

(English Translation)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.
The 32nd fiscal year from January 1, 2021 to December 31, 2021
Financial Statements

(English Translation)

Independent Auditor's Report

March 2, 2022

To Mr. Yung Keun Park
The Auditor
VOLKSWAGEN FINANCIAL SERVICE JAPAN LTD.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Noboru Miura
Designated Engagement Partner
Certified Public Accountant

Takashi Hasegawa
Designated Engagement Partner
Certified Public Accountant

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”) to the fiscal year from January 1, 2021 to December 31, 2021.

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, 2021, 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.

Responsibilities of Management and the 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 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.

We communicate with the 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.

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.

(English Translation)

Notes to the Readers of Independent Auditor's Report

This is an English translation of the Independent Auditor's Report as required by the Companies Act of Japan for the conveniences of the reader.

Financial Statements

(The 32nd fiscal year from January 1, 2021 to December 31, 2021)

VOLKSWAGEN FINANCIAL SERVICES JAPAN LTD.

Balance Sheet

(As of December 31, 2021)

(JPY in thousands)

Account item	Amount	Account item	Amount
Assets		Liabilities	
Current assets	356,470,609	Current liabilities	155,763,741
Cash on hand and in banks	5,637,721	Accounts payable - trade	459,843
Accounts receivable - trade	11,803,925	Short-term borrowings	52,000,000
Installment accounts receivable	284,855,327	Commercial papers	24,498,879
Lease investment assets	32,988,639	Bonds payable within one year	8,599,610
Lease Receivable	990,935	Payable under fluidity installment accounts receivable	53,383,407
Short-term loans receivable	12,061,451	Liabilities from leasing business	232,557
Advance payments	8,548,494	Accounts payable - other	487,339
Prepaid expenses	52,156	Accrued expenses	597,345
Accounts receivable - other	1,256,342	Income taxes payable	693,630
Others	253,041	Advances received	1,746,534
Allowance for bad debts	△953,483	Deposits payable	389,823
Allowance for residual value	△1,023,942	Deferred installment income	12,157,534
Fixed assets	6,875,055	Bonus allowance	133,890
Tangible fixed assets	1,272,755	Others	383,345
Buildings	143,267	Long-term liabilities	185,664,952
Building equipment	66,984	Bonds	3,000,000
Structures	7,095	Long-term borrowings	107,000,000
Machinery and equipment	2,400	Long-term payable under fluidity installment accounts receivable	72,215,557
Vehicles and cars	68,514	Deposits received for guarantees	2,845,324
Furniture, fixtures and tools	138,629	Retirement reserve allowance	313,192
Land	845,862	Retirement reserve allowance for directors	147,254
Intangible fixed assets	772,604	Asset retirement obligations	126,749
Software	772,604	Others	16,874
Telephone rights	0	Total liabilities	341,428,694
Investments and other assets	4,829,695	Equity	
Stocks of affiliated companies	20,000	Shareholders' equity	21,924,100
Long-term loans receivable	110,740	Capital stock	1,010,000
Long-term prepaid expenses	1,675,592	Earned surplus	20,914,100
Long-term guarantee money deposited	1,529,820	Legal reserve	252,500
Deferred tax assets	1,494,530	Retained earnings and others	20,661,600
Allowance for bad debts	△988	Retained earnings carried forward	20,661,600
		Valuation and translation adjustments	△7,129
		Deferred gains and losses on hedges	△7,129
		Total equity	21,916,970
Total assets	363,345,665	Total liabilities & equity	363,345,665

Income Statement

(from January 1, 2021 to December 31, 2021)

(JPY in thousands)

Account item	Amount	
Operating revenues		
Retail financing loan income	8,607,154	
Dealer financing income	305,254	
Finance leasing income	840,294	
Real estate rental income	271,981	
Credit card commission income	9,110	
Insurance commission income	1,030,926	
Others	332,650	11,397,372
Operating expenses		
Interest expenses	822,705	
Interest expenses (bond)	35,138	
Selling, general and administrative expenses	6,586,062	7,443,906
Operating income		3,953,466
Non-operating income		
Interest income	247	247
Ordinary income		3,953,713
Extraordinary gains		
Gains from sales of fixed assets	4,429	4,429
Extraordinary loss		
Losses from disposing/sales of fixed assets	2,724	2,724
Net income before taxes		3,955,419
Income taxes-current	1,490,267	
Income taxes-deferred	△ 255,106	1,235,161
Net income		2,720,258

Statement of Changes in Equity

(from January 1, 2021 to December 31, 2021)

(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	24,641,342	24,893,842	25,903,842	△ 38,673	25,865,169
Changes of items during the period							
Dividends of surplus			△ 6,700,000	△ 6,700,000	△ 6,700,000		△ 6,700,000
Net income			2,720,258	2,720,258	2,720,258		2,720,258
Net changes of items other than shareholders' equity						31,543	31,543
Total changes of items during the period			△ 3,979,741	△ 3,979,741	△ 3,979,741	31,543	△ 3,948,198
Ending balance	1,010,000	252,500	20,661,600	20,914,100	21,924,100	△ 7,129	21,916,970

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, with either the estimated disposal value or zero given as residual value.

