

SANDEN HOLDINGS CORPORATION

November 7, 2016

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF September 30, 2016

Fiscal year ending March 31, 2017

SANDEN HOLDINGS CORPORATION

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(URL: <http://www.sanden.co.jp/english/index.html>)

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Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: Yes

Briefing sessions held on quarterly results: Yes (for securities analysts and institutional investors)

(Fractions less than ¥1 million omitted)

1. Consolidated Financial Results for the second quarter of current fiscal year (April 1, 2016- September 30, 2016)

(1) Results of operations (%: percentage change from previous fiscal year)

	Sales (Millions of ¥, %)	Operating income (Millions of ¥, %)	Income before extraordinary items (Millions of ¥, %)	Net income (Millions of ¥, %)
2Q of Fiscal year ended March 31, 2017	138,116 (7.7)	(964) -	(3,132) -	(7,208) -
2Q of Fiscal year ended March 31, 2016	149,587 (3.4)	2,242 (54.8)	3,276 (45.0)	2,341 (41.2)

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ended March 31, 2017 (¥16,306million), (—)%
 2Q of Fiscal year ended March 31, 2016 ¥2,424million, (43.9)%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ended March 31, 2017	(52.19)	-
2Q of Fiscal year ended March 31, 2016	16.96	-

(2) Financial positions

(Fractions less than ¥1 million omitted)

	Total assets (Millions of ¥)	Net assets (Millions of ¥)	Equity Ratio of equity over total assets(%)	Net assets per share (¥)
2Q of Fiscal year ended March 31, 2017	271,985	57,113	19.2	378.58
Fiscal year ended March 31, 2016	301,325	75,503	23.3	507.56

Notes: Equity capital 2Q of Fiscal year ended March 31, 2017 ¥52,293million
 Fiscal year ended March 31, 2016 ¥70,098million

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2016	-	0.00	-	15.00	15.00
Fiscal year ending March 31, 2017	-	0.00	-	-	-
Fiscal year ending March 31, 2017 (Forecast)	-	-	-	0.00	0.00

3. Forecast of business results for the current fiscal year (April 1, 2016-March 31, 2017)

(%: percentage change from the same period of the 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 (¥)
Fiscal year ending March 31, 2017	280,000 (4.8)	5,000 (9.0)	3,500 (43.0)	(3,000) -	(21.72)

Note: Revisions made since the most recently published earnings forecasts: No

*** Notes**

(1) Changes in significant subsidiaries during the first half of the current fiscal year (Changes in specific subsidiaries accompanied by changes in the scope of consolidation)
None

(2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements: Yes
(Note) For details, please see “2. Matters Concerning Summary Information (Items to Note) - (2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements” on page 4 of Supplementary Information.

(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 outstanding shares (common stock, shares)

(a) Outstanding shares (including treasury shares)	As of September 30, 2016:	140,331,565	As of March 31, 2016:	140,331,565
(b) Treasury shares	As of September 30, 2016:	2,201,924	As of March 31, 2016:	2,222,736
(c) Average number of shares outstanding during the first half	Period ended September 30, 2016:	138,110,486	Period ended September 30, 2015:	138,118,564

* Disclosure of the status of quarterly review procedures

These quarterly financial results are not included in the scope of quarterly review procedures as per the Financial Instruments and Exchange Act; and as of the point in time that these quarterly financial results are released, the quarterly review procedures for quarterly consolidated financial statements based on the afore-mentioned Act have not been completed.

* Cautionary statement regarding forecasts of operating results and special notes

(Note regarding the forward-looking statements)

The forward-looking statements contained 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. Qualitative Information on Quarterly Financial Results - (3) An explanation of future, predictive data, such as consolidated earnings forecasts” on page 3 of Supplementary Information.

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1. Qualitative Information on Quarterly Financial Results

(1) An explanation of Results of Operations

The world economy continued to experience moderate expansion overall during the first half of the current fiscal year led by gradual economic expansion in the developed countries despite continuing slowdown in Chinese economy. In the United States, a steady economic recovery was maintained as both employment and personal consumption continued to improve. In Europe, despite the uncertainty associated with BREXIT (the withdrawal of the UK from the European Union (EU)), a gradual recovery was also sustained.

Meanwhile, in Japan, despite continued monetary easing, the overall outlook for future prospects remained uncertain as a result of factors including the slowdown in consumer spending, the appreciation of the yen, and the impact on corporate earnings of the deceleration in the economies of emerging nations.

