

SANDEN CORPORATION

November 10, 2023

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF SEPTEMBER 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: November 13, 2023
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 third quarter of current fiscal year (January 1, 2023- September 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 ¥, %)
3Q of Fiscal year ending December 31, 2023	131,715 2.9	(6,428) -	(2,192) -	(1,773) -
3Q of Fiscal year ended December 31, 2022	127,991 -	(5,507) -	(2,897) -	(2,498) -

Notes: Equity in Comprehensive Income: 3Q of Fiscal year ending December 31, 2023 ¥ (1,211) million -%
3Q of Fiscal year ended December 31, 2022 ¥ (497) million -%

	Net income per share basic (¥)	Net income per share diluted (¥)
3Q of Fiscal year ending December 31, 2023	(15.92)	-
3Q of Fiscal year ended December 31, 2022	(22.42)	-

(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 (¥)
3Q of Fiscal year ending December 31, 2023	167,183	22,155	12.7	190.76
Fiscal year ended December 31, 2022	157,428	23,366	14.3	201.75

Notes: Equity capital 3Q of Fiscal year ending December 31, 2023 ¥ 21,260 million
Fiscal year ended December 31, 2022 ¥ 22,485 million

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	-	-
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 period (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 (3) Notes to Quarterly Consolidated Financial Statements (Specific accounting treatment used in the creation of the quarterly consolidated financial statements)" on page 7 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 (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting principles)" on page 7 of the attached document.

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

(a) Outstanding shares (including treasury shares)	As of September 30, 2023:	111,693,313	As of December 31, 2022:	111,693,313
(b) Treasury shares	As of September 30, 2023:	243,057	As of December 31, 2022:	242,686
(c) Average number of shares outstanding during the third quarter (cumulative)	As of September 30, 2023:	111,450,429	As of September 30, 2022:	111,443,121

*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.

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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 nine 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 nine months of the fiscal year under review, net sales came to 131,715 million yen (up 2.9% 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 6,428 million yen (compared to an operating loss of 5,507 million yen a year ago), mainly attributable to surging raw material prices, the acquisition of new commercial rights, which increased 49% year on year, and a rise in research and development expenses (up 19.5% year on year) for achieving medium- to long-term growth. The ordinary loss amounted to 2,192 million yen (compared to an ordinary loss of 2,897 million yen a year ago), owing to improvements in investment profit by the equity method. Net loss before income taxes came to 982 million yen (compared to a net loss of 1,666 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 1,773 million yen (loss attributable to owners of parent of 2,498 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

Total assets at the end of the first nine months of the fiscal year under review increased 9,755 million yen from the end of the previous fiscal year, to 167,183 million yen, primarily attributable to rises in construction in progress.

Liabilities came to 145,027 million yen, up 10,966 million yen from the end of the previous fiscal year, chiefly attributable to a growth in short-term borrowings.

Net assets decreased 1,211 million yen from the end of the previous fiscal year, to 22,155 million yen, reflecting a decrease in retained earnings.

(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 nine months ended September 2023 (As of September 30, 2023)
ASSETS		
Current assets		
Cash and deposits	18,620	20,644
Notes and accounts receivable - trade, and contract assets	47,667	48,415
Merchandise and finished goods	15,016	15,569
Work in process	8,050	10,444
Raw materials	10,755	6,975
Other inventories	1,789	1,306
Accounts receivable - other	3,378	3,259
Consumption taxes receivable	4,540	4,199
Other	9,338	9,702
Allowance for doubtful accounts	(17,317)	(18,307)
Total current assets	101,840	102,210
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	14,016	14,110
Machinery, equipment and vehicles, net	7,008	8,711
Tools, furniture and fixtures, net	2,810	3,637
Land	6,552	6,679
Lease assets, net	1,868	1,965
Construction in progress	3,011	6,765
Total property, plant and equipment	35,267	41,868
Intangible assets		
Other	1,138	1,604
Total intangible assets	1,138	1,604
Investments and other assets		
Investment securities	18,188	20,231
Retirement benefit asset	88	88
Deferred tax assets	14	199
Other	2,051	3,800
Allowance for doubtful accounts	(1,160)	(2,818)
Total investments and other assets	19,181	21,501
Total noncurrent assets	55,588	64,973
Total assets	157,428	167,183

(Million yen)

