

CSR REPORT 2019

*Responsibly Creating
Shared Value*

SANDEN HOLDINGS CORPORATION
<https://www.sanden.co.jp/english/>

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SANDEN GROUP



Sanden Group will continue to strive to be a Group that is trusted by all the people by opening new era and solving social issues.

Katsuya Nishi

Representative Director & President
Sanden Holdings Corporation

Determination as President of the Group

In June 2019, I was newly appointed as Representative Director & President of Sanden Holdings Corporation. The current business environment faced by the Sanden Group, which approaches 76 years of business operations since its founding, is very difficult due to problems related to U.S.-China trade friction, stricter fuel economy regulations in Europe, and economic sanctions on Iran in the Middle East. I will make use of my experience rebuilding in a range circumstances in the past to promote activities to bring management and employees together to achieve the new Sanden.

Issues to Be Addressed

The Sanden Group implemented comprehensive structural reforms in fiscal 2016 and from fiscal 2017 we have been working on a range of measures in the New Mid-term Management Plan under the concept of “Shrink to Grow.” However, the business environment changed dramatically from the summer of fiscal 2018 and that had significantly large negative impact on earnings.

Going forward, to achieve sustainable growth, the rebuilding our financial base is an important management issue. As a part of this process, and as our corporate social responsibility we recognize the necessity of addressing such social issues as those represented by SDGs.

Creating a New Sanden

In recognition of the issues to be addressed, in April we formulated and launched the New Mid-term Management Plan, “SCOPE 2023” running through to March 31, 2024.

To achieve the Mid-term Management Plan, the Group developed a new vision, “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.”

We will create new corporate value by working toward five key initiatives: comprehensive reorganization of production system; enhancement of basic earning power; growth by actively promoting ‘collaborative creation’; cash flow creation through capital reinforcement and reform of assets structure; and system innovation for implementation. In addition, the Group has achieved growth through our Automotive Systems Business and our Commercial Store Systems Business.

As outlined in the issues to be addressed, the business environment surrounding the Group continues to be very difficult. To deal with these issues, we concentrated management resources in the Automotive Systems Business in October 2019, and accelerated our efforts in this once-in-a-hundred-year era that is a period of great change for the automobile industry.

Together with Our Stakeholders

Our Group vision aims at the “creation of comfortable spaces that enrich human lives” for society in 2030. The new technologies and markets that will be sought after in this society are “automobile and air conditioning,” “smarter technology,” “energy utilization,” and “social welfare.”

One example of these technologies is the “lithium-ion battery temperature control system” that Sanden developed and provided to the racing team of the Pikes Peak International Hill Climb held in June 2019.

The creation of heat management technology that utilizes technology for air-conditioning equipment to enable the realization of better “energy utilization.” The provision of this technology will also contribute to the construction of a mobility society under SDG 11 “Sustainable Cities and Communities.”

We will continue to focus on solving social issues, creating innovation and change, and working to achieve sustainable growth so that we can meet the high expectations of our many stakeholders.

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About This Report

Since 2005, the Sanden Group has annually published its “Sanden CSR Report,” which is designed to offer information about Group businesses and the relationships with stakeholders in those operations in an easy-to-understand format.

The printed version of this report offers concise information on the Sanden Group’s fundamental approach to issues based on its Corporate Philosophy and Management Principles. The Group’s website offers more-detailed data as well as information on the latest CSR activities.

Period of Time Covered by This Report

The report primarily focuses on the period from April 1, 2018 through March 31, 2019. However, efforts have been made to include as much information as possible on the latest activities and trends, even when they are subsequent to that time period.

Scope of This Report

The scope of data and other information in the report includes the Sanden Group (Sanden Holdings Corporation as well as consolidated subsidiaries and affiliates). Please note that the scope of information in certain sections of the report may differ from this, as indicated.

Guidelines Used in the Preparation of This Report

This report was prepared with reference to the Japanese Ministry of the Environment’s 2018 Environmental Reporting Guidelines.

Mid-term Management Plan SCOPE 2023 and SDGs

The Sanden Group has incorporated "Contribute to achievement of SDGs through our business activities" as one of its priority measures in the Mid-term Management Plan SCOPE 2023. We believe that the SDGs are indispensable for the Group's mission to meet international requirements and contribute to society. Therefore, we identify priority measures based on the vision advocated in SCOPE 2023, "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," to clarify the relationship between SDGs and business activities. Sanden Group will seek to grow with corporate activities aimed at realizing a sustainable society.



Ideal Structure of Mid-term Management Plan

"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."

Priority Areas	Background and Reasons	Practical Examples	Relevant SDGs
Provide quality products and enhance level of customer satisfaction	<ul style="list-style-type: none"> Based on our Management Principles, "satisfy our customers' needs with high quality products," the DNA of our corporate culture is to practice the customer-first and quality-first approach handed down since our foundation. Mission to provide comfort to society based on core technology "cooling and heating." 	<ul style="list-style-type: none"> Promote R&D into products that contribute to the environment (p. 7) Continuously reform procurement (p. 11) 	
Protect the global environment	<ul style="list-style-type: none"> After we declared our desire for "The Group to be an eco-friendly company" in 1990, the Group has been promoting environmental management aggressively based on our Management Policies outline as "We try to grow with the core of the environment" established in 1997. 	<ul style="list-style-type: none"> Deploy MFCA (p. 3, p. 8, p. 14) Local environmental conservation activities (5 main areas) (p. 6-9) 	
Ensure occupational safety and health	<ul style="list-style-type: none"> Placing the utmost importance on safety & health, the Group is continuously working on eliminating occupational injuries and improving the working environment while incorporating safety & health into its Corporate Philosophy, based on an awareness that assuring safety and health is a corporate responsibility. 	<ul style="list-style-type: none"> Activities in line with the Safety and Health Charter (p. 13) 	
Recruit and nurture diverse human resources	<ul style="list-style-type: none"> For further growth as a global company, we respect human rights and diversification of all human resources and promote a working environment that can achieve maximum performance. 	<ul style="list-style-type: none"> Respect regional customs and cultures (p. 14) 	
Thoroughly enforce compliance	<ul style="list-style-type: none"> Since compliance with laws and rules must be met as a member of the international community is a basic condition of a global company trusted by society, the Group will thoroughly educate employees to take action with a sense of ethics. 	<ul style="list-style-type: none"> Comply with international rules and regulations (p. 16) GDPR 	

The Sanden Group will continue to grow to realize a sustainable society.

Contribution to Achievement of SDGs Through Our Business Activities

Priority Area: Provide quality products and enhance level of customer satisfaction

Convert Corporate Value into Social Value Through the Creation of Core Technology in "Cooling and Heating"

Promote R&D into Products That Contribute to the Environment

In response to a rapidly changing society, the Sanden Group has been working to expedite research and development into products that contribute to the environment.

