SANDEN
Delivering Excellence

ANNUAL REPORT 2017

Year ended March 31, 2017

SANDEN HOLDINGS CORPORATION

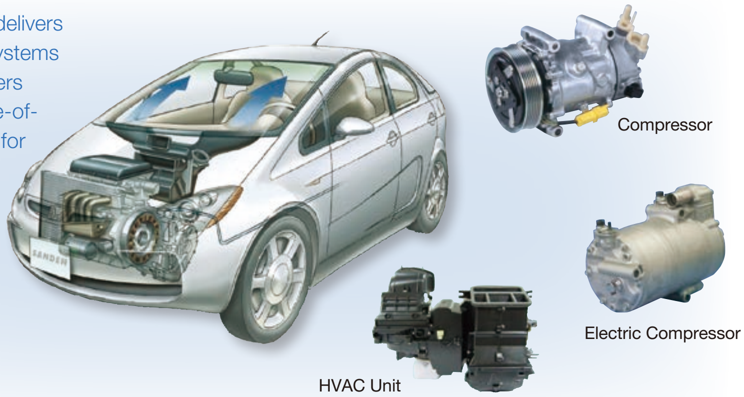
Profile

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 our customers around the world.

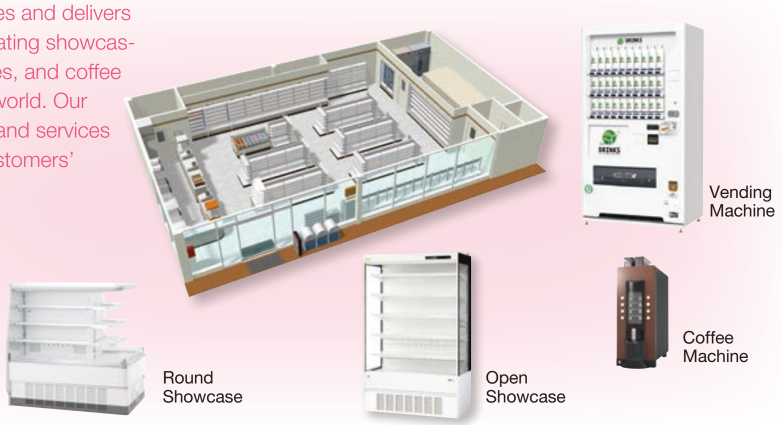
Automotive Systems Business

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



Commercial Store Systems Business

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



Contents

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

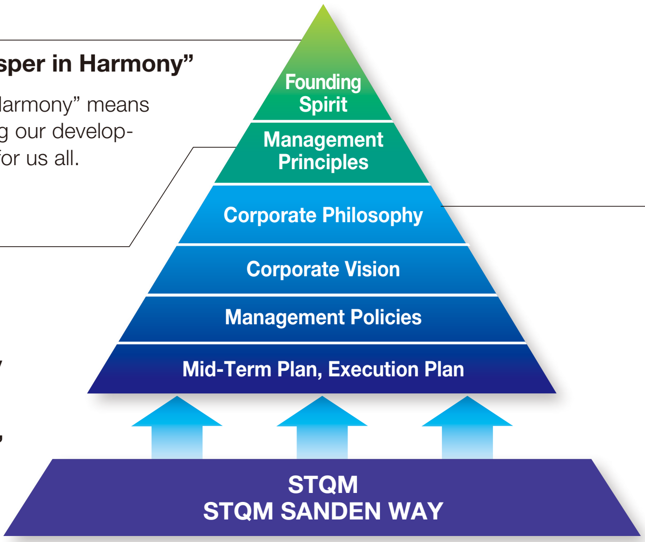
"Let Us Develop with Wisdom and Prosper in Harmony"

"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.

Announcing the Corporate Mid-Term Plan to Ensure Revitalization for Future Growth

Kin-ei Kanda
Director & President

Q Fiscal 2016 was extremely challenging in terms of performance. Please explain the management challenges that Sanden is currently facing.

In response to recent currency fluctuations and changes in the market environment, we decided to reinforce our operations, and, from August of last year, we began implementation of Group-wide structural reforms. We are seeing a steady stream of positive effects in a short space of time from this activity.

However, the reforms are not yet fully implemented. Resolving challenges over the Corporate Mid-Term Plan, such as increasing profitability through strengthened business competitiveness, enhancing our financial position, and restructuring corporate governance are necessary in order for the Sanden Group to continue to achieve sustainable growth.

Q How do you view each individual challenge?

In terms of business competitiveness, the challenge is to further tap into growth markets and enable increased sales. In addition, we must reap the benefits of past localization of both production and procurement, and construct a structure that is less vulnerable to currency fluctuations and urgently break away from a low profit structure.

In terms of the financial structure, we are concerned about any further weakening resulting partly due to extraordinary losses for the implementation of structural reforms and fines imposed by the European Commission. Accordingly, it is an urgent issue to quickly improve our financial structure by pressing forward with measures such as the optimization of working capital and enhancement of asset efficiency.

Furthermore, in order to maximize corporate value, we must strengthen our corporate governance system and accelerate the speed of our management processes with a prompt PDCA activity cycle to quickly adjust to changes in the business environment.

Q You have announced the 2017 Corporate Mid-Term Plan. What is in the Plan?

The Corporate Mid-Term Plan is divided into two phases and establishes as its target ensuring revitalization to achieve future growth. The first phase involves prompt implementation of structural reforms. In order to set course towards future growth, a robust structure must be established within fiscal 2017. The next phase is to return to a growth track in fiscal 2018. By strategically allocating resources into growth areas, we aim to attain sustainable growth and improved profitability.

With emphasis on the assured implementation of measures aimed at regaining the trust of our stakeholders, we have established management targets of net sales of ¥320 billion, an ordinary income ratio of 5%, and an equity ratio of 25% for fiscal 2020. We aim to achieve these targets as early as possible.

Q What are the key initiatives of the Corporate Mid-Term Plan?

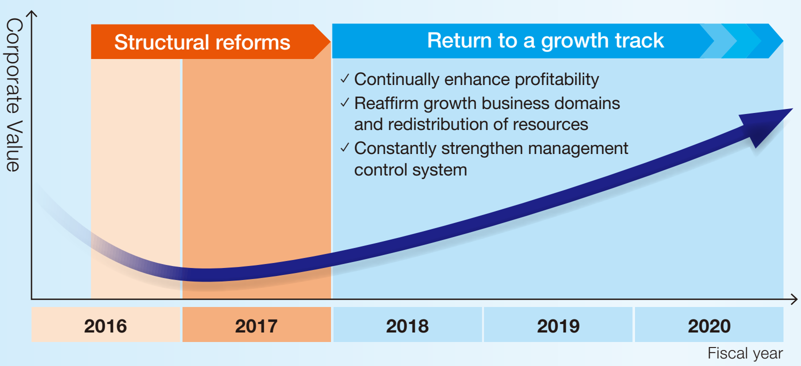
While the structural reforms are focused on the creation of a stable earnings structure, the Corporate Mid-Term Plan looks toward future growth and profitability. Accordingly, we aim to steadily implement the Corporate Mid-Term Plan while achieving four key initiatives: (1) comprehensive cost transformation to improve profitability, (2) asset efficiency enhancement to strengthen the overall financial structure, (3) optimization of the business portfolio to create corporate value, and (4) management system reform to achieve sustainable growth.

