SANDEN
Delivering Excellence

ANNUAL REPORT 2019

Year ended March 31, 2019

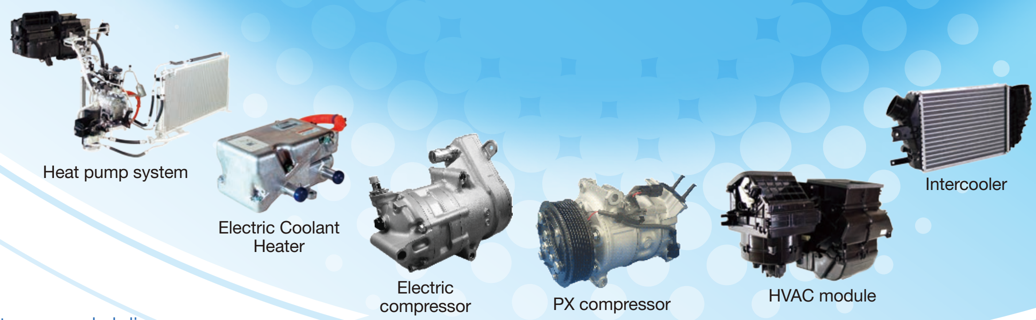
SANDEN HOLDINGS CORPORATION

Profile

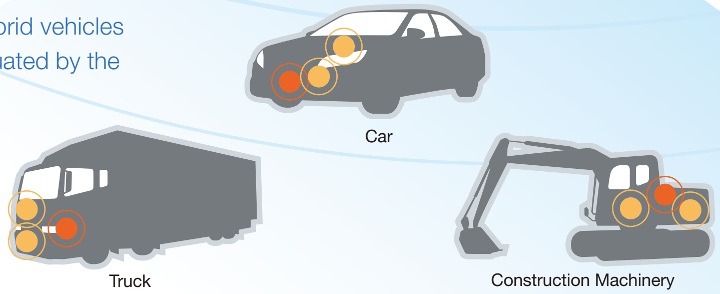
Sanden continues to create new value through Challenge & Innovation based on the “Environment”

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

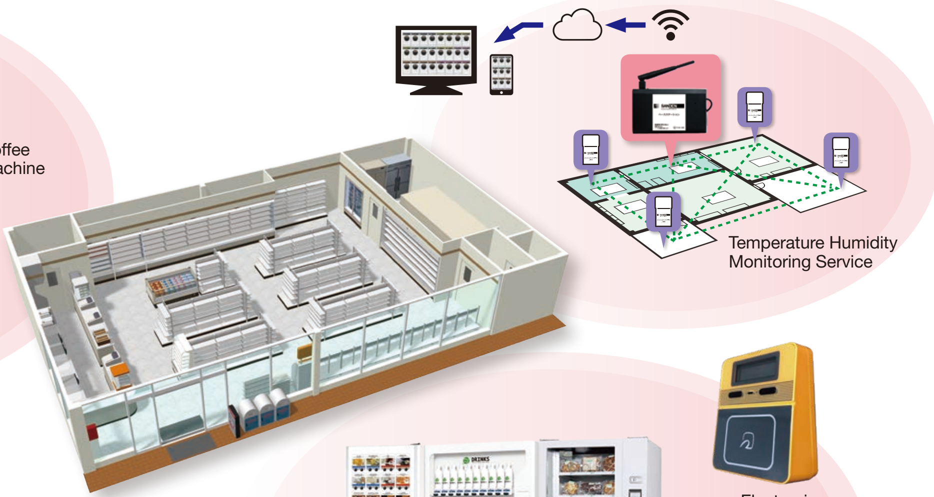
Automotive Systems Business



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



The Sanden Group will continue to grow through the Automobile Systems Business.

All Commercial Store Systems Business including freezing and refrigerating showcases, vending machines, and coffee machines were transferred to SDRS Holdings Corporation as of October 1, 2019.

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.

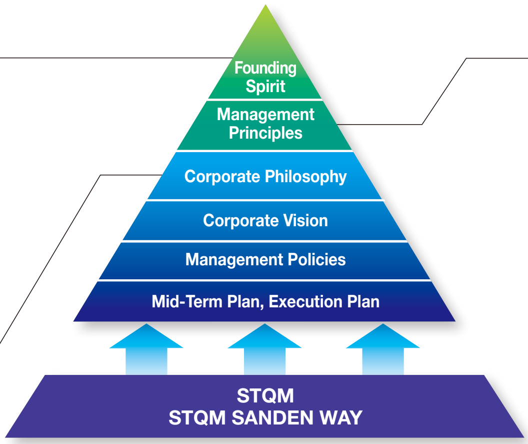
Structure of the Corporate Principles

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				
	FY2014	FY2015	FY2016	FY2017	**FY2018**
Net sales	¥ 306,984	¥ 294,237	¥ 282,061	¥ 287,609	**¥ 273,934**
Operating income	9,407	5,494	1,582	5,469	**889**
Net income (loss) attributable to owners of the parent	5,580	6,965	(22,488)	4,255	**(23,060)**
Comprehensive income (loss)	11,713	2,044	(24,232)	1,884	**(27,070)**
Total net assets	¥ 75,677	¥ 75,503	¥ 49,159	¥ 50,957	**¥ 23,538**
Total assets	299,265	301,325	280,194	275,649	**246,401**
Net assets per share (yen)	¥2,554.01	¥2,537.79	¥1,576.34	¥1,633.99	**¥ 685.04**
Net income (loss) per share (yen)	202.00	252.15	(814.10)	154.00	**(833.58)**
Capital adequacy ratio (%)	23.6	23.3	15.5	16.4	**7.7**
Return on equity (%)	8.5	9.9	(39.6)	9.6	**(71.9)**
Price earnings ratio (%)	13.3	6.4	-	9.9	**-**
Cash flows from operating activities	¥ 16,223	¥ 6,304	¥ 10,048	¥ 7,140	**¥ 3,043**
Cash flows from investing activities	(13,301)	(14,932)	(10,371)	4,093	**(11,362)**
Cash flows from financing activities	(2,022)	6,066	(2,479)	(6,536)	**2,679**
Cash and cash equivalents at the end of the year	20,588	17,482	14,040	18,776	**13,030**
Gross profit	¥ 57,246	¥ 53,311	¥ 49,319	¥ 52,654	**¥ 46,922**
Gross profit ratio (%)	18.6	18.1	17.5	18.3	**17.1**
Ratio of SG&A expenses (%)	15.6	16.3	16.9	16.4	**16.8**
Total net assets ratio (%)	25.3	25.1	17.5	18.5	**9.6**

Note: 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 fiscal year 2014.

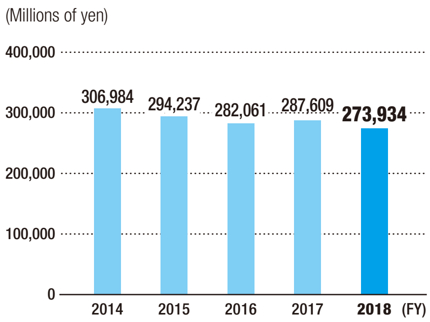
Environmental Figures

	FY2014	FY2015	FY2016	FY2017	**FY2018**
Energy usage (in GJ)	2,764,352	2,803,609	2,829,938	2,853,787	**2,713,787**
CO_2 emissions (in t-CO_2)	129,026	130,335	132,505	136,629	**129,527**

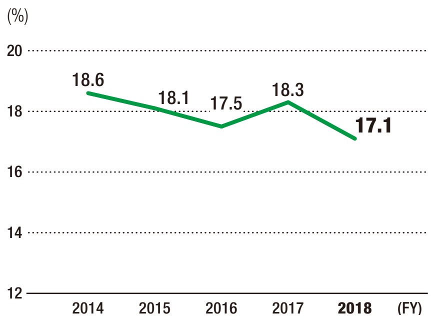
Number of Employees by Region

	FY2014	FY2015	FY2016	FY2017	**FY2018**
Japan	4,340	4,168	3,836	3,622	**3,844**
Asia-Pacific	5,901	5,655	5,634	5,630	**5,329**
Americas	1,464	1,251	1,186	1,019	**829**
Europe	1,810	2,152	2,742	2,869	**2,683**
Total	13,515	13,226	13,398	13,140	**12,685**

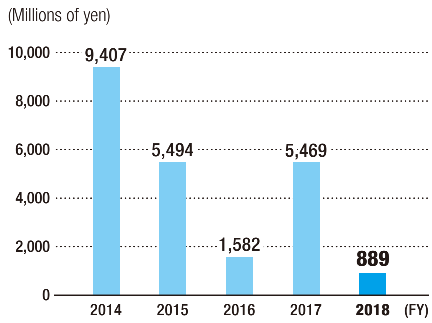
Net Sales



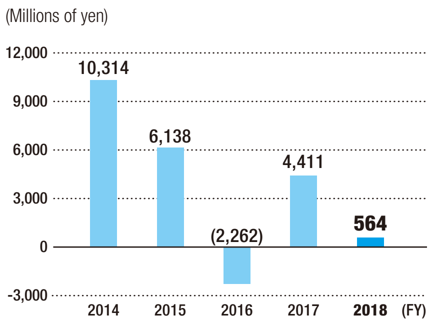
Gross Profit Ratio



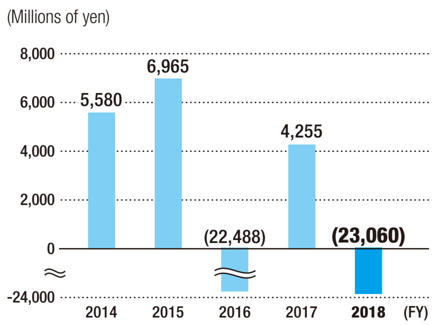
Operating Income



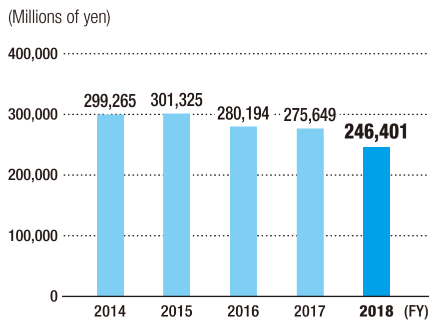
Ordinary Income (Loss)



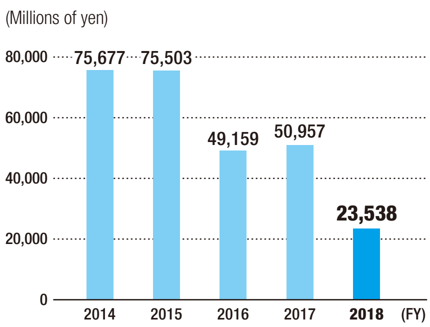
Net Income (Loss) Attributable to Owners of the Parent



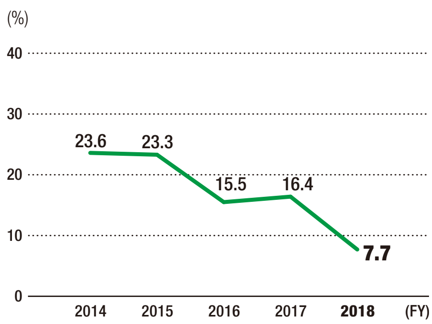
Total Assets



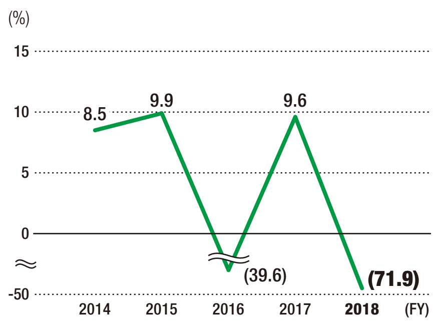
Total Net Assets



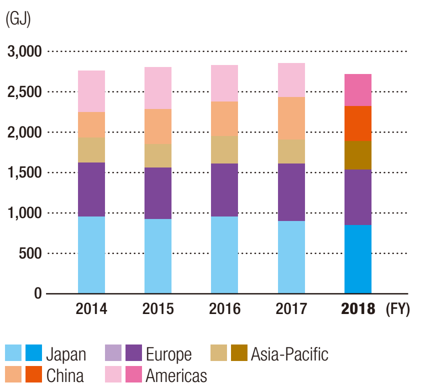
Capital Adequacy Ratio



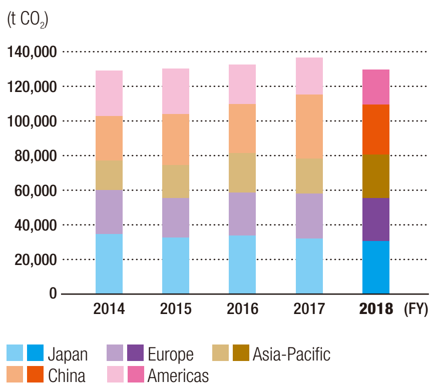
ROE



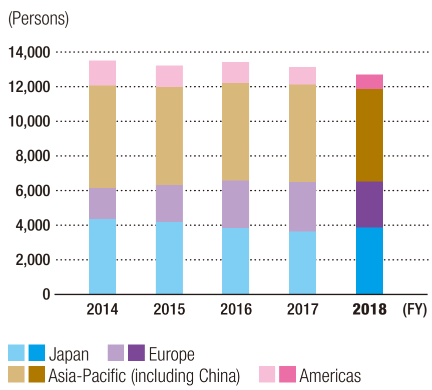
Energy Usage by Region



CO_2 Emissions by Region



Number of Employees by Region



* No companies are accounted for by the equity method.