Notably, in the automotive industry, the transition to products that make full use of environmental technologies such as plug-in hybrids, electric vehicles (EVs), and fuel cell vehicles are rapidly progressing. As a result of technological development that responds to such social changes, we are marketing heat pump systems, electric coolant heaters, and electric compressors for electric vehicles. With the aim of realizing an enriched society, Sanden will contribute to a reduced environmental impact and the creation of comfortable spaces through broadening the reach of our environmental products.

Relevant SDGs

- [Goal 9] Industry, innovation and infrastructure
- [Goal 12] Responsible consumption and production
- [Goal 13] Climate action

Activities contributing to meeting SDG goals

- Introduced product environmental standards (From 2007)
- Developed market for electric compressor (From 2009)
- Developed market for electric coolant heater for electric vehicles (From 2017)
- Developed heat pump system for electric vehicles (From 2017)



Priority Area: Protect the global environment, recruit and nurture diverse human resources

Reforming Employee Awareness Through a Range of Activities

Disseminating the Sanden Environmental Mindset Through Material Flow Cost Accounting (MFCA)

The Sanden Group conducts ongoing human resource development from various perspectives such as the environment, health and safety, and quality.

More specifically, the Sanden Group has been focusing on nurturing an environmental mindset among the employees by following a management policy based on leveraging "global capabilities" and "quality capabilities" to realize an additional surge in corporate growth centered on core businesses providing environmentally-friendly products. The Sanden Group conducts activities such as the introduction and implementation of companywide MFCA initiatives, including for overseas production sites. These activities include our site-specific environmental activity assessment method, the "Environmental Activity Level Assessment" and our product environmental index and can only contribute to global environmental conservation through the spread of our products globally. These efforts also lead to raising employee awareness of the natural environment. Sanden is promoting study for the Certification Test for Environmental Specialists (Eco test) for all personnel at Japanese production sites and those personnel that pass the exam represent one indicator of employee education.

Fostering a Corporate Culture That Accepts Diversity

For the Sanden Group, which has business bases around the world, the acceptance of diverse cultures across countries is essential. To date, we have held the "Environmental Convention," which aims at promoting exchange between overseas environmental staff, and the "STQM World Convention," which is a quality management convention where small elite groups gather from all over the world. The company newsletter collects topics from each production site and distributes this information both in Japan and overseas.

Relevant SDGs

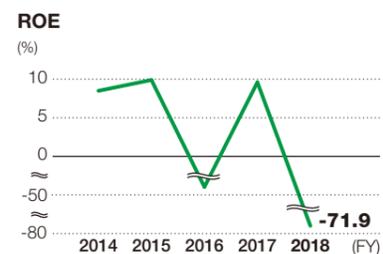
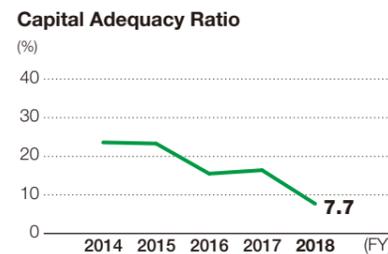
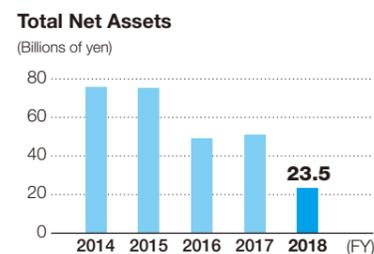
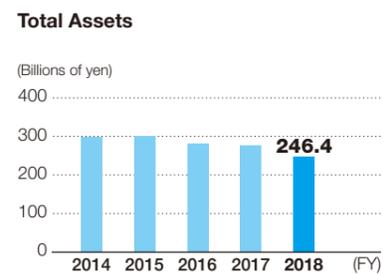
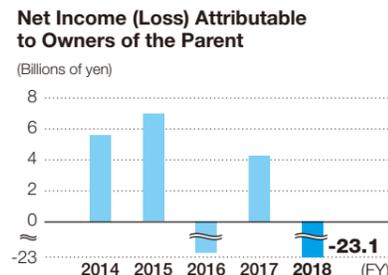
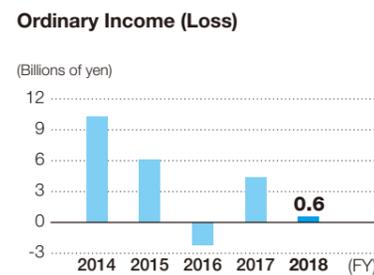
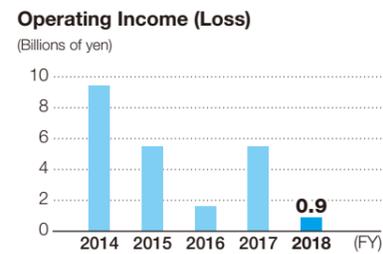
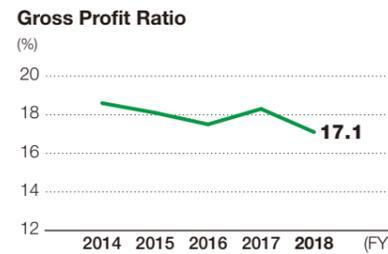
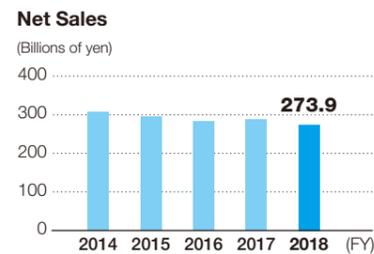
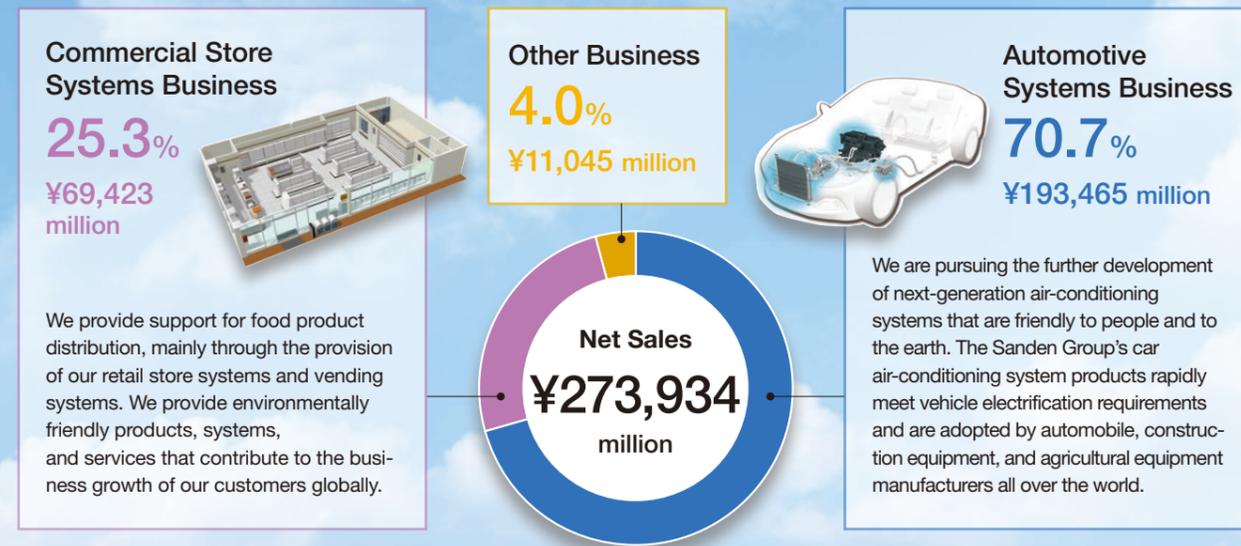
- [Goal 4] Quality education
- [Goal 5] Gender equality
- [Goal 8] Decent work and economic growth
- [Goal 12] Responsible consumption and production

