

Disclaimer: This document is a translation of the Japanese original. The Japanese original has been disclosed in Japan in accordance with Japanese accounting standards and the Financial Instruments and Exchange Act. This document does not contain or constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on this document. In the case that there is any discrepancy between the Japanese original and this document, the Japanese original is assumed to be correct.

# Securities Report

(Report based on Article 24, Paragraph 1 of the Financial Instruments and Exchange Act

April 1, 2019 to March 31, 2020

Business year (94th)

(Fiscal 2019)

(The English translation of the Securities Report (“Yukashoken-Houkokusho”)  
for the year ended March 31, 2020)

**SANDEN HOLDINGS CORPORATION**

The 94th Fiscal Year (April 1, 2019 to March 31, 2020)

---

# Securities Report

---

This document is based on the data used in the Securities Report based on Article 24, Paragraph 1 of the Financial Instruments and Exchange Act, and submitted to the electronic disclosure for Investors' Network (EDINET) prescribed in Article 27, Paragraph 30-2 of the Act. and printed with the table of contents and pages attached.

**SANDEN HOLDINGS CORPORATION**

# Contents

Page

The 94th (Fiscal 2019) Securities Report

Cover .....	1
<b>Part 1 Company Information</b>	
<b>1. Overview of the Company</b> .....	2
1. Key financial data and trends .....	2
2. History .....	4
3. Businesses .....	7
4. Information of subsidiaries and affiliates .....	9
5. Employees .....	12
<b>2. Business Overview</b> .....	13
1. Management policy, management environment, and issues to be addressed, etc. ....	13
2. Business and other risks .....	19
3. Analysis of financial position, operating results and cash flows by management .....	22
4. Important business contracts .....	30
5. Research and development activities .....	31
<b>3. Equipment and Facilities</b> .....	32
1. Overview of capital expenditures .....	32
2. Major equipment and facilities .....	32
3. Plans for new additions or disposals .....	33
<b>4. Corporate Information</b> .....	34
1. Information on the Company's shares .....	34
2. Acquisition of treasury stock .....	39
3. Dividend policy .....	40
4. Corporate governance .....	41
<b>5. Financial Information</b> .....	60
1. Consolidated financial statements .....	61
2. Non-consolidated financial statements .....	113
<b>6. Information on Transfer and Repurchase of the Company's Stock</b> .....	128
<b>7. Reference Information on the Company</b> .....	129
1. Information on the parent company or equivalent of the Company .....	129
2. Other reference information .....	129
<b>Part II Information on Guarantors for the Company</b> .....	129

<b>【Cover】</b>	
<b>【Document Submitted】</b>	Securities Report (“Yukashoken-Houkokusho”)
<b>【Article of the Applicable Law Requiring Submission of This Document】</b>	Article 24, Paragraph 1 of the Financial Instruments and Exchange Law
<b>【Filed to】</b>	Director, Kanto Local Finance Bureau
<b>【Date of Submission】</b>	July 29, 2020
<b>【Business Year】</b>	The 94th Fiscal Year (From April 1, 2019 To March 31, 2020)
<b>【Company name】</b>	SANDEN HOLDINGS CORPORATION
<b>【Position and Name of Representative】</b>	Katsuya Nishi, Representative Director & President
<b>【Address of headquarters】</b>	20 Kobobuki-cho, Isesaki-shi, Gunma, Japan
<b>【Phone No.】</b>	Isesaki: +81-(0)270-24-1211
<b>【Contact for Communications】</b>	Toru Akima, Director & Corporate Officer, Finance & Accounting Division
<b>【Nearest Contact】</b>	10th and 11th Floor, Akihabara Daibiru Building, 1-18-13 Soto Kanda, Chiyoda-ku, Tokyo, Japan
<b>【Phone No.】</b>	Tokyo: +81-(0)3-5209-3341-
<b>【Contact for Communications】</b>	Toru Akima, Director & Corporate Officer, Finance & Accounting Division
<b>【Place Where Available for Public Inspection】</b>	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

## Part 1. Company Information

### 1. Overview of the Company

#### 1. Key financial data and trends

##### (1) Consolidated financial data

Fiscal Year		90th	91st	92nd	93rd	94th
Year ended		March 31, 2016 (FY2015)	March 31, 2017 (FY2016)	March 31, 2018 (FY2017)	March 31, 2019 FY2018	March 31, 2020 (FY2019)
Net sales	Millions of yen	294,237	282,061	287,609	273,934	204,880
Ordinary income (loss)	Millions of yen	6,138	(2,262)	4,411	564	(9,735)
Net income (loss) attributable to owners of the parent	Millions of yen	6,965	(22,488)	4,255	(23,060)	2,287
Comprehensive income	Millions of yen	2,044	(24,232)	1,884	(27,070)	335
Net assets	Millions of yen	75,503	49,159	50,957	23,538	22,699
Total assets	Millions of yen	301,325	280,194	275,649	246,401	187,559
Net assets per share	Yen	2,537.79	1,576.34	1,633.99	685.04	747.92
Net income (loss) per share	Yen	252.15	(814.10)	154.00	(833.58)	82.54
Diluted net income per share	Yen	—	—	—	—	—
Capital adequacy ratio	%	23.3	15.5	16.4	7.7	11.1
Return on equity	%	9.9	(39.6)	9.6	(71.9)	11.5
Price earnings ratio	Times	6.4	—	9.9	—	4.4
Cash flows from operating activities	Millions of yen	6,304	10,048	7,140	3,043	7,219
Cash flows from investing activities	Millions of yen	(14,932)	(10,371)	4,093	(11,362)	28,452
Cash flows from financing activities	Millions of yen	6,066	(2,479)	(6,536)	2,679	(24,677)
Cash and cash equivalents at the end of the year	Millions of yen	17,482	14,040	18,776	13,030	23,711
Number of employees [outside of which, the average number of temporally employees]	Persons	10,696 [2,530]	10,613 [2,785]	10,106 [3,034]	9,628 [3,055]	6,509 [2,051]

Notes: 1. Consumption taxes (refer to consumption tax and local consumption tax and the same applies hereinafter) are not included in net sales.

2. Diluted net income per share for the 90th, 92nd and 94th fiscal years (fiscal 2015, 2017 and 2019) are not stated because there are no dilutive shares. Diluted net income per share for the 91st and 93rd fiscal years (fiscal 2016 and 2018) are not stated because net loss per share was reported and there are no dilutive shares.

3. In calculating the net assets per share, the Company shares held by the executive compensation Board Incentive Plan (BIP) Trust are included in the treasury stock deducted from the total number of issued shares at the end of the term. In calculating the net income or net loss per share, it is included in the amount of treasury stock to be deducted in the calculation of the average number of common shares during the term.

4. As of October 1, 2017, company shares are consolidated at a ratio of one out of every five common shares. Net assets per share, net income per share or net loss and diluted net income per share are calculated, assuming that the share consolidation took place at the beginning of the 90th fiscal year (fiscal 2015).

5. "Partial revision of 'Accounting Standards for Tax Effect Accounting'" (Corporate Accounting Standard No. 28, issued on February 16, 2018), etc. have been applied from the beginning of the 93rd fiscal year (fiscal 2018). The major management indicators, etc. for the 92nd fiscal year (fiscal 2017) are the indicators after applying the relevant accounting standards retroactively.

(2) Non-consolidated financial data

Fiscal Year		90th	91st	92nd	93rd	94th
Year ended		March 31, 2016 (FY2015)	March 31, 2017 (FY2016)	March 31, 2018 (FY2017)	March 31, 2019 (FY2018)	March 31, 2020 (FY2019)
Operating Revenue	Millions of yen	17,351	12,961	15,583	13,043	7,940
Ordinary income (loss)	Millions of yen	2,809	(3,642)	2,876	4,017	(926)
Net income (loss)	Millions of yen	4,332	(24,495)	3,692	2,506	8,312
Capital [Number of outstanding shares]	Millions of yen Shares	11,037 [140,331,565]	11,037 [140,331,565]	11,037 [28,066,313]	11,037 [28,066,313]	11,037 [28,066,313]
Total net assets	Millions of yen	39,380	13,922	14,333	16,883	25,070
Total assets	Millions of yen	130,577	118,026	100,207	105,019	111,462
Net assets per share	Yen	1,419.75	501.83	516.42	607.75	900.29
Dividend per share (of which, interim dividend)	Yen	15.00 (—)	— (—)	— (—)	— (—)	— (—)
Net income (loss)	Yen	156.20	(883.05)	133.05	90.27	298.78
Diluted net income per share	Yen	—	—	—	—	—
Capital adequacy ratio	%	30.2	11.8	14.3	16.1	22.5
Return on equity	%	11.1	(91.9)	26.1	16.1	39.6
Price earnings ratio	Times	10.3	—	11.5	8.4	1.2
Payout ratio	%	48.0	—	—	—	—
Number of employees [outside of which, average number of temporally employees]	Persons	160 [9]	176 [11]	115 [9]	58 [6]	74 [8]
Total shareholder return [Comparative index: TOPIX]	% %	62.8 [87.3]	71.7 [98.0]	59.8 [111.2]	30.9 [103.1]	16.3 [90.9]
Highest stock price	Yen	634	402	2,580 (456)	1,823	942
Lowest stock price	Yen	251	259	1,397 (288)	642	297

Notes: 1. Consumption taxes are not included in operating revenue.

2. Diluted net income per share for the 90th, 92nd and 93rd fiscal years (fiscal 2015, 2017 and 2018) are not stated because there are no dilutive shares. Diluted net income per share for the 91st fiscal year (fiscal 2016) is not stated because net loss per share was reported and there was no dilutive shares.

3. In calculating the net assets per share, the Company shares held by the executive compensation Board Incentive Plan (BIP) Trust are included in the treasury stock deducted from the total number of issued shares at the end of the term. In calculating the net income per share or net loss, it is included in the number of treasury stock to be deducted in the calculation of the average number of common shares during the term.

4. As of October 1, 2017, company shares are consolidated at a ratio of one out of every five common shares. Net assets per share, net income per share or net loss and diluted net income per share are calculated, assuming that the share consolidation took place at the beginning of the 90th fiscal year (fiscal 2015).

5. The highest and lowest stock prices are for the Tokyo Stock Exchange First Section. The stock prices for the 92nd fiscal year (fiscal 2017) are the highest and lowest stock prices after the consolidation of stocks, and the highest and lowest stock prices before the consolidation are listed in parentheses.

6. "Partial revision of 'Accounting Standards for Tax Effect Accounting'" (Corporate Accounting Standard No. 28, issued on February 16, 2018), etc. have been applied from the beginning of the 93rd fiscal year (fiscal 2018).

## 2. History

Month/Year	Items
July 1943	Established Sankyo Electric Company at No. 20 Kotobukicho, Isesaki-shi, Gunma Prefecture with a capital of ¥198 thousand to manufacture parts for wireless communication devices by synthetic resin molding, mica-condensers and paper-condensers.
March 1948	Started manufacturing the dynamo bicycle lamp.
June 1958	Started producing ice-cream refrigerating stockers, freezing and refrigerating showcases.
October 1961	Started producing fountain-type juice vending machines.
August 1962	Listed on the second section of Tokyo Stock Exchange.
July 1963	Started producing a pot-type oil heater.
December 1964	Established Sankyo Sales Company by spinning off the sales division from Sankyo Electric Company (Company name was changed to Sanden Sales Company in October 1973).
June 1970	Entered a technical collaboration agreement on automotive air-conditioner compressors with Mitchell Corporation in the U.S.
March 1971	Started producing automotive air-conditioner compressors.
April 1973	Established the Yattajima Factory (currently the Yattajima Plant) in the Yattajima Industrial Park in Isesaki-shi and started production of automotive air-conditioner compressors.
August 1973	Listed the Company stocks on the first section of Tokyo Stock Exchange and renamed "Sankyo" trademark to "Sanden."
January 1974	Obtained worldwide marketing rights for automotive air-conditioner compressors from Mitchell.
November 1974	Established Sankyo International (U.S.A.), Inc. as an overseas company (currently Sanden International (U.S.A.), Inc.) in the United States.
November 1974	Established Sankyo International Co., Ltd. (changed the company name to Sanden International Co., Ltd. on October 1, 1982).
December 1977	Established Sankyo International (Singapore) Pte. Ltd. as an overseas company (currently Sanden International (Singapore) Pte. Ltd.) in Singapore
March 1980	Obtained patent rights for automotive air-conditioner compressors owned by Mitchell
April 1980	Established Sankyo International (U.K.) Ltd. as an overseas company (currently Sanden International (Europe) Ltd.) in U. K.
October 1980	Established a plant to manufacture automotive air-conditioner compressor in Sankyo International (U.S.A).
October 1982	Established a plant to manufacture automotive air-conditioner compressors in Sankyo International (Singapore) Pte. Ltd. Changed the company name to Sanden Corporation.
July 1987	Established Sanden Logistics Co., Ltd. by making logistics department independent.
August 1987	Established Sanden System Engineering Co., Ltd. by making the computer department independent.
May 1988	Established Sanden of America, Inc. as an overseas corporation in Wiley, Texas, U.S.A. and acquired 100% stake in the Vendo Company as a production and sales base for vending machines in the US and Europe.
August 1989	Sanden International (U.S.A.), Inc. begins operation of its second plant for producing automotive air-conditioner compressors in Wiley, Texas, USA.
July 1990	Opened Sanden Communication Plaza as a training facility in Honjo City, Saitama, Japan.
May 1994	Entered a Technical Assistance Agreement with Ford Motors Corporation (U.S.A.) for manufacturing of automotive air-conditioner compressors.
April 1995	Established Sanden Manufacturing Europe S.A.S. as an overseas company in Tinteniach, France.
October 1996	Awarded EPA prize (contribution to ozone layer preservation) by the US Environment Protection Agency.
April 1997	Absorbed the subsidiary Sanden Sales Co., Ltd. and Sanden International Co., Ltd.
October 1998	Awarded Deming Prize Implementation Award to evaluate companywide quality control.
July 1999	Acquired ISO14001 certification at every business base.
June 2000	Established Sanden (Shanghai) Automotive Air-Conditioning Co., Ltd., a joint venture company with Shanghai EK CHOR General Machinery Co., Ltd. for production and sales base for automobile air-conditioner compressors in Shanghai, China.
September 2000	Established Tianjin Sanden Auto Air-Conditioning CO., LTD., which produces automotive air conditioning systems.

April 2002	Completed Sanden Forest and Akagi Plant in Seta Gun (currently Maebashi City), Gunma, Japan.
October 2002	Won a Japan Quality Control Award.
February 2004	Established a joint venture company Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (currently Sanden Huayu Automotive Air-Conditioning Co., Ltd.) in china and manufactures automotive air-conditioner compressors.
April 2004	Established Sanden Manufacturing Poland sp. z o.o. in Polkowice, Poland
May 2004	Established Shenyang Sanden Automobile Air-Conditioning Co., Ltd., which produces automotive air-conditioning systems.
September 2004	Sold 25% of the shares of Sanden Shanghai Automotive Air-Conditioning Co., Ltd., a consolidated subsidiary, to a joint venture Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd. (currently Sanden Huayu Automotive Air-Conditioning Co., Ltd.)
March 2005	Established a consolidated subsidiary Sanden Vendo America, Inc. in Dallas, U.S.A.
June 2005	Received "Europe's Best Investment Award" at the third World Investment Conference.
December 2005	Established a consolidated subsidiary, Sanden Shanghai Refrigeration Co., Ltd. in China to produce refrigerating showcases.
June 2006	Built logistics processing center in Sanden Forest.
October 2006	Sanden International (U.S.A.), Inc. and Sanden International (Singapore) Pte. Ltd. received "Deming Prize Implementation Award"
November 2006	Received the third "France-Japan Investment Award"
May 2007	Established Toyohashi Factory in Toyohashi City, Aichi Prefecture and started production of parts for automotive air conditioning systems.
June 2007	Obtained the highest rank in the "DBJ Environmental Rating" of the Development Bank of Japan
September 2008	Opened Sanden Global Center in Isesaki Headquarters, Gunma Prefecture, Japan
	Established a consolidated subsidiary, Sanden (Suzhou) Precision Parts Co., Ltd. and built a die-cast plant of automotive air-conditioner compressors.
	Received "5th Asahi Corporate Citizen Award" for continuous environmental education at Sanden Forest.
Marh 2010	Established a consolidated subsidiary Sanden Chongqing Automotive Air Conditioning Co., Ltd in China and produces automotive air-conditioning system.
August 2010	Established a consolidated subsidiary, Sanden Shanghai Thermal Environmental System Co., Ltd. in China. Produces CO <sub>2</sub> compressors.
October 2011	Sanden Vikas (India) Private Limited received "Deming Prize"
August 2012	Established a consolidated subsidiary Sanden Vikas Precision Parts Private Limited in New Delhi, India.
October 2012	Sanden Forest Akagi Plant received "Good Design Award"
November 2012	Acquired the second highest rank in "DBJ Environmental Rating" of the Development Bank of Japan
February 2013	Established a consolidated subsidiary Sanden Manufacturing Mexico S.A. DE C.V. in Mexico.
April 2013	Sanden Forest and Akagi Plant receive "2013 Prime Minister's Commendation for Greenery Promotion Personnel "
May 2014	Established 7 companies for preparatory company for transition to holding company structure by company split.
January 2015	Merged Chongqing Huaun Industry Co., Ltd. into Sanden Chongqing Automotive Air Conditioning Co., Ltd.
April 2015	Transferred to a holding company structure and change its company name to Sanden Holdings Corporation
October 2015	Established new production line of HVAC air-conditioning systems in Sanden Manufacturing Poland sp. z o.o.
February 2016	Expanded compressor production line in Sanden Manufacturing Poland sp. z o.o.
May 2016	Moved Tokyo headquarters to Akihabara Daibiru Building.
September 2016	Received Minister of the Environment Award Ozone Layer Protection / Global Warming Prevention in recognition of the development and commercialization of CO <sub>2</sub> system for plug-in and remote type of refrigerator.
January 2017	Sanwa Co., Ltd. acquired 5 domestic subsidiaries of Automotive Systems Business and Sanwa Fabtech co., Ltd. acquired 3 domestic subsidiaries of Commercial Store Systems Business.
August 2017	Established Climate Wind Tunnel which enables to produce any weather conditions in Tianjin, China and started operation.

April 2018	Completed construction of a new plant of Sanden Huayu Automotive Air-Conditioning Co., Ltd. in Shanghai, China and started production of electric compressors in August.
April 2019	Executed absorption-type company split through which its wholly owned companies, Sanden Automotive Components Corporation, Sanden Automotive Climate Systems Corporation and Sanden Retail Systems Corporation, succeed to a portion of the rights and obligations concerning shares etc. and their administration business of its subsidiary companies that are conducting Automotive Systems Business and Commercial Store Systems Business.
October 2019	Executed transfer of all the issued shares of Sanden Retail Systems Corporation to SDRS Holdings Corporation formed through contributions from affiliated business entities operated by Integral Corporation.
June 2020	Formally applied for business revitalization ADR procedures to the Japanese Association of Turnaround Professionals.

### 3. Businesses

The Group consists of the Company, 39 subsidiaries, and 9 affiliated companies, whose businesses are to manufacture and sell automotive systems and other products, and to develop related businesses such as logistics, research and other services. As a result of the transfer of all issued shares of Sanden Retail Systems Corporation, a consolidated subsidiary of the Company, to SDRS Holdings Co., Ltd. on October 1, 2019, Sanden Retail Systems Corporation and its subsidiaries are excluded from the scope of consolidation and its affiliated companies are also excluded from the scope of application of the equity method.

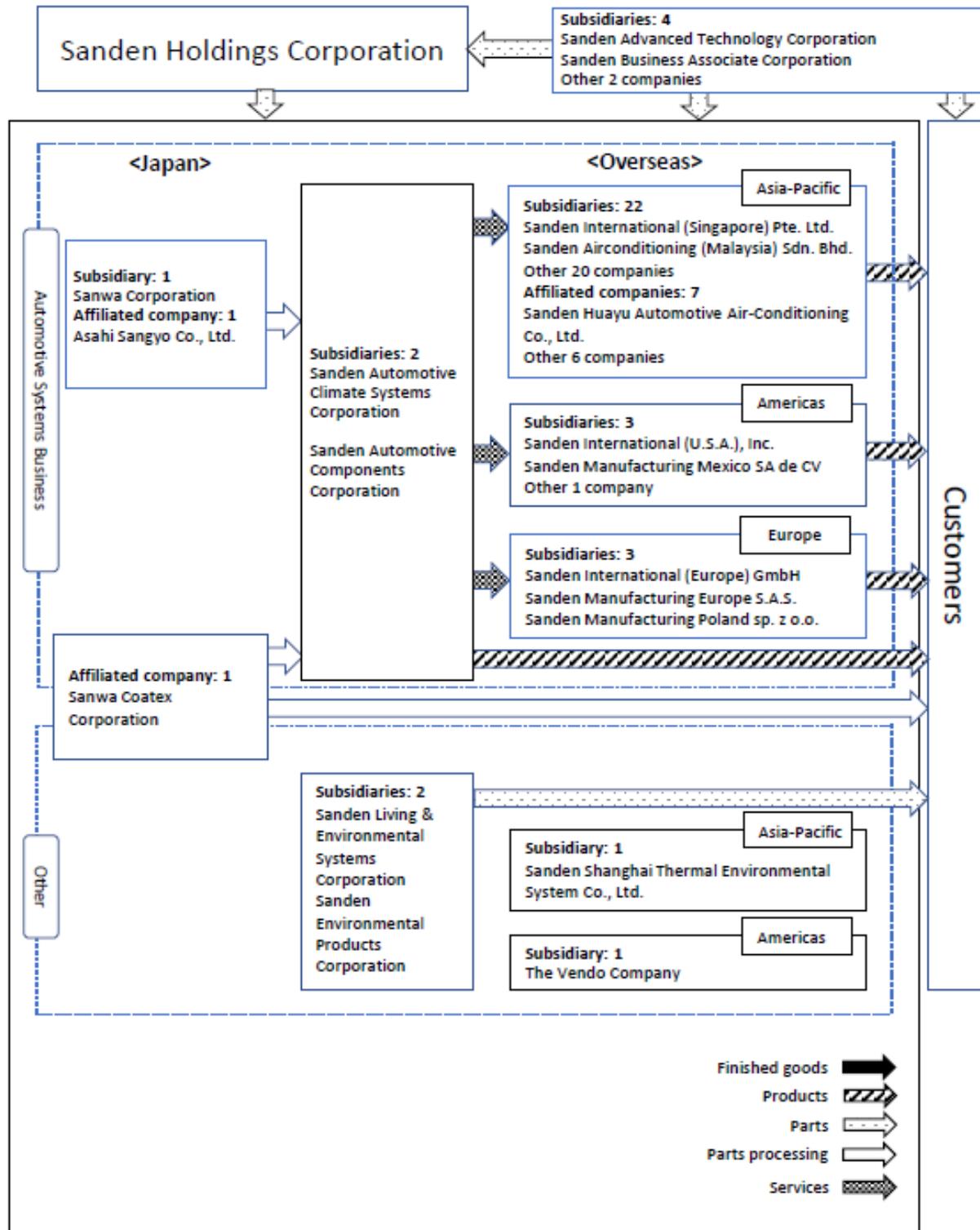
The positioning of the Group's businesses are as follows.

Segment	Main products	Main manufacturing and sales companies
<b>(1) Automotive Systems Business</b>		
Automotive air-conditioning systems and air-conditioner compressors, Automotive heat exchanger	Automotive air-conditioner compressors Air-conditioning indoor unit Engine heat exchanger Air-conditioner heat exchanger	Sanden Automotive Climate Systems Corporation Sanden Automotive Components Corporation Sanden International (U.S.A.), Inc. Sanden International (Europe) GmbH. Sanden Manufacturing Europe S.A.S. Sanden Manufacturing Poland sp. z o. o. Sanden International (Singapore) Pte. Ltd. Sanden Thailand Co., Ltd. Sanden Vikas (India) Limited. Tianjin Sanden Auto Air-Conditioning CO., LTD. Sanden Chongqing Automotive Air Conditioning Co., Ltd
<b>(2) Other</b>		
Home heating, hot water supply, environmental equipment Digital device systems	Eco-Cute heating and ventilation systems Remote monitoring, bidirectional modem	Sanden Living & Environmental Systems Corporation Sanden Environmental Products Corporation Sanden Manufacturing Europe S.A.S. Sanden International (Australia) Pty, Ltd.

Note that the Company falls under the classification of a specified listed company, and of the minor criteria of important facts regarding insider trading regulations, the numerical criteria determined by comparison with the size of the listed company will be judged based on consolidated figures.

The overview of the business structure is as follows.

(As of March 31, 2020)



#### 4. Information on subsidiaries and affiliates

##### (1) Consolidated subsidiaries

Name	Location	Capital or investment (Millions of yen)	Principal businesses	Percentage of voting rights	Relationships with Sanden Holdings		
					Business transactions	Concurrent officer Yes/None	Other relationships
Sanden Automotive Climate Systems Corporation Note 2, 5	Isesaki-shi, Gunma, Japan	1,985	Automotive equipment systems	100.0%	Mainly manufacture and sell products and parts	Yes	Lending
Sanden Automotive Components Corporation Note 2	Isesaki-shi, Gunma, Japan	2,283	Automotive equipment systems	100.0%	Mainly manufacture and sell products and parts	Yes	Lending
Sanden Living & Environmental Systems Corporation	Isesaki-shi, Gunma, Japan	100	Other	100.0%	Mainly manufacture and sell products	—	Lending Debt excess ¥4,773 million
Sanden Environmental Products Corporation	Isesaki-shi, Gunma, Japan	100	Other	100.0%	Mainly manufacture and sell products and parts	—	Lending Debt excess ¥5,718 million
Sanden Advanced Technology Corporation	Isesaki-shi, Gunma, Japan	10	Automotive equipment systems Other	100.0%	Research and development of the Group's products	Yes	
Sanden Business Associate Corporation	Isesaki-shi, Gunma, Japan	20	Other	100.0%	Professional functions such as general affairs, accounting, human resources, and logistics of the Group, factory facility management, energy supply, facility operation, human resource brokerage, vehicle insurance agency business, office equipment leasing and rental business	—	
Sanwa Corporation Note 3	Isesaki-shi, Gunma, Japan	10	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture parts	—	
Sanden System Engineering Corporation	Isesaki-shi, Gunma, Japan	30	Other	100.0%	Mainly information system development and operation	—	
Sanden Manufacturing Europe S.A.S. Note 2, 3	Tinteniac, France	EUR 21,000 thousand	Automotive equipment systems Other	100.0% (100.0%)	Mainly manufacture and sell products and parts	—	
Sanden Manufacturing Poland sp. z o.o. Note 2, 3	Polkowice, Poland	PLN 152,000 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products and parts	—	
Sanden International (Europe) GmbH Note 2, 3, 5	Bad Nauheim, Germany	EUR 25 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly sell products	Yes	Lending Debt guarantee

Name	Location	Capital or Investment (Millions of yen)	Principal businesses	Percentage of voting rights	Relationships with Sanden Holdings		
					Business transaction	Concurrent officer Yes/None	Other relationships
Sanden International (U.S.A.), Inc. Note 2, 3	Wylie Texas U.S.A.	USD 18,000 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products	Yes	Lending Debt guarantee
Sanden Manufacturing Mexico S.A. de C.V. Note 2, 3	Saltillo Coahuila, Mexico	USD 66,785 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture parts	—	
The Vendo Company Note 2	Dallas Texas U.S.A,	USD 3,445 thousand	Other	100.0%	Other	Yes	
Sanden Vikas (India) Private Limited Note 3, 4	Haryana State, India	INR 296,250 thousand	Automotive equipment systems	50.0% (46.7%)	Mainly manufacture and sell products	—	Debt guarantee
Sanden International (Singapore) Pte. Ltd.	Singapore	SGD 6,000 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products	—	Lending
Sanden Automotive Systems (Singapore) Pte. Ltd. Note 3	Singapore	SGD 9,625 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly sell products	—	
Sanden Airconditioning (Malaysia) Sdn. Bhd. Note 3	Shah Alam Selangor Darul Ehsan, Malaysia	MYR 5,600 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products	—	Lending
Tianjin Sanden Auto Air-Conditioning CO., LTD. Note 2	Tianjin, the People's Republic of China	YUAN 143,629 thousand	Automotive equipment systems	51.5%	Mainly manufacture and sell products	—	Lending Debt guarantee
Sanden (Suzhou) Precision Parts Co., Ltd. Noe 2	Wujiang City, Jiangsu, the People's Republic of China	YUAN 74,942 thousand	Automotive equipment systems	65.0%	Mainly manufacture parts	—	Lending Debt guarantee
Sanden Chongqing Automotive Air Conditioning Co., Ltd	Chongqing, the People's Republic of China	YUAN 65,124 thousand	Automotive equipment systems	100.0%	Mainly manufacture and sell products	—	Lending
Sanden International Taiwan Corporation Note 3	Taoyuan City, Taiwan	TWD 150,527 thousand	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products	—	
Sanden International Philippines Inc. Note 3	Calumba Laguna Philippines	USD 3,138 thousand	Automotive equipment systems	99.4% (99.4%)	Mainly manufacture and sell products and parts	—	Lending
P.T. Sanden Indonesia Note 3	Jakarta Indonesia	IDR 5,197 million	Automotive equipment systems	100.0% (100.0%)	Mainly manufacture and sell products and parts	—	Lending
Sanden International (Australia) Pty. Ltd. Note 3	Condell Park NSW Australia	AUD 1,500 thousand	Automotive equipment systems Other	100.0% (100.0%)	Mainly sell products and parts	—	
Sanden Thailand Co., Ltd. Note 3	Ayutthaya Thailand	THB 100,000 thousand	Automotive equipment systems	95.0% (95.0%)	Mainly manufacture and sell products and parts	—	Lending

Name	Location	Capital or Investment (Millions of yen)	Principal businesses	Percentage of voting rights	Relationships with Sanden Holdings		
					Business transaction	Concurrent officer Yes/None	Other relationships
Sanden Shanghai Thermal Environmental System Co., Ltd. Note 2	Shanghai, the People's Republic of China	USD 13,800 thousand	Other	100.0%	Mainly manufacture and sell products	—	Lending
Other 9 companies	—	—	—	—	—	—	—

- Notes: 1. The segment names are listed in the "Businesses" column.  
2. It is a specified subsidiary.  
3. The percentage of voting rights held in parentheses is the percentage of indirect ownership as an internal number.  
4. Although the ownership is 50% or less, it is a consolidated subsidiary because Sanden has substantial control.  
5. Of the consolidated subsidiaries, the following companies account for more than 10% of consolidated sales in net sales (excluding internal sales between consolidated companies).

(Millions of yen)

	Main income or loss information				
	Net sales	Ordinary income	Net income	Net assets	Total assets
Sanden Automotive Climate Systems Corporation	21,285	(1,280)	479	1,566	12,115
Sanden International (Europe) GmbH	68,875	77	(59)	13,551	46,695

(2) Affiliated companies accounted for by the equity method.

Name	Location	Capital or Investment (Millions of yen)	Principal businesses	Percentage of voting rights	Details of relationship		
					Business transaction	Concurrent officer Yes/None	Other relationships
Asahi Sangyo Co., Ltd.	Honjou-shi, Saitama, Japan	96	Automotive equipment	30.3%	Mainly manufacture parts	—	
Sanwa Coatex Co., Ltd.	Isesaki-shi, Gunma, Japan	12	Automotive equipment Other	31.7%	Mainly manufacture parts	Yes	
Sanden AI Salam LLT Note 2	Dubai United Arab Emirates	USD 1,000 Thousand	Automotive equipment	43.0% (43.0%)	Mainly manufacture products	—	
Iranian Sanden Industries Note 2	Tehran Iran	IRR 1,978,004 million	Automotive equipment systems	43.0% (43.0%)	Mainly manufacture and sell products	—	
Shenyang Sanden Automotive Air-Conditioning Co., Ltd.	Shenyang, the People's Republic of China	YUAN 82,766 thousand	Automotive equipment systems	47.5%	Mainly manufacture and sell products	—	
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Shanghai, the People's Republic of China	YUAN 834,090 thousand	Automotive equipment systems	43.0%	Mainly manufacture and sell products	—	

- Notes: 1. The segment names are listed in the "Businesses" column.  
2. The percentage of voting rights held in parentheses is the percentage of indirect ownership as an internal number.

## 5. Employees

### (1) Consolidated group companies

(As of March 31, 2020)

Segment	Number of employees (Persons)
Automotive Systems Business	6,458 (2,043)
Total of reportable segment	6,458 (2,043)
Other	51 (8)
Total	6,509 (2,051)

Notes: 1. The number of employees is those employed, and the number of temporary employees is the average number of employees for the year, which is stated in parentheses as an external number.

2. The six corporate officers are not included in the number of employees.

3. The number of employees decreased by 3,119 compared to the previous consolidated fiscal year. The main reasons are as follows.

- Sanden Retail Systems Corporation, which was engaged in the Commercial Store Systems Business, and its subsidiaries are excluded from the scope of consolidation.
- While promoting structural reforms aimed at rebuilding the management foundation, which is the basic policy of the Mid-Term Plan SCOPE 2023, the Company is radically reviewing the production system and promoting the construction of an optimal personnel system globally.

### (2) The Company

(As of March 31, 2020)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Yen)
74 (8)	45	17.6	7,845,765

Segment	Number of employees (Persons)
Company-wide	74 (8)
Total	74 (8)

Notes: 1. The number of employees is those employed, and the number of temporary employees is the average number of employees for the year, which is stated in parentheses as an external number.

2. Eight part-time employees are included in the above number of temporary employees.

3. The six corporate officers are not included in the number of employees.

4. Average annual salary includes bonus and non-standard wage.

5. Since the number of employees of the Company is included in the segment "Company-wide" figures, only the total number is shown.

### (3) Trade union

The labor union of the submitting company is referred to as JAM Sanden Labor Union, and the number of Sanden Group members is 1,102 (of which 25 are members of the submitting company). The following subsidiaries have labor unions: Sanden Manufacturing Mexico SA de CV, a consolidated subsidiary in Mexico, Sanden Manufacturing Europe S.A.S., a consolidated subsidiary in France, Sanden Manufacturing Poland sp. z o. o., a consolidated subsidiary in Poland, Tianjin Sanden Auto Air-Conditioning CO., LTD., Suzhou Sanden Precision Zero Co., Ltd., and Chongqing Sanden Automobile Air Conditioning Co., Ltd., the consolidated subsidiaries in China, and Sanden Airconditioning (Malaysia) Sdn. Bhd., a consolidated subsidiary in Malaysia, have labor unions. The relationship between labor and management has remained favorable, and there are currently no matters to note.

## 2. Business Overview

### 1. Management policy, management environment, and issues to be tackled, etc.

For the Group to continue achieving sustainable growth, the Company recognizes that restructuring its financial base is an important management issue, along with further structural reforms, improving business profitability, business growth, and strengthening capital. Recognizing these issues, the Company has established the Mid-Term Plan SCOPE 2023 with fiscal 2023 as the final year, with the basic policy of “in order to create New Sanden, we will “carry through the structural reforms” for reconstruction of the management foundation and promote “collaborative creation” for sustainable growth.” To achieve the medium-term management objectives, we are working on five reform plans: namely, Comprehensive reorganization of production system; Enhancement of basic earning power; Growth by actively promoting ‘collaborative creation’; Cash flow generation through reform in assets structure; reform in system for implementation.

Based on the mid-term management plan announced in May 2019, we planned to announce a review of the mid-term management plan that took into account the transfer of the Commercial Store Systems Business implemented in October 2019. The outlook is uncertain due to the impact of the COVID-19 pandemic, and it is currently difficult to collect appropriate information.

Furthermore, at present, the Company and some of its subsidiaries (hereinafter collectively referred to as “the Companies”), aim to establish a solid profit structure and drastically improve financial structure for future growth, and to this end, on June 30, 2020, based on financial institutions agreement, which allows related parties, to use alternative dispute resolution procedures (hereinafter referred to “business revitalization ADR procedure”) based on the Industrial Competitiveness Enhancement Act.

