SANDEN
Delivering Excellence

ANNUAL REPORT 2016

Year ended March 31, 2016

SANDEN HOLDINGS CORPORATION

Who We Are

Sanden continues to create new values through Challenge & Innovation based on the "Environment"

The Sanden Group continues to develop and deliver products, systems, and services that provide constant satisfaction to our customers around the world.

Based on our CO_2 heat pump technology, Sanden provides eco-friendly products such as home use hot water supply systems and heaters which contribute to comfortable life.

Sanden manufactures and delivers compressors for automotive air conditioners and climate systems around the world. Our state-of-the-art technology suitable for hybrid vehicles and electric vehicles is highly evaluated by the world's leading car manufacturers.

Sanden manufactures and delivers freezing and refrigerating showcases, vending machines, and coffee servers around the world. Our products, systems, and services contribute to our customers' business growth.

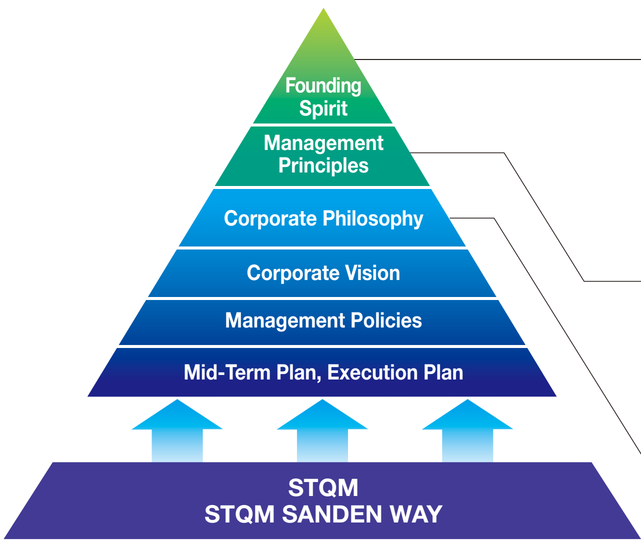
Contents

Corporate Philosophy

Sanden's Corporate Philosophy, which was adopted in 2003, systematically states our universal shared values and our basic stance. By putting this Corporate Philosophy into practice, the Sanden Group aims to attain sustainable growth and continue to be a company that is trusted by society.

Structure of the Corporate Principles

Aiming to Become "Global Excellent Companies"



Founding Spirit

"Let Us Develop with Wisdom and Prosper in Harmony"

"Let Us Develop with Wisdom and Prosper in Harmony" means that we should use our intelligence in combining our development and pioneering abilities to win prosperity for us all.

Management Principles

- **Satisfy our customers needs with high-quality products**
- **Contribute to the social and cultural improvement of the community through business activity**
- **Build a company of which all are proud, through the efforts of self-motivated employees**

These principles have served as fundamental employee action guidelines since Sanden's founding.

The Sanden Group (G-SDC) will observe the following 10 principles in full compliance with laws, regulations, and rules.

Basic Principles (Universal Values Shared by the Global Community)

1. Good Corporate Citizenship and Harmony with Society
We will grow as good corporate citizens, trusted by society and in harmony with the international community.

2. Respect for Human Rights
We will build a corporate culture founded on respect for individuals and human rights.

3. The Environment
We will endeavor to preserve the environment in every aspect of our corporate activities to ensure that future generations will inherit our beautiful, irreplaceable earth.

4. Corporate Ethics
We will conduct our corporate activities in a spirit of sincerity and fairness based on a strong sense of ethics.

5. Safety and Health
We will enable our employees to achieve a healthy lifestyle by creating an environment that assures their health and safety.

Basic Stance toward Stakeholders

6. Customers
We will stand on the admired ability of engineering development and manufacturing, and can offer products, systems, and services, based on the QUALITY FIRST, that provide constant satisfaction to our customers around the world.

7. Employees
We will grow together with our employees by creating an organizational culture that encourages free and vigorous communication imbued with a spirit of respect for humanity in line with our corporate culture of challenge and innovation.

8. Shareholders and Investors
We will respond to the trust and expectations of our shareholders and investors by expanding the Sanden Group, enhancing our corporate value and making our management more transparent.

9. Communities
We will respect regional customs and cultures around the world and contribute to the social and cultural development of the communities, which we are related with.

10. Suppliers
We will grow together with our suppliers as business partners who provide our customers with the best possible products, systems, and services on the basis of fair and transparent relationships.

All management and staff of the Sanden Group are working together to achieve Sanden's Key Strategic Goals.

Kin-ei Kanda
Director & President

Q Please review Sanden's performance in fiscal 2015.

In fiscal 2015, ended March 31, 2016, net sales were ¥294.2 billion, operating income was ¥5.5 billion, and ordinary income amounted to ¥6.1 billion. Net income attributable to owners of the parent came to a total of ¥7.0 billion.

Factors influencing net sales included expansion in automotive air-conditioning systems in China. However, lower sales of automobiles, mainly in North America and Japan, impacted our overall sales; also, the domestic market for Commercial Store Systems Business was weak. As a consequence of these conditions, changes in the market environment were greater than we had anticipated. Beginning in the current fiscal year that commenced on April 1, 2016, since we are working to achieve steady growth, we are aware that we must respond more flexibly and aggressively to changes in the business environment.

Q What were Sanden's results by business segment?

In the Automotive Systems Business, we have moved forward with the development of cutting-edge products that accurately respond to customer needs for environmentally friendly products. In this business, we offered value-added compressors that are more compact and lighter as well as systems that incorporate heat pump technology. As a result, sales in Europe and Asia held firm, supported in part by the acquisition of new business in the Chinese market. However, overall sales were adversely affected by the decline in automobile sales in North America and Japan. As a consequence, net sales decreased 1%.

Despite lower sales, operating income rose 16%. Although there was some impact from environment-related R&D investments for future development and lower sales, as a result of cost reductions through shifting to in-house production of parts and reforms in our global parts procurements structure as well as improvements in productivity, Sanden was able to report higher profitability.

In the retail store systems sector within the Commercial Store Systems Business, we offered total packages of products, systems, and services that respond to changes in environmental awareness and in lifestyles. In addition, in the vending systems sector, we aggressively developed environmentally friendly products centered around our original CO_2 heat pump vending machines and expanded the scope of business activities to new domains, including coffee servers.

Despite these initiatives, net sales declined 12% mainly due to lower domestic demand. Operating income decreased 70% in spite of cost reductions and continued thoroughgoing activities to implement business structural reforms focusing on increasing productivity.

In the Living & Environment Systems and Other Business, we moved forward with global marketing initiatives for our heat pump hot water supply system that uses CO_2 as a natural refrigerant. Moreover, we continued active capital investments in the further development of our hot water heaters and other original technologies that incorporate our environmental technologies, while also taking initiatives in expanding into new business domains.

Q What are your plans for future growth?

To maximize the corporate value of the Sanden Group, we have adopted management policies to achieve future growth with "environment" as the core, based on our robust global network and our commitment to quality.

To continue and further realize our management policies, Sanden has specified "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" as Key Strategic Goals and is taking initiatives to implement these on a groupwide basis.

Q Please explain Sanden's Key Strategic Goals more specifically.

The core focuses of the Sanden Group's R&D are CO_2 refrigerant and heat pump technologies.

Sanden selected CO_2 as the best refrigerant for a number of reasons. Its ODP (ozone depletion potential) is zero, its GWP (global warming potential) is 1, it has the lowest impact on the environment, and it is safe, with no toxic effects and is non-flammable. However, its use requires sophisticated technology because it must be used at 10 times the usual pressure for a refrigerant, and Sanden has implemented bold initiatives to commercialize its use. Sanden has been able to achieve sales growth through the development of new products that are lighter, more compact, and energy saving because of the pursuit of technologies that are above and beyond previously existing R&D.

As one initiative for corporate reforms, Sanden is accelerating its structural reforms for global procurement. Previously, to cope with foreign currency fluctuation risk and tariff barriers, optimal area procurement assuming local procurement was the mainstream approach. However, with the trend toward the elimination of tariff barriers, Sanden is now working to realize optimal global procurement through expanding the supplier network to include those with global bases.

One year has now passed since the transition to a holding company configuration, but it is already clear that delegating authority to business companies definitely speeds up decision making. In addition, the distance from our customers has diminished, and we are building relationships of trust. Going forward, we will work to strengthen the holding company functions and conduct optimal group management.

Q What is your basic policy regarding allocation of profit?

The return of profits to all our shareholders is one of the Company's key management policies. Based on providing stable dividends on a sustainable, ongoing basis and after comprehensive consideration of the Company's consolidated results, our goal is to offer dividends with around a 30% consolidated payout ratio.

Sanden continues to create new values through Challenge & Innovation based on the "Environment."

Strengthening Business Competitiveness Based on Reform of the Corporate Structure

- Implement cost-cutting activities
- Enact productivity reforms
- Increase asset efficiency

Sales Growth Centered on Environmental Technologies

- Provide unique environmental value by strengthening core technologies and the Sanden global network

Management Reforms Based on the Reform of Management Systems

- Reinforce the global workforce
- Build a stronger financial position
- Maximize group synergy through a holding company structure

Highlights of the Fiscal Year

	Millions of yen					Thousands of U.S. dollars (Note)
	FY2011	FY2012	FY2013	FY2014	**FY2015**	**FY2015**
Net sales	¥214,282	¥241,780	¥274,786	¥306,984	**¥294,237**	**$2,611,261**
Operating income (loss)	712	(896)	4,858	9,407	**5,494**	**48,757**
Net income attributable to owners of the parent	1,204	1,084	5,843	5,580	**6,965**	**61,812**
Comprehensive income	57	5,331	13,123	11,713	**2,044**	**18,139**
Total net assets	¥ 48,199	¥ 52,961	¥ 65,651	¥ 75,677	**¥ 75,503**	**$ 670,065**
Total assets	212,300	247,387	277,920	299,265	**301,325**	**2,674,165**
Net assets per share (yen and U.S. dollars)	¥ 331.08	¥ 364.35	¥ 443.68	¥ 510.80	**¥ 507.56**	**$ 4.50**
Net income per share (yen and U.S. dollars)	8.84	7.96	42.65	40.40	**50.43**	**0.44**
Capital adequacy ratio (%)	21.3%	20.1%	22.1%	23.6%	**23.3%**	
Return on equity (%)	2.7	2.3	10.5	8.5	**9.9**	
Price earnings ratio (%)	30.6	47.1	10.8	13.3	**6.4**	
Cash flows from operating activities	¥ (5,227)	¥ 3,148	¥ 18,803	¥ 16,223	**¥ 6,304**	**$ 55,946**
Cash flows from investing activities	(7,588)	(16,794)	(12,105)	(13,301)	**(14,932)**	**(132,516)**
Cash flows from financing activities	9,432	17,740	(8,675)	(2,022)	**6,066**	**53,833**
Cash and cash equivalents at end of the year	14,842	19,961	19,078	20,588	**17,482**	**155,147**
Gross profit	¥ 35,928	¥ 36,731	¥ 48,101	¥ 57,246	**¥ 53,311**	**$ 473,118**
Gross profit ratio (%)	16.8%	15.2%	17.5%	18.6%	**18.1%**	
Ratio of SG&A expenses (%)	16.4	15.6	15.7	15.6	**16.3**	
Total net assets ratio (%)	21.3	20.1	22.1	23.6	**23.3**	

Note: U.S. dollar figures are translated, for convenience only, at the rate of ¥112.68 to US$1.00, the effective rate of exchange prevailing on March 31, 2016.

Environmental Figures

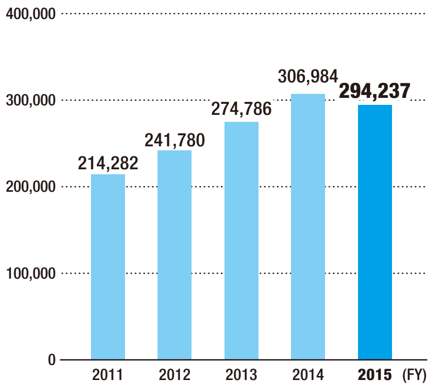
	FY2011	FY2012	FY2013	FY2014	**FY2015**
Energy usage (in GJ)	2,584,768	2,676,267	2,654,591	2,764,352	**2,803,609**
CO_2 emissions (in t-CO_2)	110,506	118,693	124,080	129,026	**130,335**

Number of Employees by Region

	FY2011	FY2012	FY2013	FY2014	**FY2015**
Japan	4,197	4,344	4,432	4,340	**4,168**
Asia-Pacific	2,685	4,879	5,449	5,901	**5,655**
Americas	1,342	1,664	1,581	1,464	**1,251**
Europe	1,647	1,672	1,818	1,810	**2,152**
Total	9,871	12,559	13,280	13,515	**13,226**

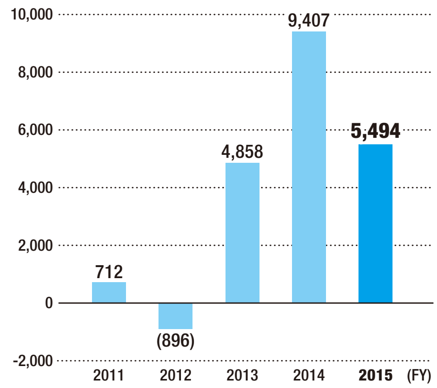
Net Sales

(Millions of yen)



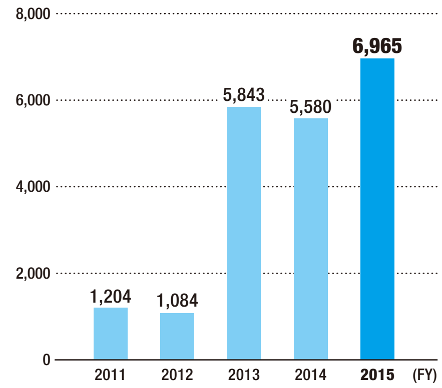
Operating Income (Loss)

(Millions of yen)



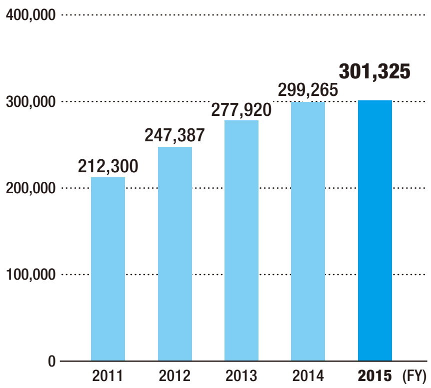
Net Income Attributable to Owners of the Parent

(Millions of yen)



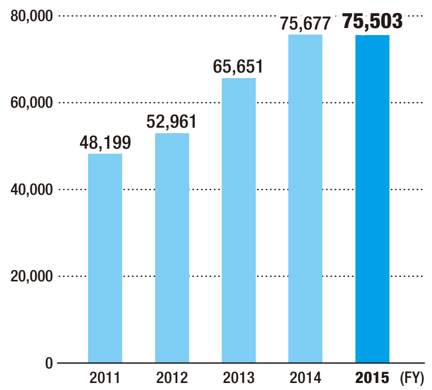
Total Assets

(Millions of yen)



