

SANDEN CORPORATION

August 10, 2022

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2022

Fiscal year ending December 31, 2022

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 filing date for quarterly report: August 10, 2022

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: Yes

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 (January 1, 2022- June 30, 2022)

(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, 2022	82,351	-	(3,458)	-	(1,560)	-	(1,902)	-
2Q of Fiscal year ended December 31, 2021	80,183	-	(10,974)	-	(11,643)	-	18,491	-

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ending December 31, 2022 ¥ 90million -%
2Q of Fiscal year ended December 31, 2021 ¥ 20,732million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ending December 31, 2022	(17.07)	-
2Q of Fiscal year ended December 31, 2021	211.28	-

Notes: The previous consolidated fiscal year was the elapsed period for the change in fiscal year end. For the second quarter of the previous consolidated fiscal year, the Company and its consolidated subsidiaries whose financial statements were settled in March, were consolidated for six months (April 1st, 2021 to September 30th, 2021), and those whose financial statements were settled in December, were consolidated for nine months (January 1st 2021 to September 30th, 2021). As for the current second quarter, the entire group is consolidated from January 1st 2022 to June 30th 2022. For this reason, the rate of increase / decrease compared to the previous quarter is not stated.

(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, 2022	158,452	23,960	14.5	205.58
Fiscal year ended December 31, 2021	151,189	23,835	15.1	205.51

Notes: Equity capital 2Q of Fiscal year ending December 31, 2022 ¥ 22,912million
Fiscal year ended December 31, 2021 ¥ 22,901million

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended December 31, 2021	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2022	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2022 (Forecast)	-	-	-	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 (January 1, 2022-December 31, 2022)

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

	(注: 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, 2022	161,000	-	(5,000)	-	(3,500)	-	(3,700)	-		(33.20)

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

2. The previous consolidated fiscal year was the elapsed period of the change in financial year end, and the consolidated cumulative period of the previous fiscal year is nine months (April 1st 2021 to December 31st 2021) for the Company and its consolidated subsidiaries whose financial statements were settled in March. The consolidated subsidiaries with December settlement have irregular settlement with twelve months (January 1st to December 31st, 2021) as the consolidated period. For this reason, the rate of increase / decrease compared to the previous period 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): Yes, Sanden Automotive Components Corporation.
For details, please refer to "2. Quarterly Consolidated Financial Statements and Major Notes (4) Notes to Quarterly Consolidated Financial Statements (Changes in significant subsidiaries during the second quarter of the current fiscal year)" on page 9 of the attached document.
- (2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements: Yes.
For details, please refer to "2. Quarterly Consolidated Financial Statements and Major Notes (4) Notes to Quarterly Consolidated Financial Statements (Specific accounting treatment used in the creation of the quarterly consolidated financial statements)" on page 9 of the attached document.
- (3) Changes in accounting principles and estimates, and retrospective restatement
 - (a) Changes due to revision of accounting standards: None
 - (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 June 30, 2022:	111,693,313	As of December 31, 2021:	111,693,313
(b) Treasury shares	As of June 30, 2022:	242,248	As of December 31, 2021:	259,558
(c) Average number of shares outstanding during the second quarter (cumulative)	As of June 30, 2022:	111,439,770	As of September 30, 2021:	87,518,962

*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 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.

Starting from the fiscal year ended in December 2021, 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 twelve-month period from January 1 to December 31, 2022. The consolidated financial statements for previous transitional fiscal period are for the nine months from April to December 2021. Financial information for the second quarter of the previous fiscal year includes the six-month period from April 1 to September 30, 2021 for Sanden Holdings and consolidated subsidiaries that had a March fiscal year end and the nine-month period from January 1 to September 30, 2021 for consolidated subsidiaries that already had a fiscal year ending on December 31. Due to this transitional treatment, there are no prior-year comparisons.

During the first two quarters of current fiscal year, while restrictions on economic activities due to the pandemic of the COVID-19 were eased globally, outlook of global economies are still uncertain due to impacts from extended Ukrainian situation and soaring raw material prices globally, as well as lingering supply shortages such as semiconductors and tight supply and demand in logistics.

Although there were negative impacts from declining automobile production year on year in Europe, our mainstay market, because of shortages of semiconductors, sales in the US, Asia and China were recovering. The result was sales of the first half of 82,351 million yen. Operating loss was 3,458 million yen because of lingering higher raw material prices and increase in logistic expenses in line with delayed supply despite improved profitability thanks to the merit of scale with recovering sales volume. Ordinary losses improved to 1,560 million yen thanks to foreign exchange gains on foreign currency denominated claims and obligations, as well as share of profit of entities accounted for using equity method. Consequently losses attributable to owners of parent was 1,902 million yen.

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

(2) An explanation of Financial Condition

(A) Overview of Assets, Liabilities and Net Assets

Total assets were 158,452 million yen at the end of the second quarter, up 7,262 million yen from the end of the previous fiscal year mainly because of increases in trade receivables, inventories, property, plant and equipment and investment securities

Liabilities increased 7,138 million yen to 134,492 million yen mainly because of increases in trade payables and short-term borrowings.