In the future, while proceeding with discussions with all financial institutions, we will receive research, guidance, and advice from the Japanese Association of Turnaround Professionals from a fair and neutral standpoint, and based on the consent of all financial institutions, we aim to establish a business revitalization plan. Details of the plan will be announced once the plan is established.

In light of this situation, we have decided to postpone the announcement of the revision of the mid-term management plan.

New mid-term management plan

Basic policy

Implementation period

Key strategies (5 reform plans)

## SCOPE 2023

In order to create New Sanden, we will “carry through the structural reforms” for reconstruction of the management foundation and promote “collaborative creation” for sustainable growth.

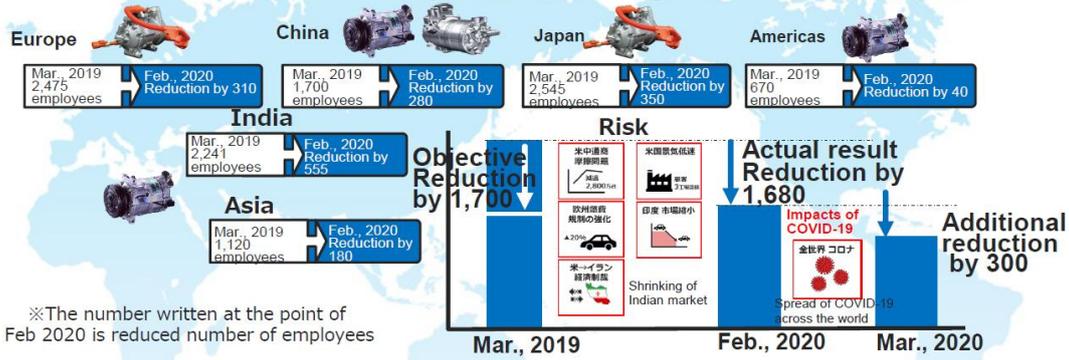
5 years from April 1, 2019 to March 31, 2024

- 1 Comprehensive reorganization of production system
- 2 Enhancement of basic earning power
- 3 Growth by actively promoting ‘collaborative creation’
- 4 Cash flow generation through reform in assets structure
- 5 Reform in system for implementation

# 1 Comprehensive reorganization of production system

Reorganization of global production system to respond to demand fluctuation is on schedule

Continuing reorganization of global production system for optimization monitoring the new corona virus impact.



## (1) Comprehensive reorganization of production system

This basic idea is an effort to review the production system according to the stage of the product life cycle and to build an optimal personnel system that responds to medium-term fluctuations in production volume.

In Japan, we reviewed the personnel system to focus on advanced models and implemented voluntary retirement as part of that.

In Europe and the United States, we are improving the efficiency of our personnel system in preparation for future production transfers.

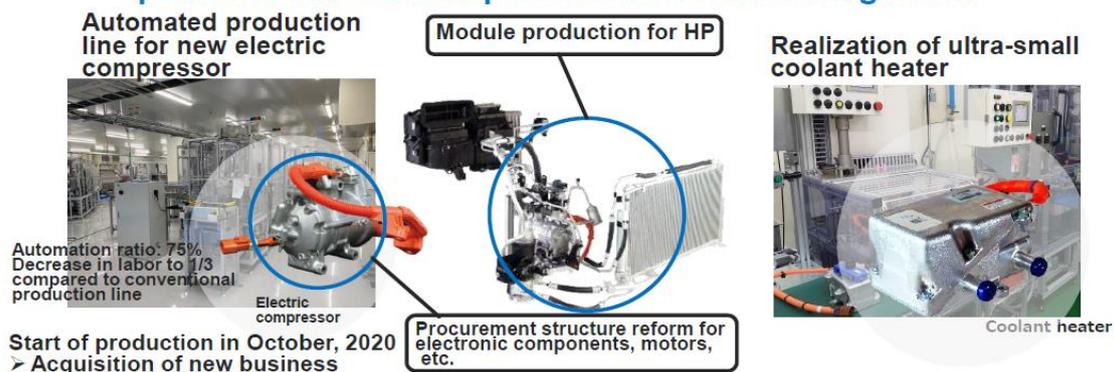
In addition, in China and Asia, we promoted the reorganization of air-conditioner Asian production bases and reviewed the personnel of each country accordingly.

Our China and India bases are promoting a shift to a system that is compatible with the slowdown in growth.

In addition to these system revisions, we conducted additional system revisions in response to the COVID-19 infectious disease, and in fiscal 2019, we improved efficiency by a total of 2,000 people.

# 2 Enhancement of basic earning power

Start of production of new environmentally compatible products that meet requirements of heat management



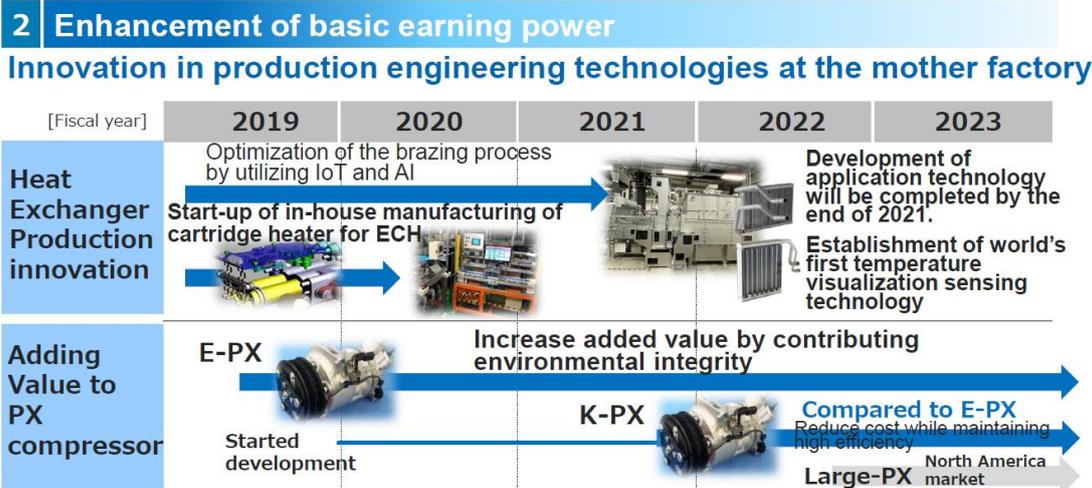
## (2) Enhancement of basic earning power

Regarding the start of production of environmentally friendly new products that support thermal management, we are making various efforts such as technological development at global development bases and main factories. Our global mother factory in Gunma has been developing cutting-edge technology and has begun production of new environmental products.

New environmentally compatible products in the thermal management field include electric compressors, electric coolant heaters (ECH), and heat pump systems. Regarding the production line of electric compressors, we have introduced sensing technology, image analysis technology, and automation technology, thereby reducing the number of workers to one third compared to the conventional production line, with the start of production in October 2020 to improving profitability.

We are optimizing the production line for the water heater (ECH).

Regarding the heat pump system, we have incorporated module production and have established an optimal supply system. We are newly procuring electronic components and motors, which are important in accelerating the response to electric vehicles, based on the idea of collaborative creation.



Regarding the innovation in production engineering technologies at the mother factory, in heat exchanger production, we are proceeding implementation according to the plan of heat exchange QCD reforms from conventional batch production by visualization of individual products and temperature control system through establishing brazing technology, by utilizing IoT and AI. We aim for practical application by the end of 2021 as the world's first technology.

In addition, we started in-house manufacturing of cartridge heaters, which are the main components of the electric coolant heater (ECH), in July 2020, aiming to improve product development speed and profitability.

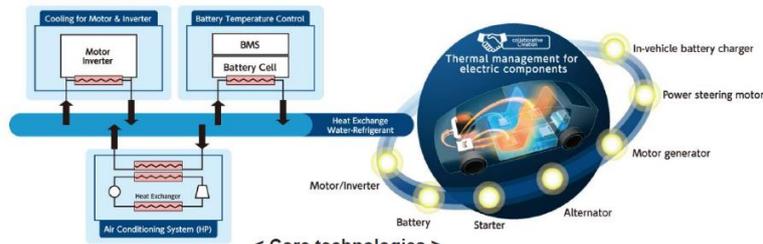
We are working on profitability improvement and global optimal procurement of our mainstay PX compressors and clutches.

Specifically, in the second half of fiscal 2019, we launched the E-PX, which has higher efficiency, improved product robustness, and reduced parts cost compared to the current PX. This E-PX realizes not only high efficiency and cost reduction, but in particular, it has been the high value-added products for customers as it has obtained EPA credits from automakers in the Americas and is compliant with the EU6 exhaust emission regulations in Europe.

From the second half of fiscal 2021, we will launch the K-PX compressor that has achieved further cost reduction while maintaining the high efficiency of E-PX.

### 3 Growth by actively promoting 'collaborative creation'

## Concentration on the field of 'Integrated heat management system' for EV



**TMS PROJECT** Thermal Management System Development Project

#### < Core technologies >

- Exhaust heat recovery to save energy.
- Optimal cooling/heating to improve battery performance
- High-efficiency heat pump and lightweight small coolant heater
- Provision of comfort and optimal heat control for entire heating/cooling system including air conditioning system

### (3) Growth by actively promoting "collaborative creation"

Looking to the future of society in 2030, we believe that "realizing a comfortable space that enriches people's lives" is our mission, and we will achieve growth by actively promoting "collaborative creation."

Especially in EV (electric vehicle), the "integrated thermal management" area is a field where our technology can contribute most. We will produce integrated thermal management as a research and development area that affects the cruising range of EV centering on automobile air conditioning. That include the followings.

- Promotion of energy saving by recovering exhaust heat from motors and inverters,
- Optimal cooling/heating to Improve battery performance
- High-efficiency heat pump and lightweight small coolant heater
- Provision of comfort and optimal thermal control for entire heating/cooling system including air conditioning system

### 3 Growth by actively promoting 'collaborative creation'

#### Total heat management system area [FY19 result] ▶ Collaborating for future



This is a roadmap for growth by actively promoting collaborative creation.

Our growth is supported by the three areas. Those include devices represented by compressors and heat exchangers as well as air conditioner systems and heat pump systems that combine devices; next-generation system development that enhances these systems; and corresponding to CASE and Maas that creates new value.

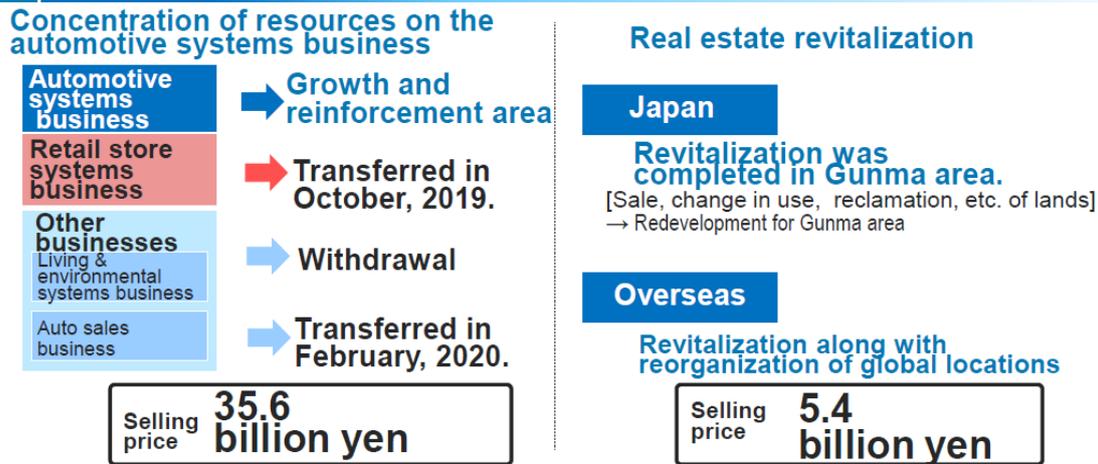
In the field of systems, we are promoting new development with the intention of entering new-concept car air conditioning.

In the integrated thermal management area, we will accelerate this through collaborative creation with Nidec Corporation.

By optimally controlling all of these initiatives, we will contribute to society by developing environmentally friendly technologies, such as extending the cruising range of electric vehicles, which is a current issue.

We aim to be a company that can provide "integrated thermal management" solutions.

## 4 Cash flow generation through reform in assets structure



### (4) Cash flow generation through reform in assets structure

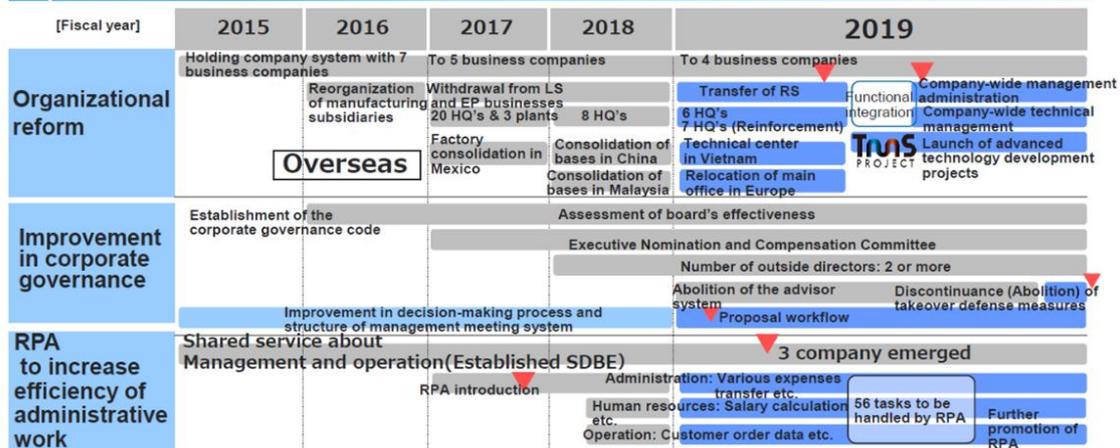
In order to focus on the integrated thermal management system area and accelerate its growth, it is necessary to invest management resources and gain the required knowledge to strengthen competitiveness.

Considering the current management resources of the Group, it is difficult to invest sufficient management resources in all of the Automotive Systems Business, Commercial Store Systems Business, and Auto Sales Business to accelerate their growth. Therefore, we decided to transfer the Commercial Store Systems Business and the Auto Sales Business to another party that we believe that can further accelerate their future growth. As a result, the Company earned ¥35.6 billion from sales of these companies.

In addition to the funds obtained from this transfer, we will concentrate all management resources on the Automotive Equipment Business and make investments for growth toward the next era.

We have examined the revitalization of real estate with the aim of maximizing the value, and along with strategies such as reviewing the production system, we have promoted liquidation of real estate in Japan and overseas, and have earned ¥5.4 billion from sales of real estate.

## 5 Reform in system for implementation



### (5) Reform in system for implementation

We are proceeding with organizational reforms in order to quickly respond to the ever-changing market. From fiscal 2019, we continue to reform the headquarters functions.

In particular, we are promoting more effective organizational reforms, such as consolidating business management functions and technology management functions throughout the company.

## 5 Reform in system for implementation

### Contribute to SDGs through

#### Business

Sanden Forest which is owned by Sanden holdings corporation was nominated as

#### Most high rank: Green Legacy

by SEGES (Social & Environmental Green Evaluation System) which is organized by Organization for landscape and Urban Green Infrastructure.



### Working style Reform

Sanden group are working to create an environment that assures employees health and safety for them to be able to achieve a healthy lifestyle according to corporate philosophy article of safety and Health.



#### ■ Evaluation overview

Philosophy of Sanden forest very connects with ESG Management.

This also connects to 「SATOYAMA INITIATIVE」 released to the world

Our vision is to “Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.”

The Company’s contribution of SDGs through the business are:

- Solving social issues and improving customer satisfaction through technological development, and
- Invigorate business activities by implementing work style reforms.

Especially for technological development, we will continue to contribute to society by supplying an integrated thermal management system.

In the working style reform, the Sanden Group has been recognized as a company with excellent health management, because our efforts to enable our employees to achieve a healthy lifestyle by creating an environment that assures their health and safety, according to corporate philosophy article of safety and health, were evaluated.

Since its completion in 2002, Sanden Forest has promoted the seamless coexistence of industry and the environment and acquired Social and Environmental Green Evaluation System (SEGES) Stage 3 recognition in 2008. Since then, we have continued to promote our activities, and in 2020 we were certified as the highest rated “Green Legacy”.

The Sanden Forest philosophy has been evaluated as being the embodiment of ESG management.

Please note that the above matters regarding the future description were determined by the Group as of the end of the consolidated fiscal year.

## 2. Business and other risks

The following is an overview of major business and other risks faced by the Sanden Group that may significantly affect investors' decisions. The Sanden Group examines risks and takes appropriate measures to control risks.

Please note that forward-looking statements below are based on the Sanden Group's judgments made at the end of the fiscal year under review.

### (1) Important events related to going concern assumption

In the consolidated fiscal year ended March 31, 2020, the Group recorded the net income attributable to owners of the parent of ¥2,287 million. However, in the automobile equipment business, which is the Group's main business, an operating loss and an ordinary loss have been recorded. In addition to the decrease in vehicle sales, mainly in Europe and Chinese markets, in the automotive equipment business environment after the latter half of 2019, it was due to closure of the Group's main factories in China, Europe and Asia owing to the COVID-19 pandemic in 2020.

The total amount of borrowings and corporate bonds of the Group at the end of the fiscal year ended March 31, 2020 was at higher level than cash on hand and cash flows from operating activities for the fiscal year under review, and current liabilities exceeded current assets.

As a result of the above, there are circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

In light of such difficult business conditions, on June 30, 2020, to establish a solid profit structure for future regrowth and drastically improve the Group's financial structure, the Companies formally applied for the alternative dispute resolution (ADR) procedure to the Japanese Association of Turnaround Professionals, an organization certified by the Minister of Justice as a Certified Dispute Resolution Business Operator and by the Minister of Economy, Trade and Industry as a Certified ADR Business Operator, and the application was accepted on the same date.

For the details of the business revitalization ADR procedure, please refer to the notes, "Going concern assumption, 1. Consolidated financial statements" in "5. Financial Information."

However, these countermeasures are still being implemented, and even if the above measures are taken, significant impact on future cash flow is possible, due to the future business conditions of the Group and the progress of the business revitalization ADR procedures. At this time, we recognize that there is significant uncertainty regarding going concern assumption.

The consolidated financial statements have been prepared on the premise of a going concern, and the effects of significant uncertainty regarding going concern assumption are not reflected in the consolidated financial statements.

### (2) Natural disasters

The Group is developing business in 49 bases in 20 countries and regions around the world. There is a risk of unforeseen circumstances, including harm to employees, and damage to offices and production facilities due to natural disasters such as unforeseen large-scale earthquakes, heavy rains, floods and the spread of infectious diseases; an accident during product transportation or storage at an external warehouse; and the suspension of operations due to a significant drop in the employee attendance rate.

These events may adversely affect the Group's business performance and financial position due to them hindering factory operations and supply to customers. Furthermore, by hindering the product supply to customers it may lead to a decline in the social evaluation of the Group.

We take measures such as initial response plan at the time of disaster, formulation of standards for supply chain business continuity management, establishment of an employee safety confirmation system, earthquake resistance measures, and disaster prevention drills. With regard to the spread of infectious diseases such as COVID-19, we have established a system that can respond promptly on a global basis and places the highest priority on the health and safety of all stakeholders and the prevention of spread of infection. On top of that, a system that can ensure the continuation of our business activities. However, it is not possible to completely eliminate damage caused by unexpected natural disasters and spread of infectious diseases, and such events may adversely affect the Group's business performance and social evaluation.

(3) Economic conditions

The Sanden Group mainly sells automotive air-conditioning systems, and air-conditioner compressors throughout the world. Demand for these products is affected by economic conditions in the various countries and regions in which these products are sold.

In particular, automotive market trends in North America, Europe, Asia, and China, where we operate the Automotive Systems Business, may affect the Sanden Group's business results and financial position.

(4) Fluctuations in exchange rates

The Sanden Group's global operations involve foreign currency transactions. In particular, exchange rate fluctuations in the Sanden Group's major transaction currencies, the U.S. dollar and the euro, and currency fluctuations in China and other parts of Asia may affect the Sanden Group's business results and financial position. Regarding transactions denominated in foreign currencies, we are making efforts to reduce the impact on our business performance by making forward exchange contracts.

In addition, the currencies stated in the financial statements of consolidated overseas subsidiaries and companies accounted for by the equity method have been translated into Japanese yen and recorded in the Company's consolidated financial statements. Therefore, the translation rate may affect the value of the assets that make up the financial statements.

(5) Changes in raw material and parts market conditions

The Sanden Group engages in the manufacture and sales of products and systems. As these activities involve the procurement of raw materials and parts, including aluminum, copper, resin, electronic parts, a variety of factors including the shortage of these items or sharp upswings in prices attributable to changes in market conditions that result in higher manufacturing costs may affect the Sanden Group's business results and financial position.

(6) Price competition

The Sanden Group's operating conditions are marked by increasingly fierce price competition and demand from automobile manufacturers to lower prices intensify every year.

The Sanden Group believes that its products possess a competitive advantage in terms of quality, cost, and technology. However, in the aforementioned difficult business environment, there is no guarantee of maintaining such advantages, including the supply of materials and parts, and this may affect the Group's business results and financial position.

(7) Dependence on sales performance

The Sanden Group sells to automobile manufacturers around the world. Therefore, there is a possibility that our business performance and financial position may be affected by reasons such as the business performance of our customers that are beyond our control.

(8) Potential risks associated with international operations and entry into overseas markets

The Group's Business encompasses development, manufacturing, and sales bases located in 19 countries and regions in North America, Europe, Asia, and China. Business activities in these countries and regions are subject to the following risks: changes in and revisions to laws and regulations in countries, changes in the political and economic climate, unstable political situations, including wars, labor disputes, and marine transport-related strikes. Any of the aforementioned events may affect the Sanden Group's business results and financial position. The Companies have established risk management regulations and monitor transactions involving country risk as one of the risk management items.

(9) New product development

The Group develops advanced technology, develops it into products, and is expanding its business in various locations around the world. However, if the group is unable to fully predict and respond to market trends and changes and unable to develop new products and bring them to market smoothly, it may affect the Group's business performance and financial condition.

(10) Limitations on intellectual property protection

Since its founding, the Group has independently developed technology and accumulated it as intellectual property rights and know-how, and has taken measures against intellectual property rights owned by third parties based on its own intellectual property guarantee system. The accumulated intellectual property rights and know-how are subject to the intellectual property system in the countries and regions in which the Group does business, but there is a possibility the Group cannot completely protect them in certain countries or regions due to legal restrictions. This may prevent a third party from completely controlling the manufacture or sale of similar products that use our technology.

In addition, the Group is taking measures to deal with intellectual property rights owned by third parties that have used intellectual property information published based on the intellectual property disclosure system of each country. However, there is a possibility that we may not be able to fully grasp the situation with the intellectual property rights of third parties due to environmental constraints for each country and region. As a result, it may not be possible to completely judge whether or not there is a conflict with the intellectual property rights of a third party.

The decrease in sales in the area due to the manufacture and sale of similar products by these third parties and the occurrence of disputes due to allegations of infringement in intellectual property rights of third parties will affect the Group's business performance and financial condition. To minimize such risks, the Group will strengthen cooperation with the law and patent offices of each country to form an intellectual property portfolio of our own technological strengths, while we will continue to expand our capabilities to collect information on the intellectual property held by third parties in our company.

(11) Product liability

The Sanden Group is continuing quality control initiatives based on its Sanden Total Quality Management (STQM). However, due to unforeseen defects in products, large-scale recalls and large amounts of product liability may occur, which may affect the Group's business performance and financial condition.

(12) Legal and regulatory risks

The Sanden Group is subject to various laws and regulations in the countries and regions in which it operates, including permits and licenses relating to businesses and investments, export restrictions, taxation, the environment, antitrust laws, and competition laws. In the event that our business activities conflict with these laws or regulations or new regulations are introduced, this could affect the Group's business performance and financial position.

By allocating legal personnel to major overseas bases, the Group can accurately understand the laws and regulations related to the Group and revisions of these laws and regulations, and take necessary measures such as establishing internal regulations and employee training. By doing so, the Group strives to ensure that its business activities are carried out in compliance with all laws and regulations.

(13) Litigation, etc.

In the event of unfavorable results for the Group in relation to the Group's business activities, by litigation and legal procedures in which the Group is or may become a party, it may affect the Group's business performance and financial condition.

The Group strives to prevent the occurrence of disputes by ensuring the appropriateness of contracts regarding business activities, and to prevent the spread of disputes by asking each group company to report any signs of disputes to the Company. In addition, the Group has generally established a system to properly secure the Company's profits in litigation cases by cooperating with domestic and overseas law firms.

(14) Employee compliance

The Group operates in many countries and regions, and it is not impossible for employees of the Group to engage in acts that violate the laws of each country or region. If these situations occur, the Group's social credibility may decline, which may in turn affect our business performance and financial condition.

The Group positions compliance as the most important management issue and strives to ensure it. Specifically, the Group clarifies the decision-making processes in relation to duties, authority and business execution according to internal regulations, and maintain and operate an internal control system, including establishing compliance system with compliance officers and promotion staff at each site, employee education, whistleblowing system, internal audit. In addition to these initiatives, the Group is striving to prevent employee misconduct by appropriately maintaining and operating performance and personnel evaluation systems and disciplinary systems that are fair and coherent.

(15) Risk related to securing human resources

The Group strives to secure diverse and excellent human resources to achieve its global business goals. On the other hand, with the growth of the digital revolution, the declining birthrate and aging population, and the promotion of ESG, the employment situation and the values of working styles are changing.

If it is not possible to systematically promote the recruitment, development, and allocation of human resources and leaders with the expertise required in each field and the ability to respond to changes in the environment, there is a possibility that business performance may be adversely affected by stagnation of business activities.

### 3. Analysis of financial position, operating results, and cash flows by management

#### (1) Overview of the operating results, etc.

The overview of the Group's (the Company, its consolidated subsidiaries and equity method affiliate) financial position, operating results and cash flows (hereinafter the "operating results, etc.") for the fiscal year under review is as follows:

##### 1) Financial position and operating results

In order to achieve the Mid-Term Plan SCOPE 2023, which ends in fiscal 2023, the Group is working on five reform plans: namely, comprehensive reorganization of production system; enhancement of basic earning power, growth by actively promoting collaborative creation; cash flow generation through reform in assets structure; and reform in system for implementation.

As announced on August 7, 2019, the Company transferred the all the issued shares of Sanden Retail Systems Corporation (hereinafter referred to as "SDRS"), a consolidated subsidiary of the Company and main business pillar in the Commercial Store Systems Business and all loans the Company has against SDRS, to SDRS Holdings Corporation operated by Integral Corporation as of October 1, 2019. Thereby, the Company has concentrated its management assets to Automotive Systems Business.

Regarding the Automotive Systems Business, the global economy and the Japanese economy in the consolidated fiscal 2019 began to show signs of bottoming out, such as a short-term calming trend due to partial agreement on US-China trade friction and a recovery trend in the Indian region. However, due to COVID-19, the economy fell sharply toward the end of the period.

Regarding the impact of COVID-19 on the consolidated results for fiscal 2019, the outbreak in China from before Spring Festival, caused the operation of the Chinese bases to be suspended until mid-February, and demand did not recover even after the restart of operations. As a result, shipping from Japan was affected.

In addition, in response to the spread of COVID-19 in Europe and other regions of the world in March, the Group's two production bases in Europe and four production bases in Asia suspended operations from the middle of March, resulting in a significant decrease in sales. In other regions as well, sales were down due to a decline in customer demand, despite normal operations. In addition, in response to the expansion in Europe and other parts of the world in March, the Group's two production bases in Europe and four production bases in Asia stopped operating from the middle of March, resulting in a significant decrease in sales. In other regions as well, sales were down due to a decline in customer demand, despite normal operations.

As a result, the Group's net sales on a consolidated basis for fiscal 2019 were ¥204,880 million (down 25.2% year on year).

Amid such an environment, the Group actively promoted a comprehensive reorganization of the production system as part of structural reforms. As a result, the Group has reviewed the optimal staffing and production systems at each of our global bases and implemented measures to reduce variable costs and fixed costs. Although the Group has steadily implemented measures to improve variable costs and fixed costs in order to recover business results, we have not been able to overcome the sharp decline in demand due to COVID-19, and reported an operating loss of ¥3,401 million (operating income of ¥889 in the previous fiscal year). In addition to the reporting of operating loss, the ordinary loss amounted to ¥9,735 million (ordinary income of ¥564 million in the previous fiscal year) due to foreign exchange losses and deterioration of earnings in companies accounted for by the equity method. Net income attributable to owners of parent amounted ¥2,287 million due to gain on sale of SDRS shares (net loss attributable to owners of parent of ¥23,060 million in the previous fiscal year), although reporting of early premium severance payments and impairment loss on non-current assets due to structural reforms.

The operating results by segment are as follows.

#### A. Automotive Systems Business

In the Automotive Systems Business, the Group develops state-of-the-art products that accurately capture the customers' environmental interests, and provide value for customers, centering mainly on compact, lightweight, and energy-saving features. Based on the five reform plans of SCOPE 2023, we are optimizing personnel globally, and strengthening our efforts to integrated thermal management initiatives by accelerating joint development for electric vehicles, which is one of the actively 'collaborative creation' strategies as announced on October 30, 2019.

However, despite an increase in sales of products for electric vehicles, net sales declined year on year due to a decline in demand from major customers affected by the slowing global automobile market due to the COVID-19 infectious disease and other factors.

Profit-wise, although we carried out structural reforms and cost reductions, profits decreased compared to the previous fiscal year due to a decrease in sales.

As a result, net sales amounted to ¥153,776 million (down 20.5% year on year) and operating loss amounted to ¥5,303 million (operating income of ¥560 million in the previous fiscal year)

#### **B. Commercial Store Systems Business**

Due to the transfer of SDRS shares on October 1, 2019, sales decreased compared with the previous fiscal year. Profit increased compared to the previous fiscal year due to the increase in profit up to the second quarter consolidated cumulative period.

As a result, sales amounted to ¥43,275 million (down 37.7% year on year) and operating income amounted ¥2,297 million (up 197.1% year on year)

Total assets at the end of the consolidated fiscal 2019 were ¥187,559 million, a decrease of ¥58,841 million from the end of the previous fiscal year, mainly due to an increase in cash and deposits, a decrease in trade receivables, inventories and non-current assets. The decrease in assets includes the impact of the transfer of SDRS shares of ¥43,388 million.

Assets by segment are as follows.

(Millions of yen)

Segment	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)	Year on year difference
Automotive Systems Business	175,234	170,765	(4,469)
Commercial Store Systems Business	61,931	1,276	(60,654)
Total reportable segments	237,165	172,042	(65,123)
Other	9,235	15,517	6,281
Total	246,401	187,559	(58,841)

Liabilities decreased by ¥58,002 million from the end of the previous fiscal year to ¥164,859 million, mainly due to a decrease in interest-bearing debt, trade notes and accounts payable, and accounts payable--other. The decrease in liabilities also includes the effect of the transfer of SDRS shares of ¥31,043 million

Net assets decreased by ¥839 million from the end of the previous fiscal year to ¥22,699 million due to a decrease in non-controlling interests, although there was an increase in net income attributable to owners of the parent.

#### 2) Cash flows

Cash and cash equivalents at the end of the fiscal year increased by ¥10,681 million from the end of the previous fiscal year to ¥23,711 million.

Net cash provided by operating activities amounted to ¥7,219 million (an increase of ¥4,175 million from the end of the previous fiscal year), due to factors including reporting of income before income taxes and decrease in trade receivables.

Net cash provided by investing activities amounted to ¥28,452 million (a decrease in net cash used in investing activities of ¥39,815 million from the previous fiscal year), due to proceeds from sales of affiliated companies' share of ¥35,604 million.

Net cash used in financing activities amounted to ¥(24,677) million (an increase in net cash used in financing activities of ¥27,357 million from the previous fiscal year), due to repayment of long-term debt and redemption of corporate bonds of ¥24,923 million.

### 3) Production, orders and sales results

#### A. Production results

The production results by segment for the fiscal year are as follows.

Segment	FY2019 (April 1, 2019 to March 31, 2020)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	150,589	82.9
Commercial Store Systems Business	40,464	63.2
Total reportable segments	191,054	77.8
Other	2,069	92.4
Total	193,123	77.9

Notes: 1. The price is based on the selling price.

2. Consumption taxes are not included in the amount.

3. The main factors of change in the Automotive Systems Business are due to the decline in vehicle sales mainly in European and Chinese markets and the suspension of operations at major factories of the Group in China, Europe and Asia owing to the impact of the COVID-19 pandemic.

4. The main factors of change in the Commercial Store Systems Business are due to the impact of sale of all shares of SDRS, which is a major subsidiary of the Commercial Store Systems Business.

#### B. Product purchase records

The results of purchasing products by segment for the fiscal year under review are as follows.

Segment	FY2019 (April 1, 2019 to March 31, 2020)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	4,551	50.4
Commercial Store Systems Business	2,549	76.1
Total reportable segments	7,101	57.3
Other	5,379	79.5
Total	12,481	65.2

Notes: 1. The price is based on the actual purchasing price.

2. Consumption taxes are not included in the amount.

3. The main factors of change in the Automotive Systems Business are due to the decline in vehicle sales mainly in European and Chinese markets and the suspension of operations at major factories of the Group in China, Europe and Asia owing to the impact of the COVID-19 pandemic.

4. The main factors of change in the Commercial Store Systems Business are due to the impact of sale of all shares of SDRS, which is a major subsidiary of the Commercial Store Systems Business.

#### C. Orders received

The Group (the Company and its consolidated subsidiaries) conducts make-to-stock production based on information such as the status of orders received in Japan and overseas, recent sales results, and sales prospects.

#### D. Sales results

The sales results by segment for the fiscal year are as follows.

Segment	FY2019 (April 1, 2019 to March 31, 2020)	
	(Millions of yen)	Change year on year (%)
Automotive Systems Business	153,776	79.5
Commercial Store Systems Business	43,275	62.3
Total reportable segments	197,052	75.0
Other	7,827	70.9
Total	204,880	74.8

Notes: 1. Consumption taxes are not included in the amount.

2. Sales results by main customer and percentage of total sales results.

Partner company	FY2018 (April 1, 2018 to March 31, 2019)		FY2019 (April 1, 2019 to March 31, 2020)	
	(Millions of yen)	Percentage share (%)	(Millions of yen)	Percentage share (%)
Volkswagen Group	20,226	7.4	21,592	10.5

3. The main factors of change in the Automotive Systems Business are due to the decline in vehicle sales mainly in European and Chinese markets and the suspension of operations at major factories of the Group in China, Europe and Asia owing to the impact of the COVID-19 pandemic.

4. The main factors of change in the Commercial Store Systems Business are due to the impact of sale of all shares of SDRS, which is a major subsidiary of the Commercial Store Systems Business.

(2) Analysis and discussions of the operating results from the viewpoint of management

The following analysis and discussions of the Group's operating results from the viewpoint of management are as follows.

Note that the future descriptions in the text are based on judgment as of the end of the consolidated fiscal 2019.

1) Significant accounting policies and estimate

The consolidated financial statements of the Group are prepared in accordance with accounting standards generally accepted in Japan. In preparing these consolidated financial statements, it is necessary to make estimates and forecasts that will affect the financial condition, operating results, and cash flow situation in the fiscal 2019.

The Group makes continuous estimates and forecasts based on assumptions that are judged to be reasonable based on past performance values and circumstances.

The Group believes that the following significant accounting policies have a considerable impact on the estimates and judgments used in the preparation of consolidated financial statements.

The impact of COVID-19 on the estimated financial amount is as follows: Please refer to the notes, "Additional information, 1. Consolidated financial statements," and the notes, "Additional information, 2. Non-consolidated financial Statements" both in "5. Financial Information."