Activities contributing to meeting SDG goals

- Introduction of MFCA (From 2005) (p. 8)
- Eco test (From 2009) (p. 6)
- Launch of environmental activity level evaluations (From 2008) (p. 6)

Business Expansion

Composition of Net Sales by Business Segment (Fiscal 2018)



Materiality and Stakeholder Engagement

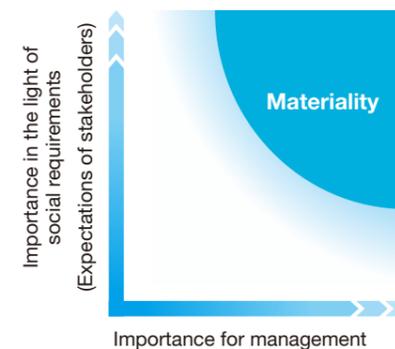
The Sanden Group's CSR policy is based on putting the company's Corporate Philosophy into practice, with each and every employee remaining aware of these policies and incorporating them into their daily activities. With the goal of achieving a sustainable society and ensuring further growth, we established in 2015 and continue to work on materiality CSR issues that reflect the expectations of our stakeholders.

Methods of Establishing Materiality and Results

We identified the departments that have relationships with the CSR items listed in the Group's Corporate Philosophy, including the environment, customers, employees, shareholders and investors, and suppliers. Then, for each department, we took into consideration two major angles: namely "importance for management" and "importance in the light of social requirements (expectations of stakeholders)." Going forward, we will set specific objectives for initiatives related to selected themes, specifically "environment" and "people," and work to raise the level of these CSR activities throughout the Group.

For information related to the environment, please see "Sanden and the Environment" on pages 6-9. For information on people, please see "Sanden and our Employees" on pages 12-13.

Materiality Chart



- E Materiality for the Environment**
 - Promotion of environmental technology development
 - Responding to lowering the burden on the environment
 - Promotion of recycling
 - Responding to climate change problems
- S Materiality in Society**
 - Promotion of diversity
 - Initiatives to achieve a good work-life balance
 - Human resource training
- G Materiality for Corporate Governance**
 - Thorough adherence to compliance

Relationship with Our Stakeholders

The Sanden Group not only values but seeks to deepen communication with our many stakeholders, including our customers, employees, and shareholders. While deepening our connections with customers through daily factory tours and exhibitions, we also continue to engage in direct dialog with our partners at policy briefings and CSR hearings. In addition to the timely disclosure of information to our shareholders, we have received valuable feedback from these same shareholders via distributed questionnaires. The Sanden Group will continue to engage in dialog in line with our goal of bolstering satisfaction among all our stakeholders.

Engagement with stakeholders



Sanden and the Environment

Fundamental Approach to the Environment

The Sanden Group considers preservation of the global environment to be the most important shared responsibility of people everywhere and we have accordingly defined the preservation of the environment as a core component for corporate growth. As an industrial company grounded in technological development (product development and manufacturing) and as a corporate citizen focused on contributing to society through our business activities, the Sanden Group remains committed to global development that takes into account the environment in all our business activities.

Green Management

The Sanden Group follows a management policy based on leveraging “global capabilities” and “quality capabilities” to realize an additional surge in corporate growth centered on core businesses providing environmentally-friendly products. With the aim of realizing this goal, the company is promoting environmental management on a groupwide basis. We implemented environmental management based on ISO 14001, focusing in particular on our manufacturing bases, while fostering in our employees a mindset centered on the environment and encouraging collaboration with local communities as part of our goal of being a good corporate citizen.

In line with the transition to the 2015 version of ISO 14001, we are working to shift our environmental activities to achieve the targets in fiscal 2020, the last year in the Fourth Mid-Term Basic Policy on the Environment.

In this policy we aim to broaden the scope of activities from environmental conservation activities conducted by ourselves to a system that also includes members of the supply chain. The plan also targets a reduced environmental impact, comprehensive management of products containing chemical substances, and product and technological development aimed at resolving social issues as outlined in the SDGs.

With the goal of continuously improving our environmental activities at our global bases, and to clarify the Group’s environmental issue, we have conducted assessments of environmental activity levels since fiscal 2008. One important area of focus is China, where environmental regulations are being tightened. Amid such an environment, Sanden held the Third China Region Environmental Conference, with a focus in particular on contributing to the resolution of environmental issues, reducing environmental risk, and improving conditions in the area by sharing the results of environmental activities at our locations in the country. This time, the conference held lectures and discussions on “environmental laws and regulations” and included the participation of government officials. After the convention, we started activities to incorporate the results learned from other companies and activities to prepare for



Third China Region Environmental Conference

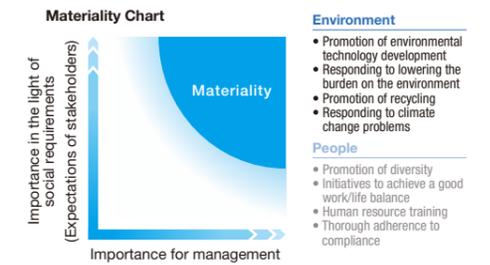
new laws and regulations also got underway.

