

# SANDEN CORPORATION

November 6, 2014

## SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS FOR 6 MONTHS ENDED SEPTEMBER 30, 2014 (UNAUDITED) (English Translation)

Fiscal year ending March 31, 2015

### SANDEN CORPORATION

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Shares listed: Tokyo Stock Exchange  
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Date of registration of statutory accounts (Shihankihoukokusho): November 10, 2014

(Fractions less than ¥1 million omitted)

### 1. Consolidated Financial Results for the Second Quarter Ended September 30, 2014 (April 1, 2014 - September 30, 2014)

(1) Results of operations (accumulative) (%: percentage change from the same period of previous fiscal year)

	Sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Income before extraordinary items (Millions of ¥, %)		Net income (Millions of ¥, %)		Net income per share basic (¥)	Net income per share diluted (¥)
6 months ended September 30, 2014	154,866	16.9	4,965	588.4	5,957	690.0	3,985	525.8	28.85	—
6 months ended September 30, 2013	132,482	10.5	721	—	754	145.8	636	30.9	4.67	—

### (2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net Assets (Millions of ¥)	Ratio of equity over total assets (%)	Net Assets per share (¥)
September 30, 2014	280,756	68,226	22.9	464.71
March 31, 2014	277,920	65,651	22.1	443.68

Notes: Equity capital September 30, 2014 64,190 million yen  
March 31, 2014 61,291 million yen

### 2. Dividends

(Date of record)	dividend per share				
	The end of the 1st quarter (¥)	The end of the 2nd quarter (¥)	The end of the 3rd quarter (¥)	Year end (¥)	Total (¥)
Fiscal year ended March 31, 2014	—	0.00	—	10.00	10.00
Fiscal year ended March 31, 2015	—	0.00	—	10.00	10.00
Fiscal year ended March 31, 2015 (Forecast)	—	—	—	10.00	10.00

Note: Revisions to the forecast of cash dividends in the current quarter: N/A

### 3. Forecast of business results for the current fiscal year (April 1, 2014 - March 31, 2015)

(%: percentage changes from the same period of previous fiscal year)

	Sales (Millions of ¥)	Percentage change (%)	Operating income (Millions of ¥)	Percentage change (%)	Income before extraordinary items (Millions of ¥)	Percentage change (%)	Net income (Millions of ¥)	Percentage change (%)	Net income per share basic (¥)
Fiscal year ending March 31, 2015	300,000	9.2	8,000	64.7	9,000	80.9	5,500	(5.9)	39.82

Note: Forecast has been changed from the prior forecast.

\* Notes

- (1) Changes in significant subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
- (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements: Yes  
 Note: For more information, please see “2. Other information (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements” on page 4.
- (3) Changes in accounting principles and estimates, and retrospective restatement
- (a) Changes due to revision of accounting standards: None
- (b) Changes other than in (a): None
- (c) Changes in accounting estimates: None
- (d) Retrospective restatement: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)	As of September 30, 2014:	140,331,565	As of March 31, 2014:	140,331,565
(b) Treasury stock	As of September 30, 2014:	2,201,515	As of March 31, 2014:	2,187,892
(c) Average number of shares outstanding	Six months ended September 30, 2014:	138,138,656	Six months ended September 30, 2013:	136,277,575

\* Status of implementation of audit procedures

The rule mandating a review of quarterly financial statements (under the Financial Instruments and Exchange Act) does not apply to this report. The review procedure process based upon the Financial Instruments and Exchange Act was applicable at the time this report was released.

\* Cautionary statement regarding forecasts of operating results and special notes

(Note regarding forward-looking statements)

Forward-looking statements in this report are based on information currently available to the Company and certain assumptions which are regarded as legitimate. These statements are not promises by the Company regarding future performance. Actual results may differ significantly from these forecasts due to various factors. For information about the forecasts, please see “1. Analysis of Results of Operations and Financial Condition (3) Outlook for the fiscal year ending in March 2015” on page 3 of Supplementary Information.

