

SANDEN CORPORATION

Feb 25, 2022

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021

Fiscal year ended December 31, 2021

SANDEN CORPORATION

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(URL: <https://www.sanden.co.jp/english/index.html>)

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Shares listed: Tokyo Stock Exchange
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Scheduled date of annual general meeting of shareholders: March 30, 2022
Scheduled date to file annual securities report: March 30, 2022
Scheduled date to commence dividend payments: -
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for securities analysts and institutional investors)

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the current fiscal year (April 1, 2021- December 31, 2021)

(1) Results of operations

(%: percentage change from previous fiscal year)

	Net sales (Millions of ¥, %)	Operating income (Millions of ¥, %)	Ordinary income (Millions of ¥, %)	Net income (Millions of ¥, %)
Fiscal year ended December 31, 2021	119,587	(12,470)	(11,728)	15,888
Fiscal year ended March 31, 2021	137,477	(18,456)	(23,237)	(45,251)
		(32.9)		

Notes: Equity in Comprehensive Income: December 31, 2021 ¥ 19,369million -% March 31, 2021 ¥ (41,189)million -%

	Net income per share basic (¥)	Net income per share diluted (¥)	Net income over equity ratio (%)	Ordinary income over total assets ratio (%)	Operating income over sales ratio (%)
Fiscal year ended December 31, 2021	167.79	-	713.3	(7.7)	(10.4)
Fiscal year ended March 31, 2021	(1,630.38)	-	(3,928.3)	(13.6)	(13.4)

Notes: Equity in earnings (losses) of affiliates: December 31, 2021 ¥ 2,192million March 31, 2021 ¥ (676)million

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 current 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 percentage change from the previous year 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 fiscal year ended 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 (¥)
Fiscal year ended December 31, 2021	151,189	23,835	15.1	205.51
Fiscal year ended March 31, 2021	155,081	(16,956)	(11.9)	(664.58)

Notes: Equity capital December 31, 2021 ¥ 22,901million March 31, 2021 ¥ (18,446)million

(3) Cash flows

(Millions of ¥; Fractions less than ¥1 million omitted)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended December 31, 2021	(7,409)	(5,209)	19,735	25,912
Fiscal year ended March 31, 2021	3,234	(5,661)	(3,632)	18,203

2. Dividends

	Dividend per share (¥)					Total annual dividends (Millions of ¥)	Dividend payout ratio (Consolidated) (%)	Ratio of dividend payout over net assets (Consolidated) (%)
	1Q	2Q	3Q	4Q	Total			
Fiscal year ended March 31, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 31, 2021	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ended December 31, 2022 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Forecast of business results for the next fiscal year (Jan 1, 2022-December 31, 2022)

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

	Net sales (Millions of ¥, %)	Operating income (Millions of ¥, %)	Ordinary income (Millions of ¥, %)	Net income (Millions of ¥, %)	Net income per share basic (¥)				
Fiscal year ended December 31, 2022	161,000	-	(5,000)	-	(3,500)	-	(3,700)	-	(33.20)

Note: 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 percentage change from the previous year is not stated.

*Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Changes in accounting policies, changes in accounting estimates, and restatement
 - (a) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (b) Changes other than in (a): None
 - (c) Changes in accounting estimates: None
 - (d) Restatement: None

(3) Number of issued shares (common stock, shares)

(a) Issued shares (including treasury shares)

As of December 31, 2021:	111,693,313	As of March 31, 2021:	28,066,313
As of December 31, 2021:	259,558	As of March 31, 2021:	309,793
As of December 31, 2021:	94,693,416	As of March 31, 2021:	27,754,962

(b) Treasury shares

(c) Average number of shares outstanding during the period (cumulative)

[Reference] Non-consolidated Financial Results

Non-consolidated financial results for the fiscal year ended December 2021 (April 1, 2021 – December 31, 2021)

(1) Operating results (Non-consolidated)

(Percentage figures represent year on year changes)

	Net Sales		Operating income		Ordinary income		Net income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
Fiscal year ended December 31, 2021	6,871	-	(10,923)	-	(32,919)	-	19,023	-
Fiscal year ended March 31, 2021	7,984	0.5	1,823	20.1	(13,734)	-	(42,093)	-

	Net income per share (Basic)	Net income per share (Diluted)
	Yen	Yen
Fiscal year ended December 31, 2021	200.67	-
Fiscal year ended March 31, 2021	(1,510.99)	-

Note: The current financial year is the elapsed period of the change in financial year end, and the company has an irregular financial year of 9 months (April 1, 2021 to December 31, 2021). For this reason, the percentage change from the previous year is not stated.