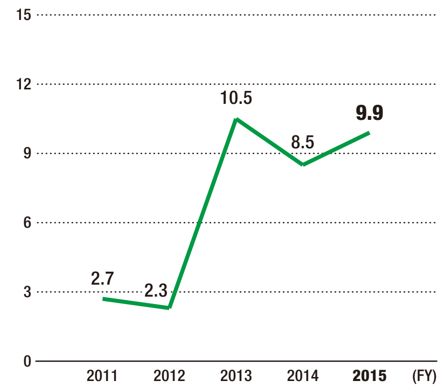
Total Net Assets

(Millions of yen)



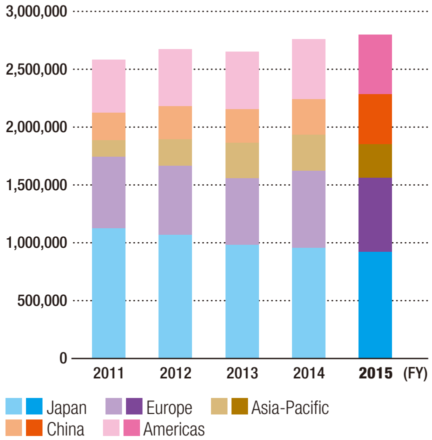
ROE

(%)



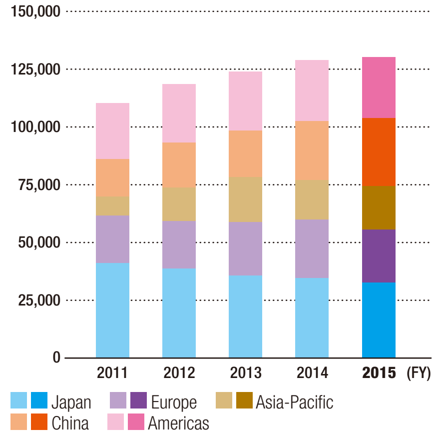
Energy Usage by Region

(GJ)



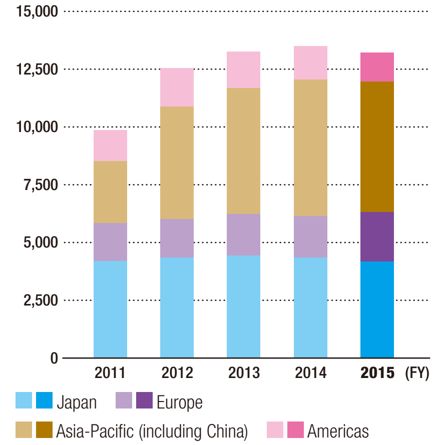
CO_2 Emissions by Region

($t\ CO_2$)

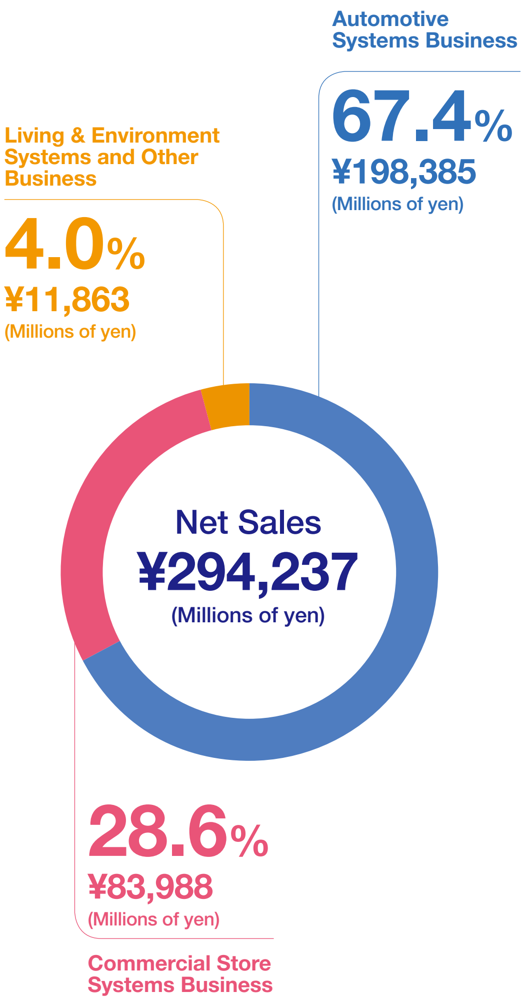


Number of Employees by Region

(Persons)



* No companies are accounted for by the equity method.

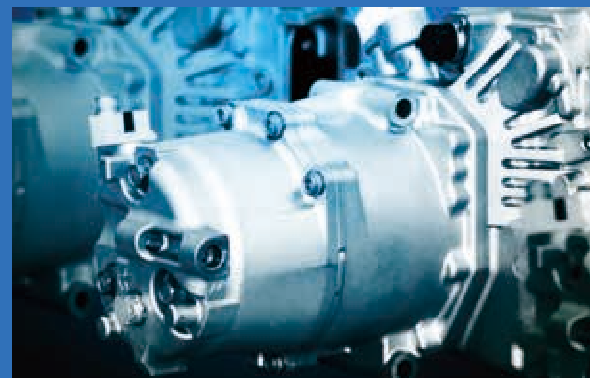


Note: Percentages have been adjusted to add to 100%.

Leveraging the power of quality and global operations to create corporate value from the environment is the core management philosophy of the Sanden Group. During the fiscal year, group companies took many actions for achieving three key strategic goals: “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 the fiscal year that ended on March 31, 2016, net sales decreased 4.2% to ¥294,237 million, operating income was down 41.6% to ¥5,494 million, ordinary income was down 40.5% to ¥6,138 million, but profit attributable to owners of parent rose 24.8% to ¥6,965 million.

Automotive Systems Business



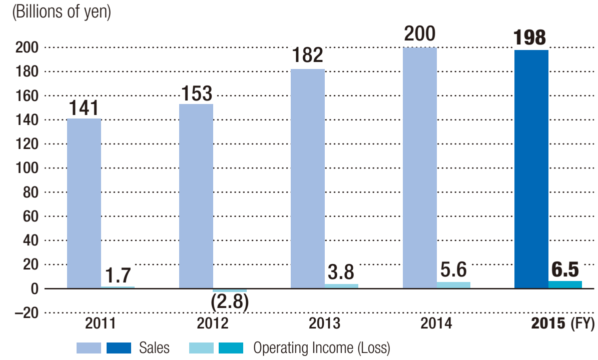
Group companies worked on developing highly advanced products that precisely target the environmental needs of customers. These activities resulted in the provision of products that provide value for customers by focusing on the themes of compact size, light weight, and heat pumps. Segment sales were firm in Europe and Asia and new business in China contributed to sales growth. However, total segment sales declined because of a downturn in automobile sales in North America and Japan.

Investments to develop future environmental technologies and the decline in segment sales had a negative effect on earnings. However, segment earnings increased because of cost-cutting measures, including an increase in the internal production of parts and structural reforms for procuring parts outside Japan, and an improvement in productivity.

As a result, segment sales decreased 0.9% to ¥198,385 million and operating income increased 16.4% to ¥6,523 million.

Sales and Operating Income (Loss)

(Billions of yen)



Commercial Store Systems Business

The retail store systems sector continued to create comprehensive proposals combining products, systems, and services that reflect changes in customers' interest in environmental issues and their lifestyles. Despite these activities, a decline in demand following the growth in the previous fiscal year caused this sector's sales to decrease.

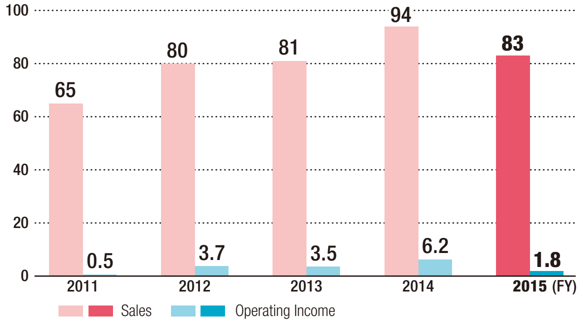
In the vending systems sector, there were extensive measures to develop environmentally responsible products, chiefly vending machines incorporating our exclusive CO_2 heat pump. We also expanded operations to include coffee servers and other new products. However, sales decreased primarily because of lower demand in Japan associated with capital expenditures.

Although we continued to use a variety of actions for improving operations in this segment, chiefly by cutting costs and boosting productivity, the decline in sales caused earnings to fall.

As a result, segment sales decreased 11.5% to ¥83,988 million and operating income was down 69.5% to ¥1,894 million.

Sales and Operating Income

(Billions of yen)



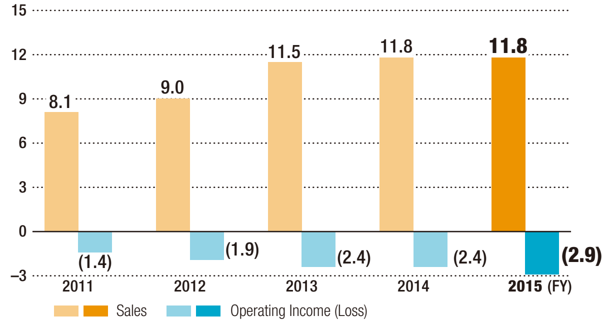
Living & Environment Systems and Other Business

Based on our core strategies for future growth, we are continuing to work on increasing sales of Eco Cute, a heat pump hot water supply system using a natural CO_2 refrigerant, on a global scale. In addition, we continued to make substantial capital expenditures for the innovative technologies needed for hot water heaters and other products that use environmental technologies. The goal of these activities is extending operations to more business domains.

Accompanying the rising awareness of the natural environment on a global scale, in recent years, many laws have been passed with aims that include not only reducing electric power consumption of products but also reducing the environmental burden over the full product life cycle. Sanden also, through further development of its lineup of products, is responding quickly to needs arising along with market growth.

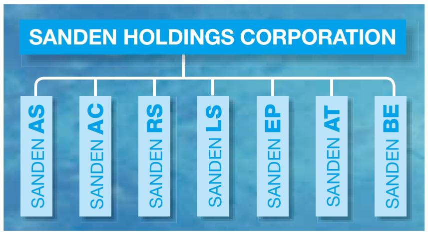
Sales and Operating Income (Loss)

(Billions of yen)



Topics

The following introduces the Company's activities from April 2015 to March 2016.



April 2015: Transformation to holding company configuration

To enhance global management functions, increase business competitiveness, strengthen new product development, and improve group management efficiency, the Company made the transformation to a holding company configuration as of April 1.


SN compressor

May 2015: Began production of compact, energy-saving compressors for car air conditioners

The Company developed a new type of variable compressor for car air conditioners and began to supply units to PSA Peugeot Citroen. Sanden Manufacturing Europe S.A.S. produces the units locally.


SandenVendo France

May 2015: New office opens in Paris, France

SandenVendo France Branch, a new office opened in Paris, France, will engage in the Commercial Store Systems Business.

Sanden Manufacturing Poland Sp.z o.o.

August 2015: New HVAC line begins production in the Polish plant

A new production line for car air conditioners of Sanden Manufacturing Poland Sp.z o.o. began production. It will supply air conditioners to truck manufacturers in Europe.

February 2016: New production line added for compressor production in the Polish plant

Sanden Manufacturing Poland Sp.z o.o. has added a second compressor production line. With two lines, the Polish plant has doubled its previous capacity.

Exhibited at Global Trade Shows

São Paulo, Brazil

Exhibit of vending machines and coffee servers at EXPO VENDING

Milan, Italy


Vending machines on display at VENDITALIA Special Exhibition

Orlando, United States

Heat pump hot water supply system on exhibit at AHR 2016 EXPO

Tokyo, Japan


Products using natural refrigerants (CO_2) at a Supermarket Trade Show

Tokyo, Japan


Introduction of heat pumps with cutting-edge technology and products using CO_2 at Eco Products 2015

The Sanden Group has established the principle that "Sanden's CSR Programs essentially put its Corporate Philosophy into practice."

There has been an increasing interest in companies' CSR activities among our stakeholders including customers worldwide. Sanden believes that it is necessary to create frameworks that can be implemented easily and formulate the content of specific action plans to further its CSR activities.

Accordingly, in fiscal 2014, Sanden established its CSR Promotion Committee.

With this committee as the focal point, the CSR issues that the Sanden Group as a whole should address are selected. Additionally, linkages are drawn between these issues and the group's Corporate Philosophy. The CSR priority issues are then established provisionally based on "analysis of importance for management" and "analysis of importance from the perspective of society."

In fiscal 2015, we prepared a mapping of the importance of related issues in each division, and, while receiving outside opinions, we have been verifying Sanden's priority CSR issues. (Please refer to "Steps toward Identification of Priority CSR Issues" shown on the right.)

Steps toward Identification of Priority CSR Issues

Step 01 Reconfirmation of the Corporate Philosophy
The 10 principles of the Corporate Philosophy (5 Universal Values Shared by the Global Community and 5 items on Sanden's Basic Stance toward Stakeholders) will be reconfirmed, and then, how these principles are being put into action in the group as a whole will be confirmed.

Step 02 Selection of CSR Items
In this step, reference will be made to international CSR standards and guidelines as they relate to the 10 principles, and the necessary CSR activities will be selected.

Step 03 Linkages between the Corporate Philosophy and CSR Items
By drawing linkages between the Corporate Philosophy and CSR items, the necessary action plans and schedules will be prepared in each business domain.

Step 04 Analysis of Materiality for Sanden Management
In this step, an analysis will be made of the importance (materiality) for Sanden management of each of the CSR items that have been selected. Consideration will be given to medium-term industry trends and analyses of Sanden's strengths and weaknesses.

Step 05 Analysis of Materiality in Light of Social Requirements
The requests and expectations of stakeholders that have been expressed to Sanden will be regarded as social requirements, and analysis will be conducted of the importance (materiality) of each of the selected CSR items.

Step 06 Identification of Priority CSR Issues
The priority CSR issues will be identified through the six-step process described above, and a report on the process and approach will be made.

CSR Activities

The Sanden Group believes that it is very important for all employees to put the content of its "Corporate Philosophy" into practice in activities every day and that putting ethics into practice is synonymous with its CSR.

June 2015/Poland

Fire Drill in Poland

Sanden Manufacturing Poland Sp.z o.o. held a "Safe With Us" event for primary school children in Polkowice. The event included a fire drill to help raise awareness of safety among the children.

June/August 2015/United States

U.S. Study Tour

Sanden International (U.S.A.) Inc. received middle school students from Isesaki City in Japan for study in the United States. Before the study tour, the students learned about the content of Sanden's business activities and its history in study meetings.

June 2015/Malaysia

Green Wave Activities in Malaysia

Tree-planting activities as part of Green Wave 2015 activities

January 2016/Japan

The First Sanden Cup Soccer Tournament

To promote sports among the children in the regions and promote vitalization of the regional community, Sanden held the First Sanden Cup soccer games in Sanden Football Park in Isesaki City, Gunma Prefecture. A total of 10 teams of primary school students in the prefecture competed in the event.

Fundamental Corporate Governance Policies

Employing the "company with auditors" model based on Japan's Corporate Law, Sanden has created a corporate governance system that includes a Board of Directors, Audit & Supervisory Board Members, an Audit & Supervisory Board, and an accounting auditor.