Top Message

Sanden Group will continue to strive to be a Group that is trusted by all the people by opening new era and solving social issues.

Katsuya Nishi
Representative Director & President
Sanden Holdings Corporation

1. Fiscal 2018 Results

During Fiscal Year 2018, the Sanden Group implemented comprehensive structural reforms under the concept of “Shrink to Grow.” Initiated in May 2017, these reforms enabled Sanden to achieve its management targets in the first quarter of fiscal 2018. Consistent with the “Shrink to Grow” initiative, the Sanden Group reorganized its bases in China, the United States, and Asia. In addition, the Group completed its withdrawal from the living & environmental systems business as planned. As a result, comprehensive structural reforms generated returns totaling ¥8.0 billion, up ¥5.0 billion compared with the previous fiscal year, contributing to a V-shape recovery.

However, the business environment changed dramatically from the summer of fiscal 2018 due to a larger-than-expected influence from trade disputes and economic sanctions. These changes made it even more important for the Group to thoroughly promote ‘comprehensive cost transformation’ to improve profitability, ‘asset efficiency enhancement’ to strengthen the overall financial structure, ‘optimization of the business portfolio’ to create corporate value, and ‘management system reform’ to achieve sustainable growth to survive under a harsh business environment and to continue to make sustainable growth.

2. Determination as President of the Group

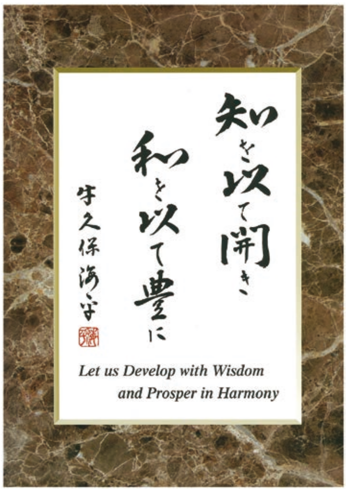
In June, I was newly appointed as Representative Director and President of Sanden Holdings Corporation. I established a new management team in order to overcome the harsh business environment. My mission is to execute our New Mid-term Management Plan ‘SCOPE 2023’ thoroughly formulated in this April together with our associates.

New Mid-term Management Plan	SCOPE 2023
Basic policy	Create the new Sanden by carrying out ‘structural reform’ for re-establishment of management foundation and promoting ‘collaborative creation’ for sustainable growth.
Implementation period	5 years from April 1, 2019 to March 31, 2024

3. Committed to Sustainable Growth

Since its establishment in 1943, the Group has focused on Automotive Systems and Retail Systems Businesses as its main business pillars. For 76 years the Group has been guided by the company principles of ‘Let us Develop with Wisdom and Prosper in Harmony’ and a corporate culture of challenge and innovation.

In this fiscal year, the Group developed a new vision “Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.” We are committed to execute SCOPE2023 thoroughly and realize the vision. Our associates around the world are taking actions based on our belief, “people who make new changes are able to survive.” We will enable the next generation of leaders and associates to pursue new challenges aggressively.



Founding Spirit

	5 Key Activities	Priority Measures
1	Comprehensive reorganization of production system	■ Reorganize the global bases and establish optimal personnel structure
2	Enhancement of basic earning power	■ Pursue synergic “cost creation capability”. ■ Regain the “workplace capabilities” through production innovation.
3	Growth by actively promoting ‘collaborative creation’	■ Concentrate operating resources to the environment-conscious product area. ■ Accelerate development in collaboration with other companies.
4	Cash flow creation through capital reinforcement and reform of assets structure	■ Reinforce the capital. ■ Streamline the working assets.
5	System innovation for implementation	■ Reform the corporate organization to enhance the corporate value. ■ Reform the personnel system to sustain continual growth. ■ Contribute to achievement of SDGs through our business activities.

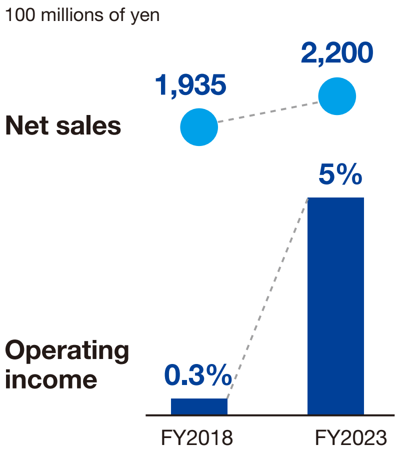
4. Strategy for Sustainable Growth

The automotive industry has entered a new phase with major changes that occur once a century, and the industry structure is changing drastically. It is important for us to expand the sphere of our Automotive Systems Business activities especially concerning electric-driven vehicles and future drivetrain technologies.

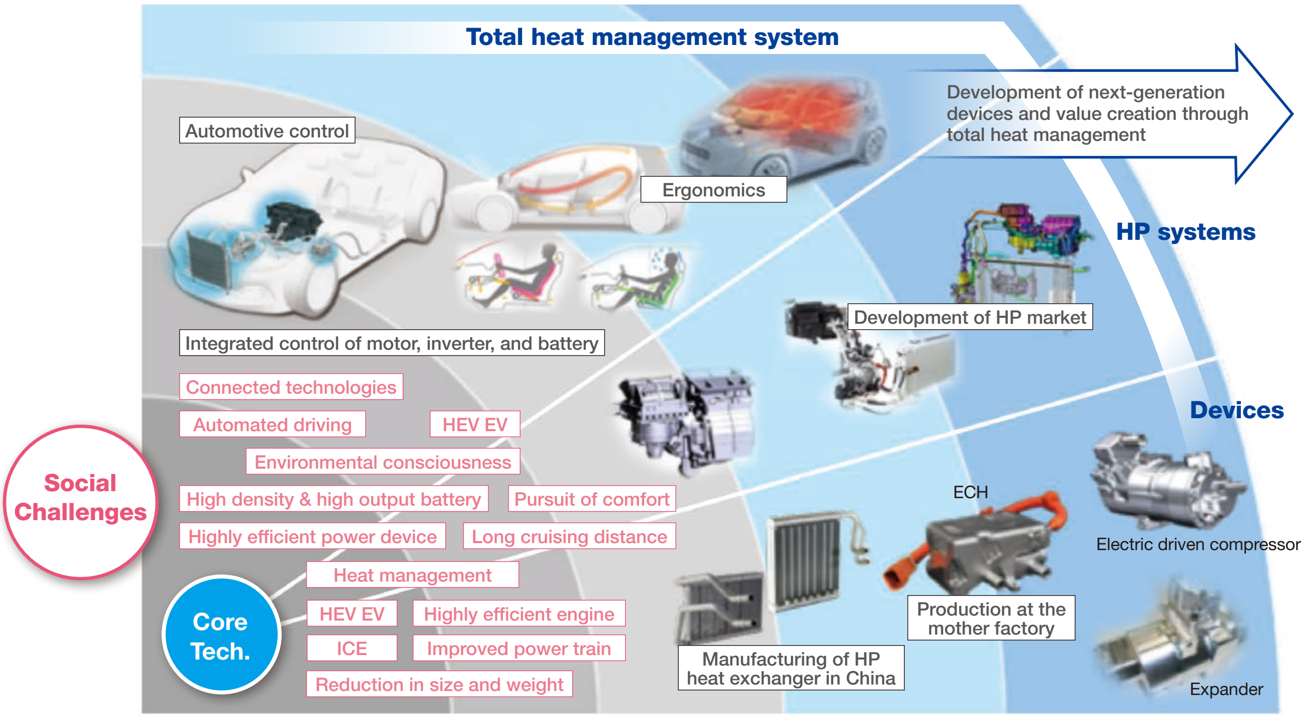
Sanden is going to be the Group that provides 'integrated heat management systems' by expanding our technology to include such areas as temperature control for battery, motor as well as by enhancing air conditioning technologies such as electric-driven compressor, heat pump, and ECH.

In order to realize the business expansion as mentioned above, we must proceed with "Speed." The Group considers as its first priority to allocate management resources with speed and strengthen competitiveness. In addition, "Select" and "Concentration" are also essential to expand business and efficiently manage resources.

Considering our current management situation, however, it is difficult to devote sufficient resources to both the Automotive Systems Business and the Retail Systems Business so that we will achieve future growth in both business fields. Therefore, in August 2019, We have determined to concentrate investment in the Automotive Systems Business for growth toward next generations and to sell our shares in the Retail Systems Business. In this period of drastic change, we believe this is the best way for both the Automotive Systems Business and the Retail Systems Business to make further growth for the future.



Comprehensive reorganization of production system	■ Integrate and streamline the global compressor production system in the world. ■ Reorganize the bases in China and integrate the functions to strengthen collaboration.
Enhancement of basic earning power	■ Pursue the synergetic "cost creation capability". -Global optimum procurement, promotion of VE for clutches, etc. ■ Regain the "workplace capabilities" through production innovation. -Technological innovation at the mother plant and overseas development of technologies.
Growth by actively promoting 'collaborative creation'	■ Evolution to an integrated air conditioning corporation -Launch of the next-generation key devices to open up new markets. -Creation of new customer value through energy control and optimum heat control technologies.



Growth through “Collaborative Creation”

5. Toward the Future

The Group will focus on the “re-establishment of management foundation” to strengthen its financial structure and improve profitability. On the other hand, by utilizing the concept of backcasting to realize the vision, We are convinced that it is crucial for the Group to survive by creating new value by aggressively shifting our current approach from “organic growth” to “collaborative creation” to strengthen business competitiveness (Please refer to page 10, E of ESG, and page 14, Highlight, for our ‘collaborative creation” activities).

In addition, “Contribution to achievement of SDGs through our business activities” is one of our key strategies in SCOPE2023. We believe that actions for SDGs are indispensable for the Group’s commitment to meeting international requirements and contributing to society.

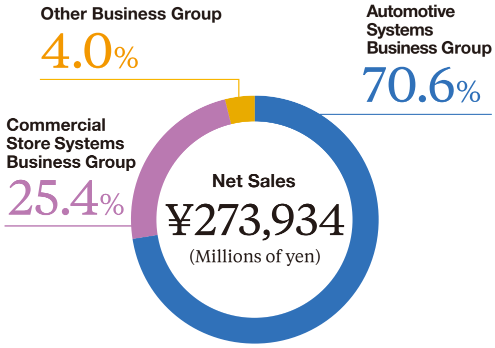
So we have clarified the relation between SDGs and our business activity by selecting priority areas based on our vision “Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized.” The Group will take actions aligned with these priority areas.

Sanden Group will continue to strive to be the Group that is trusted by all the people by beginning a new era and solving social issues.

