

# SANDEN CORPORATION

February 6, 2015

## SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS FOR 9 MONTHS ENDED DECEMBER 31, 2014 (UNAUDITED) (English Translation)

Fiscal year ending March 31, 2015

### SANDEN CORPORATION

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Date of registration of statutory accounts (Shihankihoukokusho): February 9, 2015

(Fractions less than ¥1 million omitted)

### 1. Consolidated Financial Results for the Third Quarter Ended December 31, 2014 (April 1, 2014 - December 31, 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 (¥)
9 months ended December 31, 2014	226,030	14.3	5,459	—	6,741	300.0	3,400	146.6	24.62	—
9 months ended December 31, 2013	197,677	12.5	493	—	1,685	—	1,378	—	10.09	—

(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 (¥)
December 31, 2014	294,284	73,237	23.3	496.71
March 31, 2014	277,920	65,651	22.1	443.68

Notes: Equity capital December 31, 2014 68,609 million yen  
March 31, 2014 61,291 million yen

### 2. Dividends

dividend per share

(Date of record)	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	—		
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 not been changed from the prior forecast.

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

### (1) Analysis of Results of Operations

In the first three quarters of the fiscal year ending in March 2015, the slow recovery of the global economy, mainly in developed countries, continued. But the economic outlook remains unclear because of slowing economic growth in emerging countries and geopolitical instability. In the United States, consumer spending and employment remained strong. But the economic recovery is sluggish in Europe and China's economic growth rate is basically flat. There were no improvements in the economies of other Asian economies either.

In Japan, the economy continued to recover at a moderate pace. Stock prices rose and the number of jobs increased as the government implemented additional monetary easing. In addition, earnings are higher at exporting companies because of the yen's weakness. But there is still no full-scale economic recovery due in part to a downturn in consumer spending following the April 2014 consumption tax hike.

The Sanden Group's objective is to advance to the next phase of growth centered on business associated with the environment by using a foundation consisting of strengths involving "Quality" and "Global Operations." The entire group continued to concentrate on the medium-term strategic goals of achieving sales growth centered on environmental technologies, becoming more competitive by building a stronger operating framework, and improving management by enacting management system reforms.

These actions resulted in sales growth that was driven by the receipt of large orders primarily in the commercial store systems segment. Group companies used environmental technologies, the focus for activities aimed at growth, to provide ideas for products, systems and services that precisely match the strategic objectives of customers. Earnings benefited from the growth in sales as well as constant cost cutting and measures to build a stronger framework for operations, such as by increasing overseas production and making more products internally. Consolidated net sales increased 14.3% to 226,030 million yen, operating income increased from 493 million yen to 5,459 million yen, ordinary income increased 300.0% to 6,741 million yen, and net income increased 146.6% to 3,400 million yen.

#### Business segments

##### A. Automotive Systems

We captured 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.

Earnings were also higher even though there were substantial investments to develop environmental technologies. Earnings increased because of the growth in sales, cost savings from structural reforms of global parts procurement activities, improvements in productivity, and the yen's depreciation.

As a result, segment sales increased 10.5% to 145,957 million yen and operating income increased 158.7% to 3,120 million yen.

##### B. Commercial Store Systems

In the retail store systems sector, sales increased because of growth backed by activities that supported our customers' growth strategies. We provided comprehensive for products, systems and services that reflect current changes involving the environment and lifestyles.

In the vending systems sector, we continued to develop environmentally responsible products, centered on vending machines that use our exclusive CO<sub>2</sub> heat pump. We also started activities in new business domains like coffee servers. These activities led to growth in sales in this sector.

Higher sales combined with further progress in cutting costs and improving the productivity of manufacturing resulted in an increase in earnings compared with one year earlier.

As a result, total sales in this segment increased 23.4% to 71,622 million yen and operating income increased 257.7% to 4,683 million yen.

##### C. Others

To achieve the medium-term strategic goal of achieving 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 environmental technologies and for other products. We are making steady progress toward the goal of extending operations into new business domains.

\* 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 December 31, 2014:	140,331,565	As of March 31, 2014:	140,331,565
(b) Treasury stock	As of December 31, 2014:	2,204,009	As of March 31, 2014:	2,187,892
(c) Average number of shares outstanding	Nine months ended December 31, 2014:	138,135,545	Nine months ended December 31, 2013:	136,709,240

\* 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

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.

