

SANDEN HOLDINGS CORPORATION

November 7, 2018

SUMMARY OF QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS AS OF September 30, 2018

Fiscal year ending March 31, 2019

SANDEN HOLDINGS CORPORATION

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

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Scheduled filing date for quarterly report: November 8, 2018

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, 2018- September 30, 2018)

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

	Net Sales (Millions of ¥, %)		Operating income (Millions of ¥, %)		Income before extraordinary items (Millions of ¥, %)		Net income (Millions of ¥, %)	
2Q of Fiscal year ending March 31, 2019	137,474	(2.8)	78	(95.7)	(463)	-	(1,184)	-
2Q of Fiscal year ended March 31, 2018	141,504	2.5	1,841	-	2,623	-	2,391	-

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ending March 31, 2019 (¥4,039million), (—)%

Notes: Equity in Comprehensive Income: 2Q of Fiscal year ended March 31, 2018 ¥2,512million, (—)%

	Net income per share basic (¥)	Net income per share diluted (¥)
2Q of Fiscal year ending March 31, 2019	(42.82)	-
2Q of Fiscal year ended March 31, 2018	86.56	-

Note: Sanden Holdings carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017. Net income per share is calculated on the assumption that this stock consolidation was implemented at the beginning of the previous fiscal year.

(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 ending March 31, 2019	280,275	46,530	14.8	1,497.92
Fiscal year ended March 31, 2018	275,649	50,957	16.4	1,633.99

Notes: Equity capital 2Q of Fiscal year ending March 31, 2019 ¥41,436million

Fiscal year ended March 31, 2018 ¥45,185million

Note: The Company has been applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 on February 16, 2018) from the beginning of the first three months ended June 30, 2018. Individual figures related to the period ended March 31, 2018 have had the accounting standards applied retroactively.

2. Dividends

	Dividend per share (¥)				
	1Q	2Q	3Q	4Q	Total
Fiscal year ended March 31, 2018	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2019	-	0.00	-	-	-
Fiscal year ending March 31, 2019 (Forecast)	-	-	-	0.00	0.00

Note: Revisions made since the most recently published dividends forecast: Yes

3. Forecast of business results for the current fiscal year (April 1, 2018-March 31, 2019)

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

	Net 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, 2019	280,000	(2.6)	3,000	(45.1)	2,000	(54.7)	500	(88.3)	18.08

Note: Revisions made since the most recently published earnings forecast: Yes

*Notes

(1) Changes in significant subsidiaries during the first quarter 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. Quarterly Consolidated Financial Statements and Important Notes - (4) Notes to the quarterly consolidated financial statements" on page 10 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)

(b) Treasury shares

(c) Average number of shares outstanding during the first quarter (cumulative)

As of September 30, 2018	28,066,313	As of March 31, 2017	28,066,313
As of September 30, 2018	403,762	As of March 31, 2017	413,024
As of September 30, 2018	27,657,096	As of September 30, 2017	27,629,408

Note: Sanden Holdings carried out the share consolidation at the ratio of 5 shares to 1 share effective October 1, 2017. Outstanding shares, Treasury shares and Average number of shares outstanding are calculated on the assumption that this stock consolidation was implemented at the beginning of the previous fiscal year.

*Summary of quarterly financial results is exempt from quarterly review.

*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

In the first half of the current fiscal year, the global economy and the Japanese economy continued to recover slowly with the support of strong capital expenditures and consumer spending. However, the outlook for the global economy is uncertain because of concerns about the effects of U.S. trade policies, increasing geopolitical risk and other reasons.

During the first half, the Sanden Group conducted many activities for achieving the targets of the ongoing four-year medium-term plan that will end in March 2021. This plan has four key initiatives: (1) Comprehensive cost transformation to improve profitability; (2) Asset efficiency enhancement to strengthen the overall financial structure; (3) Optimization of the business portfolio to create corporate value; and (4) Management system reform to achieve sustainable growth.

Despite these activities, first half sales decreased 2.8% from one year earlier to 137,474 million yen. The main reasons were a decrease in Commercial Store Systems Business sales in Japan and a decrease in automobile sales, mainly in other countries. Although there were measures to implement cost structure reforms in order to improve profitability, first half earnings were negatively impacted primarily by the decrease in sales. Operating income was down 95.7% to 78 million yen. Furthermore, due to a share of loss of entities accounted for using equity method involving an affiliated company in the Middle East and other reasons, there was an ordinary loss of 463 million yen compared with ordinary income of 2,623 million yen one year earlier and a loss attributable to owners of parent of 1,184 million yen compared with a profit of 2,391 million yen one year earlier.