The Board of Directors has 13 members, including 2 outside Directors, while the Audit & Supervisory Board has 4 members, including 3 outside Audit & Supervisory Board Members.

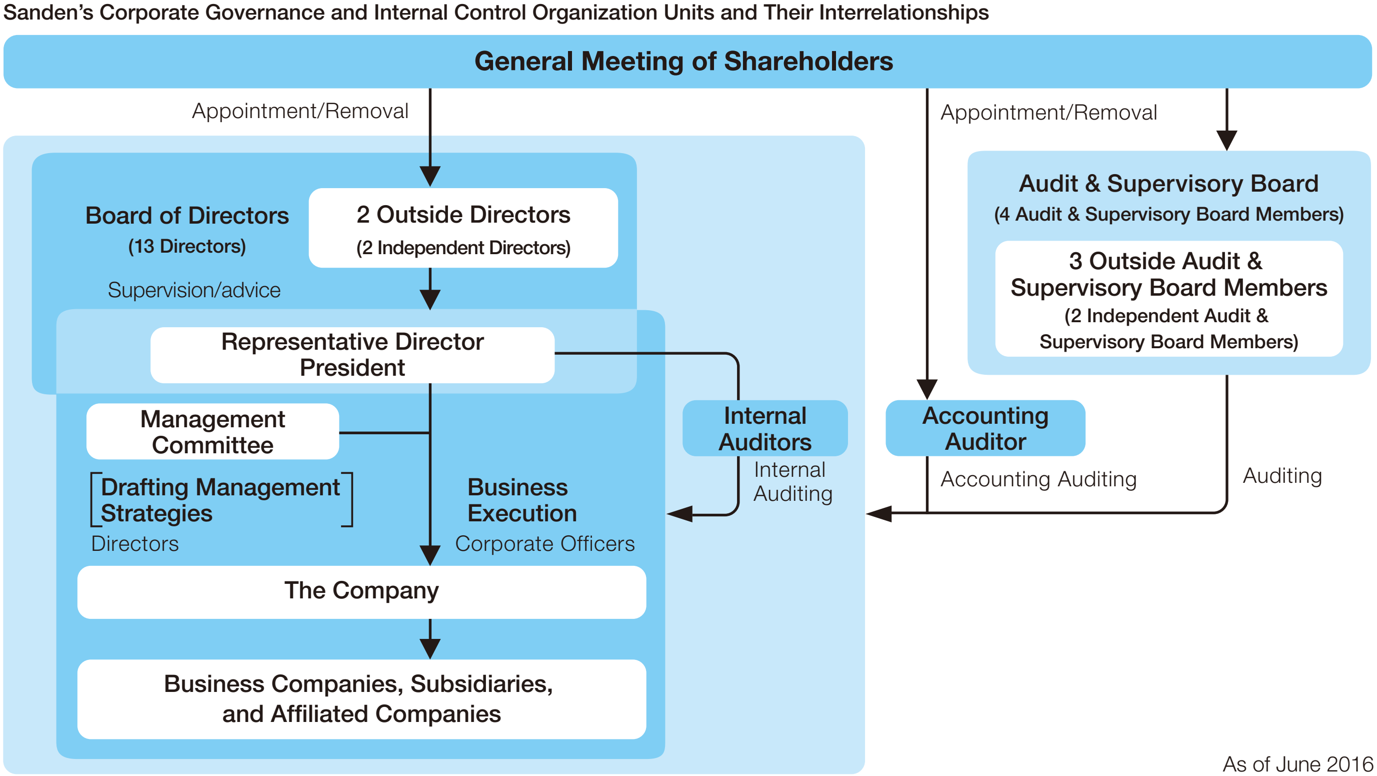
To strengthen management oversight functions, Sanden appoints fully independent outside Directors and outside Audit & Supervisory Board Members. Currently, Sanden's 4 outside executives are certified as "independent" under the Securities Listing Regulations of the Tokyo Stock Exchange. By setting Directors' terms to one year, Sanden has put in place a system to ensure management transparency and one that enables quick responses to changes in the market environment. Also, by adopting an executive officer system, the Sanden Group aims to strengthen business execution functions and increase management efficiency. Moreover, the Management Committee and Board of Directors deliberate in a timely fashion on important matters in compliance and risk management. Furthermore, by putting in place internal and external hot lines as an internal reporting system, Sanden is working to strengthen risk management, corporate ethics, and legal compliance. In view of such factors as Sanden's business category, history, and culture, the Company has judged that the current system is appropriate for the corporate governance of the Sanden Group.

The Board of Directors made an analysis of whether the Board of Directors as a whole is functioning effectively from a range of different points of view, and, using the results of this analysis, made an assessment of the status of the Board of Directors system, composition, operation, and other matters.

As a result, the assessment confirmed that the current Board of Directors was functioning effectively and recognized that there were issues related to the depth of discussions of medium- to long-term management strategy and corporate plans.

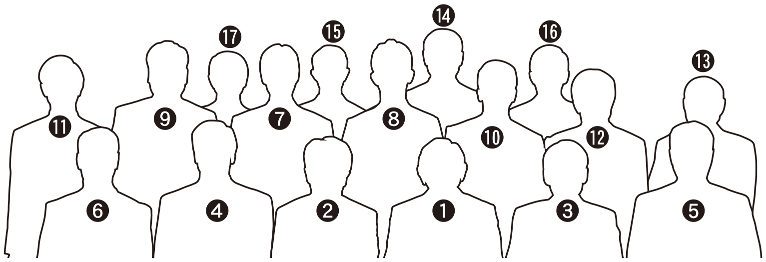
Going forward, the Company should work to make the Board of Directors more effective and take initiatives to attain sustainable growth as well as increase corporate value in the medium-to-long term.

Sanden's Corporate Governance and Internal Control Organization Units and Their Interrelationships



As of June 2016

Directors/Audit & Supervisory Board Members/Officers



DIRECTORS

1 Masayoshi Ushikubo
Director & Chairman

2 Kin-ei Kanda
Director & President

3 Tsutomu Sakakibara
Director & Vice President

4 Mark Ulfig
Director & Vice President

5 Katsuya Nishi
Director & Vice President

6 Mitsunori Kodaka
Senior Director

7 Seiji Shimazaki
Senior Director

8 Ryuhei Ushikubo
Senior Director

9 Toshio Yokomuro
Director

10 Shinji Maruyama
Director

11 Nobuhiro Umemura
Director

12 Hideto Ozaki
Director (outside)

13 Hideo Hohgi
Director (outside)

AUDIT & SUPERVISORY BOARD MEMBERS

14 Mitsugi Takahashi
Audit & Supervisory Board Member

15 Hiroshi Yomo
Audit & Supervisory Board Member (outside)

16 Ichiro Yumoto
Audit & Supervisory Board Member (outside)

17 Kazumichi Matsuki
Audit & Supervisory Board Member (outside)

OFFICERS

Shinji Ichikawa
Senior Corporate Officer

Robert Kheng
Senior Corporate Officer

Tadashi Yoshida
Senior Corporate Officer

Hiroshi Takahashi
Corporate Officer

Nobuzumi Fujii
Corporate Officer

Takashi Shimomura
Corporate Officer

Kenichi Yamamoto
Corporate Officer

Yoshihiro Saito
Corporate Officer

Takashi Nogi
Corporate Officer

Tsuneki Fujikura
Corporate Officer

Masanori Kojima
Corporate Officer

Norio Kamikura
Corporate Officer

Tetsuya Satomi
Corporate Officer

Akishi Kimura
Corporate Officer

Yuri Tsuji
Corporate Officer

As of June 2016

Management's Discussion & Analysis

Net Sales

On a consolidated basis of the Sanden Group, net sales for fiscal year 2015, ended March 31, 2016 decreased by 4.2%, or ¥12.7 billion, compared with the previous fiscal year, to ¥294.2 billion ($2,611.2 million).

First, in the Automotive Systems Business, Sanden accurately identified the needs of customers for environment-friendly products, proceeded with the development of cutting-edge items, and offered value-added products focusing especially on more compact, lighter, and more heat-pump type products. As a result, sales in Europe and Asia were firm, and higher sales were reported in newly developed markets in China. However, sales in North America and Japan were below the previous fiscal year because of the decline in automobile sales in those markets.

Regarding income, although Sanden invested in the development of environmental technologies with an eye to the future and sales decreased, as a result of shifting to more in-house production and reforms in the structure of procurement toward more global purchasing, income increased because of reduction in costs and the results of improvements in productivity.

As a result, segment sales were ¥198.3 billion ($1,760.6 million), down 0.9% from the previous fiscal year. Operating income was ¥6.5 billion ($57.8 million), representing an increase of 16.4% from the previous fiscal year.

Second, in the Retail Store Systems Sector of the Commercial Store Systems Business, Sanden continued to offer comprehensive proposals for products, systems, and services that respond to rising environmental awareness and changes in lifestyles. However, in part because the expansion in demand that occurred in the previous fiscal year paused during the fiscal year under review, sales were below the previous year.

In the Vending Systems Sector of the Commercial Store Systems Business, Sanden aggressively developed environment-friendly products, especially its unique vending machines equipped with CO_2 heat pumps, and worked to expand into new business areas, including coffee servers. However, in the domestic market, because of the downturn in capital investment, sales were below the previous fiscal year.

The segment's operating income was below the level of the previous year, despite continued initiatives to improve profitability, mainly through reduction in costs and improvements in productivity, but income declined owing to the decrease in sales.

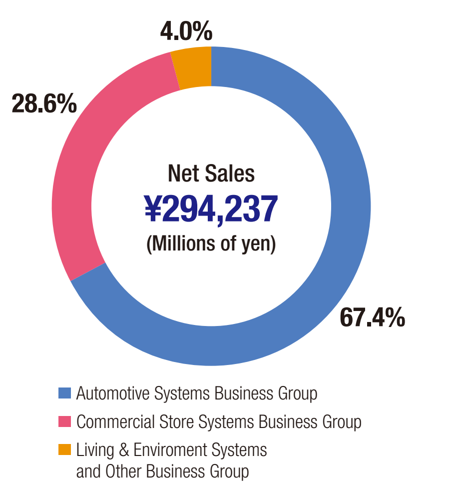
As a result, segment sales were ¥83.9 billion ($745.3 million), down 11.5% from the previous fiscal year, and operating income was ¥1.8 billion ($16.8 million), representing a decrease of 69.5% from the previous fiscal year.

In the Eco Systems and Other Products Business, in line with its priority basic strategy, Sanden is promoting the global development of sales of its "Eco Cute," natural CO_2 refrigerant heat-pump hot-water supply system products. In addition, in the field of hot-water supply systems that apply environmental technologies, Sanden is investing aggressively in the development of its own technologies and is taking initiatives to expand its business domains.

Costs, Expenses, and Earnings

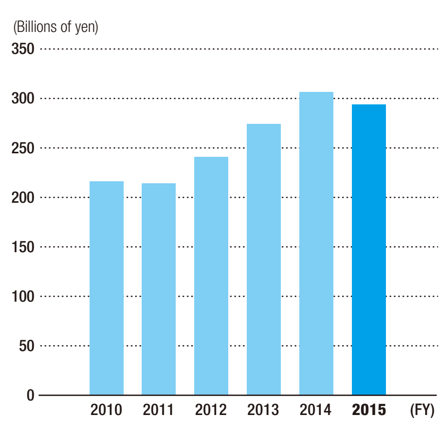
Net sales decreased by 4.2%, or ¥12.7 billion, to ¥294.2 billion ($2,611.2 million) as mentioned above. Cost of sales decreased by 3.5%, or ¥8.8 billion, compared with the previous fiscal year, to ¥240.9 billion ($2,138.1 million). Consequently, gross profit amounted to ¥53.3 billion ($473.1 million), down 6.9%, or ¥3.9 billion, and the gross profit ratio fell from 18.6% to 18.1%.

Breakdown of Net Sales

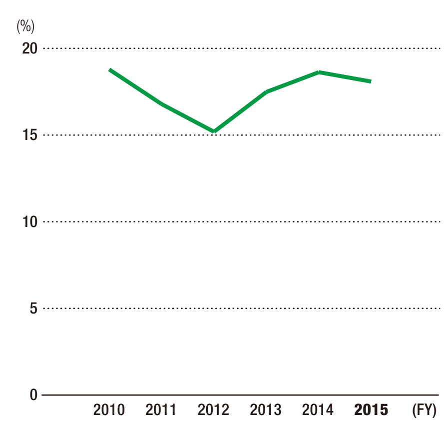


Note: Percentages have been adjusted to add to 100%.

Net Sales



Gross Profit Ratio



SG&A expenses decreased to ¥47.8 billion ($424.3 million), and the ratio of SG&A expenses to net sales rose 0.7 percentage point, to 16.3%, compared with the previous fiscal year. Research and development (R&D) expenses, which are charged to cost of sales and SG&A expenses, increased 0.4%, to ¥6.7 billion ($60.0 million). The ratio of R&D expenses to net sales rose 0.1 percentage point, to 2.3%, compared with the previous fiscal year.

Although the Company invested aggressively in the development of environmental technology concerning CO_2 compressors for future growth, the Company recorded an increase in income due to the effects of continuous improvements in productivity and product cost reduction, local production, and self-manufacture that were launched in the previous year.

Operating income amounted to ¥5.4 billion ($48.7 million), compared with ¥9.4 billion in the previous fiscal year.

Other income (expenses) amounted to a gain of ¥2.4 billion ($21.3 million), compared with a loss of ¥1.4 billion in the previous fiscal year.

As a result of the above factors, income before income taxes was ¥7.9 billion ($70.1 million), compared with ¥7.9 billion in the previous fiscal year. Net income attributable to owners of the parent amounted to ¥6.9 billion ($61.8 million), compared with ¥5.5 billion in the previous fiscal year. Return on equity was up from 8.5% to 9.9%.

Financial Position

Total assets at March 31, 2016 increased by ¥2.0 billion, to ¥301.3 billion ($2,674.1 million), mainly reflecting increases in inventory assets and the effects of changes in the ownership ratios and increases in capital in associated companies, which were partially offset by decreases in cash and deposits and decreases in notes and accounts receivable-trade.

Total liabilities rose by ¥2.2 billion, to ¥225.8 billion ($2,004.0 million), mainly reflecting an increase in interest-bearing debt and other factors, which were partially offset by a decline in notes and accounts payable-trade and other factors.

Total net assets decreased by ¥0.1 billion, to ¥75.5 billion ($670.0 million), as a result of changes in the foreign currency translation adjustment account and other factors. Thus, the total net assets ratio was 23.3%, compared with 23.6% at the end of the previous fiscal year.