Katsuya Nishi
Representative Director & President
Sanden Holdings Corporation

Performance Overview

Overview of Results of Operations

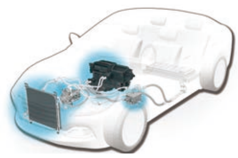


In the fiscal year that ended in March 2019, the slow recoveries of the global and Japanese economies continued with the support of firm capital expenditures and consumer spending. However, the economic outlook has become more uncertain because of U.S.-China trade tension, slowing economic growth in China, problems involving Brexit and other reasons.

The Sanden Group took many actions during the fiscal year based on the previous four-year mid-term plan that was announced in May 2017. Although these initiatives are starting to produce benefits, performance in the current fiscal year declined because of large extraordinary losses and other factors. One reason was the changes in the business climate such as U.S.-China trade tension, slowing economic growth in China, problems involving Brexit and other reasons. In addition, the business climate has become much more challenging than when the previous mid-term plan was established due to the environmental regulations in Europe, Middle East sanctions by the United States and other reasons. Sales decreased 4.8% to ¥273,934 million mainly because higher sales in the Commercial Store Systems business were offset by lower sales in the Automotive Systems Business. The performance of this business was impacted by a market downturn caused by U.S.-China trade friction and the decline in automobile sales, chiefly outside Japan. Although there were activities to improve the cost structure to boost profitability, earnings were down primarily because of the decline in sales. Operating income fell 83.7% to ¥889 million, ordinary income was down 87.2% to ¥564 million and there was a loss attributable to owners of parent of ¥23,060 million compared with a profit of ¥4,255 million in the previous fiscal year. This loss was largely attributable to provision of allowance for doubtful accounts (an extraordinary loss) for receivables and other amounts due from an affiliated company in the Middle East and to expenses for structural reforms.

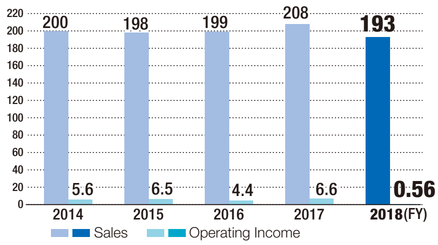
Automotive Systems Business

The Sanden Group developed technologically advanced products that precisely matched the needs of the customers concerning environmental sensitivity and supplied compact, light and energy-efficient products that provide value for customers. Although sales were higher for environmentally responsible vehicles, mainly in Europe, sales were lower in China and other Asian countries primarily due to U.S. and Chinese actions involving trade and sales to a major U.S. customer declined. As a result, segment sales were lower than one year earlier. Earnings also decreased despite cost cutting and a further reexamination of expenses in response to the large downturn in sales. As a result, segment sales decreased 7.4% to ¥193,465 million and operating income fell 91.5% to ¥560 million.



Sales and Operating Income

(Billions of yen)



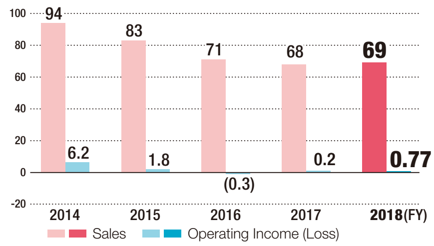
Commercial Store Systems Business

In the retail store systems sector, the Sanden Group continued to provide comprehensive ideas and solutions encompassing products, systems and services linked to customers' growth strategies and needs involving environmental issues. Sales were higher than one year earlier because of deliveries of coffee servers to customers in Japan and for other reasons. In the vending systems sector, sales were about the same as one year earlier even though Japan's vending machine market is continuing to shrink. Performance benefited from the development of environmentally responsible vending machines and the launch of new models. Segment earnings increased because of the larger scale of operations and other reasons. As a result, segment sales increased 1.9% to ¥69,423 million and operating income was up 170.9% to ¥773 million.

Note: All Commercial Store Systems Business including freezing and refrigerating showcases, vending machines, and coffee machines were transferred to SDRS Holdings Corporation as of October 1, 2019.

Sales and Operating Income (Loss)

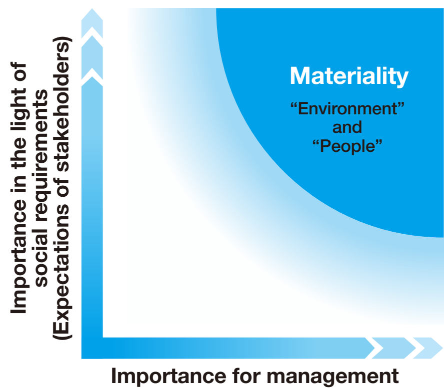
(Billions of yen)



Materiality

The Sanden Group has been working on to solve CSR issues setting “environment” and “people” as Materiality (our issues). For “environment”, we worked on reducing the amount of energy used, the amount of waste generated, the amount of water used in manufacturing process. We also worked on educational efforts to overseas facilities and sourcing strategies using Material Flow Cost Accounting (MFCA) for measures to eliminate generation sources. Turning next to the “people”, we worked on reducing total working hours and increasing usage of paid leave through “work style reforms.”

Methods of Establishing Priorities and the Results



Environment	People
• Promotion of environmental technology development • Responding to lowering the burden on the environment • Promotion of recycling • Challenges for climate change	• Promotion of diversity • Initiatives to achieve a good work/life balance • Human resource training • Thorough adherence to compliance

Based on our vision “Open up a new era and become a company that is trusted by all the people so that we will be able to create an enriched society in which environment and comfort are harmonized” included in SCOPE2023, the Sanden Group have clarified the relation between SDGs and our business activity by selecting priority areas from aspects of SDGs.

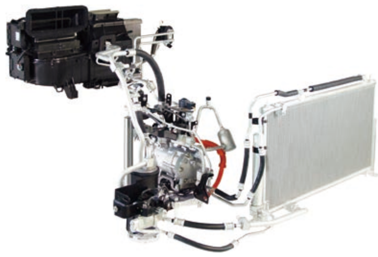
The Sanden Group is committed to make growth to realize a sustainable society.

Priority areas	Background and reasons	Practical examples	Relevant SDGs
Provide quality products (customer satisfaction)	Based on Management Principles “satisfy our customers’ needs with high quality products,” DNA of corporate culture to practice under customer-first and quality-first handed down since its foundation. Mission to provide comfort to society based on core technology “cooling and heating.”	Promote technology development of environmentally friendly products Continuous material and parts procurement transformation	
Protect the global environment	After we declared “The Group to be an eco-friendly company” in 1990, the Group has been promoting environmental management aggressively based on Management Policies “We try to grow with the core of the environment” established in 1997.	Deploy MFCA/ Local environmental conservation activities (5 main areas)	
Ensure occupational safety and health	Placing the utmost importance on safety & health, the Group continuously working on eliminating occupational injuries and improving working environment while incorporating safety & health into Corporate Philosophy, based on awareness that assuring safety and health as a corporate responsibility.	Activities in line with the Safety and Health Charter	
Recruit and nurture diverse human resources	For further growth as a global company, respect human rights and diversification of all human resources and promote to improve working environment and show maximum performance.	Respect regional customs and cultures	
Thoroughly enforce compliance	Since compliance with laws and rules to be fulfilled as a member of the international community is a basic condition of a global company trusted by society, the Group will thoroughly educate employees to take action with a sense of ethics.	Comply with the international rules, regulations, and rules GDPR	

The Sanden Group will continue to grow to realize a sustainable society.

The Sanden Group's Environmental Technologies

Heat Pump System for Electric Vehicles (September 2018)



Electric vehicles are difficult to utilize exhaust heat as a heat source for heating cabin because electric vehicles have no internal-combustion engine. An electric heater is supplementary used for heating, which runs a drive battery down and consequently results in decreasing cruising distance. The heat pump system is designed to extract thermal energy from the outside so that it is able to perform heating with less power. In addition, the system expands cruising distance by increasing energy efficiency in the intermediate period (outside temperature 5-25°C). It also contribute to improve comfort in the cabin by adding dehumidifying function to air conditioning system. With electric compressor which was launched at earlier stage in the market, Sanden brought as a total system to market ahead of other manufacturers.

Electric Coolant Heater for Electric Vehicles (September 2018)

While electric vehicles have no internal-combustion engine and plug-in hybrid electric vehicles only have smaller engine, it need to have alternative for heating the cabin. Sanden developed Electric Coolant Heater (ECH) which heats water as a coolant by electricity. The compact and high efficiency product which is more suitable for conventional air conditioning system provides heat source in high level of safety.

Sanden Provide the Lithium-ion Battery Temperature Control System for Pikes Peak International Hill Climb (June 2019)

Sanden participated "Pikes Peak International Hill Climb EV Challenge," which Sanden also cosponsored. The purpose was to gather data to accelerate the research and development of new heat management system. Sanden developed and supplied "lithium-ion battery temperature control system" tuned exclusively based on convention air conditioning system for battery for the electric vehicle and repeatedly acquired and analyzed vehicle data under harsh conditions. Sanden continues to promote further development of next generation thermal management system based on the knowledge gained through the race.

ESG S

Social Contribution

Work Style Reform

In Japan, it is estimated that population is to decrease to 49.59 million due to declining birthrate and aging population.

Therefore, the Sanden Group has been working on various “work style reforms” and establishing personnel system which meet various way of working to meet needs of the times and society, such as child support, care support, employment promotion for the elderly, and reduction of total working hours.

In February 2019, the Group newly introduced “telework” and “flexible short-time work” which enable diverse working style.

Contribution Activities for Communities and Society

Human resources development programs for revitalizing local communities

With the goal of realizing a sustainable society, the Sanden Group is committed to fulfilling its role as a corporate citizen and deepening its ties with local communities.

- Green Children Project (Italy)
- MONOLABO for elementary and junior high school students
- Riko-challe for junior high and high school students
- Isesaki City Business Experience Project “Isesaki Social Design Seminar”
- Waseda University–affiliated business school innovation creation course for human resources programs for revitalizing local communities
- Safer with Us (Poland)
- Sanden Maebashi Robocon

Pro Bono activities for regional administration and education institution

In order to revitalize local communities and promote technical tradition, employees with knowledge and experience of the Sanden Group participate training courses organized by the regional administration, educational institutions and assistance agencies.

The Sanden Group contributes to accelerate technical tradition through training course for new employees at manufacturing sites organized by the Gunma Industry Support Organization, manufacturing improvement instructor school, and manufacturing business courses organized by Gunma University etc. as a manufacturing company in Gunma Prefecture which has many manufacturing companies.

ESG G

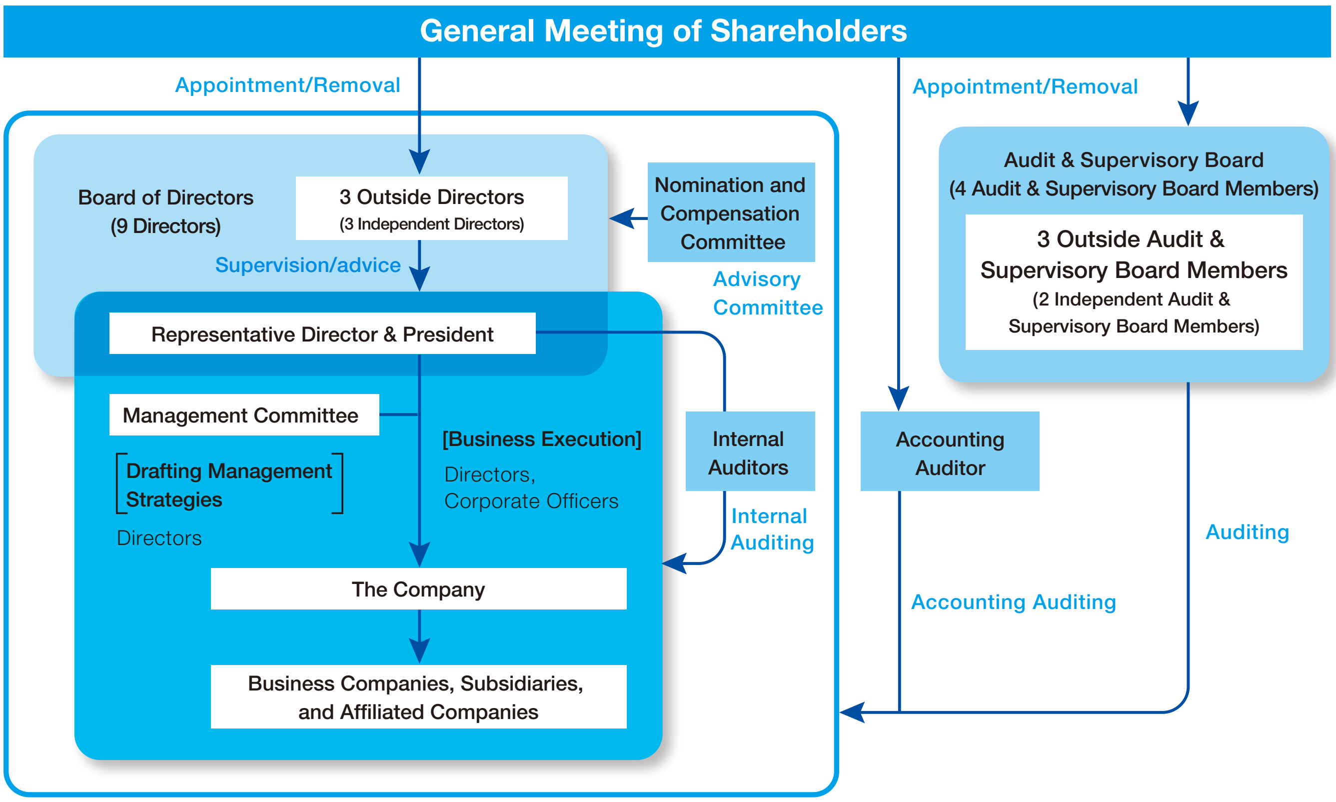
Fundamental Corporate Governance Policies