Results for business segments are as follows.

A. Automotive Systems Business

The Sanden Group developed technologically advanced products that precisely matched the needs of customers and supplied products with compact size, low weight and electric motors in order to provide value for customers. First half sales and earnings decreased mainly because of lower sales in North America and China.

Segment sales decreased 1.1% to 100,240 million yen and operating income was down 30.5% to 1,459 million yen.

B. Commercial Store Systems Business

In the retail store systems sector, the Sanden Group continued to provide comprehensive ideas and solutions encompassing products, systems and services linked to customers' growth strategies and needs involving environmental issues. Sales were lower than one year earlier because of the completion of most store remodeling projects associated with the management integrations of convenience store companies in Japan.

In the vending systems sector, sales were about the same as one year earlier even though Japan's vending machine market is continuing to shrink. Performance benefited from the development of environmentally responsible vending machines and the launch of new models.

There was a loss in the first half because of the decrease in sales. However, the vending systems business continued to take many actions centered on cost cutting and improving productivity for building a stronger base of operations.

Segment sales decreased 8.9% to 32,267 million yen and there was an operating loss of 1,083 million yen compared with operating income of 568 million yen one year earlier.

(2) An explanation of Financial Condition

A. Assets, liabilities and net assets

Sanden Holdings started using Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) in the first quarter of the fiscal year. Comparisons and analysis with the previous fiscal year use figures that have been adjusted for consistency with this accounting standard.

Total assets were 280,275 million yen at the end of the first half, 4,626 million yen more than at the end of the previous fiscal year. The main reason was increases in cash and deposits and inventories.

Liabilities increased 9,052 million yen to 233,744 million yen mainly because of an increase in interest-bearing liabilities.

Net assets decreased 4,426 million yen to 46,530 million yen mainly because of a decrease in the foreign currency translation adjustment.

B. Cash flows

Cash and cash equivalents were 21,097 million yen at the end of the first half, 2,321 million yen more than at the end of the previous fiscal year.

Net cash used in operating activities was 740 million yen, compared with the negative operating cash flow of 2,305 million yen one year earlier. This was attributable mainly to a 3,453 million yen increase in inventories.

Net cash used in investing activities increased 1,022 million yen from one year earlier to 5,018 million yen. The primary use of cash was expenditures of 6,595 million yen for the purchase of property, plant and equipment.

Net cash provided by financing activities decreased 4,107 million yen from one year earlier to 8,010 million yen. There were payments of 8,925 million yen for the repayment of long-term loans payable and the redemption of bonds and proceeds of 16,729 million yen from long-term loans payable and the issuance of bonds.

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

The consolidated sales and earnings forecast and dividend forecast for the fiscal year ending on March 31, 2019 announced on May 9, 2018 has been revised as follows due to current results of operations and other reasons.

A. Revision to sales and earnings forecast

Revision of the consolidated forecast for the fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	295,000	7,000	7,000	4,000	144.74
Revised forecast (B)	280,000	3,000	2,000	500	18.08
Change (B-A)	(15,000)	(4,000)	(5,000)	(3,500)	-
Percent change (%)	(5.1)	(57.1)	(71.4)	(87.5)	-
(Ref.) Previous fiscal year (Fiscal year ended March 2018)	287,609	5,469	4,411	4,255	154.00

For more information, please see the news release dated November 7, 2018 concerning this forecast revision.

B. Revision to dividend forecast

The distribution of earnings to shareholders is an important component of the Sanden Group's management policies. The basic policy for earnings distributions is to make distributions based on consolidated results of operations and to pay a stable and consistent dividend with a consolidated payout ratio of about 30%.

Initially, the forecast for the year-end dividend for the fiscal year ending in March 2019 was 20 yen per share. However, in accordance with this dividend policy, first half results of operations and other considerations, we do not plan to pay a year-end dividend for the current fiscal year.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly consolidated balance sheets

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First half ended September 2018 (As of September 30, 2018)
ASSETS		
Current assets		
Cash and deposits	18,776	21,097
Notes and accounts receivable-trade	74,204	72,980
Merchandise and finished goods	21,895	25,475
Work in process	12,089	11,754
Raw materials	10,065	9,629
Other inventories	3,438	4,543
Accounts receivable-other	5,876	5,285
Consumption taxes receivable	4,527	6,482
Other	9,167	7,908
Allowance for doubtful accounts	(678)	(738)
Total current assets	159,363	164,418
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	21,351	21,156
Machinery, equipment and vehicles, net	23,642	25,174
Tools, furniture and fixtures, net	5,019	4,820
Land	16,883	16,808
Lease assets, net	8,144	7,695
Construction in progress	6,699	6,117
Total property, plant and equipment	81,741	81,771
Intangible assets		
Goodwill	73	37
Lease assets	177	371
Other	3,618	3,540
Total intangible assets	3,869	3,949
Investments and other assets		
Investment securities	22,960	23,013
Net defined benefit asset	118	118
Deferred tax assets	4,641	4,667
Other	6,018	5,603
Allowance for doubtful accounts	(3,064)	(3,266)
Total investments and other assets	30,674	30,135
Total noncurrent assets	116,285	115,856
Total assets	275,649	280,275