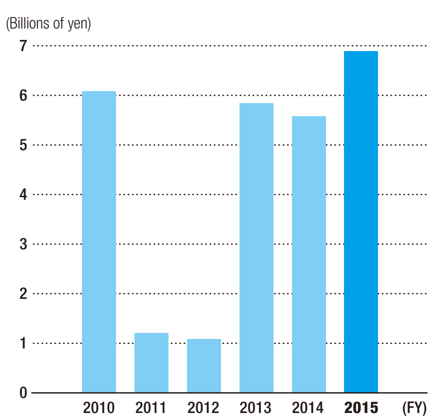
Liquidity

(1) Cash Flows

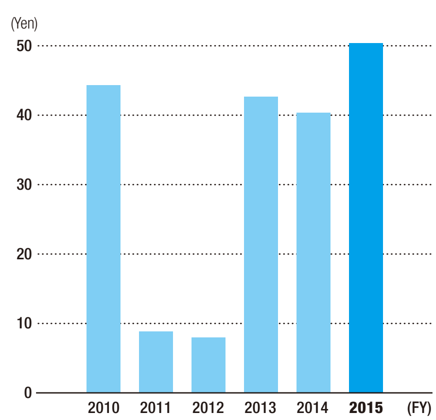
Net cash provided by operating activities for the fiscal year under review amounted to ¥6.3 billion ($55.9 million), which was ¥9.9 billion lower than the ¥16.2 billion reported in the previous fiscal year. Principal factors accounting for this were a ¥7.9 billion ($70.1 million) inflow of income before income taxes and non-controlling interests and ¥12.3 billion ($109.8 million) in depreciation and amortization expenses. These cash inflows were offset in part by an increase in inventories of ¥5.0 billion ($44.7 million) and an increase in equity in net income of unconsolidated subsidiaries and affiliates of ¥4.1 billion ($36.8 million).

Net cash used in investing activities amounted to ¥14.9 billion ($132.5 million), which was ¥1.6 billion higher than the ¥13.3 billion used in the previous year. Principal factors accounting for this were purchases of property, plant and equipment, mainly for overseas investments related to the transition to local production and in-house production.

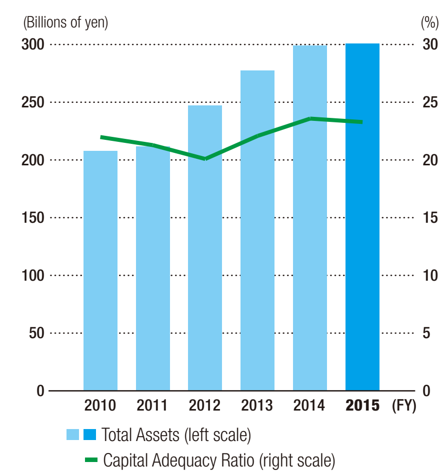
Net Income Attributable to Owners of the Parent



Net Income per Share



Total Assets/Capital Adequacy Ratio



Net cash provided by financing activities increased to ¥6.0 billion ($53.8 million). Factors accounting for this were proceeds from long-term loans payable of ¥13.9 billion ($123.8 million) and a net increase in short-term loans payable of ¥6.5 billion ($57.9 million), which were offset by the repayment of long-term loans payable of ¥10.5 billion ($93.3 million).

As a result of these cash flows, cash and cash equivalents at the end of the fiscal year were ¥17.4 billion ($155.1 million), which was ¥3.1 billion lower than the cash and cash equivalents of ¥20.5 billion at the end of the previous fiscal year.

(2) Capital Demands

The Sanden Group requires working capital primarily for the purchase of materials and parts for products manufactured by the Sanden Group, manufacturing costs, and operating expenses such as SG&A expenses.

Moreover, funds for capital investment are mainly required for enhancing both local production and self-manufacture to strengthen the global production system and developmental facilities, maintaining and renewing facilities related to streamlining, and acquiring molds for production. In the fiscal year under review, capital investments principally comprised investments related to the Group's Automotive Systems Business in Japan and overseas.

(3) Financing

With regard to financing, the Sanden Group makes decisions according to the intended use of funds as well as the timing, duration, and the region in which the funds are required.

The Sanden Group companies principally secure the required working capital by short-term bank loans. As of March 31, 2016, short-term bank loans amounted to ¥52.8 billion ($469.2 million) and were denominated primarily in Japanese yen, the U.S. dollar, and the Euro.

Funds for production facilities are obtained through long-term loans. As of March 31, 2016, long-term bank loans amounted to ¥76.0 billion ($675.0 million). A large part of the long-term bank loans was borrowed with fixed interest rates from financial institutions. It included ¥13.9 billion ($123.8 million), which was borrowed during the fiscal year under review, mainly in Japan for investment in facilities.

The Sanden Group considers interest rates, the market environment, the ratio of direct and indirect fund-raising, bond ratings, and the business situation between financial institutions and the Sanden Group when deciding on an appropriate long-term fund-raising plan.

The Sanden Group aims to maintain a firm financial position and believes the net cash provided by operating activities, indirect financing through loans and the issuance of bonds, and direct financing through the issuance of stock provide possible sources of funds for future growth.

Business and Other Risks

The following is an overview of major business and other risks faced by the Sanden Group that may significantly affect investors' decisions. The Sanden Group examines risks and takes appropriate measures to control risks. Please note that forward-looking statements below are based on Sanden Group judgments made at the end of the fiscal year under review.

(1) Economic Conditions

The Sanden Group mainly sells automotive air-conditioning systems, air-conditioner compressors, vending machines, and refrigerated showcases throughout the world. Demand for these products is affected by economic conditions in the various countries and regions in which these products are sold. In particular, automotive market trends in North America, Europe, China, and elsewhere in Asia, where we operate the Automotive Systems Business, may affect the Sanden Group's business results and financial position.

(2) Fluctuations in Exchange Rates

The Sanden Group's global operations, including its Automotive Systems Business, involve foreign currency transactions. In particular, exchange rate fluctuations in the Sanden Group's major transaction currencies, the U.S. dollar and the Euro, and currency fluctuations in China and other parts of Asia may affect the Sanden Group's business results and financial position.

In addition, the currencies stated in the financial statements of consolidated overseas subsidiaries and companies accounted for by the equity method have been translated into Japanese yen and recorded in the Company's consolidated financial statements. Therefore, the translation rate may affect net income and stockholders' equity as accounted for in the consolidated financial statements.

(3) Changes in Raw Material and Parts Market Conditions

Operations of the Automotive Systems Business and the Commercial Store Systems Business primarily involve the manufacture and supply of products and systems. As these operations involve the procurement of raw materials and parts, upswings in these markets resulting in higher manufacturing costs may affect the Sanden Group's business results and financial position.

(4) Natural Disasters

If the manufacturing and business bases of the Sanden Group suffer serious damage as a result of a natural disaster such as an earthquake, the Sanden Group's business results and financial position may be impacted by the halting of production activities and delay in the deliveries of materials and parts.

(5) New Product Development

The operations of the Automotive Systems Business and the Commercial Store Systems Business extend throughout the world and encompass the development of cutting-edge technologies and the application of those technologies to products. At times, the Sanden Group may not be able to fully predict or respond to market trends and changes, and this may have an impact on the success of product development and market introduction. These circumstances may affect the Sanden Group's business results and financial position.

(6) Potential Risks Associated with International Operations and Entry into Overseas Markets

The operations of the Automotive Systems Business and the Commercial Store Systems Business encompass development, manufacturing, and sales bases located in 23 countries and regions in North America, Europe, China, and elsewhere in Asia. Business activities in these countries and regions are subject to the following risks:

- Changes in and revisions to laws and regulations in countries in which the Sanden Group operates,
- Changes in the economic and political climate,
- Unstable political situations, including wars,
- Labor disputes, and
- Marine transport-related strikes.

Any of the aforementioned events may affect the Sanden Group's business results and financial position.

(7) Price Competition

The Sanden Group's operating conditions are marked by increasingly fierce price competition in the automobile and vending machine industries, and demands from automobile and beverage manufacturers to lower prices intensify every year.

The Sanden Group believes that its products possess a competitive advantage in terms of quality, cost, and technology. However, in the aforementioned difficult business environment, there is no guarantee of maintaining such advantages, including the supply of materials and parts, and this may affect the Sanden Group's business results and financial position.

(8) Reliance on Customer Performance

The Sanden Group provides products to automobile and beverage manufacturers around the world. Therefore, customer performance and other factors that are beyond the control of the management of the Sanden Group may affect the Group's business results and financial position.

(9) Limitations on Intellectual Property Protection

The Sanden Group has accumulated a wide range of proprietary technologies, know-how, and other intellectual property through its development activities over the long period since its establishment. Legal restrictions in certain regions may prevent the Sanden Group from completely protecting its intellectual property or restrain the Sanden Group from fundamentally restricting third parties to manufacture imitations of the Sanden Group's products through the use of its intellectual property.

(10) Product Liability

The Sanden Group is continuing quality control initiatives based on its Sanden Total Quality Management (STQM). However, product liability claims related to items manufactured by the Sanden Group in the past, at present, and into the future could affect the Sanden Group's business results and financial position.

(11) Legal and Regulatory Risks

The Sanden Group is subject to various governmental regulations in the countries and regions in which it operates, including those related to business investment permits, export restrictions, taxation, the environment, and other matters. In the event that these regulations are changed or new regulations are introduced, this could affect the Sanden Group's business results and financial position.

(12) Financial Covenants of Fund Procurement

The Company has entered into syndicated loan contracts with several financial institutions for stable funding procurement, and such contracts included certain financial covenants. If the Sanden Group breaches such provisions, such loans may be accelerated, which may, in turn, affect the Sanden Group's financial condition. As described in Note 9 to the consolidated financial statements, the Sanden Group has not breached any of these provisions.

Consolidated Balance Sheets

Sanden Holdings Corporation and Consolidated Subsidiaries
March 31, 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash and time deposits (Notes 6, 9 and 15)	**¥ 17,491**	¥ 20,597	**$ 155,227**
Receivables (Notes 6 and 9):			
Trade notes and accounts	**62,593**	62,998	**555,493**
Unconsolidated subsidiaries and affiliates	**23,374**	25,399	**207,436**
Other	**5,498**	4,189	**48,793**
Allowance for doubtful accounts	**(1,863)**	(1,941)	**(16,533)**
Inventories (Notes 3 and 9)	**50,585**	47,419	**448,926**
Deferred income taxes (Note 5)	**2,359**	2,735	**20,935**
Prepaid expenses and other current assets	**12,922**	12,349	**114,678**
Total current assets	**172,961**	173,749	**1,534,975**
Investments and other assets:			
Investment securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	**21,343**	13,194	**189,412**
Other	**7,860**	12,565	**69,755**
Net defined benefit asset (Note 8)	**115**	62	**1,020**
Deferred income taxes (Note 5)	**2,765**	2,191	**24,538**
Intangible assets	**4,906**	4,823	**43,539**
Other	**1,816**	1,828	**16,116**
Total investments and other assets	**38,808**	34,666	**344,408**
Property, plant and equipment, at cost (Note 9)**:**			
Land	**18,697**	19,246	**165,930**
Buildings and structures	**62,489**	64,096	**554,570**
Machinery and equipment	**105,423**	111,930	**935,596**
Furniture and fixtures	**42,640**	37,518	**378,416**
Lease assets	**20,885**	20,140	**185,347**
Construction in progress	**7,943**	5,123	**70,491**
Total	**258,079**	258,054	**2,290,370**
Accumulated depreciation	**(168,523)**	(167,205)	**(1,495,589)**
Net property, plant and equipment	**89,555**	90,849	**794,772**
Total assets	**¥301,325**	¥299,265	**$2,674,165**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term bank loans (Notes 6 and 9)	**¥ 52,873**	¥ 47,937	**$ 469,231**
Long-term debt due within one year (Notes 6 and 9)	**20,447**	10,754	**181,460**
Payables (Note 6):			
Trade notes and accounts	**55,019**	56,907	**488,276**
Unconsolidated subsidiaries and affiliates	**1,101**	1,142	**9,771**
Other	**11,193**	11,302	**99,334**
Income taxes payable (Notes 5 and 6)	**681**	828	**6,043**
Accrued employees' bonuses	**4,279**	4,509	**37,974**
Accrued liabilities	**2,657**	3,409	**23,580**
Lease obligations due within one year (Notes 6 and 9)	**1,551**	1,325	**13,764**
Deferred income taxes (Note 5)	**6**	—	**53**
Other current liabilities	**8,783**	7,805	**77,946**
Total current liabilities	**158,593**	145,923	**1,407,463**
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 9)	**55,621**	62,962	**493,619**
Net defined benefit liability (Note 8)	**3,452**	3,657	**30,635**
Officers' retirement benefits	**179**	179	**1,588**
Deferred income taxes (Note 5)	**305**	2,017	**2,706**
Lease obligations due after one year (Notes 6 and 9)	**4,800**	4,755	**42,598**
Other noncurrent liabilities (Note 13)	**2,867**	4,091	**25,443**
Total long-term liabilities	**67,228**	77,663	**596,627**
Contingent liabilities (Note 12)			
Net assets (Note 10)**:**			
Stockholders' equity:			
Common stock:			
Authorized: 396,000,000 shares			
Issued: 140,331,565 shares	**11,037**	11,037	**97,949**
Capital surplus	**3,747**	4,453	**33,253**
Retained earnings	**54,021**	48,438	**479,419**
Treasury stock, at cost: 2,222,736 and 2,208,161 shares in 2016 and 2015, respectively	**(1,221)**	(1,190)	**(10,835)**
Total stockholders' equity	**67,584**	62,739	**599,787**
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities, net of taxes	**2,496**	4,625	**22,151**
Unrealized gains (losses) on hedging derivatives, net of taxes	**(147)**	(102)	**(1,304)**
Foreign currency translation adjustments	**1,464**	4,934	**12,992**
Remeasurements of defined benefit plans, net of taxes	**(1,299)**	(1,642)	**(11,528)**
Total accumulated other comprehensive income	**2,513**	7,814	**22,302**
Non-controlling interests in consolidated subsidiaries	**5,405**	5,123	**47,967**
Total net assets	**75,503**	75,677	**670,065**
Total liabilities and net assets	**¥301,325**	¥299,265	**$2,674,165**

See accompanying notes.