(2) Financial Position (Non-consolidated)

	Total assets	Net assets	Equity Ratio	Net assets per share
	Million Yen	Million Yen	%	Yen
Fiscal year ended December 31, 2021	77,383	23,586	30.5	211.47
Fiscal year ended March 31, 2021	75,725	(16,950)	(22.4)	(608.41)

Reference: Shareholders' equity

As of December 31, 2021: ¥ 23,586 million As of March 31, 2021: ¥ (16,950) million

* This report is exempt from audit conducted by certified public accountants or an audit corporation.

* Cautionary statement regarding forecasts of operating results and special notes (Notes to the forward-looking statements and others)
Forward-looking statements in these materials are based on information available to management at the time this report was prepared and assumptions that management believes are reasonable. These statements are not promised by the Company regarding future performance. Actual results may differ significantly from these statements for a number of reasons. For information about the forecasts, please see "1. Results of Operations (4) Outlook" on page 4.

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1. Results of Operations

(1) Overview of Results of Operations

The activities of Sanden Group are guided by the vision of “becoming the global leader in the fields of automotive compressors and integrated thermal management systems.” 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, which are the source of competitive advantage, 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 Sanden applied for on June 30, 2020. On May 31, 2021, Sanden 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. Due to the sale of this stock, Sanden has become a member of 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 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 current fiscal period, 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 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 Hisense Group involving integrated thermal management for electric vehicles for growth in this market sector
- Decided to reorganize eight wholly owned subsidiaries of Sanden 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.”
- Conducted an early retirement program in Japan to operate more efficiently for the successful implementation of the business reorganization and for sustained growth.

Sanden Group has decided to make our fiscal year the same as the fiscal year used by 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. The consolidated financial statements for this transitional fiscal period are for the nine months from April to December 2021 for Sanden and consolidated subsidiaries that previously ended their fiscal years in March and for the 12 months from January to December 2021 for consolidated subsidiaries that already have used the calendar year for their fiscal year. Due to this transitional treatment, there are no prior-year comparisons.

During the current fiscal period, growth of the global economy was held down by another wave of COVID-19 due to a new variant and the sharp increase in the cost of raw materials and shortages of semiconductors and some other parts caused by the rapid pace of the economic recovery, making the outlook for the economy uncertain.

Although sales of Sanden Group are recovering, primarily in China, total sales were affected by a decline in automobile production due to the semiconductor shortage, other problems involving the disruption in the supply of automotive parts and lockdowns due to pandemic in Asia.

As a result, sales totaled 119,587 million yen.

There was an operating loss of 12,470 million yen despite an improvement in profitability resulting from the larger scale of operations as sales recovered. The loss was attributable mainly to the higher cost of raw materials, higher air freight and other expenses caused by delays in supplies of parts, and an increase in inventory valuation losses associated with higher speed of business revitalization activities. The ordinary loss was 11,728 million yen because of the operating loss, expenses related to the business revitalization ADR procedure, and the early retirement program that is part of structural reforms. The profit attributable to owners of parent was 15,888 million yen. While there was an ordinary loss and business restructuring expenses for the global reorganization of production operations based on the business revitalization plan 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 Sanden Group.

(2) Overview of Financial Condition

Total assets were 151,189 million yen at the end of 2021, down 3,892 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 44,684 million yen to 127,353 million yen mainly because of decrease in borrowings due to debt forgiveness of 63,000 million yen with the business revitalization ADR procedure and the repayment of remaining long-term borrowings.