Net assets increased 124 million yen to 23,960 million yen because of increase in foreign currency translation adjustment despite of decrease in retained earnings.

(B) Overview of Cash Flow

Cash and cash equivalents were 16,712 million yen at the end of the second quarter, down 9,199 million yen from the end of the previous fiscal year.

Net cash used in operating activities amounted to 7,169 million yen due to decreases in accounts payable - other and allowance for doubtful accounts, as well as loss before income taxes.

Net cash used in investing activities amounted to 2,549 million yen primary due to purchase of property, plant and equipment with 2,728 million yen.

Net cash used in financing activities amounted to 838 million yen primary due to repayments of lease obligations with 1,237 million yen.

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

There has been no revision to the consolidated forecasts for the fiscal year ending December 31, 2022, which were released on February 25, 2022.

Although Russia-Ukraine situation does not have direct impacts on our group, we will inform you immediately when significant impacts are expected.

2 Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended December 2021 (As of December 31, 2021)	First half ended June 2022 (As of June 30, 2022)
ASSETS		
Current assets		
Cash and deposits	27,542	18,589
Notes and accounts receivable - trade, and contract assets	42,414	48,992
Merchandise and finished goods	14,004	16,352
Work in process	7,121	8,564
Raw materials	9,508	10,108
Other inventories	1,575	1,592
Accounts receivable - other	3,347	4,229
Consumption taxes receivable	2,340	2,650
Other	7,826	7,438
Allowance for doubtful accounts	(17,479)	(19,244)
Total current assets	98,200	99,271
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	14,014	14,597
Machinery, equipment and vehicles, net	5,825	8,294
Tools, furniture and fixtures, net	1,877	2,206
Land	6,439	6,592
Leased assets, net	2,064	2,098
Construction in progress	3,635	2,667
Total property, plant and equipment	33,856	36,457
Intangible assets		
Other	688	1,086
Total intangible assets	688	1,086
Investments and other assets		
Investment securities	17,004	20,371
Retirement benefit asset	130	130
Deferred tax assets	206	187
Other	2,339	2,365
Allowance for doubtful accounts	(1,238)	(1,417)
Total investments and other assets	18,442	21,637
Total noncurrent assets	52,988	59,180
Total assets	151,189	158,452

(Million yen)

	Fiscal year ended December 2021 (As of December 31, 2021)	First half ended June 2022 (As of June 30, 2022)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	31,319	33,981
Short-term borrowings	39,366	42,201
Current portion of long-term borrowings	274	310
Accounts payable - other	8,444	7,171
Lease obligations	2,320	2,109
Income taxes payable	1,004	1,375
Provision for bonuses	1,505	1,308
Provision for product warranties	4,664	4,692
Provision for loss on compensation for damage	2,428	2,317
Provision for business restructuring	14,318	13,678
Other	8,729	12,791
Total current liabilities	114,375	121,940
Noncurrent liabilities		
Long-term borrowings	584	503
Lease obligations	6,051	5,343
Deferred tax liabilities	1,586	1,633
Retirement benefit liability	2,646	2,948
Provision for environmental measures	500	566
Other	1,608	1,556
Total noncurrent liabilities	12,977	12,551
Total liabilities	127,353	134,492
NET ASSETS		
Shareholders' equity		
Share capital	21,741	21,741
Capital surplus	14,081	14,081
Retained earnings	(15,151)	(17,054)
Treasury shares	(565)	(531)
Total shareholders' equity	20,105	18,237
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(4)	(0)
Foreign currency translation adjustment	3,084	4,877
Remeasurements of defined benefit plans	(284)	(202)
Total accumulated other comprehensive income	2,795	4,674
Non-controlling interests	934	1,048
Total net assets	23,835	23,960
Total liabilities and net assets	151,189	158,452

(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 Sep. 2021 (Apr. 1, 2021 – Sep. 30, 2021)	First half ended Jun. 2022 (Jan. 1, 2022 – Jun. 30, 2022)
Net sales	80,183	82,351
Cost of sales	74,488	72,696
Gross profit	5,695	9,654
Selling, general and administrative expenses	16,669	13,112
Operating income (loss)	(10,974)	(3,458)
Non-operating income		
Interest income	161	42
Dividend income	5	21
Foreign exchange gains	-	1,229
Share of profit of entities accounted for using equity method	1,481	1,221
Rental income	462	371
Other	228	218
Total non-operating income	2,338	3,105
Non-operating expenses		
Interest expenses	686	446
Foreign exchange losses	370	-
Commission expenses	910	-
Other	1,039	760
Total non-operating expenses	3,007	1,207
Ordinary income (loss)	(11,643)	(1,560)
Extraordinary income		
Gain on forgiveness of debts	63,000	-
Gain on sales of non-current assets	79	16
Reversal of allowance for doubtful accounts	-	659
Reversal of provision for business restructuring	-	416
Other	90	100
Total extraordinary income	63,170	1,193
Extraordinary losses		
Impairment losses	10,881	858
Loss on disposal of non-current assets	319	83
Business restructuring expenses	15,056	-
Provision for loss on compensation for damage	2,428	-
Other	78	78
Total extraordinary losses	28,764	1,020
Profit (loss) before income taxes	22,763	(1,378)
Income taxes	4,753	541
Profit (loss)	18,010	(1,929)
Profit (loss) attributable to non-controlling interests	(481)	(26)
Profit (loss) attributable to owners of parent	18,491	(1,902)

