

SANDEN CORPORATION

August 10, 2023

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2023

Fiscal year ending December 31, 2023

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, 2023

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: Yes

Briefing sessions held on quarterly results: Yes (for securities analysts and institutional investors)

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the second quarter of current fiscal year (January 1, 2023- June 30, 2023)

(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, 2023	87,489 6.2	(4,415) -	(984) -	(315) -
2Q of Fiscal year ended December 31, 2022	82,351 -	(3,458) -	(1,560) -	(1,902) -

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ending December 31, 2023 ¥ (417) million -%

2Q of Fiscal year ended December 31, 2022 ¥ 90million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ending December 31, 2023	(2.83)	-
2Q of Fiscal year ended December 31, 2022	(17.07)	-

(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, 2023	170,740	22,949	12.9	197.76
Fiscal year ended December 31, 2022	157,428	23,366	14.3	201.75

Notes: Equity capital 2Q of Fiscal year ending December 31, 2023 ¥ 22,040million
Fiscal year ended December 31, 2022 ¥ 22,485million

2. Dividends

	Dividend per share (¥)			
	1Q	2Q	3Q	4Q
Fiscal year ended December 31, 2022	-	0.00	-	0.00
Fiscal year ending December 31, 2023	-	0.00	-	0.00
Fiscal year ending December 31, 2023 (Forecast)	-	-	-	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, 2023-December 31, 2023)

(%: 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, 2023	183,000 4.2	(5,700) -	(3,700) -	(1,600) -	(14.36)

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

***Notes**

- (1) Changes in significant subsidiaries during the first 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.
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 8 of the attached document.
- (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
For details, please refer to "2. Quarterly Consolidated Financial Statements and Major Notes (4) Notes to Quarterly Consolidated Financial Statements (Changes in accounting principles)" on page 8 of the attached document.

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

(a) Outstanding shares (including treasury shares)	As of June 30, 2023:	111,693,313	As of December 31, 2022:	111,693,313
(b) Treasury shares	As of June 30, 2023:	242,928	As of December 31, 2022:	242,686
(c) Average number of shares outstanding during the first quarter (cumulative)	As of June 30, 2023:	111,450,498	As of June 30, 2022:	111,439,770

*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 2 of Supplementary Information.

Index for Supplementary Information

1	Qualitative Information on Quarterly Financial Results	2
(1)	Explanation of Operating Results	2
(2)	Explanation of Financial Condition.....	2
(3)	Explanation of Consolidated Earnings Forecasts and Other Future Predictions	2
2	Quarterly Consolidated Financial Statements and Important Notes	3
(1)	Quarterly Consolidated Balance Sheet.....	3
(2)	Statements of Quarterly Consolidated Income and Consolidated Comprehensive Income	5
	Quarterly consolidated statement of income	
	First half of the fiscal year	5
	Quarterly consolidated statement of comprehensive income	
	First half of the fiscal year	6
(3)	Quarterly Consolidated Statement of Cash Flows	7
(4)	Notes on Consolidated Quarterly Financial Statements	8
	(Notes on going concern assumption)	8
	(Note on significant change in shareholders' equity).....	8
	(Application of accounting methods specifically for consolidated quarterly financial statements)	8
	(Change in accounting policy).....	8
	(Segment information)	8

1 Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

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.

During the first six months of the fiscal year under review, the world economy showed signs of a recovery in demand against the backdrop of the easing of restrictions on economic activities that had been imposed during the COVID-19 pandemic. However, concerns persisted, with the prolonged turmoil in Ukraine, inflation-linked interest rate hikes by central banks, surges in raw material prices around the world and supply shortages of semiconductor and other parts.

Looking at the Group’s consolidated results for the first six months of the fiscal year under review, net sales came to 87,489 million yen (up 6.2% year on year), attributable to an increase in automobile production volume compared to a year ago in the Group’s mainstay European market and other regions as well as the impact of significantly weaker yen in the foreign exchange market. Although profitability has been improving in line with higher capacity utilization associated with a recovery in sales, the Group posted an operating loss of 4,415 million yen (compared to an operating loss of 3,458 million yen a year ago), mainly attributable to surging raw material prices, the acquisition of new commercial rights, which increased 106% year on year, and a rise in research and development expenses for achieving medium- to long-term growth. The ordinary loss amounted to 984 million yen (compared to an ordinary loss of 1,560 million yen a year ago), owing to gains on the exchange valuation of foreign-currency denominated loan receivables and improvements in investment profit by the equity method. Net profit before income taxes came to 132 million yen (compared to a net loss of 1,387 million yen a year ago), primarily attributable to the reversal of allowance for restructuring initiatives, which offset the posting of fixed-asset impairment loss, etc. Consequently, losses attributable to owners of parent was 315 million yen (loss attributable to owners of parent of 1,902 million yen in the same period of the previous year).

Segment information is omitted because the Group operates a single segment of Automotive Systems Business.