Net assets were 23,835 million yen at the end of 2021, an increase of 40,791 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..

(3) Overview of Cash Flows

Cash and cash equivalents were 25,912 million yen at the end of 2021, 7,708 million yen more than at the end of the previous fiscal year.

Net cash used in operating activities was 7,409 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 5,209 million yen mainly because of 5,460 million yen for purchase of property, plant and equipment.

Net cash provided by financing activities was 19,735 million yen as cash was used for repayment of long-term borrowings and provided by proceeds from issuance of shares and an increase in short-term borrowings.

Cash flow indicators are as follows.

	Fiscal year ended March 2021	Fiscal period ended December 2021
Equity ratio (%)	(11.9)	15.1
Market cap equity ratio (%)	7.2	16.7
Cash flow/interest-bearing debt ratio (X)	34.1	-
Interest coverage ratio (X)	1.9	-

Equity ratio is shareholders' equity divided by total assets.

Market cap equity ratio is market capitalization divided by total assets.

Cash flow/ interest-bearing debt ratio is interest-bearing debt divided by operating cash flows.

Interest coverage ratio is operating cash flows divided by interest expenses.

Notes: 1 All figures are based on consolidated financial data.

2 Market capitalization is calculated based on the number of shares issued after deducting treasury shares.

3 Operating cash flows are cash flows from operating activities in the consolidated statements of cash flows.

4 Interest-bearing debt is the sum of all interest-bearing liabilities on the consolidated balance sheets.

5 Interest expenses are interest expenses paid as shown in the consolidated statements of cash flows.

6 Cash flow/interest-bearing debt ratio and interest coverage ratio are not shown for the fiscal period that ended in December 2021 because there were negative operating cash flows.

(4) Outlook

The outlook for the business climate of Sanden Group remains uncertain because of the prolonged impacts of a new wave of COVID-19, the semiconductor shortage, the high cost of raw materials, supply chain disruptions worldwide and other reasons. Group companies will continue to conduct business operations based on the business revitalization plan of the business revitalization ADR procedure.

The sales and earnings forecasts for 2022 are as follows.

Sales will be affected by renewed upturns in COVID-19 cases worldwide, the global shortage of semiconductors and parts made of resin, reduced output by customers due to supply chain instability caused by logistics disruption, and other reasons. Nevertheless, we expect recoveries of markets in China, Europe and North America. As a result, we forecast sales of 161,000 million yen.

We forecast an operating loss of 5,000 million yen because of the shortage of parts, the high cost of logistics caused by supply chain turmoil and expenses required for progress with the business revitalization plan.

We forecast an ordinary loss of 3,500 million yen and a loss attributable to owners of parent of 3,700 million yen. These forecasts include an expected share of profit of equity-method affiliates in China.

This forecast assumes exchange rates of 110.00 yen to the U.S. dollar and 130.00 yen to the euro.

(Million yen)

	Fiscal period ended December 2021 (Actual)	Year ending December 2022 (Forecast)
Net sales	119,587	161,000
Operating income (loss)	(12,470)	(5,000)
Ordinary income (loss)	(11,728)	(3,500)
Profit (loss) attributable to owners of parent	15,888	(3,700)

(5) Fundamental policy for allocation of earnings and dividends for the current fiscal period and next year

Distributing earnings to shareholders is one of the highest priorities of Sanden. Based on our policy of making earnings distributions in accordance with consolidated results of operations, our goal is to pay a stable and consistent dividend.

During the current fiscal period that ended in December 2021, there were proceeds from the third-party allotment of shares to Hisense Group due to the completion of the business revitalization ADR procedure. In addition, financial soundness improved because of debt forgiveness by financial institutions. However, there will be no year-end dividend for 2021 because group companies are currently implementing business revitalization activities based on the business revitalization ADR procedure.

For 2022, although we have returned to positive equity, there is no plan to pay a dividend because of the outlook for the business climate to remain challenging.

We will focus our resources and activities on going everything possible to resume dividend payments quickly by benefiting as much as possible from synergies with Hisense Group in order to accelerate activities for the revitalization of business operations.