#### A. Allowance for doubtful accounts

To prepare for losses due to the credit loss of monetary claims, the Company and its domestic consolidated subsidiaries consider the actual loan loss rate for general claims and the collectability of specific claims such as doubtful debts individually and record the estimated uncollectible amount.

Overseas consolidated subsidiaries have provided an allowance for doubtful accounts at the estimated amounts of possible losses mainly for specific receivables.

Therefore, if the customer's financial condition deteriorates and their solvency declines, re-calculation of allowance for doubtful accounts may be required.

**B. Provision for product warranties**

To cover the free post-sales service costs of products, the Group records a provision for product warranties for costs that can be estimated individually in addition to the amount by the accrual rate in the past fiscal years for sales.

If the product defect rate or warranty cost estimate of the Group differs from the actual estimate, the product warranty cost estimate may need to be revised.

**C. Impairment of investment**

The Group may be required to post a valuation loss when it is determined that the significant decline in the investment value of the stocks held is not temporary considering the future deterioration of market conditions and poor performance of investees.

**D. Impairment of non-current assets**

The Group holds non-current assets and calculates the recoverable amount of non-current assets based on assumptions such as future cash flows, discount rate, and net selling price. Therefore, there is a possibility that non-current assets may be impaired if the initially expected earnings are not obtained or if assumptions such as future cash flows are changed.

**E. Deferred tax assets**

The Group records deferred tax assets by analyzing and examining future taxable income and highly probable ongoing tax planning.

If it is determined that all or part of deferred tax assets cannot be recovered in the future, deferred tax assets will be reduced during the period when the decision is made. On the other hand, if it is determined that the deferred tax assets can be newly recovered in the future, the deferred tax assets will be increased by recording the amount of income taxes—deferred.

**F. Accounting method for retirement benefits**

To prepare for employee retirement benefits, the Group records a retirement benefit liability based on the estimated amount of retirement benefit obligations and plan assets at the end of the consolidated fiscal year.

If the assumptions such as the discount rate, retirement rate, salary increase rate, and investment interest rate in the calculation of the Group's retirement benefit obligation change in the future, there is a possibility that it will affect the costs recognized in the future period and the debt recorded.

- Method of attributing expected retirement benefits to periods  
In calculating retirement benefit obligations, the method of attributing expected retirement benefits to the period until the end of the consolidated fiscal year under review is based on the benefit formula standard.
- Expense processing method for actuarial differences and past service costs  
Past service cost is amortized by the straight-line method over a certain number of years within the average remaining service period of the employee at the time of occurrence.

Actuarial differences are amortized by the straight-line method over a certain number of years within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year. Actuarial differences are treated as a lump-sum expense in the fiscal year of occurrence.

**G. Provision for outstanding claims**

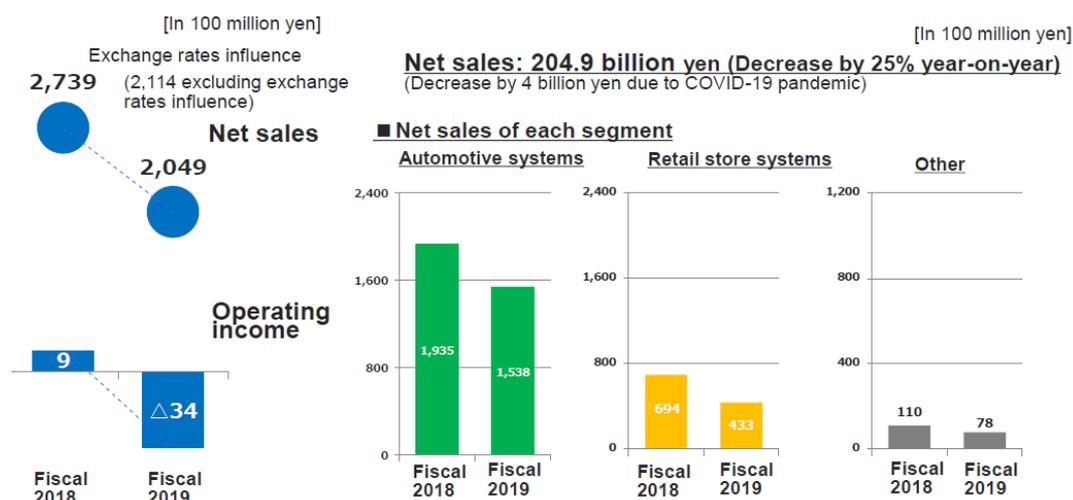
To prepare for payment of settlement related to violations of antitrust laws, etc. regarding past transactions of certain automotive parts, the estimated amount of future loss is recorded.

**H. Provision for environmental measures**

To cover the costs of cleaning the soil and water pollution of the location of the old factory of The Vendo Company, the consolidated subsidiary in the US, and the neighboring areas, it records the allowance calculated by deducting the balance of the fund that can be used for environmental cleanup costs from the estimated amount generated in future. There is a possibility that additional or reduced provisions may be required depending on the progress of the cleaning process.

2) Analysis and discussions of the operating results for the fiscal year under review

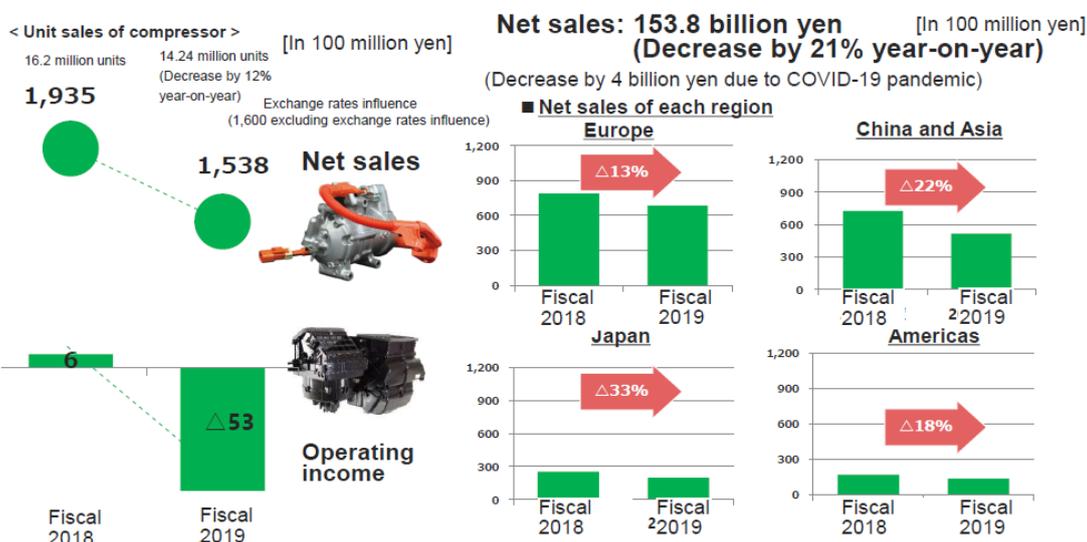
Major factors of change in net sales



The breakdown of net sales by segment is as follows:

Net sales for the Automotive Systems Business amounted to ¥153.8 billion, a decrease of ¥39.7 billion compared to the previous fiscal year. In the Commercial Store Systems Business, net sales amounted to ¥43.3 billion, a decrease of ¥26.1 billion compared to the previous fiscal year due to the transfer of all the issued shares of Sanden Retail Systems Corporation as of October 1, 2019.

In the Other Business, net sales amounted to ¥7.8 billion, a decrease of ¥3.2 billion compared to the previous fiscal year. This decline was mainly due to the decrease in revenue owing to the “reduction of the living environment business and withdrawal from production” based on the fiscal 2017 business portfolio review and the transfer of shares in the vehicle sales business.



In the Automotive Systems Business, net sales amounted to ¥153.8 billion, a decrease of ¥39.7 billion compared with the previous fiscal year, and absent the impact of ¥6.2 billion in foreign exchange, the actual decline was ¥33.5 billion.

In Europe, sales of electric compressors increased due to the effects of regulations on fuel consumption and exhaust gas, but overall sales in Europe declined due to the shutdown of plants caused by COVID-19.

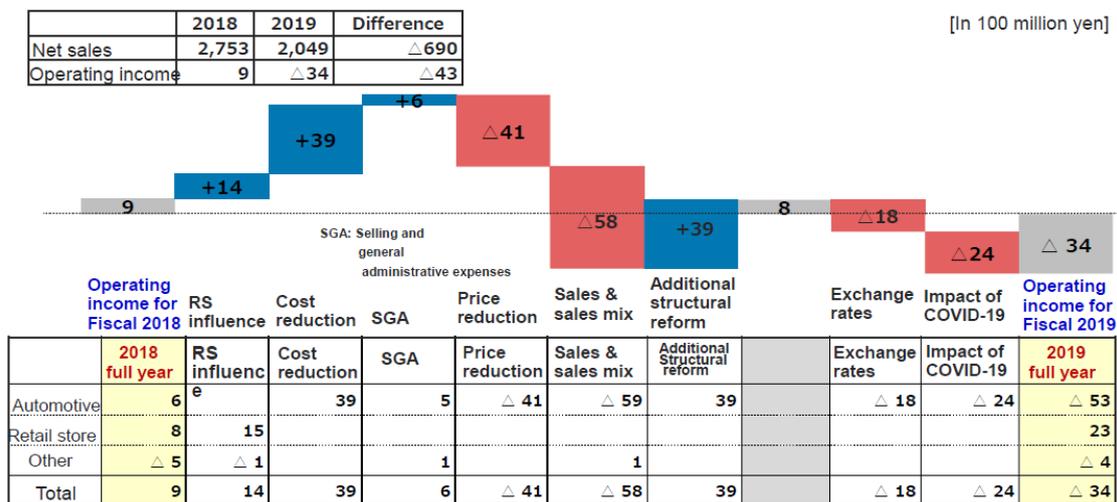
Sales in China and Asia declined mainly due to the impact of the market downturn in China and India in the first half of fiscal 2019, and the shutdown of plants in India, Malaysia and the Philippines toward the end of March.

In addition, there was a decrease in venue due to the impact of withdrawing from the Middle East business in August 2018.

In Japan, sales decreased due to the impact of reduced sales of construction equipment. In the Americas, we were unable to fully cover the factors behind the decrease in sales due to the closure of some customers' factories in fiscal 2019, resulting in a decrease. Globally, the number of compressors sold in 2019 was 14.24 million units, a 12% decrease from the previous fiscal year.

In the Commercial Store Systems Business, due to the transfer of all issued shares of Corporation, net sales for the consolidated fiscal 2019 were ¥43.3 billion, a decrease of ¥26.1 billion compared to the previous fiscal year.

Major factors of change in operating income



The operating loss for fiscal 2019 was ¥3.4 billion, a decrease of ¥4.3 billion compared with the previous fiscal year. Of that, in the Automotive Systems Business, operating loss amounted to ¥5.3 billion (down ¥5.9 billion year on year).

The main factors for changes from the previous fiscal year include a reduction in variable and fixed costs associated with structural reforms of ¥4.4 billion, and a cost reduction on a global basis of ¥3.9 billion. However, in addition to the ¥8.3 billion due to the significant decrease in sales including the impact of COVID-19 and ¥4.1 billion due to annual price reduction from automobile manufacturers, there was a deterioration due to yen appreciation of ¥1.8 billion. As a result, the Group was unable to cover the factors behind the decline in profits.

In the Commercial Store Systems Business, operating income amounted to ¥2.3 billion, an increase of ¥1.5 billion year on year. The main factors of changes were due to an increase in scales of sales due to the introduction of new coffee machines for convenience stores and cost reductions due to improved production efficiency.

Source of capital and liquidity of funds

The Group's working capital is used for the purchase of materials and parts for manufacturing products, as well as for operating expenses such as manufacturing costs, selling, general and administrative expenses.

The main capital investments include the investments for local and in-house production and development facilities along with strengthening of the global production system; the maintenance and renewal of facilities along with rationalization; and the acquisition of production dies. The major capital investment for fiscal 2019 was related to the Automotive Systems Business in Japan and overseas.

We raise the fund necessary for investment by cash flows from operating activities and its own funds, as well as financing by borrowing from financial institutions and issuing corporate bonds. But the situation is that current liabilities exceed current assets.

## Financing

The Group decides financing according to the purpose of the funds and the time, period, and region where the funds are needed.

For working capital, each Group company basically raises its working capital within one year, but they lends money from Sanden depending on their situation.

The U.S. dollar and euro are the main currencies used in the ¥47,497 million of the balance of short-term borrowings at the end of the fiscal 2019. On the other hand, our basic policy is to procure the long-term funds required for production equipment investment, etc. with long-term loans.

Major portion of the ¥52,755 million in long-term borrowings and bonds outstanding at the end of the fiscal year ended March 31, 2020 were fixed-rate borrowings from financial institutions.

Means of procuring long-term funds is determined by comprehensively examining of, in addition to the interest rate conditions and market environment, the ratio of direct and indirect financing and the status of transactions with financial institutions.

The operating environment for the Automotive Systems Business, which is the Group's core business, has experienced a decline in vehicle sales mainly in Europe and China since the latter half of 2019. In addition, in 2020, the Group's main factories, mainly in China, Europe and Asia, were closed due to the COVID-19 pandemic. As a result, net sales decreased by 21% from the previous fiscal year to ¥153,776 million and a segment loss of ¥5,303 million was recorded (compared to segment income of ¥560 million in the previous fiscal year).

The total amount of borrowings and corporate bonds of the Group at the end of the fiscal year ended March 31, 2020 was ¥100,252 million (¥130,495 million at the end of the previous fiscal year) and cash on hand is at the higher level of ¥23,711 million (¥13,030 million at the end of the previous fiscal year). Cash flows from operating activities amounted to ¥7,219 million for the fiscal year under review (¥3,043 million at the end of the previous fiscal year).

In light of such difficult business conditions, on June 30, 2020, to establish a solid profit structure for future regrowth and drastically improve the Group's financial structure, the Companies formally applied for the business revitalization ADR procedure to the Japanese Association of Turnaround Professionals, an organization certified by both the Minister of Justice as an ADR Business Operator and by the Minister of Economy, Trade and Industry as a ADR Business Operator, and the application was accepted on the same date.

After that, on July 14, 2020, the Companies, held the first creditor meeting to explain the outline of the business revitalization plan with all financial institutions that are eligible creditors for the business revitalization ADR procedure in attendance. The Companies obtained the consent from all financial institutions that are eligible creditors regarding the temporary suspension notice, and the Companies have received an extension of this temporary suspension until the end of the creditors' meeting for the resolution of the business revitalization plan (In the case of a postponement or continuance the suspension is up to the date of the postponement or continuance).

In addition, the Company plans to receive financial support including bridge loans from major financial institutions and received approval from all financial institutions that are eligible creditors, for such financial support and treat claims related to the financial support with priority over the claims of the eligible creditors.

For details of the business revitalization ADR procedure, please refer to the notes, "Going concern assumption, 1. Consolidated financial statements" in "5. Financial Information."

#### 4. Important business contracts

At the Board of Directors meeting held on August 7, 2019, the Company resolved to enter into the transfer agreement of stocks and obligation (hereinafter referred to as "the transfer agreement") with the transferred company to transfer (hereinafter referred to as "the transfer") all the issued shares of Sanden Retail Systems Corporation (hereinafter referred to as "SDRS"), a consolidated subsidiary of the Company, and loan receivable the Company has against SDRS, to SDRS Holdings Corporation (hereinafter referred to as the "transferred company"), which was formed by investment of a related business entity operated by Integral Corporation. Thereby, the Company concluded the agreement on the same day and the transfer procedure has been completed on October 1, 2019.

The outline of the share transfer is as follows.

##### 1. Reason for transfer of shares

The Sanden Group's vision is to "Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized." And to achieve this, we formulated the Mid-Term Plan SCOPE 2023 in April 2019.

The Group's main businesses are the Automotive Systems Business and the Commercial Store Systems Business, but in view of the current management resources of the Group, it is difficult to throw in sufficient management resources to accelerate their growth of both businesses.

Therefore, the Company determined that it is possible to further accelerate future growth in the Commercial Store Systems Business by transferring the shares of SDRS, which operates the Commercial Store Systems Business, utilizing ITG's strong network and management resources such as funds and human resources and by conducting agile management as an independent corporate group.

Furthermore, since the transfer will contribute to improving the financial position of the Company by strengthening capital and obtaining funds, the Company will concentrate management resources on the automobile equipment business. In the midst of this once-in-a hundred-years transformation in the automobile industry, we have determined that the transfer agreement will ensure that growth can be achieved by targeting investments for areas that will in the next era.

##### 2. Name of company transferred to

SDRS Holdings Corporation

##### 3. Timing of transfer

October 1, 2019

##### 4. Name of the subsidiary, businesses and transaction with the Company

- |                           |  |
|---------------------------|--|
| (1) Company name:         | Sanden Retail Systems Corporation  |
| (2) Businesses:           | Manufacturing, sales, etc. of freezing and refrigerating showcases for commercial use and vending machines for beverage and merchandise sale |
| (3) Business transaction: | The Company has a business relationship such as business consignment contract and fund loan with the subsidiary.                             |

##### 5. Number of shares to be transferred, transfer price, gain or loss on transfer and ownership ratio after transfer

- |   |               |
|---|---------------|
| (1) Number of shares to be transferred: | 27,601 shares |
| (2) Value of transfer:                  | ¥37.6 billion |
| (3) Gain or loss on transfer:           | ¥24.5 billion |
| (4) Shareholding ratio after transfer:  | 0%            |

## 5. Research and development activities

With the aim to “Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized,” the Group is advancing research and development activities to realize a "comfortable space that enriches people's lives", by actively incorporating innovative technology from the outside based on conventional core competence,

The Group is concentrating resources in the environmental products field and accelerating speed of research and development through active cooperation with other companies. In the advanced development, we are conducting researching and developing of the integrated thermal management system for next-generation eco-friendly vehicles and environment-friendly hygiene management equipment and other new products, and research and development of the elemental technology that is the basis for them.

On the other hand, to respond to the diversifying global markets in recent years and to ensure that the value of customers into products, we are actively taking initiative in developing basic new technologies, focusing on new product and technology proposals to customers, through development activities in four global poles (Japan, Europe, North America, Asia/China) and development departments of the Group companies in Japan.

At the same time, we are striving to further increase customer value through globally integrated development that broadly expands technical support such as material technology, reliability technology and production technology.

The outline and results of research and development in the current consolidated fiscal year are as follows.

In the Automotive Systems Business, the development of air-conditioning systems and components for electric vehicles is regarded as an urgent task, and we have strengthened and continued cooperation with the Sanden Technical Centers located in Japan, China, the United States, and Germany and the development departments in France, and we have enhanced the global development system.

In addition, the development of next-generation products for environment-friendly products and energy-saving measures are the biggest challenges in the Automotive Systems Business. We are promoting development to reduce environmental impact achieve power saving and lower fuel consumption with compact, lightweight and highly efficient compressors, electric compressors, compact and lightweight HVAC systems for automobiles, and heat pump systems for automotive air conditioning.

The total amount of research and development expenses for the fiscal 2019 was ¥7,811 million. The breakdown by segment is shown below.

Segment	(Millions of yen)
Automotive Systems Business	6,991
Commercial Store Systems Business	818
Total reportable segment	7,810
Other	0
Total	7,811

Note: Consumption taxes are not included in the above amount.

### 3. Equipment and Facilities

#### 1. Overview of capital expenditures

The Group made a total capital investment of ¥12.3 billion for the purpose of strengthening the global production system, local production and in-house production.

In the Automotive Systems Business, a total of ¥11 billion in capital investments were made mainly for local production and in-house production comprising ¥5.3 billion in Japan, ¥2.9 billion in Asia, ¥2.1 billion in Europe, and ¥0.7 billion in North America,

In the Commercial Store Systems Business, we made capital investments of ¥0.7 billion mainly in the Asian region and Japan, and ¥0.6 billion in other businesses to streamline the in-house production of parts.

#### 2. Major equipment and facilities

The major equipment and facilities in the Group are as follows.

##### (1) The Company

(As of March 31, 2020)

Location (Address)	Segment	Description	Net book value (Millions of yen)						Employees (Persons) [Number of temporary employees in parentheses]
			Buildings & structures	Machinery, equipment & vehicles	Land [Area: m <sup>2</sup> ]	Lease assets	Other	Total	
Headquarters (Iseaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	160	0	91 [2,862]	10	87	350	17 [4]
Sanden Global Center (Iseaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	1,523	8	118 [31,799]	17	6	1,674	—
Yattajima Plant (Iseaki-shi, Gunma)	Automotive Systems Business	Office equipment Rental equipment	1,604	21	789 [87,776]	—	397	2,813	4 [—]
Akagi Plant (Iseaki-shi, Gunma)	Automotive Systems Business, Other	Office facilities Rental facilities	4,088	7	5,309 [657,898]	—	27	9,432	—

##### (2) Domestic subsidiaries

(As of March 31, 2020)

Company	Location (Address)	Segment	Description	Net book value (Millions of yen)						Employees (Persons) [Number of temporary employees in parentheses]
				Buildings & structures	Machinery, equipment & vehicles	Land [Area: m <sup>2</sup> ]	Lease assets	Other	Total	
Sanden Automotive Components Corporation	Manufacturing plant of Automotive equipment parts (Iseaki-shi, Gunma)	Automotive Systems Business	Production facility	—	329	—	290	354	974	281 [7]
Sanden Automotive Components Corporation	Manufacturing plant of Automotive equipment parts (Iseaki-shi, Gunma)	Automotive Systems Business	Production facility	—	1,291	—	4,180	1,890	7,362	780 [41]

## (3) Overseas subsidiaries

(As of March 31, 2020)

Company	Location (Address)	Segment	Description	Net book value (Millions of yen)						Employees (Persons) [Number of temporary employees in parentheses]
				Buildings & structures	Machinery, equipment & vehicles	Land [Area: m <sup>2</sup> ]	Lease assets	Other	Total	
Sanden Manufacturing Poland sp. z o. o.	Headquarters plant (Polkowice, Poland)	Automotive Systems Business	Production facilities	2,063	5,974	50 [174,561]	488	1,202	9,778	973 [95]
Sanden Manufacturing Europe S.A.S.	Headquarters plant (Tinteniac, France)	Automotive Systems Business	Production facilities	392	2,259	27 [330,602]	387	908	3,976	741 [127]
Sanden International (Europe) GmbH	Headquarters plant and sales office (Bad Nauheim, Germany, etc.)	Automotive Systems Business	Facilities for sales, etc.	303	525	140 (15,571) [6,753]	118	231	1,319	168 [—]
Sanden International (U.S.A.), Inc.	Wylie plant (Wylie Texas, U.S.A.)	Automotive Systems Business	Production facilities	798	866	196 [365,471]	87	97	2,045	332 [69]
Sanden (Suzhou) Precision Parts Co., Ltd.	Headquarters plant Suzhou City, Jiangsu, People's Republic of China	Automotive Systems Business	Production facilities	894	1,312	—	—	1,053	3,260	215 [155]
Tianjin Sanden Auto Air-Conditioning CO., LTD.	Headquarters plant (Tianjin City, People's Republic of China)	Automotive Systems Business	Production facilities	522	1,135	—	224	20	1,903	355 [103]
Sanden Vikas (India) Private Limited	Headquarters plant (Haryana State, India)	Automotive Systems Business	Production facilities	379	1,638	48 [20,786]	288	764	3,119	541 [951]
Sanden Chongqing Automotive Air Conditioning Co., Ltd	Headquarters plant Chongqing, The People's Republic of China	Automotive Systems Business	Production facilities	—	995	—	373	678	2,047	471 [187]

Notes: 1. "Other" in the book value is tools, furniture and fixtures and includes construction in progress.

- The number of employees is those employed, and the number of temporary employees is the average number of employees for the year, which is stated in parentheses as an external number.
- The Company leases part of the building and land of the Akagi Plant to companies other than the consolidated companies.
- Sanden International (Europe) GmbH, an overseas subsidiary, rent a part of the land. The area of rented land is stated in parentheses along with the net book value of the land.
- The domestic subsidiary Sanden Business Associate Corporation leases a part of the buildings and land it owns to companies other than the consolidated companies.
- The Company rents a part of land and buildings from the domestic subsidiaries.

### 3. Plans for new additions or disposals

The Group plans sustainable capital investment for growth, taking into consideration industry trends and equipment efficiency.

For fiscal 2020, we plan to invest a total of ¥10.3 billion, mainly for the purpose of strengthening the production system and localizing/in-house production.

Of this amount, we plan to make capital investments of ¥4.3 billion in Japan, ¥4.1 billion in Asia, ¥0.4 billion in the Americas, and ¥1.4 billion in Europe.

At the manufacturing base in Thailand, we are planning a capital investment of ¥2.9 billion to strengthen the production system for compressors.

## 4. Corporate Information

### 1. Information on the Company's shares

(1) Number of shares and other

1) Number of shares

Type	Number of shares authorized to be issued
Common stock	79,200,000
Total	79,200,000

2) Number of shares issued

Type	Number of shares issued as of the end of fiscal 2019 (March 31, 2020)	Number of shares issued as of the filing date of this Securities Report (July 29, 2020)	Stock exchanges on which the Company is listed or authorized financial instruments business association in which the Company is registered	Description
Common stock	28,066,313	28,066,313	First Section of the Tokyo Stock Exchange	It is a standard stock in the Company with no restrictions on rights and the number of shares constituting a standard unit is 100.
Total	28,066,313	28,066,313	—	—

(2) Status of the share subscription rights

1) Stock option plans

Not applicable

2) Right plans

Not applicable

3) Other share subscription rights

Not applicable

(3) Exercise status of bonds with share subscription rights containing a clause for exercise price adjustment

Not applicable

(4) Changes in the number of shares issued and the amount of common stock

Period	Changes in the number of shares issued (Share)	Balance of the number of shares issued (Shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in capital surplus (Millions of yen)	Balance of capital surplus (Millions of yen)
October 1, 2017 (Note)	(112,265,252)	28,066,313	—	11,037	—	4,453

Note: This is due to the five to one stock consolidation.

## (5) Details of shareholders

(As of June 12, 2020)

Classification	Status of shares (1 unit = 100 shares)							Stocks of less than a standard unit	
	National and local governments	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other		Total
					Other than individuals	Individuals only			
Total Number of shareholders (Persons)	1	36	40	158	87	11	9,363	9,696	—
Number of shares held (Units)	6	78,405	5,122	22,894	54,241	112	119,137	279,917	74,613
Shareholding ratio (%)	0.002	28.010	1.829	8.178	19.377	0.040	42.561	100.00	—

Notes: 1. Treasury stock of 12,984 shares is included in "Individuals and other" at 129 units, and in "Stocks of less than a standard unit" at 84 shares.

2. The above "Financial institutions" includes 1,926 units of shares held by the Master Trust Bank of Japan, Ltd. (Executive compensation Board Incentive Plan (BIP) Trust Account / 75837).

3. The above "Other corporations" includes 4 units of shares under the name of Japan Securities Depository Center, Inc.

## (6) Major shareholders

(As of June 12, 2020)

Name	Address	Number of shares held (Shares)	Number of shares (excluding treasury stock) held as a percentage of total shares issued (%)
Sanden's Business Partner Share Holding Association	20 Kotobuki-cho, Isesaki-shi, Gunma, Japan	1,429,905	5.09
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo, Japan	1,275,100	4.54
BBH(LUX) for Fidelity Funds Pacific Fund (Standing agent: MUFG Bank, Ltd.)	2A Rue Albert Bors Chette Luxembourg L-1246	1,228,700	4.37
Mizuho Bank, Ltd.	1-5-5, Otemachi, Chiyoda-ku, Tokyo	1,017,622	3.62
The Gunma Bank, Ltd.	194 Motosojamachi, Maebashi-shi, Gunma, Japan	1,017,540	3.62
Daido Life Insurance Company	1-2-1, Edobori, Nishiku, Osaka-shi, Osaka, Japan	694,200	2.47
J.P. Morgan Bank Luxembourg S.A. 1300000 (Standing agent: Mizuho Bank, Ltd. Settlement Business Department)	European Bank and Business Center 6, Route De Treves, L-2633 Senningerberg, Luxembourg	595,100	2.12
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1-8-11 Harumi, Chuoku, Tokyo, Japan	533,700	1.90
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE (Standing agent: MUFG Bank, Ltd.)	2 King Edward Street, London EC1A 1HQ United Kingdom	480,511	1.71
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuoku, Tokyo, Japan	397,700	1.41
Total	—	8,670,078	30.90

Notes: 1. Of the above major shareholders, all shares held by The Master Trust Bank of Japan, Ltd. (Trust account), Japan Trustee Services Bank, Ltd. (Trust account 5) and Japan Trustee Services Bank, Ltd. (Trust account) are shares relating to trust business.

2. Mizuho Bank, Ltd. and Asset Management One Co., Ltd. own the following shares as of June 28, 2019 which is stated in the large-scale shareholding report and available for public inspection on July 5, 2019. Despite the statement, the Company cannot confirm the actual number of shares held by the Asset Management One Co., Ltd. as of June 12, 2020, so it is not included in the above list of principal shareholders.

The details of large-scale shareholding report are as follows.

Name	Number of shares held (Shares)	Ratio of shareholding (%)
Mizuho Bank, Ltd.	1,017,622	3.63
Asset Management One Co., Ltd.	524,900	1.87
Total	1,542,522	5.50

3. Fidelity Investment Trust Co., Ltd. owns the following shares as of April 30, 2020 which is stated in the large-scale shareholding report and available for public inspection on May 2, 2020. Despite the statement, the Company cannot confirm the actual number of shares owned as of June 12, 2020, so it is not included in the above status of major shareholder.

The details of large-scale shareholding report are as follows.

Name	Number of shares held (Shares)	Ratio of shareholding (%)
Fidelity Investment Trust Co., Ltd.	1,515,000	5.40

## (7) Status of voting rights

## 1) Shares issued

(As of June 12, 2020)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (Treasury stock, etc.)	—	—	—
Shares with restricted voting rights (Other)	—	—	—
Shares with full voting rights (Treasury stock, etc.)	(Treasury stock) Common stock 12,900	—	—
	(Crossholding stock) Common stock 103,200	—	—
Shares with full voting rights (Other)	Common stock 27,875,600	278,756	—
Stocks of less than a standard unit	Common stock 74,613	—	—
Total shares issued	28,066,313	—	—
Total voting rights held by all shareholders	—	278,756	—

Note: The "Shares with full voting rights (Other)" include 400 shares under the name of Japan Securities Depository Center, Inc. (4 voting rights).

## 2) Treasury stock, etc.

(As of June 12, 2020)

Shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total (Shares)	Ratio of number of shares owned to total number of issued shares (%)
Treasury stock Sanden Holdings Corporation (Crossholding stock)	20 Kotobuki-cho, Isesaki-shi, Gunma, Japan	12,900	—	12,900	0.046
Sanwa Corporation	224-1, Naganuma-machi, Isesaki-shi, Gunma, Japan	103,200	—	103,200	0.368
Total	—	116,100	—	116,100	0.414

Note: The Company's shares held by the Master Trust Bank of Japan, Ltd. (Executive compensation Board Incentive Plan (BIP) Trust Account/75837) are not included in the above-mentioned treasury stock.

## (8) Details of the executive and employee stock ownership system

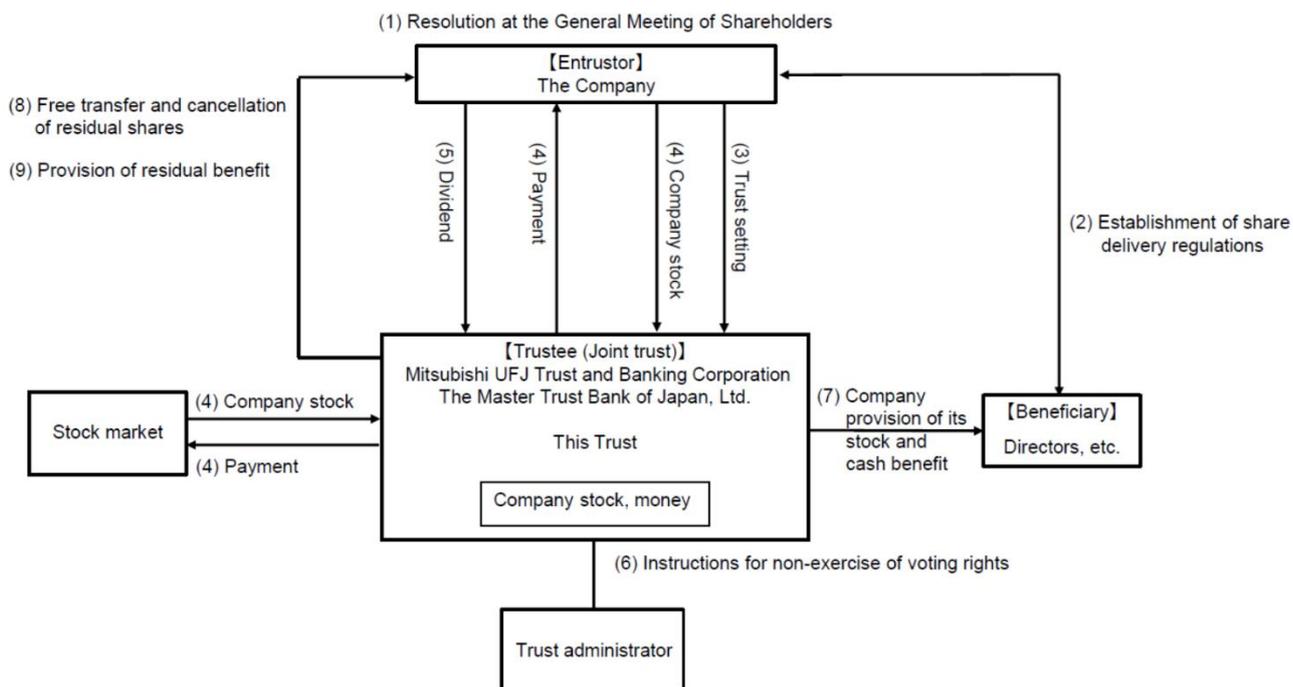
## Details of performance-linked stock compensation plan for executives

## A. Overview of performance-linked stock compensation plan for executives

The Company has introduced the system targeting directors and executive officers and senior advisors who have signed delegation contracts with the Company (excluding overseas residents, outside directors and part-time directors. Hereinafter referred to as "directors, etc."), aiming to raise awareness of contributions to improving our medium- to long-term business performance and increasing corporate value.

Under this system, compensation for directors, etc. consists of "basic compensation," "bonuses," and "stock compensation." As a general rule, directors, etc. will actually receive shares when they retire.

<Outline of performance-linked stock compensation plan for executives>



- 1) Regarding the introduction of this system, the Company obtained a resolution to approve the compensation of directors at the General Meeting of Shareholders held on June 19, 2015 and has been operating the system. Furthermore, at the 92nd General Meeting of Shareholders held on June 21, 2018, the content was partially revised and the approval resolution was obtained.
- 2) Regarding the introduction of this system, the Company has established stock delivery regulations for executive compensation at the Board of Directors.
- 3) The Company will entrust money within the scope approved by the resolution of the shareholders' meeting of (1) and will set up a trust (this trust) in which the beneficiaries are directors who meet the beneficiary requirements.
- 4) The Trust will acquire the Company's shares from the Company (disposal of treasury stock) or the stock market according to the instructions of the trust administrator, using the money entrusted in (3) as a source of funds.
- 5) Dividends will be paid to the Company's stocks in the Trust just like any other Company's stocks.
- 6) Regarding the shares of the Company in the Trust, voting rights shall not be exercised throughout the trust period.
- 7) During the trust period, certain points will be awarded to directors, etc., depending on the achievement level of the performance target and the position in each fiscal year. Upon the retirement of directors, the Company's shares and the cash equivalent of the Company's shares (hereinafter referred to as "the Company's shares, etc.") will be provided or payed (hereinafter referred to as "grant, etc.") to the directors who meet certain beneficiary requirements in accordance with the points.
- 8) If residual stocks are generated at the end of the trust due to failure to achieve the performance targets during the trust period, the residual stocks will be transferred to the Company free of charge from the trust and will be canceled by resolution of the Board of Directors.
- 9) At the end of this trust, the residual property after being distributed to the beneficiaries will be attributable to the Company within the trust cost reserve, which is obtained by deducting the funds to acquire the shares from the trust money.

