between the starting date of the fiscal year ended December 31, 2023 and the date when this Securities Report (Yukashoken-Houkokusho) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note

97th fiscal year (January 1, 2022 to December 31, 2022) Submitted to the Director of the Kanto Local Finance Bureau on March 30, 2023.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director of the Kanto Local Finance Bureau on March 30, 2023.

(3) Quarterly Securities Reports and Confirmation Notes

First quarter of the 98th fiscal year (January 1, 2023 to March 31, 2023) Submitted to the Director of the Kanto Local Finance Bureau on May 15, 2023.

Second quarter of the 98th fiscal year (April 1, 2023 to June 30, 2023) Submitted to the Director of the Kanto Local Finance Bureau on August 10, 2023.

Third quarter of the 98th fiscal year (July 1, 2023 to September 30, 2023) Submitted to the Director of the Kanto Local Finance Bureau on November 13, 2023.

(4) Extraordinary Reports

Extraordinary Report pursuant to Article 19, paragraph 2, item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (results of voting at the general meeting of shareholders)

Submitted to the Director of the Kanto Local Finance Bureau on March 31, 2023.

Extraordinary Report pursuant to Article 19, paragraph 2, item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (results of voting at the general meeting of shareholders)

Submitted to the Director of the Kanto Local Finance Bureau on June 30, 2023.

Extraordinary Report pursuant to Article 19, paragraph 2, items 12 and 19 of the Cabinet Office Order on Disclosure of Corporate Affairs (events that may have a significant impact on the financial position, operating results, and cash flows of the Company and its consolidated subsidiaries)

Submitted to the Director of the Kanto Local Finance Bureau on February 15, 2024.

Part II. Information on Guarantors for the Company

Not applicable