Based on the management policy of “creating corporate value from the environment with the focus on product quality and global strength”, Sanden is actively working on the key strategic goals 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”.

However, due to the shrinking domestic market and the impact of the appreciation of the yen, sales and profits declined in the second quarter of the current fiscal year compared to the same period of the previous fiscal year. In order quickly break out of this situation and to further strengthen the global competitiveness of the business, the Company has been concentrating all of its resources to achieve ‘fundamental structural reforms’ and the accumulated expenses relating to this initiative were booked in the second quarter of the current fiscal year.

Consolidated, cumulative results for the second quarter showed that net sales decreased 7.7% to 138,116 million yen. Operating loss was 964 million yen; compared with operating income of 2,242 million yen in the same period of the previous fiscal year and ordinary loss was 3,132 million yen compared with ordinary income of 3,276 million yen in the same period of the previous fiscal year. Loss attributable to owners of parent was 7,208 million yen compared with profit of 2,341 million yen in the same period of the previous fiscal year.

Results for business segments are as follows.

A. Automotive Systems

In Automotive Systems, we have been developing state-of-the-art products that appropriately reflect customer demand, which is focused on environmental issues, to provide products of value that are increasingly compact, lightweight, and consume less power. As a result, sales were steady in Europe and China. On the contrary, sales in North America were lower year-on-year due to the effect of decreased sales volume as well as the impact of the exchange rate.

Cost reductions were achieved as a result of in-house production of components and structural reforms in global procurement of components and productivity improvements. Nonetheless profit fell year-on-year due to the impact of a reduction in sales, the Company’s aggressive investment in the development of environmental technologies for the future and the impact of the exchange rate.

As a result, net sales decreased 5.9% year-on-year to 95,013 million yen, while operating income decreased 76.0% to 619 million yen.

B. Commercial Store Systems

In the retail store systems sector, we continued to suggest and provide comprehensive solutions in terms of products, systems and services to reflect changes in customers’ growth strategies and environmental attitudes. But, there was a slump in the expansion in demand in Japan. As a result, year-on-year net sales declined.

In the vending systems sector, Sanden was actively involved in developing environmentally-friendly products, typically the vending machines that use our exclusive CO₂ heat pumps, as well as initiatives to expand new business domains by penetration of new products. However, the reduction in demand for capital investment in the Japanese market resulted in a year-on-year decline in net sales.

Profits saw a year-on-year decline, affected by the fall in sales. This was despite the implementation of on-going, stringent structural reforms that focused on reducing costs and improving productivity.

As a result, net sales in overall Commercial Store Systems decreased 13.1 % to 37,417 million yen, and operating loss was 201 million yen, compared with operating income of 1,164 million yen in the same period of the previous fiscal year.

C. Others

In line with our basic strategy aimed at future growth, we have been concentrating on global expansion of Eco Cute, a heat pump hot water supply system using a natural CO₂ refrigerant. In addition, we are continuing to make substantial investments for the development of exclusive technologies for a hot water heating unit using our environmental technology and for other products toward the goal of extending operations to more business domains.

(2) An explanation of Financial Condition

A. Assets, liabilities and net assets

Total assets were 271,985 million yen at the end of the second quarter of the current fiscal year, 29,339 million yen lower than at the end of the previous fiscal year. This was due mainly to a reduction in notes and accounts receivable - trade.

Liabilities were 214,871 million yen, down 10,950 million yen from the end of the previous fiscal year. This was due mainly to reduction in notes and accounts payable - trade.

Net assets were 57,113 million yen, down 18,389 million yen from the end of the previous fiscal year. This was attributable to foreign currency translation adjustments etc.

B. Cash flows

There was a net decrease of 2,231 million yen in cash and cash equivalents to 15,250 million yen from the end of the previous fiscal year.

Net cash provided by operating activities was 7,073 million yen, an increase of 3,003 million from a year earlier, mainly due to a decrease in notes and accounts receivable-trade.

Net cash used in investing activities increased 1,824 million yen compared to the same period a year earlier to 8,465 million yen. Major uses of cash were 7,452 million yen for the purchase of property, plant and equipment, 3,806 million yen more than in the same period a year earlier, and 1,464 million yen for purchase of shares of subsidiaries and associates.

