

SANDEN HOLDINGS CORPORATION

Nov 8, 2021

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2021

Fiscal year ended December 31, 2021

SANDEN HOLDINGS CORPORATION

20 Kotobuki-cho, Isesaki-shi, Gunma, Japan 372-8502
(URL: <https://www.sanden.co.jp/english/index.html>)

Code No: 6444
Shares listed: Tokyo Stock Exchange
Representative Director & President: Dan Zhu
For further information, please contact
Junya Takahashi
Corporate Officer
General Manager of Corporate
Management and Finance Division
Contact Number: +81-3-5209-3341

Scheduled filing date for quarterly report: November 9, 2021
Planned date of dividend payment: -
Supplementary briefing materials created for the quarterly report: None
Briefing sessions held on quarterly results: None

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the second quarter of current fiscal year (April 1, 2021- September 30, 2021)

(1) Results of operations (%: percentage change from previous fiscal year)

	Net sales (Millions of ¥, %)	Operating income (Millions of ¥, %)	Income before extraordinary items (Millions of ¥, %)	Net income (Millions of ¥, %)
2Q of Fiscal year ending December 31, 2021	80,183	(10,974)	(11,643)	18,491
2Q of Fiscal year ended March 31, 2021	55,423 (56.7)	(7,764)	(12,911)	(13,535)

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ending December 31, 2021 ¥ 20,732million -%
2Q of Fiscal year ended March 31, 2021 ¥ (13,476)million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ending December 31, 2021	211.28	-
2Q of Fiscal year ended March 31, 2021	(487.70)	-

Notes: 1. The current consolidated fiscal year is the elapsed period of the change in financial year end, and the consolidated cumulative period for the second quarter of the current fiscal year is 6 months for the Company and its consolidated subsidiaries whose financial statements were settled in March (April 1, 2021 to September 30, 2021). The consolidated subsidiaries with December settlement have irregular settlement with 9 months (January 1, 2021 to September 30, 2021) as the consolidated period. For this reason, the rate of increase / decrease compared to the previous quarter is not stated.

2. The "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No. 29, March 31, 2020) has been applied from the beginning of the first quarter of the current consolidated accounting period, and each figure for the second quarter of December 2021 is based on applying the relevant accounting standards.

(2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity Ratio of equity over total assets (%)	Net assets per share (¥)
2Q of Fiscal year ending December 31, 2021	145,160	25,230	16.6	216.60
Fiscal year ended March 31, 2021	155,081	(16,956)	(11.9)	(664.58)

Notes: Equity capital 2Q of Fiscal year ending December 31, 2021 ¥ 24,136million
Fiscal year ended March 31, 2021 ¥ (18,446)million

2. Dividends

	Dividend per share (¥)				Total
	1Q	2Q	3Q	4Q	
Fiscal year ended March 31, 2021	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2021	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2021 (Forecast)	-	0.00	-	0.00	0.00

Note: Revisions made since the most recently published dividends forecast: None

3. Forecast of business results for the next fiscal year (April 1, 2021-December 31, 2021)

(%: percentage change from the same period of the previous fiscal year)

	Net sales (Millions of ¥, %)	Operating income (Millions of ¥, %)	Income before extraordinary items (Millions of ¥, %)	Net income (Millions of ¥, %)	Net income per share basic (¥)				
Fiscal year ending December 31, 2021	120,000	-	(12,000)	-	(14,000)	-	16,500	-	174.25

Note:1. Revisions made since the most recently published earnings forecast: None

2. The current consolidated fiscal year is the elapsed period of the change in financial year end, and the current consolidated fiscal year is 9 months for the Company and its consolidated subsidiaries whose financial statements were settled in March (April 1, 2021 to December 31, 2021). The consolidated subsidiaries with December settlement have irregular settlement with 12 months (January 1, 2021 to December 31, 2021) as the consolidated period. For this reason, the rate of increase / decrease compared to the previous quarter is not stated.