Consolidated Statements of Income

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net sales (Note 19)	**¥294,237**	¥306,984	**$2,611,261**
Cost of sales	**240,926**	249,738	**2,138,143**
Gross profit	**53,311**	57,246	**473,118**
Selling, general and administrative expenses (Note 20)	**47,816**	47,838	**424,352**
Operating income (Note 19)	**5,494**	9,407	**48,757**
Other income (expenses):			
Interest and dividend income	**237**	226	**2,103**
Exchange gains (losses), net	**(1,248)**	1,343	**(11,075)**
Equity in net income of affiliates	**4,147**	2,518	**36,803**
Interest expense	**(2,585)**	(2,687)	**(22,941)**
Allowance for doubtful accounts	**—**	(823)	**—**
Taxes and dues	**(486)**	(334)	**(4,313)**
Gain (loss) on sales and disposals of property, plant and equipment, net	**218**	(1,008)	**1,934**
Loss on antitrust law	**—**	(385)	**—**
Extraordinary product warranty cost	**—**	(896)	**—**
Other, net	**2,128**	629	**18,885**
Other income (expenses)	**2,410**	(1,418)	**21,388**
Income before income taxes	**7,905**	7,988	**70,154**
Income taxes (Note 5)**:**			
Current	**1,196**	1,280	**10,614**
Deferred	**(987)**	629	**(8,759)**
Total income taxes	**208**	1,909	**1,845**
Net income	**7,696**	6,078	**68,299**
Net income attributable to non-controlling interests	**731**	498	**6,487**
Net income attributable to owners of the parent	**¥ 6,965**	¥ 5,580	**$ 61,812**

	Yen		U.S. dollars (Note 1)
	2016	2015	**2016**
Amounts per share of common stock:			
Net income:			
Basic	**¥ 50.43**	¥ 40.40	**$ 0.44**
Diluted	**—**	—	**—**
Cash dividends applicable to the year	**¥ 15.00**	¥ 10.00	**$ 0.13**

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net income	**¥7,696**	¥ 6,078	**$68,299**
Other comprehensive income (Note 11):			
Net unrealized gains (losses) on securities, net of taxes	**(2,111)**	2,085	**(18,734)**
Unrealized gains (losses) on hedging derivatives, net of taxes	**(44)**	(80)	**(390)**
Foreign currency translation adjustments	**(2,831)**	3,121	**(25,124)**
Remeasurements of defined benefit plans, net of taxes	**343**	(1,062)	**3,044**
Share of other comprehensive income of affiliates accounted for using equity method	**(1,007)**	1,571	**(8,936)**
Total other comprehensive income	**(5,652)**	5,634	**(50,159)**
Comprehensive income	**¥2,044**	¥11,713	**$18,139**
Total comprehensive income attributable to:			
Owners of the parent	**¥1,664**	¥10,656	**$14,767**
Non-controlling interests	**380**	1,056	**3,372**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen											
	Stockholders' equity					Accumulated other comprehensive income						
As of March 31, 2015	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥11,037	¥4,453	¥44,239	¥(1,178)	¥58,553	¥2,532	¥ (22)	¥ 807	¥ (579)	¥2,738	¥4,359	¥65,651
Net income attributable to owners of the parent	—	—	5,580	—	5,580	—	—	—	—	—	—	5,580
Cash dividends paid (¥10.00 per share)	—	—	(1,382)	—	(1,382)	—	—	—	—	—	—	(1,382)
Increase in net unrealized gains (losses) on securities, net of taxes	—	—	—	—	—	2,093	—	—	—	2,093	—	2,093
Decrease due to changes in fair value of hedging derivatives	—	—	—	—	—	—	(80)	—	—	(80)	—	(80)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	4,126	—	4,126	—	4,126
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	(1,062)	(1,062)	—	(1,062)
Increase in non-controlling interests	—	—	—	—	—	—	—	—	—	—	764	764
Disposal of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Acquisition of treasury stock	—	—	—	(12)	(12)	—	—	—	—	—	—	(12)
Balance at end of year	¥11,037	¥4,453	¥48,438	¥(1,190)	¥62,739	¥4,625	¥(102)	¥4,934	¥(1,642)	¥7,814	¥5,123	¥75,677

	Millions of yen											
	Stockholders' equity					Accumulated other comprehensive income						
As of March 31, 2016	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥11,037	¥4,453	¥48,438	¥(1,190)	¥62,739	¥4,625	¥(102)	¥4,934	¥(1,642)	¥7,814	¥5,123	¥75,677
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**(731)**	**—**	**—**	**(731)**	**—**	**—**	**—**	**—**	**—**	**—**	**(731)**
Net income attributable to owners of the parent	**—**	**—**	**6,965**	**—**	**6,965**	**—**	**—**	**—**	**—**	**—**	**—**	**6,965**
Cash dividends paid (¥15.00 per share)	**—**	**—**	**(1,381)**	**—**	**(1,381)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,381)**
Increase in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**(2,128)**	**—**	**—**	**—**	**(2,128)**	**—**	**(2,128)**
Decrease due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**(44)**	**—**	**—**	**(44)**	**—**	**(44)**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,470)**	**—**	**(3,470)**	**—**	**(3,470)**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**343**	**343**	**—**	**343**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**281**	**281**
Disposal of treasury stock	**—**	**24**	**—**	**456**	**481**	**—**	**—**	**—**	**—**	**—**	**—**	**481**
Acquisition of treasury stock	**—**	**—**	**—**	**(488)**	**(488)**	**—**	**—**	**—**	**—**	**—**	**—**	**(488)**
Balance at end of year	**¥11,037**	**¥3,747**	**¥54,021**	**¥(1,221)**	**¥67,584**	**¥2,496**	**¥(147)**	**¥1,464**	**¥(1,299)**	**¥2,513**	**¥5,405**	**¥75,503**

	Thousands of U.S. dollars (Note 1)											
	Stockholders' equity					Accumulated other comprehensive income						
As of March 31, 2016	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	$97,949	$39,518	$429,872	$(10,560)	$556,789	$41,045	$ (905)	$43,787	$(14,572)	$69,346	$45,465	$671,609
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**(6,487)**	**—**	**—**	**(6,487)**	**—**	**—**	**—**	**—**	**—**	**—**	**(6,487)**
Net income attributable to owners of the parent	**—**	**—**	**61,812**	**—**	**61,812**	**—**	**—**	**—**	**—**	**—**	**—**	**61,812**
Cash dividends paid ($0.13 per share)	**—**	**—**	**(12,255)**	**—**	**(12,255)**	**—**	**—**	**—**	**—**	**—**	**—**	**(12,255)**
Increase in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**(18,885)**	**—**	**—**	**—**	**(18,885)**	**—**	**(18,885)**
Decrease due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**(390)**	**—**	**—**	**(390)**	**—**	**(390)**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(30,795)**	**—**	**(30,795)**	**—**	**(30,795)**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,044**	**3,044**	**—**	**3,044**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,493**	**2,493**
Disposal of treasury stock	**—**	**212**	**—**	**4,046**	**4,268**	**—**	**—**	**—**	**—**	**—**	**—**	**4,268**
Acquisition of treasury stock	**—**	**—**	**—**	**(4,330)**	**(4,330)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,330)**
Balance at end of year	**$97,949**	**$33,253**	**$479,419**	**$(10,835)**	**$599,787**	**$22,151**	**$(1,304)**	**$12,992**	**$(11,528)**	**$22,302**	**$47,967**	**$670,065**

See accompanying notes.

Consolidated Statements of Cash Flows

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Cash flows from operating activities:			
Income before income taxes	**¥ 7,905**	¥ 7,988	**$ 70,154**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**12,374**	11,694	**109,815**
Amortization of goodwill	**166**	160	**1,473**
Equity in net income of unconsolidated subsidiaries and affiliates	**(4,147)**	(2,518)	**(36,803)**
Loss (gain) on sales and disposals of property, plant and equipment, net	**(218)**	1,008	**(1,934)**
Decrease (increase) in assets:			
Trade accounts and notes receivable	**(1,147)**	(6,181)	**(10,179)**
Inventories	**(5,045)**	852	**(44,772)**
Accounts receivable–other	**(1,043)**	(1,191)	**(9,256)**
Allowance for doubtful accounts	**10**	964	**88**
Other current assets	**(430)**	1,431	**(3,816)**
Increase (decrease) in liabilities:			
Trade accounts and notes payable	**(592)**	1,509	**(5,253)**
Accrued employees' bonuses	**(165)**	803	**(1,464)**
Accounts payable–other	**(874)**	1,493	**(7,756)**
Other current liabilities and long-term liabilities	**184**	(539)	**1,632**
Income taxes paid	**(1,762)**	(896)	**(15,637)**
Other, net	**1,090**	(355)	**9,673**
Net cash flows from operating activities	**6,304**	16,223	**55,946**
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(11,141)**	(12,353)	**(98,872)**
Proceeds from sale of property, plant and equipment	**1,690**	686	**14,998**
Purchases of intangible assets	**(950)**	(1,092)	**(8,430)**
Other, net	**(4,530)**	(542)	**(40,202)**
Net cash flows from investing activities	**(14,932)**	(13,301)	**(132,516)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**6,528**	3,817	**57,933**
Proceeds from long-term debt	**13,960**	12,274	**123,890**
Repayment of long-term debt	**(10,516)**	(15,050)	**(93,326)**
Repayment of lease obligations	**(1,713)**	(1,410)	**(15,202)**
Cash dividends paid	**(1,381)**	(1,382)	**(12,255)**
Proceeds from stock issuance to non-controlling shareholders	**—**	195	**—**
Other, net	**(811)**	(466)	**(7,197)**
Net cash flows from financing activities	**6,066**	(2,022)	**53,833**
Effect of exchange rate changes on cash and cash equivalents	**(544)**	610	**(4,827)**
Net increase (decrease) in cash and cash equivalents	**(3,106)**	1,510	**(27,564)**
Cash and cash equivalents at beginning of year	**20,588**	19,078	**182,712**
Cash and cash equivalents at end of year (Note 15)	**¥17,482**	¥20,588	**$155,147**

See accompanying notes.

Notes to Consolidated Financial Statements

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Sanden Holdings Corporation (the "Company"), a Japanese corporation, and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

The accounts of the consolidated overseas subsidiaries are prepared in accordance with either IFRS or generally accepted accounting principles in the United States ("US GAAP"), with adjustments for four specified items as applicable. Please refer to "Unification of Accounting Policies Applied to Overseas Subsidiaries for Consolidated Financial Statements" below for details. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the Japanese language statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (52 subsidiaries in 2016 and 55 subsidiaries in 2015). For the purposes of preparing the consolidated financial statements, all significant intercompany balances, transactions and unrealized profits have been eliminated.

In accordance with the Accounting Principles for Consolidated Financial Statements (the "Accounting Principles"), all companies are required to consolidate all significant investees, which are controlled through substantial ownership of majority voting rights or the existence of certain conditions.

The changes in the scope of consolidation are as follows:

Due to completion of liquidation, Sandenvendo (UK) Ltd., Vendo (Europe) Inc., and Kunshan Zhenhua Refrigerating Machine Co., Ltd. were excluded from the scope of consolidation for the year ended March 31, 2016.

Certain subsidiaries including Sanden Bright Partner Corporation are excluded from the scope of consolidation because the effect of their sales, net income or loss, total assets and retained earnings on the accompanying consolidated financial statements are immaterial.

Financial information of Tianjin Sanden Automotive Air-Conditioning Co., Ltd., Sanden Shanghai Refrigeration Co., Ltd., Sanden (Suzhou) Precision Parts Co., Ltd., Sanden Chongqing Automotive Air Conditioning Co., Ltd., Sanden Shanghai Environment Thermal Systems Corp., Sanden Mexicana, S.A. de C.V., Consorcio Teksan, S.A. de C.V., Sanden Manufacturing Mexico S.A. de C.V. and Sanden Recursos Mexico SRL. de C.V. for the fiscal year ended December 31, 2015 is included for the purpose of preparing the consolidated financial statements, with necessary adjustment for significant transactions that occurred during the period between December 31, 2015 and March 31, 2016.

Equity method—The equity method was applied to the investments in 8 affiliates in 2016 and 2015, by using financial statements for the fiscal years of each affiliate some of which differ from those of the Company. Investments in all other unconsolidated subsidiaries and affiliated companies including Sanpak Engineering Industries (PVT) Ltd. are stated at acquisition cost. These companies are not accounted for using the equity method, due to their immaterial impact on the consolidated net income and consolidated retained earnings. Earnings of such companies are recorded in the Company's books only to the extent that cash dividends are received.

Allowance for doubtful accounts—Under Japanese accounting standards for financial instruments, allowance for doubtful accounts provided by the Company and its domestic subsidiaries consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated using an experienced rate with respect to the remaining receivables.

Consolidated overseas subsidiaries have provided an allowance for doubtful accounts at the estimated amounts of possible losses.

Inventories—Inventories are principally stated at the weighted-average cost, unless the market value of inventories declines significantly and the cost is not expected to be recovered. In such cases, cost is reduced to net realizable value.

Investment securities—Investment securities held by the Company and its consolidated subsidiaries are classified as: a) equity securities issued by unconsolidated subsidiaries and affiliated companies and b) available-for-sale securities. The Company and its consolidated subsidiaries do not hold trading securities or held-to-maturity debt securities.

Equity securities issued by unconsolidated subsidiaries and affiliated companies that are not accounted for using the equity method are stated at acquisition cost and written down to its impaired value if an indication of impairment is present and the fair value is less than the cost.

Available-for-sale securities for which fair value is readily determinable are stated at market value. Unrealized gains or losses, net of taxes are posted in a separate component of net assets. Available-for-sale securities for which fair value is not readily determinable are stated at cost.

Those available-for-sale securities which are significantly impaired are written down to an estimated realizable value regardless whether the fair value is readily determinable or not.

Gains and losses on sales of available-for-sale securities are determined by using the moving average method.

Derivatives and hedges—Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains and losses in the consolidated statements of income.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the gains or losses resulting from changes in the fair value of the derivatives are recorded in accumulated comprehensive income in the consolidated balance sheets until the related gains and losses on the hedged items are recognized.

If interest rate swaps used by the Company and its consolidated domestic subsidiaries meet certain hedge criteria, the net settlement of interest under such interest rate swaps is reported as a component of interest on related hedged assets or liabilities (the "Exceptional method").

The Company and its consolidated subsidiaries use forward exchange contracts, currency swaps, interest rate swaps and commodity swaps mainly for the purpose of mitigating (i) fluctuation risk of foreign currency exchange rates with respect to receivables in foreign currency and future transactions in foreign currency, (ii) fluctuation risk of interest rates with respect to long-term debt, and (iii) fluctuation risk of commodity prices of raw materials.

The Company and its consolidated subsidiaries evaluate hedge effectiveness annually by comparing the cumulative changes in fair value of hedged items with the corresponding changes in the hedging derivatives, except for interest rate swaps to which the Exceptional method applies.

Property, plant and equipment—Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method. For the Company and its consolidated domestic subsidiaries, depreciation of assets whose acquisition costs are between ¥100 thousand and ¥200 thousand is provided using the straight-line method over three years.

Estimated useful lives are as follows:

Buildings and structures	8 to 50 years
Machinery and equipment	3 to 13 years

Goodwill and intangible assets—Goodwill is amortized over a period of five years using the straight-line method. Intangible assets are amortized using the straight-line method over the estimated useful lives.

Long-lived assets impairment—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of an asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group or the net selling price at disposition.

The impairment of assets for certain overseas subsidiaries is accounted for in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States, which requires long-lived assets and certain identifiable intangibles to be held and used by an entity to be reviewed for impairment whenever events of changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Accounting for lease transactions as lessee—For the finance leases that do not transfer ownership, the Company and its consolidated subsidiaries account for them in the same manner as usual acquisitions. Depreciation of leased assets is computed using the straight-line method over the lease period with zero residual value.

Income taxes—The provision for income taxes is computed based on pretax income included in the consolidated statements of income. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the accounting and tax basis of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets to the extent that it is no longer probable that relevant tax benefit will be realized.

Retirement benefits—The Company's consolidated subsidiaries have adopted the benefit formula basis for calculation of projected benefit obligation incurred in the current fiscal year. Prior service costs are recognized in the consolidated statements of income using the straight-line method beginning from the fiscal year in which they are incurred, over years within average residual periods of service of employees. Actuarial gains and losses are recognized in the consolidated statements of income using the straight-line method beginning from the next fiscal year after the year in which they are incurred, over years within the average residual periods of service of employees. The Company recognizes actuarial gains and losses in the fiscal year when they are incurred.

Provision for directors' stock compensation—Provision for directors' stock compensation represents the amounts for future payments of the Company's stock to directors. The provision is recognized based on the amount that is expected to be paid, which is determined using the points allocated to each director as prescribed in the Company's share delivery policy.