2. Basic Position concerning Selection of Accounting Standards

To begin the use of International Financial Reporting Standards (IFRS) in the future, a study is under way concerning the establishment of accounting principles and other preparations and the timing of the application of IFRS.

3. Consolidated Financial Statements and Important Notes

(1) Consolidated balance sheets

(Million yen)

	Fiscal year ended March 2021 (As of March 31, 2021)	Fiscal period ended December 2021 (As of December 31, 2021)
ASSETS		
Current assets		
Cash and deposits	19,899	27,542
Notes and accounts receivable - trade	44,979	-
Notes and accounts receivable - trade, and contract assets	-	42,414
Merchandise and finished goods	12,762	14,004
Work in process	5,579	7,121
Raw materials	6,099	9,508
Other inventories	2,386	1,575
Accounts receivable - other	4,197	3,347
Consumption taxes receivable	4,225	2,340
Other	9,420	7,826
Allowance for doubtful accounts	(16,702)	(17,479)
Total current assets	92,847	98,200
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	14,820	14,014
Machinery, equipment and vehicles, net	10,223	5,825
Tools, furniture and fixtures, net	2,342	1,877
Land	10,094	6,439
Leased assets, net	1,816	2,064
Construction in progress	4,125	3,635
Total property, plant and equipment	43,423	33,856
Intangible assets		
Other	815	688
Total intangible assets	815	688
Investments and other assets		
Investment securities	15,196	17,004
Retirement benefit asset	134	130
Deferred tax assets	1,380	206
Other	4,640	2,339
Allowance for doubtful accounts	(3,356)	(1,238)
Total investments and other assets	17,995	18,442
Total noncurrent assets	62,234	52,988
Total assets	155,081	151,189

(Million yen)

	Fiscal year ended March 2021 (As of March 31, 2021)	Fiscal period ended December 2021 (As of December 31, 2021)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	33,030	31,319
Short-term borrowings	56,986	39,366
Current portion of bonds payable	2,185	-
Current portion of long-term borrowings	24,292	274
Accounts payable - other	9,072	8,444
Lease obligations	2,656	2,320
Income taxes payable	452	1,004
Provision for bonuses	1,330	1,505
Provision for sales rebates	166	-
Provision for product warranties	2,757	4,664
Provision for loss on compensation for damage	-	2,428
Provision for business restructuring	-	14,318
Other	8,993	8,729
Total current liabilities	141,923	114,375
Noncurrent liabilities		
Bonds payable	1,662	-
Long-term borrowings	15,719	584
Lease obligations	6,649	6,051
Deferred tax liabilities	336	1,586
Retirement benefit liability	2,569	2,646
Provision for environmental measures	505	500
Provision for share-based compensation	158	-
Other	2,512	1,608
Total noncurrent liabilities	30,114	12,977
Total liabilities	172,037	127,353
NET ASSETS		
Shareholders' equity		
Share capital	11,037	21,741
Capital surplus	3,377	14,081
Retained earnings	(30,944)	(15,151)
Treasury shares	(674)	(565)
Total shareholders' equity	(17,204)	20,105
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	(4)
Deferred gains or losses on hedges	(28)	-
Foreign currency translation adjustment	(873)	3,084
Remeasurements of defined benefit plans	(341)	(284)
Total accumulated other comprehensive income	(1,241)	2,795
Non-controlling interests	1,490	934
Total net assets	(16,956)	23,835
Total liabilities and net assets	155,081	151,189

(2) Statements of consolidated income and consolidated comprehensive income

Consolidated statement of income

(Million yen)