Index for Supplementary Information

<b>1. Analysis of Results of Operations and Financial Condition</b> .....	2
(1) Analysis of Results of Operations.....	2
(2) Financial Condition.....	3
(3) Outlook for the fiscal year ending in March 2015 .....	3
<b>2. Other Information</b> .....	4
(1) Changes in significant subsidiaries.....	4
(2) Use of accounting methods specifically for the preparation of the quarterly consolidated financial statements .....	4
<b>3. Quarterly Consolidated Financial Statements</b> .....	5
(1) Quarterly consolidated balance sheets.....	5
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income .....	7
(3) Quarterly consolidated statements of cash flows .....	9
(4) Notes to consolidated financial statements .....	10
(Going concern assumptions).....	10
(Significant change in shareholders' equity) .....	10
(Segment information).....	10

(2) **Financial Condition**

A. **Assets, liabilities and net assets**

Total assets were 294,284 million yen at the end of the third quarter, 16,364 million yen higher than at the end of the previous fiscal year.

**Assets**

Current assets increased 7,611 million yen to 167,733 million yen. This increase was attributable mainly to increases of 2,098 million yen in notes and accounts receivable-trade, 4,941 million yen in inventories, and 1,480 million yen in accounts receivable-other. Noncurrent assets increased 8,753 million yen to 126,551 million yen mainly because of a 3,646 million yen increase in property, plant and equipment and a 4,910 million yen increase in investments and other assets.

**Liabilities**

Current liabilities increased 4,583 million yen to 141,147 million yen. Major changes included increases of 5,420 million yen in short-term loans payable and 2,798 million yen in other current liabilities and a 3,262 million yen decrease in the current portion of long-term loans payable. Noncurrent liabilities increased 4,194 million yen to 79,900 million yen mainly because of increases of 2,999 million yen in long-term loans payable and 713 million yen in other noncurrent liabilities. As a result, total liabilities increased 8,778 million yen to 221,047 million yen.

**Net assets**

Net assets increased 7,586 million yen to 73,237 million yen. Net assets were reduced by dividend payments of 1,382 million yen. But there was net income for the first three quarters of 3,400 million yen and increases of 4,500 million yen in foreign currency translation adjustments and 1,341 million yen in the valuation difference on available-for-sale securities.

B. **Cash flows**

Cash and cash equivalents were 19,910 million yen at the end of the third quarter, an increase of 832 million yen compared with the end of the previous fiscal year.

**Operating activities**

Net cash provided by operating activities was 10,961 million yen, 721 million yen more than one year earlier. Major sources of cash were income before income taxes and minority interests of 5,135 million yen, depreciation and amortization of 8,554 million yen, and an decrease of 3,075 million yen in notes and accounts receivable-trade. Cash flows were reduced by a 2,296 million yen increase in inventories, a 1,899 million yen decrease in notes and accounts payable-trade, and equity-method income of 1,517 million yen.

**Investing activities**

Net cash used in investing activities was 9,451 million yen, 1,031 million yen more than one year earlier. The primary use of cash was purchase of property, plant and equipment totaling 8,920 million yen.

**Financing activities**

Net cash used in financing activities was 1,270 million yen, 4,189 million yen less than one year earlier. The main sources of cash were 3,256 million yen from short-term loans payable and 9,294 million yen from long-term loans payable. The main uses of cash were 11,129 million yen for the repayment of long-term loans payable, 1,089 million yen for the repayment of long-term lease obligations, and 1,382 million yen for the payment of dividends.

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

There are no revisions at this time to the forecast for consolidated sales and earnings for the fiscal year ending March 31, 2015 that was announced on November 6, 2014. An announcement will be made promptly if any changes are made to this forecast.

