SANDEN
Delivering Excellence

ANNUAL REPORT 2018

Year ended March 31, 2018

SANDEN HOLDINGS CORPORATION

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

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

Automotive Systems Business

Sanden manufactures and delivers compressors and climate systems for automotive air conditioners 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.

Commercial Store Systems Business

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.

Corporate Philosophy

Sanden's Corporate Philosophy, which was adopted in 2003, sets forth our universal shared values and 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.

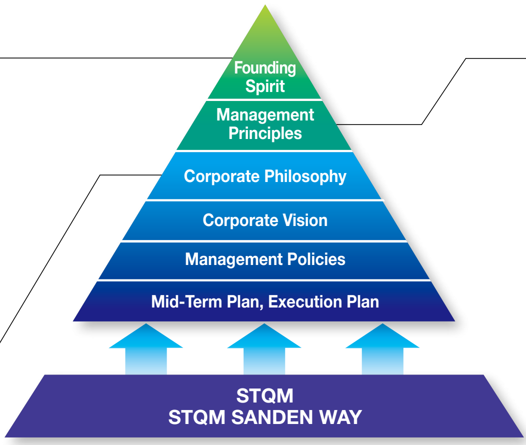
Structure of the Corporate Principles

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.

Contents

Highlights of the Fiscal Year

	Millions of yen					Thousands of U.S. dollars (Note)
	FY2013	FY2014	FY2015	FY2016	**FY2017**	**FY2017**
Net sales	¥274,786	¥306,984	¥294,237	¥ 282,061	**¥ 287,609**	**$2,707,163**
Operating income	4,858	9,407	5,494	1,582	**5,469**	**51,477**
Net income (loss) attributable to owners of the parent	5,843	5,580	6,965	(22,488)	**4,255**	**40,050**
Comprehensive income (loss)	13,123	11,713	2,044	(24,232)	**1,884**	**17,733**
Total net assets	¥ 65,651	¥ 75,677	¥ 75,503	¥ 49,159	**¥ 50,957**	**$ 479,640**
Total assets	277,920	299,265	301,325	280,194	**276,289**	**2,600,611**
Net assets per share (yen and U.S. dollars)	¥2,218.39	¥2,554.01	¥2,537.79	¥1,576.34	**¥1,633.99**	**$ 15.38**
Net income (loss) per share (yen and U.S. dollars)	213.24	202.00	252.15	(814.10)	**154.00**	**1.44**
Capital adequacy ratio (%)	22.1	23.6	23.3	15.5	**16.4**	
Return on equity (%)	10.5	8.5	9.9	(39.6)	**9.6**	
Price earnings ratio (%)	10.8	13.3	6.4	—	**9.9**	
Cash flows from operating activities	¥ 18,803	¥ 16,223	¥ 6,304	¥ 10,048	**¥ 7,140**	**$ 67,206**
Cash flows from investing activities	(12,105)	(13,301)	(14,932)	(10,371)	**4,093**	**38,525**
Cash flows from financing activities	(8,675)	(2,022)	6,066	(2,479)	**(6,536)**	**(61,521)**
Cash and cash equivalents at end of the year	19,078	20,588	17,482	14,040	**18,776**	**176,731**
Gross profit	¥ 48,101	¥ 57,246	¥ 53,311	¥ 49,319	**¥ 52,654**	**$ 495,613**
Gross profit ratio (%)	17.5	18.6	18.1	17.5	**18.3**	
Ratio of SG&A expenses (%)	15.7	15.6	16.3	16.9	**16.4**	
Total net assets ratio (%)	23.6	25.3	25.1	17.5	**18.4**	

Note: U.S. dollar figures are translated, for convenience only, at the rate of ¥106.24 to US$1.00, the effective rate of exchange prevailing on March 31, 2018.
The Company implemented a 5-for-1 share consolidation on October 1, 2017. Net assets per share and Net income (loss) per share are stated as if the share consolidation was implemented at the beginning of the fiscal year 2013.

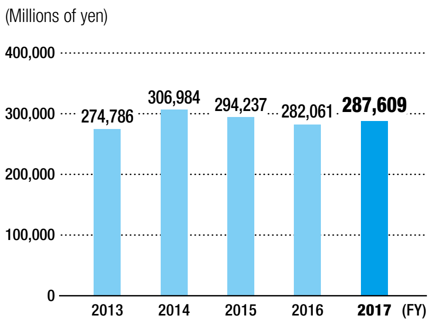
Environmental Figures

	FY2013	FY2014	FY2015	FY2016	**FY2017**
Energy usage (in GJ)	2,654,591	2,764,352	2,803,609	2,829,938	**2,853,787**
CO_2 emissions (in t-CO_2)	124,080	129,026	130,335	132,505	**136,629**

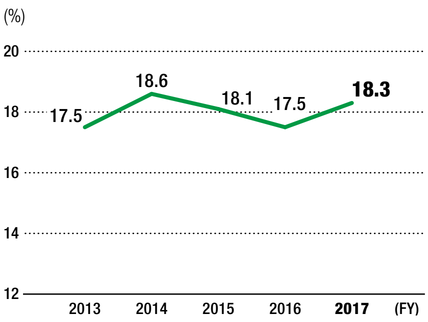
Number of Employees by Region

	FY2013	FY2014	FY2015	FY2016	**FY2017**
Japan	4,432	4,340	4,168	3,836	**3,622**
Asia-Pacific	5,449	5,901	5,655	5,634	**5,630**
Americas	1,581	1,464	1,251	1,186	**1,019**
Europe	1,818	1,810	2,152	2,742	**2,869**
Total	13,280	13,515	13,226	13,398	**13,140**

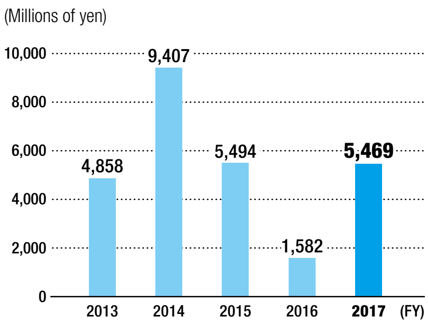
Net Sales



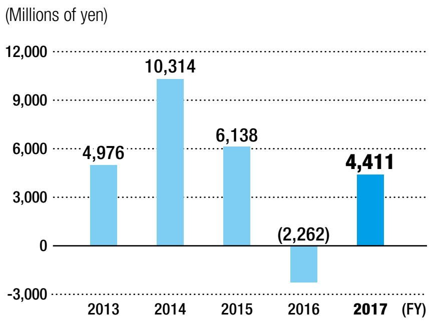
Gross Profit Ratio



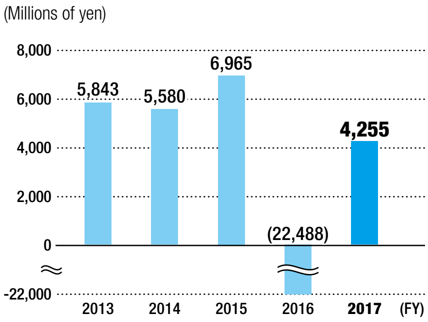
Operating Income



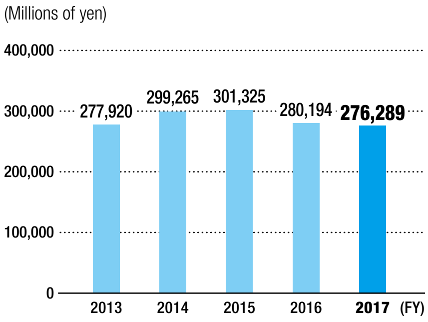
Ordinary Income (Loss)



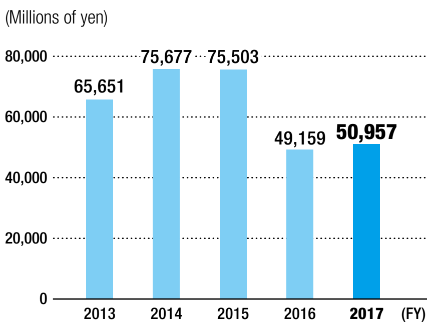
Net Income (Loss) Attributable to Owners of the Parent



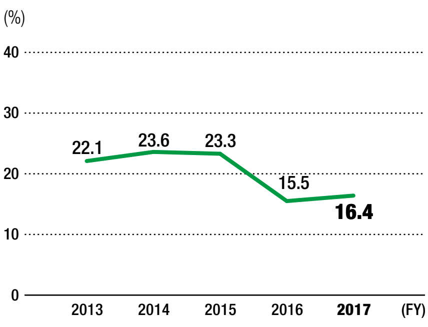
Total Assets



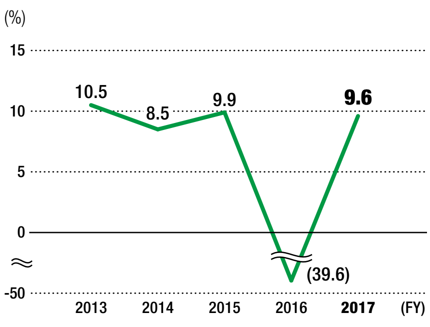
Total Net Assets



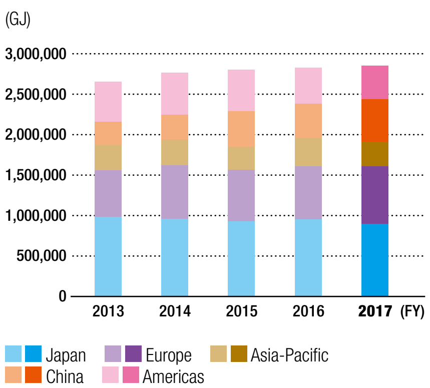
Capital Adequacy Ratio



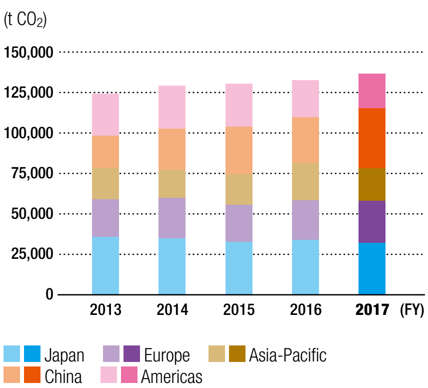
ROE



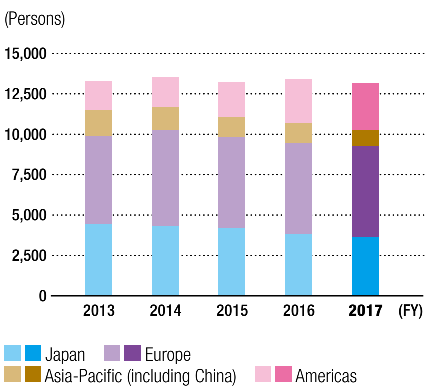
Energy Usage by Region



CO_2 Emissions by Region



Number of Employees by Region



* No companies are accounted for by the equity method.

We will push forward toward steadily achieving the goals of our Corporate Mid-Term Plan.

Kin-ei Kanda
Representative Director & President

Fiscal 2017 Results

The Sanden Group announced details of its Corporate Mid-Term Plan, under the concept of "Shrink to Grow," in May 2017. The goals of this plan are to carry out the comprehensive structural reforms initiated during fiscal 2016 and to promptly return the Group to a growth path. At the same time, we identified specific financial targets and a plan to achieve net sales of ¥320.0 billion, an ordinary income ratio of 5%, and an equity ratio of 25% in fiscal 2020. With this in mind, we identifed four key Mid-Term Plan initiatives including comprehensive cost transformation, asset efficiency enhancement, optimization of the business portfolio, and management system reform to achieve our stated goals. In fiscal 2017, the fiscal year ended March 31, 2018 and the first year of our Corporate Mid-Term Plan, we reported an increase in revenue and earnings. In specific terms, net sales climbed to ¥287.6 billion and ordinary income reached ¥4.4 billion. In addition, comprehensive structural reforms generated returns totaling ¥8.0 billion, up ¥5.0 billion compared with the previous fiscal year, contributing significantly to improved results in fiscal 2017 and driving the Group forward in fiscal 2018 and beyond.

Progress under the Corporate Mid-Term Plan

1. Comprehensive cost transformation

One key component of the Group's comprehensive cost transformation initiative is productivity innovation. In the fiscal year under review, successful steps were taken to strengthen the capability of the Group's Yattajima Plant, to support overseas business locations as a global mother plant and the mainstay domestic production facility of the Automotive Systems Business. These actions were in response to the Group's ongoing trend toward overseas production and the launch of new models in the automotive sector. Moving forward, we will continue to focus on cost reduction and promote the start-up of new production processes. We introduced flexible production line and cell management systems at the Group's Akagi Plant, the principal domestic production facility in the Commercial Store Systems Business, and rolled out these manufacturing improvements to overseas business locations.

Furthermore, building on measures undertaken in fiscal 2016, we worked to restructure operations in the Americas and completed the reorganization of the Automotive Systems Business in Japan during fiscal 2017. Every effort is being made to meet the increasingly diverse requirements of customers in a timely manner while realizing low-cost, high-mix, low-volume, high-efficiency production and curtailing Group-wide costs.

2. Asset efficiency enhancement

In order to reinforce the Group's business competitiveness, it is vital that we strengthen our overall financial structure. Accordingly, we generated cash flows in excess of ¥20.0 billion in fiscal 2017. This included ¥6.8 billion through improvements in working capital, ¥4.0 billion from the sale of noncurrent assets, and ¥9.8 billion from the sale of investment securities. Looking ahead, we will continue to strengthen our overall financial structure in order to reinforce our business competitiveness through the optimal allocation of investments.

3. Optimization of the business portfolio

Recognizing the limited nature of the Group's management resources and the need to focus on growth fields, we decided to withdraw from production in the Living Environment Systems Business. As a result, we are allocating management resources from this business to fields where further growth is anticipated. Looking to meet the upswing in future demand, we are working to bolster our production capabilities worldwide particularly in the growth markets of China and Europe. We have, for example, commenced operations at a new plant in China. This new plant boasts the Group's largest production capacity. In addition, we set up branch plants in Tianjin and Chongqing to better address the increase in customer demand and enable supplying of products throughout China. Taking into consideration the Chinese government's recent policy to promote the shift to environmentally friendly vehicles, we are endeavoring to make strategic inroads into the Chinese market as a group.

On top of existing facilities in Japan and Europe, we are also introducing an electric compressor production line in China. Plans are in place to establish a global production structure that is capable of producing 1.5 million units by August 2018. In addition, we are rolling out a heat pump air-conditioning system production line for electric vehicles and are looking to bring online a climate wind tunnel in Tianjin. Through these means, we are working to capture new business opportunities.