In terms of instilling a mindset focused on the environment in our employees, Sanden announced in fiscal 2009 a policy of encouraging domestic personnel to take examinations in the Certification Test for Environmental Specialists (Eco test). Through eco seminars given by external lecturers and study sessions held in-house, 56 people qualified as Eco People in fiscal 2018, resulting in a cumulative total of 2,451 Eco People now developing environmentally conscious activities in daily operations.

The Sanden Forest (Area of the factory 32 ha, and the area of the surrounding natural environment 32 ha) was created in 2002 with the concept of “Co-existence of Environment and Industry,” is the result of the adoption of close-to-nature construction methods and ongoing environmental management, resulting in a rich natural environment restored to a far better condition than before. Registered as a general site (survey site) on the “Monitoring Site 1000 Satochi Survey” by the Ministry of the Environment. To further improve the condition of the forest, in addition to activities such as removing non-native plant species such as *Sicyos angulatus* or star-cucumber vine, we thinned approximately 360 trees in fiscal 2018. These activities were presented by the Ministry of the Environment as a good examples of development activities for CO₂ mitigation, and in fiscal 2018, Gunma Prefecture certified that 31 tons of CO₂ was absorbed by the forest.

Statistics in Relation to Those Using the Sanden Forest

From 2002 to 2018 (For ECOS Department only)

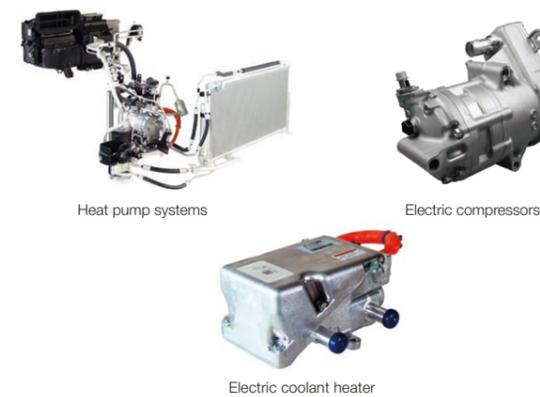


Green Technology

The Sanden Group has been accurately ascertaining the environment-oriented needs of people and customers to proceed with innovative technology development and product development that produces “new products that contribute to the environment” that combine the Group’s core technologies for “cooling and heating” with “energy-saving technologies” to realize a society in which environment and comfort are harmonized.

In the Automotive Systems Business, we launched a heat pump system for electric vehicles (EVs) that compensates for the lack of heat sources associated with electric powertrains. This system will contribute to the provision of comfortable interior in the EVs era as a total system combined with our electric compressors that were launched on the market earlier. We have also developed an electric coolant heater that compensates for the lack of a heat source for EVs. In addition to being compact and highly efficient, this product is compatible with existing air-conditioning systems and provides a new and highly safe heat source.

In the Commercial Store Systems Business, we have developed and launched on the market a machine to vend super-chilled beverages, the Lumilinna β. This vending



machine employs the super-chill phenomenon and delivers a completely new taste different to conventional frozen beverages. We also provide a cold chain system that reduces food loss for overseas food distribution.

Furthermore, together with companies such as 3C Co., Ltd. and MARS Company, to optimize the refrigeration process, we started an industry-university joint research study into the mechanism of decay that looks at the decay process from the perspective of the basic physical properties of electric fields, proteins, and bacteria.

Since 2003, we have been signatories to a comprehensive agreement made between Gunma University Faculty of Engineering and Sanden Corporation Technical Division (name at the time of signing the agreement). To solve recent complex social and research issues, we believed it necessary to take a more multi-faceted approach to collaboration, and in April 2019, the Sanden Group concluded a comprehensive contract with all departments of Gunma University. This agreement contributes to strengthening information technology fields such as AI and IoT, developing human resources that can respond to globalization, and fostering student skills in both the field and their business sense.



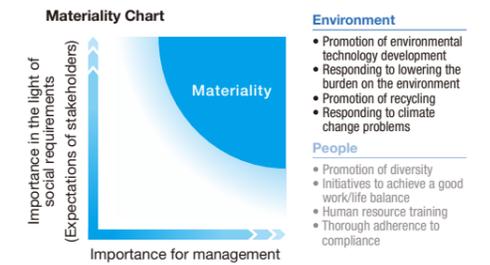
Signing ceremony for comprehensive contract with Gunma University

TOPICS Provision of Lithium-ion Battery Temperature Control System for EVs Used in Racing



Lithium-ion Battery Temperature Control System for Racing

In June 2019, Sanden participated “Pikes Peak International Hill Climb EV Challenge,” which Sanden cosponsored with ZERO e SQUARE. The purpose was to gather data to accelerate the research and development of new heat management system. For EVs used in this tournament, we provided a “Lithium-ion battery temperature control system for racing” that applies the air-conditioning functions from conventional car air conditioners for EVs batteries, and acquired and analyzed data under repeated more severe conditions. As a result of this analysis, Sanden is further developing the next generation thermal management system and enhancing product capabilities.



Green Process

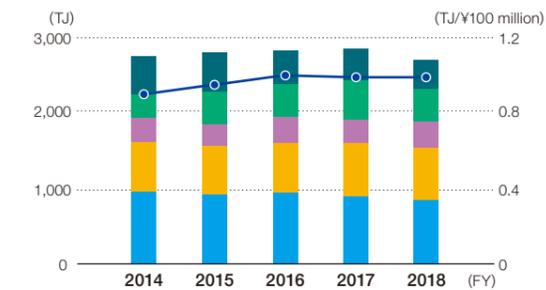
The Sanden Group, as a manufacturer, locates its production bases around the world to ensure the ability to deliver its manufacturing operations near customers. In line with our Mid-Term Basic Policy on the Environment, the Sanden Group develops environmental conservation activities that take into consideration the environmental impact that arises as a result of the manufacturing process and the environmental conditions in the country or region in which the production base is located. These activities focus on preventing global warming, creating a recycling-oriented society, and reducing the usage of water and hazardous chemical substances.

In fiscal 2018, we introduced the cell management system, a further evolution of the flexible production line at plants with food distribution systems. As a result, we were able to improve productivity by 30% and significantly reduce the defect rate. To reduce waste emissions, we are continuing to take mea-

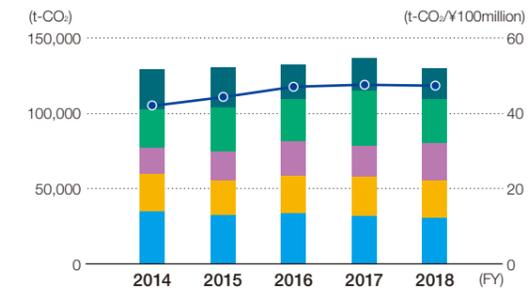
asures in relation to resources in line with MFCA (Material Flow Cost Accounting). In fiscal 2018, in cooperation with a plastic mold company, we achieved a reduction in the amount of raw materials used by reviewing the type of molds used.