## 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 three quarters 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 period of the third quarter 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 December 31, 2014
<b>ASSETS</b>		
Current assets		
Cash and deposits	19,087	19,919
Notes and accounts receivable-trade	76,530	78,628
Merchandise and furnished goods	22,833	24,780
Work in process	7,514	7,557
Raw materials	12,524	14,772
Other inventories	3,769	4,473
Deferred tax assets	3,167	3,001
Accounts receivable-other	3,849	5,330
Consumption taxes receivable	4,260	3,742
Other	7,532	6,671
Allowance for doubtful accounts	(948)	(1,145)
Total current assets	160,122	167,733
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	23,242	24,944
Machinery, equipment and vehicles, net	27,579	29,703
Tools, furniture and fixtures, net	5,150	5,668
Land	19,152	19,295
Lease assets, net	5,196	5,916
Construction in progress	8,360	6,799
Total property, plant and equipment	88,681	92,327
Intangible assets		
Goodwill	677	593
Lease assets	140	98
Other	3,431	3,753
Total intangible assets	4,250	4,446
Investments and other assets		
Investment securities	21,388	25,737
Deferred tax assets	2,005	2,150
Other	1,684	2,099
Allowance for doubtful accounts	(212)	(210)
Total investments and other assets	24,866	29,777
Total noncurrent assets	117,798	126,551
Total assets	277,920	294,284

(Million yen)

	As of March 31, 2014	As of December 31, 2014
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable-trade	54,714	53,855
Short-term loans payable	42,953	48,373
Current portion of long-term loans payable	13,527	10,264
Accounts payable-other	10,635	10,433
Lease obligations	1,213	1,275
Income taxes payable	639	716
Provision for bonuses	3,620	2,551
Provision for sales rebates	519	947
Provision for product warranties	1,582	2,787
Deferred tax liabilities	16	1
Other	7,141	9,939
Total current liabilities	136,563	141,147
Noncurrent liabilities		
Long-term loans payable	62,567	65,566
Lease obligations	4,118	4,783
Deferred tax liabilities	1,018	1,784
Net defined benefit liability	2,545	3,091
Provision for directors' retirement benefits	179	179
Provision for environmental measures	518	553
Long-term accounts payable-other	2,859	1,328
Other	1,897	2,611
Total noncurrent liabilities	75,705	79,900
Total liabilities	212,269	221,047
<b>NET ASSETS</b>		
Shareholder's equity		
Capital stock	11,037	11,037
Capital surplus	4,453	4,453
Retained earnings	44,239	46,258
Treasury stock	(1,178)	(1,187)
Total shareholder's equity	58,553	60,562
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,532	3,873
Deferred gains or losses on hedges	(22)	(222)
Foreign currency translation adjustment	807	5,308
Remeasurements of defined benefit plans	(579)	(911)
Total valuation and translation adjustments	2,738	8,047
Minority interests	4,359	4,627
Total net assets	65,651	73,237
Total liabilities and net assets	277,920	294,284

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income  
Quarterly consolidated statements of income  
(First three quarters ended December 2014)

(Million yen)

	First three quarters ended December 2013 (Apr. 1, 2013 – December 31, 2013)	First three quarters ended December 2014 (Apr. 1, 2014 – December 31, 2014)
Net sales	197,677	226,030
Cost of sales	164,797	183,800
Gross profit	32,880	42,230
Selling, general and administrative expenses	32,386	36,771
Operating income (loss)	493	5,459
Non-operating income		
Interest income	47	20
Dividends income	151	162
Foreign exchange gains	483	1,489
Equity in earnings of affiliates	2,054	1,517
Other	632	716
Total non-operating income	3,370	3,906
Non-operating expenses		
Interest expenses	1,816	2,051
Other	362	572
Total non-operating expenses	2,179	2,624
Ordinary income (loss)	1,685	6,741
Extraordinary income		
Gain on sales of noncurrent assets	107	60
Gain on sales of investment securities	0	7
Other	1	0
Total extraordinary income	108	69
Extraordinary loss		
Loss on disposal of noncurrent assets	142	829
Loss on valuation of investment securities	-	16
Provision for loss on antimonopoly act	-	385
Market-related expenses	-	315
Other	4	127
Total extraordinary loss	147	1,675
Income (loss) before income taxes	1,646	5,135
Total income taxes	463	1,358
Income before minority interests	1,182	3,777
Minority interests in income (loss)	(196)	377
Net income (loss)	1,378	3,400