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



Directors/Audit & Supervisory Board Members/ Corporate Officers

(Back row, left to right) ❾ Yuzo Ushiyama, ❽ Naonori Kimura, ❼ Hideto Ozaki, ❿ Shinji Ichikawa, ⓫ Hiroshi Yomo, ⓬ Ichiro Yumoto, ⓭ Kazumichi Matsuki
(Front row, left to right) ❻ Toru Akima, ❹ Hideyuki Kobayashi, ❷ Tsuguo Ito, ❶ Katsuya Nishi, ❸ Mark Ulfig, ❺ Hiroshi Takahashi

Directors

❶ Katsuya Nishi
Representative Director & President

❷ Tsuguo Ito
Representative Director & Executive Vice President

❸ Mark Ulfig
Director & Executive Vice President

❹ Hideyuki Kobayashi
Director & Executive Corporate Officer

❺ Hiroshi Takahashi
Director & Executive Corporate Officer

❻ Toru Akima
Director & Corporate Officer

❼ Hideto Ozaki
Director (Outside)

❽ Naonori Kimura
Director (Outside)

❾ Yuzo Ushiyama
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

Takashi Shimomura
Executive Corporate Officer

Hiroki Terao
Corporate Officer

As of June 2019

Highlight

Sanden Completed ‘Sanden Huayu Heqing New Plant in Shanghai (July 2018)

Sanden Huayu Automotive Air Conditioning Co., Ltd., a joint venture company between Sanden Holdings Corporation (Sanden) and Huayu Automotive Systems Company Co., Ltd. (Huayu Automotive) belonging to Shanghai Automotive Industry Corporation (SAIC) that has the largest market share in China and places Shanghai Volkswagen and SAIC-GM under its umbrella, completed its state-of-the-art ‘Huayu Sanden Heqing New Plant’ (New Plant) in Pudong New Area, Shanghai. The New Plant has a ground area of 116 thousand square meters and a total building area of 105 thousand square meters including the two-story north building and the south building. Annual production capacity will be 15 million units, which is also the largest in the global Sanden Group.

Introduce “Telework” and “Flexible Short-Time Work” (February 2019)

It is said that securing labor force will become more severe in the future due to intensifying global business competition and accelerating declining birthrate and aging population. Sanden recognizes that maintaining and securing human resources and improving productivity are essential issues. Sanden also recognize that it is a challenge to promote flexible working styles that respond to employee awareness and diversification of situations. Sanden introduced “telework” and “flexible short-time work” as part of the introduction of flexible work styles with recognition of diverse values that allow people to continue working comfortably according to life events.

Sanden Exhibits 67th IAA Commercial Vehicles (September 2018)

Sanden exhibited our automotive equipment system products (compressors, HVAC units, etc.) at a commercial vehicle show held in Hannover, Germany. Sanden will continue to promote our products proactively to major commercial vehicle customers.

Sanden and Gunma University Agree to Enter Industry-Academia Collaboration Agreement (April 2019)

Sanden and Gunma University held a signing ceremony for the industry-academia collaboration agreement at the Sanden Global Center. Sanden believes that the agreement will accelerate technological development where making remarkable progress in the world, especially information technology field such as AI and IoT. Sanden also expects the agreement to promote human resources development capable for increasingly growing global business.

Financial Section

Financial Section Contents

Management's Discussion & Analysis

Net Sales

Net sales for fiscal year 2018, ended March 31, 2019 decreased by 4.8% or ¥13.6 billion, compared with the previous fiscal year, to ¥273.9 billion on a consolidated basis.

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. Despite these factors and an increase in sales of products for environmentally friendly vehicles mainly in Europe, revenues in this business decreased from the previous fiscal year owing largely to the downturn in sales in Asia and China as well as to major customers in the US as a result of the impact of such factors as US-China trade policies. From a profit perspective, earnings decreased year on year. This was despite efforts to reduce costs and further review expenses in response to the sudden drop in sales. Accounting for each of these factors, Automotive Systems Business segment sales were ¥193.4 billion, down 7.4% from the previous fiscal year. Operating income was ¥0.5 billion, representing a decrease of 91.5% from the previous fiscal year.

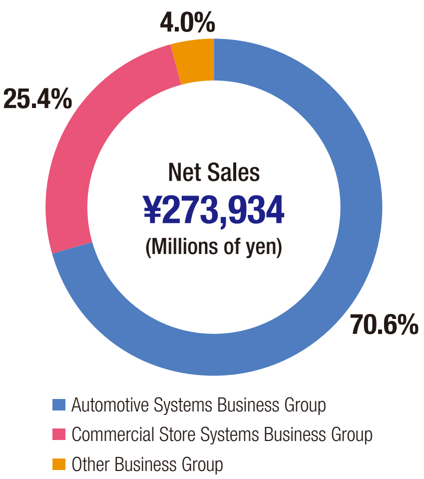
Turning to the Commercial Store Systems Business, the Sanden Group continued to provide comprehensive ideas and solutions encompassing products, systems, and services linked to customers' growth strategies and needs involving environmental issues in the retail store systems sector. Sales increased compared with the previous fiscal year due to a variety of factors including deliveries of new coffee servers in the retail store systems sector in Japan. In the Vending Systems Sector, the Group worked actively to expand business focusing mainly on the development of environmentally friendly products and launch of new products. However, sales were held to the same level recorded in the previous fiscal year mainly because of the declining trend in the vending machines market in Japan.

Earnings in this segment were higher than one year earlier. This was largely attributable to the effects of an increase in scale. Based on the aforementioned, sales in the Commercial Store Systems Business segment came to ¥69.4 billion, an increase of 1.9% compared to the previous fiscal year. Operating income was ¥0.7 billion, a year-on-year improvement of 170.9%.

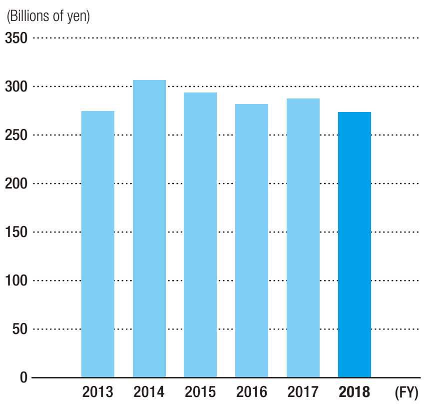
Costs, Expenses, and Earnings

In the fiscal year under review, net sales totaled ¥273.9 billion, down 4.8% compared with the previous fiscal year. Despite an increase in sales in the Commercial Store Systems Business, this downturn largely reflects trade friction between the US and China, which contributed to a slump in the market, and such factors as the slowdown mainly in overseas automobile sales. While the Sanden Group undertook steps to promote a comprehensive cost transformation to improve profitability, operating income amounted to ¥0.8 billion, down 83.7% compared with the previous fiscal year. This was largely due to the decrease in net sales. In the fiscal year ended March 31, 2019, Sanden incurred a net loss attributable to owners of the parent of ¥23.0 billion. This was compared with net income attributable to owners of the parent of ¥4.2 billion in the previous fiscal

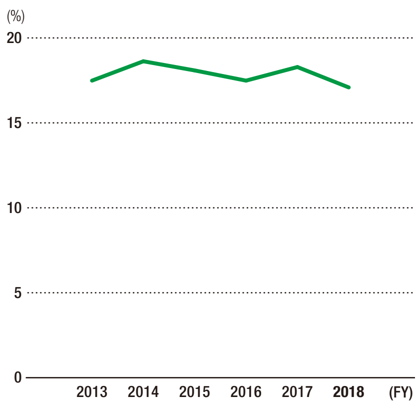
Breakdown of Net Sales



Net Sales



Gross Profit Ratio



year. This negative turnaround mainly reflects the posting of a provision to the Company's allowance for doubtful accounts associated with trade receivables of an affiliated company in the Middle East as an extraordinary loss.

Financial Position

Total assets as of March 31, 2019 decreased by ¥29.2 billion compared with the end of the previous fiscal year, to ¥246.4 billion. This was largely due to the posting of an allowance for doubtful accounts and decreases in cash and time deposits, property, plant and equipment, and deferred income taxes.

Total liabilities decreased by ¥1.8 billion year on year, to ¥222.8 billion. While interest-bearing liabilities increased, this decrease mainly reflects lower trade notes and accounts payable as well as payables-other. Total net assets decreased by ¥27.4 billion compared with the previous fiscal year-end, to ¥23.5 billion, largely owing to the net loss attributable to owners of the parent for the fiscal year under review and decrease in foreign currency translation adjustments.

Liquidity

(1) Cash Flows

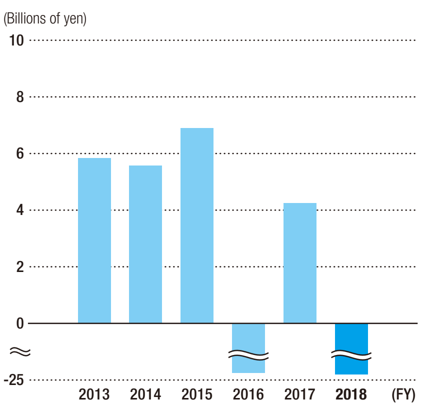
Net cash provided by operating activities for the fiscal year under review amounted to ¥3.0 billion, which was ¥4.0 billion lower than the previous fiscal year. While Sanden incurred a loss before income taxes of ¥20.5 billion, the Company also recorded reductions in operating assets attributable to such factors as an increase in allowance for doubtful accounts and structural reform cost. Net cash used in investing activities amounted to ¥11.3 billion, which was a turnaround of ¥15.4 billion compared with net cash provided by investing activities in the previous fiscal year. The principal investing cash outflow was purchases of property, plant and equipment of ¥14.1 billion. Net cash provided by financing activities came to ¥2.6 billion, which was a turnaround of ¥9.2 billion compared with net cash used in financing activities in the previous fiscal year. The principal cash outflow was repayment of long-term loans payable and redemption of bonds totaling ¥20.4 billion. The major cash inflow was proceeds from long-term loans payable and proceeds from issuance of bonds together totaling ¥18.8 billion. Taking into consideration these cash flows, cash and cash equivalents at the end of the fiscal year were ¥13.0 billion, which was ¥5.7 billion lower than the cash and cash equivalents as of the end of the previous fiscal year.