B. Total number or total amount of stocks scheduled to be acquired by directors, etc.  
323,800 shares

C. Scope of person who can receive beneficiary rights and other rights  
Those who have retired from the Board of Directors and meet the beneficiary requirements

## 2. Acquisition of treasury stock

Type of stock: Acquisition of shares of common stock under Article 155, Item 7 of the Companies Act

(1) Acquisition of treasury stock based on a resolution approved at the annual general meeting of the shareholders  
Not applicable

(2) Acquisition of treasury stock based on a resolution approved by the Board of Directors  
Not applicable

(3) Acquisition of treasury stock not based on a resolution approved at the annual general meeting of the shareholders or on a resolution approved by the Board of Directors

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury stock acquired during the fiscal year under review	919	597,774
Treasury stock acquired during the period for acquisition	211	80,248

Notes: 1. Treasury stock acquired during the period for acquisition does not include the number of shares of less than a standard unit purchased during the period from July 1, 2020, to the filing date of this securities report.

2. Treasury stock does not include the number of stocks acquired by the executive compensation Board Incentive Plan (BIP) Trust.

(4) Current status of the disposition and holding of acquired treasury stock

Classification	FY2019		Period for acquisition	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock that was disposed of	—	—	—	—
Acquired treasury stock for which transfer of shares was conducted in association with merger/share exchange/corporate separation transfer	—	—	—	—
Other (the number of shares of less than a standard unit sold subject to a demand for sale)	121	251,527	—	—
Number of shares of treasury stock held	12,844	—	13,055	—

Notes: 1. Number of shares of treasury stock disposed of during the period for acquisition does not include the number of shares of less than a standard unit sold subject to a demand for sale during the period from July 1, 2020, to the filing date of this securities report..

2. Number of shares of treasury stock held during the period for acquisition does not include the number of shares of less than a standard unit purchased or sold during the period from July 1, 2020, to the filing date of this securities report.

3. The above number of treasury stocks disposed of and number of treasury stocks held do not include the number of the Company's shares (206,494 shares at the end of the fiscal year under review) owned by the Master Trust Bank of Japan, Ltd. (Executive Compensation Board Incentive Plan (BIP) Trust Account/75837 Accounts)

### **3. Dividend Policy**

The Company positions returning profits to our shareholders as one of our important management policies, and our basic policy is to pay stable and continuous dividends based on profit distribution according to consolidated operating performance.

To maximize our shareholder value, we plan to use the retained earnings for strengthening product competitiveness for global business expansion, investment in next-generation technology development, and upfront investment for cultivating new business fields, while also strengthening corporate structure.

In the fiscal year ended March 31, 2020, due to the effects of the gain on sale of SDRS shares, net income attributable to owners of the parent amounted to ¥2,287 million. However, it remains a tough financial position and because it is necessary to strengthen the financial structure through retained earnings, the Company regret that we do not pay a year-end dividend for the fiscal year ended March 2020.

With respect to the dividend for the year ending March 31, 2021, we apologize to our shareholders that we plan to make no dividend payment, as we expect the severe business environment to continue due to the COVID-19 infectious disease.

## 4. Corporate Governance

### (1) Status of corporate governance

#### 1) Basic corporate governance policy

Since its founding in 1943, Sanden's Founding Spirit of, "Let Us Develop with Wisdom and Prosper in Harmony" has formed the basis of corporate culture. In 2003, we newly established our Corporate Philosophy—which includes "Basic Principles (Universal Values Shared by the Global Community)" and "Basic Stance toward Stakeholders." In accordance with this "Corporate Philosophy," which has been embraced throughout Sanden Group, Sanden has been working to enhance corporate governance from the perspective of improving the quality of its management, including fairness, transparency and efficiency.

Sanden is committed to creating new corporate value in line with our "Vision" of "Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized".

#### 2) Summary of the Company's corporate governance system and the reason for adopting this system

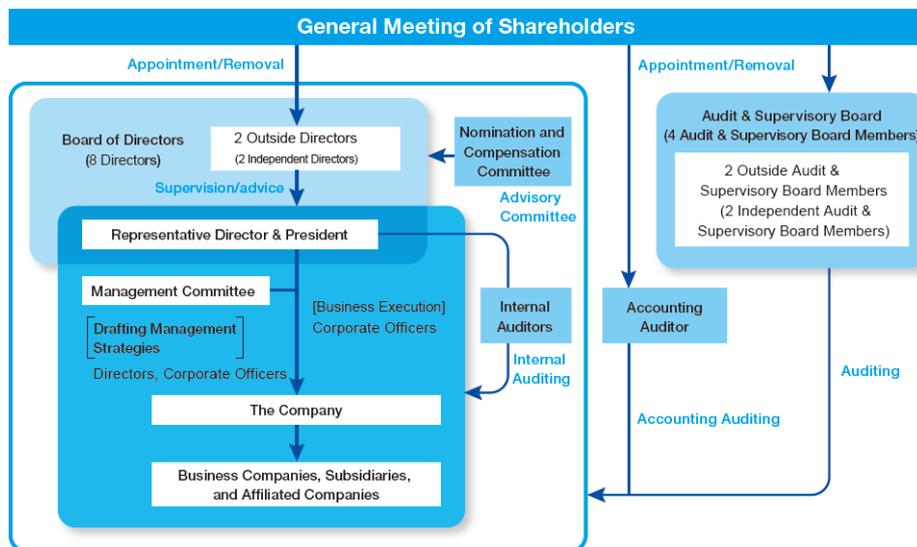
Employing the "company with Audit & Supervisory Board Member" model based on Japan's Companies Act, Sanden has created a corporate governance system that includes Board of Directors, Audit & Supervisory Board, Audit & Supervisory Board Member and Accounting Auditor.

The Board of Directors has 8 members, including 2 Outside Directors. This system ensures accountability of management, strengthens the supervisory function and ensures the objectivity and independence of our corporate governance. The Audit & Supervisory Board has 4 members, including 2 Outside Audit & Supervisory Board Members. To strengthen management oversight functions, Sanden has established and disclosed the "Independence Criteria for Outside Officers", and based on the Criteria, we have designated four Outside Directors/Audit & Supervisory Board Members and notified the Tokyo Stock Exchange of the designation.

Sanden has established the Nomination and Compensation Committee, which advises and makes recommendations to the Board of Directors in consultation with the Board of Directors, to ensure the transparency and objectivity of the decision-making process of appointing Directors and determining their compensation. The committee consists of four members, including two independent Outside Directors (Outside Director Mr. Hideto Ozaki (chairman), Outside Director Mr. Yuzo Ushiyama, Representative Director & President Mr. Katsuya Nishi, and Representative Director & Executive Vice President Mr. Tsuguo Ito). In addition, by setting Directors' terms to one year, Sanden has put in place a system to ensure management transparency and one that enables quick responses to changes in the market environment. Also, by adopting a corporate officer system, Sanden aims to strengthen business execution functions and increase management efficiency. Moreover, the Management Committee and Board of Directors deliberate in a timely fashion on important matters in compliance and risk management. Furthermore, by putting in place internal and external hot lines as an internal reporting system, Sanden is working to strengthen risk management, corporate ethics, and legal compliance.

We believe that Sanden's current system is fully capable of demonstrating the effectiveness of corporate governance in light of the actual conditions of our business type, history and corporate culture.

Sanden's Corporate Governance and Internal Control Organization Units and Their Interrelationships are as follows.



3) Other matters concerning corporate governance

A. Status of the Company's internal control systems and risk management systems

The details of the decisions made by the Board of Directors as a system for ensuring the appropriateness of business (Basic Policy for Internal Control System) and the operational status of the system are as follows.

**<Basic Policy for Internal Control System>**

Sanden Holdings Corporation (Sanden) streamlines the Group's global Management Structure and sets forth the following policies for implementation by the Group's Management and Supervision:

a. Structures/systems to ensure that Directors and Employees carry out their operation and practices in full compliance with laws, regulations and corporate by-laws

Recognizing "Compliance" is one of the most important management issues, we clearly declare so in the regulations, and define the Group's Compliance Management in order to make certain that it is fully implemented, we establish the following structure:

1) Compliance shall be a fundamental principle of action in daily operations and practices.

Sanden's Administration Division shall be responsible to fully implement and audit Compliance. Important matters related to Compliance shall be discussed and decided at the Management Meeting, the Board of Directors Meeting.

2) We shall appoint responsible Compliance officers and persons for each Company, who shall make sure the Company maintains full Compliance.

3) The contents of Compliance are described in "The Handbook of Company Principles (Handbook)".

The Legal Division shall provide education and guidance on Compliance at various levels to Directors, Corporate Officers and Employees on a periodic basis.

4) We shall establish and maintain a Whistle-blower System (WBS) through which anyone who finds a problem in Compliance can promptly report it to the Legal Division via the Administration Division.

We shall also establish internal and external "hot-lines" so that an employee can immediately and easily report a Compliance issue through the "hot-line".

5) We shall periodically report progress on Compliance promotion activity to the Board of Directors Meeting and the Audit & Supervisory Board.

6) We shall establish the Internal Audit Division and conduct Compliance audits on a periodic basis.

b. Structures/systems to save and control information related to the execution of the duties of Directors

To fully implement proper storage and control/management of Sanden's documents and electronic data, we shall establish the following system, and clearly stipulate regulations:

1) The Administration Division shall be responsible for documents and electronic data respectively.

Each division shall designate persons who shall be responsible for documents and also for electronic data. They shall be accountable for control and management of documents and electronic data, covering their creation, storage and disposal.

2) The storage and management of such documents and/or electronic data shall be filed in a manner such that Directors and Audit & Supervisory Board Members shall have access, whenever and wherever it is necessary.

c. Structures/systems to manage risks that could lead to losses

We recognize Risk Management as an important management issue. We clearly declare so in the regulations, and define the Group's Risk Management Structure in order to make certain that it is fully implemented, we establish the following structure:

1) To ensure full implementation of risk management by identifying overall Enterprise Risks that affect total management control. The Corporate Management Division shall be appointed as the responsible division.

2) Each Group Company shall be responsible for Risk Management. Each Group Company shall designate persons who shall perform periodic risk assessment and risk control activities and promote preventive risk avoidance through normal business practices.

3) We shall establish a business continuity plan and structure based on regulations, in preparation for unforeseen and unplanned circumstances which could significantly impact management of the company. We shall discuss and decide on important risk control issues at the Management Meeting and the Board of Directors Meeting.

4) Administration Division shall be responsible for Crisis Management and for streamlining the Crisis Management Structure.

5) The Internal Audit division shall audit effectiveness of risk control and risk management activities, and shall report the result in the Board of Directors Meeting, Audit & Supervisory Board Members meeting and Management Meeting.

- d. Structures/systems that assure Directors execute their duties/jobs efficiently
- 1) We appoint a number of external Directors in order to ensure appropriateness and to enhance the transparency of our decision-making process.
  - 2) To assure the effective execution of the Board of Directors' duties, the Board of Directors authorizes Corporate Officers to promote speedy decision making and timely execution of duties in terms of operations.
  - 3) We recognize the Mid-Term Plan and the annual Execution Plan as most important management tools as means to realize our Corporate Vision. The plan target and action items shall be determined based on "Sanden Total Quality Management - STQM" - Corporate-wide management quality innovation system - so that Operating Officers shall be able to perform their assigned activities and carry out operations and duties efficiently.
  - 4) With the previous directions as guides, we shall constantly promote efficiency of operational execution utilizing business process reviews, continuous improvement activities and IT tools.
- e. Structures that assure operations/practices are carried out with full appropriateness at Sanden and its subsidiary companies (Subsidiaries) - collectively The Sanden Group (G-SDC)
- Sanden Holdings Corporation shall decide various basic policies of Management Control for Group Companies as well as the Sanden Holdings Corporation. We shall develop the following structures and systems to ensure full implementation:
- 1) We shall develop systems/structures to ensure that operations and practices at Group Companies are in full Compliance with laws, regulations and corporate by-laws. The Handbook and a Whistle-blower System (WBS) shall be utilized commonly throughout Sanden Group Companies. We shall ensure that the same level of Compliance is implemented throughout the Sanden Group.
  - 2) To ensure that Affiliates are properly managed, we shall assign our officers and staff to Affiliates as board members. We shall appoint the Corporate Management Division to be responsible for Affiliates management control. Important issues and problems related to Affiliates' Management Control shall be discussed and decided at the Management Meeting and Board of Directors Meeting.
  - 3) DGMs of Sanden Group (GMs of HQ Divisions, Presidents of Business Companies, and Presidents of Affiliates) shall have full responsibility and authority for establishing and implementing internal control systems to ensure appropriateness of operations at Divisions and Affiliates.
  - 4) The Schedule of Approvals of each Group Company is described in the Decision-Making Policy and the Affiliates Management Policy. We shall exchange the information and discuss important management issues.
  - 5) We shall streamline the Internal Control as and assure the sound and creditability of Financial Report.
  - 6) The Internal Audit division shall conduct internal audits. It shall issue the Audit Report to the President and each DGM of Divisions/ Subsidiaries, as well as provide guidance and recommendations for improvement of internal controls.
- f. Employees assisting Audit & Supervisory Board Members and their independence
- 1) Directors, in accordance with requests from Audit & Supervisory Board Members, shall appoint appropriate employees as Audit & Supervisory Board staff to assist Audit & Supervisory Board Members in increasing overall effectiveness and timely execution of audits.
  - 2) Audit & Supervisory Board's Office shall be placed in the Corporate Management Division which will provide administrative support as necessary for the Audit & Supervisory Board Members and Audit & Supervisory Board.
  - 3) Audit & Supervisory Board Members shall oversee Audit & Supervisory Board staff. Audit & Supervisory Board staff shall be empowered to collect data and information for audits.
  - 4) Audit & Supervisory Board staff shall have primary roles/duties other than assisting Audit & Supervisory Board Members, and they shall not be directed by Directors in their role of assistance to Audit & Supervisory Board Members. Anticipated transfer, performance evaluation, or disciplinary action of the Audit & Supervisory Board staff shall not be decided without prior consultation to Audit & Supervisory Board Members.
- g. Structures/systems for Director and Employee reporting to Audit & Supervisory Board Members
- 1) Directors, Corporate Officers and Employees (including Group Companies) shall periodically report Company performance, business circumstances, financial status, and other important management issues to Audit & Supervisory Board Members.
  - 2) Directors, Corporate Officers and Employees (including Group Companies) shall report immediately to Audit & Supervisory Board Members, when they become aware of any fact which may cause a substantial loss; any fraudulent act of a Director while performing their duties; important facts related to Compliance with laws, regulations or corporate by-laws; any facts made known to management through the WBS; or any occurrence of other important relevant facts.
  - 3) We shall streamline the preventive structure so that anyone who reports to Audit & Supervisory Board Members about the issues of 1) or 2) above will not be treated unfairly subjected to retaliatory actions and/or disadvantage June 30, 2020 because of such reporting.

- h. Structures/systems that assure Audit & Supervisory Board Members shall be able to perform audit effectively
- 1) Audit & Supervisory Board Members shall have periodical meetings with Representative Directors and external auditors.
  - 2) Audit & Supervisory Board Members shall have periodical meetings with the Internal Audit division and Statutory Auditors of Affiliates to exchange information and enhance cooperation.
  - 3) When Audit & Supervisory Board Members receive reports, which may have significant detrimental impact on the company, the Audit & Supervisory Board Members shall conduct necessary investigations, and provide recommendation to Directors, or take appropriate corrective actions depending on the circumstances.

**<Status of operation of our basic policy>**

Based on the Basic Policy for Internal Control System," the Company is striving to develop a system for ensuring the appropriateness of business and to operate it appropriately, and a summary of the operating status for the fiscal year under review is as followings.

a. Compliance system

To build a global compliance system that will be the basis for realizing the mid-term management plan, the Company has revised the basic regulations for compliance of the Group and have deployed them to each Group company. The Company is implementing various measures for compliance officers and promotion officers of each company that have been newly selected based on the revised regulations, and through dedicated legal staff assigned at headquarters for overseas offices. Specifically, we worked to reduce the compliance risk of the entire Group by deploying the Group rules concerning compliance with the Antimonopoly Act to each company and clarifying the reporting standard for compliance cases to the Company.

b. Risk management system

The Company has a basic risk management system in place and operate based on this. During the fiscal year under review, we also conducted regular risk assessments for the Company and Group companies. We also held several "risk review meetings" organized by the holding company's business administration headquarters to improve the quality of risk identification and response during the fiscal year. Risks include not only risks that directly affect business continuity such as large earthquakes, natural disasters, and pandemics, but also risks related to corporate credit and management strategies. In addition, the general status of risk management was reported by the Business Administration Headquarters at the Managing Directors' Meeting, and measures to address important risks were deliberated at the monthly Management Committee to make efforts to reduce risks.

Regarding the risk of the spread of the COVID-19 infection, which may have a serious impact on the corporate activities of the Group, the Company has established the COVID-19 Emergency Countermeasures Headquarters headed by the General Affairs Legal Headquarters (General Manager of General Affairs Headquarters from April 1, 2020) to take to take measures against it.

c. Efficient business execution system

The Company's Board of Directors is composed of eight directors, including two outside directors. The Board of Directors supervises the execution of duties by directors, while ensuring the transparency of management and prompt response to environmental changes. In addition, the Board of Directors appoints corporate officers, and each corporate officer executes his/her duties within the scope of his/her authority and responsibility.

The Company has formulated the five-year Mid-Term Plan SCOPE 2023 and has been active in implementing measures from the fiscal year 2019 under the five key strategies, namely; Comprehensive reorganization of production system; Enhancement of basic earning power; Growth by actively promoting "collaborative creation"; Cash flow generation through reform in assets structure; Reform in system for implementation.

With respect to major subsidiaries, the management policy is thoroughly implemented through reports and discussions at meetings (Management Committee and Corporate Officers' Meetings) in which corporate officers attend every month to ensure unity as group management.

#### d. Group management system

With respect to the subsidiaries, the Company received reports from subsidiaries based on the “Business Company Management Regulations” and “Affiliated Company Management Regulations” and deliberated on important matters at the Management Committee and the Board of Directors of the Company, and worked for proper management and operation of the subsidiary. In accordance with these regulations that require the subsidiary to seek prior agreement from the Company, or stipulate matters to be reported, subsidiaries have submitted applications and reports to the Company for prior consultation. In the fiscal year under review, the Company further strengthened and improved its global management functions, business competitiveness, and new product development capabilities by unifying and improving the efficiency in line with the business content of the command system at the operating companies.

#### B. Outline of the limited liability contract

Based on the provisions of Article 427, Paragraph 1, of the Companies Act, the Company, each outside director, and each Audit & Supervisory Board Member has entered into an agreement limiting liability for damages under Article 423, Paragraph 1 of the same act. The maximum amount of liability for damages under the agreement is the amount stipulated by law for each outside director and each corporate auditor. Note that the limitation of liability will be granted only when each outside director or each auditor is in good faith and have no gross negligence in performing the duties that caused the liability.

#### C. Basic policy regarding company control

Outline of the Company's basic policy regarding corporate control “Other matters” listed in Article 118, Item 3 of the Ordinance for Enforcement Regulation of Corporate Act are as follows.

The Company is based on mutual relationships with various stakeholders such as shareholders/investors, customers, business partners, local communities, employees, etc. Mutual relationships with stakeholders are the Company's important component for the source of corporate value. Therefore, the Company will strive to build and strengthen relationships of trust with our stakeholders and conduct balanced management in all aspects of society, environment and economy. At the same time as fulfilling our social responsibility to all stakeholders, the Company will strive to secure and improve its corporate value and the common interests of our shareholders.

Since Sanden is a listed company, we understand that all shareholders who have invested in the Company agreed with our thoughts, and in so doing, entrust the management to the Company's management team. Based on this understanding, we believe that, ultimately, the judgment of our shareholders should also determine who should control our financial and business decisions. Therefore, in the event that a large-scale purchase of the Company's shares occurs, the decision on how to respond to the purchase will ultimately be based on the will of the shareholders.

However, amid large-scale purchases in Japan's capital market, there is no opportunity to provide the necessary and sufficient disclosure of information and consideration for shareholders and investors, In some cases, sufficient amount of information and time is not provided to the Board of Directors of the Company to form an opinion and propose an alternative plan, and a sudden large-scale purchase of shares is implemented forcibly.

We believe that it would be inappropriate for control of the decisions of the Company's financial and business policies to be determined by those who conduct large-scale purchases or purchase offers that may damage the corporate value of the Company and, in turn, the common interests of its shareholders.

Going forward, the Company will continue to implement various measures to achieve the medium-term management goals and sustainable growth, and further strengthen corporate governance to improve our corporate value and the common interests of our shareholders. In addition, those who intend to make a large-scale purchase of the Company's shares, will requested to provide necessary and sufficient information in order for the shareholders to properly judge the propriety of the large-scale purchase. In addition, while respecting the opinions of the independent outside directors and outside corporate auditors, the Company will disclose the opinion of the Board of directors and take appropriate measures based on the Financial Instruments and Exchange Act, the Companies Act and other related laws and regulations, while also striving to secure the time and information necessary for shareholders to consider.

In light of the above basic policy, the Company had introduced countermeasures (takeover defense measures) regarding the large-scale acquisition of its shares to prevent the decisions on its financial and business policies from being controlled by inappropriate purchases, thereby to secure and improve the corporate value of the Company and, in turn, the common interests of shareholders. Due to the expiration of its effective period, this countermeasure expired at the end of the 94th Ordinary General Meeting of Shareholders of the Company held on July 29, 2020.

#### D. Number of directors

The Company's Articles of Incorporation stipulates that the number of directors of the Company be 20 or less.

#### E. Requirements for resolutions to appoint directors

The Company's Articles of Incorporation stipulate that resolutions to appoint directors shall be attended by the shareholders who have one-third or more of the voting rights and who are able to exercise their voting rights at the general meeting of shareholders. It is also stipulated that the majority of the voting rights are exercised. The Company's Articles of Incorporation stipulate that resolutions for the election of directors do not depend on cumulative votes.

#### F. Items to be resolved at the general meeting of shareholders that can be resolved by the Board of Directors

Based on the provisions of Article 454, Paragraph 5 of the Companies Act, the Company's Articles of Incorporation stipulate that an interim dividend can be paid by resolution of the Board of Directors. This is intended to flexibly return profits to shareholders. Based on the provisions of Article 165, Paragraph 2 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company's shares can be acquired through market transactions, etc. by resolution of the Board of Directors. This is to allow for the flexible acquisition of treasury stock. In addition, in accordance with the provisions of Article 426, Paragraph 1 of the Companies Act, the Company's Articles of Incorporation stipulate that the Company can exempt liabilities of directors (including those who were directors) and Audit & Supervisory Board Members (including those who were Audit & Supervisory Board Members) in relation to behavior outlined in Article 423, Paragraph 1 within the limits of laws and regulations by the resolution of the Board of Directors. The purpose is to create an environment in which directors and Audit & Supervisory Board Members can fully exercise their capabilities and fulfill their expected roles in performing their duties.

#### G. Requirements for special resolutions at general meetings of shareholders

The Company's Articles of Incorporation stipulate that the special resolution of the general meeting of shareholders, Article 309, Paragraph 2 of the Companies Act, requires the attendance of shareholders who have one-third or more of the voting rights of shareholders who are able to exercise their voting rights, and two-thirds or more of such attended voting rights are exercised. This is intended to facilitate the smooth conduct of the general meeting of shareholders by relaxing the quorum of special resolutions at the general meeting of shareholders.

## (2) Members of the Board of Directors and Audit &amp; Supervisory Board Members

## 1) List of executives

12 males, 0 females (Out of the directors, female ratio of 0%)

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Representative Director & President	Katsuya Nishi	August 3, 1964	April 1985 July 2008 June 2009  June 2012  June 2013 June 2015 July 2015  June 2016 June 2017  April 2018  June 2019 June 2020	Joined the Company General Manager of Corporate Planning Office Director and Corporate Officer, General Manager of Corporate Planning Office Director and Executive Corporate Officer in charge of Corporate Planning, Accounting, Finance, General Affairs Executive Corporate Officer Director and Executive Corporate Officer, General Manager of Accounting Division Director and Executive Corporate Officer, General Manager of Accounting Division, Representative Director and President of Sanden of America Inc. Director and Vice President Director and Vice President in charge of Planning, Administration, Finance, and Accounting Representative Director and Executive Vice President in charge of Planning, Finance, Accounting, Administration, Development and Manufacturing Strategy Representative Director and President (Current position) Outside Director, GTV Co., Ltd. (Current position)	Note 3	17,100
Representative Director & Executive Vice President in charge of Compressor Business	Tsuguo Ito	September 26, 1956	April 1980 July 1997 August 2002 August 2012 December 2014 January 2015 April 2015 June 2017 June 2018 June 2019 April 2020	Joined Mitsubishi Motors Corporation Vice President, Mitsubishi Motor Sales of America, Inc. President, The US Business Initiatives, Inc. Vice President, ITOCHU Automobile America Inc. Joined the Company General Manager of Compressor Department Representative Director and President, Sanden Automotive Components Corporation (Current position) Senior Executive Corporate Officer, Management of Global Compressor Business Director and Senior Executive Corporate Officer, Management of Global Compressor Business Representative Director and Executive Vice President, Management of Automotive Compressor Business Representative Director and Executive Vice President, Management of Compressor Business (Current position)	Note 3	4,900

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Director & Executive Vice President in charge of Overseas Business and Compliance	Mark Ulfig	November 14, 1956	May 1978 August 1985 May 1988 October 2009 October 2010  June 2013 June 2015 June 2016 June 2017 October 2017  April 2018  June 2019	General Electric Co. Research Engineer KPMG Peat Marwick Senior Management Consultant Sanden International (U.S.A.), Inc., Plant Manager Representative of Sanden International (U.S.A.), Inc. Corporate Officer of the Company Representative of Sanden International (U.S.A.) Inc. and Representative of Sanden Mexicana, S.A. DE C.V. Senior Executive Corporate Officer Director and Senior Executive Corporate Officer Director and Vice President Director and Vice President in charge of Global Business Director and Vice President in charge of Global Business Chairman of the Sanden International (U.S.A.), Inc. Director and Executive Vice President in charge of Global Compliance Representative Director and President of Sanden International (U.S.A.), Inc. (Current position) Director and Executive Vice President in charge of Overseas Business and Compliance (Current position)	Note 3	—
Director & Executive Corporate Officer in charge of Corporate Strategy, Public Relations/SDG's General Manager of Corporate Planning Office	Hideyuki Kobayashi	April 26, 1967	April 1991 September 2012 June 2013 April 2015  January 2016 June 2017 June 2019  April 2020	Joined the company Plant Manager of Compressor Business Plant Deputy General Manager of Compressor Business Plant General Manager of Product Strategy Department, Business Division, Sanden Automotive Components Corporation General Manager of Business Strategy Department, Corporate Planning Office Corporate Officer, General Manager of Corporate Planning Office Director and Executive Corporate Officer, General Manager of Corporate Planning Division and in charge of Business Development Director, Executive Corporate Officer, in charge of corporate strategy and public relations/SDGs, General Manager of Corporate Planning Office (Current position)	Note 3	3,100
Director & Executive Corporate Officer in charge of Manufacturing, Human Resources, General Affairs General Manager of CSE Division	Hiroshi Takahashi	April 14, 1958	April 1979 July 2002  May 2007 April 2014 April 2015  July 2017 November 2018  June 2019  April 2020	Joined the Company General Manager of Production Control Department, Air-Conditioner Plant General Manager of Information and Technology Division Corporate Officer, General Manager of Yattajima Plant Corporate Officer, General Manager of Production Control Division Corporate Officer, General Manager of Akagi Plant Corporate Officer in charge of Gunma Area, Project Manager of Manufacturing Process Standardization Director and Executive Corporate Officer, General Manager of SCE Division, in charge of Manufacturing Director and Executive Corporate Officer in charge of Manufacturing, Human Resources and General Affairs, General Manager of CSE Division (Current position)	Note 3	2,000
Director & Corporate Officer General Manager of Finance and Accounting Division	Toru Akima	December 1, 1969	April 1992 July 2008 June 2015  June 2017 April 2018 June 2019	Joined the Company Principal, Corporate Planning Office Director and Vice President, Sanden International (U.S.A.), Inc. Principal, Accounting Division Corporate Officer, General Manager of Accounting Division Director and Corporate Officer, General Manager of Finance and Accounting Division (Current position)	Note 3	1,700

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Director (Outside)	Hideto Ozaki	December 26, 1945	April 1968 June 1999 July 2000 June 2008 June 2011 June 2013 July 2014 June 2015 July 2018 March 2020 June 2020	Joined Toyota Motor Sales Co., Ltd. Director, Toyota Motor Corporation Representative Director and President, Toyota Financial Services Corporation Representative Director and Chairman, Aioi Insurance Co., Ltd. (Current Aioi Nissay Dowa Insurance Co., Ltd.) Special Advisor, Aioi Nissay Dowa Insurance Co., Ltd.) Outside Director of the Company (Current position) Member of Management Advisory Committee, SVP Global Asia LLC Outside Director, Mito Securities Co., Ltd. Director, Shanghai College of Education Lean Management Academy (Current position) External Corporate Auditor, Broadleaf Co., Ltd. (Current position) Outside Director, UCC Holdings Co., Ltd. (Current position)	Note 3	2,200
Director (Outside)	Yuzo Ushiyama	June 10, 1950	April 1974 July 2000 June 2004 June 2009 June 2010 June 2015 June 2019	Joined Toyota Motor Corporation Senior Vice President, Toyota Motor Sales, USA, Inc. Managing Director, Toyota Motor Corporation Director and Vice President, Tokai Rika, Co., Ltd. (Registered company name: Tokai Rika Electric Co., Ltd.) Representative Director and President, Tokai Rika, Co., Ltd. Senior Adviser, Tokai Rika, Co., Ltd. Outside Director of the Company (Current position)	Note 3	10,000
Audit & Supervisory Board Member	Shinji Ichikawa	October 26, 1955	November 2001 June 2005 June 2007 June 2010 June 2012 July 2014 June 2016 June 2017	Joined the Company Director Managing Director Executive Corporate Officer Senior Executive Corporate Officer CEO, Sanden International (Europe) Ltd. Executive Corporate Officer Audit & Supervisory Board Member (Current position)	Note 4	27,400

Position	Name	Date of birth	Career profile		Term of office (Period)	Number of shares owned (Shares)
Audit & Supervisory Board Member (Outside)	Ichiro Yumoto	April 24, 1951	April 1975 April 2002 April 2004 April 2005 June 2006 June 2012 June 2016	Joined the Fuji Bank, Ltd. General Manager of Secretariat Office, Mizuho Holdings, Inc. Executive Officer, Mizuho Corporate Bank, Ltd. Managing Executive Officer, responsible for Risk Management Group and Human Resources Group, Mizuho Corporate Bank, Ltd. Senior Managing Director, Japan Carlit Co., Ltd. Audit & Supervisory Board Member, Taiyo Nippon Sanso Corporation Outside Director, JK Holdings Co., Ltd. (Current position) Outside Audit & Supervisory Board Member of the Company (Current position)	Note 4	—
Audit & Supervisory Board Member (Outside)	Kazumichi Matsuki	August 17, 1951	April 1976 January 2003 June 2007 June 2011 June 2013 April 2014 June 2016 June 2017 June 2018 March 2019 March 2020	Joined Mitsubishi Corporation General Manager of Legal Department, Mitsubishi Corporation Senior General Manager, Mitsubishi Corporation Corporate Officer, Hokuetsu Kishu Paper Co., Ltd. Managing Director, Hokuetsu Kishu Paper Co., Ltd. Part-time senior counselor, Hokuetsu Kishu Paper Co., Ltd. Outside Director, Dream Incubator Inc. Outside Audit & Supervisory Board Member of the Company (Current position) Commissioner, Japan Criminal Policy Society (Current position) Outside Director, Anest Iwata Corporation (Current position) Outside Director, Nissha Co., Ltd. (Current position) Commissioner, Japan International Dispute Resolution Center (current position)	Note 4	—
Audit & Supervisory Board Member	Tomisaburo Igarashi	December 23, 1950	April 1974 February 2002 June 2007 June 2009 June 2011 June 2014 June 2015 July 2017 July 2020	Joined Gunma Bank, Ltd. General Manager of Management Support Office, Credit Department, Gunma Bank Ltd. Director and Executive Officer of Gunma Bank, Ltd. Managing Director, Gunma Bank, Ltd. Senior Managing Director, Gunma Bank, Ltd. Senior Advisor, Gunma Bank Representative Director and President, Gunma Land Co., Ltd. Outside Director, Fujita Engineering Co., Ltd. (Current position) Joined the Company, Senior General Manager Audit & Supervisory Board Member of the Company (Current position)	Note 4	—
Total						68,400

Notes: 1. Directors Mr. Hideo Ozaki and Mr. Yuzo Ushiyama are outside directors stipulated in Article 2, Paragraph 15 of the Companies Act.

2. Audit & Supervisory Board Members Mr. Ichiro Yumoto and Mr. Kazumichi Matsuki are Outside Corporate Auditors as stipulated in Article 2, Item 16 of the Companies Act.

3. One year from the end of the Annual General Meeting of Shareholders held on July 29, 2020.

4. Four years from the end of the Annual General Meeting of Shareholders held on July 29, 2020

5. The Company has introduced a Corporate Officer system to strengthen the business execution function and improve management efficiency, and has appointed one Director & President (Katsuya Nishi), two Director & Executive Vice Presidents (Tsuguo Ito and Mark Ulfig), one Senior Executive Corporate Officer (Tadashi Kondo), two Executive Corporate Officers (Hideyuki Kobayashi, Hiroshi Takahashi), five Corporate Officers (Toru Akima, Junya Takahashi, Toshiyuki Kikuchi, Yoshio Hashimoto, Tsuneki Fujikura).

## 2) Status of outside officers

The Company has two Outside Directors and two Outside Audit & Supervisory Board Members. Outside Directors of the Company have the role and function of ensuring the appropriateness of management by providing advice from a professional standpoint by expressing their opinions at meetings of Board of Directors, Management Committees and other important meetings, while supervising the Company's management from the perspective of objectivity and neutrality. The Outside Audit & Supervisory Board Members of the Company have the role and function of ensuring effective legality and appropriateness of management by conducting effective audits from the perspective of objectivity and neutrality. To enable appropriate supervision and effective auditing of management when appointing outside directors or outside Audit & Supervisory Board Members, the Company considers the personal relationship, capital relationship, business relationship, or other relationships between the person and the company of origin, and from the perspective of objectivity and neutrality, the Company put great importance to ensuring substantial independence.

Outside Director Hideto Ozaki has insight and capabilities in business strategy and business management based on his extensive experience in corporate management at Toyota Motor Corporation, Aioi Nissay Dowa Insurance Co., Ltd. and other companies. The Company appointed him to reflect his insight and capabilities to the management of the Company and strengthen its management base.

There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured. He holds 2,200 shares of the Company's stock.

Outside Director Yuzo Ushiyama has extensive corporate management experience in the automobile industry and has deep insight and capabilities in the fields of overseas strategic planning, overseas sales, and production management. The Company appointed him to reflect his insight and capabilities to the management of the Company and strengthen its management base. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured. He holds 10,000 shares of the Company's stock.

Outside Audit & Supervisory Board Member Ichiro Yumoto was involved in corporate management in the financial industry and followed this with experience in the manufacturing industry for 10 years. The Company appointed him because he can be expected to provide appropriate audits and advice as an Audit & Supervisory Board Member.