- (2) Intangible fixed assets

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

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 estimated calculation of allowance for specified bad debts is treated individually as the amount that is likely to be recovered.
- (2) Allowance for residual value: A projected loss is used to provide against the risk of realizing loss on residual value.
- (3) Bonus allowance: Allowance for bonuses is provided based upon the estimated amount of bonus payments to employees in the following fiscal year, which is attributable to this 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 in the following fiscal year. As for the past service cost, collective expenses are processed 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: Revenues are recognized on an accrual basis.
- (2) Revenue recognition regarding finance lease transactions: Accrued interest is allocated to each period, without sales amount.

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	149,892,594 thousand yen
Advance payments	8,548,494 thousand yen
Long-term guarantee money deposited	1,297,000 thousand yen

(2) Obligation corresponding to assets offered as security

Payable under fluidity installment accounts receivable	53,383,407 thousand yen
Long-term payable under fluidity installment accounts receivable	72,215,557 thousand yen

2. Accumulated depreciation on tangible fixed assets 903,669 thousand yen

3. Monetary claims and liabilities related to affiliated companies

Short-term monetary claims	172,817 thousand yen
Long-term monetary claims	70,405 thousand yen
Short-term liabilities	141,348 thousand yen

4. 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	5,101 thousand yen
Selling, general and administrative expenses	812,345 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
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2. Dividends

Resolution	Type of Shares	Total Dividends (Thousands of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Extraordinary General Meeting of Shareholders held on December 1, 2021	Common Stock	6,700,000	331,683	—	December 10, 2021

(Note) The Company has not set a record date. Dividends are paid to shareholders as of the effective date of the dividend.

3. 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, prepaid expenses 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 liquidation of debts.

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 fluctuations. The contract amounts of derivatives trading stated in “2. Disclosure about fair value of financial instruments” do not reflect market risks of such trading.

2. Disclosure about fair value of financial instruments

The balance sheet and fair values, and the differences between them, as of December 31, 2021 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	5,637,721	5,637,721	—
(2) Accounts receivable – trade Allowance for bad debts (*1)	11,803,925 △57,411		
	11,746,514	11,746,514	—
(3) Installment of accounts receivable Deferred installment income Allowance for residual value (*1) Allowance for bad debts (*1)	284,855,327 △12,157,534 △1,023,942 △813,204		
	270,860,647	262,357,285	△8,503,362
(4) Lease investment assets Allowance for bad debts (*1)	32,988,639 △60,857		
	32,927,782	30,972,877	△1,954,905
(5) Lease Receivable	990,935	1,431,403	440,468
(6) Short-term loans receivable Allowance for bad debts (*1)	12,061,451 △22,009		
	12,039,442	12,039,442	—
(7) Long-term loans receivable (*2) Allowance for bad debts (*1)	110,740 △988		
	109,752	110,739	987
Total assets	334,312,793	324,295,981	△10,016,812
(1) Accounts payable – trade	459,843	459,843	—
(2) Short-term borrowings	16,000,000	16,000,000	—
(3) Commercial paper (*3)	24,498,879	24,500,000	△1,121
(4) Liabilities from leasing business	232,557	240,731	△8,174
(5) Bonds (*4)	11,599,610	11,587,123	12,487
(6) Long-term borrowings (*5)	143,000,000	142,843,072	156,928
(7) Long-term payable under fluidity installment accounts receivable (*6)	125,598,964	125,370,480	228,484
Total liabilities	321,389,853	321,001,249	388,604
Derivatives trading (*7)			
Derivatives trading that hedge accounting is applied to	△10,276	△10,276	—
Total derivatives trading	△10,276	△10,276	—

(*1) Allowances for bad debts or residual value respectively corresponding to accounts

receivable-trade, installment accounts receivable, lease investment assets, short-term loans receivable, and long-term loans receivable have been deducted.

(*2) Long-term loans receivable include long-term loans to be repaid within one year.

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

(*4) Bonds include bonds maturing within one year.

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

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

(*7) The net amounts of receivables and payables caused by derivatives trading have been indicated. Total debts are shown in negative.

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, (5) Lease Receivable, and (7) Long-term loans 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.

Derivatives trading

Derivatives trading that hedge accounting is applied to

When hedge accounting is applied to derivatives trading, the contract amount at the end of this fiscal year or the amount equivalent to principal stipulated in the contract by methodology for hedge accounting is as follows:

(a) Matters concerning interest rates

(JPY in thousands)

Methodology for hedge accounting	Kind of derivatives trading	Major hedged items	Contract amount, etc.		Fair value (*)
				Over 1 year	
Principal accounting method	Interest-rate swap agreement Payment of fixed interest / Reception of variable interest	Short-term borrowings Bonds Long-term borrowings	14,000,000	4,000,000	△10,276
Total			14,000,000	4,000,000	△10,276

(*) Fair values are calculated based primarily on discounted cash flow.

