

(English Translation)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.  
The 34th fiscal year from January 1, 2023 to December 31, 2023  
Financial Statements

(English Translation)  
Independent Auditor's Report

February 29, 2024

The Board of Directors  
VOLKSWAGEN FINANCIAL SERVICE JAPAN LTD.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

Noboru Miura  
Designated Engagement Partner  
Certified Public Accountant

Tatsuya Nakamura  
Designated Engagement Partner  
Certified Public Accountant

***The Audit of the Financial Statements***

**Opinion**

Pursuant to Article 436, section 2, paragraph 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, significant accounting policies, other notes and the related supplementary schedules (the "financial statements") of VOLKSWAGEN FINANCIAL SERVICE JAPAN LTD (the "Company") applicable to the fiscal year from January 1, 2023 to December 31, 2023.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position and results of operations of the Company applicable to the fiscal year ended December 31, 2023, in accordance with accounting principles generally accepted in Japan.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information**

The other information comprises the information included in the Company's business report and its supplementary schedules. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor is responsible for overseeing the Company's reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of Management, the Corporate Auditor for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor is responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### ***Fee-related Information***

The fees for the audits of the financial statements of the Company and its subsidiary and other services provided by us and other EY member firms are disclosed in the section “2. Status of Financial auditors” of the Company’s business report.

### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

# Financial Statements

(The 34th fiscal year from January 1, 2023 to December 31, 2023)

**VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.**

## Balance Sheet

(As of December 31, 2023)

(JPY in thousands)

Account item	Amount	Account item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>413,297,178</b>	<b>Current liabilities</b>	<b>197,803,557</b>
Cash on hand and in banks	5,730,853	Accounts payable - trade	1,988,621
Accounts receivable - trade	37,327,715	Short-term borrowings	87,820,000
Installment accounts receivable	294,478,956	Commercial papers	29,993,969
Lease investment assets	39,278,187	Bonds payable within one year	4,100,000
Lease receivable	923,351	Payable under fluidity installment accounts receivable	49,404,617
Short-term loans receivable	26,312,220	Liabilities from leasing business	212,652
Advance payments	8,026,456	Accounts payable - other	6,593,684
Prepaid expenses	669,918	Accrued expenses	696,257
Accounts receivable - other	2,138,425	Income taxes payable	697,014
Others	507,397	Advances received	2,120,103
Allowance for bad debts	△998,766	Deposits payable	637,366
Allowance for residual value	△1,097,538	Deferred installment income	12,965,288
<b>Fixed assets</b>	<b>8,535,012</b>	Bonus allowance	141,905
<b>Tangible fixed assets</b>	<b>3,202,564</b>	Others	432,077
Buildings	116,673	<b>Long-term liabilities</b>	<b>195,821,588</b>
Building equipment	51,019	Bonds	2,000,000
Structures	5,885	Long-term borrowings	126,000,000
Machinery and equipment	2,400	Long-term payable under fluidity installment accounts receivable	64,876,127
Vehicles and cars	84,856	Deposits received for guarantees	2,315,644
Furniture, fixtures and tools	107,433	Retirement reserve allowance	276,569
Assets for rent	1,988,433	Retirement reserve allowance for directors	161,738
Land	845,862	Asset retirement obligations	131,501
<b>Intangible fixed assets</b>	<b>795,400</b>	Others	60,007
Software	795,400	<b>Total liabilities</b>	<b>393,625,146</b>
Telephone rights	0	<b>Equity</b>	
<b>Investments and other assets</b>	<b>4,537,047</b>	<b>Shareholders' equity</b>	<b>28,207,044</b>
Stocks of affiliated companies	20,000	<b>Capital stock</b>	<b>1,010,000</b>
Long-term prepaid expenses	1,493,976	<b>Earned surplus</b>	<b>27,197,044</b>
Long-term guarantee money deposited	1,512,376	Legal reserve	252,500
Deferred tax assets	1,510,694	Retained earnings and others	26,944,544
		Retained earnings carried forward	26,944,544
		<b>Total equity</b>	<b>28,207,044</b>
<b>Total assets</b>	<b>421,832,191</b>	<b>Total liabilities &amp; equity</b>	<b>421,832,191</b>

## Income Statement

(from January 1, 2023 to December 31, 2023)

(JPY in thousands)