Foreign currency translation—Under Japanese GAAP, all receivables and payables denominated in foreign currencies are translated at the exchange rate prevailing at the year-end, and differences arising from translation are included in the consolidated statements of income.

Translation of financial statements of overseas subsidiaries—The balance sheet accounts of overseas subsidiaries and affiliated companies are translated into Japanese yen at the year-end rates. Annual revenue and expense accounts are accumulated amounts of quarterly figures that are translated at the quarterly average rates of exchange.

The increase and decrease in net assets resulting from this translation procedure were reported as foreign currency translation adjustments in other comprehensive income and non-controlling interests in consolidated subsidiaries.

Unification of Accounting Policies Applied to Overseas Subsidiaries for Consolidated Financial Statements—The Company adopted Practical Issues Task Force No. 18, entitled the "Practical Solution on Unification of Accounting Policies Applied to Overseas Subsidiaries for Consolidated Financial Statements" (as amended on March 26, 2015, "PITF No. 18").

PITF No. 18 provides as follows: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements; 2) financial statements prepared by overseas subsidiaries in accordance with either IFRS or US GAAP tentatively may be used for the consolidation process; and 3) the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(i) Amortization of goodwill
(ii) Actuarial gain and loss of defined benefit plans recognized outside profit or loss
(iii) Capitalization of intangible assets arising from development phases
(iv) Fair value measurement of investment properties and the revaluation model for property, plant and equipment, and intangible assets

Consolidated statements of cash flows—In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and highly liquid short-term investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Amounts per share—Basic net income per share of common stock is computed using the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share of common stock is computed using the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock to be issued upon the exercise of warrants. Cash dividends per share represent actual amounts declared as applicable to the respective years.

Revenue recognition—The Company and its consolidated domestic subsidiaries generate revenue principally through the sales of finished products. In the Automotive Systems Business and the Other Business, sales revenue is recognized when products are shipped and the customer takes ownership. In the Commercial Store Systems Business, sales revenue is principally recognized when products are shipped. However, certain products require installation by the Company and its consolidated domestic subsidiaries and, in such cases, sales revenue is recognized when the installation is completed.

Reclassifications—Certain previous year amounts have been reclassified to conform to the 2016 presentation to reflect the changes of importance on some accounts. This reclassification had no impact on previously reported results of operations or retained earnings.

Change in accounting policies
(Adoption of revised accounting standards for business combinations in the fiscal year ended March 31, 2016)
Effective from the fiscal year ended March 31, 2016, the Company and its consolidated domestic subsidiaries have applied “Revised Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 21, September 13, 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the fiscal year ended March 31, 2016 prospectively.

As a result of the above application, capital surplus as of March 31, 2016 decreased by ¥731 million ($6,487 thousand). Impact of this change on income before income taxes for the fiscal year ended March 31, 2016 is immaterial.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

Capital surplus in the consolidated statement of changes in net assets as of March 31, 2016 decreased by ¥731 million ($6,487 thousand).

In addition, impact on per share information is disclosed in “16. Earnings per Share.”

Additional information
(Stock remuneration plan for directors)
Based on a resolution by the meeting of the board of directors on August 7, 2015, the Company introduced a performance-linked stock compensation scheme, which employs a scheme referred to as the “Executive Compensation BIP Trust” (hereinafter, the “BIP”), for directors and corporate officers who have entered into an engagement agreement with the Company (excluding directors and corporate officers residing overseas, outside directors and part-time directors) (hereinafter, “Directors”), for the purpose of increasing their awareness of contributing to the growth in business results and corporate value in the medium-to-long term.

Accounting treatment of the trust is in line with the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc. through Trusts” (ASBJ Practical Issues Task Force No. 30, March 26, 2015).
(1) Overview of the transaction
The Company entrusts money equivalent to remuneration of Directors under the BIP. The Company’s shares will be acquired using the entrusted money and delivered to Directors based on the attainment of management objectives and their rank. Directors are eligible to receive the Company’s shares, in principle, when they retire.

(2) The remaining balance of the Company’s own stock in the trusts
The Company records the remaining balance of the Company’s own stock in the trusts as treasury stock in the section of net assets by the carrying amount (excluding the amount of ancillary expenses) in the trust. The carrying amount and the number of shares of such treasury stock as of March 31, 2016 are ¥478 million ($4,242 thousand) and 837,411 shares, respectively.

(Early adoption of implementation guidance on recoverability of deferred tax assets)
Effective from the fiscal year ended March 31, 2016, "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) is permitted to be applied. The Company and its domestic subsidiaries adopted Guidance No. 26 from the fiscal year ended March 31, 2016.

3. Inventories

The following is a summary of inventories at March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Merchandise and finished goods	**¥25,225**	¥23,304	**$223,864**
Work in process	**8,563**	6,978	**75,993**
Raw materials	**13,968**	13,894	**123,961**
Other inventories	**2,828**	3,241	**25,097**
Total	**¥50,585**	¥47,419	**$448,926**

4. Investment in Securities

The following is a summary of the acquisition costs and book values of available-for-sale securities with available fair values as of March 31, 2016 and 2015.

	Millions of yen		
	2016		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥2,464**	**¥5,859**	**¥3,394**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**¥2,464**	**¥5,859**	**¥3,394**

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥1,523**	**¥1,476**	**¥(46)**
Bonds	**300**	**298**	**(1)**
Others	**—**	**—**	**—**
Total	**¥1,823**	**¥1,775**	**¥(47)**

	Millions of yen		
	2015		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	¥4,422	¥10,837	¥6,414
Bonds	1,200	1,206	6
Others	—	—	—
Total	¥5,622	¥12,043	¥6,421

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	¥ —	¥ —	¥ —
Bonds	300	296	(3)
Others	—	—	—
Total	¥ 300	¥ 296	¥ (3)

	Thousands of U.S. dollars (Note 1)		
	2016		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$21,867**	**$51,996**	**$30,120**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**$21,867**	**$51,996**	**$30,120**

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$13,516**	**$13,099**	**$(408)**
Bonds	**2,662**	**2,644**	**(8)**
Others	**—**	**—**	**—**
Total	**$16,178**	**$15,752**	**$(417)**

The following is a summary of the book values of available-for-sale securities for which fair value was not readily determinable at March 31, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Unlisted stock	**¥225**	¥225	**$1,996**

Total sales of available-for-sale securities for the years ended March 31, 2016 and 2015 amounted to ¥3,190 million ($28,310 thousand) and ¥31 million, and related gains amounted to ¥1,531 million ($13,587 thousand) and ¥22 million, respectively.

5. Income Taxes

The Company and its consolidated domestic subsidiaries are subject to corporation, inhabitants' and enterprise taxes, which, in the aggregate, indicate the statutory tax rate in Japan of approximately 32.8% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

The following table summarizes the significant difference between the statutory tax rate and the Sanden Group's effective tax rate for accounting purposes for the years ended March 31, 2016 and 2015:

	2016	2015
Statutory tax rate:	**32.8%**	35.4%
Nondeductible expense	**1.8**	1.9
Foreign tax credits	**1.4**	0.9
Different tax rates applied to overseas subsidiaries	**(1.1)**	(3.3)
Amortization of goodwill	**0.7**	0.5
Equity in net income of unconsolidated subsidiaries and affiliates	**(17.2)**	(11.1)
Tax effect for unrealized profits on inventories	**(6.4)**	0.9
Tax credit	**(2.4)**	(1.7)
Tax breaks for investment for facilities	**(1.4)**	(1.3)
Effect from change in tax rates	**1.7**	2.3
Valuation allowance	**(9.4)**	0.2
Others	**2.1**	(0.9)
Effective tax rate	**2.6%**	23.9%

Significant components of the Sanden Group's deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Deferred tax assets:			
Unrealized gains on inventories from intercompany sales	¥ 121	¥ 153	$ 1,073
Accrued expenses	830	404	7,365
Warranty liabilities	305	423	2,706
Allowance for doubtful accounts	303	337	2,689
Doubtful accounts written off	691	705	6,132
Loss on devaluation for slow-moving inventory	653	501	5,795
Accrued employees' bonuses	915	1,075	8,120
Unrealized gains on fixed assets from intercompany sales	158	204	1,402
Depreciation	947	1,092	8,404
Net defined benefit liability	646	1,733	5,733
Net operating loss carryforward	10,796	9,871	95,811
Environmental liability	149	242	1,322
Impairment loss on long-lived assets	319	404	2,831
Tax breaks for investment for facilities	1,568	1,243	13,915
Others	1,544	2,126	13,702
Gross deferred tax assets	19,952	20,519	177,067
Less: Valuation allowance	(12,563)	(14,096)	(111,492)
Total deferred tax assets	7,389	6,422	65,575
Deferred tax liabilities:			
Depreciation	(806)	(920)	(7,152)
Net unrealized gain on securities	(845)	(1,807)	(7,499)
Effect on retained earnings of foreign affiliates	(788)	(609)	(6,993)
Others	(136)	(174)	(1,206)
Gross deferred tax liabilities	(2,576)	(3,512)	(22,861)
Net deferred tax assets	¥ 4,813	¥ 2,910	$ 42,713

Net deferred tax assets are included in the accompanying consolidated balance sheets as follows.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Assets:			
Deferred income taxes	¥2,359	¥2,735	$20,935
Deferred income taxes, non-current	2,765	2,191	24,538
Liabilities:			
Deferred income taxes	(6)	—	(53)
Deferred income taxes, non-current	(305)	(2,017)	(2,706)
Net deferred tax assets	¥4,813	¥2,910	$42,713

Amendments on deferred tax assets and liabilities resulting from changes in income tax rates:

On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet session. As a result of these amendments, the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and after April 1, 2018 were changed from 32.1% to 30.7% and 30.5%, respectively, as of March 31, 2016.

Impact of these amendments on net deferred tax assets (after deducting deferred tax liabilities) as of March 31, 2016 and deferred income tax expense for the fiscal year ended March 31, 2016 is immaterial.

6. Financial Instruments

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

The Sanden Group raises funds according to its medium-term financial plan, and it utilizes diversified financing methods of raising funds through bank loans or issuance of bonds. If surplus funds arise, the Sanden Group uses highly liquid instruments for the management of funds. The Sanden Group also enters into financial derivative transactions to hedge various risks, as described in detail below and does not use derivatives for speculative purposes.

(2) Details of financial instruments used and the exposures to risk and how they arise

Trade notes and accounts receivable are exposed to the credit risks of customers. Receivables denominated in foreign currencies are exposed to foreign currency exchange risk. In principle, foreign exchange forward contracts are used to hedge this risk.

Marketable and investment securities are mostly shares of our related business partners, and are exposed to stock market fluctuation risk.

Maturities of trade notes and accounts payable are mostly within four months. Payables denominated in foreign currencies are exposed to foreign currency exchange risk. In principle, foreign exchange forward contracts are used to hedge this risk.

Principally, the purposes of long-term debt and lease obligations are for financing capital investment, and the longest maturity is 14 years after March 31, 2016. A large part of them are borrowed or issued with fixed interest rates; therefore, there is no interest rate risk. The Sanden Group enters into interest rate swap agreements to reduce exposure to losses resulting from adverse fluctuations in interest rates on the part of long-term debt with variable interest rates.

The Sanden Group entered into financial derivative transactions such as forward exchange contracts, to hedge exchange rate risk associated with foreign currency denominated trade receivables and payables, interest rate swap agreements to reduce exposure to losses resulting from adverse fluctuations in interest rates on long-term debt, currency and interest rate swap agreements to hedge exchange rate risk and interest rate risk associated with foreign currency denominated bank loans, and commodity derivatives to hedge risk of price movement of raw materials.

(3) Supplemental information on fair values
Fair values of financial instruments are measured based on the quoted market prices, if available, or reasonably calculated values if quoted market prices are not available. Fair values of financial instruments for which quoted market prices are not available are calculated based on certain assumptions, and the fair values might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in "7. Derivatives" does not represent the market risk of the derivative transactions.

2. Fair values of financial instruments (at March 31, 2016)
Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2016 are as follows.

In addition, financial instruments whose fair value cannot be reliably measured are not included. (Please see "Note 2. Financial instruments for which the fair values cannot be reliably measured.")

	Millions of yen		
	2016		
	Book value	Fair value	Difference
(1) Cash and time deposits	**¥ 17,491**	**¥ 17,491**	**¥ —**
(2) Receivables*1	**89,602**	**89,602**	**—**
(3) Consumption taxes receivable	**4,581**	**4,581**	**—**
(4) Investment securities	**7,635**	**7,635**	**—**
Total assets	**¥119,310**	**¥119,310**	**¥ —**
(1) Payables	**¥ 67,313**	**¥ 67,313**	**¥ —**
(2) Short-term bank loans	**52,873**	**52,873**	**—**
(3) Lease obligations due within one year	**1,551**	**1,620**	**69**
(4) Income taxes payable	**681**	**681**	**—**
(5) Long-term debt	**76,069**	**76,678**	**609**
(6) Lease obligations due after one year	**4,800**	**5,070**	**270**
Total liabilities	**¥203,290**	**¥204,239**	**¥948**
Derivatives *2	**¥ 564**	**¥ 564**	**¥ —**

	Thousands of U.S. dollars (Note 1)		
	2016		
	Book value	Fair value	Difference
(1) Cash and time deposits	**$ 155,227**	**$ 155,227**	**$ —**
(2) Receivables *1	**795,189**	**795,189**	**—**
(3) Consumption taxes receivable	**40,654**	**40,654**	**—**
(4) Investment securities	**67,758**	**67,758**	**—**
Total assets	**$1,058,839**	**$1,058,839**	**$ —**
(1) Payables	**$ 597,381**	**$ 597,381**	**$ —**
(2) Short-term bank loans	**469,231**	**469,231**	**—**
(3) Lease obligations due within one year	**13,764**	**14,376**	**612**
(4) Income taxes payable	**6,043**	**6,043**	**—**
(5) Long-term debt	**675,088**	**680,493**	**5,404**
(6) Lease obligations due after one year	**42,598**	**44,994**	**2,396**
Total liabilities	**$1,804,135**	**$1,812,557**	**$8,413**
Derivatives *2	**$ 5,005**	**$ 5,005**	**$ —**

*1: Allowance for doubtful accounts associated with trade notes and accounts receivable is deducted.
*2: Derivative assets and liabilities are disclosed on a net basis.

Note 1: Fair value measurement of financial instruments
Assets
1. (1) Cash and time deposits, (2) receivables and (3) consumption taxes receivable
The book value of these assets approximates fair value because they are settled in a short period.
2. (4) Investment securities
The fair value of equity securities equals to the quoted market price, if available. The fair value of debt securities equals to the quoted market price or price provided by financial institutions. More information of available-for-sale securities are described in "4. Investment in Securities."

Liabilities
1. (1) Payables, (2) short-term bank loans and (4) income taxes payable
The book value of these liabilities approximates fair value because they are settled in a short-term period.

2. (3) Lease obligations due within one year, (5) long-term debt and (6) lease obligations due after one year
Fair value equals to the present value of future cash flows discounted by using the current interest rate for similar debt and lease contracts of comparable maturities and contract conditions.

Note 2: Financial instruments for which the fair values cannot be reliably measured are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2016
Investment securities:		
Unlisted	**¥ 225**	**$ 1,996**
Unconsolidated subsidiaries and affiliates	**21,343**	**189,412**

The above are not included in "(4) investment securities" because these investment securities do not have a quoted price in an active market and whose fair value cannot be reliably measured.