Mid-Term Target

(Billions of Yen)

	FY2016	FY2020
Net Sales	282.1	320.0
Ordinary Income Ratio	(1)%	5%
Equity Ratio	16%	25%

4 Key Initiatives

1	**Comprehensive cost transformation to improve profitability**	Material and parts procurement transformation
		Productivity innovation
		Quality reforms
2	**Asset efficiency enhancement to strengthen the overall financial structure**	Selection and concentration of investment
		Reduction of working capital
		Liquidation of non-core assets
3	**Optimization of the business portfolio to create corporate value**	
4	**Management system reform to achieve sustainable growth**	

4. Management system reform

Sanden has identified corporate governance and the need to further strengthen its global management structure as issues requiring reform. From a governance perspective, the Company increased the number of outside directors from two to three in fiscal 2017 in order to improve management transparency. At the same time, we established the Executive Nomination and Compensation Committee to nurture future leaders and structure compensation schemes. As far as its global management structure is concerned, steps were taken to streamline the Group's organization and to optimize management resources. To further delegate authority to and strengthen the business companies, we adopted a headquarters system at each business company in an effort to increase the pace of our operations and bolster our manufacturing and material and parts procurement capabilities. Implementation of these measures during the previous fiscal year allowed Sanden to further strengthen its global business competitiveness. During the mid-term, we will continue to take action to reform management systems as necessary to achieve the goals of our Corporate Mid-Term Plan.

5. Growth business strategies

In our Automotive Systems Business, we are providing environmentally friendly products that enhance value while addressing customers' needs by drawing on our global capabilities to deliver innovative and unique items. The automobile market is again projected to achieve 3% annual growth going forward. We plan to secure growth in excess of the market in areas that include automobiles, trucks, and construction machinery. Harnessing such strengths as our global customer base, innovative and environmentally friendly product technologies, and global manufacturing network, we will lift the current level of sales from ¥200.0 billion to ¥230.0 billion and compressor production capacity from 17 million units to 21 million units by 2020 and higher thereafter.

First, we will continue to bolster the competitiveness of our mainstay PX compressor. Among a host of initiatives, we are rolling out a new EPX model, which dramatically exceeds the performance of the existing PX compressor, reducing clutch costs, and developing large-capacity compressors.

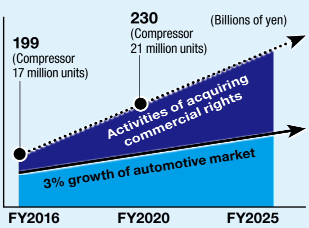
Meanwhile, we are ramping up efforts to develop, upgrade, and expand products for electric vehicles in

Automotive Systems Business

Growth Business Strategies

Principle of growth: Keep offering "Impression" by utilizing global strength, innovation, and uniqueness of environmentally friendly products

- China: Partner strategies OEM
- Europe: Eco-friendly products (EC, PX)
- Americas: High efficiency, large

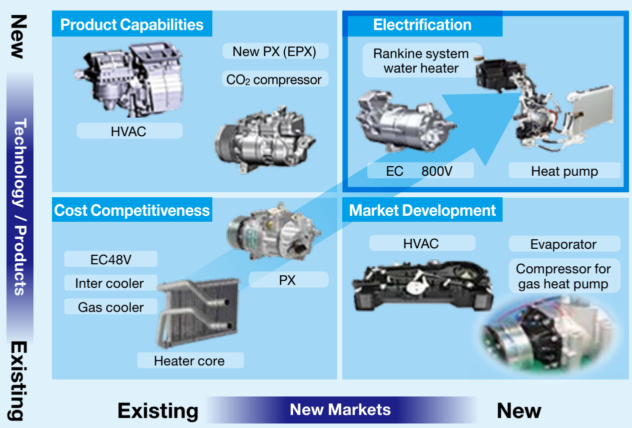


Providing eco-friendly products that contribute to enhance the value of world-class customers' vehicles and customer satisfaction

Strengths

- **Customers' foundation on a global bases**
- **Innovative technologies for eco-friendly products**
- **Global manufacturing base and network**

Initiatives for Business Growth



response to the growing trend toward vehicle electrification. Sanden has already commenced the production of various products for environmentally friendly cars. This includes the strategically developed electric compressor together with heat pump air-conditioning systems as well as electric water heaters for electric vehicles.

Looking ahead, Sanden will strategically develop and release products that address the needs of customers and the market while meeting its environmental Top Runner targets on a progressive basis. In this manner, we will secure definitive growth in 2025, 2030, and beyond.

In the Commercial Store Systems Business, we are deploying technologies and services while taking full advantage of the IoT phenomenon in a bid to realize new global next-generation solutions that focus on products, systems, and services or convenience stores, vending machines, as well as temperature-humidity monitoring services. Drawing on the inherent strengths of its value chain and existing technology flexibility, and as the only company in the distribution industry with a four global base structure that encompasses Japan, the Americas, Europe, and Asia, Sanden will continue to provide safety and peace of mind in people's future dietary and daily lives. Making the most of its strengths, the Company will develop and roll out products and services that help address many of the challenges that customers continue to face, including sales growth and the need to save labor.

In addition to the existing can and plastic bottle vending machine as well as convenience markets, we will develop and launch unstaffed store and micro-market products and services that employ automated take-out, IoT, and other conventional technologies. Moreover, we are making plans to enter the restaurant business by focusing on the competitive advantage of our temperature-humidity control systems.

Over and above these new products and markets, we are supporting customers' efforts to enhance value by strengthening our global services and maintenance systems. In fiscal 2017, we established service and maintenance companies in South Korea, Thailand, and Taiwan. In addition to properly addressing the growing interest in food safety and security especially in Southeast Asia, we will help customers enhance their corporate value.

Moving forward, we will work to achieve our Corporate Mid-Term Plan while at the same time meeting the expectations of all stakeholders. As we work toward achieving our goals, we ask for your continued support and understanding.

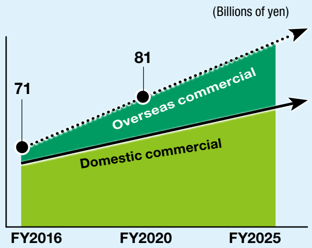
June 2018

Commercial Store Systems Business

Growth Business Strategies

Principle of growth: Create the future that realizing the solution of next generation with technology, service, and IoT

・Cold chain
・Partner strategy

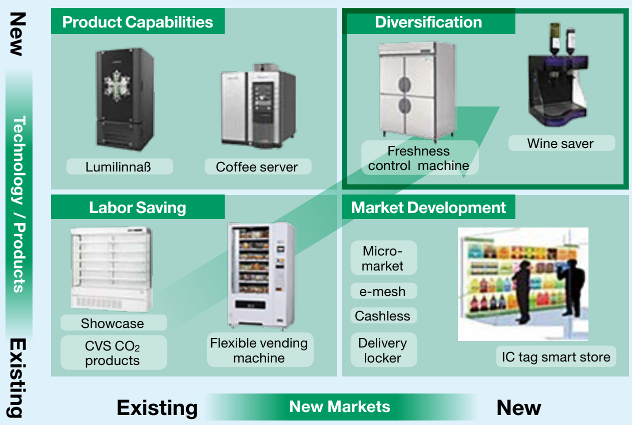


Expanding cold chain system to overseas along with enhancing service of products that was cultivated by highly developed value chain in Japan

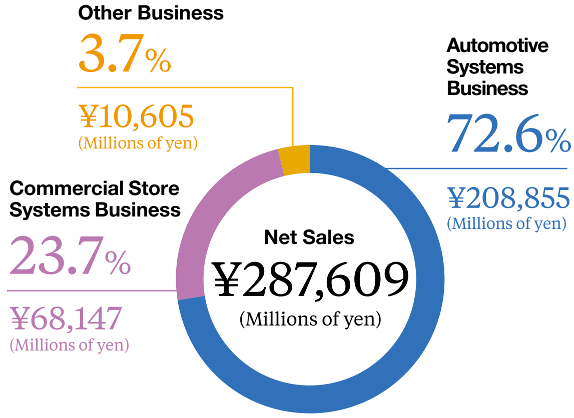
Strengths

- **Value chain (cold chain) know-how**
- **Flexibilities of existing technology**
  ・Labor Saving ・Humidity ・Control IoT
- **4 global base structure**

Initiatives for Business Growth



Net sales increased by 2.0%, to ¥287,609 million, with higher sales in the Automotive Systems Business and other factors. Operating income improved by 245.7%, to a profit of ¥5,469 million. Although the cost of raw materials increased, earnings improved mainly because of profitability improvement resulting from the comprehensive structural reforms that began in the previous fiscal year. Ordinary income was ¥4,411 million compared with a loss of ¥2,262 million one year earlier, and net income attributable to owners of the parent was ¥4,255 million compared with a loss of ¥22,488 million one year earlier.

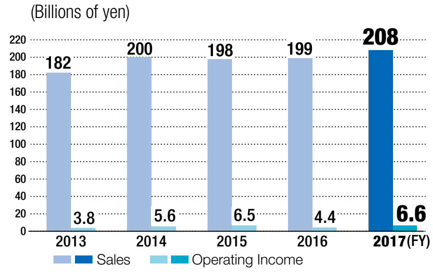


Automotive Systems Business

The Sanden Group continued to develop innovative products that reflect the environmental interests of customers. Group companies sold many products that provided value for customers, mainly with their compact, lightweight, and energy-saving functions. As a result, sales were higher than one year earlier, due in part to growth in sales in Europe and benefits from foreign exchange rates. Earnings also increased. The main reasons were the higher sales in Europe and profitability improvement resulting from the comprehensive structural reforms. As a result, segment sales increased by 4.9%, to ¥208,855 million, and operating income increased by 49.6%, to ¥6,610 million.

Sales and Operating Income

(Billions of yen)

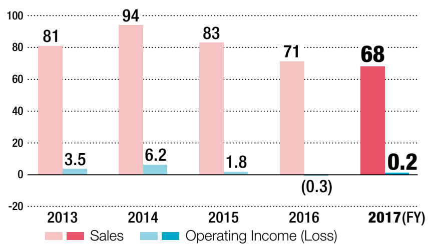


Commercial Store Systems Business

In the Retail Store Systems Sector, sales increased as the Sanden Group continued to provide comprehensive ideas and solutions encompassing products, systems, and services linked to customers' growth strategies and needs involving environmental issues. In the Vending Systems Sector, there were activities for business expansion that were centered on the development of environmentally friendly products and the launch of new products. However, sales decreased mainly because of the declining trend in the vending machines market in Japan. Segment earnings were higher than one year earlier because of the profitability improvement resulting from the comprehensive structural reforms and for other reasons. As a result, segment sales decreased by 4.4%, to ¥68,147 million, and operating income was ¥285 million compared with a ¥370 million loss one year earlier.

Sales and Operating Income (Loss)

(Billions of yen)



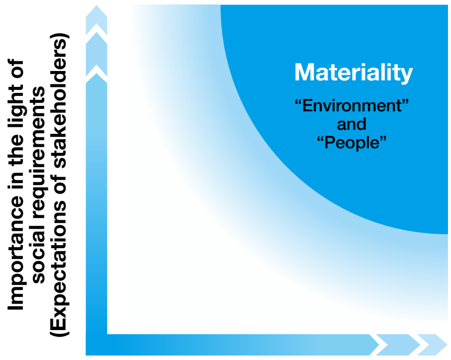
Establishing the Sanden Brand as One Trusted by Society

Consistent with its Corporate Philosophy, the Sanden Group is endeavoring to ensure the Sanden brand is one trusted by society through the provision of products, systems, and services that match the needs of society, while continuing to take on challenges and evolve amid changing times.

We identified the departments that have relationships with the CSR items listed in the Group's Corporate Philosophy, including the environment, customers, employees, shareholders and investors, and suppliers. Then, for each department, we took into consideration two major angles: namely, "importance for management" and "importance in the light of social requirements (expectations of stakeholders)." Going forward, we will set specific objectives for initiatives related to selected themes, specifically "environment" and "people," and work to raise the level of these CSR activities throughout the Group.

Moreover, we have commenced implementing global-scale initiatives that take into consideration sustainable development goals (SDGs).

Methods of Establishing Priorities and the Results



Environment

The Sanden Group considers preservation of the global environment to be the most-important shared responsibility of people everywhere. As an industrial company grounded in technology development, and manufacturing, we are developing business initiatives that take into consideration environmental conservation in all aspects of our corporate activities.

In fiscal 2017, Sanden Holdings received the 5th Green Social Contribution Award and the 37th Ministry of Land, Infrastructure, Transport and Tourism Green Urban Award in recognition of the Company's contributions to the local community and efforts to improve the environment at the Sanden Forest/Akagi Plant, a symbol of its environment-friendliness. (Please refer to page 10 for details of environmental technologies of the Sanden Group.)

Sanden Forest/Akagi Plant

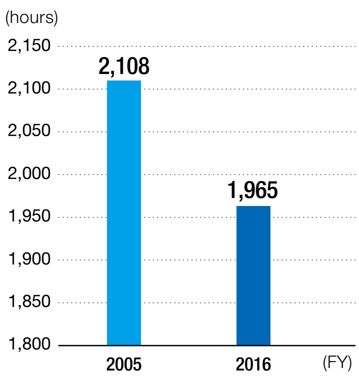
People

After identifying "people" as a material CSR item, the Sanden Group organized the working style measures it had implemented to date into a chronological table.

Over the past decade, the Group has taken positive step to ensure that workers take holidays, shortened daily working hours, and reduced overtime hours in an effort to promote work-life balance. As a result of these endeavors, average total working hours per person in 2016* fell substantially to 1,965 hours, from 2,108 hours in 2015.

Looking ahead, the Group will continue to encourage employees to take paid holidays and to ensure flexible employment that takes into consideration the circumstances of employees.

Total working hours per person in 2016*



* Required working hours average + overtime working hours average - average hours of paid holidays taken

The Sanden Group's Environmental Technologies

Globally Expanding Environmental Technologies That Launch a New Era

Standing on its product development and manufacturing capabilities, the Sanden Group engages in the development of environmental technologies in an effort to encourage customers to make use of better products. Here, we provide details of a selection of the Group's products that contribute to society through the use of environmental technologies and innovation.

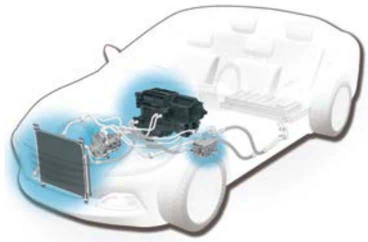
Increasing Global Production Capacity of Electric Compressors

The Sanden Group has set up and commenced operations at a new electric compressor production line at its Yattajima Plant in Isesaki City, Gunma Prefecture. Building a production structure across three locations in Japan, China, and Europe with a capacity in excess of 1.5 million units, the Group will address the growing demand for electric compressors going forward.