*Notes

- (1) Changes in significant subsidiaries during the second quarter of the current fiscal year (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
- (2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements: Yes
- (3) Changes in accounting principles and estimates, and retrospective restatement
 - (a) Changes due to revision of accounting standards: Yes
 - (b) Changes other than in (a): None
 - (c) Changes in accounting estimates: None
 - (d) Retrospective restatement: None

(4) Number of outstanding shares (common stock, shares)

(a) Outstanding shares (including treasury shares)	As of September 30, 2021:	111,693,313	As of March 31, 2021:	28,066,313
(b) Treasury shares	As of September 30, 2021:	259,466	As of March 31, 2021:	309,793
(c) Average number of shares outstanding during the second quarter (cumulative)	As of September 30, 2021:	87,518,962	As of September 30, 2020:	27,753,495

*Summary of quarterly financial results is exempt from quarterly review of audit procedures of Certified Public Accountant or Audit Firm.

*Cautionary statement regarding forecasts of operating results and special notes
(Note regarding the forward-looking statements)

The forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions which are regarded as legitimate. These statements are not promised by the Company regarding future performance. Actual results may differ significantly from these forecasts due to various factors. For information about the forecasts, please see "1. Qualitative Information on Quarterly Financial Results-(3) An explanation of future, predictive data, such as consolidated earnings forecasts" on page 3 of Supplementary Information.

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1. Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

The activities of the Sanden Group are guided by the vision of “constantly leading the way to a prosperous society with environmental responsibility and comfort to be an organization that is trusted by everyone.” With the global automobile industry currently in the midst of a period of enormous changes, we are focusing on providing solutions with advanced technologies for electric vehicles with growth potential, increasing our presence in China and Europe, two major growing markets, and further enlarging our broad customer base. As we take these actions, we will continue to be a source of products and services that accurately target the environmental requirements of our customers.

At the third meeting of creditors that was held on May 7, 2021, all financial institutions that are Sanden Group creditors approved the business revitalization plan. This step was part of a special certified dispute resolution procedure (business revitalization alternative dispute resolution (ADR) procedure) in accordance with the Act on Strengthening Industrial Competitiveness, which the Sanden Group applied for on June 30, 2020. On May 31, 2021, Sanden Holdings received a payment for newly issued stock sold through a third-party allotment. The purchaser of this stock is Hisense Japan Automotive Air-Conditioning Systems Godo Kaisha, a special purpose company established by Hisense Home Appliances Group Co., Ltd. On the same day, debt forgiveness by financial institutions became effective, which improved the financial soundness of Sanden Holdings. Due to the sale of this stock, Sanden Holdings has become a member of the Hisense Home Appliance Group in which Hisense Group Holdings Co., Ltd. is the parent company.

We plan to increase the speed of business revitalization activities by maximizing synergies with the Hisense Group. Currently, we are moving forward with five business reform plans in accordance with the business revitalization plan: (1) comprehensive reorganization of production system; (2) enhancement of basic earning power; (3) growth by actively promoting “collaborative creation”; (4) strengthening of measures to generate cash flows; and (5) reform in system for implementation. During the first two quarters of the current fiscal period, the Sanden Group took the following actions and plans to speed up these initiatives in order to supply customers with new and even better technologies and services.

(Initiatives during the first two quarters of the current fiscal period)

- Reorganized production operations on a global scale to become more competitive by sharing production and consolidating parts procurement to reflect product life cycles and sales volumes
- Established an R&D center in China, the world’s largest automobile market
- Increased activities in joint development activities with the Hisense Group involving integrated thermal management for electric vehicles for growth in this market sector
- Decided to reorganize eight wholly owned subsidiaries of Sanden Holdings for the purpose of using our resources more efficiently and speeding up decisions for accurately meeting customers’ needs. This was announced on September 28, 2021 in a release titled “Notice Concerning Execution of Agreements for the Merger (absorption-type merger) and Agreement for a Company Split (simple-form absorption-type company split) with Our Wholly-owned Subsidiaries, Change of Our Trade Name and Partial Amendment of Our Articles of Incorporation.”

Sanden Group has decided to make our fiscal year the same as the fiscal year used by the Hisense Group to strengthen our accounting and management operations and make these activities more efficient. As a result, the current fiscal period is a transitional nine-month period from April 1 to December 31, 2021. Beginning in 2022, we will use the calendar year as our fiscal year. Financial information for the second quarter of current fiscal year includes the results of operations for six-month period (April 1 to September 30, 2021) for Sanden Holdings and consolidated subsidiaries that had a March fiscal year end and for nine-month period (January 1 to September 30, 2021) for consolidated subsidiaries that use the calendar year. Due to this transitional treatment, there are no prior-year comparisons.