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

(Million yen)

	First half ended Sep. 2021 (Apr. 1, 2021 – Sep. 30, 2021)	First half ended Jun. 2022 (Jan. 1, 2022 – Jun. 30, 2022)
Profit (loss)	18,010	(1,929)
Other comprehensive income		
Valuation difference on available-for-sale securities	5	2
Deferred gains or losses on hedges	28	-
Foreign currency translation adjustment	999	(337)
Remeasurements of defined benefit plans, net of tax	171	82
Share of other comprehensive income of entities accounted for using equity method	1,518	2,272
Total other comprehensive income	2,722	2,019
Comprehensive income	20,732	90
Comprehensive income attributable to owners of parent	21,129	(22)
Comprehensive income attributable to non-controlling interests	(396)	113

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half ended Sep. 2021 (Apr. 1, 2021 – Sep. 30, 2021)	First half ended Jun. 2022 (Jan. 1, 2022– Jun. 30, 2022)
Cash flows from operating activities		
Profit (loss) before income taxes	22,763	(1,378)
Depreciation	2,733	2,019
Increase (decrease) in provision for bonuses	70	(287)
Increase (decrease) in allowance for doubtful accounts	(2,173)	(1,423)
Increase (decrease) in provision for product warranties	2,332	(137)
Increase (decrease) in provision for loss on compensation for damage	2,428	(110)
Interest and dividend income	(166)	(64)
Interest expenses	686	446
Share of loss (profit) of entities accounted for using equity method	(1,481)	(1,221)
Gain on forgiveness of debts	(63,000)	-
Reversal of provision for business restructuring	-	(416)
Impairment losses	10,881	858
Business restructuring expenses	15,056	-
Decrease (increase) in trade receivables	6,824	(1,107)
Decrease (increase) in inventories	(4,016)	(1,043)
Decrease (increase) in accounts receivable - other	804	(673)
Decrease (increase) in consumption taxes refund receivable	1,077	139
Increase (decrease) in trade payables	(3,411)	908
Increase (decrease) in accounts payable - other	(1,542)	(1,808)
Increase (decrease) in accrued expenses	3,151	125
Other, net	(836)	(3,029)
Subtotal	(7,815)	(8,217)
Interest and dividends received	1,705	1,461
Interest paid	(651)	(394)
Income taxes refund (paid)	(569)	(19)
Net cash provided by (used in) operating activities	(7,330)	(7,169)
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,423)	(2,728)
Proceeds from sales of property, plant and equipment	302	89
Purchase of intangible assets	(68)	(39)
Purchase of investment securities	(15)	(12)
Other, net	(151)	142
Net cash provided by (used in) investing activities	(3,356)	(2,549)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	12,199	511
Repayments of long-term borrowings	(17,092)	(146)
Redemption of bonds	(800)	-
Proceeds from issuance of shares	21,408	-
Repayments of lease obligations	(1,453)	(1,237)
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	109	34
Net cash provided by (used in) financing activities	14,371	(838)
Effect of exchange rate change on cash and cash equivalents	267	1,356
Net increase (decrease) in cash and cash equivalents	3,951	(9,199)
Cash and cash equivalents at beginning of period	18,203	25,912
Cash and cash equivalents at end of period	22,154	16,712

(4) Notes to the quarterly consolidated financial statements

(Notes on going concern assumptions)

None

(Note on significant change in shareholders' equity)

None

(Changes in important subsidiaries during the period)

On January 1, 2022, we executed an absorption-type merger, with Sanden Holdings Corporation as the surviving company, and Sanden Automotive Components 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 the dissolving companies and executed simple-form absorption-type company split with its wholly-owned subsidiary, Sanden System Engineering Corporation ("SSE"), as the company to be split, and Sanden Holdings Corporation, as the succeeding company, shall succeed to SSE's business conducted towards the group companies. At the same time, we changed our trade name from Sanden Holding Corporation to Sanden Corporation.

Sanden Automotive Components Corporation, the dissolving company in the absorption-type merger, was our specified subsidiary.

For the detail, please see "the Notice Concerning Execution of Agreements for the Merger (absorption-type merger) and Agreement for the 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" on September 28, 2021.

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

First half of the current fiscal year
(January 1 to June 30, 2022)

Calculation of taxes

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 second quarter). Quarterly profit before income taxes is then multiplied by this estimated effective tax rate to calculate taxes.

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.

Income taxes - deferred are included in income taxes.

(Segment information)

I First half of the previous fiscal year (April 1, 2021 – September 30, 2021)

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

II First half of the current fiscal year (January 1, 2022 – June 30, 2022)

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