Aiming to ensure production facilities are innovative and cutting-edge, at automotive air conditioning system plants, we are working to improve efficiency through seamless, modular and integrated production that incorporates warehouse management systems (WMS), manufacturing execution systems (MES), and product lifecycle management (PLM). In addition, Sanden is also developing projects that integrate the functions of development, production, and sales globally. We continue to promote “energy creation activities” that target the effective use of waste heat from factories, improve deterioration in the work environments caused by water-soluble cutting oil, and activities to reduce waste such as sludge.

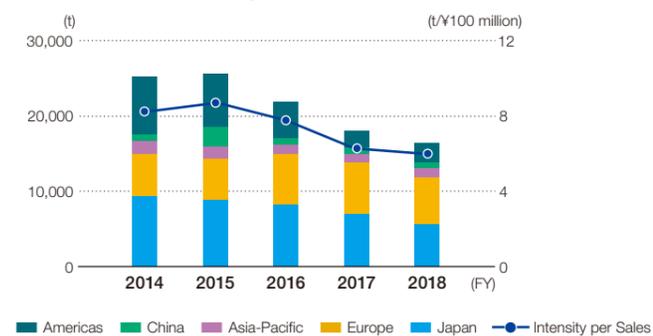
Energy Usage by Region



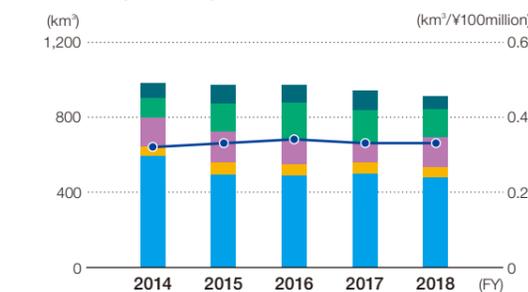
CO₂ Emissions by Region



Waste Emissions by Region



Water Usage by Region



Green Communication

In line with the “Sanden Group Guidelines for Biodiversity” formulated in 2014 and the Environmental Charter formulated in 1993, Sanden employees in their capacity as corporate citizens are actively participating in local environmental activities through cleaning and greening events run by government and other organizations in the vicinity of the factory.

The Sanden Forest is a rich natural environment and, as a place to provide a hands-on environmental education experience for elementary and junior high school students, the forest was used by about 8,400 people in fiscal 2018.

Going forward as a corporate citizen, Sanden will continue to plan and promote communication with its many stakeholders.

FY2018 Targets and Performance for Mid-Term Basic Policy on the Environment

The table below outlines the results of environmental activities in fiscal 2018 based Fourth Mid-Term Basic Policy on the Environment, which began in fiscal 2018.

* Level of attainment: A: target(s) attained; B: generally attained; and C: insufficient

Basic Strategy	Mid-Term Basic Policy on the Environment targets	FY2018 Targets	FY2018 Performance	Level of Attainment
Green Management	Environmental compliance • No. of environmental accidents: 0	Hold regional environmental conferences	Sanden held the Third China Region Environmental Conference	A
		Complete measures in response to ISO revisions	Update to 2015 version at all sites	A
		Implementation of environmental education activities	<ul style="list-style-type: none"> Conduct education to foster employee mindset in relation to areas such as SDGs and ESG (Developed through the company newsletter) Promoting Certification Test for Environmental Specialists results in certification of 56 Eco People 	A
Green Technology	<ul style="list-style-type: none"> Development and marketing of environmentally friendly products using new technologies All mass-produced products meet product environment indicators (Targets are set by product) 	Product environmental indicators of 0.9 or less with newly developed models (environmental performance comparison with applicable models)	<ul style="list-style-type: none"> Compressors for car air conditioners: 1.0 New HVAC units for car air conditioners: 0.65 Distribution equipment: New indicators under consideration 	B
		Calculate environmental impact for product's entire life cycle	<ul style="list-style-type: none"> Scope 3 calculation Establish formula for calculating impact of automotive equipment (Results of Japan Auto Parts Industries Association) 	A
		Develop environmentally friendly products using innovative technologies	<ul style="list-style-type: none"> Developed and marketed high efficiency heat pump for electric vehicle air conditioners Launched of electric coolant heaters for electric vehicles Provided Li-ion battery temperature management system for electric vehicles Launched a wine saver to prevent wine loss 	A
Green Process	Reduction in environmental burden (CO ₂ emissions, energy consumption, waste emissions, water usage, emissions of harmful chemical substances (in Japan)) • Unit of sales: 3% reduction from the previous year • Total amount: Less than the previous year	CO ₂ emissions Unit of sales: Reduced 3% (Compared to fiscal 2017) Total volume: Less than fiscal 2017	Unit of sales: Reduced 1% Total volume: Reduced 6%	B
		Total energy usage Unit of sales: Reduced 3% (Compared to fiscal 2017) Total volume: Less than fiscal 2017	Unit of sales: Reduced 0.5% Total volume: Reduced 5%	B
		Waste emission Unit of sales: Reduced 3% (Compared to fiscal 2017) Total volume: Less than fiscal 2017	Unit of sales: Reduced 12% Total volume: Reduced 16%	A
		(Japanese business plants and domestic group companies) • Maintain recycling ratio of 99% or more (zero emissions)	Maintained	A
		Water usage Unit of sales: Reduced 3% (Compared to fiscal 2017) Total volume: Less than fiscal 2017	Unit of sales: Remained flat Total volume: Reduced 5%	B
		(Japanese business plants) Emissions of harmful chemical substances Unit of sales: Reduced 3% (Compared to fiscal 2017) Total volume: Less than fiscal 2017	Unit of sales: Reduced 21% Total volume: Reduced 18%	A
Green Communication	Global development of biodiversity activities	Participation in environmental conservation activities	• Actively participated in local afforestation and cleaning activities	A
	Getting external assessments	External survey responses	<ul style="list-style-type: none"> Toyo Keizai CSR Survey: 15th (Environment) Nikkei Environmental Management Survey: 50th CDP...Climate change: C; Water: B-; SER: B 	A

Sanden and Our Customers



WEB Customers
<https://www.sanden.co.jp/csr/disp.cgi?mode=detail&id=10&lang=en>

Fundamental Approach to Customers

One of the tenets of the Management Principles of the Sanden Group is “Satisfy our customers’ needs with high-quality products.” With this as a starting point, the basic philosophy toward customers in the Corporate Philosophy is “To provide attractive products, systems, and services to satisfy customers globally, in the belief that quality comes first in our technological development and manufacturing efforts.”