During the first two quarters of this transitional fiscal period, the global economy recovered along with progress with COVID-19 vaccinations and demand for automobiles was gradually recovering especially in China. This recovery is continuing despite the remaining effects of new waves of infections in some regions of Asia. However, surging prices of raw materials and a shortage of semiconductors and some other parts due to the rapid economic recovery are holding down the pace of economic growth.

Although sales are recovering throughout the Sanden Group, performance in the second quarter was affected by a decline in automobile production caused by the semiconductor shortage, shortages of some parts and lockdowns in some Asian countries. The result was sales of 80,183 million yen in the first two quarters.

While profitability improved because of the growth in the scale of operations as sales recovered, earnings were negatively affected by the sharp increase in the cost of raw materials and an increase in the cost of air freight due to delays in deliveries of some parts. In addition, there was an increase in inventory valuation losses because of the higher speed of business revitalization activities. As a result, there was an operating loss of 10,974 million yen.

The ordinary loss was 11,643 million yen because of the operating loss and expenses associated with the business revitalization ADR procedure. The profit attributable to owners of parent was 18,491 million yen. Despite the ordinary loss and business restructuring expenses based on the business revitalization plan for the global reorganization of production operations to reflect the business climate and customers' needs, the profit was the result of a gain recorded for debt forgiveness by financial institutions due to the completion of the business revitalization ADR procedure.

There is no business segment information because Automotive Systems is the only reportable segment of the Sanden Group.

(2) An explanation of Financial Condition

A. Assets, liabilities and net assets

Total assets were 145,160 million yen at the end of the second quarter, down 9,921 million yen from the end of the previous fiscal year. This decrease was mainly attributable to declines in trade receivables and in property, plant and equipment mainly associated with the recognition of impairment losses.

Total liabilities decreased 52,107 million yen to 119,930 million yen mainly because of debt forgiveness of 63,000 million yen due to the business revitalization ADR procedure and the repayment of remaining long-term borrowings.

Net assets were 25,230 million yen at the end of the second quarter, an increase of 42,186 million yen from the negative net assets at the end of the previous fiscal year. This improvement was the result of the third-party allotment of stock to Hisense Japan Automotive Air-Conditioning Systems Godo Kaisha and of the profit attributable to owners of parent.

B. Cash flows

Cash and cash equivalents were 22,154 million yen at the end of the second quarter, 3,951 million yen more than at the end of the previous fiscal year.

Net cash used in operating activities was 7,330 million yen as cash was provided by a decrease in trade receivables and used by an increase in inventories and a decrease in trade payables.

Net cash used in investing activities was 3,356 million yen mainly because of 3,423 million yen for the purchase of property, plant and equipment.

Net cash provided by financing activities was 14,371 million yen as cash was used for the repayment of long-term borrowings and provided by the issuance of shares and an increase in short-term borrowings.

(3) An explanation of future, predictive data, such as consolidated earnings forecasts

The Sanden Group is conducting business operations in accordance with the business revitalization plan determined by the business revitalization ADR procedure. Since the announcement of the current forecast for the fiscal period ending in December 2021, business operations have been negatively affected by a decrease in sales caused by the semiconductor shortage and the rising cost of logistics because of supply chain disruption, whereas there have been positive factors including an increase in after-market sales activities and the depreciation of the yen. As a result, there is no change in the current forecast.

This forecast assumes exchange rates of 111.00 yen to the U.S. dollar and 131.00 yen to the euro.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2021 (As of March 31, 2021)	First half ended September 2021 (As of September 30, 2021)
ASSETS		
Current assets		
Cash and deposits	19,899	23,839
Notes and accounts receivable - trade	44,979	-
Notes and accounts receivable - trade, and contract assets	-	38,983
Merchandise and finished goods	12,762	15,489
Work in process	5,579	6,649
Raw materials	6,099	7,502
Other inventories	2,386	1,557
Accounts receivable - other	4,197	3,366
Consumption taxes receivable	4,225	3,020
Other	9,420	7,745
Allowance for doubtful accounts	(16,702)	(17,111)
Total current assets	92,847	91,042
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	14,820	14,105
Machinery, equipment and vehicles, net	10,223	5,936
Tools, furniture and fixtures, net	2,342	2,017
Land	10,094	6,682
Leased assets, net	1,816	2,028
Construction in progress	4,125	2,501
Total property, plant and equipment	43,423	33,273
Intangible assets		
Other	815	691
Total intangible assets	815	691
Investments and other assets		
Investment securities	15,196	18,391
Retirement benefit asset	134	134
Deferred tax assets	1,380	279
Other	4,640	2,590
Allowance for doubtful accounts	(3,356)	(1,243)
Total investments and other assets	17,995	20,153
Total noncurrent assets	62,234	54,117
Total assets	155,081	145,160