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## 1. Analysis of Results of Operations and Financial Condition

### (1) Analysis of Results of Operations

In the first half of the fiscal year ending in March 2015, the business environment, particularly the economy in developed countries continued to recover. However, the outlook remained unclear due to an economic slowdown in emerging countries and rising geopolitical risks. In the United States, the economy continued to recover with improvements in corporate earnings, consumer spending and employment. In China, the economy continued to expand, The European economy was at a standstill and the recovery of the economies of Southeast Asian countries and other emerging countries remained slow.

In Japan, corporate earnings improved, but the downturn in consumer spending following the consumption tax hike had a negative impact on the economy.

In this operating environment, the Sanden Group continuously focused on our medium-term basic strategies of "Sales Growth centered on Environmental Technologies", "Strengthening Business Competitiveness based on Reform of the Corporate Structure" and "Management Reforms based on the Reform of Management Systems". Activities are centered environmental businesses and leverage our strengths involving quality and global operations.

First half sales increased because of large orders, mainly in the Commercial Store Systems segment. This growth was the result of earning the trust of customers by providing ideas for products, systems and services that match the growth strategy of each customer.

Earnings were higher because of the growth in sales as well as constant cost-cutting measures and the benefits of a variety of reforms, including manufacturing more products overseas and increasing internal production.

In the first half ended September 31, 2014, the Sanden Group's net sales increased 16.9% to 154,866 million yen, operating income increased 588.4% to 4,965 million yen, ordinary income increased 690.0% to 5,957 million yen, and net income increased 525.8% to 3,985 million yen.

#### Business segments

##### A. Automotive Systems

We succeeded in capturing new business in this segment with compressors using the environmental technologies that are one of our greatest strengths. The result was an increase in segment sales from the previous fiscal year.

Although forward-looking investments were made for the development of technologies to drive future growth, earnings were higher. This was the result of the growth in sales, cost savings from structural reforms of global parts procurement activities, and an improvement in productivity. As a result, segment sales increased 9.4% to 96,533 million yen and operating income increased 189.9% to 2,270 million yen.

##### B. Commercial Store Systems

In the retail store systems sector, sales increased as we provided all-inclusive proposals for products, systems and services that match customers' growth strategies. These proposals satisfied demand associated with greater awareness of environmental issues and the changes in lifestyles.

In the vending systems sector, sales activities in Japan targeted new business domains by offering ideas and new ecologically friendly products centered on our exclusive CO<sub>2</sub> heat pump vending machines. These activities led to growth in sales in this sector.

This growth in sales combined with further progress in cutting costs and improving manufacturing productivity resulted in higher earnings.

As a result, total sales in this segment increased 32.1% to 52,505 million yen and operating income increased 211.7% to 4,477 million yen.

##### C. Others

To achieve the medium-term strategic goal of sales growth centered on environmental technologies, we concentrated on sales in Japan, Europe, Asia and other countries of Eco Cute, a heat pump hot water heater using a natural CO<sub>2</sub> refrigerant. In addition, we continued to make substantial investments for the development of exclusive technologies for a hot water heating unit using heat pump technology and for other products. We are making steady progress toward the goal of extending operations into new business domains.

(2) Financial Condition

A. Assets, liabilities and net assets

Total assets were 280,756 million yen on September 30, 2014, 2,835 million yen higher than on March 31, 2014.

**Assets**

Current assets decreased 176 million yen to 159,945 million yen. This decrease was mainly the net result of increases of 820 million yen in notes and accounts receivable-trade, 678 million yen in inventories, and 403 million yen in accounts receivable-other and a decrease of 1,841 million yen in consumption taxes receivable. Non-current assets increased 3,012 million yen to 120,810 million yen mainly as a result of a 2,664 million yen increase in investments and other assets.

