

# SANDEN HOLDINGS CORPORATION

February 8, 2017

## SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF December 31, 2016

Fiscal year ending March 31, 2017

### SANDEN HOLDINGS CORPORATION

20 Kotobuki-cho, Isesaki-shi, Gunma, Japan 372-8502

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

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Scheduled filing date for quarterly report: February 9, 2017

Planned date of dividend payment: -

Supplementary briefing materials created for the quarterly report: None

Briefing sessions held on quarterly results: None

(Fractions less than ¥1 million omitted)

### 1. Consolidated Financial Results for the third quarter of current fiscal year (April 1, 2016- December 31, 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 ¥, %)	
3Q of Fiscal year ending March 31, 2017	203,141	(5.6)	(884)	-	(1,228)	-	(3,637)	-
3Q of Fiscal year ended March 31, 2016	215,114	(4.8)	1,120	(79.5)	2,794	(58.6)	1,797	(47.1)

Notes: Equity in Comprehensive Income: 3Q of Fiscal year ending March 31, 2017 (¥9,369million), (—)%  
 3Q of Fiscal year ended March 31, 2016 (¥109million), (—)%

	Net income per share basic (¥)	Net income per share diluted (¥)
3Q of Fiscal year ending March 31, 2017	(26.34)	-
3Q of Fiscal year ended March 31, 2016	13.02	-

#### (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 (¥)
3Q of Fiscal year ending March 31, 2017	281,994	64,053	20.9	427.44
Fiscal year ended March 31, 2016	301,325	75,503	23.3	507.56

Notes: Equity capital 3Q of Fiscal year ending March 31, 2017 ¥59,044million  
 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 three quarters 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 December 31, 2016:	140,331,565	As of March 31, 2016:	140,331,565
(b) Treasury shares	As of December 31, 2016:	2,196,429	As of March 31, 2016:	2,222,736
(c) Average number of shares outstanding during the first three quarters	Period ended December 31, 2016:	138,116,481	Period ended December 31, 2015:	138,116,381

\* 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 nine months of the current fiscal year led by gradual economic expansion in the developed countries. In the United States, a steady economic recovery was maintained as both employment and personal consumption continued to improve. In Europe, a gradual recovery was also sustained as the concerns about the impact of BREXIT (the withdrawal of the UK from the European Union (EU)) on the economy turned out to be limited.

Meanwhile, in Japan, the overall outlook for future prospects remained uncertain as a result of the sharp appreciation of the yen followed by depreciation, the deceleration in the economies of emerging nations and other factors.

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”.

In addition, the Company has been concentrating all of its resources to achieve ‘fundamental structural reforms’ announced on August 5, 2016 in order to further strengthen the global competitiveness of the business.

Consolidated, cumulative results for the first three quarters showed that net sales decreased 5.6% to 203,141 million yen. Although sales volume of automotive systems increased in Europe and China, the gains were negated by foreign exchange rate changes and other factors.

Despite efforts to achieve cost reduction through “Drastic Structural Reforms,” operating loss was 884 million yen; compared with operating income of 1,120 million yen in the same period of the previous fiscal year, due mainly to exchange rate fluctuation and other factors. Ordinary loss was 1,228 million yen compared with ordinary income of 2,794 million yen in the same period of the previous fiscal year. Extraordinary income and losses on liquidation of assets relating to structural reforms were booked in this period. As a result, loss attributable to owners of parent was 3,637 million yen compared with profit attributable to owners of parent of 1,797 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 2.6% year-on-year to 142,156 million yen, while operating income decreased 36.8% to 1,650 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 pause 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 CO<sub>2</sub> 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 13.8% to 52,408 million yen, and operating loss was 420 million yen, compared with operating income of 753 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 CO<sub>2</sub> 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

Assets, liabilities and net assets

Total assets were 281,994 million yen at the end of the third quarter of the current fiscal year, 19,330 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 217,941 million yen, down 7,880 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 64,053 million yen, down 11,449 million yen from the end of the previous fiscal year. This was attributable to reduction in foreign currency translation adjustments etc.

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

There is no change in the forecast for the fiscal year ending March 31, 2016 announced on November 7, 2016.

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%.

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 three quarters 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 third quarter 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)	Third quarter ended Dec. 2016 (As of December 31, 2016)
<b>ASSETS</b>		
Current assets		
Cash and deposits	17,491	11,963
Notes and accounts receivable - trade	85,403	80,503
Merchandise and finished goods	25,225	24,566
Work in process	8,563	12,425
Raw materials	13,968	11,559
Other inventories	2,828	3,161
Deferred tax assets	2,359	2,854
Accounts receivable - other	6,062	4,506
Consumption taxes receivable	4,581	2,934
Other	8,340	6,232
Allowance for doubtful accounts	(1,863)	(2,273)
Total current assets	172,961	158,435
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	22,713	20,922
Machinery, equipment and vehicles, net	27,495	27,136
Tools, furniture and fixtures, net	6,371	5,416
Land	18,697	17,913
Leased assets, net	6,334	7,537
Construction in progress	7,943	5,899
Total property, plant and equipment	89,555	84,825
Intangible assets		
Goodwill	401	294
Leased assets	115	173
Other	4,389	4,120
Total intangible assets	4,906	4,588
Investments and other assets		
Investment securities	29,203	29,283
Net defined benefit asset	115	115
Deferred tax assets	2,765	2,735
Other	1,994	2,120
Allowance for doubtful accounts	(177)	(109)
Total investments and other assets	33,901	34,144
Total noncurrent assets	128,363	123,559
Total assets	301,325	281,994