1. Comprehensive cost transformation to improve profitability

We will restructure processes through a bottom-up approach and value chain reform. We will pursue reforms in the structure of procurement, innovations in productivity, and quality as three main initiatives. Regarding the structure of procurement, we have centralized purchasing for certain commodities and

Corporate Mid-Term Plan
Basic Concept

Direction: Revitalization for future growth



Accomplish the structural reforms in FY2017 to return to a growth path in FY2018 and beyond

Mid-Term Target for FY2020

(Billions of Yen)

	FY2016	FY2020
Net Sales	282	320
Ordinary Income Ratio	(1)%	5%
Equity Ratio	16%	25%

improved cost-competitiveness through value chain actions, with an aim towards strengthening our global competitiveness. In addition, we will construct a system that looks to create target costs together with our suppliers from the component development stage. In terms of innovations in productivity, we will work towards achieving a next-generation manufacturing plant model, promoting the standardization of processes that utilize IT, and improving the productivity of back-office divisions through consolidation and outsourcing. In terms of quality reforms, we will restructure the Sanden Total Quality Management (STQM) system while strengthening quality assurance.

2. Asset efficiency enhancement to strengthen the overall financial structure

We will clarify our investment policy with a select and focus approach. Future investment will be concentrated in environmental technologies and growth areas based on our business portfolio strategy. We also will construct production systems utilizing external partners to enhance efficiency. In regard to working capital, while reducing and liquidating retained receivables, we will work towards optimizing inventories through global SCM reform. Moreover, we will also review cross-shareholdings and non-core assets to generate cash in the near term.

3. Optimization of the business portfolio to create corporate value

We have formulated the Corporate Mid-Term Plan based on Sanden's management policies of creating corporate value based on "environment" utilizing our global strength and quality capabilities. Our customers' interest in the environment continues to increase year by year. Based on this recognition, we will pursue growth centered on "new technologies and new products" in the Automotive Systems Business. As "environmentally friendly vehicles" such as electric and hybrid vehicles become more widespread mainly in developed markets, we will work towards growth related to thermal management systems, centered primarily

Corporate Mid-Term Plan
4 Key Initiatives

1	Comprehensive cost transformation to improve profitability	Material and parts procurement transformation
		Productivity innovation
		Quality reforms
2	Asset efficiency enhancement to strengthen the overall financial structure	Selection and concentration of investment
		Reduction of working capital
		Securitization of non-core assets
3	Optimization of the business portfolio to create corporate value	Concentration of management resources to growing environment related fields
4	Management system reform to achieve sustainable growth	Innovation in corporate governance
		Enhancement of global management control
		Revamp the decision-making system

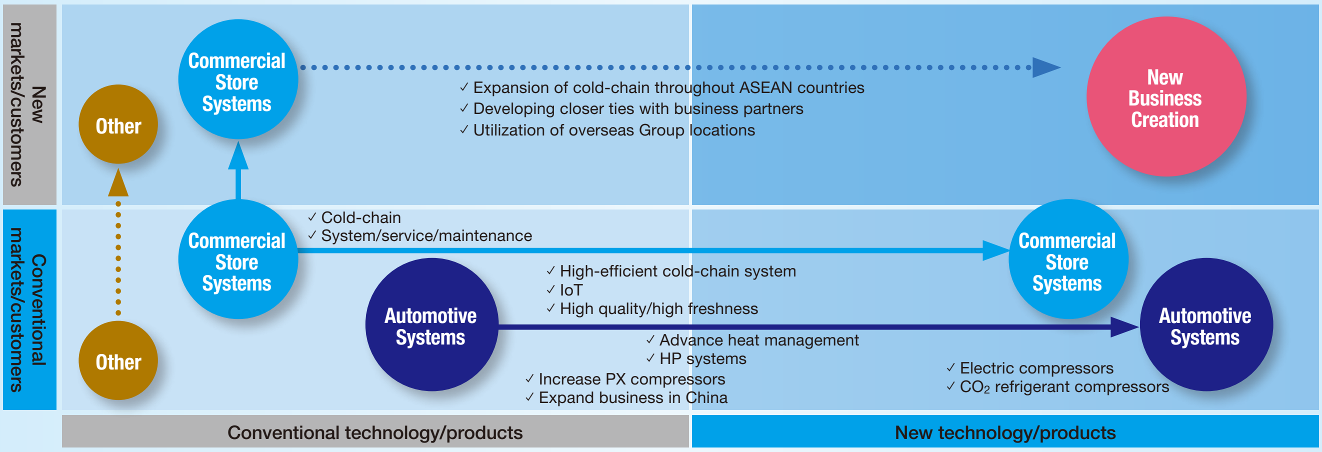
on environmental technologies, such as heat pump systems, electric compressors, and CO_2 compressors.

We will develop the Commercial Store Systems Business largely based on two growth areas. The first area is "new markets." We will expand globally the cold-chain business model that we have cultivated domestically, particularly in Asian markets. Furthermore, we will accelerate this process by utilizing the overseas locations of the Automotive Systems Business and strengthening the alliances with our partners. The second area is "new technologies and new products." Introducing IoT technologies to current cold-chains, we will pursue growth by providing our customers with solutions centered on the "optimum temperature and humidity control" resulting in "high quality and high freshness."

4. Management system reform to achieve sustainable growth

We will strive to maximize corporate value by reforming corporate governance, global business management, and decision-making systems. For corporate governance, we place a special importance on strengthening the training of management personnel and stimulating discussions at Board of Directors meetings. For global business management, following transition to a holding company structure, we will further clarify roles and authorities in terms of business and functions. By accelerating the transfer of authority, we will strive towards thorough PDCA management and accountability for results in each business. For decision-making systems, we will aim to realize speedy management that can adapt to changes in the business environment.