Net cash provided by financing activities decreased by 225 million yen from a year earlier to 348 million yen. Although there was a 15,474 million yen of repayment of long-term loans payable (increased 10,190 million yen from the same period a year earlier), major contributor was a 16,544 million yen of proceeds from long-term loans payable (increased 15,720 million yen from a year earlier).

(3) An explanation of future, predictive data, such as consolidated earnings forecasts

The previous consolidated earnings forecast for the fiscal year ending March 31, 2017 announced on May 10, 2016 have been revised.

Revised forecast for the fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
Previous forecast (A)	Million yen 300,000	Million yen 7,500	Million yen 9,000	Million yen 7,000	Yen 50.68
Revised forecast (B)	280,000	5,000	3,500	(3,000)	(21.72)
Difference (B-A)	(20,000)	(2,500)	(5,500)	(10,000)	-
Difference (%)	(6.7%)	(33.3%)	(61.1%)	-	-
(Ref) Actual result of FY3/16	294,237	5,494	6,138	6,965	50.43

For more details, please refer "Notice of Revisions to Earnings Forecast" announced on November 7, 2016.

In view of the appreciation of yen, this forecast revises the assumed exchange rates to 102 yen from 105 yen to the U.S. dollar. As a result, the assumed exchange rate for the full fiscal year will be 104 yen to the U.S. dollar and 116 yen to the euro.

Distributing earnings to shareholders is one of the highest priorities of Sanden Holdings. Based on our policy of making earnings distributions in accordance with consolidated results of operations, our goal is to pay a stable and consistent dividend with a consolidated payout ratio of about 30%. We had planned to pay a year-end dividend of 15 yen per share.

However, and although this is greatly regrettable, having taken into consideration the business forecasts and the financial situation for the current fiscal year, we plan to omit payment of the year-end dividend for the fiscal year ending March 31, 2017.

2. Matters Concerning Summary Information (Items to Note)

(1) Changes in significant subsidiaries during the first half of the current fiscal year:

None

(2) Specific accounting treatment used in the creation of the quarterly consolidated financial statements

Tax expenses are calculated by multiplying net pre-tax profits for the quarter by the estimated effective tax rate. Note that the "estimated effective tax rate" is a reasonable estimation of the effective tax rate after tax effect accounting has been applied to pre-tax net profits for the consolidated fiscal year, including the first half of the current fiscal year.

Note that in the absence of any significant rationality for calculating tax expenses using an estimated effective tax rate, the expenses should be calculated according to Section 12 (How to Apply the Legally-Designated Effective Tax Rate) of the "Practical Guidelines for the Application of Tax Effect Accounting in Interim Financial Statements etc."

Note that adjustments to income tax etc. are shown as included in total income taxes etc.

3. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	Second quarter ended Sep. 2016 (As of September 30, 2016)
ASSETS		
Current assets		
Cash and deposits	17,491	15,259
Notes and accounts receivable - trade	85,403	75,131
Merchandise and finished goods	25,225	21,627
Work in process	8,563	10,043
Raw materials	13,968	10,785
Other inventories	2,828	2,913
Deferred tax assets	2,359	2,601
Accounts receivable - other	6,062	4,656
Consumption taxes receivable	4,581	3,195
Other	8,340	6,627
Allowance for doubtful accounts	(1,863)	(1,996)
Total current assets	172,961	150,844
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	22,713	21,024
Machinery, equipment and vehicles, net	27,495	27,863
Tools, furniture and fixtures, net	6,371	5,594
Land	18,697	18,838
Leased assets, net	6,334	5,778
Construction in progress	7,943	4,602
Total property, plant and equipment	89,555	83,702
Intangible assets		
Goodwill	401	331
Leased assets	115	150
Other	4,389	4,087
Total intangible assets	4,906	4,568
Investments and other assets		
Investment securities	29,203	28,065
Net defined benefit asset	115	115
Deferred tax assets	2,765	2,716
Other	1,994	2,083
Allowance for doubtful accounts	(177)	(110)
Total investments and other assets	33,901	32,869
Total noncurrent assets	128,363	121,141
Total assets	301,325	271,985