Quality Management

Beginning in 1994, Sanden introduced its STQM activities, which stands for “Sanden Total Quality Management,” with the objective of improving the quality of management in the Sanden Group and aiming to have the “best-in-class” management quality in the world. STQM is defined as the action to accumulate daily efforts of creative improvement, while improving the quality of each management and each result in order to build the company which prospers in the 21st century. In addition to past activities aimed at improvement, our efforts to achieve the highest level of service in fiscal 2018 continue to respond to customer needs and adapt to a changing market resulted in the Sanden Group launching “Customer First” activities as part of our goal of reinforcing our commitment to our customers. Going forward, we will revisit the definition of STQM and develop activities under “STQM+plus” as an activity to strengthen results driven management centered on company business operations to enhance management quality and the quality of results.

Continuing to bolster the foundation for improvement

Three teams from the Sanden Group participated in the Gunma district QC Circle 2018 Spring and Fall General Tournament and the Champion Tournament sponsored by the Union of Japanese Scientists and Engineers. Among these, SMASH HIT Circle (Sanden Business Expert) received the “Excellent Experiences Award.” After that, SMASH HIT Circle were featured in *QC Circle* magazine and received the “Kaoru Ishikawa Award for Promoters,” QC Circle’s highest award.

■ The results of fiscal 2018 activities

- Gunma district QC Circle
 - Champion Tournament
 - SMASH HIT Circle (Sanden Business Expert)
 - Hot Forging Circle (Sanden Automotive Components)
 - Cantera Circle (Sanwa)
- Gunma district QC Circle: General Tournament
 - Spring Tournament Awards
 - SMASH HIT Circle (Sanden Business Expert)/Hot Forging Circle (Sanden Automotive Components)
 - Fall Tournament Awards
 - Cantera Circle (Sanwa)
 - Excellence Award
 - JIT YUME VATION Circle (Sanden Automotive Components)



The 11th STQM World Convention (Japanese poster)

Development System

Based on the existing core competence, the Sanden Group aims 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.” By actively incorporating external innovation technologies, we are conducting R&D activities aimed at “Creation of comfortable spaces that enrich human lives.”

As key initiatives in this area we are promoting:

- (1) Shift to themes in new field
- (2) Strengthen and expand fundamental technologies
- (3) Prioritize development investment efficiency

Sanden and Our Suppliers



WEB Suppliers
<https://www.sanden.co.jp/csr/disp.cgi?mode=detail&id=4&lang=en>

Fundamental Approach to Suppliers

In line with our focus on creating opportunities and reducing business risk, we will continue to promote co-creation activities throughout the supply chain while simultaneously encouraging our business partners to understand the CSR promotional activities in which the Sanden Group is engaged. Promoting the Sanden Group’s sustained global development requires the reliable and efficient supply of competitive materials and components. To ensure that it can obtain such supplies, Sanden is striving to build mutual trust with its suppliers as business partners.

Cooperation with Our Partners

1. Relationship with business partners: As the mission of the Sanden Group, we are active from a broad perspective not only the “purchase = buy” viewpoint, but also in providing the reliable and efficient supply of competitive materials and parts to the Group’s factories and customers around the world. For the Group to continue to develop, it is essential to secure an efficient supply of competitive materials and parts from suppliers. To that end, we strive globally to build true partnerships with our business partners based on trust.
2. Sanden Group Supplier Fundamental Principles: The fundamental principles for the Sanden Group’s suppliers are posted on the website in Japanese, English, and Chinese.
3. Development of CSR procurement: As a member of both the international community and local communities, the Sanden Group and its business partners must develop a range of activities in harmony with society and fulfill its cor-

porate and social responsibilities. In line with this, we act and promote CSR procurement based on the fundamental principles for suppliers.

- Respond to requirements in relation to corporate social responsibility issues such as human rights and environmental protection
- Respond to requirements in relation to corporate ethics such as compliance with related laws and international rules
- Respond to requirements in relation to safety and health management, and business continuity plans for such events as natural disasters
- Respond to requirements in relation to management systems in areas such as quality, environment, chemical substances

In addition, to confirm that suppliers are in compliance with the basic principles, we conduct on-site surveys of business partners and their suppliers, where possible.

Sanden and Our Shareholders and Investors



WEB Shareholders and Investors
<https://www.sanden.co.jp/csr/disp.cgi?mode=detail&id=9&lang=en>

Fundamental Approach to Shareholders and Investors

To promote the long-term support of shareholders and investors, the Sanden Group considers it important to provide them with beneficial information for facilitating investment judgements, and we are endeavoring to communicate actively with them. We are working to enhance dialogue from an ESG perspective, something we have been focusing on for some time now.

Cooperation with Shareholders and Investors

Based on the objectives of the corporate governance code, we are working to deepen communication and strengthen our relationship of trust with shareholders and investors, including through over 110 individual and small meetings for shareholders and institutional investors held throughout the year, which allow us to provide a clear explanation of our business strategies, as well as our Corporate Mid-term Plan and our progress in achieving the targets within that plan.

We also believe the meetings further facilitate the frank exchange of ideas and opinions. The Sanden Group is committed to providing more timely communications with overseas investors and shareholders, and has accordingly been holding more conference calls. We are working to continue to expand our communication efforts as part of our goal to meet the expectations and gain the further trust of our shareholders and investors.

Sanden and Our Employees



WEB Employees
<https://www.sanden.co.jp/csr/dispcgi?mode=detail&id=12&lang=en>

Fundamental Approach to Employees

With an eye on the aging of society in Japan and the declining working-age populations, we believe our efforts to create a workplace where each employee can work to the best of their ability contributes to the growth potential of the company. Furthermore, Sanden makes every effort to ensure the physical and mental health of employees and strictly maintains labor safety and safety standards and is focusing on creating a work environment that considers work-life balance.

Human Resource Education

The Sanden Group considers human resource development as a management issue that should be tackled as a group based on personalized approach. We are conducting employee training with the aim of developing human resources who can be active in the future. From the starting point of “human power” such as leadership, we are conducting employee training with the aim of developing human resources who can play an active role globally and have “technical skills” such as marketing.

There are four levels of employee education: training for all employees to acquire knowledge and skills to match their role in the Company; selective training for future executive candidates; specialized training for each department; and self-development.

Employees can take in-house training courses focused on “Leadership Training” in areas such as “Corporate Philosophy,” “Business Skills,” “Management Skills,” and can also work on self-development using our system of flexible

short-time work. In the specialized training for each occupation, the technical skills of engineers are improved through in-house training of technical personnel at Sanden’s Techno School, which boasts a history of 28 years.