Corporate Mid-Term Plan
Optimization of Business Portfolio Toward Creating Corporate Value



"Concentrate on core business/technology leveraging our strength"

Highlights of the Fiscal Year

	Millions of yen					Thousands of U.S. dollars (Note)
	FY2012	FY2013	FY2014	FY2015	**FY2016**	**FY2016**
Net sales	¥241,780	¥274,786	¥306,984	¥294,237	**¥282,061**	**$2,514,136**
Operating income (loss)	(896)	4,858	9,407	5,494	**1,582**	**14,101**
Net income (loss) attributable to owners of the parent	1,084	5,843	5,580	6,965	**(22,488)**	**(200,445)**
Comprehensive income (loss)	5,331	13,123	11,713	2,044	**(24,232)**	**(215,990)**
Total net assets	¥ 52,961	¥ 65,651	¥ 75,677	¥ 75,503	**¥ 49,159**	**$ 438,176**
Total assets	247,387	277,920	299,265	301,325	**280,194**	**2,497,495**
Net assets per share (yen and U.S. dollars)	¥ 364.35	¥ 443.68	¥ 510.80	¥ 507.56	**¥ 315.27**	**$ 2.81**
Net income (loss) per share (yen and U.S. dollars)	7.96	42.65	40.40	50.43	**(162.82)**	**(1.45)**
Capital adequacy ratio (%)	20.1%	22.1%	23.6%	23.3%	**15.5%**	
Return on equity (%)	2.3	10.5	8.5	9.9	**(39.6)**	
Price earnings ratio (%)	47.1	10.8	13.3	6.4	**—**	
Cash flows from operating activities	¥ 3,148	¥ 18,803	¥ 16,223	¥ 6,304	**¥ 10,048**	**$ 89,562**
Cash flows from investing activities	(16,794)	(12,105)	(13,301)	(14,932)	**(10,371)**	**(92,441)**
Cash flows from financing activities	17,740	(8,675)	(2,022)	6,066	**(2,479)**	**(22,096)**
Cash and cash equivalents at end of the year	19,961	19,078	20,588	17,482	**14,040**	**125,144**
Gross profit	¥ 36,731	¥ 48,101	¥ 57,246	¥ 53,311	**¥ 49,319**	**$ 439,602**
Gross profit ratio (%)	15.2%	17.5%	18.6%	18.1%	**17.5%**	
Ratio of SG&A expenses (%)	15.6	15.7	15.6	16.3	**16.9**	
Total net assets ratio (%)	20.1	22.1	23.6	23.3	**15.5**	

Note: U.S. dollar figures are translated, for convenience only, at the rate of ¥112.19 to US$1.00, the effective rate of exchange prevailing on March 31, 2017.

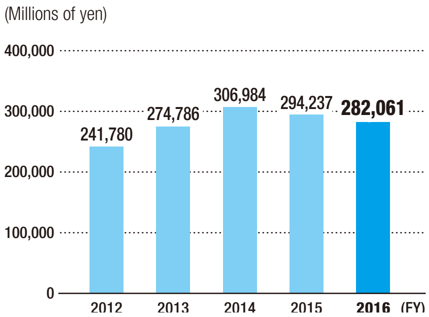
Environmental Figures

	FY2012	FY2013	FY2014	FY2015	**FY2016**
Energy usage (in GJ)	2,676,267	2,654,591	2,764,352	2,803,609	**2,829,938**
CO_2 emissions (in t-CO_2)	118,693	124,080	129,026	130,335	**132,505**

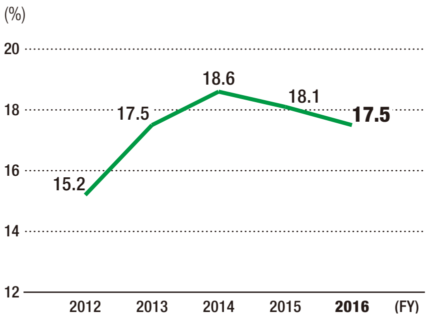
Number of Employees by Region

	FY2012	FY2013	FY2014	FY2015	**FY2016**
Japan	4,344	4,432	4,340	4,168	**3,836**
Asia-Pacific	4,879	5,449	5,901	5,655	**5,634**
Americas	1,664	1,581	1,464	1,251	**1,186**
Europe	1,672	1,818	1,810	2,152	**2,742**
Total	12,559	13,280	13,515	13,226	**13,398**

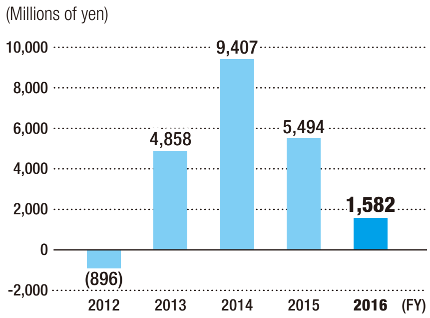
Net Sales



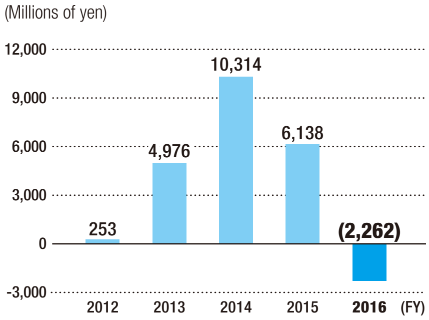
Gross Profit Ratio



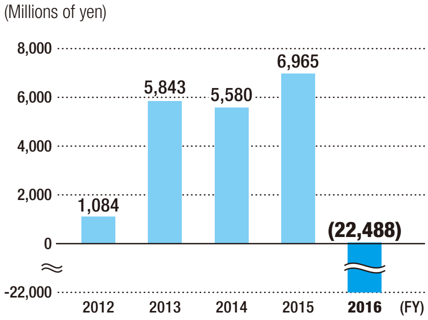
Operating Income (Loss)



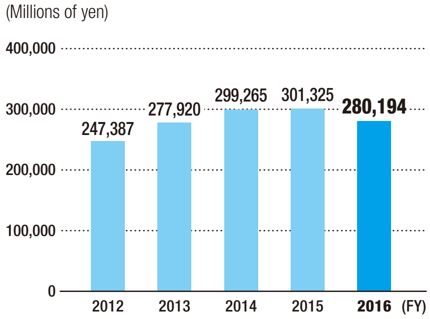
Ordinary Income (Loss)



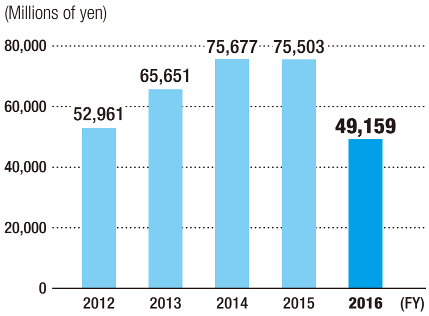
Net Income (Loss) Attributable to Owners of the Parent