**Liabilities**

Current liabilities increased 4,706 million yen to 141,269 million yen. Major changes included a decrease of 5,457 million yen in the current portion of long-term loans payable, and increases of 2,903 million yen in notes and accounts payable-trade and 7,112 million yen in short-term loans payable. Noncurrent liabilities decreased 4,446 million yen to 71,259 million yen mainly because of a decrease of 3,902 million yen in long-term loans payable. As a result, total liabilities increased 259 million yen to 212,529 million yen.

**Net assets**

Net assets increased 2,575 million yen to 68,226 million yen. This was mainly the difference between first half net income of 3,985 million yen and dividend payments of 1,382 million yen.

B. Cash flows

There was a net increase of 931 million yen in cash and cash equivalents during the first half of the fiscal year, resulting in a balance of 20,009 million yen as of the end of the first half.

**Operating activities**

Net cash provided by operating activities was 12,995 million yen, 2,666 million yen more than one year earlier. Major sources of cash were income before income taxes and minority interests of 5,229 million yen, depreciation and amortization of 5,568 million yen, an increase of 3,400 million yen in notes and accounts payable-trade, and a decrease of 1,895 million yen in consumption taxes refund receivable. Major uses of cash were 1,457 million yen of equity in earnings of affiliates, a 535 million yen increase in inventories, a 396 million yen increase in accounts receivable-other, and a 499 million yen decrease in accounts payable-other.

**Investing activities**

Net cash used in investing activities was 6,858 million yen, 188 million yen more than one year earlier. The primary use of cash was purchase of property, plant and equipment totaling 6,596 million yen.

**Financing activities**

Net cash used in financing activities was 5,166 million yen, 1,095 million yen more than one year earlier. The main source of cash was 6,982 million yen from short-term loans payable and the main uses of cash were 9,874 million yen for the repayment of long-term loans payable, 693 million yen for the repayment of long-term lease obligations, and 1,382 million yen for cash dividends paid.

(3) Outlook for the fiscal year ending in March 2015

In the light of the first half results, we have revised the forecast for consolidated sales and earnings for the fiscal year ending March 31, 2015 that we announced on May 12, 2014. Please refer to the "Notification concerning the revision of the forecast for consolidated business results" dated November 6, 2014 for details.

Our exchange rate assumptions for the second half of the fiscal year are: 1 US dollar = 100 yen, and 1 euro = 135 yen.

## 2. Other Information

- (1) Changes in significant subsidiaries  
None

- (2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements

For tax expenses, we have calculated an estimate for the applicable effective tax rate to net income before income tax for the first half by applying a reasonable estimate for the effective tax rate after the application of tax effect accounting to the net income before income tax for the fiscal year including the first half of the current fiscal year.

However, when we believe that a calculation using the estimate for the applicable effective tax rate would not be reasonable, we will use a calculation method in accordance with Article 12 (Method for the Application of a Legally-designated Effective Tax Rate) of the Practical Guidelines for Application of Tax Effect Accounting in Interim Financial Statements, etc.

Deferred taxes are included in the total income taxes.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly consolidated balance sheets

(Million yen)

	As of March 31, 2014	As of September 30, 2014
<b>ASSETS</b>		
Current assets		
Cash and deposits	19,087	20,018
Notes and accounts receivable-trade	76,530	77,351
Merchandise and furnished goods	22,833	22,630
Work in process	7,514	7,868
Raw materials	12,524	12,670
Other inventories	3,769	4,151
Deferred tax assets	3,167	2,992
Accounts receivable-other	3,849	4,253
Consumption taxes receivable	4,260	2,419
Other	7,532	6,591
Allowance for doubtful accounts	(948)	(1,002)
Total current assets	160,122	159,945
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	23,242	24,447
Machinery, equipment and vehicles, net	27,579	27,417
Tools, furniture and fixtures, net	5,150	5,338
Land	19,152	19,176
Lease assets, net	5,196	5,332
Construction in progress	8,360	7,282
Total property, plant and equipment	88,681	88,994
Intangible assets		
Goodwill	677	585
Lease assets	140	112
Other	3,431	3,586
Total intangible assets	4,250	4,284
Investments and other assets		
Investment securities	21,388	23,705
Deferred tax assets	2,005	2,085
Other	1,684	1,952
Allowance for doubtful accounts	(212)	(210)
Total investments and other assets	24,866	27,531
Total noncurrent assets	117,798	120,810
Total assets	277,920	280,756