(Million yen)

	Fiscal year ended March 2021 (As of March 31, 2021)	First half ended September 2021 (As of September 30, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	33,030	30,207
Short-term borrowings	56,986	31,659
Current portion of bonds payable	2,185	-
Current portion of long-term borrowings	24,292	485
Accounts payable - other	9,072	6,489
Lease obligations	2,656	2,417
Income taxes payable	452	779
Provision for bonuses	1,330	1,409
Provision for sales rebates	166	-
Provision for product warranties	2,757	5,123
Provision for loss on compensation for damage	-	2,428
Provision for business restructuring	-	14,369
Other	8,993	10,256
Total current liabilities	141,923	105,626
Noncurrent liabilities		
Bonds payable	1,662	-
Long-term borrowings	15,719	328
Lease obligations	6,649	6,488
Deferred tax liabilities	336	1,861
Retirement benefit liability	2,569	2,501
Provision for environmental measures	505	493
Provision for share-based compensation	158	54
Other	2,512	2,574
Total noncurrent liabilities	30,114	14,303
Total liabilities	172,037	119,930
NET ASSETS		
Shareholders' equity		
Share capital	11,037	21,741
Capital surplus	3,377	14,081
Retained earnings	(30,944)	(12,517)
Treasury shares	(674)	(565)
Total shareholders' equity	(17,204)	22,740
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	6
Deferred gains or losses on hedges	(28)	-
Foreign currency translation adjustment	(873)	1,560
Remeasurements of defined benefit plans	(341)	(170)
Total accumulated other comprehensive income	(1,241)	1,396
Non-controlling interests	1,490	1,093
Total net assets	(16,956)	25,230
Total liabilities and net assets	155,081	145,160

(2) Statements of quarterly consolidated income and consolidated comprehensive income

Quarterly consolidated statement of income
First half of the fiscal year

(Million yen)

	First half ended September 2020 (April 1, 2020 – September 30, 2020)	First half ended September 2021 (April 1, 2021 – September 30, 2021)
Net sales	55,423	80,183
Cost of sales	52,296	74,488
Gross profit	3,127	5,695
Selling, general and administrative expenses	10,891	16,669
Operating income (loss)	(7,764)	(10,974)
Non-operating income		
Interest income	259	161
Dividend income	5	5
Share of profit of entities accounted for using equity method	-	1,481
Rental income	387	462
Other	103	228
Total non-operating income	756	2,338
Non-operating expenses		
Interest expenses	945	686
Foreign exchange losses	1,478	370
Share of loss of entities accounted for using equity method	2,353	-
Commission expenses	446	910
Other	679	1,039
Total non-operating expenses	5,904	3,007
Ordinary income (loss)	(12,911)	(11,643)
Extraordinary income		
Gain on forgiveness of debts	-	63,000
Gain on sales of non-current assets	92	79
Other	28	90
Total extraordinary income	120	63,170
Extraordinary losses		
Impairment losses	-	10,881
Loss on disposal of non-current assets	27	319
Shutdown expenses	957	-
Business restructuring expenses	-	15,056
Provision for loss on compensation for damage	-	2,428
Other	145	78
Total extraordinary losses	1,130	28,764
Profit (loss) before income taxes	(13,921)	22,763
Income taxes	14	4,753
Profit (loss)	(13,935)	18,010
Profit (loss) attributable to non-controlling interests	(400)	(481)
Profit (loss) attributable to owners of parent	(13,535)	18,491

Quarterly consolidated statement of comprehensive income
 First half of the fiscal year

(Million yen)

	First half ended September 2020 (April 1, 2020 – September 30, 2020)	First half ended September 2021 (April 1, 2021 – September 30, 2021)
Profit (loss)	(13,935)	18,010
Other comprehensive income		
Valuation difference on available-for-sale securities	1	5
Deferred gains or losses on hedges	4	28
Foreign currency translation adjustment	(0)	999
Remeasurements of defined benefit plans, net of tax	290	171
Share of other comprehensive income of entities accounted for using equity method	163	1,518
Total other comprehensive income	459	2,722
Comprehensive income	(13,476)	20,732
Comprehensive income attributable to owners of parent	(13,006)	21,129
Comprehensive income attributable to non-controlling interests	(469)	(396)