New electric compressor production line

Heat Pump System That Can Efficiently Heat and Cool Electric Vehicles

The Sanden Group has commenced the supply of heat pumps to Shanghai Automotive Industry Corporation (Group) through Sanden Huayu Automotive Air-Conditioning Co., Ltd. The Group's heat pump systems are the first to be installed in electric vehicles in China. Drawing on the merits of its heat pump systems to lower the power consumption of electric vehicles, the Group will work to capture orders across global markets.



Heat pump system for electric vehicles

CRYSTA II & MILK UNIT Fully Automated Coffee Machine

Released in March 2018, Sanden's cutting-edge CRYSTA II coffee server is marketed to the food service industry, including coffee shops, restaurants, and hotels. In addition to refreshing drip coffee, CRYSTA II is a commercial-use coffee machine that offers such related beverages as caffe lattes. The most-prominent feature of CRYSTA II is its ability to also provide a light foamed milk using a silky milk system. Users can enjoy an exquisite taste to the final drop of their beverage.

CRYSTA II & MILK UNIT

New Sensation Sparkling Machine Lumilinnaβ

Lumilinnaβ is a closed-front, stack machine that maintains temperatures just above freezing to vend super-chilled beverages. This machine transforms liquids into a wondrous beverage that produces a unique snow-like sensation. Lumilinnaβ opens up new market opportunities that encompass not only soft drinks, but also alcoholic beverages. Steps have been taken to promote test sales in Korea, Malaysia, and Dubai with the aim of expanding sales globally.

Lumilinnaβ

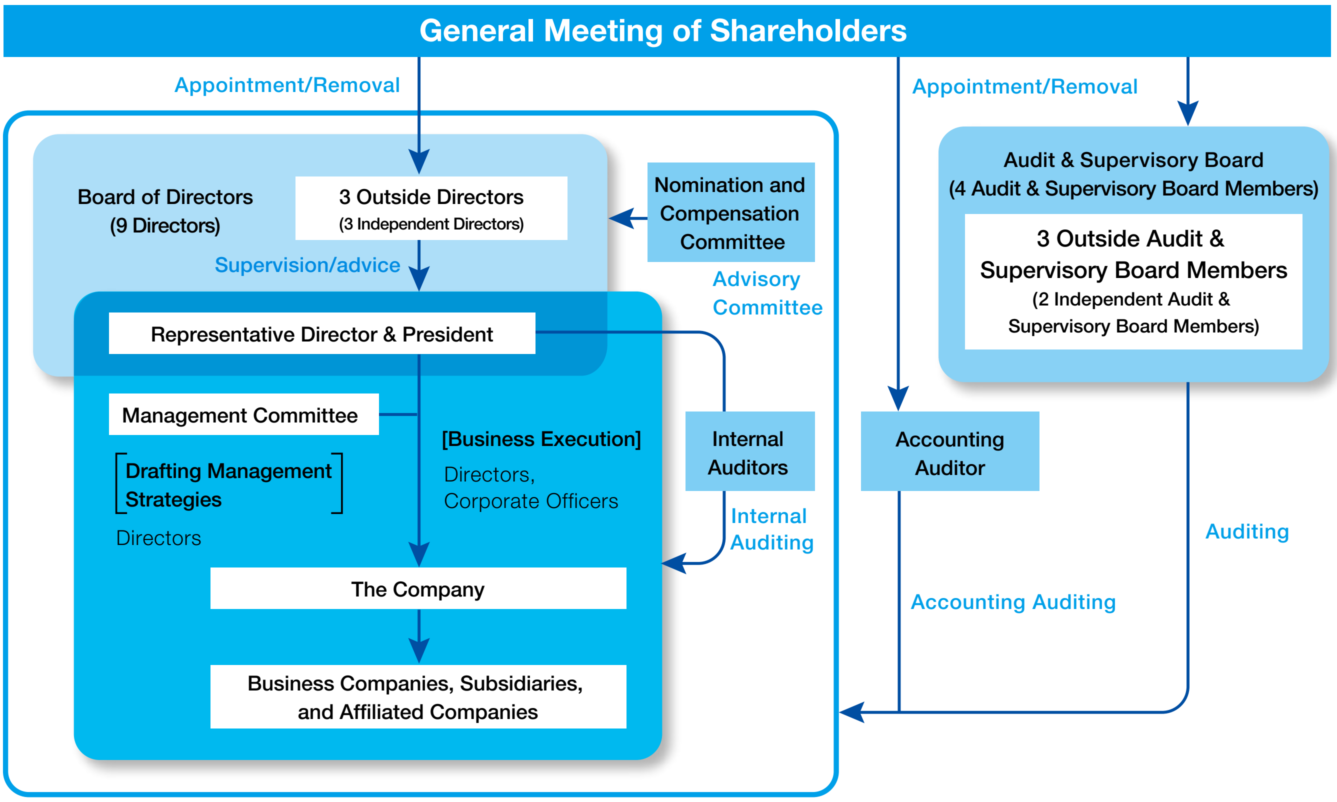
Fundamental Corporate Governance Policies

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. In addition, with the aim of securing the transparency and objectivity of management, Sanden has also established a Nomination and Compensation Committee as an advisory committee to the Board of Directors.

The Board of Directors has nine members, including three outside directors, while the Audit & Supervisory Board has four members, including three 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 five 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 a Corporate Officer system, the 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.

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



Message from Outside Directors

Hideto Ozaki
Outside Director

Career

Apr. 1968	Joined Toyota Motor Corporation
Jan. 1981	Transferred to Toyota Motor Sales U.S.A.
Jan. 1993	Accounting Division general manager
Jan. 1996	Finance Division general manager
June 1999	Director in charge of accounting/finance
July 2000	Toyota Financial Services Corporation representative director and CEO
June 2008	Aioi Insurance Co., Ltd. (presently Aioi Nissay Dowa Insurance Co., Ltd.) executive chairman
June 2013	Outside director, Sanden (present)

I will make every effort to enable Sanden's sustainable growth and increase its corporate value. The automobile industry is currently undergoing a so-called once in a century transformation, while the world of manufacturing is seeing significant changes due to the rapid progress of IT. Sanden needs to adapt and change to this new era in order to survive in 5 to 10 years' time.

It is vital for the Company to reform its inward-looking corporate culture, globalize management, utilize diverse personnel, streamline its technological development, revamp IT systems Companywide (i.e., shift to IoT-based IT systems), and beyond all else completely eliminate wasteful operations (i.e., those with no added value) to enable lean management. With Sanden transforming into a highly productive company, I would very much like to see developing new personnel be a part of this process.

Hideo Hohgi
Outside Director

Career

Apr. 1969	Joined Nissan Motor Co., Ltd.
Jan. 1991	Executive Vice President, Nissan North America
Sep. 1992	Executive Director, BMW Japan Corp.
Apr. 1996	Representative Director & President, Chrysler Japan Co., Ltd.
Apr. 2003	Professor, Graduate School of Commerce, Waseda University
May 2005	Executive Director, Waseda-Nanyang Double MBA
Oct. 2010	Director, WBS Research Center, Research Institute of the Faculty of Commerce, Waseda University
June 2015	Outside Director, Sanden (present)
June 2017	Director, Eiken Foundation of Japan (present)

I am privileged to be equipped with highly practical and managerial expertise developed at three major automotive manufacturers in Japan, Germany, and the United States and with academic knowledge and insights enhanced through research and teaching at the university. Mobilizing this wide and in-depth knowledge and more time and efforts than average external directors, I could finally locate the root causes of Sanden's weaknesses in corporate governance and management. As a member of the new Board, I will continue to do my best to expedite the governance and management improvement and the updated strategy execution and to put Sanden on a steady growth path.

Naonori Kimura
Outside Director

Career

Dec. 1988	Ran a start-up company (Sold in 1998)
June 1998	Joined NCR Japan, Ltd.
Sep. 2001	Joined Towers Perrin Tokyo Branch
Jan. 2004	Joined Arthur D Little Japan Inc.
Nov. 2007	Director, Industrial Growth Platform, Inc. (IGPI)
Jan. 2012	Partner and Managing Director, IGPI
Apr. 2013	Professor, Graduate School of Management, Globis University (present)
Jan. 2015	Partner/Member of the Board/Managing Director, IGPI (present)
Dec. 2016	Managing Director, IGPI Shanghai (present)
June 2017	Outside Director, Molten Corporation (present)
June 2017	Outside Director, Sanden (present)

For many years, I had been involved in supporting management operations at a major global manufacturer (including corporate governance formulation, strategic planning, operational reforms, and next-generation leadership training). I firmly believe that Sanden possesses latent capabilities in its business fields that it has yet to fully tap into. Given that it operates in fields that are extremely competitive, however, the Company needs to make rapid decisions and take appropriate actions to quickly respond to changing conditions that transcend the status quo. I will do my utmost to support management's steady efforts to undertake ongoing operational reforms.

Directors/Audit & Supervisory Board Members/Corporate Officers

(Back row, left to right) ❾Naonori Kimura, ❼Hideto Ozaki, ❽Hideo Hohgi, ❿Shinji Ichikawa, ⓫Hiroshi Yomo, ⓭Kazumichi Matsuki, ⓬Ichiro Yumoto
(Front row, left to right) ❺Mitsunori Kodaka, ❸Katsuya Nishi, ❶Kin-ei Kanda, ❷Tsutomu Sakakibara, ❹Mark Ulfig, ❻Tsuguo Ito

Directors

❶ Kin-ei Kanda
Representative Director & President

❷ Tsutomu Sakakibara
Representative Director & Executive Vice President

❸ Katsuya Nishi
Representative Director & Executive Vice President

❹ Mark Ulfig
Director & Executive Vice President

❺ Mitsunori Kodaka
Director & Senior Executive Corporate Officer

❻ Tsuguo Ito
Director & Senior Executive Corporate Officer

❼ Hideto Ozaki
Director (outside)

❽ Hideo Hohgi
Director (outside)

❾ Naonori Kimura
Director (outside)

Audit & Supervisory Board Members

❿ Shinji Ichikawa
Audit & Supervisory Board Member

⓫ Hiroshi Yomo
Audit & Supervisory Board Member (outside)

⓬ Ichiro Yumoto
Audit & Supervisory Board Member (outside)

⓭ Kazumichi Matsuki
Audit & Supervisory Board Member (outside)

Corporate Officers

Tadashi Kondo
Senior Executive Corporate Officer

Takao Kaihatsu
Senior Executive Corporate Officer

Takashi Kageyama
Executive Corporate Officer

Masuya Mori
Executive Corporate Officer

Akihiro Yamato
Executive Corporate Officer

Shinji Maruyama
Corporate Officer

Hiroshi Takahashi
Corporate Officer

Takashi Shimomura
Corporate Officer

Yuri Tsuji
Corporate Officer

Yoshihiro Tachikawa
Corporate Officer

Hideyuki Kobayashi
Corporate Officer

Hiroki Terao
Corporate Officer

Toru Akima
Corporate Officer

Junya Takahashi
Corporate Officer

As of June 2018

Management's Discussion & Analysis

Net Sales

We have started the four-year Corporate Mid-Term Plan that will end in March 2021 to ensure revitalization of the Sanden Group. The plan establishes the following financial targets and has four key initiatives in order to reach these targets.

- **Financial targets**
  Net Sales: ¥320 billion
  Ordinary Income Ratio: 5%
  Equity Ratio: 25%
- **4 Key initiatives**
  (1) Comprehensive cost transformation to improve profitability
  (2) Asset efficiency enhancement to strengthen the overall financial structure
  (3) Optimization of business portfolio to create corporate value
  (4) Management system reforms to achieve sustained growth

Due to activities based on this plan, on a consolidated basis of the Sanden Group, net sales for fiscal year 2017, ended March 31, 2018 increased by 2.0%, or ¥5.5 billion, compared with the previous fiscal year, to ¥287.6 billion ($2,707.1 million).

First, in the Automotive Systems Business, Sanden continued to develop innovative products that reflect the environmental interests of customers. Group companies sold many products that provided value for customers, centering mainly on compact, lightweight, and energy-saving features. As a result, sales were higher than one year earlier, due in part to growth in sales in Europe and benefits from foreign exchange rates.

Earnings also increased. The main reasons were the higher sales in Europe and profitability improvement resulting from the comprehensive structural reforms.

As a result, Automotive Systems Business segment sales were ¥208.8 billion ($1,965.8 million), up 4.9% from the previous fiscal year. Operating income was ¥6.6 billion ($62.2 million), representing an increase of 49.6% from the previous fiscal year.

Second, in the Retail Store Systems Sector of the Commercial Store Systems Business, sales increased as the Sanden Group continued to provide comprehensive ideas and solutions encompassing products, systems, and services linked to customers' growth strategies and needs involving environmental issues.

In the Vending Systems Sector of the Commercial Store Systems Business, there were activities for business expansion that were centered on the development of environmentally friendly products and the launch of new products. However, sales decreased mainly because of the declining trend in the vending machines market in Japan.

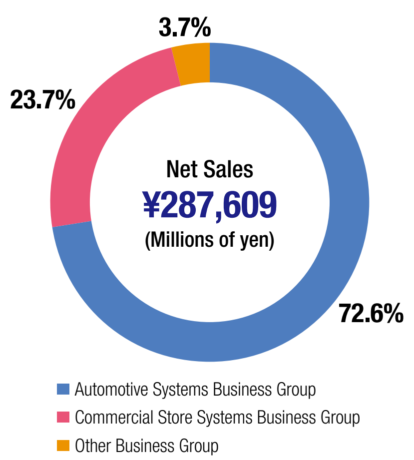
Segment earnings were higher than one year earlier because of the profitability improvement resulting from the comprehensive structural reforms and for other reasons.

As a result, Commercial Store Systems Business segment sales were ¥68.1 billion ($641.4 million), down 4.4% from the previous fiscal year, and the operating income was ¥0.2 billion ($2.6 million) (compared with a ¥0.3 billion operating loss in the previous fiscal year).