Until 2006, Mr. Yumoto served as Managing Executive Officer at Mizuho Corporate Bank, Ltd., which merged with Mizuho Bank, Ltd., one of the major financial institutions with which Sanden conducts transactions.

Although Mizuho Bank, Ltd. is one of the number of financial institutions the Company conducts financial transactions with, the degree of dependence on the bank is not outstanding, and since 14 years have passed after his retirement, there is no risk of the bank's influence and the Company has determined that substantial independence from the Company is ensured.

Outside Audit & Supervisory Board Member Kazumichi Matsuki has a wealth of knowledge and experience in corporate legal affairs at a general trading company for many years, as well as corporate management in the manufacturing industry. The Company appointed him because he can be expected for appropriate audits and advice as an Audit & Supervisory Board Member. There is no personal relationship, capital relationship, important business relationship, or other special interests between the person/the company of origin and the Company and the Company has determined that substantial independence from the Company is ensured.

Each Outside Audit & Supervisory Board Member cooperates with internal audits, accounting audits and internal control departments by listening to the internal audit results and exchanging information with the accounting auditor.

### (3) Status of Audit

#### 1) Audit by the Audit & Supervisory Board Members

##### (i) Organization and personnel

Employing the "Company with an Audit & Supervisory Board" model, the Audit & Supervisory Board consists of one full-time internal, two part-time outside, and one part-time members. The full-time Audit & Supervisory Board Member Shinji Ichikawa (Chairman of the Audit & Supervisory Board) has a wealth of experience in the fields of planning and administration such as corporate planning, business administration, general affairs, human resources, and auditing as a Managing Director of the Company and other positions. Having experience in regional management in Europe, he has knowledge of corporate management from a global perspective. Outside Audit & Supervisory Board Member Ichiro Yumoto has been involved in corporate management at a financial institution and then for 10 years in the manufacturing industry and has considerable knowledge in corporate management, finance and accounting. Outside Corporate Auditor Kazumichi Matsuki has many years of knowledge and experience in corporate legal affairs in general trading company and corporate management in the manufacturing industry. Part-time Audit & Supervisory Board Member Tomisaburo Igarashi has a wealth of experience and insight cultivated through management in financial institutions and the real estate industry.

To ensure auditing duties are conducted smoothly, the Company has assigned one Audit & Supervisory Board member to concurrently serve in the Business Administration Division.

##### (ii) Status of activities of the Audit & Supervisory Board

###### (Holding frequency and attendance status)

During the fiscal year under review, the Company held the Audit & Supervisory Board once a month. The attendance status of each Audit & Supervisory Board Member is as follows. It took about 3 hours and 20 minutes to complete each session.

Name	Number of times held	Attendance
Shinji Ichikawa	14	14 (100%)
Hiroshi Yomo	14	13 (93%)
Ichiro Yumoto	14	14 (100%)
Kazumichi Matsuki	14	13 (93%)

Note: Audit & Supervisory Board Member, Hiroshi Yomo, retired from the position of the Audit & Supervisory Board Member on July 29, 2020 due to the expiration of his term of office.

Throughout the year, the following resolutions, reports, and deliberations and consultations were conducted.

Resolutions, 9: Audit policy/audit plan/division of duties for the fiscal year, evaluation and reappointment/non-reappointment of accounting auditor, draft audit report, etc.

Reports, 22: Department status report, business subsidiary status report, domestic subsidiary status report, financial statement report, financial statement review report, accounting audit report, etc.

Consultations 7: Audit status of business subsidiaries by Audit & Supervisory Board Member, draft audit report of Audit & Supervisory Board Member, compensation of Audit & Supervisory Board Members, consultations with accounting auditors, etc.

###### (Main considerations)

The Audit & Supervisory Board defines the audit policy, audit plan, division of duties for the fiscal year 2019 and receives reports from each Audit & Supervisory Board member on the implementation status and results of audits. In addition, it receives reports from directors (responsible persons of each division of the Company and Group's business companies) and accounting auditors regarding the status of execution of duties, discuss legal compliance and appropriateness, and monitors whether corporate governance functions effectively. In fiscal 2019, the following status of efforts has been set as a priority audit item and audited: 1) execution status of management plans, including the medium-term plan, execution plan and investment plan, 2) operation status of internal control of the Group, especially status of the Group governance, compliance and quality, 3) execution of important management matters.

(Activity status)

Each Audit & Supervisory Board Member complies with the Auditing Standards established by the Audit & Supervisory Board, attends the Board of Directors, the Management Committee and the Audit & Supervisory Board in accordance with the audit plan for fiscal 2019, and receives reports from directors and employees regarding the status of execution of their duties. In addition to monitoring and verifying the status of maintenance and operation of the internal control system, each member also monitors management to see if the Group governance is functioning effectively, while also has meetings two times per year with Representative Directors and regular meetings with Outside Directors, and makes recommendations based on audit reports and findings. Regarding the audit of subsidiaries, the Audit & Supervisory Board Members share information and exchange opinions from the perspective of strengthening the Group audit.

In addition, full-time Audit & Supervisory Board Members attend important meetings of the Company other than the above, browse important documents such as internal approval documents, conduct department audits and the Group company visits, and conduct interviews and exchange opinions with division managers, thereby make recommendations as needed. In addition, the Audit & Supervisory Board has established an Auditor Liaison Committee, with auditors of subsidiaries, the Legal Affairs Division, and the Business Administration Division, which has an internal auditing division, and regularly exchanges opinions to enhance the effectiveness of audits by the Audit & Supervisory Board Members.

In fiscal 2019, there was no shortage of budget to carry out audits in accordance with the audit plan.

## 2) Internal audit

The Business Administration Division, which oversees internal audits, has an Audit Department within the Business Administration Division that conducts business audits and evaluates managements regarding the effectiveness of the internal control system in accordance with the Internal Audit Regulations as an independent, dedicated organization. The Audit Department is composed of certified internal auditors and employees (4 people) who hold ISO QMS/EMS auditor qualifications as of the date of filing.

As for corporate auditors of subsidiaries (auditors in China), seven persons are appointed from the Business Administration Division.

With regard to accounting, information systems, and quality systems of the Group companies, the respective management divisions carry out internal audits, the Business Management Division confirms the status of their implementation, and internal audits of each management division are conducted as necessary.

The Business Administration Division conducts internal audits and audits of corporate auditors of subsidiaries on the status of compliance, the effectiveness of risk management systems, the effectiveness of the Group governance, and the effectiveness of internal control over financial reporting for the Company and each Group company.

In cooperation with the accounting auditor, the Business Administration Division reports to the president, the Audit & Supervisory Board Members, and each person in charge and provides guidance and advice for improvement.

The full-time Audit & Supervisory Board Members, the Business Administration Division responsible for internal auditing, and the Legal Affairs Division responsible for compliance hold monthly meetings to exchange opinions and information, and work closely together.

Currently, based on the policy of top management, the Company is working to strengthen the Business Management Division to carry out audits from a more independent and objective standpoint on purchasing audits and quality control audits that were previously carried out by the divisions with overall control function.

## 3) Audit of financial statements

### a. Name of auditing firm

KPMG AZSA LLC

### b. Audit Duration

Since 1970

Since the survey was extremely difficult before the above period, the continuous audit period may be the years before the above.

c. Certified Public Accountants engaged in the financial statements audit

Masahiro Sasaki  
Koji Aida

d. Composition of assistants involved in audit

Assistants to the audit of the financial statements consisted of 19 Certified Public Accountants and 18 others.

e. Policy and reasons for appointing the Independent Auditor

The Company policy for selecting certified public accountants is stipulated as: assuring independence from the Company; Building and operating a quality control system for audits; and ensuring there is global network for conducting the Group audits. In addition, the "policy for dismissal or non-reappointment of an accounting auditor" stipulates that, when the Audit & Supervisory Board determines that each item of Article 340, Paragraph 1 of the Companies Act is applicable, then a certified public accountant should be dismissed and decisions regarding reappointment or non-reappointment should be made in consideration of the status of performance of duties by audit certified public accountants.

The Audit & Supervisory Board is provided with the necessary materials and receives reports from the certified public accountant auditors and executing divisions (Financial Accounting Division, Business Administration Division), and examines the suitability of reappointment of audit certified public accountants every fiscal year.

Specifically, the Company selects the certified public accountant auditors by comprehensively assessing the execution status of their duties, quality control system, external inspections, and review result reports, based on the quarterly financial statement review reports and audit result reports by audit certified public accountants; communication with the audit certified public accountants; communication through executing division reports (Accounting Division, Internal Audit Division); and the results of eligibility evaluation related to the reappointment of the accounting auditor conducted by the Audit & Supervisory Board.

f. Evaluation of auditing firm by the Audit & Supervisory Board and its members

The Audit & Supervisory Board of the Company evaluates certified public accountants. Specifically, according to the "Evaluation of Reappointment of Accounting Auditor" established by the Audit & Supervisory Board, it verifies each item such as (1) quality control of auditing certified public accountants, (2) audit team, (3) compensation for audit work, (4) communication with the Audit & Supervisory Board member, (5) relationship with management, (6) the Group audit, and others.

4) Compensation for audit work

a. Compensation for auditors, CPA, etc.

(Millions of yen)

Classification	FY2018		FY2019	
	Compensation based on audit certification work	Compensation based on non-audit work	Compensation based on audit certification work	Compensation based on non-audit work
The Company	59	—	59	1
Consolidated subsidiaries	38	—	26	—
Total	97	—	85	1

The Company pays compensation to certified public accountant auditors, etc. for the agreed procedures as non-audit work. In addition to the above, the Company also paid an additional compensation of ¥3 million for the previous consolidated fiscal year ended March 2019 in fiscal 2019 and fiscal 2020 ended March 2019.

b. Compensation for the same network (KPMG firm) as the auditing CPA (excluding a.)

(Millions of yen)

Classification	FY2018		FY2019	
	Compensation based on audit certification work	Compensation based on non-audit work	Compensation based on audit certification work	Compensation based on non-audit work
The Company	—	—	—	—
Consolidated subsidiaries	149	58	158	55
Total	149	58	158	55

Mainly, compensation for advisory services regarding tax returns is paid as compensation based on non-audit work.

c. Compensation based on other important audit certification work

Not applicable

d. Policy for determining auditors' compensation

The Company's policy for determining compensation for auditing work provided by certified public accountant auditors, etc. is to pay the necessary and appropriate compensation in order to carry out a reliable audit by an independent third party from the perspective of protecting the public interest or investors. More specifically, the Company receives the details of the audit from the certified public accountant and reviews the appropriateness of the compensation based on the history of previous audit contracts and the time required.

The results of these deliberations are proposed to the Board of Corporate Auditors, and the compensation auditing work is determined with the consent of the Board of Corporate Auditors.

e. Reasons why the Audit & Supervisory Board has agreed to the Independent Auditor Compensation

The Audit & Supervisory Board has agreed to the compensation for the Certified Public Accountants, etc. as a result of the following discussions based on the proposed compensation for auditing work received by the executive division from the certified public accountants: (1) Review and evaluation of the number of audit days in the financial audit plan and the audit performance of the previous year, and (2) An explanation to us on the results of scrutiny on the calculation of the estimates on which the compensation, and (3) An evaluation based on of the adequacy of the performance of the audit by the certified public accountants and others in the previous fiscal year.

(4) Executive compensation

1) Policy Pertaining to Determination of Amounts of Executive Compensation and Calculation Methodology Thereof

The Company has established a policy for determining the amount and calculation method of compensation for its officers. Compensation for the Company's Directors and Corporate Officers is determined by taking into account such factors as the Company's performance, the nature of its business operations and economic conditions.

(i) Basic Policy

Compensation and compositional ratios reflect the role and annual performance of the Company and motivate the officers to increase medium- and long-term corporate value.

(ii) Policy for determining compensation

Directors' compensation consists of basic compensation (fixed), short-term performance-linked compensation (bonus), and performance-linked stock compensation from the perspective of reflecting the Company's performance and more clearly linking it to shareholder value. The payout ratio policy is 70% for base salary, 15% for short-term performance-linked compensation and 15% for performance-linked stock compensation. Audit & Supervisory Board Members are paid only basic compensation as their position is independent of business execution.

(iii) Basic compensation (fixed)

The amount of basic compensation for Directors shall be commensurate with their positions and duties, with reference to industry standards and the results of surveys on executive compensation by external research organizations.

(iv) Short-term performance-linked compensation (bonus)

Short-term performance-linked compensation for Directors is determined on the basis of consolidated performance as an incentive for single-year performance.

The total amount of short-term performance-linked compensation is determined based on the underlying standard fund ratio (0% to 1.2%), which varies depending on profitability and is indexed to consolidated operating income ratio established by the Company. The amount of compensation paid to each Director is, in principle, based on the ratio of basic compensation for each Director.

This metric was selected because it is the most appropriate indicator of the Company's short-term performance.

The targets for the metrics related to short-term performance-based compensation for the fiscal 2019 are based on the consolidated earnings forecast for the fiscal year ended March 31, 2020, published in May 2019, and the actual results are based on the consolidated results for the fiscal year ended March 31, 2020.

(v) Performance-linked stock compensation

In order to raise awareness of the contribution of Directors' performance-linked compensation to improving medium- to long-term business performance and increasing corporate value, the Company uses the structure of a stock-issuing trust (Executive compensation Board Incentive Plan (BIP) Trust ) to issue the Company's shares, etc. according to the degree of achievement of performance targets for each fiscal year and their position in the Company.

Each director is granted a certain number of points for a certain period of time each year based on his or her position in the period under review, as well as an additional number of points based on the achievement of performance targets. The achievement of performance targets is measured by the consolidated ordinary income ratio, with an add-on ratio of 0% to 30%. The points granted are accumulated each year, and after the director retires, the Company's shares, etc. will be delivered in proportion to the accumulated points.

The reason for selecting this indicator is to link it to the ordinary income ratio, which is the management target of the Company's mid-term management plan.

The targets for performance-linked stock compensation for the fiscal year under review are the consolidated ordinary income margin figures planned for the fiscal year under review based on the mid-term management plan, and actual results are based on the consolidated results for the fiscal year ending March 31, 2020.

(vi) Procedure for determining remuneration

To ensure the transparency and objectivity of the decision-making process for directors' compensation, the Nomination and Compensation Committee (chaired by an independent outside director), consisting of four directors including two independent outside directors, has been established and the Board of Directors deliberates and decides on directors' compensation based on the committee's deliberations and recommendations. The compensation of the Audit & Supervisory Board Members is determined by the decision of the Audit & Supervisory Board.

The amount of compensation for directors shall not exceed ¥500 million per year, as resolved at the 81st Ordinary General Meeting of Shareholders held on June 22, 2007. In addition, stock compensation shall not exceed ¥450 million in total over three fiscal years, with an upper limit of 650,000 points (equivalent to 130,000 shares) awarded per fiscal year to directors and corporate officers, as resolved at the 92nd Annual General Meeting of Shareholders held on June 21, 2018.

(vii) Scope of decision-making authority and discretion and activities

The Nominating and Compensation Committee, in consultation with the Board of Directors, shall discuss and advise and make recommendations to the Board of Directors on the following matters.

- Establishment, revision or abolition of the basic policy and standards for determining directors' compensation, etc.
- Details of the amount of compensation for each director
- Other matters deemed necessary by the Nomination and Compensation Committee in relation to the compensation of directors

The Board of Directors deliberates and decides on director compensation based on the advice and recommendations of the Nomination and Compensation Committee.

In the process of determining the compensation of the Company's directors during the fiscal year under review, a total of three meetings of the Nomination and Compensation Committee deliberated on the basic policy, decision-making policy, compensation structure, basic compensation, short-term performance-linked compensation and performance-linked stock compensation, and after making recommendations to the Board of Directors, the Board of Directors approved the resolution at its meeting on June 27, 2019.

- 2) Total amount of compensation by category of executives, total amount of compensation by type of compensation and number of eligible executives.

(Millions of yen)

Category of executives	Total amount of compensation	Breakdown of total amount of compensation			Number of eligible executives (Persons)
		Annual basic salary	Short-term performance-linked compensation	Performance-linked stock compensation	
Directors (Excluding Outside Directors)	223	190	—	33	9
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	20	20	—	—	1
Outside officer	43	43	—	—	6

Notes: 1. The above includes three directors who retired at the conclusion of the 93rd Annual General Meeting of Shareholders held on June 27, 2019.

2. The amount of compensation paid to directors does not include the employee's salary for directors who serve concurrently as employees.
3. The maximum annual compensation limit for directors was resolved at the 81st Annual General Meeting of Shareholders held on June 22, 2007 to be ¥500 million (not including employee salaries).
4. The maximum annual compensation limit for Audit & Supervisory Board Members was set at ¥60 million at the 82nd Annual General Meeting of Shareholders held on June 24, 2008.

- 3) Total amount of compensation by category of executives

Since there is no one whose total amount of compensation is more than ¥100 million, this information is not provided.

- (5) Status of stocks held

- 1) Criteria and concept on stocks for investment

The Company has a policy for stocks other than net investment purposes as crossholding of stocks.

- 2) Stocks for investment held for any purposes other than net investment purpose

- a. Method for verifying the holding policy and rationality of holding, and details of the verification by the Board of Directors, etc. of the appropriateness of holding individual stocks

The Company will hold shares if it believes that maintaining and expanding transactions with that company will contribute to the sustained enhancement of the Group's corporate value, taking into account the overall rationality of the business relationship and economic rationale from a medium- to long-term global perspective. Therefore, the Company will reduce its crossholdings of stocks that are inconsistent with this policy in a timely manner. As a specific decision-making process, the Board of Directors shall annually review the rationality and necessity of holding of major crossholding stocks from a medium- to long-term perspective in light of the returns and risks involved, and confirm the aims and rationality of the holdings reflected in the review. In addition, the cost of capital and other criteria are used to determine the rationality of holding the shares, and the returns are verified based on the risk of holding the shares.

- b. Number of brands and total balance sheet value

	Number of brands	Total balance sheet amount (Millions of yen)
Unlisted stocks	20	164
Stocks other than unlisted stocks	2	119

(Stocks for which the number of shares increased in the fiscal year under review)

	Number of brands	Total value of acquisition related to the increase in the number of shares (Millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	100	Acquisition to indirectly support the business of the company sold
Stocks other than unlisted stocks	2	18	Increase due to regular acquisition by the stock ownership association

(Stocks for which the number of shares decreased in the fiscal year under review)

	Number of brands	Total value of acquisition related to the decrease in the number of shares (Millions of yen)
Unlisted stocks	4	371
Stocks other than unlisted stocks	4	520

c. Information regarding the number of shares, amounts recorded in the balance sheet, etc., by each stock for “Specific stocks for investment” and “Stocks subject to deemed holding”

Specific stocks for investment

Stocks	Fiscal 2019	Fiscal 2018	Holding purpose, quantitative holding effects and reason for the increased number of shares	Holding of the Company's shares (Yes/None)
	Number of shares held by the Company Balance sheets amount (Millions of yen)	Number of shares held by the Company Balance sheets amount (Millions of yen)		
FamilyMart UNY Holdings Co., Ltd.	—	135,944	To facilitate the smooth promotion of product sales and other operations. In fiscal 2019, in accordance with the sale of Sanden Retail Systems Corporation, shares held by Sanden were sold to Sanden Retail Systems Corporation.	None
	—	383		
Honda Motor Co., Ltd.	49,205	43,838	To facilitate the smooth promotion of product sales and other operations. Increase due to the regular acquisition by the stock ownership association.	None
	119	131		
Meiji Holdings Co., Ltd.	—	10,080	To facilitate the smooth promotion of product sales and other operations. In fiscal 2019, in accordance with the sale of Sanden Retail Systems Corporation, shares held by Sanden were sold to Sanden Retail Systems Corporation.	None
	—	90		
Dydo Group Holdings, Inc.	—	10,000	To facilitate the smooth promotion of product sales and other operations. In fiscal 2019, in accordance with the sale of Sanden Retail Systems Corporation, shares held by Sanden were sold to Sanden Retail Systems Corporation.	None
	—	49		
Asahi Group Holdings, Ltd.	—	10,000	To facilitate the smooth promotion of product sales and other operations. In fiscal 2019, in accordance with the sale of Sanden Retail Systems Corporation, shares held by Sanden were sold to Sanden Retail Systems Corporation.	None
	—	49		
NAC Co., Ltd.	100	100	To facilitate the smooth promotion of product sales and other operations. The Company sold all the shares in June 2020 and therefore does not have any shares held as of the filing date.	None
	0	0		

Notes: 1. Meiji Holdings Co., Ltd. does not hold shares of the Company, but Meiji Co., Ltd., a group company of Meiji Holdings, does.

2. Although it is difficult to state the quantitative effects of holding shares by stock, the Company verifies the profitability and feasibility of each stock based on annual dividend income and stock valuation gains or losses, etc., and verifies the rationality of holding shares by comprehensively considering business strategies and business relationships.

Stocks subject to deemed holding

Not applicable

3) Stocks for investment held solely for investment purpose

Not applicable

4) The purpose of holding investment shares was changed during the fiscal year under review from net investment purposes to purposes other than net investment purposes.  
Not applicable

5) The purpose of holding investment shares was changed during the fiscal year under review from purposes other than net investment purposes to net investment purposes.  
Not applicable

## **5. Financial Information**

### **1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements**

- (1) The consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 28, 1976 “Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (hereinafter the “Regulations for Consolidated Financial Statements”).
- (2) The non-consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 59, 1963 “Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements” (hereinafter the “Regulations for Non-Consolidated Financial Statements”).

As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-Consolidated Financial Statements.

### **2. Auditing and attestation**

The original Japanese consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020) were audited by KPMG AZSA LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Law.

### **3. Particular efforts to secure the appropriateness of the consolidated financial statements**

The Company takes particular efforts to secure the appropriateness of the consolidated financial statements. Specifically, to ensure correct understanding of the accounting standards, etc., and to establish a system that can be reflected appropriately in the consolidated financial statements, the Company acquires membership in the Financial Accounting Standards Foundation and receives e-mail regularly to ensure the changes in the accounting standards. The Company also endeavors to understand the changes in accounting standards, etc. by participating in seminars on changes in accounting standards conducted by auditing firm and other institutions.

## 1. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated balance sheets

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	*1 13,030	*1 26,440
Notes and accounts receivable--trade	*2 73,591	*2 45,344
Merchandise and finished goods	*3 24,142	*3 16,193
Work in process	*4 11,685	*4 8,699
Raw materials	*5 9,249	*5 7,514
Other inventories	3,194	2,932
Accounts receivable--other	5,975	4,570
Consumption taxes receivable	*6 4,575	*6 3,780
Other	9,531	8,153
Allowance for doubtful accounts	(16,562)	(17,842)
<b>Total current assets</b>	<b>138,412</b>	<b>105,787</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures, net	20,767	16,144
Machinery, equipment and vehicles, net	20,873	16,671
Tools, furniture and fixtures, net	5,217	3,359
Land	16,776	10,610
Leased assets, net	7,615	6,764
Construction in progress	6,187	4,971
<b>Total property, plant and equipment</b>	<b>*7 77,436</b>	<b>*7 58,522</b>
<b>Intangible assets</b>		
Goodwill	27	13
Leased assets	351	141
Other	3,699	3,956
<b>Total intangible assets</b>	<b>4,078</b>	<b>4,111</b>
<b>Investments and other assets</b>		
Investment securities	*8 21,873	*8 15,903
Retirement benefit asset	110	99
Deferred tax assets	2,240	1,743
Other	5,856	3,165
Allowance for doubtful accounts	(3,606)	(1,774)
<b>Total investments and other assets</b>	<b>26,473</b>	<b>19,138</b>
<b>Total non-current assets</b>	<b>107,988</b>	<b>81,772</b>
<b>Total assets</b>	<b>246,401</b>	<b>187,559</b>

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable--trade	50,000	29,983
Short-term borrowings	*9 51,513	*9 47,497
Current portion of bonds payable	1,505	1,985
Current portion of long-term borrowings	*10 23,704	*10 20,984
Accounts payable--other	7,553	6,341
Lease obligations	2,175	2,627
Income taxes payable	478	238
Provision for bonuses	3,347	1,475
Provision for sales rebates	426	169
Provision for product warranties	2,782	1,736
Provision for outstanding claims	432	—
Other	12,789	8,131
<b>Total current liabilities</b>	<b>156,710</b>	<b>121,170</b>
<b>Non-current liabilities</b>		
Bonds payable	5,832	3,847
Long-term borrowings	*11 47,939	*11 25,938
Lease obligations	5,974	7,610
Deferred tax liabilities	245	476
Retirement benefit liability	3,653	3,491
Provision for environmental measures	243	198
Provision for director's stock compensation	255	153
Other	2,005	1,972
<b>Total non-current liabilities</b>	<b>66,151</b>	<b>43,689</b>
<b>Total liabilities</b>	<b>222,862</b>	<b>164,859</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	11,037	11,037
Capital surplus	3,579	3,377
Retained earnings	10,484	12,772
Treasury stock	(877)	(704)
<b>Total shareholders' equity</b>	<b>24,225</b>	<b>26,482</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	257	(46)
Deferred gains or losses on hedges	(84)	(50)
Foreign currency translation adjustment	(4,297)	(3,986)
Remeasurements of defined benefit plans	(1,140)	(1,648)
<b>Total accumulated other comprehensive income</b>	<b>(5,265)</b>	<b>(5,732)</b>
<b>Non-controlling interests</b>	<b>4,579</b>	<b>1,949</b>
<b>Total net assets</b>	<b>23,538</b>	<b>22,699</b>
<b>Total liabilities and net assets</b>	<b>246,401</b>	<b>187,559</b>

## 2) Consolidated statements of income and consolidated statements of comprehensive income

## Consolidated statements of income

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Net sales	*1 273,934	*1 204,880
Cost of sales	*2 227,011	*2 173,052
Gross profit	46,922	31,827
Selling, general and administrative expenses	*3 46,033	*3 35,229
Operating income (loss)	889	(3,401)
Non-operating income		
Interest income	54	587
Dividend income	41	19
Equity in net income of affiliates	2,148	71
Foreign exchange gains	397	—
Other	666	1,067
Total other income	3,308	1,745
Non-operating expenses		
Interest expenses	2,482	2,400
Foreign exchange losses	—	2,997
Commission expenses	*4 50	*4 775
Other	1,100	1,905
Total non-operating expenses	3,633	8,079
Ordinary income (loss)	564	(9,735)
Extraordinary income		
Gain on sales of non-current assets	*5 337	*5 1,364
Gain on sales of shares of subsidiaries and affiliates	—	25,403
Gain on sale of investment securities	63	9
Other	137	30
Total extraordinary income	538	26,808
Extraordinary losses		
Loss on disposal of non-current assets	*6 257	*6 733
Provision of allowance for doubtful accounts	*7 16,244	—
Structure reform cost	*8, *9 4,461	*8, *9 13,395
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	109	96
Provision for outstanding claims	*10 432	—
Other	165	521
Total extraordinary losses	21,672	14,746
Income (loss) before income taxes	(20,568)	2,326
Income taxes-current	686	1,031
Income taxes-deferred	2,384	328
Total income taxes	3,071	1,360
Net income (loss)	(23,639)	966
Net income (loss) attributable to non-controlling interest	(579)	(1,321)
Net income (loss) attributable to owners of parent	(23,060)	2,287

Consolidated statements of comprehensive income

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Net income (loss)	(23,639)	966
Other comprehensive income		
Valuation difference on available-for-sale securities	(26)	(301)
Deferred gains or losses on hedges	(68)	34
Foreign currency translation adjustment	(1,014)	622
Remeasurements of defined benefit plans	(186)	(507)
Share of other comprehensive income of affiliates accounted for using equity method	(2,134)	(479)
Total other comprehensive income	<u>*1 (3,430)</u>	<u>*1 (631)</u>
Comprehensive income	<u>(27,070)</u>	<u>335</u>
Total comprehensive income attributable to:		
Owners of parent	(26,164)	1,821
Non-controlling interests	(906)	(1,485)

3) Consolidated statements of changes in net assets

FY2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	11,037	3,731	33,703	(1,126)	47,346
Changes during period					
Net income (loss) attributable to owners of parent			(23,060)		(23,060)
Purchase of treasury stock				(235)	(235)
Disposal of treasury stock		(24)	(158)	484	301
Change in ownership interest of parent due to transactions with non-controlling interests		(127)			(127)
Net changes in items other than shareholders' equity					
Total changes during period	—	(151)	(23,218)	249	(23,121)
Balance at the end of period	11,037	3,579	10,484	(877)	24,225

	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 the beginning of period	292	(16)	(1,484)	(954)	(2,161)	5,772	50,957
Changes during period							
Net income (loss) attributable to owners of parent							(23,060)
Purchase of treasury stock							(235)
Disposal of treasury stock							301
Change in ownership interest of parent due to transactions with non-controlling interests							(127)
Net changes in items other than shareholders' equity	(35)	(68)	(2,813)	(186)	(3,104)	(1,192)	(4,297)
Total changes during period	(35)	(68)	(2,813)	(186)	(3,104)	(1,192)	(27,418)
Balance at the end of period	257	(84)	(4,297)	(1,140)	(5,265)	4,579	23,538

FY2019 (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of period	11,037	3,579	10,484	(877)	24,225
Changes during period					
Net income (loss) attributable to owners of parent			2,287		2,287
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock			(0)	172	172
Change in ownership interest of parent due to transactions with non-controlling interests		(202)			(202)
Net changes in items other than shareholders' equity					
Total changes during period	—	(202)	2,287	172	2,257
Balance at the end of period	11,037	3,377	12,772	(704)	26,482

	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 the beginning of period	257	(84)	(4,297)	(1,140)	(5,265)	4,579	23,538
Changes during period							
Net income (loss) attributable to owners of parent							2,287
Purchase of treasury stock							(0)
Disposal of treasury stock							172
Change in ownership interest of parent due to transactions with non-controlling interests							(202)
Net changes in items other than shareholders' equity	(304)	34	311	(507)	(466)	(2,629)	(3,096)
Total changes during period	(304)	34	311	(507)	(466)	(2,629)	(839)
Balance at the end of period	(46)	(50)	(3,986)	(1,648)	(5,732)	1,949	22,699

## 4) Consolidated statement of cash flows

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Net income (loss) before income taxes	(20,568)	2,326
Depreciation	10,914	10,088
Amortization of goodwill	46	13
Increase (decrease) in provision for bonuses	(396)	(892)
Increase (decrease) in retirement benefit liability	280	422
Increase (decrease) in allowance for doubtful accounts	16,177	170
Increase (decrease) in provision for product warranties	(447)	(451)
Increase (decrease) in provision for environmental measures	(42)	(40)
Increase (decrease) in provision for outstanding claims	(553)	(432)
Interest and dividend income	(96)	(606)
Interest expenses	2,482	2,400
Equity in net income (loss) of affiliates	(2,148)	(71)
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	109	96
Gain on sales of non-current assets	(337)	(1,364)
Loss on disposal of non-current assets	257	733
Loss (gain) on sales of shares of subsidiaries and associates	—	(25,403)
Loss (gain) on sales of investment securities	(63)	(9)
Structure reform cost	4,461	13,395
Decrease (increase) in trade receivables	200	13,187
Decrease (increase) in inventories	(2,635)	(1,231)
Decrease (increase) in accounts receivable--other	(558)	861
Decrease (increase) in consumption taxes receivable	(123)	334
Increase (decrease) in other non-current liabilities	(154)	85
Increase (decrease) in trade payables	(2,603)	(3,839)
Increase (decrease) in accounts payable--other	(1,357)	(435)
Increase (decrease) in accrued expenses	841	372
Decrease (increase) in other current assets	(100)	98
Increase (decrease) in other current liabilities	1,547	(575)
Other, net	(64)	(34)
Subtotal	5,066	9,197
Interest and dividends received	1,418	2,308
Interest paid	(2,428)	(2,451)
Income taxes (paid) refund	(1,013)	14
Extra retirement payments	—	(1,849)
Net cash provided by (used in) operating activities	3,043	7,219

((Millions of yen))

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>Cash flows from investing activities</b>		
Proceeds from collection of short-term borrowings	3	2,300
Purchase of property, plant and equipment	(14,196)	(9,821)
Proceeds from sales of property, plant and equipment	2,948	5,395
Purchase of intangible assets	(683)	(1,633)
Purchase of investment securities	(146)	(115)
Proceeds from sales of investment securities	807	19
Payments into time deposits	—	(3,480)
Purchase of shares of subsidiaries	(23)	—
Proceeds from sales of shares of subsidiaries and associates	—	35,604
Other, net	(71)	183
Net cash provided by (used in) investing activities	(11,362)	28,452
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	7,055	2,697
Proceeds from long-term borrowings	17,368	840
Repayment of long-term borrowings	(19,590)	(23,418)
Proceeds from issuance of bonds	1,466	—
Redemption of bonds	(862)	(1,505)
Repayments of lease obligations	(2,537)	(2,397)
Purchase of treasury stock	(235)	(0)
Proceeds from sales of treasury stock	301	172
Dividends paid to non-controlling interests	(286)	(183)
Payments from changes in ownership interests in subsidiaries	—	(882)
Net cash provided by (used in) financing activities	2,679	(24,677)
Effect of exchange rate change on cash and cash equivalents	(107)	(312)
Net increase (decrease) in cash and cash equivalents	(5,746)	10,681
Cash and cash equivalents at beginning of period	18,776	13,030
Cash and cash equivalents at end of period	*1 13,030	*1 23,711

## [Notes]

(Going concern assumption)

In the fiscal year under review, the Group recorded net income attributable to owners of the parent of ¥2,287 million, reflecting an extraordinary income of ¥25,403 million due to the sale of all shares held in Sanden Retail Systems Corporation, which is a major subsidiary of the Commercial Store Systems Business, and other shares. As a result of the sale of Sanden Retail Systems Corporation, net sales declined 25% to ¥204,880 million compared with the previous fiscal year, and the company posted an operating loss of ¥3,401 million (compared to operating income of ¥889 million in the previous year) and an ordinary loss of ¥9,735 million (compared to ordinary income of ¥564 million in the previous year).

In the Group's core business, the Automotive Systems Business, vehicle sales have declined from second half of 2019, amid a general decline business environment of the Automotive Systems Business, particularly in the European and Chinese markets. In addition, in 2020, due to the impact of the COVID-19 pandemic, the Group's main plants were closed chiefly in China, Europe and Asia.

As a result, the Company reported a 21% decrease in net sales from the previous fiscal year to ¥153,776 million and a segment loss of ¥5,303 million (segment income of ¥560 million in the previous fiscal year).

The total amount of borrowings and corporate bonds of the Group at the end of the fiscal year ended March 31, 2020 was ¥100,252 million (¥130,495 million at the end of the previous fiscal year) and it is at higher level than cash on hand of ¥23,711 million (¥13,030 million at the end of the previous fiscal year) and cash flows from operating activities of ¥7,219 million at the end of the fiscal year under review (¥3,043 million at the end of the previous fiscal year), and current liabilities exceeded current assets.

As a result of the above, there are circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

In light of these difficult business conditions, the Company and some of its subsidiaries (hereinafter collectively, the "Companies") submitted a formal application to the Japanese Association of Turnaround Professionals, which is an organization certified by the Minister of Justice as a Certified Dispute Resolution Business Operator and by the Minister of Economy, Trade and Industry as a Specified Certified Dispute Resolution Business Operator, for the business revitalization ADR procedures on June 30, 2020, which was accepted on the same day, with the aim of establishing a strong earnings structure and fundamentally improving their financial strength in preparation for future growth.

Subsequently on July 14, 2020, in the presence of all financial institutions that will be subject to the business revitalization ADR procedures, the Companies held a meeting of creditors (the first meeting of creditors) to explain the outline of the proposed business revitalization plan under the said procedures, and obtained the consent of all the financial institutions that would be creditors of the Companies to the temporary suspension notice. In addition, the Companies have received an extension of this temporary suspension until the end of the creditors' meeting for the resolution of the business revitalization plan (In the case of a postponement or continuance the suspension is up to the date of the postponement or continuance).