(2) Capital Demands

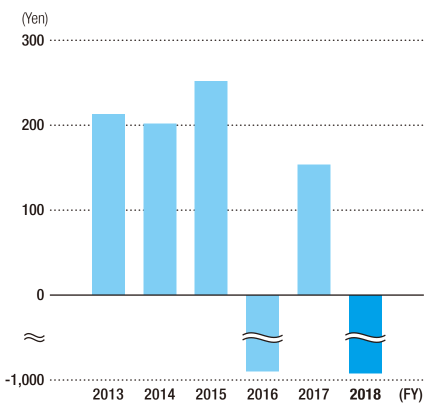
The Sanden Group requires working capital primarily for the purchase of materials and parts for products manufactured by the Sanden Group, manufacturing costs, and operating expenses such as SG&A expenses.

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.

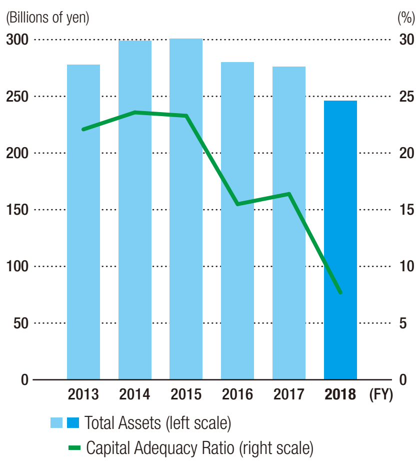
Net Income (Loss) Attributable to Owners of the Parent



Net Income (Loss) per Share



Total Assets/Capital Adequacy Ratio



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. Sanden Group companies principally secure the required working capital through short-term bank loans not exceeding a period of 12 months. As of March 31, 2019, short-term bank loans amounted to ¥51.5 billion and were denominated primarily in Japanese yen, the U.S. dollar, and the Euro. Meanwhile, the Group procures long-term financing through long-term debt to fund its capital and other investment activities. As of March 31, 2019, the balance of long-term debt stood at ¥71.6 billion. A large part of the long-term bank loans was borrowed with fixed interest rates from financial institutions. During the fiscal year under review, the Sanden Group undertook long-term debt of ¥17.3 billion mainly in Japan. This was used to fund capital and other investments. 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 sound financial position and believes the net cash provided by operating activities, financing through loans, and the issuance of bonds as well as 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 the Sanden Group's 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 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, 2019 and 2018

	Millions of yen	
ASSETS	**2019**	2018
Current assets:		
Cash and time deposits (Notes 6, 9 and 15)	**¥ 13,030**	¥ 18,776
Receivables (Notes 6, 9 and 12):		
Trade notes and accounts	**50,223**	49,489
Unconsolidated subsidiaries and affiliates	**24,265**	25,589
Other	**5,078**	5,001
Inventories (Notes 3 and 9)	**48,271**	47,490
Prepaid expenses and other current assets (Notes 6 and 12)	**14,106**	13,694
Allowance for doubtful accounts	**(16,562)**	(678)
Total current assets	**138,412**	159,363
Investments and other assets:		
Investment securities (Notes 4 and 6):		
Unconsolidated subsidiaries and affiliates	**20,815**	21,774
Other	**1,058**	1,186
Net defined benefit asset (Note 8)	**110**	118
Deferred income taxes (Note 5)	**2,240**	4,641
Intangible assets	**4,078**	3,869
Other	**5,856**	6,018
Allowance for doubtful accounts	**(3,606)**	(3,064)
Total investments and other assets	**30,551**	34,544
Property, plant and equipment, at cost (Note 9)**:**		
Land	**16,805**	16,912
Buildings and structures	**63,041**	62,908
Machinery and equipment	**104,028**	102,666
Furniture and fixtures	**45,109**	44,438
Leased assets	**22,673**	23,651
Construction in progress	**6,187**	6,699
Total	**257,845**	257,277
Accumulated depreciation	**(180,408)**	(175,536)
Net property, plant and equipment	**77,436**	81,741
Total assets	**¥246,401**	¥275,649

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2019	 2018
Current liabilities:		
Short-term bank loans (Notes 6 and 9)	**¥ 51,513**	¥ 45,011
Long-term debt due within one year (Notes 6 and 9)	**25,209**	19,011
Payables (Note 6):		
Trade notes and accounts	**48,830**	52,466
Unconsolidated subsidiaries and affiliates	**1,320**	1,058
Other	**7,402**	10,998
Income taxes payable (Notes 5 and 6)	**478**	699
Accrued employees' bonuses	**3,347**	3,759
Allowance for outstanding claims	**432**	986
Accrued liabilities	**3,209**	4,189
Lease obligations due within one year (Notes 6 and 9)	**2,175**	2,018
Other current liabilities (Note 12)	**12,789**	10,027
Total current liabilities	**156,710**	150,227
Long-term liabilities:		
Long-term debt due after one year (Notes 6 and 9)	**53,772**	62,121
Net defined benefit liability (Note 8)	**3,653**	3,376
Deferred income taxes (Note 5)	**245**	205
Lease obligations due after one year (Notes 6 and 9)	**5,974**	6,113
Other noncurrent liabilities (Note 13)	**2,504**	2,647
Total long-term liabilities	**66,151**	74,464
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
Capital surplus	**3,579**	3,731
Retained earnings	**10,484**	33,703
Treasury stock, at cost: 389,207 and 413,024 shares in 2019 and 2018, respectively	**(877)**	(1,126)
Total stockholders' equity	**24,225**	47,346
Accumulated other comprehensive income:		
Net unrealized gains (losses) on securities, net of taxes	**257**	292
Unrealized gains (losses) on hedging derivatives, net of taxes	**(84)**	(16)
Foreign currency translation adjustments	**(4,297)**	(1,484)
Remeasurements of defined benefit plans, net of taxes	**(1,140)**	(954)
Total accumulated other comprehensive income	**(5,265)**	(2,161)
Non-controlling interests in consolidated subsidiaries	**4,579**	5,772
Total net assets	**23,538**	50,957
Total liabilities and net assets	**¥246,401**	¥275,649

***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, 2017.*

See accompanying notes.

Consolidated Statements of Operations

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen	
	2019	2018
Net sales (Note 18)	**¥273,934**	¥287,609
Cost of sales	**227,011**	234,955
Gross profit	**46,922**	52,654
Selling, general and administrative expenses (Note 19)	**46,033**	47,185
Operating income (Note 18)	**889**	5,469
Other income (expenses):		
Interest and dividend income	**96**	246
Exchange gains (losses), net	**397**	(1,437)
Equity in net income of affiliates	**2,148**	2,667
Interest expense	**(2,482)**	(2,180)
Gain (loss) on sales and disposals of property, plant and equipment, net	**79**	132
Gain on sales of investment securities	**63**	5,488
Provision for doubtful accounts (Note 23)	**(16,244)**	—
Structure reform cost (Notes 20 and 21)	**(4,461)**	(2,884)
Loss on reversal of foreign currency translation adjustments due to liquidation of overseas subsidiaries	**(109)**	—
Provision for outstanding claims (Note 22)	**(432)**	(1,901)
Other, net	**(512)**	266
Other income (expenses)	**(21,457)**	398
Income (loss) before income taxes	**(20,568)**	5,867
Income taxes (Note 5)**:**		
Current	**686**	1,269
Deferred	**2,384**	139
Total income taxes	**3,071**	1,409
Net income (loss)	**(23,639)**	4,458
Net income attributable to non-controlling interests	**(579)**	202
Net income (loss) attributable to owners of the parent	**¥ (23,060)**	¥ 4,255

	Yen	
	2019	2018
Amounts per share of common stock:		
Net income (loss):		
Basic	**¥(833.58)**	¥154.00
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, 2017.

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen	
	2019	2018
Net income (loss)	**¥(23,639)**	¥4,458
Other comprehensive income (Note 11):		
Net unrealized gains (losses) on securities, net of taxes	**(26)**	(3,323)
Unrealized gains (losses) on hedging derivatives, net of taxes	**(68)**	0
Foreign currency translation adjustments	**(1,014)**	1,001
Remeasurements of defined benefit plans, net of taxes	**(186)**	78
Share of other comprehensive income of affiliates accounted for using equity method	**(2,134)**	(331)
Total other comprehensive income	**(3,430)**	(2,573)
Comprehensive income	**¥(27,070)**	¥1,884
Total comprehensive income attributable to:		
Owners of the parent	**¥(26,164)**	¥1,574
Non-controlling interests	**(906)**	310

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen											
	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 benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥11,037	¥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

	Millions of yen											
	Stockholders' equity					Accumulated other comprehensive income						
Year ended March 31, 2019	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥11,037	¥3,731	¥33,703	¥(1,126)	¥47,346	¥292	¥(16)	¥(1,484)	¥ (954)	¥(2,161)	¥5,772	¥50,957
Net loss attributable to owners of the parent	**—**	**—**	**(23,060)**	**—**	**(23,060)**	**—**	**—**	**—**	**—**	**—**	**—**	**(23,060)**
Decrease in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**(35)**	**—**	**—**	**—**	**(35)**	**—**	**(35)**
Decrease due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**(68)**	**—**	**—**	**(68)**	**—**	**(68)**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,813)**	**—**	**(2,813)**	**—**	**(2,813)**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(186)**	**(186)**	**—**	**(186)**
Decrease in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,192)**	**(1,192)**
Disposal of treasury stock	**—**	**(24)**	**(158)**	**484**	**301**	**—**	**—**	**—**	**—**	**—**	**—**	**301**
Acquisition of treasury stock	**—**	**—**	**—**	**(235)**	**(235)**	**—**	**—**	**—**	**—**	**—**	**—**	**(235)**
Change in ownership interest of parent due to transactions with non-controlling interests	**—**	**(127)**	**—**	**—**	**(127)**	**—**	**—**	**—**	**—**	**—**	**—**	**(127)**
Balance at end of year	**¥11,037**	**¥3,579**	**¥10,484**	**¥ (877)**	**¥24,225**	**¥257**	**¥(84)**	**¥(4,297)**	**¥(1,140)**	**¥(5,265)**	**¥4,579**	**¥23,538**

See accompanying notes.

Consolidated Statements of Cash Flows

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen	
	2019	2018
Cash flows from operating activities:		
Income (loss) before income taxes	**¥(20,568)**	¥ 5,867
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	**10,914**	11,079
Amortization of goodwill	**46**	71
Equity in net income of affiliates	**(2,148)**	(2,667)
Loss on reversal of foreign currency translation adjustments due to liquidation of overseas subsidiaries	**109**	—
Loss (gain) on sales and disposals of property, plant and equipment, net	**(79)**	(132)
Gain of sales of investment securities	**(63)**	(5,478)
Structure reform cost	**4,461**	2,884
Decrease (increase) in assets:		
Trade accounts and notes receivable	**200**	6,092
Inventories	**(2,635)**	(213)
Accounts receivable–other	**(558)**	(558)
Allowance for doubtful accounts	**16,177**	(221)
Other current assets	**(224)**	(1,867)
Increase (decrease) in liabilities:		
Trade accounts and notes payable	**(2,603)**	(1)
Accrued employees' bonuses	**(396)**	(34)
Accounts payable–other	**(1,357)**	(5,674)
Provision for outstanding claims	**(553)**	986
Other current liabilities and long-term liabilities	**2,026**	(1,259)
Income taxes paid	**(1,013)**	(2,833)
Other, net	**1,311**	1,102
Net cash flows from operating activities	**3,043**	7,140
Cash flows from investing activities:		
Purchases of property, plant and equipment	**(14,196)**	(8,859)
Proceeds from sale of property, plant and equipment	**2,948**	4,028
Purchases of intangible assets	**(683)**	(374)
Proceeds from sales of investment securities	**807**	8,725
Other, net	**(238)**	574
Net cash flows from investing activities	**(11,362)**	4,093
Cash flows from financing activities:		
Net increase (decrease) in short-term bank loans	**7,055**	(10,294)
Proceeds from long-term loans payable	**17,368**	29,814
Repayment of long-term loans payable	**(19,590)**	(30,382)
Proceeds from issuance of bonds	**1,466**	6,554
Redemption of bonds	**(862)**	—
Repayment of lease obligations	**(2,537)**	(2,065)
Other, net	**(219)**	(162)
Net cash flows from financing activities	**2,679**	(6,536)
Effect of exchange rate changes on cash and cash equivalents	**(107)**	37
Net increase (decrease) in cash and cash equivalents	**(5,746)**	4,736
Cash and cash equivalents at beginning of year	**18,776**	14,040
Cash and cash equivalents at end of year (Note 15)	**¥ 13,030**	¥18,776

See accompanying notes.