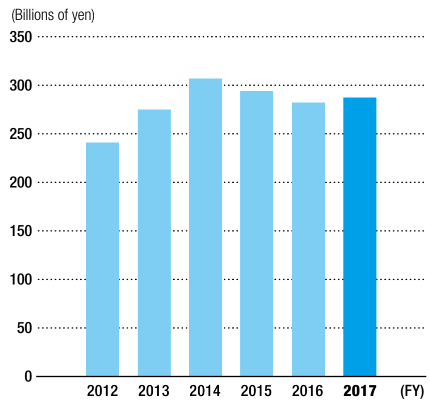
Costs, Expenses, and Earnings

Net sales increased by 2.0%, or ¥5.5 billion, to ¥287.6 billion ($2,707.1 million) as mentioned above. Cost of sales increased by 1.0%, or ¥2.2 billion, compared with the previous fiscal year,

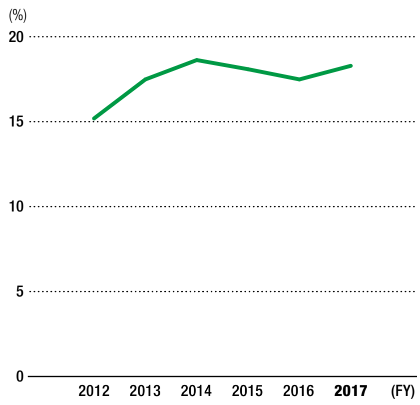
Breakdown of Net Sales



Net Sales



Gross Profit Ratio



to ¥234.9 billion ($2,211.5 million). Consequently, gross profit amounted to ¥52.6 billion ($495.6 million), up 6.8%, or ¥3.3 billion, and the gross profit ratio rose from 17.5% to 18.3%.

SG&A expenses decreased to ¥47.1 billion ($444.1 million), and the ratio of SG&A expenses to net sales fell 0.5 percentage point, to 16.4%, compared with the previous fiscal year. Research and development (R&D) expenses, which are charged to manufacturing costs and SG&A expenses, decreased 0.6%, to ¥7.8 billion ($73.9 million). The ratio of R&D expenses to net sales slipped 0.1 percentage point, to 2.7%, compared with the previous fiscal year.

Operating income amounted to ¥5.4 billion ($51.4 million), compared with ¥1.5 billion in the previous fiscal year. Earnings improved mainly because of the improvement in profitability resulting from the comprehensive structural reforms that began in the previous fiscal year.

Other income (expenses) amounted to a gain of ¥0.3 billion ($3.7 million), compared with a loss of ¥20.5 billion in the previous fiscal year.

As a result of the above factors, income before income taxes was ¥5.8 billion ($55.2 million), compared with a loss of ¥18.9 billion in the previous fiscal year. Net income attributable to owners of the parent came to ¥4.2 billion ($40.0 million), compared with the net loss attributable to owners of the parent of ¥22.4 billion in the previous fiscal year. Despite incurring other expenses of ¥5.6 billion, which included impairment losses on property, plant and equipment, at cost of ¥2.9 billion following a review of the business portfolio, as a part of the Company's structure reform cost, this positive turnaround was largely due to the aforementioned movement in operating income as well as the posting of other income totaling ¥7.0 billion, which included a gain on sales of investment securities, as a part of efforts to strengthen the Company's overall financial structure by enhancing the efficiency of assets. Return on equity was up from -39.6 to 9.6%.

Financial Position

Total assets at March 31, 2018 decreased by ¥3.9 billion compared with the end of the previous fiscal year, to ¥276.2 billion ($2,600.6 million). This mainly reflected decreases in trade notes and accounts receivable as well as investment securities.

Total liabilities declined by ¥5.7 billion year on year, to ¥225.3 billion ($2,120.9 million), mainly reflecting decreases in payables-other and interest-bearing liabilities.

Total net assets increased by ¥1.7 billion compared with the previous fiscal year-end, to ¥50.9 billion ($479.6 million), largely owing to the increase in net income attributable to owners of the parent.

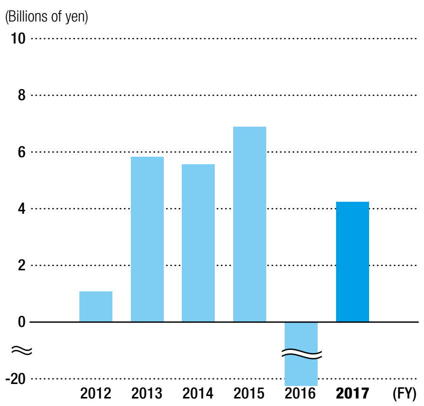
Sanden incurred a substantial deterioration of its net assets during the previous fiscal year owing primarily to the implementation of various measures aimed at strengthening the Company's structure and the posting of losses relating to the anti-monopoly law. Moving forward, Sanden will continue to strengthen its overall financial structure through a wide range of initiatives, including efforts to enhance the efficiency of its assets.

Liquidity

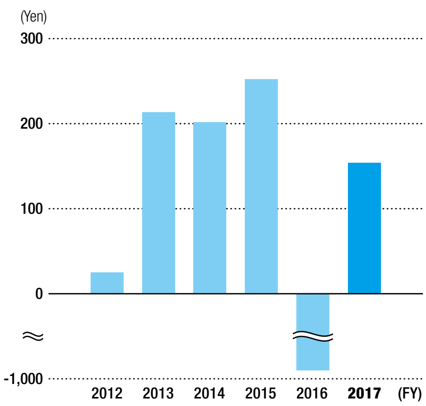
(1) Cash Flows

Net cash provided by operating activities for the fiscal year under review amounted to ¥7.1 billion ($67.2 million), which was ¥2.9 billion lower than the previous fiscal year. While income before income taxes of ¥5.8 billion ($55.2 million) as well as the decrease in trade accounts and notes receivable of ¥6.0 billion

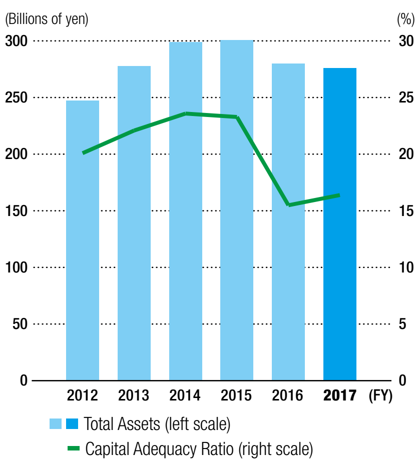
Net Income (Loss) Attributable to Owners of the Parent



Net Income (Loss) per Share



Total Assets/Capital Adequacy Ratio



($57.3 million) had a positive effect on operating cash flows, the Company reported such cash outflows from operating activities as a decrease in accounts payable-other of ¥5.6 billion ($53.4 million) in connection with losses relating to the anti-monopoly law posted during the previous fiscal year.

Net cash provided by investing activities amounted to ¥4.0 billion ($38.5 million), which was a turnaround of ¥14.4 billion compared with net cash used in investing activities in the previous fiscal year. The principal investing cash outflow was purchases of property, plant and equipment of ¥8.8 billion ($83.3 million). Major investing cash inflows included proceeds from sales of investment securities of ¥8.7 billion ($82.1 million) and proceeds from sale of property, plant and equipment of ¥4.0 billion ($37.9 million).

Net cash used in financing activities came to ¥6.5 billion ($61.5 million), which was ¥4.0 billion higher than the previous fiscal year. Major cash inflows from financing activities included proceeds from long-term loans payable and proceeds from issuance of bonds together totaling ¥36.3 billion ($342.3 million). This was more than offset by such outflows from financing activities as the repayment of long-term loans payable and net decrease in short-term bank loans totaling ¥40.6 billion ($382.8 million).

Taking into consideration these cash flows together with the effect of exchange rate changes on cash and cash equivalents, cash and cash equivalents at the end of the fiscal year were ¥18.7 billion ($176.7 million), which was ¥4.7 billion higher than the cash and cash equivalents of ¥14.0 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.

Sanden procures the funds necessary to meet its essential requirement from a variety of sources. In addition to drawing on its operating cash flows and own resources, these sources include borrowings from financial institutions and the issuance of corporate bonds.

(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, 2018, short-term bank loans amounted to ¥45.0 billion ($423.6 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, 2018, long-term bank loans amounted to ¥81.1 billion ($763.6 million). A large part of the long-term bank loans was borrowed with fixed interest rates from financial institutions. It included ¥36.3 billion ($342.3 million), which was borrowed and bonds 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, 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, Asia, and China, 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

The Sanden Group engages in a wide range of activities including the manufacture and sales of products and systems mainly through its Automotive Systems and Commercial Store Systems businesses. As these activities involve the procurement of raw materials and parts, a variety of factors including the shortage of items or sharp upswings in prices attributable to changes in market conditions that result 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

Based on its well-measured forecasts of trends and changes in the market, the Sanden Group develops cutting-edge technologies, which are then used in its products, and works to globally expand its business across a wide range of areas including its Automotive Systems and Commercial Store Systems businesses. In the event that forecasts differ from trends and changes in the market and difficulties in the development and introduction of products are encountered, 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, Asia, and China. 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.

Consolidated Balance Sheets

Sanden Holdings Corporation and Consolidated Subsidiaries
March 31, 2018 and 2017

ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current assets:			
Cash and time deposits (Notes 6, 9 and 15)	**¥ 18,776**	¥ 14,040	**$ 176,731**
Receivables (Notes 6, 9 and 12):			
Trade notes and accounts	**49,489**	55,808	**465,822**
Unconsolidated subsidiaries and affiliates	**25,589**	24,428	**240,860**
Other	**5,001**	4,567	**47,072**
Allowance for doubtful accounts	**(678)**	(753)	**(6,381)**
Inventories (Notes 3 and 9)	**47,490**	47,180	**447,006**
Deferred income taxes (Note 5)	**2,590**	2,372	**24,378**
Prepaid expenses and other current assets (Notes 6 and 12)	**13,694**	9,488	**128,896**
Total current assets	**161,954**	157,132	**1,524,416**
Investments and other assets:			
Investment securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	**21,774**	22,567	**204,951**
Other	**1,186**	9,299	**11,163**
Net defined benefit asset (Note 8)	**118**	90	**1,110**
Deferred income taxes (Note 5)	**2,691**	2,621	**25,329**
Intangible assets	**3,869**	4,422	**36,417**
Other	**6,018**	6,026	**56,645**
Allowance for doubtful accounts	**(3,064)**	(3,216)	**(28,840)**
Total investments and other assets	**32,594**	41,811	**306,795**
Property, plant and equipment, at cost (Note 9)**:**			
Land	**16,912**	17,879	**159,186**
Buildings and structures	**62,908**	62,128	**592,131**
Machinery and equipment	**102,666**	106,240	**966,359**
Furniture and fixtures	**44,438**	43,482	**418,279**
Lease assets	**23,651**	23,394	**222,618**
Construction in progress	**6,699**	5,562	**63,055**
Total	**257,277**	258,688	**2,421,658**
Accumulated depreciation	**(175,536)**	(177,438)	**(1,652,259)**
Net property, plant and equipment	**81,741**	81,250	**769,399**
Total assets	**¥276,289**	¥280,194	**$2,600,611**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term bank loans (Notes 6 and 9)	**¥ 45,011**	¥ 54,518	**$ 423,672**
Long-term debt due within one year (Notes 6 and 9)	**19,011**	29,789	**178,943**
Payables (Note 6):			
Trade notes and accounts	**52,466**	51,808	**493,844**
Unconsolidated subsidiaries and affiliates	**1,058**	1,221	**9,958**
Other	**10,998**	14,689	**103,520**
Income taxes payable (Notes 5 and 6)	**699**	993	**6,579**
Accrued employees' bonuses	**3,759**	3,793	**35,382**
Allowance for outstanding claims	**986**	—	**9,280**
Accrued liabilities	**4,189**	5,820	**39,429**
Lease obligations due within one year (Notes 6 and 9)	**2,018**	1,900	**18,994**
Deferred income taxes (Note 5)	**29**	7	**272**
Other current liabilities (Note 12)	**10,027**	8,852	**94,380**
Total current liabilities	**150,257**	173,396	**1,414,316**
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 9)	**62,121**	44,181	**584,723**
Net defined benefit liability (Note 8)	**3,376**	3,257	**31,777**
Officers' retirement benefits	**—**	112	**—**
Deferred income taxes (Note 5)	**815**	1,724	**7,671**
Lease obligations due after one year (Notes 6 and 9)	**6,113**	5,247	**57,539**
Other noncurrent liabilities (Note 13)	**2,647**	3,115	**24,915**
Total long-term liabilities	**75,075**	57,637	**706,654**
Contingent liabilities (Note 12)			
Net assets (Note 10)**:**			
Stockholders' equity:			
Common stock:			
Authorized: 79,200,000 shares			
Issued: 28,066,313 shares	**11,037**	11,037	**103,887**
Capital surplus	**3,731**	3,747	**35,118**
Retained earnings	**33,703**	29,447	**317,234**
Treasury stock, at cost: 413,024 and 439,448 shares in 2018 and 2017, respectively	**(1,126)**	(1,203)	**(10,598)**
Total stockholders' equity	**47,346**	43,028	**445,651**
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities, net of taxes	**292**	3,618	**2,748**
Unrealized gains (losses) on hedging derivatives, net of taxes	**(16)**	(16)	**(150)**
Foreign currency translation adjustments	**(1,484)**	(2,048)	**(13,968)**
Remeasurements of defined benefit plans, net of taxes	**(954)**	(1,032)	**(8,979)**
Total accumulated other comprehensive income	**(2,161)**	520	**(20,340)**
Non-controlling interests in consolidated subsidiaries	**5,772**	5,610	**54,329**
Total net assets	**50,957**	49,159	**479,640**
Total liabilities and net assets	**¥276,289**	¥280,194	**$2,600,611**

Note: The Company implemented a 5-for-1 share consolidation on October 1, 2017. The numbers of shares are stated as if the share consolidation was implemented on April 1, 2016.
See accompanying notes.