The Company plans to receive financial support from its main financial institutions, including bridge financing and has obtained the approval of all financial institutions that would be creditors of the Companies to receive such financial support and to allow the Companies to prioritize the treatment of claims related to such financial support over those of the creditors.

As part of the business revitalization ADR procedure, the Companies will formulate a business revitalization plan based on research, guidance and advice from the Japanese Association of Turnaround Professionals from a fair and neutral perspective, while consulting with our financial institutions.

With respect to the details of the proposed plan, in addition to management improvement measures based on the Companies' self-help efforts, we are keenly considering capital and business alliances with a number of sponsors, and will aim to conclude the plan with the consent of all of the financial institutions that will be creditors of the plan.

The future schedule for the turnaround ADR procedure is as follows:

The 2nd creditors' meeting (creditors' meeting to discuss the business revitalization plan), scheduled for November 6, 2020  
The third creditors' meeting (creditors' meeting to discuss the business revitalization plan), scheduled for December 11, 2020

However, these measures are still in the process of being implemented, and the aforementioned measures could have a significant impact on the future cash flows of the Group, depending on the future business conditions of the Group and the progress of the business revitalization ADR procedures. The Company recognizes that there are currently significant uncertainties regarding its ability to continue as a going concern.

Note that the consolidated financial statements have been prepared on a going concern basis and the consolidated financial statements do not reflect the effect of significant uncertainties related to the going concern assumption.

(Major notes to consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated group companies: 36

Consolidated subsidiaries are omitted as these are presented in "4. Information on subsidiaries and affiliates" under "Overview of the Company." In the fiscal year under review, Sanden International (Europe) Ltd., a consolidated subsidiary, was dissolved as a result of an absorption-type merger with its consolidated subsidiary Sanden International (Europe) GmbH as the surviving company. In addition, Sankyo Kosan Co., Ltd. and Sanden Business Expert Co., Ltd. were dissolved as a result of an absorption-type merger with the consolidated subsidiary Sanden Facility Co. Ltd. as the surviving company. Note that Sanden Facility Co., Ltd. has changed its name to Sanden Business Associate Corporation.

Sanden of America, Inc. has been excluded from the scope of consolidation due to the completion of liquidation procedures. As a result of the sale of all outstanding shares of Sanden Retail System Corporation, which was a consolidated subsidiary, Sanden Retail System Corporation and its eight subsidiaries (including sub-subsidiaries) were excluded from the scope of consolidation. In addition, Honda Cars Takasaki Co., Ltd. was excluded from the scope of consolidation due to the transfer of all outstanding shares.

(2) Number of major non-consolidated subsidiaries: Sanden Bright Partner Corporation

(Reason for exclusion from the scope of consolidation)

Total assets, net sales, net income or loss (as calculated by the equity method) and retained earnings (as calculated by the equity method) of unconsolidated subsidiaries do not have a material impact on the consolidated financial statements.

2. Equity method

(1) Number of companies accounted for by the equity method: 6

Main company names

Sanden Huayu Automotive Air-Conditioning Co., Ltd.

Shenyang Sanden Automotive Air-Conditioning Co. Ltd.

As a result of the sale of all outstanding shares of Sanden Retail System Corporation, which was a consolidated subsidiary, Sanden Retail System Corporation and its two affiliates (including sub-affiliates) were excluded from the scope of application of the equity method.

(2) Of the non-consolidated subsidiaries and affiliates not accounted for by the equity method, the major one is Sanpak Engineering Industries (Pvt) Ltd. Non-equity-method companies are excluded from the scope of application of the equity method because their net income or loss (as calculated by the equity method) and retained earnings (as calculated by the equity method), etc., would not have a material impact on the consolidated financial statements if they were excluded from the scope of application of the equity method, and their overall importance would not be significant.

(3) The Sanden Group owns 20% of the voting rights in Sanden Retail System Corporation (formerly SDRS Holdings, Inc.), however, under the terms of the shareholders' agreement between the Sanden Retail System Corporation and its parent company, it is required to exercise its voting rights in accordance with the instructions of its parent company. The Sanden Group does not substantially hold voting rights in Sanden Retail System Corporation and it is clear that the Company is not able to have a significant influence on decisions on finance, sales or business policies and therefore does not consider the company an affiliate.

(4) For those companies accounted for under the equity method whose fiscal year end differs from the consolidated fiscal year end, the financial statements of these companies for their respective fiscal years are used.

3. Accounting period of consolidated subsidiaries

The fiscal year-end of the following consolidated subsidiaries is December 31: Tianjin Sanden Auto Air-Conditioning CO., LTD., Sanden (Suzhou) Precision Parts Co., Ltd., Sanden Chongqing Automotive Air Conditioning Co., Ltd., Sanden Automotive Technology (Shanghai) Co., Ltd., Sanden Shanghai Thermal Environmental System Co., Ltd., Sanden Manufacturing Mexico SA de CV.

In preparing the consolidated financial statements, the financial statements as of that date are used, and necessary adjustments are made for consolidation purposes to account for significant transactions that occurred between that date and the consolidated closing date.

The fiscal year end of Choon Tian International Trading (Shanghai) Co., Ltd. is the last day of December, and the consolidated financial statements were prepared based on the provisional financial statements as of the end of March.

#### 4. Accounting policies

##### (1) Valuation criteria and methods for significant assets

###### A. Securities

###### Other securities

- Marketable securities:

Marketable securities are carried at fair value based on quoted market prices as of the end of the fiscal year. Any changes in unrealized gain or loss are directly included in net assets and the costs of securities sold are generally calculated by the moving average method.

- Non-marketable securities:

Non-marketable securities are carried at cost determined by the moving average method.

For those securities whose real value has been significantly reduced, a substantial reduction has been made.

###### B. Derivative financial instruments

Derivative financial instruments are stated at fair value.

###### C. Inventories

Inventories are primarily stated at cost method determined by the weighted average method (values on the balance sheet are subject to the book value reduction method based on decreased profitability.)

##### (2) Depreciation method for significant depreciable assets

###### A. Property, plant and equipment (excluding leased assets)

The straight-line method is adopted.

The main useful lives are as follows.

Buildings and structures	2-50 years
Machinery, equipment and vehicles	2-15 years

The Company and its consolidated subsidiaries in Japan have adopted a method in which small amounts of depreciable assets with an acquisition cost of ¥100,000 or more but less than ¥200,000 are depreciated in equal amounts over three years.

###### B. Intangible assets (excluding leased assets)

The straight-line method is adopted.

Depreciation of software for internal use is calculated by the straight-line method based on its useful life in the Company.

###### C. Leased assets

Leased assets related to finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

The financial statements of overseas consolidated subsidiaries are prepared in accordance with International Financial Reporting Standards. However, the Company has applied International Financial Reporting Standards No. 16, "Leases" ("IFRS 16") from the fiscal year under review as described in "Changes in Accounting Policies." Under IFRS 16, as a general rule, all leases are capitalized as assets and liabilities on the consolidated balance sheet for lessees and capitalized right-of-use assets are depreciated on a straight-line basis. In the "Lease transaction," leases in accordance with IFRS 16 are classified as 1. Finance lease transactions.

##### (3) Basis for accounting for significant provisions

###### A. Allowance for doubtful accounts

To prepare for losses due to the credit loss of monetary claims, the Company and its domestic consolidated subsidiaries consider the actual loan loss rate for general claims and the collectability of specific claims such as doubtful debts individually and record the estimated uncollectible amount. Overseas consolidated subsidiaries have provided an allowance for doubtful accounts at the estimated amounts of possible losses mainly for specific receivables.

B. Provision for bonuses

To provide for the payment of bonuses to employees, an estimated amount of bonus payments corresponding to the consolidated fiscal year under review.

C. Provision for sales rebates

To provide for sales rebates for automotive system equipment products, etc., the estimated amount of such rebates is recorded.

D. Provision for product warranties

To cover the cost of free services after the sale of products, in addition to the amount based on the rate of occurrence in the previous years as a percentage of net sales, the amount of the cost that can be individually estimated is recorded.

E. Provision for outstanding claims

To provide for the payment of settlements and other payments related to antitrust violations and other matters related to past transactions of certain automotive parts, the Company records an estimated amount for future losses.

F. Provision for environmental measures

Costs related to soil and water contamination at the location and neighboring areas of former plants of The Vendo Company, a consolidated subsidiary in the U.S., are recorded based on estimated amount of future costs.

G. Provision for director's stock compensation

To prepare for the issuance of the Company's shares by the executive compensation Board Incentive Plan (BIP) Trust, the Company records the estimated amount of shares to be paid out based on the points allocated to the executives and others in accordance with the stock issuance regulations.

(4) Accounting method for retirement benefits

- Method of attributing the estimated amount of retirement benefits to the period

In calculating the retirement benefit obligations, the estimated amount of retirement benefits attributed to the end of the fiscal year under review is based on the benefit calculation formula.

- Amortization of actuarial differences and past service costs

Past service costs are amortized on a straight-line method over a fixed number of years within the average remaining service period of employees at the time they are incurred.

Actuarial differences are amortized on a straight-line method over a fixed number of years within the average remaining service period of employees at the time of recognition of each fiscal year. The Company amortizes them in a lump sum in the year of occurrence.

(5) Basis for translating significant foreign currency-denominated assets and liabilities into Japanese currency

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot rates of exchange in effect at the balance sheet date and the translation differences are treated as profit or loss. Assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the spot rate of exchange on the consolidated closing date. Revenues and expenses are translated into Japanese yen at the average exchange rate for the period, with translation differences included in foreign currency translation adjustments and noncontrolling interests in net assets.

(6) Significant hedge accounting methods

A. Hedge accounting method

Deferred hedge accounting is adopted.

However, the exceptional method is applied to interest rate swaps where the requirements for the exceptional method are met.

B. Hedging instruments and hedged items

- Hedging instruments

Futures contracts, interest rate swaps and commodity derivatives

- Hedged items

Foreign currency denominated receivables and forecasted foreign currency transactions, interest on floating rate borrowings, and cost of raw materials purchased

### C. Hedging policy

In principle, the Company enters into forward foreign exchange contracts to hedge the foreign exchange fluctuation risk associated with foreign currency-denominated receivables, which corresponds to the portion of sales from Japan.

In addition, the Company enters into interest rate swaps to hedge the risk of interest rate fluctuations on interest payments and commodity derivatives to hedge the risk of price fluctuations on raw materials.

### D. Assessment of hedge effectiveness

Hedging is applied on the condition that the change in the market value of the hedged item and the change in the market value of the hedging instrument do not deviate by 20% or more, and the assessment of the effectiveness of the hedge is confirmed.

However, the Company does not evaluate the effectiveness of interest rate swaps for which special accounting is used.

### (7) Method and period of amortization of goodwill

Goodwill is amortized using the straight-line method over five years.

### (8) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, deposits that can be withdrawn from time to time, and short-term investments that are easily converted to cash and that mature within three months of the date of acquisition and are subject to insignificant risk of change in value.

### (9) Other important matters for the preparation of consolidated financial statements

#### A. Accounting method for consumption tax, etc.

Consumption tax and local consumption tax are accounted for by the tax exclusion method.

#### B. Accounting treatment of overseas subsidiaries

The Company has applied the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, June 28, 2019) and has made the necessary adjustments to its consolidated accounts.

#### C. Application of the consolidated taxation system

The consolidated tax payment system is applied.

#### D. Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

For the transition to the group tax sharing system established under the "Act for Partial Amendment of the Income Tax Act, etc. (Law No. 8, 2020) and for items that were reviewed in the non-consolidated taxation system in conjunction with the transition to the group tax sharing system, subject to the treatment of paragraph 3 of the "Application of tax effect accounting for the transition from the consolidated taxation system to group tax sharing system" (Practical Issues Task Force No. 39, March 31, 2020), the Company and certain of its domestic consolidated subsidiaries do not apply the provisions of paragraph 44 of the "Guidance on Accounting Standards for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) and calculate the amount of deferred tax assets and deferred tax liabilities in accordance with the provisions of pre-revision tax laws.

### (Changes in accounting policies)

From the year under review, subsidiaries that apply International Financial Reporting Standards (IFRS) have applied International Financial Reporting Standards (IFRS) 16 "Leases" ("IFRS 16"). As a consequence, the lessee of a lease is required to record all leases as assets and liabilities on the balance sheet in principle. The adoption of IFRS 16 is treated as a transitional measure and the cumulative effect of the change in accounting policy is recorded in retained earnings at the beginning of the year.

As a result, "Property, plant and equipment" increased by ¥1,434 million, "Lease obligations" in current liabilities increased by ¥476 million and "Lease obligations" in non-current liabilities increased by ¥1,088 million for the year ended March 31, 2020. The impact on the consolidated statements of income and per share information for the fiscal year ended March 31, 2020 was immaterial. The consolidated statements of cash flows for the fiscal year ended March 31, 2020 show a decrease in cash flow used in operating activities of ¥294 million and an increase in cash flow used in financing activities of the same amount.

(Accounting standards to be adopted)

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

a. Overview

These are the comprehensive accounting standards for revenue recognition and revenue is recognized by applying the following five steps.

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Calculate the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when or as performance obligations are met

b. Scheduled date of adoption

To be applied from the fiscal year ending March 2022.

c. Effect of adoption

The effect of adoption of the aforementioned standards on the Company's consolidated financial statements is under evaluation.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement of (ASBJ Guidance No. 31, July 4, 2019)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- The "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

a. Overview

In order to improve comparability with international accounting standards' provisions, the “Accounting Standard for Measurement of Fair Value” and the “Guidance on Accounting Standard for Measurement of Fair Value” (hereinafter referred to as “the Accounting Standard for Measurement of Fair Value”) were developed, and the guidance on calculation of fair value was established.

The “Accounting Standard for Measurement of Fair Value” is applied to the fair value in the following items.

- Financial Instruments in the Accounting Standard for Financial Instruments
- Inventories held for trading purposes under the Accounting Standard for Measurement of Inventories

The “Guidance on Disclosures about Fair Value of Financial Instruments” has been revised and notes such as the breakdown of each level of fair value of financial instruments have been defined.

b. Scheduled date of adoption

To be applied from the fiscal year ending March 2022.

c. Effect of adoption

The effect of adoption of the aforementioned standards on the Company's consolidated financial statements is under evaluation.

- Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)

a. Overview

Paragraph 125 of International Accounting Standard (IAS) 1 "Presentation of Financial Statements" (hereinafter referred to as IAS 1), which was published by the International Accounting Standards Board (IASB) in 2003, requires disclosure of "Factors causing estimation uncertainty" as information highly useful to users of financial statements. In response to a request to consider requiring the disclosure of information in the notes to the financial statements, the Accounting Standards Board of Japan ("ASBJ") developed and released the Accounting Standard for Disclosures about Accounting Estimates ("the Accounting Standard").

As a basic policy of the ASBJ, in developing this accounting standard, instead of expanding the number of individual notes, the principle (the purpose of disclosure) is presented and the specific content of disclosure should be determined by the entity in light of the purpose of disclosure. In developing the standard, the ASBJ decided to refer to the provisions of IAS 1, paragraph 125.

b. Scheduled date of adoption

To be applied from the fiscal year ending March 2021.

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No.24, March 31, 2020)

a. Overview

In response to the recommendation to consider the enhancement of note information regarding the "accounting principles and procedures adopted in the case where the provisions of related accounting standards are unclear," the Accounting Standards Board of Japan (ASBJ) released the revised standards as the Accounting Standard for Accounting Policy Disclosure, Accounting Changes and Error Corrections.

In addition, in order to enhance the note information regarding the "accounting principles and procedures adopted in the case where the provisions of related accounting standards are unclear, the "Commentary on Business Accounting Principles (Note 1-2) is to be succeeded to so as not to affect the practice in the case where the related accounting standards are clearly defined.

b. Scheduled date of adoption

To be applied from the end of the fiscal year ending March 2021.

(Changes in presentation)

**Consolidated statements of income**

"Commission expenses," which was included in "Other" under "Non-operating expenses" in the previous fiscal year, has been presented as a separate item in the fiscal year under review due to its increased significance.

To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥1,150 million included in "Other" under "Non-operating expenses" in the consolidated statements of income for the previous fiscal year has been reclassified as "Commission expenses" of ¥50 million and "Other" of ¥1,100 million.

**Consolidated statement of cash flows**

"Proceeds from collection of short-term borrowings," which was included in "Other" under "Cash flows from investing activities" in fiscal 2018, has been presented as a separate item in fiscal 2019 due to its increased significance.

To reflect this change in presentation, the consolidated financial statements for fiscal 2018 have been reclassified.

As a result, ¥(68) million included under "Other" in "Net cash provided by (used in) investing activities" in the consolidated statements of cash flows for fiscal 2018 has been reclassified and therefore "Proceeds from collection of short-term borrowings" becomes ¥3 million and "Other" becomes ¥(71) million.

(Additional information)

**The impact of the spread of COVID-19**

The impact of the spread of COVID-19 has had a significant impact on the Group, with production sites in Europe and Asia shutting down from April to June 2020, and production sites in Japan and the United States temporarily taking a leave from operations.

Currently, production sites in Europe and Asia have also resumed their production activities. However, there is no unified forecast on the spread of the COVID-19 infection and when it will end, and it is difficult to reasonably estimate the impact of these events at this time.

Under these circumstances, based on the information available at the time of the preparation of the financial statements, the Group assumes that the impact of the spread of COVID-19 will continue for a certain period of time in the future, and makes accounting estimates, such as the cash flow related to the assumptions of a going concern, impairment of non-current assets, and the possibility of recovering deferred tax assets.

If the spread of the COVID-19 infection is prolonged, it could have a significant impact on the Group's business results and financial position.

### Transaction related to the executive compensation Board Incentive Plan (BIP) Trust

The Company has introduced the executive compensation Board Incentive Plan (BIP) Trust (hereinafter referred to as the "Plan") for directors, and corporate officers and counselors who have entered into a delegation agreement with the Company (excluding expatriates, outside directors and part-time directors, hereinafter referred to as "Directors, etc."), with the purpose of raising awareness of its contribution to improving the Company's medium- to long-term performance and increasing corporate value.

The 92nd Annual General Meeting of Shareholders held on June 21, 2018 approved the proposal for the continuation of the Plan, and the Board of Directors resolved to dispose of treasury stock through a private placement at the Board of Directors meeting held on August 8, 2018.

The accounting treatment for trusts conforms to the "Practical Solution on Transactions to Deliver the Company's Shares to Employees, etc. through Trusts" (Practical Issues Task Force No. 30, March 26, 2015).

#### a. Outline of the transaction

Under this plan, shares of the Company's stock are acquired through a trust as the source of compensation for Directors, etc. contributed by the Company, and the Company's shares are delivered to the subject directors and others in accordance with the degree of achievement of performance targets and their positions in each fiscal year. However, in principle, directors, etc. will receive the Company's shares at the time of their retirement.

#### b. Treasury stock remaining in the trust

The Company's shares remaining in the trust are recorded as treasury stock in net assets at the book value of the trust (excluding incidental expenses). The book value and number of shares of treasury stock were ¥574 million and 273,961 shares for the previous fiscal year, and ¥450 million and 206,494 shares for the fiscal year ended March 31, 2020.

(Notes to the consolidated financial statements)

Note 1: \*7

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Accumulated depreciation of property, plant and equipment	180,408	166,296

Note: Accumulated depreciation of property, plant and equipment includes the accumulated impairment loss.

Note 2: \*8

Items related to non-consolidated subsidiaries and affiliates are as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Investment securities	20,815	15,619

Note 3: \*1, 2, 3, 4, 5, 7, 9, 10, 11

Assets pledged as collateral and secured debt are as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Assets pledged as collateral		
Buildings and structures	705	2,333
Machinery and equipment	2,201	1,895
Merchandise and finished goods	2,198	1,688
Land	151	1,364
Accounts receivables--trade	1,720	1,339
Other	997	824
Total	7,975	9,445
Secured debt		
Short-term borrowings	1,787	5,619
Current portion of long-term borrowings	257	8
Long-term borrowings	227	141
Total	2,272	5,769

Note 4: Contingent liabilities

a. The Company provides debt guarantees for borrowings and other debt from financial institutions of non-consolidated companies as follows.

FY2018 (As of March 31, 2019)

(Millions of yen)

Classification		Amount
Debt guarantee	Sanpak Engineering Industries (Pvt) Ltd.	PKR52,611 thousand 357
	Total	357

FY2019 (As of March 31, 2020)

(Millions of yen)

Classification		Amount
Debt guarantee	Sanpak Engineering Industries (Pvt) Ltd.	PKR650,000 thousand 429
	Total	429

b. Other

FY2018 (As of March 31, 2019)

In connection with the plea agreement with the U.S. Department of Justice, civil lawsuits (class action lawsuits) and other lawsuits have been filed in North America seeking damages. Some of these lawsuits have already been settled. For those cases in which it is possible to reasonably estimate future losses, an allowance for outstanding claims is provided. The outcome of other pending lawsuits could have an impact on the Group's business results, but it is difficult to make a reasonable estimate of the amount of these lawsuits at this time, and it is unclear how much of an impact these lawsuits could have on the Group's business results and financial position.

FY2019 (As of March 31, 2020)

In connection with the plea agreement with the U.S. Department of Justice, civil lawsuits (class action lawsuits) and other lawsuits have been filed in North America seeking damages. Some of these lawsuits have already been settled. The outcome of other pending lawsuits could have an impact on the Group's business results, but it is difficult to make a reasonable estimate of the amount of these lawsuits at this time, and it is unclear how much of an impact these lawsuits could have on the Group's business results and financial position.

Note 5: \*2 and 6

The balances of securitized receivables were accounted for as financial transactions as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Notes and accounts receivable--trade	1,076	—
Consumption taxes receivable	553	570

The liabilities corresponding to securitization of the above-mentioned receivables are recorded in other current liabilities in the amount of ¥1,630 million for the fiscal year ended March 31, 2019 and ¥570 million for the fiscal year ended March 31, 2020.

Of the above notes and accounts receivable--trade, the balance of securitization associated with proprietary trusts was ¥1,076 million in the previous fiscal year, and there were none in the fiscal year under review.

Note 6: \*2

The accounting treatment for notes maturing at the end of the fiscal year is to be set settled at the clearance date.

As the last day of the fiscal year was a holiday for financial institutions, the following matured notes at the end of the fiscal year were included in the balance at the end of the fiscal year.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Notes and accounts receivable--trade	249	—

(Notes to the consolidated statements of income)

Note 1: \*1

Provision for sales rebates: Provision for sales rebates is accounted for as a deduction from net sales and the amounts are as follows.

(Millions of yen)

	FY2018 (April 1, 2019 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Provision for sales rebates	426	169

Note 2: \*3

Selling, general and administrative expenses: The main items in selling, general and administrative expenses are as follows.

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Salary	17,209	13,257
Fare	3,379	2,253
Depreciation	2,263	2,374
Provision for bonuses	1,366	1,597
Provision for product warranties	2,530	2,279
Retirement benefit expenses	870	636

Note 3: \*2 and 3

Research and development expenses

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 and March 31, 2020)
Research and development expenses included in general and administrative expenses and total manufacturing costs for the fiscal year	8,818	7,811

Note 4: \*4

Non-operating commission expenses

FY2019 (April 1, 2019 to March 31, 2020)

Advisory fees related to the sale of shares are recorded.

Note 5: \*5

Gain on sales of non-current assets

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Buildings and structures	60	0
Machinery, equipment and vehicles	173	22
Tools, furniture and fixtures	17	52
Land	81	1,279
Other	4	9
Total	337	1,364

Note 6: \*6

Loss on disposal of non-current assets

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Buildings and structures	18	93
Machinery, equipment and vehicles	214	74
Tools, furniture and fixtures	18	8
Land	1	99
Other	3	457
Total	257	733

Note 7: \*7

Provision of allowance for doubtful accounts

FY2018 (April 1, 2019 to March 31, 2020)

There was a significant delay in the collection of accounts receivable from the Automotive Equipment Business in relation to sales of products to the Iranian market due to the economic sanctions against Iran and the subsequent tightening of financial transactions in response to the financial sanctions. For this reason, an allowance for doubtful accounts is recorded except for the amount that is reasonably estimated to be recoverable within a reasonably foreseeable period of time, in light of the current feasibility of the means of recovery.

FY2019 (April 1, 2018 to March 31, 2019)

Not applicable

Note 8: \*8

Structure reform cost

The Group has recorded an extraordinary loss (structure reform cost) in connection with the selection and concentration of its business portfolio, which is one of the priority items of the mid-term management plan. In the fiscal year ended March 31, 2020, the Company recorded a loss on valuation of inventories of ¥895 million and an impairment loss of ¥3,403 million in the Automotive Systems Business, Commercial Store Systems Business, and Other businesses.

FY2019 (April 1, 2018 to March 31, 2019)

To achieve the goals of its mid-term management plan, which will conclude in fiscal 2023, the Company is working on the following five key strategies, namely; Comprehensive reorganization of production system; Enhancement of basic earning power; Growth by actively promoting “collaborative creation”; Cash flow generation through reform in assets structure; Reform in system for implementation. As a result, in the fiscal year ended March 31, 2020, the Company recorded early retirement benefits of ¥1,863 million, and impairment losses under non-current assets of ¥11,110 million as structure reform cost in conjunction with a fundamental review of its production system in the Automotive Systems Business and Other Businesses.

Note 9: \*9

Impairment loss

FY2018 (April 1, 2018 to March 31, 2019)

The Group has recorded an impairment loss of ¥3,403 million for the following asset groups, which is included in structure reform cost under extraordinary losses.

a. Details and amount of impairment losses

(Millions of yen)

Location	Use	Classification	Amount
Wylie Texas U.S.A.	Automotive Systems Business	Machinery, equipment and vehicles, etc.	2,034
Tinteniac France	Automotive Systems Business	Machinery, equipment and vehicles, etc.	1,368

\*Breakdown of major impairment losses by location

- Wylie Texas U.S.A.: ¥1,817 million of machinery, equipment and vehicle and ¥33 million of buildings and structures, and others
- Tinteniac France: ¥1,351 million of machinery, equipment and vehicle, and others

b. Grouping Methods

The Group's grouping of assets is based primarily on management accounting categories that are monitored on an ongoing basis for income and expenditure. In addition, leased properties and idle assets are grouped together as the smallest unit. The land and buildings of the headquarters and the welfare facilities are treated as common assets because they do not generate independent cash flows.

c. Background to the recognition of the impairment loss

In light of changes in the environment surrounding the automotive market, including trade friction between the U.S. and China, the slowdown of the Chinese economy, and environmental regulations in Europe, the Company has drastically reviewed its production system in the Automotive Equipment Business by changing the global production location and optimizing personnel. As a result, at the end of the fiscal year ended March 31, 2020, the Company reduced the book value of production facilities and surplus production facilities, etc., to their recoverable amounts for which the recovery of investment in the remaining useful lives of major equipment was not probable.

d. Calculation of recoverable amount

The recoverable amount is measured at the higher of value in use or net sales value. The net sales value is mainly evaluated by the appraisal value by a real estate appraiser.

Business assets that are not expected to generate future cash flows from use and are not expected to be sold at a price that exceeds the cost of disposal are valued at residual value.

FY2019 (April 1, 2019 to March 31, 2020)

For the fiscal year ended March 31, 2020, the Group recorded an impairment loss of ¥11,110 million on the following asset groups, which is included in structure reform cost under extraordinary losses.

a. Impairment loss

(Millions of yen)

Place	Use	Classification	Amount
Isesaki-shi, Gunma	Automotive Systems Business	Machinery, equipment and vehicles, etc.	4,003
Maebashi-shi, Gunma	Other business	Land	4,570
Tianjin, People's Republic of China	Automotive Systems Business	Machinery, equipment and vehicles, etc.	1,409
Ayutthaya, Thailand	Automotive Systems Business	Machinery, equipment and vehicles, etc.	1,014
Tinteniac, France	Automotive Systems Business	Machinery, equipment and vehicles, etc.	112

\*Breakdown of major impairment losses by location

- Isesaki-shi, Gunma: ¥3,352 million of leased assets; ¥308 million of buildings and structures; and ¥114 million of machinery, equipment and vehicles
- Tianjin, People's Republic of China: ¥667 million of machinery, equipment and vehicles; and ¥201 million of tools, furniture and fixtures
- Ayutthaya, Thailand: ¥785 million of machinery, equipment and vehicles; ¥229 million of tools, furniture and fixtures

b. Grouping Methods

The Group's grouping assets are mainly grouped based on management accounting categories that are continuously monitored for income and expenditure. In addition, leased properties and idle assets are grouped into the smallest possible unit. In addition, the land and buildings of the headquarters and welfare facilities are classified as shared assets because they do not generate independent cash flows.

c. Background to the recognition of the impairment loss

In the midst of once-in-a-century economic transformation in the automotive industry, in addition to a comprehensive reorganizing the production system, a key strategy in the Mid-Term Plan SCOPE 2023 at the end of the fiscal year ended March 31, 2020, the book value of production facilities, buildings and land, and surplus production facilities that are not expected to be recovered over the remaining useful life of the main buildings and equipment were written down to their recoverable amounts. This was done due to changes in the use of the property to rental purposes along with the sale of the outstanding shares of Sanden Retail Systems Corporation,

d. Method of calculating the recoverable amount

The recoverable amount is measured at the higher of value in use or net sales value. The net sales value is mainly evaluated by the appraisal value by a real estate appraiser.

Business assets that are not expected to generate future cash flows from use and are not expected to be sold at a price that exceeds the cost of disposal are valued at residual value.

Note 10. \*10

Provision for outstanding claims

FY2018 (April 1, 2018 to March 31, 2019)

To prepare for the payment of settlements and other payments related to antitrust violations in connection with past transactions of certain automotive parts, the Company records an estimated amount for future losses.

FY2019 (April 1, 2019 to March 31, 2020)

Not applicable

(Consolidated statements of comprehensive income)

\*1 Reclassification adjustments and tax effects concerning other comprehensive income

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Valuation difference on available-for-sale securities		
Amount arising during period	29	(239)
Reclassification adjustments for gains and losses realized in net income	(63)	(182)
Before tax-effect adjustment	(34)	(421)
Amount of tax effects	7	120
Valuation difference on available-for-sale securities	(26)	(301)
Deferred gains or losses on hedges		
Amount arising during period	106	8
Reclassification adjustments for gains and losses realized in net income	(214)	17
Before tax-effect adjustment	(108)	26
Amount of tax effects	39	8
Deferred gains or losses on hedges	(68)	34
Foreign currency translation adjustment		
Amount arising during period	(1,124)	526
Reclassification adjustments for gains and losses realized in net income	109	96
Foreign currency translation adjustment	(1,014)	622
Remeasurements of defined benefit plans		
Amount arising during period	(317)	(654)
Reclassification adjustments for gains and losses realized in net income	131	146
Before tax-effect adjustment	(186)	(507)
Amount of tax effects	(0)	—
Remeasurements of defined benefit plans	(186)	(507)
Share of other comprehensive income of affiliates accounted for using equity method		
Amount arising during period	(2,134)	(479)
Reclassification adjustments for gains and losses realized in net income	—	—
Share of other comprehensive income of affiliates accounted for using equity method	(2,134)	(479)
Total other comprehensive income	(3,430)	(631)

(Consolidated statements of changes in net assets)  
 FY2018 (April 1, 2018 to March 31, 2019)

1. Shares issued and outstanding / Treasury stock

(Thousands of shares)

	At the beginning of period	Increase during period	Decrease during period	At the end of period
Shares issued:				
Common stock	28,066	—	—	28,066
Total	28,066	—	—	28,066
Treasury stock				
Common stock (Note 1, 2, and 3)	413	156	180	389
Total	413	156	180	389

Notes: 1. The number of shares of treasury stock of common stock includes the Company's shares held by the executive compensation Board Incentive Plan (BIP) Trust (142,000 shares at the beginning of fiscal 2018 and 273,000 shares).

2. The increase in treasury stock of 156,000 shares of common stock was due to an increase of 156,000 shares of the Company's shares purchased by the executive compensation Board Incentive Plan (BIP) Trust and an increase of 0 shares of less than a standard unit purchased.

3. The decrease in treasury stock of 180,000 shares of common stock was due to a decrease of 156,000 shares of the Company's shares transferred to the executive compensation Board Incentive Plan (BIP) Trust and a decrease of 24,000 shares for payment to the retired directors and others.

2. Dividends

a. Dividends paid

Not applicable

b. Dividends, which the record date is in the year ended March 31, 2020 and the effective date of which is in the following fiscal year.

Not applicable

FY2019 (April 1, 2019 to March 31, 2020)

1. Shares issued and outstanding / Treasury stock

(Thousands of shares)

	At the beginning of period	Increase during period	Decrease during period	At the end of period
Shares issued				
Common stock	28,066	—	—	28,066
Total	28,066	—	—	28,066
Treasury stock				
Common stock (Note 1, 2, and 3)	389	0	67	322
Total	389	0	67	322

Notes: 1. The portion of common stock held as treasury stock includes the Company's shares held by the executive compensation Board Incentive Plan (BIP) Trust (273,000 shares at the beginning of fiscal 2019 and 206,000 shares at the end of fiscal 2019).

2. The increase in treasury stock of 156,000 shares of common stock was due to an increase of 156,000 shares of the Company's shares purchased by the executive compensation Board Incentive Plan (BIP) Trust and an increase of 0 shares of less than a standard unit purchased.

3. The decrease in treasury stock of 180,000 shares of common stock was due to a decrease of 156,000 shares of the Company's shares transferred to the executive compensation Board Incentive Plan (BIP) Trust and a decrease of 24,000 shares for payment to the retired directors and others.

2. Dividends

a. Dividends paid

Not applicable

b. Dividends, which the record date is in the year ended March 31, 2020 and the effective date of which is in the following fiscal year.

Not applicable

(Consolidated statements of cash flows)

\*1 Cash and cash equivalents as of the end of the quarter are reconciled to the accounts reported in the consolidated balance sheets as follows.

	(Millions of yen)	
	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Cash and deposits	13,030	26,440
Time deposits with maturities of more than three months	—	(2,728)
Cash and cash equivalents	13,030	23,711

Note: There was a significant delay in the collection of accounts receivable in relation to sales of products to the Iranian market due to the financial sanctions against Iran and the Company is recovering a portion of these in Iran. As a result, cash and cash equivalents at the end of fiscal 2018 and fiscal 2019 include foreign currency ordinary deposits held by the Group in Japan.

\*2. Breakdown of assets and liabilities, the sales value of shares and proceeds from the sale of shares at the time of de-consolidation of Sanden Retail System and its affiliates due to sale of their stocks are as follows.

FY2019 (April 1, 2019 to March 31, 2020)

	(Millions of yen)
Current assets	30,353
Non-current assets	13,034
Current liabilities	(29,495)
Non-current liabilities	(1,547)
Accumulated other comprehensive income	704
Gain on sale of shares	24,564
Sale value of shares	37,614
Receivables relating to sale proceeds	(1,000)
Cash and cash equivalents	(2,669)
Balance: Proceeds from the sale	33,945

(Lease transactions)

1. Finance lease transactions

(Lessees' accounting)

Finance lease transactions that do not transfer ownership

1) Leased assets

● Property, plant and equipment

The main items are production facilities and computer terminals (buildings and structures, machinery, equipment and vehicles, and tools, furniture and fixtures) in the Automotive Systems Business and the Commercial Store Systems Business.

● Intangible assets

Includes software.

2) Depreciation of leased assets

As described in "4. Accounting Policies, (2) Depreciation and Amortization of Significant Depreciable Assets" in "Major notes to consolidated financial statements."

(Financial instruments)

1. Financial Instruments

(1) Policies on financial instruments

The Group raises the necessary long-term funds (mainly through bank loans and the issuance of bonds) and short-term working capital through bank loans and other means in light of its medium-term capital plan, which is based on the capital investment plan.

Temporary surplus funds are mainly invested in highly liquid financial assets and derivatives are used to avoid the risks described later, and it is the Group's policy not to engage in speculative transactions.