Notes to Consolidated Financial Statements

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2019 and 2018

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 from International Financial Reporting Standards ("IFRS") in certain respects as to application and disclosure requirements.

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.

2. Significant Accounting Policies

Consolidation— The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (50 subsidiaries in 2019 and 46 subsidiaries in 2018). For the purposes of preparing the consolidated financial statements, all significant intercompany balances, transactions and unrealized profits have been eliminated.

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

The changes in the scope of consolidation are as follows:

Due to new establishment of companies, Taiwan Sanden Retail Systems Corporation, SANDEN AUTOMOTIVE SYSTEMS (SINGAPORE) PTE. LTD., Sanden International (Europe) GmbH, Sanden Vendo GmbH and Yik Cheng (Singapore) Pte Ltd. were included in the scope of consolidation for the year ended March 31, 2019. Due to completion of liquidation, PT. SANDEN JAYA INDONESIA was excluded from the scope of consolidation for the year ended March 31, 2019.

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, 2018 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, 2018 and March 31, 2019. 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, 2019 is consolidated.

Equity method— The equity method was applied to the investments in 8 affiliates in 2019 and 7 affiliates in 2018, by using financial statements for the fiscal years of each affiliate, some of which differ from those of the Company. Due to new establishment, Sanden (Hefei) Refrigeration Co., Ltd. was included in the scope of equity method for the year ended March 31, 2019. 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	2 to 50 years (3 to 50 years in 2018)
Machinery and equipment	2 to 18 years (3 to 13 years in 2018)

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 pre-tax 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 adopted Practical Issues Task Force No. 18, entitled the "Practical Solution on Unification of Accounting Policies Applied to Overseas Subsidiaries for Consolidated Financial Statements" (as amended on March 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 2019 presentation to reflect the changes of importance on some accounts. This reclassification had no impact on previously reported results of operations or retained earnings.

Accounting standards issued but not yet adopted— "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan ("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.

Changes in method of presentation— Adoption of Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Standard No. 28, revised on February 16, 2018) (hereinafter "Partial Amendments to Tax Effect Accounting") from the beginning of the year ended March 31, 2019. As a result, deferred tax assets and deferred tax liabilities are presented in investments and other assets and long-term liabilities, respectively, on the accompanying balance sheets and certain changes are made to Note 5. Income Taxes.

As a result of these changes, deferred tax assets of ¥2,575 million previously presented in current assets, deferred tax liabilities of ¥18 million previously presented in current liabilities and deferred tax liabilities of ¥606 million previously presented in long-term liabilities are included in deferred tax assets in investments and other assets of ¥4,641 million, and deferred tax assets of ¥15 million previously presented in current assets and deferred tax liabilities of ¥11 million previously presented in current liabilities are included in deferred tax liabilities in long-term liabilities of ¥205 million on the accompanying consolidated balance sheet as of March 31, 2018.

Certain information is added to Note 5. Income Taxes as described in note 8 (excluding total amount of valuation allowance) and note 9 of explanatory notes to the "Accounting Standard for Tax Effect Accounting" as prescribed in Paragraphs 3 through 5 of the Partial Amendments to Tax Effect Accounting. However, information for the year ended March 31, 2018 is not presented in accordance with the transitional treatment prescribed in Paragraph 7 of the Partial Amendments to Tax Effect Accounting.

Additional Information— The Company has adopted a scheme referred to as the "Executive Compensation Board Incentive Plan Trust" (hereinafter, the "BIP"), for directors and corporate officers who have entered into an engagement agreement with the Company (excluding directors and corporate officers residing overseas, outside directors and part-time directors (hereinafter, "Directors")), for the purpose of increasing their awareness of contributing to the growth in business results and corporate value in the medium-to-long term.

Based on a resolution by the annual shareholders' meeting on June 21, 2018 to continue the BIP, disposal of treasury stock through a third party allotment was resolved by the meeting of the Board of Directors on August 8, 2018.

Accounting treatment of the trust is in line with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015).

(1) Overview of the transaction
The Company entrusts money equivalent to remuneration of Directors under the BIP. The Company's shares will be acquired using the entrusted money and delivered to directors based on the attainment of management objectives and their rank. Directors are eligible to receive the Company's shares, in principle, when they retire.

(2) Remaining balance of treasury stock in the trusts
The Company records the remaining balance of the Company's own stock in the trusts as treasury stock in net assets section at the carrying amount (excluding ancillary expenses) in the trust. The carrying amount and the number of shares of such treasury stock as of March 31, 2019 and 2018 are ¥574 million and 273,961 shares and ¥408 million and 142,695 shares, respectively.

3. Inventories

The following is a summary of inventories at March 31, 2019 and 2018.

	Millions of yen	
	2019	2018
Merchandise and finished goods	**¥24,142**	¥21,895
Work in process	**11,685**	12,089
Raw materials	**9,249**	10,065
Other inventories	**3,194**	3,438
Total	**¥48,271**	¥47,490

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, 2019 and 2018.

	Millions of yen		
	2019		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥190**	**¥585**	**¥395**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**¥190**	**¥585**	**¥395**
Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**¥144**	**¥135**	**¥(8)**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**¥144**	**¥135**	**¥(8)**

	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	¥ —	¥ —	¥ —

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, 2019 and 2018.

	Millions of yen	
	2019	2018
Unlisted stock	**¥336**	¥212

Total sales of available-for-sale securities for the years ended March 31, 2019 and 2018 amounted to ¥304 million and ¥9,187 million, related gains amounted to ¥63 million and ¥5,488 million, and related losses for the years ended March 31, 2019 and 2018 amounted to nil and ¥9, 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, 2019 and 2018.

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, 2019, 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, 2019 and 2018 were as follows:

	Millions of yen	
	2019	2018
Deferred tax assets:		
Net operating loss carryforward(*2)	**¥13,040**	¥13,082
Unrealized gains on inventories from intercompany sales	**134**	149
Accrued expenses	**563**	1,047
Warranty liabilities	**435**	641
Allowance for doubtful accounts	**3,019**	630
Doubtful accounts written off	**677**	648
Loss on devaluation for slow-moving inventory	**907**	806
Accrued employees' bonuses	**720**	756
Tax breaks for investment for facilities	**1,384**	2,110
Unrealized gains on fixed assets from intercompany sales	**17**	70
Depreciation	**705**	802
Net defined benefit liability	**520**	515
Environmental liability	**65**	73
Impairment loss on long-lived assets	**736**	394
Others	**1,506**	2,193
Gross deferred tax assets	**24,434**	23,922
Less: Valuation allowance for net operating loss carryforward(*2)	**(12,810)**	—
Valuation allowance for temporary differences	**(8,044)**	—
Total valuation allowance (*1)	**(20,854)**	(17,305)
Offset against deferred tax liabilities	**(1,340)**	(1,974)
Total deferred tax assets	**2,240**	4,641
Deferred tax liabilities:		
Depreciation	**(419)**	(854)
Net unrealized gain on securities	**(120)**	(125)
Effect on retained earnings of foreign affiliates	**(587)**	(682)
Others	**(458)**	(516)
Gross deferred tax liabilities	**(1,586)**	(2,179)
Offset against deferred tax assets	**1,340**	1,974
Total deferred tax liabilities	**(245)**	(205)
Net deferred tax assets	**¥ 1,994**	¥ 4,436

(*1) Valuation allowance increased by ¥3,548 million. Major reason for the increase is due to increase in valuation allowance for net operating loss carryforward in the Group of ¥3,849 million.

(*2) Expiration of net operating loss carryforward and related deferred tax assets as of March 31, 2019, were as follows:

	Millions of yen		
Year Ending March 31,	Net operating loss carryforward	Valuation allowance	Deferred tax assets
2020	¥ 1,791	¥ (1,791)	¥ —
2021	1,069	(1,069)	—
2022	21	(21)	—
2023	30	(30)	—
2024	41	(41)	—
2025 and thereafter	10,085	(9,855)	230
Total	¥13,040	¥(12,810)	¥230

Note: Net operating loss carryforward was calculated by effective statutory tax rate.

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, 2019. 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, 2019)

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2019 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		
	2019		
	Book value	Fair value	Difference
(1) Cash and time deposits	**¥ 13,030**	**¥ 13,030**	**¥ —**
(2) Receivables*[1]	**64,941**	**64,941**	**—**
(3) Consumption taxes receivable	**4,575**	**4,575**	**—**
(4) Investment securities	**721**	**721**	**—**
Total assets	**¥ 83,269**	**¥ 83,269**	**¥ —**
(1) Payables	**¥ 57,554**	**¥ 57,554**	**¥ —**
(2) Short-term bank loans	**51,513**	**51,513**	**—**
(3) Lease obligations due within one year	**2,175**	**2,246**	**70**
(4) Income taxes payable	**478**	**478**	**—**
(5) Bonds	**7,337**	**7,357**	**19**
(6) Long-term loans payable	**71,644**	**71,742**	**97**
(7) Lease obligations due after one year	**5,974**	**6,182**	**207**
Total liabilities	**¥196,678**	**¥197,074**	**¥396**
Derivatives*[2]	**¥ 70**	**¥ 70**	**¥ —**

*1: Allowance for doubtful accounts associated with trade notes, accounts receivable and receivables– other 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
	2019
Investment securities:	
Unlisted	**¥ 336**
Unconsolidated subsidiaries and affiliates	**20,815**

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, 2019 was as follows:

	Millions of yen	
	2019	
	Within 1 year	More than 1 year
Cash and time deposits	**¥13,030**	**¥—**
Receivables	**64,941**	**—**
Consumption taxes receivable	**4,575**	**—**
Investment securities with maturities		
(1) Bonds	**—**	**—**
(2) Others	**—**	**—**
Total	**¥82,547**	**¥—**

3. 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	¥ —

*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, bonds 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
	2018
Investment securities:	
Unlisted	¥ 212
Unconsolidated subsidiaries and affiliates	21,774

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	
	2018	
	Within 1 year	More than 1 year
Cash and time deposits	¥ 18,776	¥—
Receivables	79,401	—
Consumption taxes receivable	4,527	—
Investment securities with maturities		
(1) Bonds	—	—
(2) Others	—	—
Total	¥102,705	¥—

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, 2019 and 2018:

(Forward exchange contracts and currency swaps)

	Millions of yen							
	2019				2018			
Transaction	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	**¥3,053**	**¥—**	**¥33**	**¥33**	¥7,321	¥—	¥113	¥113
Total	**¥3,053**	**¥—**	**¥33**	**¥33**	¥7,321	¥—	¥113	¥113

2. Derivative transactions to which hedging accounting was applied at March 31, 2019 and 2018:

(Forward exchange contracts)

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2019					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**¥135**	**¥—**	**¥0**
Total			**¥135**	**¥—**	**¥0**

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	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

(Currency swaps)

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2019					
Deferral hedge accounting	Currency swaps	Loans payable	**¥1,756**	**¥1,658**	**¥131**
Total			**¥1,756**	**¥1,658**	**¥131**

There was no currency swaps to which hedge accounting was applied at March 31, 2018.