(Million yen)

	Fiscal year ended March 2018 (As of March 31, 2018)	First half ended September 2018 (As of September 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	53,483	51,763
Short-term loans payable	45,011	47,131
Current portion of bonds	712	1,225
Current portion of long-term loans payable	18,299	21,595
Accounts payable-other	11,039	10,533
Lease obligations	2,018	2,098
Income taxes payable	699	809
Provision for bonuses	3,759	3,214
Provision for sales rebates	935	828
Provision for product warranties	3,253	2,900
Provision for loss on compensation for damage	986	96
Other	10,027	13,098
Total current liabilities	150,227	155,294
Noncurrent liabilities		
Bonds payable	5,987	6,725
Long-term loans payable	56,134	59,321
Lease obligations	6,113	6,253
Deferred tax liabilities	205	230
Net defined benefit liability	3,376	3,276
Provision for environmental measures	273	248
Provision for share-based compensation	187	245
Other	2,185	2,149
Total noncurrent liabilities	74,464	78,449
Total liabilities	224,691	233,744
NET ASSETS		
Shareholders' equity		
Capital stock	11,037	11,037
Capital surplus	3,731	3,579
Retained earnings	33,703	32,360
Treasury shares	(1,126)	(916)
Total shareholders' equity	47,346	46,061
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	292	293
Deferred gains or losses on hedges	(16)	(85)
Foreign currency translation adjustment	(1,484)	(4,042)
Remeasurements of defined benefit plans	(954)	(790)
Total accumulated other comprehensive income	(2,161)	(4,625)
Non-controlling interests	5,772	5,094
Total net assets	50,957	46,530
Total liabilities and net assets	275,649	280,275

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

(Million yen)

	First half ended September 2017 (April 1, 2017 – September 30, 2017)	First half ended September 2018 (April 1, 2018 – September 30, 2018)
Net sales	141,504	137,474
Cost of sales	116,180	114,072
Gross profit	25,324	23,402
Selling, general and administrative expenses	23,482	23,323
Operating income	1,841	78
Non-operating income		
Interest income	27	34
Dividend income	94	17
Foreign exchange gains	75	1,111
Share of profit of entities accounted for using equity method	1,691	-
Other	500	367
Total non-operating income	2,389	1,531
Non-operating expenses		
Interest expenses	1,252	1,276
Share of loss of entities accounted for using equity method	-	56
Other	354	740
Total non-operating expenses	1,606	2,073
Ordinary income (loss)	2,623	(463)
Extraordinary income		
Gain on sales of non-current assets	104	203
Gain on sales of investment securities	738	63
Other	10	5
Total extraordinary income	853	273
Extraordinary losses		
Loss on disposal of non-current assets	51	104
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	-	109
Other	42	157
Total extraordinary losses	93	371
Income (loss) before income tax	3,383	(562)
Income taxes	757	793
Net Income (loss)	2,625	(1,356)
Net Income (loss) attributable to non-controlling interests	233	(171)
Net Income (loss) attributable to owners of parent	2,391	(1,184)

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

(Million yen)

	First half ended September 2017 (April 1, 2017 – September 30, 2017)	First half ended September 2018 (April 1, 2018 – September 30, 2018)
Net Income (loss)	2,625	(1,356)
Other comprehensive income		
Valuation difference on available-for-sale securities	(74)	0
Deferred gains or losses on hedges	(170)	(69)
Foreign currency translation adjustment	1,286	441
Remeasurements of defined benefit plans, net of tax	(346)	163
Share of other comprehensive income of entities accounted for using equity method	(806)	(3,220)
Total other comprehensive income	(112)	(2,683)
Comprehensive income	2,512	(4,039)
Comprehensive income attributable to owners of parent	2,362	(3,648)
Comprehensive income attributable to non-controlling interests	149	(391)