Outline of the SDC training system

Level	Training based on organizational hierarchy	Selective training	Specialty training	Self development
Senior management		Management school, Accelerated MBA	Specialized training by job category	Correspondence and external training
Management	Management training, Chief and assistant manager training	Business school, Coaching training		
General employment	Mid-level employee training, Third-year of employment training, New employee training	Facilitation training		

Diversity

Diversity Initiatives

The idea of promoting diversity is a necessity in a changing business environment and encompasses a “proactive approach to utilizing difference and respecting and accepting diverse values.”

For this reason, based on the founding spirit of, “Let us develop with wisdom and prosper in harmony,” we promote the maintenance of an easy-to-work environment where everyone can participate more actively. This is a corporate philosophy builds a corporate culture that respects the dignity and basic human rights of all people, brings together various “knowledge” born from diverse values, and leads to growth with “harmony” and is linked to our aim to be a “company that shines.”

Promoting Women’s Careers

Action Plan for General Business
 Sanden Group
 Action plan for submission to the Ministry of Health, Labour and Welfare

1. Period covered by the plan

December 1, 2017 through March 31, 2019

2. Challenges

- (1) Increasing the number of female managerial candidates
- (2) Increasing the ratio of female full-time employees
- (3) Bolstering training for leadership positions
- (4) Fostering workstyles that bolster productivity

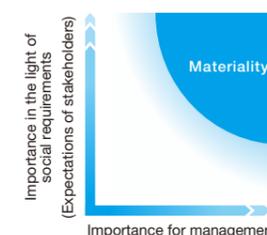
3. Targets

- (1) Achieve a three-fold increase in the number of women in management positions compared to 2014 by 2020 and a five-fold increase by 2030.
- (2) Ensure that women account for at least 15% of new graduate hires.
- (3) Enhanced training for human resources in leadership positions.
- (4) Implement workstyles that bolster productivity.

4. Results

- (1) Women in executive positions: 1
 Women in management positions: 15 (a four-fold increase)
- (2) Ratio of new hire graduates: 19.5%
- (3) Implemented training based on organizational hierarchy and enhanced training for leadership positions
- (4) Introduced flexible working schedules and a telecommuting system

Materiality Chart



Environment

- Promotion of environmental technology development
- Responding to lowering the burden on the environment
- Promotion of recycling
- Responding to climate change problems

People

- Promotion of diversity
- Initiatives to achieve a good work/life balance
- Human resource training
- Thorough adherence to compliance

Work-Life Balance

Support System to Balance Work and Family

1. Leave system for child and elderly care

- (1) Childcare: Up to 18 months old, or 2 years old when a child cannot secure a nursery school
- (2) Elderly care: Up to 1 year

2. Child support/care support leave system (flexible short time work)

*From 2019, flexible childcare work hours have been extended by two years until the child reaches the third grade of elementary school.

3. Leave system for nursing care

Five days leave per year, and up to 10 days where care involves 2 or more people

4. Return to work system

A system to re-hire those who resign from the Company due to pregnancy, childbirth, caregiving, migrant relocation, or marriage relocation.

5. Childcare service support system

Subsidies for expenses incurred when using designated family support centers. This system can be used up to 12 times a year, to cover up to 50% of the amount paid per use a family support center (upper limit of ¥5,000).

6. Annual paid-holiday system based on hourly units

This system enables employees to take paid leave in hourly units up to a total of five days for the fiscal year concerned.

7. Refreshment holiday system

This system is designed to promote the taking of annual paid vacation time and provides for a total of three days leave for individual or family birthdays and anniversaries

and the planned acquisition of two consecutive annual paid leave days.

8. Recurrent holiday system

Five days of leave (two days of special leave and three days of annual paid vacation leave) at critical stages in each employee’s life (ages 30, 40, 50, and 55) to recharge both the mind and body. This make a total of nine days possible when taking into consideration the use of week-ends before and after taking leave.

9. Telework system

A system to enhance work-life balance by enabling employees to work at home and thereby allow for such activities as childcare, nursing care, and nursing. This system reducing the time required for commuting and creates an easier lifestyle by relaxing rigid continuous work requirements.

10. Self-development and volunteer work

Short-time work system to allow for self-development to gain qualifications and knowledge acquisition by attending school and participating in volunteer activities.

11. Cafeteria plan

Sanden introduced the “cafeteria plan” as a policy to provide for employee welfare ensuring the safety and well-being of employees and supporting their individual and organizational growth. The menu for the cafeteria plan includes items for balancing work, such as assistance for services related to childcare and nursing care, and menus that allow employees to take leave.

Safety and Health

As stated in our Corporate Philosophy, the Sanden Group aims to assure an easy-to-work environment that takes into account the safety, health and well-being of employees, and to create a comfortable and enriched environment for employees. In addition, the Safety and Health Charter established in 2000 sets forth the principles and behavioral guidelines for safety and health and has been incorporated across the entire group.

In fiscal 2018, under the policy of “Transforming each person’s behavior and work style with safety and health as the basis for all,” we conducted activities with a company-wide goal of zero occupational accidents and zero new administrative leave.

Regarding safety, we conducted risk assessments based on variation management and on the restructuring and re-education of basic safety rules. In addition, we broadened, as daily activities, the five principles of safety and health to all business sites.

More concretely, we promoted hazard prediction training activities and *Hiyari-Hatto* (near misses) training to solve problems and issues specific to each business site, and initiatives to raise employee crisis awareness through risk experiences.

As a result, the number of occupational accidents in fiscal 2018



Fire safety training at the Tokyo headquarters



decreased significantly compared to the previous fiscal year.

In terms of health, we ensured zero overworked workers by promoting work style reforms to eradicate overwork, strengthened health management support to prevent health problems caused by overwork, and promoted awareness of health through the understanding of health risks by employees themselves. These thorough developments have been expanded to each business site.

More concretely, with regard to mental health, we promoted activities to create an employee-friendly workplace and health promotion activities in cooperation with the health insurance association.

In line with these activities, Sanden Holdings Corporation and the seven business companies were certified as a group of companies showing outstanding health and productivity management (White 500) for two consecutive years from 2018.