Consolidated Statements of Operations

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net sales (Note 19)	**¥287,609**	¥282,061	**$2,707,163**
Cost of sales	**234,955**	232,742	**2,211,549**
Gross profit	**52,654**	49,319	**495,613**
Selling, general and administrative expenses (Note 20)	**47,185**	47,737	**444,135**
Operating income (Note 19)	**5,469**	1,582	**51,477**
Other income (expenses):			
Interest and dividend income	**246**	248	**2,315**
Exchange gains (losses), net	**(1,437)**	(2,838)	**(13,525)**
Equity in net income of affiliates	**2,667**	3,385	**25,103**
Interest expense	**(2,180)**	(2,218)	**(20,519)**
Gain (loss) on sales and disposals of property, plant and equipment, net	**132**	2,386	**1,242**
Gain on sales of investment securities	**5,488**	38	**51,656**
Extraordinary product warranty cost (Note 21)	**—**	(3,410)	**—**
Loss related to antitrust law (Note 22)	**—**	(7,777)	**—**
Structure reform cost (Notes 23 and 24)	**(2,884)**	(7,803)	**(27,146)**
Provision for outstanding claims (Note 25)	**(1,901)**	—	**(17,893)**
Other, net	**266**	(2,559)	**2,503**
Other income (expenses)	**398**	(20,548)	**3,746**
Income (loss) before income taxes	**5,867**	(18,966)	**55,224**
Income taxes (Note 5)**:**			
Current	**1,269**	1,812	**11,944**
Deferred	**139**	1,071	**1,308**
Total income taxes	**1,409**	2,884	**13,262**
Net income (loss)	**4,458**	(21,850)	**41,961**
Net income attributable to non-controlling interests	**202**	638	**1,901**
Net income (loss) attributable to owners of the parent	**¥ 4,255**	¥ (22,488)	**$ 40,050**

	Yen		U.S. dollars (Note 1)
	2018	2017	**2018**
Amounts per share of common stock:			
Net income (loss):			
Basic	**¥ 154.00**	¥ (814.10)	**$ 1.44**
Diluted	**—**	—	**—**
Cash dividends applicable to the year	**¥ —**	¥ —	**$ —**

Note: The Company implemented a 5-for-1 share consolidation on October 1, 2017. The amounts per share are computed as if the share consolidation was implemented on April 1, 2016.
See accompanying notes.

Consolidated Statements of Comprehensive Income

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net income (loss)	**¥4,458**	¥(21,850)	**$41,961**
Other comprehensive income (Note 11):			
Net unrealized gains (losses) on securities, net of taxes	**(3,323)**	1,116	**(31,278)**
Unrealized gains (losses) on hedging derivatives, net of taxes	**0**	131	**0**
Foreign currency translation adjustments	**1,001**	(2,406)	**9,422**
Remeasurements of defined benefit plans, net of taxes	**78**	266	**734**
Share of other comprehensive income of affiliates accounted for using equity method	**(331)**	(1,490)	**(3,115)**
Total other comprehensive income	**(2,573)**	(2,381)	**(24,218)**
Comprehensive income	**¥1,884**	¥(24,232)	**$17,733**
Total comprehensive income attributable to:			
Owners of the parent	**¥1,574**	¥(24,481)	**$14,815**
Non-controlling interests	**310**	249	**2,917**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen											
	Stockholders' equ ty					Accumulated other comprehensive income						
Year ended March 31, 2017	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 benef t 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	¥3,747	¥54,021	¥(1,221)	¥67,584	¥2,496	¥(147)	¥ 1,464	¥(1,299)	¥2,513	¥5,405	¥75,503
Net loss attributable to owners of the parent	—	—	(22,488)	—	(22,488)	—	—	—	—	—	—	(22,488)
Cash dividends paid (¥15.00 per share)	—	—	(2,085)	—	(2,085)	—	—	—	—	—	—	(2,085)
Increase in net unrealized gains (losses) on securities, net of taxes	—	—	—	—	—	1,121	—	—	—	1,121	—	1,121
Increase due to changes in fair value of hedging derivatives	—	—	—	—	—	—	131	—	—	131	—	131
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	(3,512)	—	(3,512)	—	(3,512)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	266	266	—	266
Increase in non-controlling interests	—	—	—	—	—	—	—	—	—	—	205	205
Disposal of treasury stock	—	(0)	—	23	23	—	—	—	—	—	—	23
Acquisition of treasury stock	—	—	—	(5)	(5)	—	—	—	—	—	—	(5)
Balance at end of year	¥11,037	¥3,747	¥29,447	¥(1,203)	¥43,028	¥3,618	¥ (16)	¥(2,048)	¥(1,032)	¥ 520	¥5,610	¥49,159

	Millions of yen											
	Stockholders' equ ty					Accumulated other comprehensive income						
Year ended March 31, 2018	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 benef t 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	¥3,747	¥29,447	¥(1,203)	¥43,028	¥3,618	¥(16)	¥(2,048)	¥(1,032)	¥ 520	¥5,610	¥49,159
Net income attributable to owners of the parent	**—**	**—**	**4,255**	**—**	**4,255**	**—**	**—**	**—**	**—**	**—**	**—**	**4,255**
Decrease in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**(3,325)**	**—**	**—**	**—**	**(3,325)**	**—**	**(3,325)**
Increase due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**0**	**—**	**—**	**0**	**—**	**0**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**564**	**—**	**564**	**—**	**564**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**78**	**78**	**—**	**78**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**161**	**161**
Disposal of treasury stock	**—**	**(15)**	**—**	**83**	**67**	**—**	**—**	**—**	**—**	**—**	**—**	**67**
Acquisition of treasury stock	**—**	**—**	**—**	**(6)**	**(6)**	**—**	**—**	**—**	**—**	**—**	**—**	**(6)**
Balance at end of year	**¥11,037**	**¥3,731**	**¥33,703**	**¥(1,126)**	**¥47,346**	**¥ 292**	**¥(16)**	**¥(1,484)**	**¥ (954)**	**¥(2,161)**	**¥5,772**	**¥50,957**

	Thousands of U.S. dollars (Note 1)											
	Stockholders' equity					Accumulated other comprehensive income						
Year ended March 31, 2018	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 benef t plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	$103,887	$35,269	$277,174	$(11,323)	$405,007	$34,054	$(150)	$(19,277)	$(9,713)	$ 4,894	$52,804	$462,716
Net income attributable to owners of the parent	**—**	**—**	**40,050**	**—**	**40,050**	**—**	**—**	**—**	**—**	**—**	**—**	**40,050**
Decrease in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**(31,297)**	**—**	**—**	**—**	**(31,297)**	**—**	**(31,297)**
Increase due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**0**	**—**	**—**	**0**	**—**	**0**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,308**	**—**	**5,308**	**—**	**5,308**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**734**	**734**	**—**	**734**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,515**	**1,515**
Disposal of treasury stock	**—**	**(141)**	**—**	**781**	**630**	**—**	**—**	**—**	**—**	**—**	**—**	**630**
Acquisition of treasury stock	**—**	**—**	**—**	**(56)**	**(56)**	**—**	**—**	**—**	**—**	**—**	**—**	**(56)**
Balance at end of year	**$103,887**	**$35,118**	**$317,234**	**$(10,598)**	**$445,651**	**$ 2,748**	**$(150)**	**$(13,968)**	**$(8,979)**	**$(20,340)**	**$54,329**	**$479,640**

See accompanying notes.

Consolidated Statements of Cash Flows

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥ 5,867**	¥(18,966)	**$ 55,224**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**11,079**	12,076	**104,282**
Amortization of goodwill	**71**	283	**668**
Equity in net income of affiliates	**(2,667)**	(3,385)	**(25,103)**
Loss (gain) on sales and disposals of property, plant and equipment, net	**(132)**	(2,386)	**(1,242)**
Gain of sales of investment securities	**(5,478)**	(38)	**(51,562)**
Structure reform cost	**2,884**	7,803	**27,146**
Decrease (increase) in assets:			
Trade accounts and notes receivable	**6,092**	1,148	**57,341**
Inventories	**(213)**	2,280	**(2,004)**
Accounts receivable–other	**(558)**	1,089	**(5,252)**
Allowance for doubtful accounts	**(221)**	1,934	**(2,080)**
Other current assets	**(1,867)**	1,321	**(17,573)**
Increase (decrease) in liabilities:			
Trade accounts and notes payable	**(1)**	(3,466)	**(9)**
Accrued employees' bonuses	**(34)**	(415)	**(320)**
Accounts payable–other	**(5,674)**	6,066	**(53,407)**
Provision for outstanding claims	**986**	—	**9,280**
Other current liabilities and long-term liabilities	**(1,259)**	3,871	**(11,850)**
Income taxes paid	**(2,833)**	(2,177)	**(26,666)**
Other, net	**1,102**	3,010	**10,372**
Net cash flows from operating activities	**7,140**	10,048	**67,206**
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(8,859)**	(13,476)	**(83,386)**
Proceeds from sale of property, plant and equipment	**4,028**	6,388	**37,914**
Purchases of intangible assets	**(374)**	(257)	**(3,520)**
Investments in affiliates	**—**	(3,024)	**—**
Proceeds from purchase of investments in subsidiaries	**—**	166	**—**
Proceeds from sales of investment securities	**8,725**	—	**82,125**
Other, net	**574**	(168)	**5,402**
Net cash flows from investing activities	**4,093**	(10,371)	**38,525**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**(10,294)**	2,271	**(96,893)**
Proceeds from long-term loans payable	**29,814**	18,930	**280,628**
Repayment of long-term loans payable	**(30,382)**	(19,830)	**(285,975)**
Proceeds from issuance of bonds	**6,554**	—	**61,690**
Repayment of lease obligations	**(2,065)**	(1,746)	**(19,437)**
Cash dividends paid	**—**	(2,085)	**—**
Other, net	**(162)**	(19)	**(1,524)**
Net cash flows from financing activities	**(6,536)**	(2,479)	**(61,521)**
Effect of exchange rate changes on cash and cash equivalents	**37**	(638)	**348**
Net increase (decrease) in cash and cash equivalents	**4,736**	(3,440)	**44,578**
Cash and cash equivalents at beginning of year	**14,040**	17,482	**132,153**
Cash and cash equivalents at end of year (Note 15)	**¥18,776**	¥ 14,040	**$176,731**

See accompanying notes.

Notes to Consolidated Financial Statements

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

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, 2018, which was ¥106.24 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 (46 subsidiaries at March 31, 2018 and 49 subsidiaries at March 31, 2017). 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:

Consorcio Teksan, S.A. de C.V. and two other subsidiaries, all of which had been included in the scope of consolidation, were merged into SANDEN MANUFACTURING MEXICO S.A. DE C.V., which is a consolidated subsidiary, resulting in an exclusion of the former three subsidiaries from the scope of consolidation for the year ended March 31, 2018.

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 Co., Ltd., and SANDEN MANUFACTURING MEXICO S.A. DE C.V. for the fiscal year ended December 31, 2017 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, 2017 and March 31, 2018. In respect of Choon Tian International (Shanghai) Co., Ltd., whose fiscal year-end is also December 31, financial information of the subsidiary as of and for the 12-month period ended March 31, 2018 is consolidated.

Equity method—The equity method was applied to the investments in 7 affiliates at March 31, 2018 and 8 affiliates at March 31, 2017, by using financial statements for the fiscal years of each affiliate, some of which differ from those of the Company. The Company's entire equity interests in Sanden (Shanghai) Automotive Air-Conditioning Co., Ltd. was sold to Sanden Huayu Automotive Air-Conditioning Co., Ltd., which is an affiliated company that is accounted for by the equity method, resulting in an exclusion of the former affiliated company from the scope of equity method for the year ended March 31, 2018. 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 operations.

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, 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 loans payable, 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	3 to 50 years (8 to 50 years in 2017)
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 US GAAP, 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 operations. 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 operations 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 operations using the straight-line method 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.

Allowance for outstanding claims—Allowance for outstanding claims represents the amount for future payments of settlement in relation to violations of antitrust laws, etc. with regard to past transactions of certain automotive devices.

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 operations.

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 adopts 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 29, 2017, "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 (loss) per share of common stock is computed using the weighted-average number of shares of common stock outstanding during the year. Diluted net income (loss) 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 2018 presentation to reflect the changes of importance on some accounts. This reclassification has no impact on previously reported results of operations or retained earnings.

Accounting standards issued but not yet adopted— "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 28, February 16, 2018)

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, February 16, 2018)

(1) Summary

Treatment of taxable temporary differences relating to subsidiary shares in non-consolidated financial statements has been revised and treatment of recoverability of deferred tax assets for entities that fall under Category 1 has been clarified.

(2) Effective date

The Company expects to apply the guidance from the beginning of the year ending March 31, 2019.

(3) Effects of application of the guidance

The Company is currently evaluating the effect on the consolidated financial statements arising from the application of the guidance.

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Summary

ASBJ developed a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract

Step 2: Identify the performance obligations under the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations

Step 5: Recognize revenue when performance obligations are satisfied or as they are satisfied

(2) Effective date

The Company expects to apply the standard and guidance from the beginning of the year ending March 31, 2022.

(3) Effects of application of the guidance

The Company is currently evaluating the effect on the consolidated financial statements arising from the application of the standard and guidance.

3. Inventories

The following is a summary of inventories at March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Merchandise and finished goods	**¥21,895**	¥23,200	**$206,089**
Work in process	**12,089**	10,547	**113,789**
Raw materials	**10,065**	10,026	**94,738**
Other inventories	**3,438**	3,406	**32,360**
Total	**¥47,490**	¥47,180	**$447,006**

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, 2018 and 2017.

	Millions of yen		
	2018		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥552**	**¥973**	**¥421**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**¥552**	**¥973**	**¥421**

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥ —**	**¥ —**	**¥ —**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**¥ —**	**¥ —**	**¥ —**

	Millions of yen		
	2017		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	¥3,836	¥8,686	¥4,849
Bonds	—	—	—
Others	—	—	—
Total	¥3,836	¥8,686	¥4,849

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	¥ 94	¥ 94	¥ (0)
Bonds	300	299	(0)
Others	—	—	—
Total	¥ 394	¥ 394	¥ (0)

	Thousands of U.S. dollars (Note 1)		
	2018		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$5,195**	**$9,158**	**$3,962**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**$5,195**	**$9,158**	**$3,962**

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$ —**	**$ —**	**$ —**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**$ —**	**$ —**	**$ —**

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, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Unlisted stock	**¥212**	¥219	**$1,995**

Total sales of available-for-sale securities for the years ended March 31, 2018 and 2017 amounted to ¥9,187 million ($86,474 thousand) and ¥125 million, related gains amounted to ¥5,488 million ($51,656 thousand) and ¥38 million, and related losses for the years ended March 31, 2018 and 2017 amounted to ¥9 million ($84 thousand) and ¥0, 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 30.7% for the years ended March 31, 2018 and 2017.

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 year ended March 31, 2018:

	2018
Statutory tax rate:	**30.7%**
Nondeductible expense	**2.3**
Foreign tax credits	**1.9**
Different tax rates applied to overseas subsidiaries	**(3.5)**
Amortization of goodwill	**0.4**
Equity in net income of affiliates	**(14.3)**
Tax effect for unrealized profits on inventories	**2.3**
Tax credit	**(1.0)**
Tax breaks for investment for facilities	**(9.1)**
Valuation allowance	**14.6**
Others	**(0.2)**
Effective tax rate	**24.0%**

For the year ended March 31, 2017, disclosure of the difference between the statutory tax rate and the Sanden Group's effective tax rate for accounting purposes is omitted due to loss before income taxes.