(2) Explanation of Financial Condition

(A) Overview of Assets, Liabilities and Net Assets

Total assets at the end of the first six months of the fiscal year under review increased 13,312 million yen from the end of the previous fiscal year, to 170,740 million yen, primarily attributable to rises in cash and cash equivalents. Liabilities came to 147,791 million yen, up 13,730 million yen from the end of the previous fiscal year, chiefly attributable to a growth in short-term borrowings.

Net assets decreased 417 million yen from the end of the previous fiscal year, to 22,949 million yen, reflecting decreases in retained earnings and foreign currency translation adjustments.

(B) Overview of Cash Flow

Cash and cash equivalents were 24,816 million yen at the end of the second quarter, up 7,714 million yen from the end of the previous fiscal year.

Cash provided by operating activities totaled 4,425 million yen (an increase of 11,594 million yen year on year), mainly attributable to decreases in trade receivables and inventories and increases in allowance for doubtful receivables.

Net cash used in investing activities amounted to 4,473 million yen (the cash outflow increased 1,924 million yen year on year), mainly due to the acquisition of fixed assets of 4,080 million yen.

Net cash provided by financing activities was 6,681 million yen (an increase of 7,519 million yen year on year), primarily due to an increase in short-term borrowings.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions

There has been no revision to the consolidated forecasts for the fiscal year ending December 31, 2023, which were released on February 14, 2023.

2 Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheet

(Million yen)

	Fiscal year ended December 2022 (As of December 31, 2022)	First half ended June 2023 (As of June 30, 2023)
ASSETS		
Current assets		
Cash and deposits	18,620	26,532
Notes and accounts receivable - trade, and contract assets	47,667	49,123
Merchandise and finished goods	15,016	15,160
Work in process	8,050	11,619
Raw materials	10,755	6,743
Other inventories	1,789	1,710
Accounts receivable - other	3,378	3,303
Consumption taxes receivable	4,540	4,721
Other	9,338	9,715
Allowance for doubtful accounts	(17,317)	(17,846)
Total current assets	101,840	110,783
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	14,016	14,212
Machinery, equipment and vehicles, net	7,008	8,112
Tools, furniture and fixtures, net	2,810	3,223
Land	6,552	6,656
Lease assets, net	1,868	2,036
Construction in progress	3,011	4,910
Total property, plant and equipment	35,267	39,151
Intangible assets		
Other	1,138	1,209
Total intangible assets	1,138	1,209
Investments and other assets		
Investment securities	18,188	18,410
Retirement benefit asset	88	88
Deferred tax assets	14	106
Other	2,051	3,803
Allowance for doubtful accounts	(1,160)	(2,813)
Total investments and other assets	19,181	19,596
Total noncurrent assets	55,588	59,957
Total assets	157,428	170,740

(Million yen)

	Fiscal year ended December 2022 (As of December 31, 2022)	First half ended June 2023 (As of June 30, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	35,737	36,982
Short-term borrowings	48,381	56,037
Current portion of long-term borrowings	268	241
Accounts payable - other	7,344	7,870
Lease obligations	1,921	1,737
Income taxes payable	1,155	1,596
Provision for bonuses	1,692	1,452
Provision for product warranties	4,798	4,655
Loss on compensation for damage	2,356	2,131
Allowance for structural reform	9,749	8,821
Other	9,838	15,225
Total current liabilities	123,244	136,753
Noncurrent liabilities		
Long-term borrowings	355	697
Lease obligations	4,408	4,042
Deferred tax liabilities	1,772	1,884
Retirement benefit liability	2,229	2,385
Provision for environmental measures	532	541
Other	1,518	1,486
Total noncurrent liabilities	10,816	11,038
Total liabilities	134,061	147,791
NET ASSETS		
Shareholders' equity		
Share capital	21,741	21,741
Capital surplus	14,081	14,081
Retained earnings	(16,765)	(17,081)
Treasury shares	(531)	(531)
Total shareholders' equity	18,525	18,210
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(12)	54
Deferred gains or losses on hedges	-	(3)
Foreign currency translation adjustment	3,561	3,230
Remeasurements of defined benefit plans	410	549
Total accumulated other comprehensive income	3,959	3,830
Non-controlling interests	881	908
Total net assets	23,366	22,949
Total liabilities and net assets	157,428	170,740