Corporate Governance

WEB Corporate Governance
<https://www.sanden.co.jp/csr/disp.cgi?mode=detail&id=1&lang=en>

Fundamental Approach to Corporate Governance

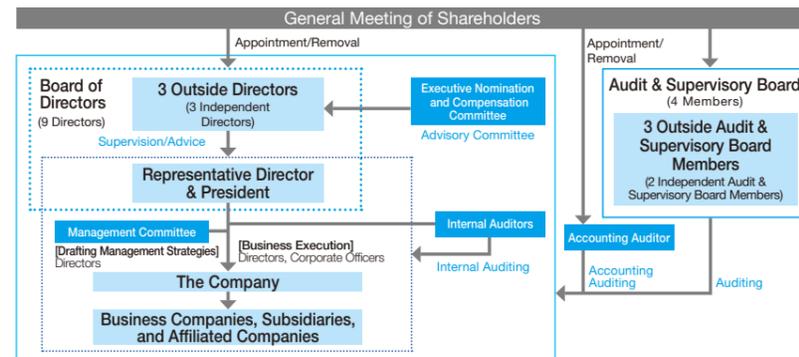
Since its founding in 1943, the Sanden Group's corporate culture has been guided by the principles set out in its founding spirit, "Let us develop with wisdom and prosper in harmony." In addition, the Corporate Philosophy, adopted in 2003 that outlines the "universal values shared by the global community" and the "basic stance toward stakeholders," has spread broadly throughout the Group. Based on the Corporate Philosophy, we are working on corporate governance from the standpoint of enhancing management quality in areas including fairness, transparency, and efficiency of management.

Under the Group's new vision 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," we will steadily execute the Mid-term Management Plan and create new corporate value.

Corporate Governance Initiatives

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

Of the nine directors that make up the board of directors, three, or one-third, are outside directors. This system is expected to deliver management accountability, strengthen supervisory functions, and ensure the objectivity and independence of governance.



Compliance

WEB Compliance
<https://www.sanden.co.jp/csr/disp.cgi?mode=detail&id=2&lang=en>

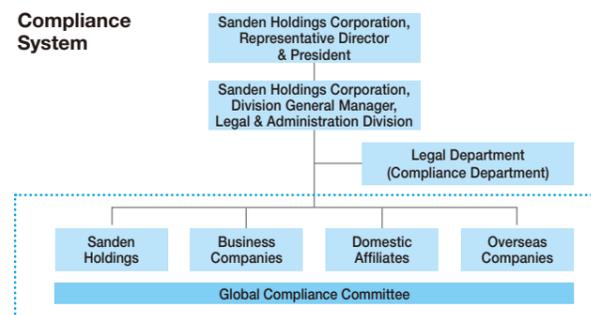
Fundamental Approach to Compliance

Last year there were scandals at many companies. Recognizing that corporate social responsibility cannot be fulfilled without compliance initiatives, the Sanden Group established its Corporate Philosophy as a universal concept to which all officers and employees must comply. Positioning compliance as the most important management issue in our global corporate activities, Sanden conducts ongoing activities to ensure high ethical standards for each and every employee and our place as company trusted by the international community and local communities.

We at the Sanden Group are engaged in a range of measures related to compliance.

Compliance Initiatives

The Sanden Group revised its compliance rules to strengthen the global compliance system. In the revised system, when a compliance problem occurs in the Group, reports go directly to the Legal & Administration Division. In addition, consultation on important matters are conducted with the Executive Committee and the Board of Directors. We are further strengthening cooperation globally to build a global compliance network with overseas legal staff.



Third-Party Opinion

Hirotsugu Kitada

Associate Professor, Faculty of Business Administration, Hosei University

Kobe University Doctor of Business Administration. MFCA Forum Japan, Steering Committee. Expertise in ISO/TC207/WG8

Specializing in accounting, Hirotsugu Kitada has conducted research on the spread and penetration of environmental management accounting, and is now participating as an advisor to the SDGs Study Group sponsored by the Japan MFCA Forum. His main works include *Emergent Responsible Management* (Nihon Keizai Shimbun Publishing).



The Sanden Group clearly states its contribution to the SDGs through its business in its Mid-term Management Plan SCOPE 2023, and is promoting collaboration between business activities and sustainability. By setting five key initiatives and linking them to highly relevant SDGs, the relationship between CSR initiatives and social issues can be grasped more comprehensively. Since the SDGs are set as targets to be attained by 2030, we can expect them to contribute to sustainability and promote value creation through our business over a longer term. In addition, the CSR Report outlines the relationships between representative initiatives, so the position of each initiative is clear, and the report is easy to understand. These are consistent with "environment" and "people," which are listed as key initiatives, for which wholistic and balanced activities are being developed.

The fact that Sanden have been working on Material Flow Cost Accounting (MFCA) over many years is a feature worthy of note in the Sanden environmental initiatives. Along with the circular economy policy being promoted in Europe, a renewed interest in resource use is increasing worldwide. In addition, Sanden conducts its highly regarded MFCA training for overseas participants, mainly from Bangladesh, through the "Training Seminar for Resource and Energy Saving, and Sustainable Corporate Management." Since the publication of the international standard as ISO 14051, interest in MFCA has increased in many countries, including developing countries. MFCA dissemination activities that go

beyond the internal Group development can be said to provide a high-level contribution to the international community.

In the priority area of "people," Sanden has established an easy-to-work environment for employees. The Group manages progress on diversity initiatives with clear goals. An extensive career support system has also been established to ensure work-life balance, and a system is in place to support a diverse range of work styles for employees. The Sanden Group is highly regarded in society with White 500 certification as an organization with outstanding health and productivity management.

Regarding the "Fourth Mid-Term Basic Policy on the Environment" that started in fiscal 2018, initiatives are progressing as planned this year. As for goals in relation to social activity, Sanden is developing solid initiatives for customers, employees, shareholders and investors, local communities, and business partners. Going forward, the challenge is to link the relationship with the SDGs set out in the Mid-term Management Plan with the targets in the Mid-term Plan for each fiscal year. The Sanden Group is actively engaged in developing activities related to the environment and people, which Sanden has positioned as key initiatives. I expect that even more meaningful results will be produced by organizing points for each initiative for those areas where further contributions can be made through the activities of the Sanden Group and finding ways to link these with established SDGs.

Comment on the Third-Party Opinion Regarding Sanden's 2019 CSR Report

From CSR Report 2019, we requested a third-party opinion from Mr. Hirotsugu Kitada, Associate Professor of Hosei University, whose research extends to sustainability management. I would like to express my gratitude for the company's efforts, as well as providing valuable suggestions and future proposals. The Sanden Group's initiatives on its materiality "environment" and "people" are highly regarded, and going forward, action on these materiality is gaining momentum. In addition, Sanden declared that its New Mid-term Management Plan, SCOPE 2023, will incorporate SDGs into management as a CSR initiative that must be achieved. This is one of the key initiatives for enhancing corporate added value for the Company in its aim to grow in the Automotive Systems Business.

As is suggested by this proposal, Sanden aims to ensure it is a company trusted by all stakeholders by promoting strategic CSR activities through expediting links between social issues and business activities.



Corporate Officer, Division General Manager, Legal & Administration Division

Hiroki Terao