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half ended Sep. 2017 (Apr. 1, 2017 – Sep. 30, 2017)	First half ended Sep. 2018 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Income (loss) before income taxes	3,383	(562)
Depreciation	5,583	5,489
Increase (decrease) in provision for bonuses	(217)	(563)
Increase (decrease) in allowance for doubtful accounts	72	41
Increase (decrease) in provision for product warranties	(936)	(377)
Increase (decrease) in provision for loss on compensation for damage	-	(889)
Interest and dividend income	(121)	(51)
Interest expenses	1,252	1,276
Share of (profit) loss of entities accounted for using equity method	(1,691)	56
Loss on reversal of foreign currency translation adjustment incurred from liquidation of foreign subsidiaries	-	109
Decrease (increase) in notes and accounts receivable - trade	4,817	(277)
Decrease (increase) in inventories	(248)	(3,453)
Decrease (increase) in accounts receivable - other	(612)	218
Decrease (increase) in consumption taxes refund receivable	38	(1,763)
Increase (decrease) in notes and accounts payable - trade	(1,622)	(1,403)
Increase (decrease) in accounts payable - other	(5,778)	837
Increase (decrease) in accrued expenses	(258)	1,066
Other	770	(447)
Subtotal	4,432	(693)
Interest and dividend income received	619	1,518
Interest expenses paid	(1,294)	(1,300)
Income taxes paid	(2,192)	(265)
Net cash provided by (used in) operating activities	1,564	(740)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,812)	(6,595)
Proceeds from sales of property, plant and equipment	383	1,265
Purchase of intangible assets	(97)	(279)
Purchase of investment securities	(12)	(110)
Proceeds from sales of investment securities	570	742
Other	(26)	(40)
Net cash provided by (used in) investing activities	(3,995)	(5,018)

(Million yen)

	First half ended Sep. 2017 (Apr. 1, 2017 – Sep. 30, 2017)	First half ended Sep. 2018 (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	6,643	1,606
Proceeds from long-term loans payable	21,944	15,259
Repayments of long-term loans payable	(19,150)	(8,675)
Proceeds from issuance of bonds	3,700	1,469
Redemption of bonds	-	(250)
Repayments of lease obligations	(963)	(1,302)
Purchase of treasury shares	(2)	(231)
Proceeds from sales of treasury shares	48	261
Dividends paid to non-controlling interests	(106)	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(127)
Other	6	-
Net cash provided by (used in) financing activities	12,117	8,010
Effect of exchange rate change on cash and cash equivalents	92	70
Net increase (decrease) in cash and cash equivalents	9,780	2,321
Cash and cash equivalents at beginning of period	14,040	18,776
Cash and cash equivalents at end of period	23,821	21,097

(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

(Application of accounting methods specifically for consolidated quarterly financial statements)

	First half ended September 2018 (April 1, 2018 – September 30, 2018)
Calculation of taxes	Taxes are calculated by determining a reasonable estimate of the effective tax rate, after the application of tax effect accounting, for income before income taxes in the current fiscal year (including the first half). Quarterly income before income taxes is then multiplied by this estimated effective tax rate to calculate taxes. However, when the tax calculated by using the estimated effective tax rate is believed to be significantly erroneous, taxes are calculated by using Paragraph 12 (method for using the statutory effective tax rate) in Practical Guidelines for Tax Effects on Interim Financial Statements, Etc. Income taxes - deferred are included in income taxes.

(Additional Information)

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

Partial Amendments to Accounting Standards for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the first quarter of this fiscal year, and deferred tax assets are displayed in the categories of investments and other assets, and deferred tax liabilities are indicated in the categories of noncurrent liabilities.

(Segment information)

I First half of the previous fiscal year (April 1, 2017 – September 30, 2017)
Information concerning sales, income & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	101,305	35,411	136,717	4,787	141,504	-	141,504
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	101,305	35,411	136,717	4,787	141,504	-	141,504
Segment income (loss)	2,100	568	2,668	(827)	1,841	-	1,841

Notes: 1. Others includes vehicle sales, living & environment systems, electronics and other activities.

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

II First half of the current fiscal year (April 1, 2018 – September 30, 2018)
Information concerning sales, income & loss for reporting segments

(Million yen)

	Reportable segments			Others (Note 1)	Total	Adjustments	Amount on consolidated financial statements (Note 2)
	Automotive systems	Commercial store systems	Total				
Net sales							
Sales to external customers	100,240	32,267	132,507	4,967	137,474	-	137,474
Inter-segment sales or transfer balances	-	-	-	-	-	-	-
Total	100,240	32,267	132,507	4,967	137,474	-	137,474
Segment income (loss)	1,459	(1,083)	375	(297)	78	-	78

Notes: 1. Others includes vehicle sales, living & environment systems, electronics and other activities.

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