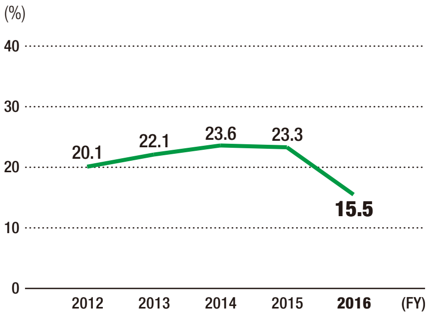
Total Assets



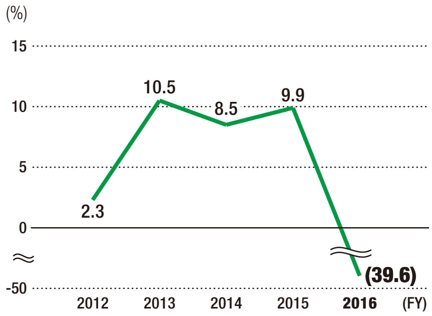
Total Net Assets



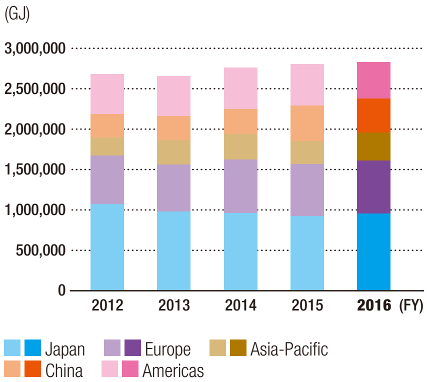
Capital Adequacy Ratio



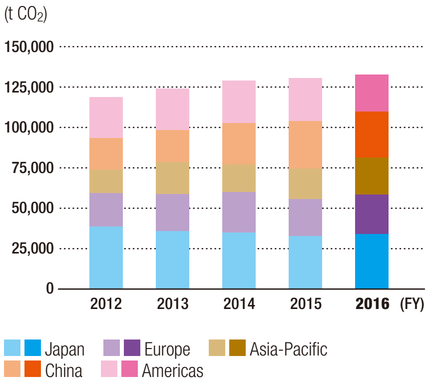
ROE



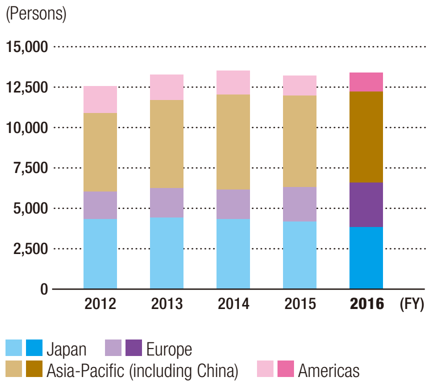
Energy Usage by Region



CO_2 Emissions by Region



Number of Employees by Region



* No companies are accounted for by the equity method.

Performance Overview

Net Sales
¥282,061
(Millions of yen)

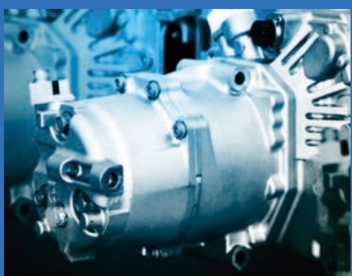
Automotive Systems Business	Commercial Store Systems Business	Other Business
70.6% ¥199,180 (Millions of yen)	25.3% ¥71,311 (Millions of yen)	4.1% ¥11,569 (Millions of yen)

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

In the fiscal year that ended in March 2017, consolidated net sales decreased 4.1%, to ¥282,061 million, due to sales declines in the Commercial Store Systems Business in Japan and the impact of foreign exchange rates, although sales volume of overseas automotive systems increased.

With regard to profit and loss, operating income decreased 71.2%, to ¥1,582 million, due to partial delays in the rate of improvement in the productivity of the overseas Automotive Systems Business, sales declines in the Commercial Store Systems Business in Japan, and exchange rate effects. The ordinary loss was ¥2,262 million (ordinary income of ¥6,138 million in the previous fiscal year). In addition, due to the radical implementation of structural reforms aimed at future business growth, impairment losses and restructuring expenses resulting from the integration and consolidation of operations have been posted as extraordinary losses, and the loss attributable to owners of parent was ¥22,488 million (profit attributable to owners of parent of ¥6,965 million in the previous fiscal year).

Automotive Systems Business

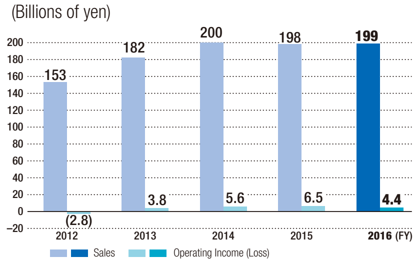


In the Automotive Systems Business, we have promoted innovative product development that accurately captures our customers' environmental-related needs, and offered valuable products centering on compact, lightweight, and energy saving. As a result, sales in Europe and China remained steady and sales volume in the Automotive Systems Business as a whole increased, but overall sales were almost the same as in the previous year due to the impact of foreign exchange and other factors.

Regarding profit and loss, although we made efforts to take parts manufacturing in-house and to reform the procurement structure for global parts, profit declined compared to the previous year due to an investment in environmental technology development for the future, a partial delay to improvement in overseas productivity, and impact of foreign exchange and other factors.

As a result, segment sales increased 0.4%, to ¥199,180 million, and operating income decreased 32.3%, to ¥4,418 million.

Sales and Operating Income (Loss)
(Billions of yen)



Commercial Store Systems Business

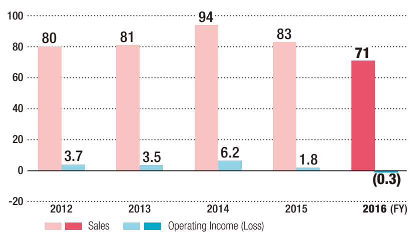
In the retail store systems sector, we continued to create comprehensive proposals combining products, systems, and services that reflect changes in customers' interest in environmental issues and their growth strategies. Despite these activities, industry reorganization in Japan and other changes in the market environment caused this sector's sales to decrease.

In the vending systems sector, there were extensive measures to develop environmentally friendly products, chiefly vending machines incorporating our exclusive CO_2 heat pump. We also intend to expand business by developing other environmental and new products. However, sales decreased primarily because of lower demand in Japan associated with capital expenditures.

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

As a result, segment sales decreased 15.1%, to ¥71,311 million, and the operating loss was ¥370 million (¥1,894 million operating income in the previous fiscal year).