Note 2) Financial instruments for which fair value is extremely difficult to determine

1. As unlisted stocks of affiliated companies (20,000 thousand yen posted in the balance sheet) do not have market prices, and their future cash flow cannot be estimated, the fair value is extremely difficult to determine. Therefore, those stocks are not included in notes on fair value.
2. Deposits received for guarantees (2,845,324 thousand yen posted in the balance sheet) are not included in notes on fair value. This is because future cash flow cannot be estimated as it is difficult to identify the time to return the deposits including guarantee money deposited from business partners and deposits for real estate. Consequently, the fair value is extremely difficult to determine.

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

(JPY in thousands)

Balance sheet value			Year-end fair value
Beginning balance	Changes during the period	Year-end balance	
1,021,139	△15,619	1,005,520	1,276,595

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)	36,098,490	—	—
				Guarantee fee expense (*1)	24,027	—	—
Subsidiary of parent	Volkswagen Group Japan KK	NA	• Subvention income related to loans • Purchase receivable	Subvention income (*2)	1,456,381	Accounts receivable-other	130,260
				Purchased receivable (*2)	132,937,845	Accounts payable-trade	—
				Handling Charge of purchased receivable (*2)	56,400	Accounts receivable-other	2,236
Subsidiary of parent	Audi Japan KK	NA	• Subvention income related to loans • Purchase receivable	Subvention income (*2)	2,090,643	Accounts receivable-other	189,931
				Purchased receivable (*2)	125,000,928	Accounts payable-Trade	—
				Handling charge of purchased receivable (*2)	112,683	Accounts receivable-other	2,138
Subsidiary of parent	Volkswagen Japan Sales KK	NA	• Leasing income • Funding loan	Purchase of cars (*3)	903,961	Accounts payable-trade	—
				Purchased receivable (*6)	328,801	Accounts receivable	328,801
				Funding Loan receivable (*4)	—	Short-term loans receivable	180,000
				Loans collected	—		
				Loan interest income (*4)	578	Unearned income	130
Subsidiary of parent	Audi Japan Sales KK	NA	• Leasing income • Funding loan	Purchase of cars (*3)	2,507,618	Accounts payable-trade	—
				Purchased receivable (*6)	1,186,522	Accounts receivable	1,186,522
				Funding Loan receivable (*4)	4,122,078	Short-term loans receivable	1,951,999
				Loans collected	5,437,140		
				Loan interest income (*4)	8,230	Unearned income	932

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 and Audi Japan KK, where the original debtors are Volkswagen Japan Sales KK and Audi Japan Sales KK. .

Notes on Debt Guarantee

The following guarantees are provided for Lamborghini purchased receivables.

The maximum amounts of debt guarantees are as follows.

KK RPM	419,372 thousand yen
KK Corrida Motors	526,872 thousand yen
Mitsuoka Motor Co., Ltd.	763,877 thousand yen
Cornes Motors KK	791,255 thousand yen
Bolognese KK	1,004,753 thousand yen

Per share data

Equity per share	1,084,998.56 yen
Net income per share	134,666.24 yen

Accounting estimate related to the impact of the spread of COVID-19

It is difficult to have a practical assumption at this time regarding the impact of the coronavirus spread and when it will subside. We have estimated the collectability of deferred tax account under the assumption that the market will make a gradual recovery in 2022.

Supplementary Schedules in relation to Financial Statements

(The 32nd fiscal year from January 1, 2021 to December 31, 2021)

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	151,781	—	—	8,513	143,267	336,254	479,522
	Building equipment	77,156	—	—	10,171	66,984	213,116	280,101
	Structures	7,770	—	—	674	7,095	39,351	46,447
	Machinery and equipment	2,394	5	—	—	2,400	45,605	48,005
	Vehicles and cars	72,668	40,368	18,826	25,696	68,514	54,765	123,280
	Furniture, fixtures and tools	102,151	69,249	3,350	29,419	138,629	214,575	353,205
	Land	845,862	—	—	—	845,862	—	845,862
	Construction in progress	—	—	—	—	—	—	—
	Total	1,259,784	109,623	22,177	74,475	1,272,755	903,669	2,176,425
Intangible fixed assets	Software	866,120	223,825	—	317,341	772,604	/	
	Telephone rights	0	—	—	—	0		
	Total	866,120	223,825	—	317,341	772,604		

(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).

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	588,908	954,471	—	588,908	954,471
Allowance for residual value	942,393	1,023,942	—	942,393	1,023,942
Bonus allowance	138,344	133,890	138,344	—	133,890
Retirement reserve allowance	325,424	50,572	62,805	—	313,192
Retirement reserve allowance for directors	140,012	7,242	—	—	147,254

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	216,102	
Payroll expense	1,045,042	
Traveling expense	45,872	
Guarantee cost	1,983,541	
Outsourcing expense	613,542	
Commission expense	17,736	
Rent expense	320,683	
Depreciation cost	386,466	
Costs regarding EDP	886,366	
Communication cost	309,322	
Convention expense	10,506	
Printing expense	3,976	
Books training expense	8,175	
Taxes other than income taxes	186,460	
Provision of allowance for bad debts	365,563	
Provision of allowance for residual value	81,548	
Other SG&A expenses	105,155	
Total	6,586,062	