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	Second quarter ended Sep. 2016 (As of September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	56,107	49,771
Short-term loans payable	52,873	51,980
Current portion of long-term loans payable	20,447	23,687
Accounts payable - other	11,206	6,093
Lease obligations	1,551	1,607
Income taxes payable	681	580
Provision for bonuses	4,279	2,950
Provision for sales rebates	863	1,081
Provision for product warranties	1,793	3,273
Deferred tax liabilities	6	-
Other	8,783	11,179
Total current liabilities	158,593	152,205
Non-current liabilities		
Long-term loans payable	55,621	51,062
Lease obligations	4,800	4,219
Deferred tax liabilities	305	879
Net defined benefit liability	3,452	3,486
Provision for directors' retirement benefits	179	112
Provision for environmental expenses	372	315
Provision for share-based compensation	49	83
Other	2,445	2,506
Total non-current liabilities	67,228	62,666
Total liabilities	225,821	214,871
Net assets		
Shareholders' equity		
Capital stock	11,037	11,037
Capital surplus	3,747	3,747
Retained earnings	54,021	44,728
Treasury shares	(1,221)	(1,207)
Total shareholders' equity	67,584	58,305
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,496	2,595
Deferred gains or losses on hedges	(147)	(33)
Foreign currency translation adjustment	1,464	(7,238)
Remeasurements of defined benefit plans	(1,299)	(1,335)
Total accumulated other comprehensive income	2,513	(6,012)
Non-controlling interests	5,405	4,820
Total net assets	75,503	57,113
Total liabilities and net assets	301,325	271,985

(2) Statements of quarterly consolidated income and consolidated comprehensive income
Quarterly consolidated statement of income
First half of the fiscal year

(Million yen)

	First half ended September 2015 (April 1, 2015 – Sep. 30, 2015)	First half ended September 2016 (April 1, 2016 – Sep. 30, 2016)
Net sales	149,587	138,116
Cost of sales	123,755	114,593
Gross profit	25,831	23,522
Selling, general and administrative expenses	23,589	24,486
Operating income (loss)	2,242	(964)
Non-operating income		
Interest income	40	31
Dividend income	105	99
Share of profit of entities accounted for using equity method	2,317	1,666
Other	472	350
Total non-operating income	2,935	2,148
Non-operating expenses		
Interest expenses	1,380	1,134
Foreign exchange losses	67	2,583
Other	454	597
Total non-operating expenses	1,902	4,315
Ordinary income (loss)	3,276	(3,132)
Extraordinary income		
Gain on sales of non-current assets	410	115
Insurance income	-	470
Other	60	47
Total extraordinary income	471	632
Extraordinary losses		
Loss on disposal of non-current assets	270	146
Market measures cost	-	1,490
Early extra retirement payments	-	1,993
Other	20	369
Total extraordinary losses	291	3,998
Profit (loss) before income taxes	3,456	(6,498)
Income taxes	867	378
Profit (loss)	2,588	(6,876)
Profit attributable to non-controlling interests	246	331
Profit (loss) attributable to owners of parent	2,341	(7,208)

Quarterly consolidated statements of comprehensive income
 First half of the fiscal year

(Million yen)

	First half ended September 2015 (April 1, 2015 – Sep. 30, 2015)	First half ended September 2016 (April 1, 2016 – Sep. 30, 2016)
Profit (loss)	2,588	(6,876)
Other comprehensive income		
Valuation difference on available-for-sale securities	47	97
Deferred gains or losses on hedges	39	114
Foreign currency translation adjustment	(40)	(6,303)
Remeasurements of defined benefit plans	221	(36)
Share of other comprehensive income of entities accounted for using equity method	(431)	(3,300)
Total other comprehensive income	(164)	(9,429)
Comprehensive income	2,424	(16,306)
Comprehensive income attributable to owners of parent	2,129	(15,733)
Comprehensive income attributable to non-controlling interests	295	(572)