Significant components of the Sanden Group's deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Deferred tax assets:			
Unrealized gains on inventories from intercompany sales	**¥ 149**	¥ 121	**$ 1,402**
Accrued expenses	**1,047**	429	**9,855**
Warranty liabilities	**641**	1,100	**6,033**
Allowance for doubtful accounts	**630**	598	**5,929**
Doubtful accounts written off	**648**	718	**6,099**
Loss on devaluation for slow-moving inventory	**806**	809	**7,586**
Accrued employees' bonuses	**756**	750	**7,115**
Unrealized gains on fixed assets from intercompany sales	**70**	104	**658**
Depreciation	**740**	701	**6,965**
Net defined benefit liability	**515**	515	**4,847**
Net operating loss carryforward	**12,830**	13,873	**120,764**
Environmental liability	**73**	144	**687**
Impairment loss on long-lived assets	**394**	1,255	**3,708**
Tax breaks for investment for facilities	**2,110**	1,470	**19,860**
Others	**2,507**	1,505	**23,597**
Gross deferred tax assets	**23,922**	24,098	**225,169**
Less: Valuation allowance	**(17,305)**	(17,337)	**(162,885)**
Total deferred tax assets	**6,616**	6,760	**62,274**
Deferred tax liabilities:			
Depreciation	**(854)**	(921)	**(8,038)**
Net unrealized gain on securities	**(125)**	(1,228)	**(1,176)**
Effect on retained earnings of foreign affiliates	**(682)**	(760)	**(6,419)**
Others	**(516)**	(589)	**(4,856)**
Gross deferred tax liabilities	**(2,179)**	(3,499)	**(20,510)**
Net deferred tax assets	**¥4,436**	¥ 3,261	**$ 41,754**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Assets:			
Deferred income taxes	**¥2,590**	¥2,372	**$24,378**
Deferred income taxes, non-current	**2,691**	2,621	**25,329**
Liabilities:			
Deferred income taxes	**(29)**	(7)	**(272)**
Deferred income taxes, non-current	**(815)**	(1,724)	**(7,671)**
Net deferred tax assets	**¥4,436**	¥3,261	**$41,754**

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 bonds, long-term loans payable and lease obligations are for financing capital investment, and the longest maturity is 9 years after March 31, 2018. 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 loans payable 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 loans payable, and currency and interest rate swap agreements to hedge exchange rate risk and interest rate risk associated with foreign currency denominated bank loans.

(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, 2018)

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2018 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		
	2018		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 18,776	¥ 18,776	¥ —
(2) Receivables*1	79,401	79,401	—
(3) Consumption taxes receivable	4,527	4,527	—
(4) Investment securities	973	973	—
Total assets	¥103,679	¥103,679	¥ —
(1) Payables	¥ 64,523	¥ 64,523	¥ —
(2) Short-term bank loans	45,011	45,011	—
(3) Lease obligations due within one year	2,018	2,029	11
(4) Income taxes payable	699	699	—
(5) Bonds	6,700	6,733	33
(6) Long-term loans payable	74,433	74,138	(295)
(7) Lease obligations due after one year	6,113	6,150	37
Total liabilities	¥199,500	¥199,287	¥(213)
Derivatives *2	¥ 122	¥ 122	¥ —

	Thousands of U.S. dollars (Note 1)		
	2018		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 176,731	$ 176,731	$ —
(2) Receivables *1	747,373	747,373	—
(3) Consumption taxes receivable	42,611	42,611	—
(4) Investment securities	9,158	9,158	—
Total assets	$ 975,894	$ 975,894	$ —
(1) Payables	$ 607,332	$ 607,332	$ —
(2) Short-term bank loans	423,672	423,672	—
(3) Lease obligations due within one year	18,994	19,098	103
(4) Income taxes payable	6,579	6,579	—
(5) Bonds	63,064	63,375	310
(6) Long-term loans payable	700,611	697,835	(2,776)
(7) Lease obligations due after one year	57,539	57,887	348
Total liabilities	$1,877,823	$1,875,818	$(2,004)
Derivatives *2	$ 1,148	$ 1,148	$ —

*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 on available-for-sale securities is 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) bonds, (6) long-term loans payable and (7) 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 loans payable, bond 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)
	2018	2018
Investment securities:		
Unlisted	¥ 212	$ 1,995
Unconsolidated subsidiaries and affiliates	21,774	204,951

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, 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2018		2018	
	Within 1 year	More than 1 year	Within 1 year	More than 1 year
Cash and time deposits	¥ 18,776	¥—	$176,731	$—
Receivables	79,401	—	747,373	—
Consumption taxes receivable	4,527	—	42,611	—
Investment securities with maturities				
(1) Bonds	—	—	—	—
(2) Others	—	—	—	—
Total	¥102,705	¥—	$966,726	$—

3. Fair values of financial instruments (at March 31, 2017)

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2017 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		
	2017		
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 14,040	¥ 14,040	¥ —
(2) Receivables*1	84,050	84,050	—
(3) Consumption taxes receivable	3,246	3,246	—
(4) Investment securities	9,080	9,080	—
Total assets	¥110,418	¥110,418	¥ —
(1) Payables	¥ 67,720	¥ 67,720	¥ —
(2) Short-term bank loans	54,518	54,518	—
(3) Lease obligations due within one year	1,900	1,916	16
(4) Income taxes payable	993	993	—
(5) Long-term loans payable	73,970	74,470	499
(6) Lease obligations due after one year	5,247	5,302	55
Total liabilities	¥204,352	¥204,922	¥570
Derivatives *2	¥ (458)	¥ (458)	¥ —

*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 on available-for-sale securities is 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 loans payable 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 loans payable 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
	2017
Investment securities:	
Unlisted	¥ 219
Unconsolidated subsidiaries and affiliates	22,567

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 money claims and investment securities with maturities at March 31, 2017 was as follows:

	Millions of yen	
	2017	
	Within 1 year	More than 1 year
Cash and time deposits	¥ 14,040	¥—
Receivables	84,050	—
Consumption taxes receivable	3,246	—
Investment securities with maturities		
(1) Bonds	300	—
(2) Others	—	—
Total	¥101,636	¥—

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, 2018 and 2017:

(Forward exchange contracts and currency swaps)

	Millions of yen								Thousands of U.S. dollars (Note 1)			
	2018				2017				**2018**			
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	**¥7,321**	**¥—**	**¥113**	**¥113**	¥35,540	¥—	¥(480)	¥(480)	**$68,910**	**$—**	**$1,063**	**$1,063**
Currency swaps	**—**	**—**	**—**	**—**	94	—	27	27	**—**	**—**	**—**	**—**
Total	**¥7,321**	**¥—**	**¥113**	**¥113**	¥35,633	¥—	¥(452)	¥(452)	**$68,910**	**$—**	**$1,063**	**$1,063**

2. Derivative transactions to which hedging accounting was applied at March 31, 2018 and 2017:

(Forward exchange contracts)

			Millions of yen		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2018					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**¥ 102**	**¥30**	**¥ (2)**
		Accounts receivable	**2,997**	**—**	**121**
Total			**¥3,099**	**¥30**	**¥118**

Hedging accounting method	Transaction	Hedged items	Thousands of U.S. dollars (Note 1) Contract amount	More than 1 year	Fair value
2018					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**$ 960**	**$282**	**$ (18)**
		Accounts receivable	**28,209**	**—**	**1,138**
Total			**$29,169**	**$282**	**$1,110**

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2017					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	¥ 207	¥—	¥ (0)
		Accounts receivable	7,682	—	127
Total			¥7,888	¥—	¥126

(Interest rate swaps)

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2018					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term loans payable	**¥ 3,030**	**¥1,604**	**¥ —*1**
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term loans payable	**9,789**	**4,542**	**(108)**
Total			**¥12,819**	**¥6,146**	**¥(108)**

Hedging accounting method	Transaction	Hedged items	Thousands of U.S. dollars (Note 1) Contract amount	More than 1 year	Fair value
2018					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term loans payable	**$ 28,520**	**$15,097**	**$ —*1**
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term loans payable	**92,140**	**42,752**	**(1,016)**
Total			**$120,660**	**$57,850**	**$(1,016)**

*1: For certain long-term loans payable 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 loans payable, which is the hedged item.

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2017					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term loans payable	¥19,283	¥3,030	¥ —*1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term loans payable	8,265	4,647	(132)
Total			¥27,548	¥7,677	¥(132)

*1: For certain long-term loans payable 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 loans payable, which is the hedged item.

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, 2018, and therefore the excess is recorded in net defined benefit asset.

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 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Balance at beginning of year	**¥7,496**	¥7,465	**$70,557**
Service cost	**236**	175	**2,221**
Interest cost	**205**	174	**1,929**
Actuarial losses (gains)	**0**	142	**0**
Benefits paid	**(318)**	(277)	**(2,993)**
Termination of the defined benefit retirement plan	**—**	(30)	**—**
Exchange differences	**31**	(152)	**291**
Balance at end of year	**¥7,652**	¥7,496	**$72,025**

(2) Movements in plan assets

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Balance at beginning of year	**¥4,329**	¥4,128	**$40,747**
Expected return on plan assets	**257**	259	**2,419**
Actuarial gains (losses)	**29**	(16)	**272**
Contributions paid by the employers	**189**	153	**1,778**
Benefits paid	**(208)**	(196)	**(1,957)**
Exchange differences	**(203)**	2	**(1,910)**
Balance at end of year	**¥4,394**	¥4,329	**$41,359**

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

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Funded retirement benefit obligations	**¥6,227**	¥6,174	**$58,612**
Plan assets	**(4,394)**	(4,329)	**(41,359)**
	1,833	1,845	**17,253**
Unfunded retirement benefit obligations	**1,424**	1,321	**13,403**
Net defined benefit liability at end of year	**3,257**	3,167	**30,657**
Net defined benefit liability	**3,376**	3,257	**31,777**
Net defined benefit asset	**(118)**	(90)	**(1,110)**
Net defined benefit liability at end of year	**¥3,257**	¥3,167	**$30,657**

(4) Retirement benefit costs

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Service cost	**¥236**	¥175	**$2,221**
Interest cost	**205**	174	**1,929**
Expected return on plan assets	**(257)**	(259)	**(2,419)**
Amortization of actuarial losses (gains)	**111**	129	**1,044**
Total retirement benefit costs for the fiscal year	**¥295**	¥219	**$2,776**

Note: In addition to the above retirement benefit costs, additional severance payments for early retirement of ¥1,987 million were made, which were charged to the consolidated statements of operations as part of "Structure reform cost" in other expenses for the year ended March 31, 2017.

(5) Remeasurements of defined benefit plans, before tax

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Actuarial gains (losses)	**¥81**	¥280	**$762**
Total balance at end of year	**¥81**	¥280	**$762**

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

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Actuarial gains (losses) that are yet to be recognized	**¥(937)**	¥(1,019)	**$(8,819)**
Total balance at end of year	**¥(937)**	¥(1,019)	**$(8,819)**

(7) Plan assets

a. Plan assets comprise:

	2018	2017
Bonds	**42%**	44%
Equity securities	**51**	49
Cash and time deposits	**3**	2
Others	**4**	4
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, 2018 and 2017:

	2018	2017
Discount rate	**0.3%–4.0%**	0.3%–3.8%
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 ¥980 million ($9,224 thousand) and ¥2,411 million for the fiscal years ended March 31, 2018 and 2017, respectively.

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

Short-term bank loans bore weighted-average interest rates of 2.01% and 1.47% at March 31, 2018 and 2017, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Unsecured bonds:			
0.17% due in 2022	**¥ 2,000**	¥ —	**$ 18,825**
0.17% due in 2022	**1,700**	—	**16,001**
0.86% due in 2023	**1,000**	—	**9,412**
0.20% due in 2023	**2,000**	—	**18,825**
Loans from banks, insurance companies and agricultural cooperatives, bearing weighted-average rates of 1.59% and 1.36% at March 31, 2018 and 2017, respectively	**74,433**	73,970	**700,611**
	81,133	73,970	**763,676**
Less: Amount due within one year	**19,011**	29,789	**178,943**
Amount due after one year	**¥62,121**	¥44,181	**$584,732**

The redemption schedule on bonds subsequent to March 31, 2018 was as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**¥ 712**	**$ 6,701**
2020	**1,205**	**11,342**
2021	**1,685**	**15,860**
2022	**1,885**	**17,742**
2023	**1,212**	**11,408**
2024 and thereafter	**—**	**—**

The aggregate annual maturities of long-term loans payable at March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**¥18,299**	**$172,242**
2020	**20,649**	**194,361**
2021	**17,743**	**167,008**
2022	**10,778**	**101,449**
2023	**4,504**	**42,394**
2024 and thereafter	**2,459**	**23,145**

The following assets were pledged as collateral for short-term bank loans of ¥1,564 million ($14,721 thousand) and long-term loans payable of ¥2,226 million ($20,952 thousand) at March 31, 2018 and short-term bank loans of ¥2,296 million and long-term loans payable of ¥1,616 million at March 31, 2017:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Inventories and other	**¥4,823**	¥3,765	**$45,397**
Land and buildings and structures, machinery and equipment, etc., net	**3,029**	5,309	**28,510**
Total	**¥7,852**	¥9,074	**$73,908**

The aggregate annual maturities of lease obligations at March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**¥2,018**	**$18,994**
2020	**1,877**	**17,667**
2021	**1,514**	**14,250**
2022	**1,315**	**12,377**
2023	**920**	**8,659**
2024 and thereafter	**485**	**4,565**

10. Net Assets

Under the Companies Act of Japan (the "Act"), 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 Act 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 Act, the legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution at the shareholders' 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 Act. No distribution of dividends has been proposed to the annual shareholders' meeting for the years ended March 31, 2018 and 2017.

11. Comprehensive Income (Loss)

Amounts reclassified to net income in the current year that were recognized in other comprehensive income for the years ended March 31, 2018 and 2017 and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net unrealized gains (losses) on securities, net of taxes:			
Increase (decrease) during the year	**¥ 1,000**	¥1,540	**$ 9,412**
Reclassification adjustments	**(5,427)**	(38)	**(51,082)**
Sub-total, before tax	**(4,426)**	1,501	**(41,660)**
Tax (expense) or benefit	**1,102**	(384)	**10,372**
Total, net of tax	**(3,323)**	1,116	**(31,278)**
Unrealized gains (losses) on hedging derivatives, net of taxes:			
Increase (decrease) during the year	**(435)**	(706)	**(4,094)**
Reclassification adjustments	**393**	850	**3,699**
Sub-total, before tax	**(41)**	143	**(385)**
Tax (expense) or benefit	**42**	(12)	**395**
Total, net of tax	**0**	131	**0**
Foreign currency translation adjustments:			
Increase (decrease) during the year	**1,001**	(2,406)	**9,422**
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	**(29)**	159	**(272)**
Reclassification adjustments	**111**	120	**1,044**
Sub-total, before tax	**81**	280	**762**
Tax (expense) or benefit	**(3)**	(13)	**(28)**
Total, net of tax	**78**	266	**734**
Share of other comprehensive income of affiliates accounted for using equity method:			
Increase (decrease) during the year	**(57)**	—	**(536)**
Reclassification adjustments	**(274)**	—	**(2,579)**
Total	**(331)**	(1,490)	**(3,115)**
Total other comprehensive income	**¥(2,573)**	¥(2,381)	**$(24,218)**

12. Contingent Liabilities

At March 31, 2018 and 2017, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Guarantees or reservation of guarantees for loans of affiliated companies from banks and other lenders	**¥600**	¥911	**$5,647**

In connection with a plea agreement with the U.S. Department of Justice for breaches of antitrust law by the Company civil lawsuits (class action lawsuits), etc. demanding compensation for damage from the breaches have been filed in North America. The outcome of the lawsuits may affect the Sanden Group's business performance, however, it is difficult to reasonably estimate their amount at this moment, and their impacts on the Sanden Group's operating results and financial condition are unclear.