	Fiscal year ended December 2022 (As of December 31, 2022)	First nine months ended September 2023 (As of September 30, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	35,737	36,313
Short-term borrowings	48,381	54,057
Current portion of long-term borrowings	268	225
Accounts payable - other	7,344	9,464
Lease obligations	1,921	1,630
Income taxes payable	1,155	1,398
Provision for bonuses	1,692	1,757
Provision for product warranties	4,798	4,565
Loss on compensation for damage	2,356	2,132
Allowance for structural reform	9,749	8,977
Other	9,838	13,533
Total current liabilities	123,244	134,055
Noncurrent liabilities		
Long-term borrowings	355	639
Lease obligations	4,408	3,750
Deferred tax liabilities	1,772	2,157
Retirement benefit liability	2,229	2,432
Provision for environmental measures	532	548
Other	1,518	1,443
Total noncurrent liabilities	10,816	10,972
Total liabilities	134,061	145,027
NET ASSETS		
Shareholders' equity		
Share capital	21,741	21,741
Capital surplus	14,081	14,081
Retained earnings	(16,765)	(18,539)
Treasury shares	(531)	(531)
Total shareholders' equity	18,525	16,751
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(12)	99
Deferred gains or losses on hedges	-	(5)
Foreign currency translation adjustment	3,561	3,799
Remeasurements of defined benefit plans	410	615
Total accumulated other comprehensive income	3,959	4,508
Non-controlling interests	881	895
Total net assets	23,366	22,155
Total liabilities and net assets	157,428	167,183

(2) Statements of Quarterly Consolidated Income and Consolidated Comprehensive Income

Quarterly consolidated statement of income

First nine months of the fiscal year

(Million yen)

	First nine months ended Sep. 2022 (Jan. 1, 2022 – Sep. 30, 2022)	First nine months ended Sep. 2023 (Jan. 1, 2023 – Sep. 30, 2023)
Net sales	127,991	131,715
Cost of sales	113,317	116,348
Gross profit	14,673	15,366
Selling, general and administrative expenses	20,181	21,795
Operating profit (loss)	(5,507)	(6,428)
Non-operating income		
Interest income	33	76
Dividend income	21	28
Foreign exchange gains	1,216	1,211
Share of profit of investments accounted for using equity method	2,469	3,685
Rental income	564	601
Other	317	555
Total non-operating income	4,623	6,158
Non-operating expenses		
Interest expenses	758	1,028
Other	1,255	894
Total non-operating expenses	2,014	1,922
Ordinary profit (loss)	(2,897)	(2,192)
Extraordinary income		
Gain on sale of non-current assets	43	98
Reversal of allowance for doubtful accounts	1,645	1,050
Reversal of allowance for restructuring initiatives	491	1,277
Other	109	101
Total extraordinary income	2,289	2,528
Extraordinary losses		
Impairment losses	858	1,179
Loss on disposal of non-current assets	94	44
Other	105	93
Total extraordinary losses	1,058	1,318
Profit (loss) before income taxes	(1,666)	(982)
Income taxes	891	849
Profit (loss)	(2,558)	(1,832)
Profit (loss) attributable to non-controlling interests	(59)	(58)
Profit (loss) attributable to owners of parent	(2,498)	(1,773)

Quarterly consolidated statement of comprehensive income

First nine months of the fiscal year

(Million yen)

	First nine months ended Sep. 2022 (Jan. 1, 2022 – Sep. 30, 2022)	First nine months ended Sep. 2023 (Jan. 1, 2023 – Sep. 30, 2023)
Profit (loss)	(2,558)	(1,832)
Other comprehensive income		
Valuation difference on available-for-sale securities	(4)	102
Deferred gains or losses on hedges	-	(5)
Foreign currency translation adjustment	(365)	(1,070)
Remeasurements of defined benefit plans, net of tax	158	204
Share of other comprehensive income of associates accounted for using equity method	2,273	1,390
Total other comprehensive income	2,061	621
Comprehensive income	(497)	(1,211)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(612)	(1,224)
Comprehensive income attributable to non-controlling interests	115	13

(3) 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 nine months of the current fiscal year (January 1 to September 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 third 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 nine months of the previous fiscal year (January 1, 2022 – September 30, 2022)

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

II First nine months of the current fiscal year (January 1, 2023 – September 30, 2023)

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