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half ended Sep. 2020 (Apr. 1, 2020 – Sep. 30, 2020)	First half ended Sep. 2021 (Apr. 1, 2021– Sep. 30, 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	(13,921)	22,763
Depreciation	4,209	2,733
Increase (decrease) in provision for bonuses	(100)	70
Increase (decrease) in allowance for doubtful accounts	(114)	(2,173)
Increase (decrease) in provision for product warranties	52	2,332
Increase (decrease) in provision for loss on compensation for damage	-	2,428
Interest and dividend income	(265)	(166)
Interest expenses	945	686
Share of loss (profit) of entities accounted for using equity method	2,353	(1,481)
Gain on forgiveness of debts	-	(63,000)
Impairment losses	-	10,881
Business restructuring expenses	-	15,056
Decrease (increase) in trade receivables	5,014	6,824
Decrease (increase) in inventories	6,278	(4,016)
Decrease (increase) in accounts receivable - other	(545)	804
Decrease (increase) in consumption taxes refund receivable	797	1,077
Increase (decrease) in trade payables	(8,444)	(3,411)
Increase (decrease) in accounts payable - other	71	(1,542)
Increase (decrease) in accrued expenses	(204)	3,151
Other, net	(18)	(836)
Subtotal	(3,889)	(7,815)
Interest and dividends received	979	1,705
Interest paid	(875)	(651)
Income taxes refund (paid)	(37)	(569)
Net cash provided by (used in) operating activities	(3,823)	(7,330)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,858)	(3,423)
Proceeds from sales of property, plant and equipment	153	302
Purchase of intangible assets	(588)	(68)
Purchase of investment securities	(7)	(15)
Proceeds from sales of investment securities	1	-
Collection of proceeds from sales of shares of subsidiaries for prior periods	1,000	-
Other, net	(17)	(151)
Net cash provided by (used in) investing activities	(2,317)	(3,356)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	4,625	12,199
Proceeds from long-term borrowings	77	-
Repayments of long-term borrowings	(3,959)	(17,092)
Redemption of bonds	(892)	(800)
Proceeds from issuance of shares	-	21,408
Repayments of lease obligations	(1,371)	(1,453)
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	30	109
Dividends paid to non-controlling interests	(30)	-
Net cash provided by (used in) financing activities	(1,520)	14,371
Effect of exchange rate change on cash and cash equivalents	5	267
Net increase (decrease) in cash and cash equivalents	(7,655)	3,951
Cash and cash equivalents at beginning of period	23,711	18,203
Cash and cash equivalents at end of period	16,055	22,154

(4) Notes to the quarterly consolidated financial statements

(Notes to going concern assumptions)

None

(Notes on any significant change in amount of shareholders' equity)

On May 31, 2021, Sanden Holdings received a payment from Hisense Japan Automotive Air Conditioning Systems Godo Kaisha for a third-party allotment of stock to this company, which is a special purpose company established by Hisense Home Appliances Group Co., Ltd. The sale of this newly issued stock increased share capital and the capital surplus by 10,704 million yen each, resulting in share capital of 21,741 million yen and a capital surplus of 14,081 million yen at the end of the second quarter.

(Application of accounting methods specifically for consolidated quarterly financial statements)

	First half ended September 2021 (April 1, 2021 – September 30, 2021)
Calculation of taxes	<p>Taxes are calculated by determining a reasonable estimate of the effective tax rate, after the application of tax effect accounting, for profit before income taxes in the current fiscal year (including the first half). Quarterly profit before income taxes is then multiplied by this estimated effective tax rate to calculate taxes.</p> <p>However, when the tax calculated by using the estimated effective tax rate is believed to be significantly erroneous, taxes are calculated by using Paragraph 12 (method for using the statutory effective tax rate) in Practical Guidelines for Tax Effects on Interim Financial Statements, Etc.</p> <p>Income taxes - deferred are included in income taxes.</p>

(Change in accounting principles)

(Application of the Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, referred to as "the revenue recognition accounting standard" hereinafter) has been applied beginning with the first quarter of the fiscal period ending in December 2021. In accordance with this standard, the payment expected to be received in exchange for a product or service is recognized as revenue when the control of the product or service is transferred to the customer.