Liquidated receivables which did not meet criteria for derecognition thus were accounted for as financing transactions as at March 31, 2018 and 2017 and were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Trade notes and accounts receivable	**¥825**	¥—	**$7,765**
Consumption taxes receivable	**636**	—	**5,986**

Liabilities that correspond to the liquidated receivables above are recorded in "Other non-current liabilities". The trade notes and accounts receivable above include factoring associated with self-settled trust of ¥568 million ($5,346 thousand) at March 31, 2018.

Trade notes maturing at the end of the consolidated fiscal year are settled on their clearance dates. As the balance sheet date of the year ended March 31, 2018 was a bank holiday, the following amounts of trade notes that matured on the balance sheet date were included in the balance of trade notes and accounts receivable at March 31, 2018:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Trade notes and accounts receivable	**¥284**	¥—	**$2,673**

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 ¥273 million ($2,569 thousand) and ¥360 million at March 31, 2018 and 2017, 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, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash and time deposits	**¥18,776**	¥14,040	**$176,731**
Cash and cash equivalents	**¥18,776**	¥14,040	**$176,731**

The Company newly consolidated Choon Tian Pte Ltd. and its subsidiary as well as Good Life Manufacturing Sdn. Bhd. through its acquisitions of shares in those companies for the year ended March 31, 2017. Breakdowns of assets acquired and liabilities assumed by the Company when starting consolidation of the subsidiaries as well as reconciliation between acquisition costs and net proceeds from the acquisitions were as follows:

1. Choo Tian Pte Ltd.

	Millions of yen
Current assets	**¥1,998**
Non-current assets	**22**
Goodwill	**20**
Current liabilities	**(1,988)**
Foreign currency translation adjustments	**(1)**
Acquisition cost of shares	**52**
Cash and cash equivalents	**216**
Proceeds from acquisition, net	**¥ 164**

2. Good Life Manufacturing Sdn. Bhd.

	Millions of yen
Current assets	**¥312**
Non-current assets	**516**
Goodwill	**52**
Current liabilities	**(860)**
Long-term liabilities	**(6)**
Foreign currency translation adjustments	**(1)**
Acquisition cost of shares	**13**
Cash and cash equivalents	**15**
Proceeds from acquisition, net	**¥ 2**

16. Amounts per Share

Net assets and net income (loss) per share as at and for the years ended March 31, 2018 and 2017, respectively, are as follows:

	Yen		U.S. dollars (Note 1)
	2018	2017	**2018**
Net assets per share	**¥1,633.99**	¥1,576.34	**$15.38**
Net income (loss) per share	**154.00**	(814.10)	**1.44**

Basic and diluted net income (loss) per share of common stock for the years ended March 31, 2018 and 2017 have been computed based on the following:

	Number of shares	
	2018	2017
Weighted-average number of shares of common stock	**27,635,774**	27,624,211

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net income (loss) attributable to owners of the parent	**¥4,255**	¥(22,488)	**$40,050**
Net income (loss) attributable to owners of the parent relating to common stock	**4,255**	(22,488)	**40,050**

	Yen		U.S. dollars (Note 1)
	2018	2017	**2018**
Basic net income (loss) per share of common stock	**¥154.00**	¥(814.10)	**$1.44**

Diluted net income per common share for the year ended March 31, 2018 is not presented as the Company did not have common stock with potential dilutive effect. Diluted net income per common share for the year ended March 31, 2017 is not presented as the Company recorded a net loss and did not have common stock with potential dilutive effect.

The Company's shares held by the executive compensation BIP Trust ("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 (loss) per share, and from the outstanding number of shares issued at the end of the year for the purpose of calculating net assets per share.

The weighted-average number of shares held by the BIP Trust was 149,662 shares and 163,095 shares for the years ended March 31, 2018 and 2017, respectively. The total number of shares held by the BIP Trust at the balance sheet date was 142,695 shares and 159,541 shares as of March 31, 2018 and 2017, respectively.

The Company implemented a 5-for-1 share consolidation on October 1, 2017. Amounts per share are computed as if the share consolidation was implemented on April 1, 2016.

17. Business Combination

For the year ended March 31, 2018
Transaction under common control
Merger among consolidated subsidiaries

1. Outline of the transaction

(1) Name and business of the company under the transaction

	Name	Main business
Acquirer (surviving company)	SANDEN MANUFACTURING MEXICO S.A. DE C.V. (consolidated subsidiary of the Company)	Manufacturing of automotive components and devices
Acquiree (absorbed companies)	SANDEN MEXICANA S.A. DE C.V. (consolidated subsidiary of the Company)	Manufacturing of automotive components and devices
	CONSORCIO TEKSAN, S.A. DE C.V. (consolidated subsidiary of the Company)	Temporary staff service
	SANDEN RECURSOS MEXICO SRL DE C.V. (consolidated subsidiary of the Company)	Temporary staff service

(2) Date of the transaction
July 1, 2017

(3) Legal form of the transaction
Absorption-type merger where SANDEN MANUFACTURING MEXICO S.A. DE C.V. is a surviving company and SANDEN MEXICANA S.A. DE C.V., CONSORCIO TEKSAN, S.A. DE C.V. and SANDEN RECURSOS MEXICO SRL DE C.V. are absorbed companies.

(4) Name after the transaction
SANDEN MANUFACTURING MEXICO S.A. DE C.V.

(5) Other matters related to the transaction
As part of the Sanden Group's drastic structural reform for further enforcement of its global business competitiveness, the transactions aim to consolidate management resources.

2. Outline of accounting policy applied

The Company accounted for the mergers as transactions under common control in compliance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

For the year ended March 31, 2017
Transaction under common control
Merger among consolidated subsidiaries

1. Outline of the transaction

(1) Name and business of the company under the transaction

Acquirer	Acquiree	Main business
a Sanwa Co., Ltd.	Sanwa Altech Co., Ltd. Sanwa Precision Co., Ltd. Sanwa Tech Co., Ltd. Mitsukura Tex Co., Ltd.	Manufacturing of automotive components and devices
b Sanwa Fabtech Co., Ltd.	Sanden Denso Co., Ltd. Sanwa Thermotech Co., Ltd.	Manufacturing of commercial store system components

(2) Date of the transaction
January 1, 2017

(3) Legal form of the transaction
a) Absorption-type merger where Sanwa Co., Ltd. is a surviving company and Sanwa Altech Co., Ltd., Sanwa Precision Co., Ltd., Sanwa Tech Co., Ltd. and Mitsukura Tex Co., Ltd. are absorbed companies.
b) Absorption-type merger where Sanwa Fabtech Co., Ltd. is a surviving company and Sanden Denso Co., Ltd. and Sanwa Thermotech Co., Ltd. are absorbed companies.

(4) Name after the transaction
a) Sanwa Co., Ltd.
b) Sanwa Fabtech Co., Ltd.

(5) Other matters related to the transaction
As part of the Sanden Group's drastic structural reform for further enforcement of its global business competitiveness, the transactions aim to consolidate management resources in Japan.

2. Outline of accounting policy applied

The Company accounted for the mergers as transactions under common control in compliance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

18. Related Party Transactions

1. Major transactions between the Company and the Company's directors, certain companies owned by the Company's directors or affiliates for the year ended March 31, 2018 are as follows:

Company name or Name of director	Type of business or Occupation	Ownership of the Company (%)	Nature of transaction or account balance	Millions of yen	Thousands of U.S. dollars (Note 1)
Sanden Kankyo Mirai Zaidan (Sanden Environmental Future Foundation)	*1	—	Donation	¥ **20**	$ **188**
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	**6,446**	**60,673**
			Receivable	**13,883**	**130,675**
	—		Other investments*2	**3,633**	**34,196**
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sales of automotive air-conditioning	43.0	Sales	**25,159**	**236,812**
			Receivable	**9,164**	**86,257**
			Proceeds for sale of equity interests in affiliate	**1,141**	**10,739**
			Gain on sale of equity interests in affiliate	**572**	**5,384**

Donation—Donations contributed to the foundation are 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 objectives of Zaidan's activities are to develop the people's consciousness and to create new ideas for the environment.
*2 An allowance for doubtful accounts of ¥2,941 million ($27,682 thousand) was provided for other investments to Sanden Al Salam LLC.
*3 The sales price of equity interests in an affiliate was determined through negotiation considering independent third-party valuation and the payment term was cash in one installment.

2. Major transactions between the Company and the Company's directors, certain companies owned by the Company's directors or affiliates for the year ended March 31, 2017 are as follows:

Company name or Name of director	Type of business or Occupation	Ownership of the Company (%)	Nature of transaction or account balance	Millions of yen
Sanden Kankyo Mirai Zaidan (Sanden Environmental Future Foundation)	*1	—	Donation	¥ 20
Ushikubo-Amada Ikuei Zaidan (Ushikubo-Amada Scholarship Foundation)	*2	—	Donation	30
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	8,845
			Receivable	17,801
			Other investments*3	3,836
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sales of automotive air-conditioning	43.0	Sales	15,859
			Receivable	5,212

Donation—Donations contributed to the foundation are 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 objectives of Zaidan's activities are to develop the people's consciousness and to create new ideas for the environment.
*2 The objective of Zaidan's activities is to provide scholarships for developing promising human resources in the next generation.
*3 An allowance for doubtful accounts of ¥3,106 million was provided for other investments to Sanden Al Salam LLC.

3.The summaries of financial statements of the two significant affiliates for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2018		2017		**2018**	
	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.
Total current assets	**¥61,393**	**¥40,229**	¥44,960	¥37,646	**$577,870**	**$378,661**
Total non-current assets	**26,575**	**4,363**	21,297	3,972	**250,141**	**41,067**
Total current liabilities	**52,208**	**39,876**	33,230	33,679	**491,415**	**375,338**
Total long-term liabilities	**737**	**450**	724	13	**6,937**	**4,235**
Total net assets	**35,022**	**4,266**	32,302	7,925	**329,649**	**40,154**
Sales	**85,122**	**31,155**	74,804	28,813	**801,223**	**293,251**
Income (loss) before income taxes	**7,626**	**(1,420)**	7,214	682	**71,780**	**(13,365)**
Net income (loss)	**¥ 6,285**	**¥ (1,422)**	¥ 6,062	¥ 666	**$ 59,158**	**$ (13,384)**

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, 2018 and 2017 is summarized as follows:

	Millions of yen				
	2018				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	**¥208,855**	**¥68,147**	**¥277,003**	**¥10,605**	**¥287,609**
Operating income (loss)	**¥ 6,610**	**¥ 285**	**¥ 6,895**	**¥ (1,426)**	**¥ 5,469**
Total assets	**¥210,675**	**¥55,550**	**¥266,225**	**¥10,064**	**¥276,289**
Depreciation and amortization	**9,246**	**1,434**	**10,681**	**397**	**11,079**
Amortization of goodwill	**71**	**—**	**71**	**—**	**71**
Equity in net income of affiliates	**2,417**	**250**	**2,667**	**—**	**2,667**
Impairment loss	**230**	**708**	**938**	**137**	**1,076**
Investments in equity-method companies	**16,491**	**4,914**	**21,406**	**—**	**21,406**
Increase in property, plant and equipment and intangible assets	**10,812**	**1,023**	**11,836**	**701**	**12,537**

	Millions of yen				
	2017				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	¥199,180	¥71,311	¥270,492	¥11,569	¥282,061
Operating income (loss)	¥ 4,418	¥ (370)	¥ 4,048	¥ (2,466)	¥ 1,582
Total assets	¥206,262	¥60,357	¥266,620	¥13,574	¥280,194
Depreciation and amortization	9,821	1,786	11,607	469	12,076
Amortization of goodwill	70	213	283	—	283
Equity in net income of affiliates	3,066	319	3,385	—	3,385
Impairment loss	3,593	723	4,316	54	4,371
Investments in equity-method companies	17,646	4,652	22,298	—	22,298
Increase in property, plant and equipment and intangible assets	11,201	1,185	12,387	585	12,973

Note: "Others" includes vehicle sales, living & environment systems, electronics and other activities.