(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 Jun. 2022 (Jan. 1, 2022 – Jun. 30, 2022)	First half ended Jun. 2023 (Jan 1, 2023 – Jun. 30, 2023)
Net sales	82,351	87,489
Cost of sales	72,696	77,465
Gross profit	9,654	10,024
Selling, general and administrative expenses	13,112	14,439
Operating profit (loss)	(3,458)	(4,415)
Non-operating income		
Interest income	42	45
Dividend income	21	28
Foreign exchange gains	1,229	1,451
Share of profit of investments accounted for using equity method	1,221	2,445
Rental income	371	401
Other	218	426
Total non-operating income	3,105	4,798
Non-operating expenses		
Interest expenses	446	738
Other	760	629
Total non-operating expenses	1,207	1,367
Ordinary profit (loss)	(1,560)	(984)
Extraordinary income		
Gain on sale of non-current assets	16	72
Reversal of allowance for doubtful accounts	659	1,050
Reversal of allowance for restructuring initiatives	416	1,277
Other	100	19
Total extraordinary income	1,193	2,420
Extraordinary losses		
Impairment losses	858	1,179
Loss on disposal of non-current assets	83	29
Other	78	94
Total extraordinary losses	1,020	1,303
Profit (loss) before income taxes	(1,387)	132
Income taxes	541	471
Profit (loss)	(1,929)	(338)
Profit (loss) attributable to non-controlling interests	(26)	(23)
Profit (loss) attributable to owners of parent	(1,902)	(315)

Quarterly consolidated statement of comprehensive income

First half of the fiscal year

(Million yen)

	First half ended Jun. 2022 (Jan. 1, 2022 – Jun. 30, 2022)	First half ended Jun. 2023 (Jan 1, 2023 – Jun. 30, 2023)
Profit (loss)	(1,929)	(338)
Other comprehensive income		
Valuation difference on available-for-sale securities	2	62
Deferred gains or losses on hedges	-	(3)
Foreign currency translation adjustment	(337)	(1,145)
Remeasurements of defined benefit plans, net of tax	82	138
Share of other comprehensive income of associates accounted for using equity method	2,272	868
Total other comprehensive income	2,019	(79)
Comprehensive income	90	(417)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(22)	(444)
Comprehensive income attributable to non-controlling interests	113	26

(3) Quarterly Consolidated Statement of Cash Flows

(Million yen)

	First half ended Jun. 2022 (Jan. 1, 2022 – Jun. 30, 2022)	First half ended Jun. 2023 (Jan 1, 2023 – Jun. 30, 2023)
Cash flows from operating activities		
Profit (loss) before income taxes	(1,387)	132
Depreciation	2,019	2,252
Increase (decrease) in provision for bonuses	(287)	(311)
Increase (decrease) in allowance for doubtful accounts	(1,423)	643
Increase (decrease) in provision for product warranties	(137)	(291)
Increase (decrease) in provision for loss on compensation for damage	(110)	(224)
Interest and dividend income	(64)	(73)
Interest expenses	446	738
Share of loss (profit) of entities accounted for using equity method	(1,221)	(2,445)
Reversal of allowance for restructuring initiatives	(416)	(1,277)
Impairment losses	858	1,179
Decrease (increase) in trade receivables	(1,107)	2,025
Decrease (increase) in inventories	(1,043)	2,545
Decrease (increase) in accounts receivable – other	(673)	144
Decrease (increase) in consumption taxes refund receivable	139	77
Increase (decrease) in trade payables	908	66
Increase (decrease) in accounts payable - other	(1,808)	(32)
Increase (decrease) in accrued expenses	125	500
Other, net	(3,029)	(3,763)
Subtotal	(8,217)	1,886
Interest and dividends received	1,461	3,284
Interest paid	(394)	(737)
Income taxes refund (paid)	(19)	(8)
Net cash provided by (used in) operating activities	(7,169)	4,425
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,728)	(4,080)
Proceeds from sales of property, plant and equipment	89	106
Purchase of intangible assets	(39)	(158)
Purchase of investment securities	(12)	(8)
Other, net	142	(332)
Net cash provided by (used in) investing activities	(2,549)	(4,473)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	511	7,455
Proceeds from long-term borrowings	-	435
Repayments of long-term borrowings	(146)	(165)
Repayments of lease obligations	(1,237)	(1,042)
Purchase of treasury shares	(0)	(0)
Proceeds from sale of treasury shares	34	-
Other, net	-	(0)
Net cash provided by (used in) financing activities	(838)	6,681
Effect of exchange rate change on cash and cash equivalents	1,356	1,081
Net increase (decrease) in cash and cash equivalents	(9,199)	7,714
Cash and cash equivalents at beginning of period	25,912	17,102
Cash and cash equivalents at end of period	16,712	24,816

(4) Notes on Consolidated Quarterly Financial Statements

(Notes on going concern assumption)

None

(Note on significant change in shareholders' equity)

None

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

	First half of the current fiscal year (January 1 to June 30, 2023)
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, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used. Income taxes - deferred are included in income taxes.

(Change in accounting policy)

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

Effective from the beginning of the first quarter of the current fiscal year, the Group applied "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021). In accordance with the transitional treatment stipulated in Paragraph 27-2 of this guidance, the Group has decided to adopt the new accounting policy stipulated by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively from the date of the change. There is no impact for the quarterly consolidated financial statements.

(Segment information)

I First half of the previous fiscal year (January 1, 2022 – June 30, 2022)

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

II First half of the current fiscal year (January 1, 2023 – June 30, 2023)

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