Note 3: The redemption schedule for monetary claims and investment securities with maturities at March 31, 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2016		2016	
	Within 1 year	More than 1 year	Within 1 year	More than 1 year
Cash and time deposits	**¥ 17,491**	**¥ —**	**$155,227**	**$ —**
Receivables	**89,602**	**—**	**795,189**	**—**
Consumption taxes receivable	**4,581**	**—**	**40,654**	**—**
Investment securities with maturities				
(1) Bonds	**—**	**300**	**—**	**2,662**
(2) Others	**—**	**—**	**—**	**—**
Total	**¥111,675**	**¥300**	**$991,080**	**$2,662**

3. Fair values of financial instruments (at March 31, 2015)

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2015 are as follows.

In addition, financial instruments whose fair value cannot be reliably measured are not included. (Please see "Note 2. Financial instruments for which the fair values cannot be reliably measured.")

	Millions of yen		
	2015		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 20,597	¥ 20,597	¥ —
(2) Receivables*1	90,646	90,646	—
(3) Consumption taxes receivable	3,543	3,543	—
(4) Investment securities	12,340	12,340	—
Total assets	¥127,128	¥127,128	¥ —
(1) Payables	¥ 69,352	¥ 69,352	¥ —
(2) Short-term bank loans	47,937	47,937	—
(3) Lease obligations due within one year	1,325	1,341	16
(4) Income taxes payable	828	828	—
(5) Long-term debt	73,716	74,386	669
(6) Lease obligations due after one year	4,755	4,808	52
Total liabilities	¥197,916	¥198,655	¥738
Derivatives*2	¥ 356	¥ 356	¥ —

*1: Allowance for doubtful accounts associated with trade notes and accounts receivable is deducted.
*2: Derivative assets and liabilities are disclosed on a net basis.

Note 1: Fair value measurement of financial instruments

Assets

1. (1) Cash and time deposits, (2) receivables and (3) consumption taxes receivable
   The book value of these assets approximates fair value because of the short maturity of these instruments.

2. (4) Investment securities
   The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals the quoted market price or price provided by financial institutions. Investment securities for long-term investment purposes are described in "4. Investment in Securities".

Liabilities

1. (1) Payables, (2) short-term bank loans and (4) income taxes payable
   The book value of these liabilities approximates fair value because of the short maturity of these instruments.
2. (3) Lease obligations due within one year, (5) long-term debt and (6) lease obligations due after one year
   Fair value equals to the present value of future cash flows discounted using the current interest rate for similar debt and lease contracts of comparable maturities and contract conditions.

Note 2: Financial instruments for which the fair values cannot be reliably measured are as follows:

	Millions of yen
	2015
Investment securities:	
Unlisted	¥ 225
Unconsolidated subsidiaries and affiliates	13,194

The above are not included in "(4) investment securities" because these investment securities do not have a quoted price in an active market and whose fair value cannot otherwise be reliably measured.

Note 3: The redemption schedule for money claims and investment securities with maturities at March 31, 2015 was as follows:

	Millions of yen	
	2015	
	Within 1 year	More than 1 year
Cash and time deposits	¥ 20,597	¥ —
Receivables	90,646	—
Consumption taxes receivable	3,543	—
Investment securities with maturities		
(1) Bonds	500	1,000
(2) Others	—	—
Total	¥115,287	¥1,000

7. Derivatives

1. Forward exchange contracts and currency swaps, which are stated at fair value and to which hedge accounting is not applied, at March 31, 2016 and 2015:

(Forward exchange contracts and currency swaps)

	Millions of yen								Thousands of U.S. dollars (Note 1)			
	2016				2015				2016			
Transaction	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)
Forward exchange contracts	**¥16,728**	**¥ —**	**¥346**	**¥346**	¥ 9,799	¥ —	¥102	¥102	**$148,455**	**$ —**	**$3,070**	**$3,070**
Currency swaps	**154**	**154**	**62**	**62**	403	230	113	113	**1,366**	**1,366**	**550**	**550**
Total	**¥16,882**	**¥154**	**¥409**	**¥409**	¥10,201	¥230	¥216	¥216	**$149,822**	**$1,366**	**$3,629**	**$3,629**

Interest rate swaps, which are stated at fair value and to which hedge accounting is not applied, at March 31, 2016 and 2015 were as follows:

(Interest rate swaps)

	Millions of yen								Thousands of U.S. dollars (Note 1)			
	2016				2015				2016			
Transaction	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)
Receiving floating rate and paying fixed rate	**¥33**	**¥—**	**¥(0)**	**¥(0)**	¥84	¥43	¥(0)	¥(0)	**$292**	**$—**	**$(0)**	**$(0)**
Total	**¥33**	**¥—**	**¥(0)**	**¥(0)**	¥84	¥43	¥(0)	¥(0)	**$292**	**$—**	**$(0)**	**$(0)**

2. Derivative transactions to which hedging accounting was applied at March 31, 2016 and 2015:

(Forward exchange contracts)

			Millions of yen		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2016					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**¥273**	**¥—**	**¥2**
		Accounts receivable	**127**	**—**	**1**
Total			**¥401**	**¥—**	**¥4**

			Thousands of U.S. dollars (Note 1)		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2016					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**$2,422**	**$—**	**$17**
		Accounts receivable	**1,127**	**—**	**8**
Total			**$3,558**	**$—**	**$35**

			Millions of yen		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2015					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	¥2	¥—	¥0
Total			¥2	¥—	¥0

(Interest rate swaps)

Hedging accounting method	Transaction	Hedged items	Millions of yen: Contract amount	More than 1 year	Fair value
2016					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term debt	**¥31,900**	**¥18,183**	**¥ —** *1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term debt	**6,436**	**5,631**	**151**
Total			**¥38,336**	**¥23,814**	**¥151**

Hedging accounting method	Transaction	Hedged items	Thousands of U.S. dollars (Note 1): Contract amount	More than 1 year	Fair value
2016					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term debt	**$283,102**	**$161,368**	**$ —** *1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term debt	**57,117**	**49,973**	**1,340**
Total			**$340,220**	**$211,341**	**$1,340**

*1: For certain long-term debt for which interest rate swaps under the Exceptional method are used to reduce exposure to losses resulting from adverse fluctuations in interest rates, the fair value of such swaps was included in the fair value of such long-term debt, which is the hedged item.

Hedging accounting method	Transaction	Hedged items	Millions of yen: Contract amount	More than 1 year	Fair value
2015					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term debt	¥29,687	¥28,435	¥ — *1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term debt	6,346	6,046	120
Total			¥36,033	¥34,481	¥120

*1: For certain long-term debt for which interest rate swaps under the Exceptional method are used to reduce exposure to losses resulting from adverse fluctuations in interest rates, the fair value of such swaps was included in the fair value of such long-term debt, which is the hedged item.

(Commodity swaps)

There were no commodity swaps at March 31, 2016.

Hedging accounting method	Transaction	Hedged items	Millions of yen: Contract amount	More than 1 year	Fair value
2015					
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Forecasted transaction	¥223	¥—	¥17
Total			¥223	¥—	¥17

8. Retirement Benefits

1. Outline of the retirement benefit plans

The Company has adopted the defined contribution pension plan for enrolled employees since March 1, 2014. Retirement benefit liability to the pensioners is recorded based on the estimated amount of retirement benefit obligations and plan assets at the end of the fiscal year. Expected plan assets exceed retirement benefit obligations at March 31, 2016, and therefore the excess is recorded in net defined benefit asset.

The post-retirement pension fund is scheduled to be transferred once a year (in April) over four years.

Consolidated domestic subsidiaries also have their own retirement benefit plans for employees terminating their employment. Certain consolidated domestic subsidiaries have a funded defined contribution pension plan or utilize the governmental mutual aid institution to cover a portion of the benefits. The remaining portion is unfunded and covered by severance payments by those consolidated domestic subsidiaries.

Consolidated overseas subsidiaries have various retirement and post-retirement benefit plans. Such plans consist of defined benefit severance payment or pension plans, defined contribution pension plans, post-retirement medical plans and defined contribution plans based on government regulations. Some of these plans adopted by the consolidated overseas subsidiaries are funded.

2. Defined benefit plans, including plans to which the simplified method is applied

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥8,095**	¥6,452	**$71,840**
Service cost	**283**	187	**2,511**
Interest cost	**215**	204	**1,908**
Actuarial losses (gains)	**(562)**	1,214	**(4,987)**
Benefits paid	**(330)**	(311)	**(2,928)**
Termination of the defined benefit retirement plan	**—**	(66)	**—**
Exchange differences	**(236)**	413	**(2,094)**
Balance at end of year	**¥7,465**	¥8,095	**$66,249**

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥4,500**	¥3,907	**$39,936**
Expected return on plan assets	**273**	120	**2,422**
Actuarial gains (losses)	**(355)**	57	**(3,150)**
Contributions paid by the employers	**172**	147	**1,526**
Benefits paid	**(237)**	(245)	**(2,103)**
Exchange differences	**(225)**	513	**(1,996)**
Balance at end of year	**¥4,128**	¥4,500	**$36,634**

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Funded retirement benefit obligations	**¥6,140**	¥6,799	**$54,490**
Plan assets	**(4,128)**	(4,500)	**(36,634)**
	2,012	2,298	**17,855**
Unfunded retirement benefit obligations	**1,325**	1,295	**11,758**
Net defined benefit liability at end of year	**3,337**	3,594	**29,614**
Net defined benefit liability	**3,452**	3,657	**30,635**
Net defined benefit asset	**(115)**	(62)	**(1,020)**
Net defined benefit liability at end of year	**¥3,337**	¥3,594	**$29,614**

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Service cost	**¥283**	¥187	**$2,511**
Interest cost	**215**	204	**1,908**
Expected return on plan assets	**(273)**	(120)	**(2,422)**
Amortization of actuarial losses (gains)	**90**	(137)	**798**
Others	**0**	(10)	**0**
Total retirement benefit costs for the fiscal year	**¥316**	¥123	**$2,804**

(5) Remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Actuarial gains (losses)	**¥349**	¥(1,074)	**$3,097**
Total balance at end of year	**¥349**	¥(1,074)	**$3,097**

(6) Accumulated remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Actuarial gains (losses) that are yet to be recognized	**¥(1,299)**	¥(1,679)	**$(11,528)**
Total balance at end of year	**¥(1,299)**	¥(1,679)	**$(11,528)**

(7) Plan assets

a. Plan assets comprise:

	2016	2015
Bonds	**53%**	53%
Equity securities	**41**	41
Cash and time deposits	**4**	4
Others	**2**	2
Total	**100%**	100%

b. Long-term expected rate of return

Current and estimated asset allocations and current and long-term expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2015:

	2016	2015
Discount rate	**0.3%–5.8%**	0.3%–6.3%
Long-term expected rate of return	**0.3%–7.5%**	0.3%–7.5%

3. Defined contribution plans

Contributions to defined contribution plans of the Company and its consolidated subsidiaries were ¥2,382 million ($21,139 thousand) and ¥2,521 million for the fiscal years ended March 31, 2016 and 2015, respectively.

4. Assets not transferred to the defined contribution pension plan

Assets of ¥1,229 million ($10,906 thousand), which were not transferred to the defined contribution pension plan at March 31, 2016, were recorded in other accounts payable (current liabilities). Assets of ¥2,835 million, which were not transferred to the defined contribution pension plan at March 31, 2015, were recorded in other accounts payable (current liabilities) and long-term other accounts payable (long-term liabilities).

9. Short-Term Borrowings, Long-Term Debt and Lease Obligations

Short-term bank loans bore weighted-average interest rates of 1.58% and 1.95% at March 31, 2016 and 2015, respectively.

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Loans from banks, insurance companies and agricultural cooperatives, bearing weighted-average rates of 1.56% and 1.89% at March 31, 2016 and 2015, respectively	**¥76,069**	¥73,716	**$675,088**
	76,069	73,716	**675,088**
Less: Amount due within one year	**20,447**	10,754	**181,460**
Amount due after one year	**¥55,621**	¥62,962	**$493,619**

The aggregate annual maturities of long-term debt at March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥20,447	$181,460
2018	30,057	266,746
2019	11,656	103,443
2020	8,328	73,908
2021	4,812	42,705
2022 and thereafter	766	6,798

The Company has entered into syndicated-loan contracts with several financial institutions. Financial covenants included in the contracts are as follows:

Contracts at September 16, 2011 (¥10.0 billion of long-term debt due within one year)

(1) The amount of total net assets (excluding foreign currency translation adjustments) on the consolidated balance sheet at the end of each fiscal year and the interim period shall be over ¥39.5 billion and 70% compared with the latest period; and

(2) Ordinary losses on the consolidated statements of income for each fiscal year (after fiscal year ended March 31, 2012) shall not be recorded for three consecutive years.

The amount of total net assets on the consolidated balance sheet as well as ordinary losses on the consolidated statements of income mentioned above, to be referred to for the financial covenants, are those in consolidated financial statements of the Company which are prepared and presented in accordance with Japanese GAAP.

The Sanden Group continued to meet these financial covenants at March 31, 2016 and 2015.

The following assets were pledged as collateral for short-term bank loans of ¥1,624 million ($14,412 thousand) and long-term debt of ¥2,853 million ($25,319 thousand) at March 31, 2016 and short-term bank loans of ¥1,729 million and long-term debt of ¥3,727 million at March 31, 2015.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Inventories and other	**¥3,469**	¥ 3,672	**$30,786**
Land and buildings and structures, machinery and equipment, etc., net	**5,899**	7,573	**52,351**
Total	**¥9,369**	¥11,245	**$83,146**

The aggregate annual maturities of lease obligations at March 31, 2016 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	**¥1,551**	**$13,764**
2018	**1,497**	**13,285**
2019	**1,034**	**9,176**
2020	**792**	**7,028**
2021	**600**	**5,324**
2022 and thereafter	**875**	**7,765**

10. Net Assets

Under the Japanese Corporate Law (the "Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the amount paid of the new shares as additional paid-in capital, which is included in capital surplus.

The Law provides that a 10% dividend shall be appropriated as additional paid-in capital or legal earnings reserve until the aggregate amount of additional paid-in capital and the legal earnings reserve equals 25% of common stock. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution at the stockholders' meeting. Additional paid-in capital and the legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and the entire legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. At the annual stockholders' meeting held on June 22, 2016, the stockholders approved the distribution of dividends amounting to ¥2,092 million ($18,565 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the stockholders.