	Fiscal year ended March 2021 (Apr. 1, 2020 – Mar. 31, 2021)	Fiscal period ended December 2021 (Apr. 1, 2021 – Dec. 31, 2021)
Net sales	137,477	119,587
Cost of sales	129,802	108,760
Gross profit	7,674	10,826
Selling, general and administrative expenses	26,131	23,297
Operating income (loss)	(18,456)	(12,470)
Non-operating income		
Interest income	450	182
Dividend income	8	8
Share of profit of entities accounted for using equity method	-	2,192
Foreign exchange gains	420	383
Rental income	734	655
Other	292	454
Total non-operating income	1,906	3,876
Non-operating expenses		
Interest expenses	1,711	698
Share of loss of entities accounted for using equity method	676	-
Advisory expenses	1,371	790
Other	2,928	1,644
Total non-operating expenses	6,687	3,134
Ordinary income (loss)	(23,237)	(11,728)
Extraordinary income		
Gain on forgiveness of debts	-	63,000
Gain on sale of non-current assets	178	86
Gain on sale of investment securities	0	-
Other	80	238
Total extraordinary income	259	63,324
Extraordinary losses		
Impairment loss	19,272	12,275
Loss on disposal of non-current assets	148	401
Shutdown expenses	957	-
Business restructuring expenses	-	16,105
Provision for loss on compensation for damage	-	2,428
Other	1,213	207
Total extraordinary losses	21,592	31,419
Profit (loss) before income taxes	(44,571)	20,177
Income taxes - current	790	2,524
Income taxes - deferred	291	2,446
Total income taxes	1,081	4,970
Profit (loss)	(45,652)	15,206
Profit (loss) attributable to non-controlling interests	(401)	(681)
Profit (loss) attributable to owners of parent	(45,251)	15,888

Consolidated statement of comprehensive income

(Million yen)

	Fiscal year ended March 2021 (Apr. 1, 2020 – Mar. 31, 2021)	Fiscal period ended December 2021 (Apr. 1, 2021 – Dec. 31, 2021)
Profit (loss)	(45,652)	15,206
Other comprehensive income		
Valuation difference on available-for-sale securities	42	(3)
Deferred gains or losses on hedges	22	28
Foreign currency translation adjustment	316	819
Remeasurements of defined benefit plans, net of tax	1,306	57
Share of other comprehensive income of entities accounted for using equity method	2,775	3,261
Total other comprehensive income	4,463	4,163
Comprehensive income	(41,189)	19,369
Comprehensive income attributable to owners of parent	(40,760)	19,925
Comprehensive income attributable to non-controlling interests	(428)	(555)

(3) Consolidated statement of changes in equity
 Previous fiscal year (Apr. 1, 2020 –Mar. 31, 2021)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,037	3,377	12,772	(704)	26,482
Cumulative effects of application of inflation accounting			1,825		1,825
Restated balance	11,037	3,377	14,597	(704)	28,307
Changes during period					
Profit (loss) attributable to owners of parent			(45,251)		(45,251)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				30	30
Decrease in capital surplus and retained earnings by adjustment of inflation accounting			(291)		(291)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(45,542)	30	(45,512)
Balance at end of period	11,037	3,377	(30,944)	(674)	(17,204)

	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 beginning of period	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	22,699
Cumulative effects of application of inflation accounting							1,825
Restated balance	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	24,524
Changes during period							
Profit (loss) attributable to owners of parent							(45,251)
Purchase of treasury shares							(0)
Disposal of treasury shares							30
Decrease in capital surplus and retained earnings by adjustment of inflation accounting							(291)
Net changes in items other than shareholders' equity	48	22	3,113	1,306	4,490	(459)	4,030
Total changes during period	48	22	3,113	1,306	4,490	(459)	(41,481)
Balance at end of period	1	(28)	(873)	(341)	(1,241)	1,490	(16,956)

Current fiscal period (Apr. 1, 2021 –Dec. 31, 2021)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,037	3,377	(30,944)	(674)	(17,204)
Changes during period					
Issuance of new shares	10,704	10,704			21,408
Profit (loss) attributable to owners of parent			15,888		15,888
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares			(0)	109	109
Change in ownership interest of parent due to transactions with non-controlling interests			(95)		(95)
Net changes in items other than shareholders' equity					
Total changes during period	10,704	10,704	15,792	108	37,310
Balance at end of period	21,741	14,081	(15,151)	(565)	20,105