Account item	Amount	
<b>Operating revenues</b>		
Retail financing loan income	8,390,937	
Dealer financing income	264,075	
Finance leasing income	986,332	
Real estate rental income	318,983	
Insurance commission income	1,096,941	
Others	501,230	11,558,500
<b>Operating expenses</b>		
Interest expenses	1,106,978	
Interest expenses (bond)	14,467	
Selling, general and administrative expenses	5,781,887	6,903,334
<b>Operating income</b>		<b>4,655,166</b>
<b>Non-operating income</b>		
Interest income	186	186
<b>Ordinary income</b>		<b>4,655,352</b>
<b>Extraordinary gains</b>		
Gains from sales of fixed assets	26,333	26,333
<b>Extraordinary loss</b>		
Losses from disposing/sales of fixed assets	36,231	36,231
<b>Net income before taxes</b>		<b>4,645,454</b>
Income taxes-current	1,382,745	
Income taxes-deferred	45,270	1,428,016
<b>Net income</b>		<b>3,217,438</b>

### **Statement of Changes in Equity**

(from January 1, 2023 to December 31, 2023)

(JPY in thousands)

	Shareholders' equity					Valuation and translation adjustments	Total equity
	Capital stock	Earned surplus			Total shareholders' equity	Deferred gains and losses on hedges	
		Legal reserve	Retained earnings and others (Note)	Total earned surplus			
Beginning balance	1,010,000	252,500	23,727,106	23,979,606	24,989,606	0	24,989,606
Changes of items during the period							
Net income			3,217,438	3,217,438	3,217,438		3,217,438
Net changes of items other than shareholders' equity						0	0
Total changes of items during the period			3,217,438	3,217,438	3,217,438	0	3,217,438
Ending balance	1,010,000	252,500	26,944,544	27,197,044	28,207,044	0	28,207,044

Note: "Retained earnings and others" are all from retained earnings carried forward.



## **Summary of significant accounting policies**

### 1. Valuation standard and method for assets

- (1) Stock of affiliated companies: Cost method
- (2) Derivatives: Market value method

### 2. Method of depreciation of fixed assets

- (1) Tangible fixed assets: Declining-balance method

However, buildings are depreciated on a straight-line basis over their estimated useful lives to residual value which is either the estimated disposal value or zero.

- (2) Intangible fixed assets

Software: Software costs are amortized on a straight-line basis over the estimated useful lives (5 years) in accordance with the company policy.

### 3. Accounting for allowance

- (1) Allowance for bad debts: To provide against the loss of bad debts, allowance for normal debt is estimated on the basis of reasonable criterion, whereas the allowance for specified bad debts is calculated individually as the amount that is likely to be recovered.
- (2) Allowance for residual value: A projected loss is provided against the risk of decrease in residual value.
- (3) Bonus allowance: Allowance for bonuses is provided based upon the estimated amount of bonus to employees attributable to this fiscal year but payable in the following fiscal year.
- (4) Retirement reserve allowance: A retirement allowance is provided based upon the estimated present value of the retirement benefit obligation as at year-end. Actuarial gains and losses are amortized over the employees' average residual number of years of service on a straight-line basis, effective from the following fiscal year. As for the past service cost, expenses are recognized in the year in which they occur.
- (5) Retirement reserve allowance for directors: Retirement reserve allowance for directors is provided based upon the estimated present value of the retirement benefit obligation as at year-end.

### 4. Recognition of revenue and expense

- (1) Revenue recognition of loan interests: At the commencement of retail financing loan, installment accounts receivables are recognized at the total payments of the loan, and at each payment due date interest portion of the payment is recognized as loan interest income.
- (2) Revenue recognition regarding finance lease transactions: Accrued interest is allocated to each period, without sales amount.
- (3) Revenue recognition of insurance commission income: Insurance business mainly provides services to insurance companies such as establishing scheme of insurance products and promoting sales. Such performance obligations are satisfied when policyholders pay premiums to insurance companies. Insurance commission income is recognized at the amount calculated as the premiums paid times a certain rate.

### 5. Hedge accounting

Deferral hedge accounting is applied.

### 6. Accounting for consumption tax and local consumption tax

Consumption tax and local consumption tax are not included in the balances of the relevant

accounts in the accompanying income statement. In addition, non-deductible consumption taxes and others are recognized as current expenses.