Sales and Operating Income (Loss)
(Billions of yen)

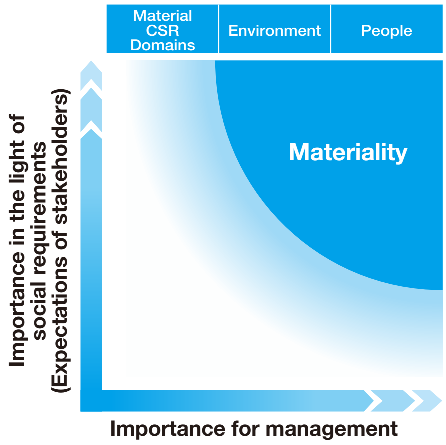


CSR

The Sanden Group's Corporate Philosophy (see page 1) is the cornerstone of our corporate activities, and our Group's CSR activities seek to put this philosophy into practice. In order to promote these activities across the Group, we established the CSR Promotion Committee in 2014. Furthermore, in 2016, we established a CSR working group to periodically monitor the progress of the activities plan and work towards further enhancing our CSR activities.

CSR Priority Areas

Based on the founding spirit of Sanden, "Let us develop with wisdom and prosper in harmony" (see page 1), in the previous fiscal year, we established the "environment" and "people" as the CSR areas we should place an emphasis on tackling, towards realizing a sustainable society and from the perspectives of the "importance to management" and the "importance against the demands of society (the expectations of our stakeholders)".



Environment

Based on our management policy of "to create corporate value from the environment", the Sanden Group's environmental activities revolve around "technological development" and "contributing to society".

We are pushing forward with a sense of urgency the development of environmental technologies that will contribute to resolving global environmental problems, with "cooling and heating" as core technologies.

The Sanden Forest/Akagi Plant, which was built on the concept of "a harmonious coexistence between the environment and industry", celebrated its 15th anniversary in April 2017. While working with local NPOs and other various organizations to help promote the creation of a local community rich in nature, the plant welcomes 15,000 visitors a year, such as when being utilized as a place for the environmental education of elementary and junior high school students.

Having been awarded the Prime Minister's Award for Outstanding Merit concerning Greenification Campaigns (2013), Social and Environmental Green Evaluation System (SEGES) Superlative Stage (2014), and the Civil Engineering Design Prize (2016), the plant is the "environmental" symbol of the Sanden Group.

An aerial view of the Sanden Forest/ Akagi Plant

People

"A company is as good as the people it keeps."

This is Sanden's basic philosophy that "teamwork among employees and within the organization is the basis of the Company's prosperity", handed down from the time of its founding.

Based on this philosophy, we have proactively engaged in "diversity promotion", "work-life balance measures", and "personnel training" as priority issues.

In December 2016, we held the "Sanden Diversity Forum 2016" based on the theme of "what is diversity from a management strategy perspective?" Approximately 130 people came together at the venue, such as female leaders from Group companies, leader candidates, and their immediate supervisors, as well as people participating remotely using tablet devices.

In addition, the President holds "Humanity Training Workshop" sessions for the training of the next generation of senior management. Selected young employees from each division are learning communication, presentation, and coaching skills, etc.

We aim to create a work environment in which each person can work in a lively manner and enables them to fully demonstrate a diverse range of values and strengths.

A company is as good as the people it keeps.

On March 8, 2017, the European Commission decided to impose total fines of approximately 64 million euros on Sanden Holdings Corporation (Sanden HD) and its wholly owned European subsidiary Sanden International (Europe) Ltd. in connection with certain automotive air-conditioning systems business, for violations of the EU competition law with respect to sales made in Europe.

Sanden HD has taken appropriate measures continually to review its compliance system, internal rules, and compliance training for employees in order to prevent a recurrence. Sanden HD will continue strengthening its system for thorough compliance with laws and regulations throughout its global organization to rebuild trust from its stakeholders.

Results of Activities

The following Sanden Group milestones and external awards were realized from April 1, 2016 to March 31, 2017.

2016

Apr. | **May** | **June** | **July** | **Aug.**

Market Expansion of "Ice Cold Machines" for Convenience Stores (Coca Cola)

Construction Begins on Chinese Environmental Testing Facility

Relocation of Tokyo Headquarters

Tokyo Headquarters relocated to Akihabara Daibiru Building

Launch of "e-mesh moderno"

We launched the cloud-based temperature and humidity monitoring service "e-mesh moderno" that utilizes IoT technologies.

Base station

Temperature and humidity sensor

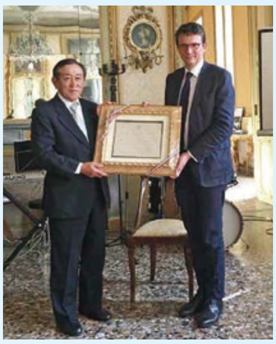
Announcement of Drastic Structural Reforms

1. Review of business portfolio
2. Integration and consolidation of operations and organizations
3. Optimization of personnel structure
4. Consolidation of procurement sources
5. Selection and concentration of investments
6. Drastic review of expenditures
7. Financial structure reform

Polish Plant Compressors Operation of Secondary Line

Topics

6 Sanden Group employees received **"2016 Prize for Creativity by the Minister of Education, Culture, Sports, Science and Technology"**



Awarded **"Order of Merit of the Italian Republic"**

The 9th Global STQM World Convention Held

We held the Global STQM Conference at the Sanden Forest/Akagi Plant in Gunma Prefecture, a unique set of management quality reforms throughout the Sanden Group.

Times Square Circle

Awarded **"President Gold Award"** at the Office, Sales and Service Category
The 9th All Japan QC Circle Conference

2017

Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar.

Launch of IPC Supply (Integrated Parking Cooling System for Scania, Daimler, and Volvo trucks)

We launched air-conditioning systems that can be used when the engine is stopped for truck manufacturers.

Launch of Showcases in 4 ASEAN Countries (Thailand, Malaysia, Myanmar, Vietnam)

We newly introduced showcases for convenience stores.

Launch of New-Type Electric Compressor and Hot Water Heater for Fuel Cell Vehicles

Electric Compressor

Hot Water Heater

French Plant Compressor Production 50 Million Units Reached

Proposal of "Cold-Chain" that Connects Freshness at Supermarket Trade Show

Construction of New Plant Begins for Compressors/ Climate Systems for Automotive Air Conditioners in China

Merger of Domestic Manufacturing Subsidiaries

5 Automotive Systems Business related subsidiaries merged into Sanwa Co., Ltd., and 3 Commercial Store Systems Business related subsidiaries merged into Sanwa Fabtech Co., Ltd.