(2) Description of financial instruments and related risks

Notes and accounts receivable, which are trade receivables, are exposed to the credit risk of customers. In addition, trade receivables denominated in foreign currencies arising in the course of doing business overseas are exposed to the risk of exchange rate fluctuations, but are generally hedged through the use of forward exchange contracts, except to the extent that they are within the balance of accounts payable in the same foreign currency.

Marketable securities and investment securities are primarily stocks of companies with which the Group has business relationships and are exposed to market price volatility risk; however, the risk is limited due to the reduction of holdings.

Notes and accounts payable, which are trade payables, are mostly due within four months. Certain trade payables denominated in foreign currencies are exposed to the risk of exchange rate fluctuations, but are generally hedged through the use of forward exchange contracts, except to the extent that they are within the balance of accounts receivable in the same foreign currency.

Corporate bonds, long-term borrowings, and lease obligations related to finance leases are mainly for the purpose of procuring funds for capital investment, with the longest repayment date being eight years from the date of account settlement.

Most of these are fixed rate and therefore not subject to interest rate volatility risk. Debt with variable rate terms is exposed to the risk of interest rate fluctuations, but is partially hedged through the use of derivative instruments (interest rate swaps).

Derivative transactions consist of forward foreign exchange contracts to hedge the risk of foreign exchange rate fluctuations on foreign currency-denominated trade receivables and payables, interest rate swaps to hedge the risk of interest rate fluctuations on borrowings, and currency and interest rate swaps to hedge the risk of foreign exchange and interest rate fluctuations on foreign currency-denominated borrowings.

For information on hedge accounting, including hedging instruments, hedged items, hedging policy, and methods of evaluating hedge effectiveness, please refer to "(6) Significant hedge accounting methods, 4. Accounting policies" under "Major notes to consolidated financial statements."

(3) Supplemental explanation on the fair value of financial instruments

The fair value of financial instruments includes values based on market prices and, if no market price is available, reasonably calculated values. Since variable factors are taken into account in the calculation of such values, such values may vary depending on the adoption of different assumptions and other factors.

In addition, the contract amounts of derivative transactions in the notes "Derivative transactions" do not in themselves represent the market risk associated with the derivative transactions.

## 2. Fair value of financial instruments

The following tables indicate the amount recorded in the consolidated balance sheets, the fair value and the difference as of March 31, 2019 and March 31, 2020 for various financial instruments. Items for which it is deemed extremely difficult to measure the fair value are not included in the tables below. (Refer to Note 2.)

FY2018 (As of March 31, 2019)

(Millions of yen)

	Amount recorded in the consolidated balance sheets	Fair value	Difference
(1) Cash and deposit	13,030	13,030	—
(2) Notes and account receivables--trade (*1)	60,119	60,119	—
(3) Accounts receivable--other (*2)	4,822	4,822	—
(4) Consumption taxes receivable	4,575	4,575	—
(5) Investment securities	721	721	—
Total assets	83,269	83,269	—

(Millions of yen)

	Amount recorded in the consolidated balance sheets	Fair value	Difference
(1) Notes and accounts payable--trade	50,000	50,000	—
(2) Short-term borrowings	51,513	51,513	—
(3) Accounts payable--other	7,553	7,553	—
(4) Lease obligations (Current liabilities)	2,175	2,246	70
(5) Income taxes payable	478	478	—
(6) Bonds payable (including current portion of bonds payable)	7,337	7,357	19
(7) Long-term borrowings (including current portion of long-term borrowings)	71,644	71,742	97
(8) Lease obligations (Non-current liabilities)	5,974	6,182	207
Total liabilities	196,678	197,074	396
Derivative transactions (*3)	70	70	—

\*1. General and specific allowance for doubtful accounts corresponding to notes and accounts receivable--trade have been deducted.

\*2. Individual allowance for doubtful accounts corresponding to accounts receivable is deducted.

\*3. Net receivables and payables arising from derivative transactions are shown on a net basis and items that are net liabilities in total are shown in parentheses.

(Millions of yen)

	Amount recorded in the consolidated balance sheets	Fair value	Difference
(1) Cash and deposit	26,440	26,440	—
(2) Notes and accounts receivable--trade (*1)	30,785	30,785	—
(3) Accounts receivable--other (*2)	3,661	3,661	—
(4) Consumption taxes receivable		3,780	—
(5) Investment securities	119	119	—
Total assets	64,787	64,787	—

(Millions of yen)

	Amount recorded in the consolidated balance sheets	Fair value	Difference
(1) Notes and accounts payable--trade	29,983	29,983	—
(2) Short-term borrowings	47,497	47,497	—
(3) Accounts payable--other	6,341	6,341	—
(4) Lease obligations (Current liabilities)	2,627	2,590	(36)
(5) Income taxes payable	238	238	—
(6) Bonds payable (including current portion of bonds payable)	5,832	5,837	4
(7) Long-term borrowings (including current portion of long-term borrowings)	46,922	47,108	185
(8) Lease obligations (Non-current liabilities)	7,610	7,493	(116)
Total liabilities	147,054	147,091	36
Derivative transactions (*3)	164	164	—

\*1. General and specific allowance for doubtful accounts corresponding to notes and accounts receivable--trade have been deducted.

\*2. Individual allowance for doubtful accounts corresponding to accounts receivable is deducted.

\*3. Net receivables and payables arising from derivative transactions are shown on a net basis and items that are net liabilities in total are shown in parentheses.

Notes 1. Calculation method of the fair value of financial instruments and matters relating to securities and derivative transactions

Assets:

(1) Cash and deposits, (2) Notes and accounts receivable--trade, (3) Accounts receivable--other and (4) Consumption taxes receivable

Fair value is calculated based on the book value as these assets are settled within a short time and the fair value is almost equal to the book value.

(5) Investment securities

Stocks and other securities are based on the prices of the stock exchange, and bonds are based on the prices of the stock exchange or the prices provided by the financial institutions with which the Company does business. For information on securities by purpose of holding, please refer to notes on "Securities."

Liabilities:

(1) Notes and accounts payable--trade, (2) Short-term borrowings, (3) Accounts payable--other, (5) Income taxes payable

Fair value is calculated based on the book value as these assets are settled within a short time and the fair value is almost equal to the book value.

(4) Lease obligations (Current liabilities), (6) Bonds payable (including current portion of bonds payable), (7) Long-term borrowings (including current portion of long-term borrowings), (8) Lease obligations (non-current liabilities)

The fair value of these items is based on the present value of the total principal and interest discounted at the interest rate expected to be paid for a similar new loan, bond issue or lease transaction.

Derivative transaction:

Please refer to the notes on "Derivative transactions."

2. The amounts of financial instruments for which it is deemed extremely difficult to measure the fair value

(Millions of yen)

Classification	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Unlisted stocks	336	164
Stocks of subsidiaries and affiliates	20,815	15,619

These are not included in "(5) Investment securities" because they do not have a market price and it is deemed extremely difficult to measure the fair value.

3. Redemption schedule after the balance sheet date for monetary receivables and securities with maturities

FY2018 (As of March 31, 2019)

(Millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	13,030	—	—	—
Notes and accounts receivable--trade	60,119	—	—	—
Accounts receivable--other	4,822	—	—	—
Consumption taxes receivable	4,575	—	—	—
Investment securities				
Other securities with maturities				
(1) Bonds (Other)	—	—	—	—
(2) Other	—	—	—	—
Total	82,547	—	—	—

FY2019 (As of March 31, 2020)

(Millions of yen)

	Due within one year	Due after one year but within five years	Due after five years but within ten years	Due after ten years
Cash and deposits	26,440	—	—	—
Notes and accounts receivable--trade	30,785	—	—	—
Accounts receivable--other	3,661	—	—	—
Consumption taxes receivable	3,780	—	—	—
Investment securities				
Other securities with maturities				
(1) Bonds (other)	—	—	—	—
(2) Other	—	—	—	—
Total	64,667	—	—	—

4. Redemption schedule after the balance sheet date for long-term borrowings and lease obligations  
FY2018 (As of March 31, 2019)

(Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Short-term borrowings	51,513	—	—	—	—	—
Bonds payable	1,505	1,985	2,185	1,512	150	—
Long-term borrowings	23,704	21,480	14,803	8,401	2,839	413
Lease obligations	2,175	1,898	1,690	1,254	786	344
Total	78,898	25,364	18,679	11,168	3,775	758

FY2019 (As of March 31, 2020)

(Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years
Short-term borrowings	47,497	—	—	—	—	—
Bonds payable	1,985	2,185	1,512	150	—	—
Long-term borrowings	20,984	14,587	8,221	2,752	349	26
Lease obligations	2,627	2,347	1,815	1,285	771	1,388
Total	73,094	19,120	11,549	4,188	1,121	1,415

(Securities)

1. Other securities

FY2018 (As of March 31, 2019)

(Millions of yen)

Classification	Amount recorded in the consolidated balance sheets	Fair value	Difference
Securities whose carrying value exceeds their acquisition cost			
(1) Stocks	585	190	395
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	585	190	395
Securities whose carrying value does not exceeds their acquisition cost			
(1) Stocks	135	144	(8)
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	135	144	(8)
Total	721	334	386

Note: Unlisted stocks (consolidated financial statements reporting amount: ¥336 million) are not included in "Other securities" in the table above because they do not have a market price and it is deemed extremely difficult to measure the fair value.

FY2019 (As of March 31, 2020)

(Millions of yen)

Classification	Amount recorded in the consolidated balance sheets	Fair value	Difference
Securities whose carrying value exceeds their acquisition cost			
(1) Stocks	0	0	0
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	0	0	0
Securities whose carrying value does not exceeds their acquisition cost			
(1) Stocks	119	154	(35)
(2) Bonds	—	—	—
(3) Other	—	—	—
Subtotal	119	154	(35)
Total	119	154	(34)

Note: Unlisted stocks (consolidated financial statements reporting amount: ¥164 million) are not included in "Other securities" in the table above because they do not have a market price and it is deemed extremely difficult to measure the fair value.

2. Other securities sold during the fiscal year

FY2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

Type	Amount of sale	Total profit on sale	Total loss on sale
(1) Stocks	304	63	—
(2) Bonds			
a. Government and municipal bonds, etc.	—	—	—
b. Corporate bonds	—	—	—
c. Other	—	—	—
(3) Other	—	—	—
Total	304	63	—

FY2019 (April 1, 2019 to March 31, 2020)

(Millions of yen)

Type	Amount of sale	Total profit on sale	Total loss on sale
(1) Stocks	22	11	(1)
(2) Bonds			
a. Government and municipal bonds, etc.	—	—	—
b. Corporate bonds	—	—	—
c. Other	—	—	—
(3) Other	—	—	—
Total	22	11	(1)

(Derivative transactions)

1. Derivative transactions for which hedge accounting is not adopted

Currency-related transactions

FY2018 (As of March 31, 2019)

(Millions of yen)

Classification	Type	Contract amounts	Portion due after one year included herein	Fair value	Valuation gain or loss
Non-market transactions	Forward foreign exchange contracts:				
	Sell:				
	USD	690	—	6	6
	EUR	2,125	—	27	27
	MYR	237	—	(0)	(0)
	Buy:				
	USD	—	—	—	—
	JPY	—	—	—	—
	THB	—	—	—	—
Total		3,053	—	33	33

Note: Calculation of fair value:

Forward exchange contracts are based on the forward exchange rate at the end of the fiscal year under review.

FY2019 (As of March 31, 2020)

(Millions of yen)

Classification	Type	Contract amounts	Portion due after one year included herein	Fair value	Valuation gain or loss
Non-market transactions	Forward foreign exchange contracts:				
	Sell:				
	USD	—	—	—	—
	EUR	—	—	—	—
	MYR	41	—	(0)	(0)
	Buy:				
	USD	—	—	—	—
	JPY	—	—	—	—
	THB	—	—	—	—
Total		41	—	(0)	(0)

Note: Calculation of fair value:

Forward exchange contracts are based on the forward exchange rate at the end of the fiscal year under review.

2. Derivative transactions for which hedge accounting is adopted

(1) Currency-related transactions

FY2018 (As of March 31, 2019)

(Millions of yen)

Hedge accounting method	Type of transactions	Major hedged items	Contract amounts	Portion due after one year included herein	Fair value
Deferral hedge accounting for forward exchange contracts, etc.	Forward foreign exchange contracts:				
	Sell:				
	USD	Accounts receivable --trade	—	—	—
	EUR	Accounts payable --trade	60	—	1
	INR	Accounts payable --trade	75	—	(1)
	Currency swaps:				
	Fixed U.S. dollar and variable Indian rupee payments	Borrowings	1,756	1,658	131
Total			1,892	1,658	131

Note: Calculation of fair value:

Forward exchange contracts are based on the forward exchange rate at the end of the fiscal year under review.

Currency swaps are calculated based on prices provided by financial institutions with which we do business.

FY2019 (As of March 31, 2020)

(Millions of yen)

Hedge accounting method	Type of transactions	Major hedged items	Contract amounts	Portion due after one year included herein	Fair value
Deferral hedge accounting for forward exchange contracts, etc.	Forward foreign exchange contracts:				
	Sell:				
	USD	Accounts receivable --trade	—	—	—
	EUR	Accounts payable --trade	—	—	—
	INR	Accounts payable --trade	—	—	—
	Currency swaps:				
	Fixed U.S. dollar and variable Indian rupee payments	Borrowings	1,528	1,224	216
Total			1,528	1,224	216

Note: Calculation of fair value:

Forward exchange contracts are based on the forward exchange rate at the end of the fiscal year under review.

Currency swaps are calculated based on prices provided by financial institutions with which we do business.

## (2) Interest-related transactions

FY2018 (As of March 31, 2019)

(Millions of yen)

Method of hedge accounting	Type of transactions	Major hedged items	Contract amounts	Portion due after one year included herein	Fair value
Exceptional metho	Interest rate swaps:				
	Receiving floating rate and paying fixed rate	Long-term borrowings	2,864	1,788	(Note)
Deferral hedge accounting	Receiving floating rate and paying fixed	Long-term borrowings	7,473	2,839	(94)
Total			10,337	4,627	(94)

Note: Calculation of fair value:

Interest rate swaps that are subject to the exceptional method are calculated based on the prices provided by the financial institutions with which we do business.

The fair value of interest rate swaps is included in the fair value of the borrowings because the interest rate swaps are accounted for as an integral part of long-term borrowings, which are hedged items.

FY2018 (As of March 31, 2019)

(Millions of yen)

Hedge accounting method	Type of transactions	Major hedged items	Contract amounts	Portion due after one year included herein	Fair value
Exceptional method	Interest rate swaps:				
	Receiving floating rate and paying fixed rate	Long-term borrowings	1,788	858	(Note)
Deferral hedge accounting	Receiving floating rate and paying fixed	Long-term borrowings	5,021	1,578	(51)
Total			6,809	2,436	(51)

Note: Calculation of fair value:

Interest rate swaps that are subject to the exceptional method are calculated based on the prices provided by the financial institutions with which we do business.

The fair value of interest rate swaps is included in the fair value of the borrowings because the interest rate swaps are accounted for as an integral part of long-term borrowings, which are hedged items.

(Retirement benefits)

1. Description of retirement benefit plans

Effective March 1, 2014, the Company has adopted a defined contribution pension plan for its enrolled employees.

Pension beneficiaries are recorded based on the estimated amount of retirement benefit obligations and plan assets at the end of the fiscal year under review.

As of the end of the fiscal year under review, the estimated amount of pension plan assets exceeded the balance of the retirement benefit obligation, and the excess amount was recorded as "net defined benefit asset" in assets.

Domestic consolidated subsidiaries have their own lump-sum retirement benefit plans, and some of them have a defined contribution pension plan and Smaller Enterprise Retirement Allowance Mutual Aid Plan. In addition, some overseas consolidated subsidiaries have adopted a retirement benefit plan. The retirement benefit plans of the consolidated overseas subsidiaries include a defined benefit lump-sum retirement plan, a retirement pension plan and a post-retirement medical care plan, a defined contribution retirement plan, and a public plan in the country where the company is located, which is used by some companies in combination.

2. Defined benefit plans (including plans to which the simplified method is applied)

(1) Adjustments between the beginning and ending balances of retirement benefit obligation

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2018 (April 1, 2019 to March 31, 2020)
Retirement benefit obligation at the beginning of the year	7,652	8,290
Service cost	260	147
Interest cost	220	241
Actuarial gain and loss generated	314	644
Retirement benefits paid	(441)	(480)
Decrease due to deconsolidation	-	(639)
Effect of foreign exchange translation	284	(426)
Retirement benefit obligation at the end of the year	8,290	7,777

(2) Adjustments between the beginning and ending balances of plan assets

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Plan assets at the beginning of the year	4,394	4,747
Expected return on plan assets	254	(196)
Actuarial gain and loss generated	(3)	(10)
Contribution from employers	195	208
Retirement benefits paid	(257)	(281)
Decrease due to deconsolidation	-	-
Effect of foreign exchange translation	163	(81)
Plan assets at the end of the year	4,747	4,386

(3) Adjustments between the beginning and ending balances of net defined benefit liability and net defined benefit assets  
(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Retirement benefit obligation for funded plans	6,858	7,055
Plan assets	(4,747)	(4,386)
	2,111	2,669
Retirement benefit obligation for unfunded plans	1,432	722
Net defined benefit liability and assets reported on the consolidated balance sheets	3,543	3,391
Net defined benefit liability	3,653	3,491
Net defined benefit assets	(110)	(99)
Net defined benefit liability and assets reported on the consolidated balance sheets	3,543	3,391

(4) Breakdown of retirement benefit expenses  
(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2018 to March 31, 2020)
Service cost	260	156
Interest cost	220	241
Expected return on plan assets	(254)	196
Amortization of actuarial gain or loss	131	146
Retirement benefit expenses related to defined benefit plans	358	741

(5) Remeasurements of defined benefit plans

A breakdown of the items recorded as remeasurements of defined benefit plans (before tax effect deductions) is as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Actuarial gains and losses	(186)	(507)
Total	(186)	(507)

(6) Remeasurements of defined benefit plans

A breakdown of the items recorded as remeasurements of defined benefit plans (before tax effect deductions) is as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Unrecognized actuarial gains and losses	(1,123)	(1,631)
Total	(1,123)	(1,631)

(7) Matters regarding plan assets

1) Major components of plan assets

Plan assets consist of the following.

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Bonds	33%	33%
Stocks	64%	65%
Cash and deposits	3%	2%
Other	—%	0%
Total	100%	100%

2) Method for determining the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company considers the current and expected allocation of plan assets and the current and expected long-term rate of return from the various assets that make up the plan assets.

(8) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Discount rate	0.3%~4.0%	0.3%~3.0%
Long-term expected rate of return on plan assets	0.3%~7.5%	0.3%~7.0%

3. Defined-contribution pension plans

The required amounts of contribution to the defined-contribution pension plans for the Company and its consolidated subsidiaries were ¥908 million for the previous fiscal year and ¥756 million for the fiscal year under review.

(Tax-effect accounting)

1. Significant components of deferred tax assets and liabilities

	(Millions of yen)	
	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Deferred tax assets:		
Net operating loss carryforward (*2)	13,040	20,375
Unrealized gains or losses on inventories	134	20
Accounts payable and accrued expenses	563	276
Provision for product warranties	435	232
Allowance for doubtful accounts	3,019	2,957
Denial of allowance for doubtful accounts	677	—
Loss on valuation of inventories	907	201
Provision for bonuses	720	306
Taxation of investment privileges	1,384	1,327
Unrealized gain on fixed assets	17	15
Depreciable assets, etc.	705	561
Retirement benefit liabilities	520	298
Provision for environmental measures	65	53
Impairment loss	736	3,314
Other	1,506	1,286
Subtotal of deferred tax assets	24,434	31,228
Valuation allowance for net operating loss carryforward (Note 2)	(12,810)	(20,096)
Valuation allowance for the sum of future reduction of temporary differences	(8,044)	(8,947)
Subtotal of valuation allowance (Note)	(20,854)	(29,044)
Offsetting deferred tax assets and liabilities of the same taxpayer	(1,340)	(441)
Total deferred tax assets	2,240	1,743
Total deferred tax liabilities		
Depreciation and amortization	419	401
Valuation difference on available-for-sale securities	120	0
Retained earnings of foreign affiliates	587	308
Other	458	207
Subtotal of deferred tax liabilities	1,586	917
Offsetting deferred tax assets and liabilities of the same taxpayer	(1,340)	(441)
Total deferred tax liabilities	245	476
Net deferred tax assets	1,994	1,266

Notes: 1. The valuation allowance increased by ¥8,190 million. This increase was mainly due to an increase of ¥7,286 million in the Group's valuation allowance for net operating loss carryforward.

2. The amounts of net operating loss carryforward and corresponding deferred tax assets by due period.  
FY2018 (As of March 31, 2019)

(Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Net operating loss carryforward (a)	1,791	1,069	21	30	41	10,085	13,040
Valuation allowance	(1,791)	(1,069)	(21)	(30)	(41)	(9,855)	(12,810)
Deferred tax assets	—	—	—	—	—	230	230

(a) Net operating loss carryforward was calculated by the effective statutory tax rate.

FY2019 (As of March 31, 2020)

(Millions of yen)

	Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years	Due after five years	Total
Net operating loss carryforward (a)	1,042	6	11	19	1,106	18,188	20,375
Valuation allowance	(1,042)	(6)	(11)	(19)	(1,106)	(17,909)	(20,096)
Deferred tax assets	—	—	—	—	—	279	279

(a) Net operating loss carryforward was calculated by the effective statutory tax rate.

2. The reconciliation between the effective tax rates reflected in the consolidated financial statements and the effective statutory tax rate is summarized as follows:

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Effective statutory tax rate	Because net loss before income taxes was recorded for the fiscal year, there is no information to be disclosed here.	30.5 %
(Reconciliation)		
Entertainment expenses and other permanently non-deductible		1.5
Dividends received and other items not permanently included in taxable income		(11.6)
Non-deductible portion of foreign tax credit		2.2
Difference in tax rates of overseas consolidated subsidiaries		(1.5)
Amortization of goodwill		0.1
Equity in income or loss of affiliates		2.6
Consolidated adjustment of gains or losses on sales of stocks of affiliated companies		(19.7)
Amount exceeding the tax effect recording limit for unrealized gains on inventories		(35.1)
Tax Deductibles		(3.9)
Taxation of investment privileges		(2.5)
Valuation allowance		95.3
Other		0.6
Income tax rate after the application of tax effect accounting		58.4

(Business combinations)

Transactions under common control, etc.

(Merger of consolidated subsidiaries)

1. Outline of the transaction

(1) Name of the combined company and its business

Combined company (surviving company)

Name: Sanden International (Europe) GmbH (a consolidated subsidiary of the Company)

Business: Sales, development and management/control company of automotive system equipment products

The combined company (dissolved company)

Name: Sanden International (Europe) Ltd. (a consolidated subsidiary of the Company)

Business: Sales, development and management/control company of automotive system equipment products

(2) Date of business combination

September 1, 2019

(3) Legal form of business combination

Sanden International (Europe) GmbH will be the surviving company and Sanden International (Europe) Ltd. will be dissolved in an absorption-type merger.

(4) Name of the company after the combination

Sanden International (Europe) GmbH

(5) Other matters related to the outline of the transaction

In order to further strengthen its global business competitiveness, the Company aims to consolidate its management resources and strengthen its business competitiveness.

2. Summary of accounting treatment performed

In accordance with the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," the merger is treated as a transaction under common control.

(Acquisition of additional shares of a subsidiary)

1. Outline of the transaction

(1) Name of the combined company and its business

Sanden Chongqing Automotive Air Conditioning Co., Ltd

(2) Date of business combination

October 1, 2019 (Constructive acquisition date)

(3) Legal form of business combination

Acquisition of shares from non-controlling shareholders

(4) Name of the company after the combination

No change

(5) Other matters related to the outline of the transaction

The voting rights of the additional shares acquired are 49.0% and the transaction will increase the Company's shareholding to 100.0%. This additional acquisition was made in order to build a foundation for manufacturing and efficient management in the Chinese automotive system equipment market.

2. Summary of accounting treatment performed

In accordance with the "Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019)" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019)," the merger is treated as a transaction with a non-controlling interest among the transactions under common control.

### 3. Additional acquisition of subsidiary stock

Acquisition cost and breakdown by type of consideration

Cash ¥1,280 million

### 4. Changes in the company's equity in transactions with non-controlling interests

#### (1) Major factors in changes in capital surplus

Acquisition of additional shares of a subsidiary

#### (2) Decrease in capital surplus due to transactions with noncontrolling interests

¥202 million

### Business divestitures

(Sale of shares in subsidiaries)

#### 1. Outline of the business divestitures

##### (1) Name of the company to be spun off

SDRS Holdings, Inc.

##### (2) Details of the divested business

Company name: (Consolidated subsidiaries excluded from the scope of consolidation)

Sanden Retail Systems Corporation

SD Maintenance Co. Ltd.

Sanwa Fabtech Co., Ltd.

Sanden Logistics Co., Ltd.

Sanden Vendo America Inc.

Sanden Vendo GmbH

Sanden Vendo Europe S.P.A.

Taiwan Sanden Refrigeration Technology Co. Ltd.

Shanghai Sanden Cooler Co. Ltd.

(Affiliates excluded from the scope of application of the equity method)

Sanden Intercool (Thailand) Public Co., Ltd.

and one other company

Business: Manufacturing, sales, etc. of freezing and refrigerating showcases for commercial use and vending machines for beverage and merchandise sale

##### (3) Reasons for business divestitures

In April 2019, we formulated the Mid-Term Plan SCOPE 2023 with the aim of realizing our vision of "Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized."

The Group's main businesses are the Automotive Systems Business and the Commercial Store Systems Business, but considering the current resources of the Group, it was difficult to allocate sufficient management resources to accelerate the growth of both businesses.

Accordingly, the Company has determined that it will be able to further accelerate the future growth of our Commercial Store Systems Business by operating flexibly as an independent corporate group, through transferring the shares of Sanden Retail System Corporation that manages the Commercial Store Systems Business to SDRS Holdings Co. Ltd. We have by

Furthermore, because this sale will contribute to the improvement of the Company's financial position by strengthening its capital and obtaining funds, the Company has concluded this agreement with the expectation that it will be able to focus its management resources on the automotive systems business and ensure growth by investing for the next era of growth in the midst of the once-in-a-century period of change in the automotive industry.

##### (4) Date of business divestitures

October 1, 2019

##### (5) Other matters related to the outline of the transaction, including the legal form

Transfer of shares in which the consideration received is cash or other property only

## 2. Summary of accounting treatment performed

### (1) Amount of gain or loss on transfer

Gain on sale of shares in affiliated companies: ¥24,564 million

### (2) Appropriate book value of assets and liabilities related to the transferred business and its main breakdown

(Millions of yen)

Current assets	30,353
Non-current assets	13,034
<b>Total assets</b>	<b>43,388</b>
Current liabilities	29,495
Non-current liabilities	1,547
<b>Total liabilities</b>	<b>31,043</b>

### (3) Accounting treatment

The difference between the consolidated book value of the transferred shares and the sale price of the shares is recorded as "Gain on sales of shares in affiliates" in extraordinary income.

## 3. Reportable segments that included the divested businesses

Commercial Store Systems Business

## 4. Estimated amount of profit or loss related to the divested businesses reported in the consolidated statement of income for the fiscal year under review

(Millions of yen)

Net sales	42,712
Operating income	2,638

(Asset retirement obligations)

FY2018 (As of March 31, 2019)

Notes are omitted due to lack of materiality.

FY2019 (As of March 31, 2020)

Notes are omitted due to lack of materiality.

(Rental and other real estate)

FY2018 (April 1, 2018 to March 31, 2019)

Notes are omitted as the total amount of rental and other real estate was insignificant, notes are omitted.

FY2019 (April 1, 2019 to March 31, 2020)

In the fiscal year ended March 31, 2020, net rental income from these rental and other real estate is ¥73 million (major rental expenses are recorded as non-operating expenses).

The carrying amount of rental and other real estate on the consolidated balance sheet, changes during the period, and their fair value are as follows.

(Millions of yen)

		FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Consolidated balance sheet amount	Balance at the beginning of period	—	—
	Changes during the period	—	6,741
	Balance at the end of period	—	6,741
Fair value at the end of period		—	6,741

Notes: 1. The consolidated balance sheet amount is calculated by subtracting accumulated depreciation, accumulated impairment loss and accumulated impairment loss from the acquisition cost.

2. Of the amount of increase (decrease) during the period, the increase is mainly due to the leasing of factory and warehouse buildings and land (¥6,741 million).

3. The fair value at the end of the fiscal year is primarily the amount calculated by the Company based on the Real Estate Appraisal Standards (including those adjusted by using indices).

(Segments of the Company and related information)

Segment information

1. Overview of reportable segments

The reportable segments of the Company are components for which separate financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decision about resource allocation and to assess their performance.

The Company formulate comprehensive strategies in Japan and overseas based on the products, systems and services it handles and develops business activities. Therefore, the Company consists of product, system and service segments, with the Automotive Systems Business and the Commercial Store Systems Business as the reporting segments.

Segment	Mail products, systems and services
Automotive Systems Business	Automotive air-conditioning systems, air-conditioner compressors and various automotive parts
Commercial Store Systems Business	Various vending machines, freezing and refrigerating showcases and large open showcase

2. Calculation method of net sales, income or losses, assets and liabilities and other items by reportable segments

The accounting method for the reportable segments is generally the same as the items stated in the "Major notes to consolidated financial statements."

The segment income is based on operating income.

3. Net sales, income or losses, assets and liabilities and other items by reportable segments

FY2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment	Consolidated financial statements amount (Note 2)
	Automotive Systems	Commercial Store Systems	Total				
Net sales							
Sales to third parties	193,465	69,423	262,888	11,045	273,934	—	273,934
Inter-segment sales or transfers	—	—	—	—	—	—	—
Total	193,465	69,423	262,888	11,045	273,934	—	273,934
Segment income (loss)	560	773	1,334	(445)	889	—	889
Segment assets	175,234	61,931	237,165	9,235	246,401	—	246,401
Other items							
Depreciation and amortization expense	9,203	1,339	10,543	371	10,914	—	10,914
Amortization of goodwill	46	—	46	—	46	—	46
Equity in income of affiliates	1,824	324	2,148	—	2,148	—	2,148
Impairment loss	3,403	—	3,403	—	3,403	—	3,403
Investment in equity-method companies	15,051	5,395	20,447	—	20,447	—	20,447
Increase in property, plant and equipment and intangible assets	10,843	2,212	13,055	1,067	14,122	—	14,122

Notes: 1. The "Other" category includes the vehicle sales business, the living & environmental business and the electronics business, etc.

2. The total amount of segment income (loss) is the same as the operating income in the consolidated financial statements.

FY2019 (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment	Consolidated financial statements amount (Note 2)
	Automotive Systems	Commercial Store Systems	Total				
Net sales							
Sales to third parties	153,776	43,275	197,052	7,827	204,880	—	204,880
Inter-segment sales or transfers	—	—	—	—	—	—	—
Total	153,776	43,275	197,052	7,827	204,880	—	204,880
Segment income (loss)	(5,303)	2,297	(3,006)	(395)	(3,401)	—	(3,401)
Segment assets	170,765	1,276	172,042	15,517	187,559	—	187,559
Other items							
Depreciation and amortization expenses	8,944	744	9,689	399	10,088	—	10,088
Amortization of goodwill	13	—	13	—	13	—	13
Equity in income of affiliates	(26)	98	71	—	71	—	71
Impairment loss	6,540	—	6,540	4,570	11,110	—	11,110
Investment in equity- method companies	15,201	129	15,330	—	15,330	—	15,330
Increase in property, plant and equipment and intangible assets	12,070	1,253	13,324	640	13,965	—	13,965

Notes: 1. The "Other" category includes the vehicle sales business, the living & environmental business and the electronics business, etc.

2. The total amount of segment income (loss) is the same as the operating income in the consolidated financial statements.

3. Sanden Retail System Corporation and its eight subsidiaries, which were the Company's consolidated subsidiaries and the core of the retail system business, have been excluded from the scope of consolidation.

As a result, the net sales and segment income of the Commercial Store Systems segment for the fiscal year ended March 31, 2019 do not include the net sales and operating income of the company and its subsidiaries after October 1, 2019.

**[Related information]**

FY2018 (April 1, 2018 to March 31, 2019)

## 1. Information by product and service

This information is omitted because the product and service categories are the same as those of the reportable segments.

## 2. Information by region

## (1) Net sales

(Millions of yen)

Japan	Asia		Europe		Americas	Total
		Contributed by China		Contributed by Germany		
90,564	78,151	47,152	83,809	29,251	21,408	273,934

## (2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Europe		Americas	Total
		Contributed by China		Contributed by Poland		
39,866	17,997	10,896	15,846	10,178	3,725	77,436

## 3. Information by major customer

This information is omitted because there is no sales to a specific customer account for more than 10% of the net sales in the consolidated statements of income.

FY2019 (April 1, 2019 to March 31, 2020)

## 1. Information by product and service

This information is omitted because the product and service categories are the same as those of the reportable segments.

## 2. Information by region

## (1) Net sales

(Millions of yen)

Japan	Asia		Europe		Americas	Total
		Contributed by China		Contributed by Germany		
63,177	53,796	28,290	71,370	24,666	16,535	204,880

## (2) Property, plant and equipment

(Millions of yen)

Japan	Asia		Europe		Americas	Total
		Contributed by China		Contributed by Poland		
28,096	12,562	7,180	14,641	9,537	3,220	58,522

## 3. Information by major customer

(Millions of yen)

Name	Sales	Segment name
Volkswagen Group	21,592	Automotive systems business

**[Information on impairment losses on non-current assets by reportable segment]**

FY2018 (April 1, 2018 to March 31, 2019)

This information is omitted because the same information is disclosed in the segment information.

FY2019 (April 1, 2019 to March 31, 2020)

This information is omitted because the same information is disclosed in the segment information.

**[Information on amortization of goodwill and unamortized balance by reportable segment]**

FY2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Reportable segment			Other (Note 1)	Total
	Automotive Systems	Commercial Store Systems	Total		
(Goodwill)					
Depreciation amount during period	46	—	46	—	46
Balance at the end of period	27	—	27	—	27
(Negative goodwill)					
Depreciation amount during period	—	—	—	—	—
Balance at the end of period	—	—	—	—	—

Note: 1. The "Other" category includes the vehicle sales business, the living & environmental business and the electronics business, etc.

FY2019 (April 1, 2019 to March 31, 2020)

(Millions of yen)

	Reportable segment			Other (Note 1)	Total
	Automotive Systems	Commercial Store Systems	Total		
(Goodwill)					
Depreciation amount during period	13	—	13	—	13
Balance at the end of period	13	—	13	—	13
(Negative goodwill)					
Depreciation amount during period	—	—	—	—	—
Balance at the end of period	—	—	—	—	—

Note: 1. The "Other" category includes the vehicle sales business, the living & environmental business and the electronics business, etc.

**[Gain on negative goodwill by reporting segment]**

FY2018 (April 1, 2018 to March 31, 2019)

Not applicable

FY2019 (April 1, 2019 to March 31, 2020)

Not applicable

**[Related Party Information]**

## 1. Transactions with related parties

## (1) Transactions between the Company submitting the consolidated financial statements and related parties

Directors and major shareholders of the Company submitting the consolidated financial statements

FY2018 (April 1, 2018 to March 31, 2019)

Type	Name	Location	Capital or investment (Millions of yen)	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Foundation with a board member serving as a director	Sanden Kankyo Mirai Zaidan	Isesaki-shi, Gunma	—	(Note 1)	—	—	Donation	21	—	—

Notes: 1. The purpose of the foundation's activities is to support human resource development and the creation of new industries with a focus on the environment.