### Notes to the balance sheet

1. Assets offered as security and corresponding obligation	
(1) Assets offered as security	
Installment accounts receivable	137,075,430 thousand yen
Advance payments	8,026,456 thousand yen
Long-term guarantee money deposited	1,263,000 thousand yen
(2) Obligation corresponding to assets offered as security	
Payable under fluidity installment accounts receivable	49,404,617 thousand yen
Long-term payable under fluidity installment accounts receivable	64,876,127 thousand yen
2. Accumulated depreciation on tangible fixed assets	1,249,906 thousand yen
3. Monetary claims and liabilities related to affiliated companies	
Short-term monetary claims	2,259 thousand yen
Short-term liabilities	171,377 thousand yen
4. Debt Guarantee	
The following guarantees are provided for Lamborghini purchased receivables.	
The maximum amounts of debt guarantees are as follows.	
Koyo Auto Co., Ltd.	134,224 thousand yen
KK RPM	352,241 thousand yen
KK GLION	535,090 thousand yen
Mitsuoka Motor Co., Ltd.	645,057 thousand yen
Cornes Motors KK	801,245 thousand yen
Bolognese KK	997,961 thousand yen
5. Fractional amounts of less than 1,000 yen have been discarded.	

### Notes to the income statement

1. Transactions with affiliated companies	
Operating revenues and others	2,831 thousand yen
Selling, general and administrative expenses	60,388 thousand yen
2. Fractional amounts of less than 1,000 yen have been discarded.	

### Notes to the statement of changes in equity

1. Number of issued shares as of the end of this fiscal year	
Common stock	20,200 shares
2. Fractional amounts of less than 1,000 yen have been discarded.	

### Notes on deferred tax accounting

Deferred tax assets are attributed mainly to disallowed liabilities such as allowance for bad debts, allowance for residual value, and excess depreciation amount.

## **Notes on financial instruments**

### **1. Financial instrument disclosure**

#### **(1) Financial instrument policies**

Our financial assets include receivables in relation to installment, lease, and financial transactions. We raise funds through indirect financing such as bank borrowings, as well as direct financing including issuance of bonds and commercial papers, and securitization of receivables.

To reduce credit risks resulting from breach of contract by customers, in accordance with our credit management rules, we regularly oversee due dates and balances by individual customer, and keep abreast of their credit status.

The Company has also conducted ALM (asset-liability management) in order to appropriately control interest-rate risks caused by mismatch of interest rate types and contract period of asset management and financing. We carry out derivatives trading only for the purpose of hedging interest-rate risks, and do not conduct speculative dealing to seek short-term profits.

While striving to ensure liquidity by diversifying financing instruments, we also manage financing-related liquidity risks according to our liquidity risk management rules.

#### **(2) Supplementary notes on fair value of financial instruments**

The fair values of financial instruments are based on market prices or rational calculations in the absence of such prices. Since those prices are calculated on certain assumptions, the adoption of different assumptions may result in price differences.

## 2. Disclosure about fair value of financial instruments

The balance sheet and fair values, and the differences between them, as of December 31, 2023 were as follows. However, financial instruments of which fair value is extremely difficult to determine are not included (see Note 2).

(JPY in thousands)

	Balance sheet value	Fair value	Differences
(1) Cash on hand and in banks	5,730,853	5,730,853	-
(2) Accounts receivable – trade Allowance for bad debts (*1)	37,327,715 △74,560	-	-
(3) Installment of accounts receivable Deferred installment income Allowance for residual value (*1) Allowance for bad debts (*1)	37,253,155 294,478,956 △12,965,288 △1,097,538 △825,618	37,253,155	-
(4) Lease investment assets Allowance for bad debts (*1)	279,590,512 39,278,187 △64,068	269,971,436	△9,619,076
(5) Lease Receivable	39,214,119 923,351	38,324,641 1,271,579	△889,478 348,228
(6) Short-term loans receivable Allowance for bad debts (*1)	26,312,220 △34,518		
	26,277,702	26,277,702	-
<b>Total assets</b>	<b>388,989,693</b>	<b>378,829,366</b>	<b>△10,160,326</b>
(1) Accounts payable – trade	1,988,621	1,988,621	-
(2) Short-term borrowings	39,820,000	39,820,000	-
(3) Commercial paper (*2)	29,993,969	30,000,000	△6,031
(4) Liabilities from leasing business	212,652	203,578	9,074
(5) Bonds (*3)	6,100,000	6,106,751	△6,751
(6) Long-term borrowings (*4)	174,000,000	174,894,013	105,987
(7) Long-term payable under fluidity installment accounts receivable (*5)	114,280,745	113,853,269	427,476
(8) Deposits received for guarantee	2,315,644	2,307,836	△7,808
<b>Total liabilities</b>	<b>368,711,631</b>	<b>368,174,068</b>	<b>537,563</b>

(\*1) Allowances for bad debts or residual value corresponding to accounts receivable-trade, installment accounts receivable, lease investment assets, and short-term loans receivable have been deducted respectively.

(\*2) Discount fee has been deducted in lieu of the interest rate adjustment for the balance sheet amount on the commercial paper.