Awarded the **"Minister of the Environment Ozone Layer Protection/Global Warming Protection Prize"** for the development and implementation of built-in refrigerator/stand-alone type CO_2 systems for small stores

Awarded **"President Silver Award"** at the 46th All Japan QC Circle Conference

Hot Forging Circle

Awarded **"Quality Excellence Award"** and **"Innovation Award"** by Volvo

Received the Excellence Award of the **"Civil Engineering Design Prize"** for landscape and conservation that unites the surrounding environment and the local region as a result of originality and ingenuity at the Sanden Forest/Akagi Plant

Corporate Governance

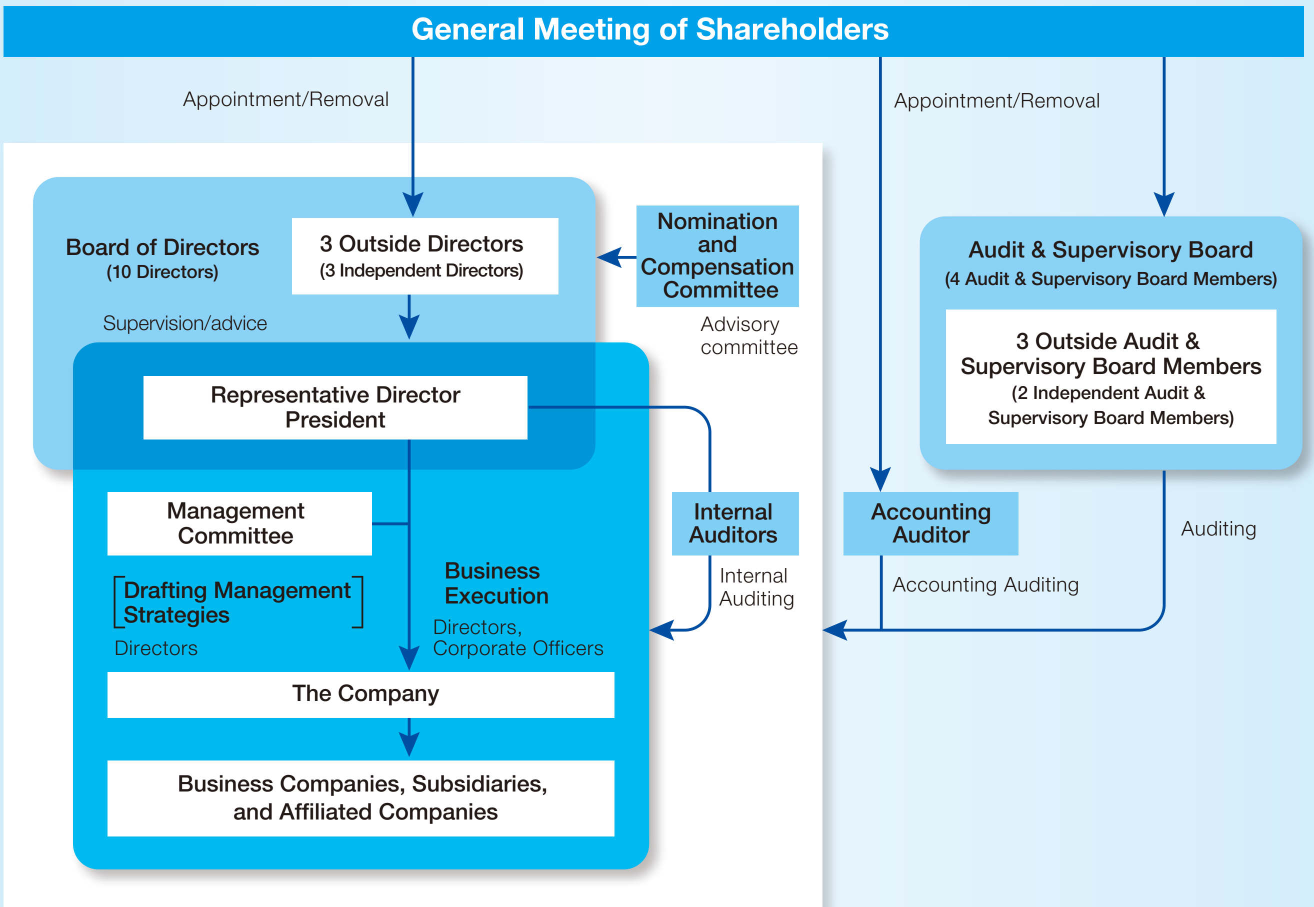
Fundamental Corporate Governance Policies

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.

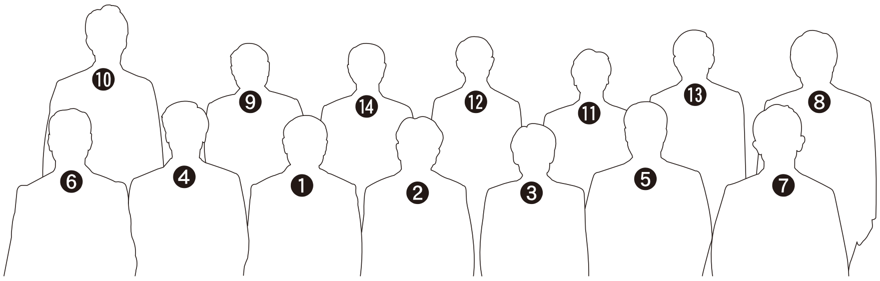
The Board of Directors has 10 members, including three outside directors, while the Audit & Supervisory Board has four members, including three outside Audit & Supervisory Board Members.

To strengthen management oversight functions, Sanden appoints fully independent outside directors and outside Audit & Supervisory Board Members. Currently, Sanden's four 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



Directors

❶ **Mitsugi Takahashi**
Director & Chairman

❷ **Kin-ei Kanda**
Director & President

❸ **Tsutomu Sakakibara**
Director & Executive Vice President

Management system, Corporate Governance

❹ **Mark Ulfig**
Director & Executive Vice President

Global business

❺ **Katsuya Nishi**
Director & Executive Vice President

Planning, Control, Finance, Accounting

❻ **Mitsunori Kodaka**
Executive Director

R&D, Production, MPS, Quality

❼ **Ryuhei Ushikubo**
Senior Director

Administration, Human resources

❽ **Hideto Ozaki**
Director (outside)

❾ **Hideo Hohgi**
Director (outside)

⓾ **Naonori Kimura**
Director (outside)

Corporate Officers

Takao Kaihatsu
Executive Corporate Officer

Tsuguo Ito
Executive Corporate Officer

Tadashi Kondo
Senior Corporate Officer

Akihiro Yamato
Senior Corporate Officer

Takashi Kageyama
Senior Corporate Officer

Shinji Maruyama
Corporate Officer

Nobuhiro Umemura
Corporate Officer

Hiroshi Takahashi
Corporate Officer

Takashi Shimomura
Corporate Officer

Kenichi Yamamoto
Corporate Officer

Shigeharu Nakamura
Corporate Officer

Norio Kamikura
Corporate Officer

Yuri Tsuji
Corporate Officer

Yoshihiro Tachikawa
Corporate Officer

Hideyuki Kobayashi
Corporate Officer

Audit & Supervisory Board Members

⓫ **Shinji Ichikawa**
Audit & Supervisory Board Member

⓬ **Hiroshi Yomo**
Audit & Supervisory Board Member (outside)

⓭ **Ichiro Yumoto**
Audit & Supervisory Board Member (outside)

⓮ **Kazumichi Matsuki**
Audit & Supervisory Board Member (outside)

As of June 2017

Financial Section
Management's Discussion & Analysis

Net Sales

On a consolidated basis of the Sanden Group, net sales for fiscal year 2016, ended March 31, 2017 decreased by 4.1%, or ¥12.1 billion, compared with the previous fiscal year, to ¥282.0 billion ($2,514.1 million).