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half ended September 2015 (April 1, 2015 – Sep. 30, 2015)	First half ended September 2016 (April 1, 2016 – Sep. 30, 2016)
Cash flows from operating activities		
Profit (loss) before income taxes	3,456	(6,498)
Depreciation	6,198	5,927
Increase (decrease) in provision for bonuses	(639)	(1,170)
Increase (decrease) in allowance for doubtful accounts	4	276
Increase (decrease) in provision for product warranties	13	1,615
Interest and dividend income	(146)	(130)
Interest expenses	1,380	1,134
Share of (profit) loss of entities accounted for using equity method	(2,317)	(1,666)
Insurance income	-	(470)
Early extra retirement payments	-	1,993
Decrease (increase) in notes and accounts receivable - trade	3,014	4,455
Decrease (increase) in inventories	(1,229)	1,367
Decrease (increase) in accounts receivable - other	67	672
Decrease (increase) in consumption taxes refund receivable	30	522
Increase (decrease) in notes and accounts payable - trade	(3,255)	(4,724)
Increase (decrease) in accounts payable - other	(2,075)	(2,006)
Increase (decrease) in accrued expenses	1,556	1,684
Other	483	4,233
Subtotal	6,542	7,215
Interest and dividend income received	976	2,197
Interest expenses paid	(1,385)	(1,143)
Proceeds from insurance income	-	340
Contribution paid on transferring to defined contribution pension plan	(1,394)	(1,287)
Income taxes paid	(669)	(249)
Net cash provided by operating activities	4,070	7,073
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,646)	(7,452)
Proceeds from sales of property, plant and equipment	764	233
Purchase of intangible assets	(556)	(246)
Purchase of investment securities	(11)	(10)
Payments for investments in capital of subsidiaries and associates	(3,050)	(1,464)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	166
Other	(140)	309
Net cash provided by (used in) investing activities	(6,640)	(8,465)

(Million yen)

	First half ended September 2015 (April 1, 2015 – Sep. 30, 2015)	First half ended September 2016 (April 1, 2016 – Sep. 30, 2016)
Cash flows from financing activities		
Net increase in short-term loans payable	7,382	2,114
Proceeds from long-term loans payable	823	16,544
Repayments of long-term loans payable	(5,283)	(15,474)
Repayments of lease obligations	(960)	(743)
Purchase of treasury shares	(485)	(2)
Proceeds from sales of treasury shares	480	2
Cash dividends paid	(1,381)	(2,085)
Other	0	(6)
Net cash provided by financing activities	574	348
Effect of exchange rate change on cash and cash equivalents	17	(1,188)
Net increase (decrease) in cash and cash equivalents	(1,978)	(2,231)
Cash and cash equivalents at beginning of period	20,588	17,482
Cash and cash equivalents at end of period	18,609	15,250

- (4) Notes to the quarterly consolidated financial statements
(Notes to going concern assumptions)
None

(Notes on any significant change in amount of shareholders' equity)
None

(Segment information, etc.)

[Segment information]

First half of the previous fiscal year (April 1, 2015 – September 30, 2015)

1. Information concerning sales, profit & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on quarterly consolidated statement of income (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	100,999	43,038	144,038	5,548	149,587	-	149,587
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	100,999	43,038	144,038	5,548	149,587	-	149,587
Segment income (loss)	2,587	1,164	3,752	(1,509)	2,242	-	2,242

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

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

2. Information on fixed asset impairment losses by reporting segment and goodwill, etc.
None

First half of the current fiscal year (April 1, 2016 – September 30, 2016)

1. Information concerning sales, profit & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on quarterly consolidated statement of income (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	95,013	37,417	132,431	5,684	138,116	-	138,116
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	95,013	37,417	132,431	5,684	138,116	-	138,116
Segment income (loss)	619	(201)	418	(1,383)	(964)	-	(964)

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

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

2. Information on fixed asset impairment losses by reporting segment and goodwill, etc.
None

(Significant Subsequent Event)

The Company and the Sanden Real Estate Co., Ltd., a subsidiary of the Company, concluded an agreement on September 30, 2016, for the transfer of the following fixed assets which was completed on November 2, 2016.

(1) Reason for transfer

Having undertaken a review of its assets with the aim of making effective use of its management resources and of strengthening its financial standing, the Group decided to transfer the following fixed assets.

(2) Description of transferred assets

Name and address of assets	Current situation
No. 1, 245, Taito 1-chome, Taito-ku, Tokyo, and others Land 941.06 m ² Building 2,643.19 m ² (total floor area)	Offices, others

(3) Outline of the assignee counterparty

Although the assignee counterparty is a Japanese industrial company we refrain, in light of the obligation to maintain confidentiality, from disclosing the transfer price, the book value, or a summary outline of the assignee counterparty. Furthermore, there are no particulars to be specifically noted in relation to the capital relationship, personnel relations, transactional relationships, or any other circumstances relevant to the related parties in the relationship between the assignee counterparty and the Company.

(4) Schedule of transfer

(1) Contract signing date	September 30, 2016
(2) Property Delivery Date	November 2, 2016

(5) Impact on consolidated results of operations

As a result of the transfer of fixed assets, a gain on the sale of fixed assets of 2,497 million yen is expected to be recorded as extraordinary income for the current consolidated fiscal year.