(\*3) Bonds include bonds maturing within one year.

(\*4) Long-term borrowings include borrowings for repayment within one year.

(\*5) Long-term payable under fluidity installment accounts receivable include payable under fluidity installment accounts receivable.

Note 1) Methodology for calculating fair values of financial instruments, and matters concerning derivatives trading

### Assets

(1) Cash on hand and in banks, (2) Accounts receivable-trade, and (6) Short-term loans receivable

Due to the short maturities of these instruments, the carrying amount approximates fair value.

(3) Installment accounts receivable, (4) Lease investment assets, and (5) Lease Receivable

As these assets are subject to fixed interest rates, fair value is calculated by discounting the total amount of principal and interest using an interest rate assumed if conducting a similar new transaction with respect to each segment based on the type of receivable, the internal rating, and the period.

### Liabilities

(1) Accounts payable-trade, and (2) Short-term borrowings

Due to the short maturities of these instruments, the carrying amount approximates fair value.

(3) Commercial paper

Due to the short maturities of these instruments, the face value approximates fair value.

(4) Liabilities from leasing business

The fair value of liabilities from leasing business is calculated by discounting the total amount of principal and interest using the interest rate assumed if conducting a similar new transaction.

(5) Bonds

The fair value of bonds is calculated by discounting the total amount of principal and interest using the interest rate assumed if issuing similar bonds.

(6) Long-term borrowings

Long-term borrowings subject to variable interest rates are recorded using book values as their fair values are deemed to approximate their book values since the variable interest rates reflect market interest rates over a short period and our credit status has not changed significantly since implementing these borrowings. The fair value of long-term borrowings subject to fixed rates is calculated by discounting the total amount of principal and interest of the long-term borrowing classified by a certain period using the interest rate assumed in case of similar borrowings.

(7) Long-term payable under fluidity installment accounts receivable

The fair value of long-term payable under fluidity installment accounts receivable is calculated by discounting the total amount of principal and interest of the long-term payable under fluidity installment accounts receivable classified by a certain period using the interest rate assumed if conducting similar liquidation of claims.

(8) Deposit received for guarantee

The fair value of deposit received for guarantee is calculated by discounting the book value using the interest rate based on current credit risk of the company.

Note 2) The list above does not include shares without market price. The amounts of such financial instruments recognized in the balance sheets are as follows.

Category	Amount recognized in balance sheet (JPY in thousands)
Affiliate companies	
Unlisted shares	20,000

### Notes on investment and rental properties

#### 1. Description of investment and rental properties

The Company has multi-tenant buildings and office buildings for rent (including land) in Tokyo and other areas.

#### 2. Fair value of investment and rental properties

Balance sheet value			Year-end fair value
Beginning balance	Changes during the period	Year-end balance	
988,729	59,269	1,047,998	1,166,134

Note 1) Balance sheet values are obtained by deducting the accumulated amount of depreciation costs from acquisition costs.

Note 2) Fair value at the end of this fiscal year is calculated by the Company, based mainly on "Real Estate Appraisal Standards" (including adjusted amounts with indicators, etc.)

Notes on related-party transactions

(JPY in thousands)

Relation	Name	Share-holding (-held) ratio	Relationship	Transaction	Amount (*5)	Account	Year-end balance
Parent	Volkswagen Financial Services AG	Share held Indirect 100%	• Guarantee on issue of commercial paper and bonds	Liabilities guaranteed (*1)	36,093,969	—	—
				Guarantee fee expense (*1)	12,019	—	—
Subsidiary of parent	Volkswagen Group Japan KK	NA	• Subvention income related to loans • Receivable purchase • Purchase of cars • Leasing income	Subvention income (*2)	3,657,611	Accounts receivable-other	347,075
				Purchased receivable (*2)	318,386,793	Accounts payable-trade	—
				Handling Charge of purchased receivable (*2)	189,688	Accounts receivable-other	257
				Purchase of cars	1,806,358	—	—
				Leasing income	116,648	—	—
Subsidiary of parent	Volkswagen Japan Sales KK	NA	• Leasing income • Receivable purchase • Funding loan	Purchase of cars (*3)	673,221	Accounts payable-trade	—
				Purchased receivable (*6)	8,019,968	Accounts receivable	746,978
				Funding Loan receivable (*4)	—	Short-term loans receivable	180,000
				Loans collected	—		
				Loan interest income (*4)	744	Unearned income	190
Subsidiary of parent	Audi Japan Sales KK	NA	• Leasing income • Receivable purchase • Funding loan	Purchase of cars (*3)	2,829,803	Accounts payable-trade	—
				Purchased receivable (*6)	33,226,319	Accounts receivable	4,184,134
				Funding Loan receivable (*4)	11,590,089	Short-term loans receivable	3,146,277
				Loans collected	9,840,459		
				Loan interest income (*4)	8,966	Unearned income	0
Subsidiary of parent	Volkswagen Financial Services N.V	NA	• Borrowing	Borrowing (*4)	15,820,000	—	—