(Interest rate swaps)

Hedging accounting method	Transaction	Hedged items	Millions of yen Contract amount	More than 1 year	Fair value
2019					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term loans payable	**¥ 2,864**	**¥1,788**	**¥ —***1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term loans payable	**7,473**	**2,839**	**(94)**
Total			**¥10,337**	**¥4,627**	**¥(94)**

*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
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)

*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, 2019, 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	
	2019	2018
Balance at beginning of year	**¥7,652**	¥7,496
Service cost	**260**	236
Interest cost	**220**	205
Actuarial losses (gains)	**314**	0
Benefits paid	**(441)**	(318)
Exchange differences	**284**	31
Balance at end of year	**¥8,290**	¥7,652

(2) Movements in plan assets

	Millions of yen	
	2019	2018
Balance at beginning of year	**¥4,394**	¥4,329
Expected return on plan assets	**254**	257
Actuarial gains (losses)	**(3)**	29
Contributions paid by the employers	**195**	189
Benefits paid	**(257)**	(208)
Exchange differences	**163**	(203)
Balance at end of year	**¥4,747**	¥4,394

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

	Millions of yen	
	2019	2018
Funded retirement benefit obligations	**¥6,858**	¥6,227
Plan assets	**(4,747)**	(4,394)
	2,111	1,833
Unfunded retirement benefit obligations	**1,432**	1,424
Net defined benefit liability at end of year	**3,543**	3,257
Net defined benefit liability	**3,653**	3,376
Net defined benefit asset	**(110)**	(118)
Net defined benefit liability at end of year	**¥3,543**	¥3,257

(4) Retirement benefit costs

	Millions of yen	
	2019	2018
Service cost	**¥260**	¥236
Interest cost	**220**	205
Expected return on plan assets	**(254)**	(257)
Amortization of actuarial losses (gains)	**131**	111
Total retirement benefit costs for the fiscal year	**¥358**	¥295

(5) Remeasurements of defined benefit plans, before tax

	Millions of yen	
	2019	2018
Actuarial gains (losses)	**¥(186)**	¥81
Total balance at end of year	**¥(186)**	¥81

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

	Millions of yen	
	2019	2018
Actuarial gains (losses) that are yet to be recognized	**¥(1,123)**	¥(937)
Total balance at end of year	**¥(1,123)**	¥(937)

(7) Plan assets

a. Plan assets comprise:

	2019	2018
Bonds	**33%**	42%
Equity securities	**64**	51
Cash and time deposits	**3**	3
Others	**0**	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, 2019 and 2018:

	2019	2018
Discount rate	**0.3%–4.0%**	0.3%–4.0%
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 ¥908 million and ¥980 million for the fiscal years ended March 31, 2019 and 2018, respectively.

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

Short-term bank loans bore weighted-average interest rates of 1.94% and 2.01% at March 31, 2019 and 2018, respectively.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	Millions of yen	
	2019	2018
Unsecured bonds:		
0.17% due in 2022	**¥ 1,500**	¥ 2,000
0.17% due in 2022	**1,487**	1,700
0.86% due in 2023	**1,000**	1,000
0.20% due in 2023	**2,000**	2,000
0.25% due in 2023	**1,350**	—
Loans from banks, insurance companies and agricultural cooperatives, bearing weighted-average rates of 1.51% and 1.59% at March 31, 2019 and 2018, respectively	**71,644**	74,433
	78,982	81,133
Less: Amount due within one year	**25,209**	19,011
Amount due after one year	**¥53,772**	¥62,121

The redemption schedule on bonds subsequent to March 31, 2019 was as follows:

Year ending March 31,	Millions of yen
2020	**¥1,505**
2021	**1,985**
2022	**2,185**
2023	**1,512**
2024	**150**
2025 and thereafter	**—**

The aggregate annual maturities of long-term loans payable at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen
2020	**¥23,704**
2021	**21,480**
2022	**14,803**
2023	**8,401**
2024	**2,839**
2025 and thereafter	**413**

The following assets were pledged as collateral for short-term bank loans of ¥1,787 million and long-term loans payable of ¥485 million at March 31, 2019 and short-term bank loans of ¥1,564 million and long-term loans payable of ¥2,226 million at March 31, 2018:

	Millions of yen	
	2019	2018
Inventories and other	**¥4,330**	¥4,823
Land and buildings and structures, machinery and equipment, etc., net	**3,645**	3,029
Total	**¥7,975**	¥7,852

The aggregate annual maturities of lease obligations at March 31, 2019 were as follows:

Year ending March 31,	Millions of yen
2020	**¥2,175**
2021	**1,898**
2022	**1,690**
2023	**1,254**
2024	**786**
2025 and thereafter	**344**

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, 2019 and 2018.

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, 2019 and 2018 and tax effects for each component of other comprehensive income are as follows:

	Millions of yen	
	2019	2018
Net unrealized gains (losses) on securities, net of taxes:		
Increase (decrease) during the year	**¥ 29**	¥ 1,000
Reclassification adjustments	**(63)**	(5,427)
Sub-total, before tax	**(34)**	(4,426)
Tax (expense) or benefit	**7**	1,102
Total, net of tax	**(26)**	(3,323)
Unrealized gains (losses) on hedging derivatives, net of taxes:		
Increase (decrease) during the year	**106**	(435)
Reclassification adjustments	**(214)**	393
Sub-total, before tax	**(108)**	(41)
Tax (expense) or benefit	**39**	42
Total, net of tax	**(68)**	0
Foreign currency translation adjustments:		
Increase (decrease) during the year	**(1,124)**	1,001
Reclassification adjustments	**109**	—
Total	**(1,014)**	1,001
Remeasurements of defined benefit plans, net of taxes:		
Increase (decrease) during the year	**(317)**	(29)
Reclassification adjustments	**131**	**111**
Sub-total, before tax	**(186)**	**81**
Tax (expense) or benefit	**(0)**	**(3)**
Total, net of tax	**(186)**	**78**
Share of other comprehensive income of affiliates accounted for using equity method:		
Increase (decrease) during the year	**(2,134)**	(57)
Reclassification adjustments	**—**	(274)
Total	**(2,134)**	(331)
Total other comprehensive income	**¥(3,430)**	¥(2,573)

12. Contingent Liabilities

At March 31, 2019 and 2018, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	
	2019	2018
Guarantees or reservation of guarantees for loans of affiliated companies from banks and other lenders	**¥357**	¥600

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. Settlements were reached for certain lawsuits and allowance for outstanding claims has been provided for lawsuits whose claim amounts are reasonably estimated. The outcome of other 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, 2019 and 2018 and were as follows:

	Millions of yen	
	2019	2018
Trade notes and accounts receivable	**¥1,076**	¥825
Consumption taxes receivable	**553**	636

Liabilities that correspond to the liquidated receivables above are recorded in "Other current liabilities" amounting to ¥1,630 million and ¥1,461 million at March 31, 2019 and 2018, respectively. The trade notes and accounts receivable above include factoring associated with self-settled trust of ¥1,076 million and ¥568 million at March 31, 2019 and 2018, respectively.

Trade notes maturing at the end of the consolidated fiscal year are settled on their clearance dates. As the balance sheet date of the years ended March 31, 2019 and 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, 2019 and 2018:

	Millions of yen	
	2019	2018
Trade notes and accounts receivable	**¥249**	¥284

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 for 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 ¥243 million and ¥273 million at March 31, 2019 and 2018, 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, 2019 and 2018 consisted of the following:

	Millions of yen	
	2019	2018
Cash and time deposits	**¥13,030**	¥18,776
Cash and cash equivalents	**¥13,030**	¥18,776

Trade notes and accounts receivables related to distribution of finished goods to Iran market have been experiencing significant delay in collection affected by the financial sanctions against Iran. Consequently some of the receivables are being collected in Iran, and cash and cash equivalents at March 31, 2019 include ordinary deposits denominated in foreign currencies that the Group holds in Iran.

16. Amounts per Share

Net assets and net income (loss) per share as at and for the years ended March 31, 2019 and 2018, respectively, are as follows:

	Yen	
	2019	2018
Net assets per share	**¥685.04**	¥1,633.99
Net income (loss) per share	**(833.58)**	154.00

Basic and diluted net income (loss) per share of common stock for the years ended March 31, 2019 and 2018 have been computed based on the following:

	Number of shares	
	2019	2018
Weighted-average number of shares of common stock	**27,664,077**	27,635,774

	Millions of yen	
	2019	2018
Net income (loss) attributable to owners of the parent	**¥(23,060)**	¥4,255
Net income (loss) attributable to owners of the parent relating to common stock	**(23,060)**	4,255

	Yen	
	2019	2018
Basic net income (loss) per share of common stock	**¥(833.58)**	¥154.00

Diluted net income per common share for the year ended March 31, 2019 is not presented as the Company recorded a net loss and did not have common stock with potential dilutive effect. 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.

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 227,189 shares and 149,662 shares for the years ended March 31, 2019 and 2018, respectively. The total number of shares held by the BIP Trust at the balance sheet date was 273,961 shares and 142,695 shares as of March 31, 2019 and 2018, 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, 2017.

17. 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, 2019 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	**¥ 21**
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	**2,574**
			Receivable	**13,134**
			Other investments*2	**3,795**
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Manufacturing and sales of automotive air-conditioning	43.0	Sales	**19,981**
			Receivable	**9,377**

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 the foundation's activities are to develop the people's consciousness and to create new ideas for the environment.
*2 An allowance for doubtful accounts of ¥13,811 million was provided for other investments to Sanden Al Salam LLC.

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, 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
Sanden Kankyo Mirai Zaidan (Sanden Environmental Future Foundation)	*1	—	Donation	¥ 20
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	6,446
			Receivable	13,883
			Other investments*2	3,633
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Manufacturing and sales of automotive air-conditioning	43.0	Sales	25,159
			Receivable	9,164
			Proceeds for sale of equity interests in affiliate	1,141
			Gain ons sale of equity interests in affiliate	572

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 the foundation'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 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.

3. The summaries of financial statements of the two significant affiliates for the fiscal years ended March 31, 2019 and 2018 are as follows:

	Millions of yen			
	2019		2018	
	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	**¥54,264**	**¥26,016**	¥61,393	¥40,229
Total non-current assets	**33,082**	**1,681**	26,575	4,363
Total current liabilities	**51,097**	**28,364**	52,208	39,876
Total long-term liabilities	**735**	**—**	737	450
Total net assets	**35,514**	**(666)**	35,022	4,266
Sales	**97,475**	**18,979**	85,122	31,155
Income (loss) before income taxes	**7,833**	**(4,239)**	7,626	(1,420)
Net income (loss)	**¥ 6,873**	**¥ (4,239)**	¥ 6,285	¥ (1,422)

18. 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, 2019 and 2018 is summarized as follows:

	Millions of yen				
	2019				
	Reporting segment			Others	Total consolidated
	Automotive Systems Business	Commercial Store Systems Business	Total		
Net sales:					
Outside customers	**¥193,465**	**¥69,423**	**¥262,888**	**¥11,045**	**¥273,934**
Operating income (loss)	**¥ 560**	**¥ 773**	**¥ 1,334**	**¥ (445)**	**¥ 889**
Total assets	**¥175,234**	**¥61,931**	**¥237,165**	**¥ 9,235**	**¥246,401**
Depreciation and amortization	**9,203**	**1,339**	**10,543**	**371**	**10,914**
Amortization of goodwill	**46**	**—**	**46**	**—**	**46**
Equity in net income of affiliates	**1,824**	**324**	**2,148**	**—**	**2,148**
Impairment loss	**3,403**	**—**	**3,403**	**—**	**3,403**
Investments in equity-method companies	**15,051**	**5,395**	**20,447**	**—**	**20,447**
Increase in property, plant and equipment and intangible assets	**10,843**	**2,212**	**13,055**	**1,067**	**14,122**

	Millions of yen				
	2018				
	Reporting segment			Others	Total consolidated
	Automotive Systems Business	Commercial Store Systems Business	Total		
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	¥210,216	¥55,419	¥265,636	¥10,013	¥275,649
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

Notes: 1. “Others” includes vehicle sales, living & environment systems, electronics and other activities.
2. The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, revised on February 16, 2018) from the year ended March 31, 2019. As a result, segment information for the year ended March 31, 2018 has been retroactively adjusted.

2. Geographic information

Information about geographical areas for the year ended March 31, 2019

(1) Sales

	Millions of yen						
	2019						
	Japan	Asia		Europe		North America	Total consolidated
			thereof China		thereof German		
Net sales:							
Outside customers	**¥90,564**	**¥78,151**	**¥47,152**	**¥83,809**	**¥29,251**	**¥21,408**	**¥273,934**

(2) Property, plant and equipment

	Millions of yen						
	2019						
	Japan	Asia	thereof China	Europe	thereof Poland	North America	Total consolidated
Property, plant and equipment	**¥39,866**	**¥17,997**	**¥10,896**	**¥15,846**	**¥10,178**	**¥3,725**	**¥77,436**

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

	Millions of yen					
	2018					
	Japan	Asia	thereof China	Europe	North America	Total consolidated
Net sales:						
Outside customers	¥87,199	¥95,910	¥58,029	¥80,926	¥23,572	¥287,609

(2) Property, plant and equipment

	Millions of yen						
	2018						
	Japan	Asia	thereof China	Europe	thereof Poland	North America	Total consolidated
Property, plant and equipment	¥38,516	¥19,000	¥11,729	¥19,130	¥11,357	¥5,093	¥81,741

19. Supplementary Information

The main items of selling, general and administrative expenses for the years ended March 31, 2019 and 2018 in the accompanying consolidated statements of operations were as follows:

	Millions of yen	
	2019	2018
Employees' salaries and bonuses	**¥17,209**	¥17,446
Freight	**3,379**	3,537
Depreciation	**2,263**	2,265
Provision for:	**1,366**	1,702
Employees' bonuses		
Warranty liabilities	**2,530**	1,830
Retirement benefit costs	**870**	833

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, 2019 and 2018 were ¥8,818 million and ¥7,860 million, respectively.