(Million yen)

	As of March 31, 2014	As of September 30, 2014
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	54,714	57,618
Short-term loans payable	42,953	50,065
Current portion of long-term loans payable	13,527	8,069
Accounts payable-other	10,635	8,911
Lease obligations	1,213	1,225
Income taxes payable	639	765
Provision for bonuses	3,620	4,061
Provision for sales rebates	519	662
Provision for product warranties	1,582	2,359
Other provision	-	648
Deferred tax liabilities	16	0
Other	7,141	6,881
Total current liabilities	136,563	141,269
Noncurrent liabilities		
Long-term loans payable	62,567	58,401
Lease obligations	4,118	4,382
Deferred tax liabilities	1,018	1,419
Net defined benefit liability	2,545	2,855
Provision for directors' retirement benefits	179	179
Provision for environmental measures	518	522
Long-term accounts payable-other	2,859	1,328
Other	1,897	2,169
Total noncurrent liabilities	75,705	71,259
Total liabilities	212,269	212,529
<b>NET ASSETS</b>		
Shareholder's equity		
Capital stock	11,037	11,037
Capital surplus	4,453	4,453
Retained earnings	44,239	46,841
Treasury stock	(1,178)	(1,186)
Total shareholder's equity	58,553	61,146
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,532	3,171
Deferred gains or losses on hedges	(22)	(64)
Foreign currency translation adjustment	807	789
Remeasurements of defined benefit plans	(579)	(852)
Total valuation and translation adjustments	2,738	3,043
Minority interests	4,359	4,036
Total net assets	65,651	68,226
Total liabilities and net assets	277,920	280,756



(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income  
(First half ended September 2014)

(Million yen)

	First half ended September 2013 (Apr. 1, 2013 – September 30, 2013)	First half ended September 2014 (Apr. 1, 2014 – September 30, 2014)
Net sales	132,482	154,866
Cost of sales	110,397	125,007
Gross profit	22,084	29,859
Selling, general and administrative expenses	21,363	24,893
Operating income (loss)	721	4,965
Non-operating income		
Interest income	37	8
Dividends income	95	99
Foreign exchange gains	-	634
Equity in earnings of affiliates	1,245	1,457
Other	409	583
Total non-operating income	1,787	2,783
Non-operating expenses		
Interest expenses	1,209	1,367
Foreign exchange losses	384	-
Other	160	423
Total non-operating expenses	1,755	1,790
Ordinary income (loss)	754	5,957
Extraordinary income		
Gain on sales of noncurrent assets	30	57
Gain on sales of investment securities	0	7
Other	1	0
Total extraordinary income	31	65
Extraordinary loss		
Loss on disposal of noncurrent assets	141	124
Loss on valuation of investment securities	-	16
Provision for loss on abandonment of facilities	-	648
Other	0	4
Total extraordinary loss	141	794
Income (loss) before income taxes	644	5,229
Total income taxes	262	994
Income before minority interests	381	4,235
Minority interests in income (loss)	(255)	249
Net income (loss)	636	3,985

(Million yen)

	First half ended September 2013 (Apr. 1, 2013 – September 30, 2013)	First half ended September 2014 (Apr. 1, 2014 – September 30, 2014)
Income before minority interests	381	4,235
Other comprehensive income		
Valuation difference on available-for-sale securities	509	637
Deferred gains or losses on hedges	(76)	(42)
Foreign currency translation adjustment	2,110	(2)
Remeasurements of defined benefit plans, net of tax	-	(272)
Share of other comprehensive income of associates accounted for using equity method	1,169	(236)
Total other comprehensive income	3,712	83
Comprehensive income	4,094	4,318
Comprehensive income attributable to owners of the parent	4,039	4,291
Comprehensive income attributable to minority interests	55	27