The alternative treatment specified in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition is also applied. For sales of products in Japan, revenue is recognized when a product is shipped in cases where the time between the shipment of a product and the transfer of control to a customer is the normal length of time. In addition, for made-to-order software, revenue was recognized upon completion in prior years. Beginning with the first quarter of the current fiscal period, other than when the monetary value of the order and time required for development are extremely small, revenue is instead recognized over a certain period as progress is made fulfilling the obligation to the customer. Furthermore, for buy-sell transactions where materials are sold to another company and the finished part or product fabricated using those materials is then repurchased, in prior years the materials sold to the other company were recognized as having been extinguished. Now, for transactions where there is an obligation to repurchase the materials supplied to another company following processing, the accounting method has been changed to not treating the materials as being extinguished.

Application of the revenue recognition accounting standard is performed in accordance with the transitional measures stipulated in the proviso to paragraph 84 of this standard. The cumulative effect of the retroactive application of this new standard in prior fiscal years, assuming the new accounting policy had been applied prior to the beginning of the first quarter of the current fiscal period, was added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal period in order to apply the new accounting method to retained earnings starting at that time.

The application of the revenue recognition accounting standard increased inventories by 1,016 million yen and current liabilities by 1,016 million yen. The effects of this standard on first quarter earnings and retained earnings at the beginning of the first quarter were negligible.

Due to the application of the revenue recognition accounting standard, "notes and accounts receivable-trade" in current assets in the balance sheets of prior years is included in "notes and accounts receivable-trade, and contract assets" beginning with the first quarter. In accordance with the transitional measures stipulated in paragraph 89-2 of the revenue recognition accounting standard, financial statements for the previous fiscal year have not been revised for consistency with this new presentation method.

(Application of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) has been applied beginning with the first quarter of the fiscal period ending in December 2021. In accordance with the transitional measures stipulated in paragraph 19 of this standard and in paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies stipulated by the fair value measurement standard have been applied prospectively. There is no effect on the quarterly consolidated financial statements.

(Supplementary information)

(Progress on Efforts for Excessive Liabilities Elimination)

As announced on August 12, 2021 in a release titled "Progress on Efforts for Excessive Liabilities Elimination", Sanden Holdings had net assets amounting to about 26.7 billion yen at the end of the first quarter of the current fiscal period, eliminating its excessive liabilities and net assets of about 25.2 billion yen at the end of the second quarter.

In accordance with the business revitalization plan that was announced on May 7, 2021 in a release titled "Notice on Submission of Business Revitalization Plan to Tokyo Stock Exchange, Inc.," the Sanden Group is implementing five business reform plans: (1) comprehensive reorganization of production system; (2) enhancement of basic earning power; (3) growth by actively promoting "collaborative creation"; (4) strengthening of measures to generate cash flows; and (5) reform in system for implementation. During the first two quarters of the current fiscal period, group companies have taken the following actions for business reforms. To maintain positive equity, we plan to increase the speed of these initiatives in order to supply customers with new and even better technologies and services

(Initiatives during the first two quarters of the current fiscal period)

- Reorganized production operations on a global scale to become more competitive by sharing production and consolidating parts procurement to reflect product life cycles and sales volumes
- Established an R&D center in China, the world's largest automobile market
- Increased activities in joint development activities with the Hisense Group involving integrated thermal management for electric vehicles for growth in this market sector
- Decided to reorganize eight wholly owned subsidiaries of Sanden Holdings for the purpose of using our resources more efficiently and speeding up decisions for accurately meeting customers' needs. This was announced on September 28, 2021 in a release titled "Notice Concerning Execution of Agreements for the Merger (absorption-type merger) and Agreement for a Company Split (simple-form absorption-type company split) with Our Wholly-owned Subsidiaries, Change of Our Trade Name and Partial Amendment of Our Articles of Incorporation."

Everyone at the Sanden Group has a strong commitment to the successful implementation of the business revitalization plan for revitalizing business operations and achieving sustained growth. We ask for the continued support and cooperation of all stakeholders as we continue to take many important and vital actions needed to accomplish our goals.

(Segment information)

- I First half of the previous fiscal year (April 1, 2020 – September 30, 2020)
Omitted because the Sanden Group has only the single reportable segment of Automotive Systems.
- II First half of the current fiscal year (April 1, 2021 – September 30, 2021)
Omitted because the Sanden Group has only the single reportable segment of Automotive Systems.