11. Comprehensive Income

Amounts reclassified to net income in the current year that were recognized in other comprehensive income for the years ended March 31, 2016 and 2015 and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net unrealized gains (losses) on securities, net of taxes:			
Increase (decrease) during the year	¥(1,539)	¥2,836	$(13,658)
Reclassification adjustments	(1,531)	1	(13,587)
Sub-total, before tax	(3,071)	2,837	(27,254)
Tax (expense) or benefit	960	(751)	8,519
Total, net of tax	(2,111)	2,085	(18,734)
Unrealized gains (losses) on hedging derivatives, net of taxes:			
Increase (decrease) during the year	202	82	1,792
Reclassification adjustments	(285)	(199)	(2,529)
Sub-total, before tax	(82)	(116)	(727)
Tax (expense) or benefit	37	36	328
Total, net of tax	(44)	(80)	(390)
Foreign currency translation adjustments:			
Increase (decrease) during the year	(2,831)	3,121	(25,124)
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	207	(1,157)	1,837
Reclassification adjustments	143	82	1,269
Sub-total, before tax	349	(1,074)	3,097
Tax (expense) or benefit	(6)	11	(53)
Total, net of tax	343	(1,062)	3,044
Share of other comprehensive income of affiliates accounted for using equity method:			
Increase (decrease) during the year	(1,007)	1,571	(8,936)
Total other comprehensive income	¥(5,652)	¥5,634	$(50,159)

12. Contingent Liabilities

At March 31, 2016 and 2015, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Discounted notes	¥ 34	¥ 4	$ 301
Guarantees or reservation of guarantees for loans of affiliated companies from banks and other lenders	¥974	¥1,092	$8,643

13. Environmental Matters

The Vendo Company, a consolidated subsidiary located in the United States of America, was notified of the contamination of groundwater discovered in areas close to its manufacturing facility by the California State Regional Water Quality Control Board. The Vendo Company entered into an agreement to compensate to the cost for remedial activities. It also entered into a settlement agreement with neighboring landowners to pay a part of the remediation costs related to the contamination described above.

The Vendo Company provided for the liability based on the estimated obligation relating to the costs for the remediation, which amounted to ¥372 million ($3,301 thousand) and ¥505 million at March 31, 2016 and 2015, respectively, and were included in other non-current liabilities.

14. Leases

The Company and its consolidated subsidiaries account for finance leases that do not transfer ownership in the same manner as usual acquisitions.

The leased assets consist of structures, machinery and equipment and furniture and fixtures. Leased software is included as part of "intangible assets." These leased assets are mainly for the Automotive Systems Business and the Commercial Store Systems Business.

15. Cash Flow Information

Cash and cash equivalents at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash and time deposits	¥17,491	¥20,597	$155,227
Less: Time deposits with maturities more than three months	(9)	(9)	(79)
Cash and cash equivalents	¥17,482	¥20,588	$155,147

16. Amounts per Share

Net assets and income per share as at and for the years ended March 31, 2016 and 2015, respectively, are as follows:

	Yen		U.S. dollars (Note 1)
	2016	2015	**2016**
Net assets per share	**¥507.56**	¥510.80	**$4.50**
Net income per share	**50.43**	40.40	**0.44**

Basic and diluted net income per share of common stock for the years ended March 31, 2016 and 2015 have been computed based on the following:

	Number of shares	
	2016	2015
Weighted-average number of shares of common stock	**138,114,721**	138,132,950

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net income attributable to owners of the parent	**¥6,965**	¥5,580	**$61,812**
Net income attributable to owners of the parent relating to common stock	**6,965**	5,580	**61,812**

	Yen		U.S. dollars (Note 1)
	2016	2015	**2016**
Basic net income per share of common stock	**¥50.43**	¥40.40	**$0.44**

There was no diluted net income per common share for the years ended March 31, 2016 and 2015 as the Company did not have common stock with potential dilutive effect.

The Company's shares held by the executive compensation BIP Trust are recorded as treasury stock in shareholders' equity which are deducted from the weighted-average number of shares outstanding during the year for the purpose of calculating net income per share for the year ended March 31, 2016.

The weighted-average number of shares held by the trust was 488,887 shares for the year ended March 31, 2016 and the total number of shares held by the trust at the balance sheet date was 837,411 shares as of March 31, 2016.

As described in "Change in Accounting Policies", the Company and its consolidated domestic subsidiaries adopted the Business Combination Accounting Standards in the fiscal year ended March 31, 2016. As a result, net assets per share decreased by ¥5.29, while impact of this adoption on net income per share is immaterial.

17. Business Combination

For the year ended March 31, 2016
Transaction under common control
Additional acquisition of shares in subsidiary

1. Outline of the transaction

(1) Name and business of the company under the transaction
Sanden Shanghai Refrigeration Co., Ltd.

(2) Date of the transaction
September 30, 2015 (deemed acquisition date)

(3) Legal form of the transaction
Acquisition of shares from non-controlling shareholders

(4) Name after the transaction
Unchanged

(5) Other matters related to the transaction
Percentage of voting rights of shares additionally acquired was 49.0% and the ownership percentage of the Company after the acquisition became 100.0%. The purpose of this additional acquisition was to establish bases for expanding sales and production of Commercial Store Systems Business in China.

2. Outline of accounting policy applied

The Company accounted for the acquisition as a transaction with non-controlling shareholders within a transaction under common control in compliance with ASBJ Statement No. 21 and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

3. Additional acquisition of shares in subsidiary

Acquisition cost and consideration paid
Cash ¥645 million ($5,724 thousand)

4. Changes in the portion held by the Company in connection with the transactions with non-controlling shareholders

(1) Major reasons for changes in capital surplus
Additional acquisition of the subsidiary's share

(2) Decreases in capital surplus due to transactions with non-controlling shareholders
¥731 million ($6,487 thousand)

For the year ended March 31, 2015
There was no significant business combination.

18. Related Party Transactions

Major transactions between the Company and the Company's directors, certain companies owned by the Company's directors or affiliates are as follows:

Company Name or Name of director	Type of business or Occupation	Ownership of the Company (%)	Nature of transaction	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Sanden Kankyo Mirai Zaidan (Sanden Environmental Future Foundation)	*1	—	Donation	**¥ 20**	¥ 15	**$ 177**
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	**6,474**	13,613	**57,454**

Donation—Donation contributed to the foundation is determined based on approval of the board of directors.

Sales—The terms and conditions applicable to the above material transactions have been determined on an arm's length basis and by reference to the normal market price.

*1: The objective of Zaidan's activities are to develop the people's consciousness and to create the new idea for the environment.

The summaries of financial statements of the two significant affiliates for the fiscal years ended March 31, 2016 and 2015 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2016		2015		**2016**	
	Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd.	Sanden Al Salam LLC.	Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd.	Sanden Al Salam LLC.	Shanghai Sanden Behr Automotive Air Conditioning Co., Ltd.	Sanden Al Salam LLC.
Total current assets	**¥43,300**	**¥41,766**	¥43,223	¥40,297	**$384,274**	**$370,660**
Total non-current assets	**21,472**	**1,460**	17,429	734	**190,557**	**12,957**
Total current liabilities	**36,182**	**31,437**	33,441	36,386	**321,104**	**278,993**
Total long-term liabilities	**798**	**340**	806	263	**7,082**	**3,017**
Total net assets	**27,792**	**11,448**	26,404	4,381	**246,645**	**101,597**
Sales	**81,003**	**26,178**	76,813	26,050	**718,876**	**232,321**
Income before income taxes	**8,177**	**700**	6,563	(131)	**72,568**	**6,212**
Net income	**¥ 6,899**	**¥ 700**	¥ 5,627	¥ (142)	**$ 61,226**	**$ 6,212**

19. Segment Information

1. Summary of reporting segment

(1) Reporting segments

Our reporting segments are constituent units whose segregated financial information is available and reviewed by the Board of Directors for making decisions in the allocation of operating resources and evaluating the operating performance regularly.

The Company plans the comprehensive strategies and extends business activities for each product, system and service globally.

Therefore, the Company has designated these reporting segments: the "Automotive Systems Business" and the "Commercial Store Systems Business."

Segment division	Main product, system, service
Automotive Systems Business	Automotive air-conditioning systems and air-conditioner compressors
Commercial Store Systems Business	Automatic vending machines, commercial freezers and refrigerated showcases

(2) Method of measurement of sales, profit (loss), assets, and other items for each reporting segment

The accounting policies of the reportable segment are consistent with the description of the accounting policies.

Information by reporting segment for the years ended March 31, 2016 and 2015 is summarized as follows:

	Millions of yen				
	2016				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	**¥198,385**	**¥83,988**	**¥282,373**	**¥11,863**	**¥294,237**
Operating income (loss)	**¥ 6,523**	**¥ 1,894**	**¥ 8,417**	**¥ (2,922)**	**¥ 5,494**
Total assets	**¥215,933**	**¥71,581**	**¥287,515**	**¥13,809**	**¥301,325**
Depreciation and amortization	**9,992**	**2,013**	**12,005**	**369**	**12,374**
Amortization of goodwill	**64**	**101**	**166**	**—**	**166**
Equity in earnings of affiliates	**3,200**	**946**	**4,147**	**—**	**4,147**
Investments in equity-method companies	**17,067**	**4,007**	**21,074**	**—**	**21,074**
Increase in property, plant and equipment and intangible assets	**12,668**	**1,816**	**14,485**	**610**	**15,095**

	Millions of yen				
	2015				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	¥200,222	¥94,893	¥295,116	¥11,867	¥306,984
Operating income (loss)	¥ 5,602	¥ 6,211	¥ 11,814	¥ (2,406)	¥ 9,407
Total assets	¥209,211	¥71,258	¥280,470	¥18,794	¥299,265
Depreciation and amortization	9,687	1,662	11,349	344	11,694
Amortization of goodwill	69	90	160	—	160
Equity in earnings of affiliates	2,150	367	2,518	—	2,518
Investments in equity-method companies	8,911	4,062	12,973	—	12,973
Increase in property, plant and equipment and intangible assets	10,672	2,558	13,230	899	14,130

Note: “Other” includes household equipment, car sales and bicycle accessories, etc.

	Thousands of U.S. dollars (Note 1)				
	2016				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	**$1,760,605**	**$745,367**	**$2,505,972**	**$105,280**	**$2,611,261**
Operating income (loss)	**$ 57,889**	**$ 16,808**	**$ 74,698**	**$ (25,931)**	**$ 48,757**
Total assets	**$1,916,338**	**$635,259**	**$2,551,606**	**$122,550**	**$2,674,165**
Depreciation and amortization	**88,675**	**17,864**	**106,540**	**3,274**	**109,815**
Amortization of goodwill	**612**	**896**	**1,473**	**—**	**1,473**
Equity in earnings of affiliates	**28,399**	**8,395**	**36,803**	**—**	**36,803**
Investments in equity-method companies	**151,464**	**35,560**	**187,025**	**—**	**187,025**
Increase in property, plant and equipment and intangible assets	**112,424**	**16,116**	**128,549**	**5,413**	**133,963**

2. Geographic information

Information about geographical areas for the year ended March 31, 2016

(1) Sales

	Millions of yen						Thousands of U.S. dollars (Note 1)					
	2016						2016					
		Asia						Asia				
	Japan		thereof China	Europe	North America	Total consolidated	Japan		thereof China	Europe	North America	Total consolidated
Net sales:												
Outside customers	**¥96,089**	**¥90,130**	**¥48,216**	**¥70,292**	**¥37,724**	**¥294,237**	**$852,760**	**$799,875**	**$427,902**	**$623,819**	**$334,788**	**$2,611,261**

(2) Property, plant and equipment

	Millions of yen							Thousands of U.S. dollars (Note 1)						
	2016							2016						
		Asia		Europe					Asia		Europe			
	Japan		thereof China		thereof Poland	North America	Total consolidated	Japan		thereof China		thereof Poland	North America	Total consolidated
Property, plant and equipment	**¥42,900**	**¥17,811**	**¥10,191**	**¥20,499**	**¥11,788**	**¥8,344**	**¥89,555**	**$380,724**	**$158,067**	**$90,441**	**$181,922**	**$104,614**	**$74,050**	**$794,772**

Information about geographical areas for the year ended March 31, 2015

(1) Sales

	Millions of yen					
	2015					
		Asia				
	Japan		thereof China	Europe	North America	Total consolidated
Net sales:						
Outside customers	¥111,810	¥88,811	¥39,022	¥68,565	¥37,796	¥306,984

(2) Property, plant and equipment

	Millions of yen						
	2015						
		Asia		Europe			
	Japan		thereof China		thereof Poland	North America	Total consolidated
Property, plant and equipment	¥41,783	¥19,660	¥10,455	¥19,908	¥10,508	¥9,496	¥90,849

20. Supplementary Information

The main items of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 in the accompanying consolidated statements of income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Employees' salaries and bonuses	**¥18,024**	¥16,586	**$159,957**
Freight	**4,585**	4,585	**40,690**
Depreciation	**2,512**	2,299	**22,293**
Provision for:			
Employees' bonuses	**1,698**	1,886	**15,069**
Warranty liabilities	**980**	783	**8,697**
Retirement benefit costs	**788**	668	**6,993**

Research and development expenses are recognized as incurred. Research and development expenses charged to the cost of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were ¥6,771 million ($60,090 thousand) and ¥6,742 million, respectively.

KPMG

Independent Auditor's Report

To the Board of Directors of Sanden Holdings Corporation:

We have audited the accompanying consolidated financial statements of Sanden Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sanden Holdings Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

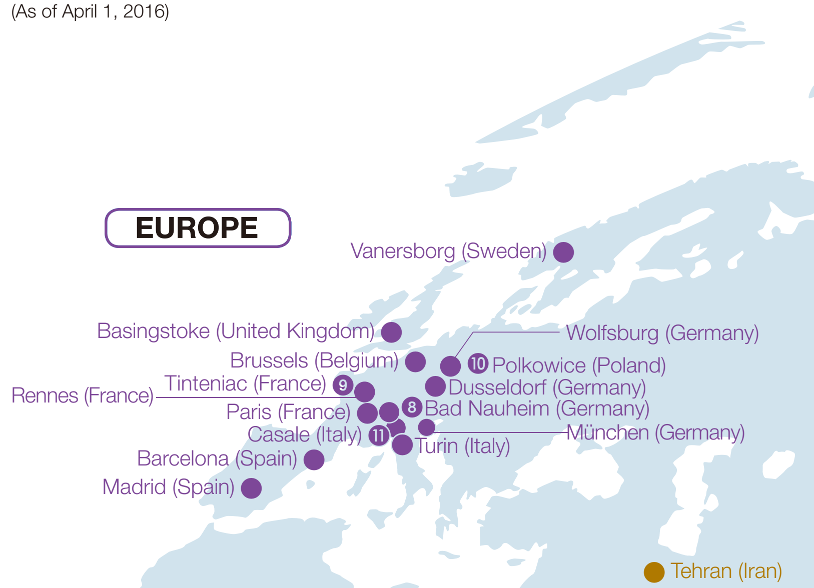
KPMG AZSA LLC

August 8, 2016
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Sanden's World Network

(As of April 1, 2016)




⑤ SSA (Shanghai)

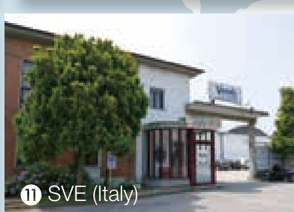

⑥ SSB (Shanghai)


⑦ TSA (Tianjin)


⑧ SIE (Germany)


⑨ SME (France)


⑩ SMP (Poland)


⑪ SVE (Italy)


⑫ SIS (Singapore)


⑬ STC (Thailand)


⑭ SVL (India)


⑮ SIM (Malaysia)


⑯ SIO (Australia)

Sanden Road

A Virtual Road which depicts Sanden growth over our 70-year history

Over the years, we have grown in a manner which is consistent with our Management Policy, “Environment” “Global” “Quality”. Each facility serves a purpose aligned with the policy.

Delivering Excellence

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