## (3) Quarterly consolidated statements of cash flows

(Million yen)

	First half ended September 2013 (Apr. 1, 2013 – September 30, 2013)	First half ended September 2014 (Apr. 1, 2014 – September 30, 2014)
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	644	5,229
Depreciation and amortization	4,861	5,568
Increase (decrease) in provision for bonuses	296	423
Increase (decrease) in allowance for doubtful accounts	125	11
Increase (decrease) in other provision	-	648
Interest and dividends income	(132)	(107)
Interest expenses	1,209	1,367
Equity in (earnings) losses of affiliates	(1,245)	(1,457)
Decrease (increase) in notes and accounts receivable-trade	3,010	(103)
Decrease (increase) in inventories	2,854	(535)
Decrease (increase) in accounts receivable-other	(615)	(396)
Decrease (increase) in consumption taxes refund receivable	250	1,895
Increase (decrease) in notes and accounts payable-trade	2,311	3,400
Increase (decrease) in accounts payable-other	269	(499)
Other, net	(1,280)	266
Subtotal	12,558	15,713
Interest and dividends income received	267	582
Interest expenses paid	(1,210)	(1,359)
Contribution paid on transfer to defined contribution pension plans	-	(1,492)
Income taxes paid	(1,286)	(447)
Net cash provided by (used in) operating activities	10,329	12,995
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,869)	(6,596)
Proceeds from sales of property, plant and equipment	869	425
Purchase of intangible assets	(415)	(327)
Purchase of investment securities	(211)	(313)
Other, net	(42)	(46)
Net cash provided by (used in) investing activities	(6,669)	(6,858)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,632	6,982
Proceeds from long-term loans payable	1,957	215
Repayment of long-term loans payable	(7,692)	(9,874)
Repayments of lease obligations	(617)	(693)
Cash dividends paid	(1,361)	(1,382)
Cash dividends paid to minority shareholders	(0)	(405)
Other, net	12	(7)
Net cash provided by (used in) financing activities	(4,071)	(5,166)
Effect of exchange rate change on cash and cash equivalents	527	(39)
Net increase (decrease) in cash and cash equivalents	117	931
Cash and cash equivalents, beginning of period	19,961	19,078
Cash and cash equivalents, end of period	20,079	20,009

- (4) Notes to consolidated financial statements  
(Going concern assumptions)  
None

(Significant change in shareholders' equity)  
None

(Segment information)

For the first half of the previous fiscal year (Apr. 1, 2013 – September 30, 2013)

Information about sales and income (loss) by reportable segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustment	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
(of which to outside customers)	88,205	39,732	127,938	4,544	132,482	-	132,482
(of which inter-segment and transfers)	-	-	-	-	-	-	-
Total	88,205	39,732	127,938	4,544	132,482	-	132,482
Segment income (loss)	783	1,436	2,219	(1,498)	721	-	721

Notes: 1. Others includes vehicle sales, residential environmental systems, electronics and other activities.

2. The sum of segment income (loss) matches operating income (loss) in the consolidated income statement.

For the first half of the current fiscal year (Apr. 1, 2014 – September 30, 2014)

Information about sales and income (loss) by reportable segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustment	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
(of which to outside customers)	96,533	52,505	149,039	5,826	154,866	-	154,866
(of which inter-segment and transfers)	-	-	-	-	-	-	-
Total	96,533	52,505	149,039	5,826	154,866	-	154,866
Segment income (loss)	2,270	4,477	6,748	(1,783)	4,965	-	4,965

Notes: 1. Others includes vehicle sales, residential environmental systems, electronics and other activities.

2. The sum of segment income (loss) matches operating income (loss) in the consolidated income statement.