First, in the Automotive Systems Business, Sanden has promoted cutting-edge product development that accurately captures its customers' environmental-related needs, and offered valuable products centering on compact, lightweight, and energy-saving features. As a result, sales in Europe and China remained steady and sales volume in the Automotive Systems Business as a whole increased, but overall sales were almost the same as in the previous year due to the impact of foreign exchange and other factors.

Regarding profit and loss, although Sanden made efforts to take parts manufacturing in-house and to reform the procurement structure for global parts, profit declined compared to the previous year due to an investment in environmental technology development for the future, a partial delay to improvement in overseas productivity, and the impact of foreign exchange and other factors.

As a result, segment sales were ¥199.1 billion ($1,775.3 million), up 0.4% from the previous fiscal year. Operating income was ¥4.4 billion ($39.3 million), representing a decrease of 32.3% from the previous fiscal year.

Second, in the Retail Store Systems Sector of the Commercial Store Systems Business, Sanden continued to create comprehensive proposals combining products, systems, and services that reflect changes in customers' interest in environmental issues and their growth strategies. Despite these activities, industry reorganization in Japan and other changes in the market environment caused this sector's sales to decrease.

In the Vending Systems Sector of the Commercial Store Systems Business, there were extensive measures to develop environmentally friendly products, chiefly vending machines incorporating our exclusive CO_2 heat pump. Sanden also intended to expand business by developing other environmental and new products. However, sales decreased primarily because of lower demand in Japan associated with capital expenditures.

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

As a result, segment sales were ¥71.3 billion ($635.6 million), down 15.1% from the previous fiscal year, and the operating loss was ¥0.3 billion ($3.2 million) (compared with ¥1.8 billion in operating income in the previous fiscal year).

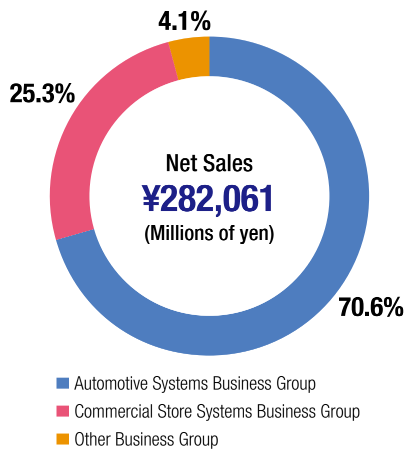
In the Eco Systems and Other Products Business, based on our core strategies for future growth, Sanden is promoting, in addition to a heat pump water heater that uses the natural CO_2 refrigerant ("Eco Cute"), global expansion for its heat pump for space heating and other items that use environmental technologies, and is also working on expanding to other new business areas.

Costs, Expenses, and Earnings

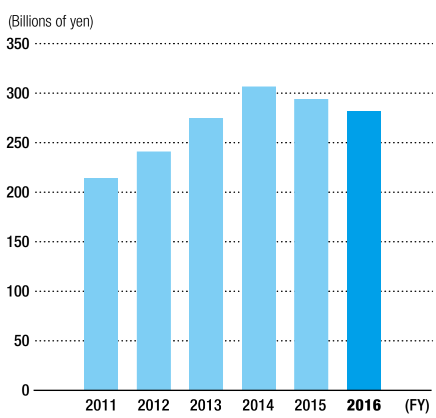
Net sales decreased by 4.1%, or ¥12.1 billion, to ¥282.0 billion ($2,514.1 million) as mentioned above. Cost of sales decreased by 3.4%, or ¥8.1 billion, compared with the previous fiscal year, to ¥232.7 billion ($2,074.5 million). Consequently, gross profit amounted to ¥49.3 billion ($439.6 million), down 7.5%, or ¥3.9 billion, and the gross profit ratio fell from 18.1% to 17.5%.

SG&A expenses decreased to ¥47.7 billion ($425.5 million), and the ratio of SG&A expenses to net sales rose 0.6 percentage point, to 16.9%, compared with the previous fiscal year. Research and development (R&D) expenses, which are charged to manufacturing costs and SG&A expenses, increased 16.8%, to ¥7.9 billion ($70.5

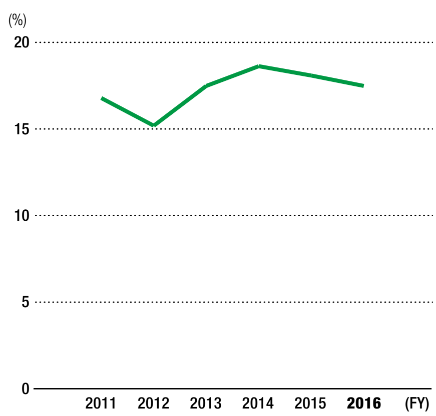
Breakdown of Net Sales



Net Sales



Gross Profit Ratio



million). The ratio of R&D expenses to net sales rose 0.5 percentage point, to 2.8%, compared with the previous fiscal year.

Operating income amounted to ¥1.5 billion ($14.1 million), compared with ¥5.4 billion in the previous fiscal year.

Other income (expenses) amounted to a loss of ¥20.5 billion ($183.1 million), compared with a gain of ¥2.4 billion in the previous fiscal year.

As a result of the above factors, loss before income taxes was ¥18.9 billion ($169.0 million), compared with income of ¥7.9 billion in the previous fiscal year. Net loss attributable to owners of the parent amounted to ¥22.4 billion ($200.4 million), compared with income of ¥6.9 billion in the previous fiscal year. Return on equity was down from 9.9% to -39.6%.

Financial Position

Total assets at March 31, 2017 decreased by ¥21.1 billion, to ¥280.1 billion ($2,497.4 million), mainly reflecting a decrease in notes and accounts receivable-trade.