20. Structure Reform Cost

For the year ended March 31, 2019
The Sanden Group recorded structure reform costs with regard to selection and concentration of the overall business portfolio, which is one of the key initiatives in the Corporate Mid-Term Plan. As a result, in the Automotive Systems Business, Commercial Store Systems Business and Other Business, impairment loss on long-lived assets of ¥3,403 million and loss on valuation of inventories of ¥895 million and others were charged to the consolidated statement of operations as structure reform cost in other expenses for the year ended March 31, 2019.

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 and loss on valuation of inventories of ¥969 million and others were charged to the consolidated statement of operations as structure reform cost in other expenses for the year ended March 31, 2018.

21. Impairment Loss

For the year ended March 31, 2019, 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
Wylie, Texas, U.S.A.	Automotive Systems Business	Machinery and equipment and others
Tinteniac, France	Automotive Systems 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 Group has made a fundamental assessment of its production system in the Automotive Systems Business through changes in production locations and optimization of human resource placement throughout the globe in response to changes in environment surrounding automotive markets including trade war between the United States and China, slow down of Chinese economy, environmental regulations in Europe and others. As a result, 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. 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	**¥ 33**
Machinery and equipment	**3,169**
Furniture and fixtures	**0**
Others	**200**
Total	**¥3,403**

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
Buildings and structures	¥ 12
Machinery and equipment	900
Furniture and fixtures	6
Others	157
Total	¥1,076

22. 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.

23. Provision of Allowance for Doubtful Accounts

Trade notes and accounts receivables related to distribution of products to Iran market in the Automotive Systems Business have been experiencing significant delay in collection affected by the economic sanctions against Iran and restrictions on financial transactions caused by the subsequent financial sanctions. Considering realizability of collection measures against such receivables at the moment, allowance for doubtful accounts was provided for these transactions except for amounts whose collection is firmly expected within a reasonably estimated period.

24. Subsequent Event

At the Board of Directors meeting held on February 7, 2019, the Company resolved the execution of a company split (hereinafter referred to as the "Company Split") by means of the absorption-type company split in which shares etc. of subsidiaries operating the Automotive Systems Business and Commercial Store Systems Business, respectively, and certain rights and obligations relating to administration of those business are to be succeeded by the Company's wholly owned subsidiaries, Sanden Automotive Components Corporation (hereinafter referred to as "SDAC"), Sanden Automotive Climate Systems Corporation (hereinafter referred to as "SDAS"), and Sanden Retail Systems Corporation (hereinafter referred to as "SDRS"). The Company entered into an agreement of absorption-type company split on the same date. The Company Split has become effective on April 1, 2019. Outline of the Company Split is as follows:

1. Objectives for the Company Split

The Sanden Group moved to a holding company structure on April 1, 2015 and since then has been striving to improve global management functions, strengthen business competitiveness, enhance new product development capability, and pursue global management efficiency. During this period, there have been various changes in business environment; the new gas mileage standard, the excess mileage dispute in Europe, changes in US trade policy, etc. for Automotive Systems Business, and labor-saving and unmanned store operation, wide use of e-money, popularization of cashless system, etc. for Commercial Store Systems Business. In this rapidly changing business environment, the Sanden Group has been continuing its internal reform efforts primarily in four areas which are comprehensive transformation of cost structure to improve profitability, asset efficiency enhancement to strengthen the overall financial structure, optimization of the business portfolio to create corporate value, and management system reform to achieve sustainable growth.

Hence, the Sanden Group has decided to execute the absorption-type company splits in which shares of subsidiaries etc. operating the Automotive Systems Business and Commercial Store Systems Business, respectively, and certain rights and obligations relating to administration of those business are to be succeeded by the Company's wholly owned subsidiaries, SDAC, SDAS and SDRS so that global management functions, business competitiveness, new product development capability, and group management efficiency will further be strengthened and enhanced by establishing more consolidated and efficient chain of command that meets business requirements of the respective business companies.

2. Method of the Company Split

An absorption-type company splits with the Company as the splitting company and SDAC, SDAS and SDRS as the succeeding companies in which shares of subsidiaries and other interests operating the automotive air-conditioner compressors and certain rights and obligations relating to administration of such business held by the Company is succeeded by SDAC, shares of subsidiaries and other interests operating the automotive air-conditioning systems and certain rights and obligations relating to administration of such business held by the Company is succeeded by SDAS and shares of subsidiaries, other interests operating the Commercial Store Systems Business, loans receivable thereto and certain rights and obligations relating to administration of such business held by the Company is succeeded by SDRS.

3. Effective date of the Company Split

April 1, 2019

4. Shares to be issued and allotment details relating to the Company Split

At the time of the Company Split, SDAC, SDAS and SDRS will each issue one (1) share of common stock, and allot it to the Company, respectively.

5.Basis for calculating number of shares allotted

The Company determined that it is reasonable to deliver the aforementioned shares to the Company as the Company holds all of the issued shares of SDAC, SDAS and SDRS.

6. Assets and liabilities subject to the split (as of March 31, 2019)

	Millions of yen		
	Succeeding company		
	SDAC	SDAS	SDRS
Assets:			
Current assets	**¥ —**	**¥ —**	**¥1,031**
Fixed assets	**8,534**	**356**	**3,880**
Total	**¥8,534**	**¥356**	**¥4,912**
Liabilities:	**—**	**—**	**—**

7. Outline of the succeeding companies (as of March 31, 2019)

a. SDAC
Address: 20 Kotobuki-cho, Isesaki City, Gunma Prefecture
Name and title of representative: Tsuguo Ito, Director & President
Business Activities: Manufacturing, sales, etc. of compressors for automotive air conditioning
Paid in capital: ¥500 million

b. SDAS
Address: 20 Kotobuki-cho, Isesaki City, Gunma Prefecture
Name and title of representative: Tadashi Kondo, Director & President
Business Activities: Manufacturing, sales, etc. of automotive air conditioning systems
Paid in capital: ¥1,985 million

c. SDRS
Address: 20 Kotobuki-cho, Isesaki City, Gunma Prefecture
Name and title of representative: Masuya Mori, Director & President
Business Activities: Manufacturing, sales, etc. of freezing and refrigeration show cases for commercial use and vending machines for food and beverage sale
Paid in capital: ¥940 million

Independent Auditor's Report

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, 2019 and 2018, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC

August 6, 2019
Tokyo, Japan

Corporate Data/Stock Information

Name	SANDEN HOLDINGS CORPORATION
Representative	Katsuya Nishi, Representative Director & President
Established	July 30, 1943
Capital (As of March 31, 2019)	¥11,037 million
Net sales (Fiscal year ended March 31, 2019)	¥273,934 million
Number of employees (As of March 31, 2019)	12,685 (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, 2019)	28,066,313 shares
Trading unit of shares (As of March 31, 2019)	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, 2019)	10,748

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

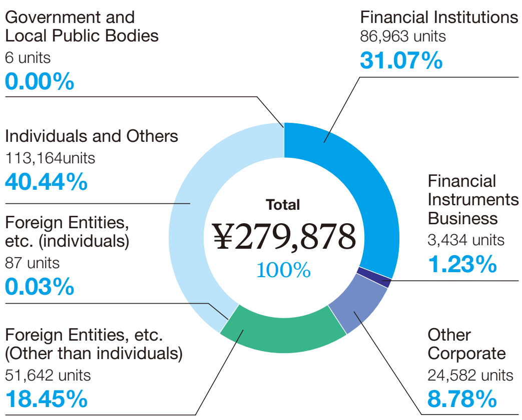
Major shareholders (Top 10) (As of March 31, 2019)

	Name of shareholders	Number of shares (Thousands)	Percentage of voting rights
1	Sanden's Customers Share Holding Association	1,661	5.92
2	BBH (LUX) FOR FIDELITY FUNDS PACIFIC FUND	1,645	5.86
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,391	4.95
4	Mizuho Corporate Bank, Ltd.	1,017	3.62
5	The Gunma Bank, Ltd.	1,017	3.62
6	Daido Life Insurance Co., Ltd.	694	2.47
7	Sanden's Employee Share Holding Association	630	2.24
8	Japan Trustee Services Bank, Ltd. (Trust Account)	601	2.14
9	DFA INTL SMALL CAP VALUE PORTFOLIO	585	2.08
10	Japan Trustee Services Bank, Ltd. (Trust Account 5)	477	1.70

Note: The shareholding ratio is calculated excluding treasury stock (12,046 shares).

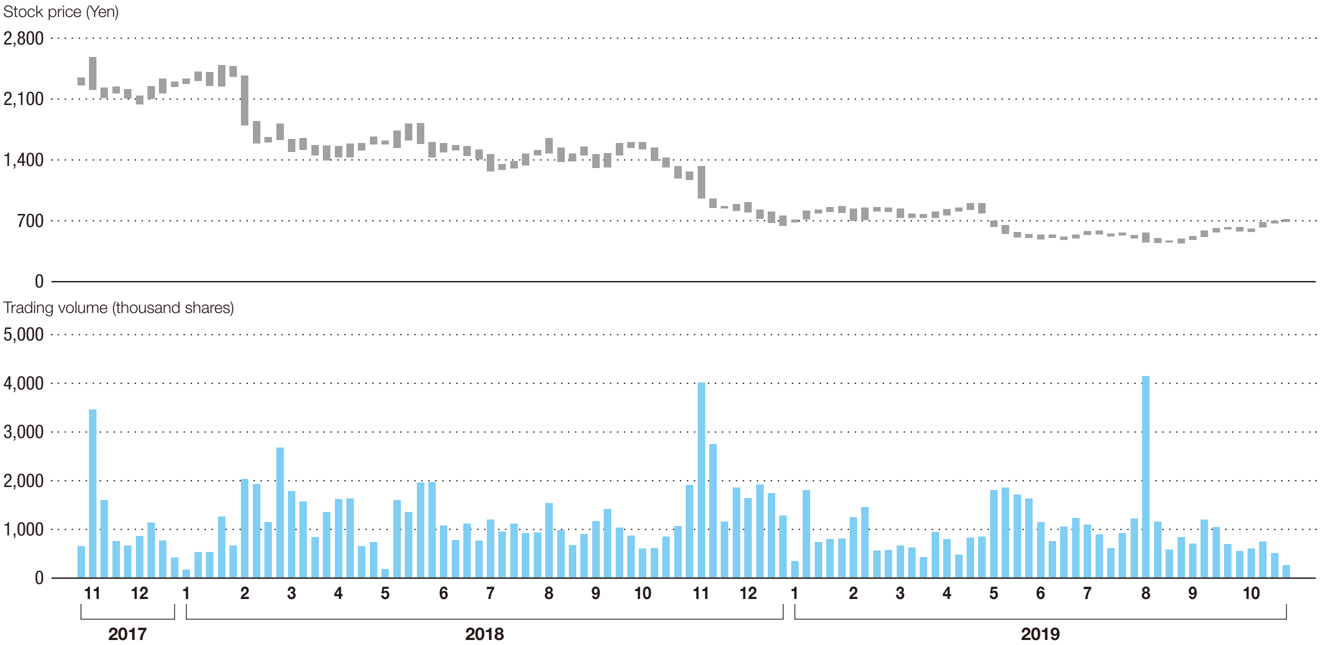
Distribution of shares by type of shareholder

(As of March 31, 2019)



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



Delivering Excellence

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