	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 beginning of period	1	(28)	(873)	(341)	(1,241)	1,490	(16,956)
Changes during period							
Issuance of new shares							21,408
Profit (loss) attributable to owners of parent							15,888
Purchase of treasury shares							(0)
Disposal of treasury shares							109
Decrease in capital surplus and retained earnings by adjustment of inflation accounting							(95)
Net changes in items other than shareholders' equity	(6)	28	3,957	57	4,037	(555)	3,481
Total changes during period	(6)	28	3,957	57	4,037	(555)	40,791
Balance at end of period	(4)	-	3,084	(284)	2,795	934	23,835

(4) Consolidated statement of cash flows

(Million yen)

	Fiscal year ended Mar. 2021 (Apr. 1, 2020 – Mar. 31, 2021)	Fiscal period ended Dec. 2021 (Apr. 1, 2021 – Dec. 31, 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	(44,571)	20,177
Depreciation	8,607	3,635
Amortization of goodwill	13	-
Increase (decrease) in provision for bonuses	(156)	153
Increase (decrease) in retirement benefit liability	(962)	(98)
Increase (decrease) in allowance for doubtful accounts	723	(2,174)
Increase (decrease) in provision for product warranties	968	1,858
Increase (decrease) in provision for environmental measures	290	(4)
Increase (decrease) in provision for loss on compensation for damage	-	2,428
Interest and dividend income	(459)	(190)
Interest expenses	1,711	692
Share of loss (profit) of entities accounted for using equity method	676	(2,192)
Gain on sale of non-current assets	(178)	(86)
Loss on disposal of non-current assets	148	401
Loss (gain) on sale of investment securities	0	-
Gain on forgiveness of debt	-	(63,000)
Impairment loss	19,272	12,275
Business restructuring expenses	-	16,105
Decrease (increase) in trade receivables	1,981	4,319
Decrease (increase) in inventories	9,979	(4,511)
Decrease (increase) in accounts receivable - other	451	881
Decrease (increase) in consumption taxes refund receivable	(173)	1,232
Increase (decrease) in other non-current liabilities	(259)	(308)
Increase (decrease) in trade payables	2,580	(2,690)
Increase (decrease) in accounts payable - other	2,874	2
Increase (decrease) in accrued expenses	1,078	1,934
Decrease (increase) in other current assets	69	150
Increase (decrease) in other current liabilities	(955)	948
Other, net	(210)	(1,208)
Subtotal	3,499	(9,265)
Interest and dividends received	1,591	3,244
Interest paid	(1,742)	(698)
Income taxes refund (paid)	(114)	(689)
Net cash provided by (used in) operating activities	3,234	(7,409)

(Million yen)

	Fiscal year ended Mar. 2021 (Apr. 1, 2020 – Mar. 31, 2021)	Fiscal period ended Dec. 2021 (Apr. 1, 2021 – Dec. 31, 2021)
Cash flows from investing activities		
Proceeds from collection of short-term loans receivable	0	-
Purchase of property, plant and equipment	(7,076)	(5,460)
Proceeds from sale of property, plant and equipment	1,686	318
Purchase of intangible assets	(863)	(75)
Purchase of investment securities	(14)	(13)
Proceeds from sale of investment securities	4	-
Payments into time deposits	(13)	(7)
Proceeds from withdrawal of time deposits	-	4
Proceeds from collection of sales of shares of subsidiaries for prior periods	1,000	-
Other, net	(385)	24
Net cash provided by (used in) investing activities	(5,661)	(5,209)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	8,828	18,422
Proceeds from long-term borrowings	531	-
Repayments of long-term borrowings	(8,344)	(17,512)
Redemption of bonds	(1,985)	(800)
Proceeds from issuance of shares	-	21,408
Repayments of lease obligations	(2,662)	(1,891)
Purchase of treasury shares	(0)	(0)
Proceeds from sale of treasury shares	30	109
Dividends paid to non-controlling interests	(30)	-
Other, net	(0)	0
Net cash provided by (used in) financing activities	(3,632)	19,735
Effect of exchange rate change on cash and cash equivalents	552	592
Net increase (decrease) in cash and cash equivalents	(5,507)	7,708
Cash and cash equivalents at beginning of period	23,711	18,203
Cash and cash equivalents at end of period	18,203	25,912