(Million yen)

	Fiscal year ended March 2016 (As of March 31, 2016)	Third quarter ended Dec. 2016 (As of December 31, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	56,107	49,943
Short-term loans payable	52,873	51,490
Current portion of long-term loans payable	20,447	24,410
Accounts payable - other	11,206	6,609
Lease obligations	1,551	1,933
Income taxes payable	681	721
Provision for bonuses	4,279	2,506
Provision for sales rebates	863	1,459
Provision for product warranties	1,793	2,761
Deferred tax liabilities	6	0
Other	8,783	11,456
Total current liabilities	158,593	153,293
Non-current liabilities		
Long-term loans payable	55,621	50,912
Lease obligations	4,800	5,588
Deferred tax liabilities	305	1,024
Net defined benefit liability	3,452	3,872
Provision for directors' retirement benefits	179	112
Provision for environmental expenses	372	355
Provision for share-based compensation	49	106
Other	2,445	2,676
Total non-current liabilities	67,228	64,647
Total liabilities	225,821	217,941
<b>Net assets</b>		
Shareholders' equity		
Capital stock	11,037	11,037
Capital surplus	3,747	3,747
Retained earnings	54,021	48,299
Treasury shares	(1,221)	(1,203)
Total shareholders' equity	67,584	61,880
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,496	3,679
Deferred gains or losses on hedges	(147)	(786)
Foreign currency translation adjustment	1,464	(4,163)
Remeasurements of defined benefit plans	(1,299)	(1,565)
Total accumulated other comprehensive income	2,513	(2,835)
Non-controlling interests	5,405	5,008
Total net assets	75,503	64,053
Total liabilities and net assets	301,325	281,994



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

(Million yen)

	First three quarters ended December 2015 (April 1, 2015 – Dec. 31, 2015)	First three quarters ended December 2016 (April 1, 2016 – Dec. 31, 2016)
Net sales	215,114	203,141
Cost of sales	178,098	167,753
Gross profit	37,015	35,388
Selling, general and administrative expenses	35,895	36,272
Operating income (loss)	1,120	(884)
Non-operating income		
Interest income	42	38
Dividend income	176	165
Foreign exchange gains	99	–
Share of profit of entities accounted for using equity method	3,211	1,907
Other	772	567
Total non-operating income	4,301	2,679
Non-operating expenses		
Interest expenses	1,980	1,669
Foreign exchange losses	–	515
Other	647	838
Total non-operating expenses	2,628	3,023
Ordinary income (loss)	2,794	(1,228)
Extraordinary income		
Gain on sales of non-current assets	457	2,668
Insurance income	–	491
Other	66	56
Total extraordinary income	524	3,217
Extraordinary losses		
Loss on disposal of non-current assets	302	238
Market measures cost	–	1,440
Early extra retirement payments	–	1,990
Other	21	593
Total extraordinary losses	324	4,263
Profit (loss) before income taxes	2,994	(2,274)
Income taxes	810	871
Profit (loss)	2,184	(3,145)
Profit attributable to non-controlling interests	386	491
Profit (loss) attributable to owners of parent	1,797	(3,637)

Quarterly consolidated statements of comprehensive income  
 First three quarters of the fiscal year

(Million yen)

	First three quarters ended December 2015 (April 1, 2015 – Dec. 31, 2015)	First three quarters ended December 2016 (April 1, 2016 – Dec. 31, 2016)
Profit (loss)	2,184	(3,145)
Other comprehensive income		
Valuation difference on available-for-sale securities	284	1,178
Deferred gains or losses on hedges	(14)	(638)
Foreign currency translation adjustment	(794)	(3,130)
Remeasurements of defined benefit plans, net of tax	253	(265)
Share of other comprehensive income of entities accounted for using equity method	(2,022)	(3,367)
Total other comprehensive income	(2,293)	(6,224)
Comprehensive income	(109)	(9,369)
Comprehensive income attributable to owners of parent	(317)	(8,986)
Comprehensive income attributable to non-controlling interests	208	(383)

- (3) 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.)

First three quarters of the previous fiscal year (April 1, 2015 – December 31, 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	145,987	60,805	206,793	8,321	215,114	-	215,114
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	145,987	60,805	206,793	8,321	215,114	-	215,114
Segment income (loss)	2,610	753	3,364	(2,243)	1,120	-	1,120

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 three quarters of the current fiscal year (April 1, 2016 – December 31, 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	142,156	52,408	194,565	8,575	203,141	-	203,141
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	142,156	52,408	194,565	8,575	203,141	-	203,141
Segment income (loss)	1,650	(420)	1,229	(2,114)	(884)	-	(884)

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