Quarterly consolidated statements of comprehensive income  
(First three quarters ended December 2014)

(Million yen)

	First three quarters ended December 2013 (Apr. 1, 2013 – December 31, 2013)	First three quarters ended December 2014 (Apr. 1, 2014 – December 31, 2014)
Income before minority interests	1,182	3,777
Other comprehensive income		
Valuation difference on available-for-sale securities	1,065	1,334
Deferred gains or losses on hedges	(203)	(200)
Foreign currency translation adjustment	4,694	3,675
Remeasurements of defined benefit plans, net of tax	-	(331)
Share of other comprehensive income of associates accounted for using equity method	1,364	991
Total other comprehensive income	6,921	5,469
Comprehensive income	8,104	9,246
Comprehensive income attributable to owners of the parent	7,998	8,709
Comprehensive income attributable to minority interests	105	536

## (3) Quarterly consolidated statements of cash flows

(Million yen)

	First three quarters ended December 2013 (Apr. 1, 2013 – December 31, 2013)	First three quarters ended December 2014 (Apr. 1, 2014 – December 31, 2014)
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	1,646	5,135
Depreciation and amortization	7,443	8,554
Increase (decrease) in provision for bonuses	(898)	(1,150)
Increase (decrease) in allowance for doubtful accounts	(43)	67
Interest and dividends income	(199)	(183)
Interest expenses	1,816	2,051
Equity in (earnings) losses of affiliates	(2,054)	(1,517)
Loss on disposal of noncurrent assets	142	829
Decrease (increase) in notes and accounts receivable-trade	5,719	3,075
Decrease (increase) in inventories	587	(2,296)
Decrease (increase) in accounts receivable-other	(341)	(1,131)
Increase (decrease) in notes and accounts payable-trade	(180)	654
Decrease (increase) in consumption taxes refund receivable	345	779
Decrease (increase) in other current assets	(1,125)	609
Increase (decrease) in notes and accounts payable-trade	1,802	(1,899)
Other, net	(1,437)	938
Subtotal	13,223	14,518
Interest and dividends income received	394	598
Interest expenses paid	(1,781)	(2,030)
Contribution paid on transfer to defined contribution pension plans	-	(1,492)
Income taxes paid	(1,595)	(631)
Net cash provided by (used in) operating activities	10,240	10,961
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,910)	(8,920)
Proceeds from sales of property, plant and equipment	1,561	525
Purchase of intangible assets	(605)	(551)
Purchase of investment securities	(218)	(318)
Other, net	(247)	(187)
Net cash provided by (used in) investing activities	(8,420)	(9,451)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(4,984)	3,256
Proceeds from long-term loans payable	10,999	9,294
Repayment of long-term loans payable	(9,207)	(11,129)
Repayments of lease obligations	(929)	(1,089)
Cash dividends paid	(1,361)	(1,382)
Cash dividends paid to minority shareholders	(0)	(405)
Proceeds from stock issuance to minority shareholders	32	195
Other, net	(9)	(9)
Net cash provided by (used in) financing activities	(5,460)	(1,270)
Effect of exchange rate change on cash and cash equivalents	941	593
Net increase (decrease) in cash and cash equivalents	(2,698)	832
Cash and cash equivalents, beginning of period	19,961	19,078
Cash and cash equivalents, end of period	17,263	19,910

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

(Significant change in shareholders' equity)  
None

(Segment information)

For the first three quarters of the previous fiscal year (Apr. 1, 2013 – December 31, 2013)

1. 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)	132,040	58,042	190,083	7,594	197,677	-	197,677
(of which inter-segment and transfers)	-	-	-	-	-	-	-
Total	132,040	58,042	190,083	7,594	197,677	-	197,677
Segment income (loss)	1,205	1,309	2,515	(2,021)	493	-	493

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 three quarters of the current fiscal year (Apr. 1, 2014 – December 31, 2014)

1. 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)	145,957	71,622	217,580	8,450	226,030	-	226,030
(of which inter-segment and transfers)	-	-	-	-	-	-	-
Total	145,957	71,622	217,580	8,450	226,030	-	226,030
Segment income (loss)	3,120	4,683	7,803	(2,344)	5,459	-	5,459

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.