(5) Notes to the quarterly consolidated financial statements

(Notes to going concern assumptions)

None

(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 of the fiscal period ended 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 (ASBJ Guidance No. 30, March 31, 2020) 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 fiscal period that ended in December 2021, 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, in accordance with the alternative treatment specified in paragraph 104 of the Implementation Guidance on Revenue Recognition, 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 fiscal period that ended in December 2021, was added to or subtracted from retained earnings at the beginning of this fiscal period in order to apply the new accounting method to retained earnings starting at that time.

The application of the new revenue recognition accounting standard increased inventories by 1,044 million yen and current liabilities by 1,044 million yen. Due to the application of this standard, the provision for sales rebates in the balance sheets of prior years is treated as a refund liability and is included in other current liabilities beginning with the fiscal period that ended in December 2021 because of its low monetary significance (158 million yen at the end of 2021) and low level of uncertainty. In addition, the effects of this standard on earnings in the fiscal period that ended in December 2021 and on retained earnings at the beginning of this period were negligible.

(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 of the fiscal period ended 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 consolidated financial statements.

(Supplementary information)

(Progress on Efforts for Excessive Liabilities Elimination)

As of the end of the current fiscal period, Sanden had net assets of about 23.8 billion yen.

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.," 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 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 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 Hisense Group involving integrated thermal management for electric vehicles for growth in this market sector
- Decided to reorganize eight wholly owned subsidiaries of Sanden 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."
- Conducted an early retirement program in Japan to operate more efficiently for the successful implementation of the business reorganization and for sustained growth.

Everyone at 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 Previous fiscal year (April 1, 2020 – March 31, 2021)

Omitted because Sanden Group has only the single reportable segment of Automotive Systems.

II Current fiscal period (April 1, 2021 – December 31, 2021)

Omitted because Sanden Group has only the single reportable segment of Automotive Systems.

(Per-share information)

(Yen)

	Previous fiscal year (Apr. 1, 2020 – Mar. 31, 2021)	Current fiscal period (Apr. 1, 2021 – Dec. 31, 2021)
Net asset per share	(664.58)	205.51
Earnings (loss) per share	(1,630.38)	167.79

- Notes: 1. Diluted earnings per share for previous fiscal year is not presented since earnings per share for previous fiscal year was a negative figure and the company had no potential shares. Diluted earnings per share for current fiscal year is not presented since the company has no potential shares.
2. Shares held by the Executive Compensation Board Incentive Plan (BIP) Trust is included in treasury shares which is excluded from the average number of shares in each period used to calculate the earnings or loss per share, and is included in treasury shares which is excluded from the number of shares at the end of each period used to calculate the net assets per share. The average number of shares held by this trust was 194,771 shares in the previous fiscal year and 156,744 shares in the current fiscal period. This trust held 192,639 shares as of March 31, 2021 and 141,361 shares as of December 31, 2021.
3. The basis for calculating earnings (loss) per share is as follows.

	Previous fiscal year (Apr. 1, 2020 – Mar. 31, 2021)	Current fiscal period (Apr. 1, 2021 – Dec. 31, 2021)
Profit (loss) attributable to owners of parent (million yen)	(45,251)	15,888
Profit not attributable to common shareholders (million yen)	-	-
Profit (loss) attributable to owners of parent related to common shares (million yen)	(45,251)	15,888
Average number of shares outstanding (shares)	27,754,962	94,693,416

(Significant subsequent event)

Merger with wholly owned subsidiaries (absorption-type merger) and company split (simple form absorption-type split)

In accordance with resolutions approved at the extraordinary shareholders meeting held on December 27, 2021 and at the Board of Directors meeting held on September 28, 2021, Sanden Holdings was renamed Sanden Corporation, and Sanden Corporation merged with wholly owned subsidiaries (absorption-type merger) and there was a company split (simple absorption split) on January 1, 2022.