Terms and conditions, and policies on settling conditions

- (\*1) Guarantee rates are settled after negotiating on the rates presented by Volkswagen Financial Services AG.
- (\*2) Conditions of subvention and receivables related to loans are determined after consideration of general market rates and individual negotiation.
- (\*3) Conditions of lease transactions are determined by comparison with general transaction conditions, taking general market rates into consideration.
- (\*4) Market interest rates are taken into consideration when deciding loan and borrowing rates.
- (\*5) The transaction amount in the above disclosure does not include consumption tax. The final balance includes consumption tax.
- (\*6) These are the amounts of vehicle receivables purchased from Volkswagen Group Japan KK where the original debtors are Volkswagen Japan Sales KK and Audi Japan Sales KK.

**Per share data**

Equity per share	1,396,388.34 yen
Net income per share	159,279.11 yen

**Notes to revenue recognition**

Basis of understanding revenue is described in “Summary of significant accounting policies – 4. Recognition of revenue and expense”.



# **Supplementary Schedules in relation to Financial Statements**

(The 34th fiscal year from January 1, 2023 to December 31, 2023)

**VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.**

## 1. Details of tangible fixed assets and intangible fixed assets

(JPY in thousands)

Account item	Asset	Beginning book value	Increase during the period	Decrease during the period	Amount written off during the period	Year-end book value	Accumulated depreciation	Year-end acquisition cost
Tangible fixed assets	Buildings	129,869	—	—	13,195	116,673	362,848	479,522
	Building equipment	59,767	—	—	8,747	51,019	231,276	282,295
	Structures	6,469	—	—	584	5,885	40,562	46,447
	Machinery and equipment	2,400	—	—	—	2,400	45,605	48,005
	Vehicles and cars	74,305	55,757	17,594	27,611	84,856	58,353	143,210
	Furniture, fixtures and tools	160,949	17,847	19,261	52,101	107,433	223,296	330,730
	Assets for rent	528,284	1,806,358	48,539	297,670	1,988,433	287,963	2,276,396
	Land	845,862	—	—	—	845,862	—	845,862
	Construction in progress	—	—	—	—	—	—	—
	Total	1,807,907	1,879,964	85,395	399,911	3,202,564	1,249,906	4,452,471
Intangible fixed assets	Software	822,184	273,958	—	300,742	795,400		
	Telephone rights	0	—	—	—	0		
	Total	822,184	273,958	—	300,742	795,400		

(Note 1) The increase in furniture and fixtures for the current fiscal year was mainly due to the renewal of internal network equipment.

(Note 2) The increase in software for the current fiscal year was mainly due to additional development of the dealer support system (EVAS).

(Note 3) The increase in assets for rent for the current period was mainly due to purchasing of company Car lease.

## 2. Details of allowances

(JPY in thousands)

Account item	Beginning balance	Increase during the period	Decrease during the period		Year-end balance
			For intended use	Others	
Allowance for bad debts	981,972	998,766	—	981,972	998,766
Allowance for residual value	1,094,258	1,097,538	—	1,094,258	1,097,538
Bonus allowance	188,613	141,905	188,613	—	141,905
Retirement reserve allowance	323,962	44,239	91,632	—	276,569
Retirement reserve allowance for directors	154,496	7,242	—	—	161,738

Note: The decrease (others) in allowance for bad debts and allowance for residual value during the period is caused by reversing the closing entry for the allowance.

### 3. Details of selling, general and administrative expenses

(JPY in thousands)

Item	Amount	Note
Sales promotion expense	225,347	
Payroll expense	1,067,591	
Traveling expense	85,622	
Guarantee cost	1,913,060	
Outsourcing expense	387,180	
Commission expense	21,172	
Rent expense	326,115	
Depreciation cost	700,218	
Costs regarding EDP	673,759	
Communication cost	71,333	
Convention expense	11,947	
Printing expense	1,507	
Books training expense	9,265	
Taxes other than income taxes	123,108	
Provision of allowance for bad debts	16,793	
Provision of allowance for residual value	3,280	
Other SG&A expenses	144,582	
Total	5,781,887	