2. The amount of donations to the Foundation is decided upon with the approval of the Board of Directors.

FY2019 (April 1, 2019 to March 31, 2020)

Type	Name	Location	Capital or investment (Millions of yen)	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Foundation with a board member serving as a director	Sanden Kankyo Mirai Zaidan	Isesaki-shi, Gunma	—	(Note 1)	—	—	Donation	21	—	—

Notes: 1. The purpose of the foundation's activities is to support human resource development and the creation of new industries with a focus on the environment.

2. The amount of donations to the Foundation is decided upon with the approval of the Board of Directors.

(2) Transactions between consolidated subsidiaries of the Company submitting consolidated financial statements and related parties

Affiliates of the Company submitting consolidated financial statements, etc.

FY2018 (April 1, 2018 to March 31, 2019)

Type	Name	Location	Capital or investment (Millions of yen)	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden AI Salam LLC	Dubai United Arab Emirates	USD1,000 thousand	Sale of automotive systems	(Owned) Indirect 43	Manufacture and sale of the Company's products in the Middle East	Sales	2,574	Accounts receivable --trade	13,134
							—	—	Other investment	3,795
Affiliated company	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Shanghai, the People's Republic of China	RMB 834,090 thousand	Manufacture and sale of automotive systems	(Owned) Direct 43	Manufacture and sale of the Company's products in China, concurrent officers	Sales	19,981	Account receivable --trade	9,377

Notes: 1. The transaction amount above does not include consumption tax.

2. Terms and conditions of transactions and the policy for determining terms and conditions, etc., are determined in the same way as for general transactions.

3. Allowance for doubtful accounts of ¥13,811 million is provided for accounts receivable and other investments in affiliated companies.

FY2019 (April 1, 2019 to March 31, 2020)

Type	Name	Location	Capital or investment (Millions of yen)	Business or occupation	Ratio of ownership voting rights (owned)	Relationships with related parties	Transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance at the end of period (Millions of yen)
Affiliated company	Sanden AI Salam LLC	Dubai United Arab Emirates	USD1,000 Thousand	Sale of automotive systems	(Owned) Indirect 43	Manufacture and sale of the Company's products in the Middle East	Sales	239	Accounts receivable -- trade	9,858
							—	—	Other investment	3,721
Affiliated company	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Shanghai, the People's Republic of China	RMB 834,090 thousand	Manufacture and sale of automotive systems	(Owned) Direct 43	Manufacture and sale of the Company's products in China Concurrent officers	Sales	9,291	Accounts receivable -- trade	6,191

Notes: 1. The transaction amount above does not include consumption tax.

2. Terms and conditions of transactions and the policy for determining terms and conditions, etc., are determined in the same way as for general transactions.

3. Allowance for doubtful accounts of ¥13,580 million is provided for accounts receivable and other investments in affiliated companies.

2. Summary Financial Statements of Significant Affiliates

For the year ended March 31, 2020, the significant affiliates were Sanden AI Salam LLC and Sanden Huayu Automotive Air-Conditioning Co., Ltd.

(Millions of yen)

	Sanden AI Salam LLC		Sanden Huayu Automotive Air-Conditioning Co., Ltd.	
	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Total current assets	26,016	27,322	54,264	55,300
Total non-current assets	1,681	1,082	33,082	33,872
Total current liabilities	28,364	32,992	51,097	52,247
Total non-current liabilities	—	—	735	691
Total net assets	(666)	(4,587)	35,514	36,234
Net sales	18,979	16,257	97,475	87,705
Income (loss) before income taxes	(4,239)	(5,347)	7,833	6,242
Net income (loss)	(4,239)	(5,347)	6,873	5,478

(Per share information)

(Yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Net assets per share	685.04	747.92
Net income (loss) per share	(833.58)	82.54

Notes: 1. Diluted net income per share for the fiscal year ended March 31, 2019 is not shown in the above table, because the Company recorded a net loss per share and there were no latent shares. Diluted net income per share for the fiscal year ended March 31, 2020 is not shown in the above table, as there are no latent shares.

2. The Company's shares held in the Executive Compensation BIP Trust are included in the treasury stock to be deducted from the average number of shares for the purpose of calculating net income or loss per share, and are also included in the number of treasury stock to be deducted from the total number of shares issued at the end of the fiscal year for the purpose of calculating net assets per share.

The average number of shares held by the trust during the year was 227,189 in the previous fiscal year and 230,747 in the fiscal year under review. The number of shares held by the trust at the end of the fiscal year was 273,961 in the previous fiscal year and 206,494 in the fiscal year under review.

3. The basis for calculating net income (loss) per share is as follows.

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Net income (loss) attributable to owners of parent (Millions of yen)	(23,060)	2,287
Amount not attributable to shareholders on common stock (Millions of yen)	—	—
Net income (loss) attributable to owners of the parent company on common stock (Millions of yen)	(23,060)	2,287
Average number of shares during the period (Shares)	27,664,077	27,719,909

(Significant subsequent events)

On June 30, 2020, the Company and some of its subsidiaries formally applied for the business revitalization alternative dispute resolution (ADR) procedure to the Japanese Association of Turnaround Professionals, an organization certified by the Minister of Justice as a Certified Dispute Resolution Business Operator and by the Minister of Economy, Trade and Industry as a Specified Certified Dispute Resolution Business Operator, and the application was accepted on the same date. For details of the business revitalization ADR procedures, please refer to the notes, "Going concern assumption, 1. Consolidated financial statements," in "5. Financial Information."

5) Consolidated Schedules]

[Schedule of corporate bonds]

Company name	Brand	Date of issue	Balance at the beginning of FY2019 (Millions of yen)	Balance at the end of FY2019 (Millions of yen)	Interest rate (%)	Collateral	Redemption deadline
Sanden Holdings Corporation	1st unsecured (Bank guaranteed and limited to qualified institutional investors) (Note 1)	May 31, 2017	1,500 (500)	1,000 (500)	0.17	Unsecured corporate bonds	March 31, 2022
Sanden Holdings Corporation	2nd unsecured (Bank guaranteed and limited to qualified institutional investors) (Note 1)	September 21, 2017	1,487 (425)	1,062 (425)	0.17	Unsecured corporate bonds	September 21, 2022
Sanden Holdings Corporation	3rd unsecured (Bank guaranteed and limited to qualified institutional investors) (Note 1)	March 26, 2018	1,000	1,000 (200)	0.86	Unsecured corporate bonds	March 24, 2023
Sanden Holdings Corporation	4th unsecured (Bank guaranteed and limited to qualified institutional investors) (Note 1)	March 30, 2018	2,000 (280)	1,720 (560)	0.20	Unsecured corporate bonds	March 31, 2023
Sanden Holdings Corporation	5th unsecured (Bank guaranteed and limited to qualified institutional investors) (Note 1)	September 28, 2018	1,350 (300)	1,050 (300)	0.25	Unsecured corporate bonds	September 29, 2023
Total	—	—	7,337 (1,505)	5,832 (1,985)	—	—	—

Notes: 1. The figures in parentheses in the "Balance at the beginning of period" column are the amounts to be redeemed within one year.

2. Total amount to be redeemed per year within 5 years of the consolidated closing date.

(Millions of yen)

Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
1,985	2,185	1,512	150	—

[Details of borrowings]

Classification	Balance at the beginning of FY2019 (Millions of yen)	Balance at the end of FY2019 (Millions of yen)	Average interest rate (%)	Repayment deadline
Short-term borrowings	51,513	47,497	2.40	—
Current portion of long-term borrowings	23,704	20,984	1.43	—
Current portion of lease obligations	2,175	2,627	1.78	—
Long-term borrowings (excluding current portion)	47,939	25,938	1.67	From 2021 to 2026
Lease obligations (excluding current portion)	5,974	7,610	1.48	From 2021 to 2029
Other interest-bearing debt	—	—	—	—
Total	131,308	104,657	—	—

Notes: 1. The average interest rate is the weighted average rate of interest on the outstanding loans at the end of the fiscal year.

2. Amounts for long-term borrowings and lease obligations (excluding current portion) to be redeemed within 5 years from the consolidated balance sheet date is as follows.

(Millions of yen)

Due within one year	Due after one year but within two years	Due after two years but within three years	Due after three years but within four years	Due after four years but within five years
Long-term borrowings	14,587	8,221	2,752	349
Lease obligations	2,347	1,815	1,285	771

[Details of asset retirement obligations]

Notes are omitted due to lack of materiality

[Other]

Quarterly information for the fiscal year under review

Accumulated period		1st quarter	2nd quarter	3rd quarter	FY2019 (April 1, 2019 to March 31, 2020)
Net sales	(Millions of yen)	64,792	127,988	166,541	204,880
Quarterly Income (loss) before income taxes	(Millions of yen)	(1,944)	(3,322)	13,102	2,326
Quarterly net income (loss) attributable to owners of parent	(Millions of yen)	(1,959)	1,778	12,210	2,287
Quarterly net income (loss) per share	Yen	(70.78)	64.22	440.60	82.54

Accounting period		1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income (loss) per share	Yen	(70.78)	134.87	375.98	(357.64)

## 2. Non-consolidated financial statements

### (1) Non-consolidated financial statements

#### 1) Balance sheets

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	2,154	11,959
Operating accounts receivable	*1 4,931	*1 6,384
Supplies	14	15
Short-term borrowings receivable from subsidiaries and affiliates	41,313	43,850
Other	*2 1,374	*2 724
Allowance for doubtful accounts	(10,292)	(11,129)
Total current assets	39,495	51,806
Non-current assets		
Property, plant and equipment		
Buildings	8,521	8,156
Structures	921	975
Machinery and equipment	38	38
Vehicles	0	0
Tools, furniture and fixtures	193	179
Land	13,829	8,966
Leased assets	40	29
Construction in progress	233	374
Total property, plant and equipment	23,779	18,720
Intangible assets		
Leasehold interests in land	8	8
Software	2,265	2,773
Other	102	81
Total intangible assets	2,376	2,863
Investments and other assets		
Investment securities	915	283
Shares of subsidiaries and affiliates	22,155	20,947
Investments in capital of subsidiaries and affiliates	15,354	15,220
Long-term borrowings from subsidiaries and affiliates	—	1,083
Prepaid pension costs	110	99
Deferred tax assets	48	—
Other	891	496
Allowance for doubtful accounts	(107)	(59)
Total investments and other assets	39,367	38,072
Total non-current assets	65,524	59,656
Total assets	105,019	111,462

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Liabilities		
_Current liabilities		
Operating accounts payable	*3 1,954	*3 5,668
Short-term borrowings	*4 23,569	*4 37,324
Current portion of bonds payable	1,505	1,985
Current portion of long-term borrowings	17,162	17,527
Lease obligations	50	47
Accrued expenses	95	—
Provision for outstanding claims	432	—
Provision for bonuses	90	69
Other	238	415
Total current liabilities	45,099	63,037
Non-current liabilities		
Bonds payable	5,832	3,847
Long-term borrowings	36,702	19,155
Lease obligations	192	145
Deferred tax liabilities	—	0
Provision for director's stock compensation	255	153
Other	52	52
Total non-current liabilities	43,036	23,354
Total liabilities	88,136	86,391
Net assets		
Shareholders' equity		
Share capital	11,037	11,037
Capital surplus		
Legal capital surplus	4,453	4,453
Total capital surplus	4,453	4,453
Retained earnings		
Other retained earnings		
Retained earnings carryforward	1,734	10,046
Total retained earnings	1,734	10,046
Treasury stock	(605)	(433)
Total shareholders' equity	16,620	25,105
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	263	(34)
Total valuation and translation adjustments	263	(34)
Total net assets	16,883	25,070
Total liabilities and net assets	105,019	111,462

## 2) Income statement

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Operating revenue		
Group operating income	5,943	4,335
Real estate lease revenue	1,879	1,534
Dividend income from affiliated companies	5,209	2,064
Other operating revenue	10	4
Total operating revenue	*1 13,043	*1 7,940
Operating expenses	*2 8,135	*2 6,422
Operating profit	4,908	1,518
Non-operating income		
Interest income	*3 551	*3 616
Dividend income	*4 31	*4 16
Foreign exchange gains	9	—
Rental income	—	377
Proceeds from miscellaneous income	82	384
Total non-operating income	675	1,395
Non-operating expenses		
Interest expenses	806	836
Taxes and dues	84	66
Foreign exchange losses	—	484
Provision of allowance for doubtful accounts	95	839
Commission expenses	50	775
Miscellaneous loss	530	837
Total nonoperating expenses	1,566	3,840
Ordinary profit (loss)	4,017	(926)
Extraordinary income		
Gain on sales of non-current assets	*5 24	*5 13
Gain on sales of investment securities	63	386
Gain on sales of shares of subsidiaries and affiliates	—	31,949
Other	70	193
Total extraordinary income	158	32,542
Extraordinary losses		
Loss on support to subsidiaries and affiliates	—	*6 17,000
Loss on disposal of non-current assets	*7 23	*7 612
Loss on valuation of shares of subsidiaries and affiliates	867	—
Loss on valuation of investments in capital of subsidiaries and affiliates	127	—
Structure reform cost	—	*8 5,214
Provision for outstanding claims	*9 432	—
Other	84	193
Total extraordinary losses	1,535	23,020
Income (loss) before income taxes	2,639	8,595
Income taxes--current	(104)	115
Income taxes--deferred	238	167
Total income taxes	133	282
Net income	2,506	8,312

3) Statements of changes in net assets  
 FY2018 (April 1, 2018 to March 31, 2019)

(Millions of yen)

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings carryforward	Total retained earnings
Balance at the beginning of period	11,037	4,453	24	4,478	(613)	(613)
Changes during period						
Net income					2,506	2,506
Purchase of treasury stock						
Disposal of treasury stock			(24)	(24)	(158)	(158)
Net changes in items other than shareholders' equity						
Total changes during period	—	—	(24)	(24)	2,347	2,347
Balance at the end of period	11,037	4,453	—	4,453	1,734	1,734

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of period	(854)	14,047	286	286	14,333
Changes during period					
Net income		2,506			2,506
Purchase of treasury stock	(235)	(235)			(235)
Disposal of treasury stock	484	301			301
Net changes in items other than shareholders' equity			(23)	(23)	(23)
Total changes during period	249	2,573	(23)	(23)	2,549
Balance at the end of period	(605)	16,620	263	263	16,883

	Shareholders' equity					
	Share capital	Capital surplus			Retained earnings	
		Capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings carryforward	Total retained earnings
Balance at the beginning of period	11,037	4,453	—	4,453	1,734	1,734
Changes during period						
Net income					8,312	8,312
Purchase of treasury stock						
Disposal of treasury stock					(0)	(0)
Net changes in items other than shareholders' equity						
Total changes during period	—	—	—	—	8,312	8,312
Balance at the end of period	11,037	4,453	—	4,453	10,046	10,046

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of period	(605)	16,620	263	263	16,883
Changes during period					
Net income		8,312			8,312
Purchase of treasury stock	(0)	(0)			(0)
Disposal of treasury stock	172	172			172
Net changes in items other than shareholders' equity			(298)	(298)	(298)
Total changes during period	172	8,484	(298)	(298)	8,186
Balance at the end of period	(433)	25,105	(34)	(34)	25,070

## [Notes]

The total amount of borrowings and corporate bonds of the Company at the end of the fiscal year ended March 31, 2020 was ¥79,839 million (¥84,772 million at the end of the previous fiscal year) and it is at higher level than cash on hand of ¥11,959 million (¥2,154 million at the end of the previous fiscal year) and current liabilities exceeded current assets.

In addition, as described in the notes, “Going concern assumption, 1. Consolidated financial statements” under “5. Financial Information,” the Group, including the Company and its consolidated subsidiaries, recorded a significant decrease in sales in the Automotive Systems segment and a significant operating loss in the fiscal year under review and current liabilities on the consolidated balance sheet exceeded current assets at the end of the fiscal year under review.

As a result of the above, there are circumstances that may cast significant doubt on the Company's ability to continue as a going concern.

In light of these difficult business conditions, the Company and some of its subsidiaries (collectively, the “Companies”) submitted a formal application to the Japanese Association of Turnaround Professionals, an organization certified by both the Minister of Justice as an ADR Business Operator and by the Minister of Economy, Trade and Industry as an ADR Business Operator, for the business revitalization ADR procedures on June 30, 2020, which was accepted on the same day, with the aim of establishing a strong earnings structure and fundamentally improving their financial strength in preparation for future growth.

Subsequently on July 14, 2020, in the presence of all financial institutions that will be subject to the business revitalization ADR procedures, the Companies held a meeting of creditors (the first meeting of creditors) to explain the outline of the proposed business revitalization plan under the said procedures, and obtained the consent of all the financial institutions that would be creditors of the Companies to the temporary suspension notice. In addition, the Companies have received an extension of this temporary suspension until the end of the creditors' meeting for the resolution of the business revitalization plan (In the case of a postponement or continuance the suspension is up to the date of the postponement or continuance).

The Company plans to receive financial support from its main financial institutions, including bridge financing and has obtained the approval of all financial institutions that would be creditors of the Companies to receive such financial support and to allow the Companies to prioritize the treatment of claims related to such financial support over those of the creditors.

As part of the business revitalization ADR procedure, the Companies will formulate a business revitalization plan based on research, guidance and advice from the Japanese Association of Turnaround Professionals from a fair and neutral perspective, while consulting with our financial institutions.

With respect to the details of the proposed plan, in addition to management improvement measures based on the Companies' self-help efforts, we are keenly considering capital and business alliances with a number of sponsors, and will aim to conclude the plan with the consent of all of the financial institutions that will be creditors of the plan.

The future schedule for the Turnaround ADR process is as follows:

The second meeting of creditors (the creditors' meeting to discuss the proposed business revitalization plan), scheduled on November 6, 2020

The third meeting of creditors (the creditors' meeting to discuss the proposed business revitalization plan), scheduled on December 11, 2020

However, these countermeasures are still in the process of implementation, and even if the above measures are taken, there may be a significant impact on future cash flow, depending on the future business situation of the Group and the progress of the business revitalization ADR procedure. At this time, we recognize that there is significant uncertainty regarding going concern assumption.

The consolidated financial statements have been prepared on the premise of a going concern, and the effects of significant uncertainty regarding going concern assumption are not reflected in the consolidated financial statements.



- (4) Provision for director's stock compensation  
To prepare for the issuance of the Company's shares by the Executive Compensation BIP Trust, the Company records the estimated amounts of shares to be paid out based on the points allocated to the executives and others in accordance with the stock issuance regulations.
- (5) Provision for retirement benefits  
To provide for the retirement benefits of pension beneficiaries, a provision is made based on the estimated amount of retirement benefit obligations and pension assets at the end of the fiscal year under review.
7. Hedge accounting methods
- (1) Hedge accounting method  
Deferred hedge accounting is adopted.  
However, exceptional treatment is applied to interest rate swaps that meet the requirements for exceptional treatment.
- (2) Hedging instruments and hedged items
- Hedging instruments  
Futures contracts, interest rate swaps
  - Hedged items  
Foreign currency denominated receivables and forecasted foreign currency transactions, interest on floating rate borrowings
- (3) Hedging policy  
In principle, the Company enters into forward foreign exchange contracts to hedge the foreign exchange fluctuation risk associated with foreign currency-denominated receivables.  
In addition, the Company enters into interest rate swaps to hedge the risk of interest rate fluctuations on interest payments and commodity derivatives to hedge the risk of price fluctuations on raw materials.
- (4) Assessment of hedge effectiveness  
Hedging is applied on the condition that the change in the market value of the hedged item and the change in the market value of the hedging instrument do not deviate by 20% or more, and the assessment of the effectiveness of the hedge is confirmed.  
However, the Company does not evaluate the effectiveness of interest rate swaps for which special accounting is used.
8. Other important matters for preparation of financial statements
- (1) Accounting treatment for consumption tax, etc.  
Consumption tax and local consumption tax are accounted for by the tax exclusion method.
- (2) Application of the consolidated taxation system  
The consolidated taxation system is applied.
- (3) Application of tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system  
For the transition to the group tax sharing system established under the "Act for Partial Amendment of the Income Tax Act, etc. (Law No. 8, 2020) and for items that were reviewed in the non-consolidated taxation system in conjunction with the transition to the group tax sharing system, subject to the treatment of paragraph 3 of the "Application of tax effect accounting for the transition from the consolidated taxation system to group tax sharing system" (Practical Issues Task Force No. 39, March 31, 2020), the Company and certain of its domestic consolidated subsidiaries do not apply the provisions of paragraph 44 of the "Guidance on Accounting Standards for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) and calculate the amount of deferred tax assets and deferred tax liabilities in accordance with the provisions of pre-revision tax laws.
- (4) Accounting treatment for defined benefit plans  
The accounting method for unrecognized actuarial gains and losses on retirement benefits is different from the accounting method in the consolidated financial statements.

(Changes in presentation)

"Commission expenses" of "Non-operating expenses" had previously been included in "Miscellaneous losses" (¥530 million for the previous fiscal year) in the statement of income, but from the fiscal year under review, it is presented as "Commission expenses" (¥50 million for the previous fiscal year) due to its increased significance.

(Additional information)

**The impact of the spread of COVID-19**

The impact of the spread of COVID-19 has had a significant impact on the Group, with production sites in Europe and Asia shutting down from April to June 2020, and production sites in Japan and the United States temporarily taking a leave from operations. Currently, production sites in Europe and Asia have also resumed their production activities. However, there is no unified view on the spread of the COVID-19 infection and the timing of its termination, and it is difficult to reasonably estimate the impact of these events at this time.

Under these circumstances, based on the information available at the time of the preparation of the financial statements, the Company assumes that the impact of the spread of COVID-19 will continue for a certain period of time in the future, and makes accounting estimates, such as the cash flow related to going concern assumption, impairment of non-current assets, and the possibility of recovering deferred tax assets.

If the spread of the COVID-19 infection is prolonged, it could have a significant impact on the Company's business results and financial position.

**Transaction related to the Executive Compensation BIP Trust**

Notes on the Executive Compensation BIP Trust are omitted, as the same information is presented in the notes "Additional information" to the consolidated financial statements in 5.

(Non-consolidated balance sheets)

Note 1: \*1, 2, 3 and 4

Monetary claims and liabilities to subsidiaries and affiliates (excluding those presented separately) are as follows.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Short-term monetary claims	7,485	5,142
Short-term monetary liabilities	1,494	5,399

Note 2: Contingent liabilities

(1) The Company provides debt guarantees for borrowings from financial institutions of affiliated companies.

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Sanden International (Europe) GmbH	—	14,497
Sanden International (U.S.A.), Inc.	7,880	2,076
Sanden Vendo America Inc.	110	—
Sanden (Suzhou) Precision Parts Co., Ltd.	—	603
Sanden Vikas (India) Private Limited	—	2,705
Sanden Vikas Precision Parts Private Limited	—	376
Sanden Airconditioning (Malaysia) Sdn. Bhd.	304	—
Tianjin Sanden Auto Air-Conditioning CO., LTD.	1,544	328
P.T. Sanden Indonesia	55	—
Sanden International Philippines, Inc.	421	—
Sanden Thailand Co., Ltd.	617	—
Sanden (Shanghai) Refrigeration Co. Ltd.	1,811	—
Sanpak Engineering Industries Pvt. Ltd.	357	429
Total	13,104	21,018

(2) The Company has guaranteed the obligations of the following companies to financial institutions in relation to their electronically recorded obligations

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Sanden Automotive Climate Systems Corporation	745	398
Sanden Automotive Components Corporation	10,215	8,518
Sanden Retail Systems Corporation	3,705	—
Sanden Living Environment System Corporation	5	—
Total	14,666	8,916

(3) Other

FY2018 (As of March 31, 2019)

In connection with the plea agreement with the U.S. Department of Justice, civil lawsuits (class action lawsuits) and other lawsuits have been filed in North America seeking damages. Some of these lawsuits have already been settled. For those cases in which it is possible to reasonably estimate future losses, an allowance for outstanding claims is provided. The outcome of other pending lawsuits could have an impact on the Group's business results, but it is difficult to make a reasonable estimate of the amount of these lawsuits at this time, and it is unclear how much of an impact these lawsuits could have on the Group's business results and financial position.

FY2019 (As of March 31, 2020)

In connection with the plea agreement with the U.S. Department of Justice, civil lawsuits (class action lawsuits) and other lawsuits have been filed in North America seeking damages. Some of these lawsuits have already been settled. The outcome of other pending lawsuits could have an impact on the Groups' business results, but it is difficult to make a reasonable estimate of the amount of these lawsuits at this time, and it is unclear how much of an impact these lawsuits could have on the Group's business results and financial position.

(Non-consolidated statements of income)

Note 1: \*1, 2, 3, 4 and 6

Major transactions with affiliated companies are as follows

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Operating revenue	7,829	5,870
Operating expenses	2,741	3,230
Amount of transactions other than business transactions	932	17,628

Note 2: \*2

Operating expenses

The major components of operating expenses are as follows.

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Salaries and allowances	991	787
Bonus	200	123
Welfare Fee	284	218
Rent	255	169
Depreciation	1,183	1,076
Retirement benefit expenses	178	112
Fees	3,297	2,546
Research study expenses	96	25

Note 3: \*5

Gain on sales of non-current assets

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Buildings	—	0
Land	24	13
Total	24	13

Note 4: \*7

Loss on disposal of non-current assets

(Millions of yen)

	FY2018 (April 1, 2018 to March 31, 2019)	FY2019 (April 1, 2019 to March 31, 2020)
Buildings	23	86
Land	—	100
Other	—	425
Total	23	612

Note 5: \*8

#### Structure reform cost

To achieve the goals of its mid-term management plan, which will conclude in fiscal 2023, the Company is working on the following five reform plans: comprehensive reorganization of production systems, enhancement of basic earning power, growth by actively promoting “collaborative creation,” cash flow generation through reform in assets structure, and reform in systems for implementation. As a result, in the fiscal year ended March 31, 2020, the Company recorded structure reform cost in early retirement benefits, etc., and impairment losses on non-current assets

Note 6: \*9

#### Provision for outstanding claims

To prepare for the payment of settlements and other payments related to antitrust violations in connection with past transactions of certain automotive parts, the Company records an estimated amount of losses that may occur in the future.

(Securities)

FY2018 (As of March 31, 2019)

Stocks of subsidiaries and affiliates (balance sheet amount: ¥24,659 million for stock of subsidiaries and investments in capital; and ¥12,850 million for stock of affiliates and investments in capital) are not listed because they do not have market prices and it is extremely difficult to determine their fair value.

FY2019 (As of March 31, 2020)

Stocks of subsidiaries and affiliates (balance sheet amount: ¥25,026 million for stock of subsidiaries and investments in capital; and ¥11,141 million for stock of affiliates and investments in capital) are not listed because they do not have market prices and it is extremely difficult to determine their fair value.

(Tax effect accounting)

1. Breakdown of the main causes of deferred tax assets and deferred tax liabilities

(Millions of yen)

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Deferred tax assets		
Net operating loss carryforward	5,901	5,189
Provision for bonuses	27	21
Allowance for doubtful accounts	3,127	3,412
Denial of allowance for doubtful accounts	677	—
Provision for retirement benefits	207	156
Loss on valuation of securities	9,911	1,922
Affiliated company stock	863	444
Depreciable assets, etc.	338	343
Impairment loss	95	1,586
Other	652	367
Subtotal of deferred tax assets	21,801	13,443
Valuation allowance for net operating loss carryforward	(5,901)	(5,189)
Valuation allowance for total amount of future reduction for temporary differences	(15,704)	(8,524)
Subtotal of valuation allowance	(21,605)	(13,443)
Total deferred tax assets	196	—
Deferred tax liabilities		
Valuation difference on available-for-sale securities	119	0
Other	28	—
Total deferred tax liabilities	147	0
Net deferred tax assets (liabilities)	48	(0)

2. Breakdown of the main items that caused the difference between the effective tax rate and the effective income tax rate after the application of tax effect accounting.

	FY2018 (As of March 31, 2019)	FY2019 (As of March 31, 2020)
Legal effective tax rate	30.5 %	30.5 %
(Adjustment)		
Items that are not permanently deducted, such as entertainment expenses	0.2	60.4
Non-deductible foreign tax credit	6.6	1.7
Resident tax per capita rate	0.3	0.1
Dividends received and other items not permanently included in taxable income	(59.0)	(17.6)
Increase (decrease) in valuation allowance	26.4	(73.0)
Other	(0.0)	1.2
Income tax rate after the application of tax effect accounting	5.0	3.3

(Business Combination)

Transactions under common control, etc.

(Company split)

1. Outline of the transaction

(1) The name of the target business and the content of the business

Successor company in an absorption-type split	Name and description of business
Sanden Automotive Climate Systems Corporation (hereinafter, referred to "SDAS")	Manufacturing and sale of automotive air conditioning systems
Sanden Automotive Components Corporation (hereinafter, referred to "SDAC")	Manufacture and sale of automotive air-conditioner compressors.
Sanden Retail Systems Corporation (hereinafter, referred to "SDRS")	Manufacture and sales of freezing and refrigerating showcases for commercial use and vending machines for beverage and merchandise sale

(2) Date of business combination

April 1, 2019

(3) Legal form of business combination

An absorption-type split in which SDAC will take over the shares and interests in the Company's subsidiaries related to the automotive air-conditioning compressor business, and part of the rights and obligations of the related management-related business. SDAS will take over the shares and interests in the Company's subsidiaries related to the automotive air-conditioning system business and part of the rights and obligations of the related management-related business. SDRS will take over the shares and interests in the Company's subsidiaries related to the retail system business and loan receivables from and part of the rights and obligations of the related management-related business.

(4) Other matters related to the outline of the transaction

The purpose is to further strengthen and improve global management functions, business competitiveness, new product development capabilities, and group management efficiency by further unifying and streamlining the command system of operating companies in line with their business activities.

2. Summary of Accounting Procedures Performed

The merger is treated as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Significant subsequent events)

On June 30, 2020, the Company and some of its subsidiaries formally applied for the business rehabilitation alternative dispute resolution (ADR) procedure to the Japanese Association of Turnaround Professionals, which is an organization certified by the Minister of Justice as a Certified Dispute Resolution Business Operator and by the Minister of Economy, Trade and Industry as a Specified Certified Dispute Resolution Business Operator, and the application was accepted on the same date. For details of the business rehabilitation ADR procedures, please refer to the notes, "Going concern assumption, 1. Consolidated financial statements" in "5. Financial Information."

#### 4) Non-consolidated schedules

##### [Details of property, plant and equipment]

(Millions of yen)

Classification	Type of assets	Balance as of April 1, 2019	Increase in FY2019	Decrease in FY2019	Depreciation in FY2019	Balance as of March 31, 2020	Accumulate depreciation
Property, plant and equipment	Buildings	8,521	814	15	1,163 (359)	8,156	20,712
	Structures	921	163	0	109	975	5,475
	Machinery and equipment	38	8	—	8	38	759
	Vehicles	0	—	—	—	0	5
	Tools, furniture and fixtures	193	28	1	41	179	319
	Land	13,829	—	292	4,570 (4,570)	8,966	—
	Leased assets	40	—	—	11	29	19
	Construction in progress	233	1,156	1,014	1 (1)	374	—
	Total	23,779	2,171	1,323	5,906 (4,931)	18,720	27,291
Intangible assets	Leasehold interests in land	8	—	—	—	8	—
	Software	2,265	1,199	318	373	2,773	—
	Other intangible assets	102	2	2	20	81	—
	Total	2,376	1,202	321	394	2,863	—

Notes: 1. The figures in parentheses in the "Depreciation in FY2019" column represent the included amount of impairment loss reported.

2. Details of major increases in the fiscal year under review are as follows

Buildings: Equipment for Yattajima Plant      ¥185 million

##### [Details of provisions]

((Millions of yen))

Classification	Balance as of April 1, 2019	Increase in FY2019	Decrease in FY2019	Balance as of March 31, 2020
Allowance for doubtful accounts	10,399	839	50	11,188
Provision for outstanding claims	432	—	432	—
Provision for bonuses	90	69	90	69
Provision for director's stock compensation	255	71	172	153

Note: The reason for the appropriation and the method of calculating the amount are described in the "Significant accounting policies" section of this report.

##### [Assets and liabilities]

Since the consolidated financial statements are prepared, this information is omitted.

##### [Other]

Not applicable

## 6. Information on Transfer and Repurchase of the Company's Stock

Fiscal year	From April 1 to March 31
Annual general meeting of the shareholders	June
Date for dividend	March 31
Date for dividend of surplus	September 30, March 31
Number of shares per unit of the Company's stock	100 shares
Purchase and sale of shares less than one unit	(Special account)
Address for transaction	1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited.
Administrator of shareholders' register	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Sumitomo Mitsui Trust Bank, Limited.
Agency	-----
Charges of purchase and sale	Free
Method of public notice	Public notice shall be made by electronic public notice. However, in the event of an accident or other unavoidable circumstances that prevent electronic public notice from being made, it shall be published in the Nihon Keizai Shimbun (published in Tokyo) and the <i>Jomo Shimbun</i> (published in Maebashi City). URL for public notice: <a href="https://www.sanden.co.jp">https://www.sanden.co.jp</a>
Special benefits to shareholders	Not applicable

Notes: 1. The company's General Meeting of Shareholders was held on July 29, 2020, with a record date of June 12, 2020 as the record date for such Annual General Meeting of Shareholders.

2. Pursuant to the provisions of the Company's Articles of Incorporation, shareholders holding less than one standard unit of shares have no rights other than those set forth in each item of Article 189, paragraph 2 of the Companies Act, the right to receive an allotment of shares offered and stock acquisition rights offered in proportion to the number of shares held by the shareholder, and the right to demand the sale of shares less than one unit.

## 7. Reference Information on the Company

### 1. Information on the parent company of the submitting company

The Company has no parent company as prescribed in Article 24 of the Financial Instruments and Exchange Law.

### 2. Other reference information

The Company filed the following documents between the beginning of the fiscal year ended March 31, 2020 and the date when this Securities Report (Yukashoken-Hokokusho) was filed.

(1) Securities Report and Accompanying Documents and Confirmation Note	Fiscal year (the 93rd)	From April 1, 2018 to March 31, 2019	Submitted to the Director of the Kanto Local Finance Bureau on June 27, 2019
(2) Internal Control Report			Submitted to the Director of the Kanto Local Finance Bureau on June 27, 2019
(3) Quarterly Securities Reports and Confirmation Notes	The first quarter of the 94th period	From April 1, 2019 to June 30, 2019	Submitted to the Director of the Kanto Local Finance Bureau on August 8, 2019
	The second quarter of the 94th period	From July 1, 2019 to September 30, 2019	Submitted to the Director of the Kanto Local Finance Bureau on November 7, 2019
	The third quarter of the 94th period	From October 1, 2019 to December 31, 2019	Submitted to the Director of the Kanto Local Finance Bureau on February 7, 2020

#### (4) Extraordinary Reports

Extraordinary Report pursuant to Article 19, Paragraph 2, Item 3 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc. (Changes in Special Subsidiaries) and Article 19, Paragraph 2, Items 12 and 19 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc. (Events that have a Significant Effect on the Financial Position, Results of Operations, and Cash Flows of the Submitting Company and Consolidated Companies)  
Submitted to the Director of the Kanto Local Finance Bureau on November 7, 2019

Extraordinary Report pursuant to Article 19, paragraph 2, item 3 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc. (Changes in Specified Subsidiaries)  
Submitted to the Director of the Kanto Local Finance Bureau on December 20, 2019.

Extraordinary Report pursuant to Article 19, paragraph 2, item 12 and 19 of the Cabinet Office Ordinance on Corporate Information, etc. (Events that have a significant impact on the financial position, operating results, and cash flows of the Company and its consolidated subsidiaries)  
Submitted to the Director of the Kanto Local Finance Bureau on February 7, 2020.

Extraordinary Report pursuant to Article 19, paragraph 2, item 12 and 19 of the Cabinet Office Ordinance on Corporate Information, etc. (Events that have a significant impact on the financial position, operating results, and cash flows of the Company and its consolidated subsidiaries)  
Submitted to the Director of the Kanto Local Finance Bureau on July 1, 2020.

## Part II Information on Guarantors for the Company

Not applicable

\*\*\*\*\*