	Thousands of U.S. dollars (Note 1)				
	2018				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	**$1,965,879**	**$641,443**	**$2,607,332**	**$ 99,821**	**$2,707,163**
Operating income (loss)	**$ 62,217**	**$ 2,682**	**$ 64,900**	**$(13,422)**	**$ 51,477**
Total assets	**$1,983,010**	**$522,872**	**$2,505,882**	**$ 94,728**	**$2,600,611**
Depreciation and amortization	**87,029**	**13,497**	**100,536**	**3,736**	**104,282**
Amortization of goodwill	**668**	**—**	**668**	**—**	**668**
Equity in net income of affiliates	**22,750**	**2,353**	**25,103**	**—**	**25,103**
Impairment loss	**2,164**	**6,664**	**8,829**	**1,289**	**10,128**
Investments in equity-method companies	**155,224**	**46,253**	**201,487**	**—**	**201,487**
Increase in property, plant and equipment and intangible assets	**101,769**	**9,629**	**111,408**	**6,598**	**118,006**

2. Geographic information

Information about geographical areas for the year ended March 31, 2018
(1) Sales

	Millions of yen						Thousands of U.S. dollars (Note 1)					
	2018						**2018**					
		Asia						Asia				
	Japan		thereof China	Europe	North America	Total consolidated	Japan		thereof China	Europe	North America	Total consolidated
Net sales:												
Outside customers	**¥87,199**	**¥95,910**	**¥58,029**	**¥80,926**	**¥23,572**	**¥287,609**	**$820,773**	**$902,767**	**$546,206**	**$761,728**	**$221,875**	**$2,707,163**

(2) Property, plant and equipment

	Millions of yen							Thousands of U.S. dollars (Note 1)						
	2018							2018						
		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…	**¥38,516**	**¥19,000**	**¥11,729**	**¥19,130**	**¥11,357**	**¥5,093**	**¥81,741**	**$362,537**	**$178,840**	**$110,400**	**$180,064**	**$106,899**	**$47,938**	**$769,399**

Information about geographical areas for the year ended March 31, 2017

(1) Sales

	Millions of yen					
	2017					
		Asia				
	Japan		thereof China	Europe	North America	Total consolidated
Net sales:						
Outside customers…	¥88,484	¥95,758	¥53,583	¥65,998	¥31,819	¥282,061

(2) Property, plant and equipment

	Millions of yen						
	2017						
		Asia		Europe			
	Japan		thereof China		thereof Poland	North America	Total consolidated
Property, plant and equipment…	¥38,664	¥18,632	¥11,219	¥17,946	¥11,086	¥6,006	¥81,250

20. Supplementary Information

The main items of selling, general and administrative expenses for the years ended March 31, 2018 and 2017 in the accompanying consolidated statements of operations were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Employees' salaries and bonuses	**¥17,446**	¥17,491	**$164,213**
Freight	**3,537**	3,652	**33,292**
Depreciation	**2,265**	2,448	**21,319**
Provision for:			
Employees' bonuses	**1,702**	1,605	**16,020**
Warranty liabilities	**1,830**	1,945	**17,225**
Retirement benefit costs	**833**	829	**7,840**

Research and development expenses are recognized as incurred. Research and development expenses charged to general and administrative expenses or total manufacturing costs for the years ended March 31, 2018 and 2017 were ¥7,860 million ($73,983 thousand) and ¥7,910 million, respectively.

21. Extraordinary Product Warranty Cost

For the year ended March 31, 2017, the Company decided to collect certain products from markets that were manufactured and already sold in the past in the Automotive Systems Business and Commercial Store Systems Business, which could have defects or potential defects. Costs for inspections and replacements of the collected products reasonably estimated were charged to the consolidated statements of operations as extraordinary product warranty costs in other expenses for the period. No extraordinary product warranty cost was recorded for the year ended March 31, 2018.

22. Loss related to Antitrust Law

Loss related to the antitrust law represents fines imposed on violations of European Union competition law with regard to certain Automotive Systems Business. No loss related to the antitrust law was recorded for the year ended March 31, 2018.

23. Structure Reform Cost

For the year ended March 31, 2018

The Sanden Group is currently promoting four key initiatives in order to achieve the Corporate Mid-Term Plan announced on May 11, 2017. With regard to selection and concentration of the overall business portfolio, which is one of the key initiatives, a resolution to discontinue manufacturing products of the Living & Environmental Business and other related business has been passed by the Board of Directors meeting of the Company held on March 23, 2018. As a result of this resolution, in the Automotive Systems Business, Commercial Store Systems Business and Other Business, impairment loss on long-lived assets of ¥1,076 million ($10,128 thousand) and loss on valuation of inventories of ¥969 million ($9,120 thousand) and others were charged to the consolidated statements of operations as structure reform costs in other expenses for the year ended March 31, 2018.

For the year ended March 31, 2017

As part of measures for the Sanden Group's structural reforms resolved by the Board of Directors meeting of the Company held on August 5, 2016, the Company and its consolidated subsidiaries have been working on (1) focusing on investment to be a growth driver through extensive review of the overall business portfolio, (2) rationalization through integration and consolidation of operations and organizations and (3) improvement of investment efficiency through selection and concentration. As a result of implementations of the measures, in the Automotive Systems Business, the Commercial Store Systems Business and Other Business, additional severance payment for early retirement of ¥1,987 million, impairment loss on long-lived assets of ¥4,371 million and other losses of ¥1,443 million including loss on valuation of inventories were charged to the consolidated statements of operations as a "Structure reform cost" in other expenses for the year ended March 31, 2017.

24. Impairment Loss

For the year ended March 31, 2018, the Company recorded impairment losses on asset groups detailed below, which were included in "Structure reform cost" in other expenses.

1. Details of asset groups impaired

Location	Purpose of use	Type of assets
Isesaki-shi, Gunma, Japan	Other Business	Machinery and equipment and others
Tinteniac, France	Automotive Systems Business, Other Business	Machinery and equipment and others
Shanghai, China	Commercial Store Systems Business, Other Business	Machinery and equipment and others

2. Method of asset grouping

The Company and its consolidated subsidiaries classify long-lived assets into groups with reference to units set out for management accounting at which operational results of the Group are regularly reviewed by management.

3. Events and circumstances that led to recognition of impairment loss

The Sanden Group is currently promoting four key initiatives in order to achieve the Corporate Mid-Term Plan announced on May 11, 2017. With regard to selection and concentration of the overall business portfolio, which is one of the key initiatives, a resolution to discontinue manufacturing products of the Living & Environmental Business and other related business has been passed by the Board of Directors meeting of the Company held on March 23, 2018. As a result of changes in the Group's production frameworks, the consolidations or reorganizations in the Group, and the selections and concentrations of further assets investments, production facilities in the asset groups described in "1. Details of asset groups impaired" above became excessive or no longer recoverable, in terms of costs, within the remaining useful lives of major assets in the groups, resulting in the writing down of carrying amounts of the assets to their recoverable amounts.

4. Method of determining recoverable amount

The recoverable amount of the asset group was measured as the higher of the net selling value or value in use. Net selling values are primarily based on appraisal values obtained from real estate appraisers. Business assets that are not expected to generate future cash flows from their use, or to be sold at values exceeding costs for its disposition, are valued at nominal values.

5. Amount of impairment loss

Amounts of impairment loss by categories of long-lived assets were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	**¥ 12**	**$ 112**
Machinery and equipment	**900**	**8,471**
Furniture and fixtures	**6**	**56**
Others	**157**	**1,477**
Total	**¥1,076**	**$10,128**

For the year ended March 31, 2017, the Company recorded impairment losses on asset groups detailed below, which were included in "Structure reform cost" in other expenses.

1. Details of asset groups impaired

Location	Purpose of use	Type of assets
Tinteniac, France	Automotive Systems Business	Machinery and equipment and others
Wylie, Texas, U.S.A.	Automotive Systems Business	Machinery and equipment and others
Saltillo Coahulia, Mexico	Automotive Systems Business	Machinery and equipment, land and others
Pasir Gudang Johore, Malaysia	Automotive Systems Business	Machinery and equipment, furniture and fixtures and others
Kiryu-shi, Gunma, Japan	Automotive Systems Business	Land, buildings and others
Maebashi-shi, Gunma, Japan	Commercial Store Systems Business	Machinery and equipment, lease assets (machinery and equipment), furniture and fixtures and others
Casale Monferrato, Italy	Commercial Store Systems Business	Machinery and equipment, buildings and others
Maebashi-shi, Gunma, Japan	Other Business	Machinery and equipment and others

2. Method of asset grouping

The Company and its consolidated subsidiaries classify long-lived assets into groups with reference to units set out for management accounting at which operational results of the Group are regularly reviewed by management.

3. Events and circumstances that led to recognition of impairment loss

As part of measures for the Sanden Group's structural reforms resolved by the Board of Directors meeting of the Company held on August 5, 2016, the Company and its consolidated subsidiaries have been working on (1) concentration of investment into growing business through review of the business portfolio, (2) rationalization through integration and consolidation of operations and organizations and (3) improvement of investment efficiency through selection and concentration. As a result of changes in the Group's production frameworks, the consolidations or reorganizations in the Group, and the selections and concentrations of further assets investments, production facilities in the asset groups described in "1. Details of asset groups impaired" above became excessive or no longer recoverable, in terms of costs, within remaining useful lives of major assets in the groups, resulting in the writing down of carrying amounts of the assets to their recoverable amounts.

4. Method of determining recoverable amount

The recoverable amount of the asset group was measured as the higher of the net selling value or value in use. Net selling values are primarily based on appraisal values obtained from real estate appraisers.

Values in use are calculated by discounting future cash flows at rates from 6.5% to 7.5%. Business assets that are not expected to generate future cash flows from their use, or to be sold at values exceeding costs for its disposition, are valued at nominal values.

5. Amount of impairment loss

Amounts of impairment loss by categories of long-lived assets were as follows:

	Millions of yen
Buildings and structures	¥ 136
Machinery and equipment	3,280
Furniture and fixtures	176
Land	203
Others	575
Total	¥4,371

25. Provision for Outstanding Claims

Provision for outstanding claims represents the amount for future payments of settlement in relation to violations of antitrust laws, etc. with regard to past transactions of certain automotive devices.

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, 2018 and 2017, and the consolidated statements of operations, 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 misstatement, 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, 2018 and 2017, 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, 2018 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 9, 2018
Tokyo, Japan

Name	SANDEN HOLDINGS CORPORATION
Representative	Kin-ei Kanda, Representative Director & President
Established	July 30, 1943
Capital (As of March 31, 2018)	¥11,037 million
Net sales (Fiscal year ended March 31, 2018)	¥287,609 million
Number of employees (As of March 31, 2018)	13,140 (consolidated)
Address Headquarters	20 Kotobuki-cho, Isesaki-shi, Gunma, Japan 372-8502 TEL +81-(0)270-24-1211
Tokyo Headquarters	Akihabara Daibiru Building, 1-18-13 Soto Kanda, Chiyoda-ku, Tokyo, Japan 101-8583 TEL +81-(0)3-5209-3231

Securities code	6444
Stock exchange listing	First Section, Tokyo Stock Exchange
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Ltd. 1-4-1, Marunouchi, Chiyoda-ku, Tokyo
Total number of shares outstanding (As of March 31, 2018)	28,066,313 shares
Trading unit of shares (As of March 31, 2018)	100 shares *As of October 1, 2017, the Company has changed the number of shares per trading unit from 1,000 to 100.
Number of shareholders (As of March 31, 2018)	9,884

Group Companies (Japan) https://www.sanden.co.jp/english/company/domestic.html
(Overseas) https://www.sanden.co.jp/english/company/overseas.html

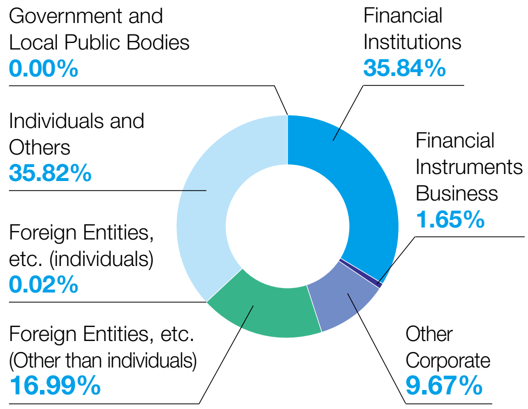
Major shareholders (Top 10) (As of March 31, 2018)

	Name of shareholders	Number of shares (Thousands)	Percentage of voting rights
1	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,703	6.12
2	Sanden's Customers Share Holding Association	1,533	5.51
3	Japan Trustee Services Bank, Ltd. (Trust Account)	1,077	3.87
4	Mizuho Corporate Bank, Ltd.	1,017	3.65
5	The Gunma Bank, Ltd.	1,017	3.65
6	Daido Life Insurance Co., Ltd.	694	2.49
7	Sanden's Employee Share Holding Association	580	2.08
8	BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS	536	1.92
9	DFA INTL SMALL CAP VALUE PORTFOLIO	534	1.92
10	Japan Trustee Services Bank, Ltd. (Trust Account 5)	466	1.67

Note: Treasury stock is not included in the major shareholders shown above.

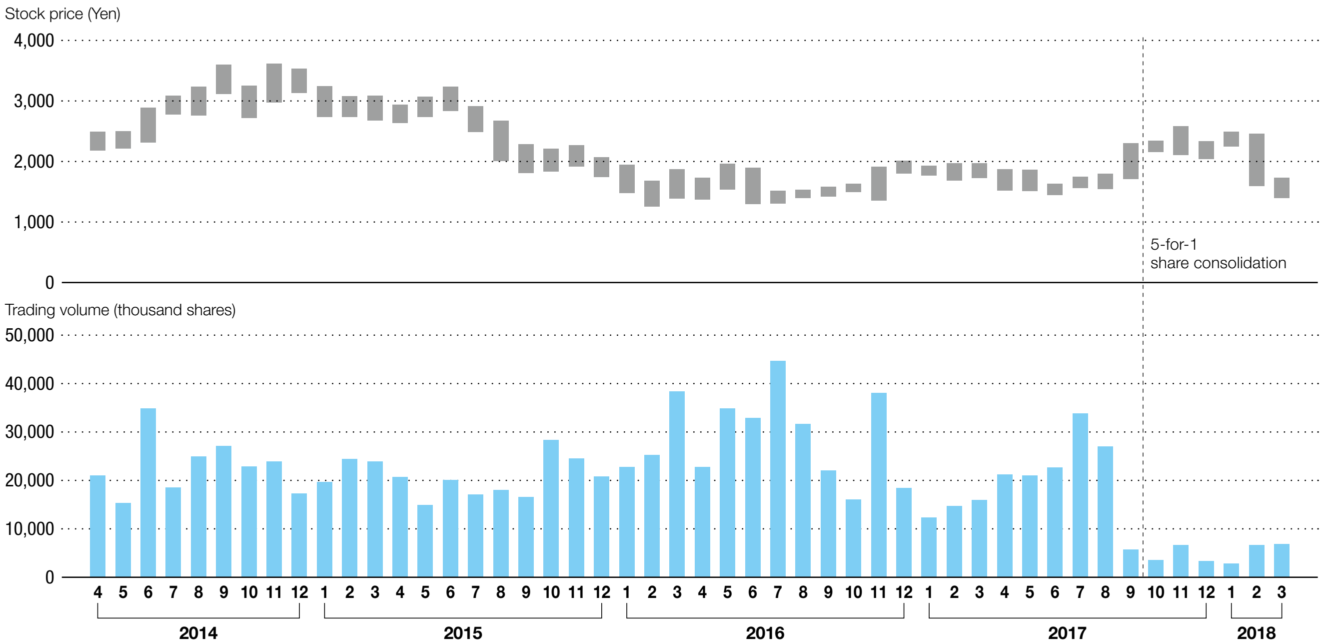
Distribution of shares by type of shareholder

(As of March 31, 2018)



Note: 805 shares held in the name of the Company are included in "Individual and Others" in the graph above.

Stock price trends and trading volume



Note: The Company implemented a 5-for-1 share consolidation on October 1, 2017. Accordingly, the past stock prices of all fiscal years are calculated the same way as after the share consolidation.

SANDEN
Delivering Excellence

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