Total liabilities rose by ¥5.2 billion, to ¥231.0 billion ($2,059.3 million), mainly reflecting an increase in payables-other.

Total net assets decreased by ¥26.3 billion, to ¥49.1 billion ($438.1 million), largely owing to the impact of the loss attributable to owners of the parent.

Liquidity

(1) Cash Flows

Net cash provided by operating activities for the fiscal year under review amounted to ¥10.0 billion ($89.5 million), which was ¥3.7 billion higher than the ¥6.3 billion reported in the previous fiscal year. While the net loss before income taxes of ¥18.9 billion ($169.0 million) as well as equity in net income of affiliates amounting to ¥3.3 billion ($30.1 million), which is non-cash income, negatively affected operating cash flows, the Company reported net cash inflows from operating activities that mainly resulted from depreciation and amortization amounting to ¥12.0 billion ($107.6 million), which are non-cash expenses, as well as from changes in assets or liabilities, including a decrease in inventories of ¥2.2 billion ($20.3 million).

Net cash used in investing activities amounted to ¥10.3 billion ($92.4 million), which was ¥4.5 billion lower than the ¥14.9 billion used in the previous fiscal year. Major investing cash outflows included purchases of property, plant and equipment, mainly for overseas investments related to the transition to local production and in-house production, of ¥13.4 billion ($120.1 million), and payments for investments in affiliates of ¥3.0 billion ($26.9 million). The principal investing cash inflow was proceeds from sale of property, plant and equipment of ¥6.3 billion ($56.9 million).

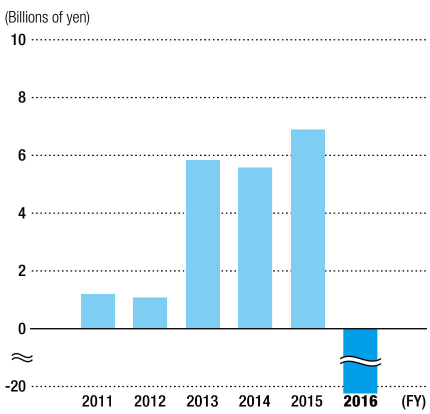
Net cash used in financing activities came to ¥2.4 billion ($22.0 million). Factors accounting for this were proceeds from long-term debt and a net increase in short-term bank loans of ¥21.2 billion ($188.9 million), which were offset by the repayment of long-term debt of ¥19.8 billion ($176.7 million) and cash dividends paid of ¥2.0 billion ($18.5 million).

Taking into consideration these cash flows together with the effect of exchange rate changes on cash and cash equivalents, cash and cash equivalents at the end of the fiscal year were ¥14.0 billion ($125.1 million), which was ¥3.4 billion lower than the cash and cash equivalents of ¥17.4 billion at the end of the previous fiscal year.

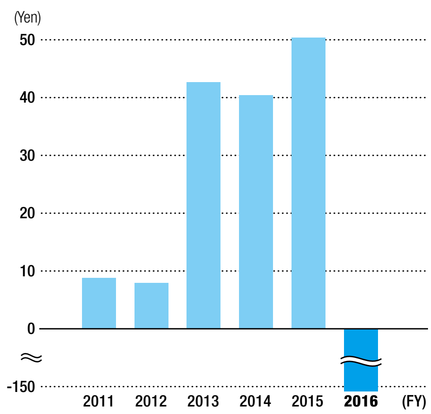
(2) Capital Demands

The Sanden Group requires working capital primarily for the purchase of materials and parts for products manufactured by the

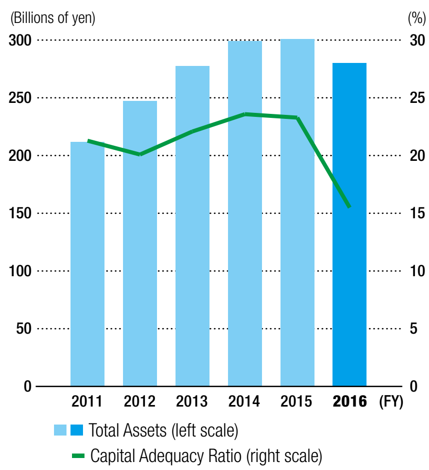
Net Income (Loss) Attributable to Owners of the Parent



Net Income (Loss) per Share



Total Assets/Capital Adequacy Ratio



Sanden Group, manufacturing costs, and operating expenses such as SG&A expenses.

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

(3) Financing

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

The Sanden Group companies principally secure the required working capital by short-term bank loans. As of March 31, 2017, short-term bank loans amounted to ¥54.5 billion ($485.9 million) and were denominated primarily in Japanese yen, the U.S. dollar, and the Euro.

Funds for production facilities are obtained through long-term loans. As of March 31, 2017, long-term bank loans amounted to ¥73.9 billion ($659.3 million). A large part of the long-term bank loans was borrowed with fixed interest rates from financial institutions. It included ¥18.9 billion ($168.7 million), which was borrowed during the fiscal year under review, mainly in Japan for investment in facilities.

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

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

Business and Other Risks

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

(1) Economic Conditions

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

(2) Fluctuations in Exchange Rates

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

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

(3) Changes in Raw Material and Parts Market Conditions

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

(4) Natural Disasters

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

(5) New Product Development

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

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

The operations of the Automotive Systems Business and the Commercial Store Systems Business encompass development, manufacturing, and sales bases located in 23 countries and regions in North America, Europe, 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.

Meanwhile, the Company and certain subsidiaries have entered into a plea agreement with the U.S. Department of Justice and have received notification to pay a fine from the European Commission regarding violations of certain antitrust laws in connection with specific automotive air-conditioning systems transactions. In this context, the possibility exists that certain customers and other parties may file civil actions against the Group. Taking into consideration the difficulty in predicting any outcome at this time, the Sanden Group is unable to clarify the impact on its business results and financial position.

Consolidated Balance Sheets

Sanden Holdings Corporation and Consolidated Subsidiaries
March 31, 2017 and 2016

ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and time deposits (Notes 6, 9 and 15)	**¥ 14,040**	¥ 17,491	**$ 125,144**
Receivables (Notes 6 and 9):			
Trade notes and accounts	**55,808**	62,593	**497,441**
Unconsolidated subsidiaries and affiliates	**24,428**	23,374	**217,737**
Other	**4,567**	5,498	**40,707**
Allowance for doubtful accounts	**(753)**	(1,863)	**(6,711)**
Inventories (Notes 3 and 9)	**47,180**	50,585	**420,536**
Deferred income taxes (Note 5)	**2,372**	2,359	**21,142**
Prepaid expenses and other current assets	**9,488**	12,922	**84,570**
Total current assets	**157,132**	172,961	**1,400,588**
Investments and other assets:			
Investment securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	**22,567**	21,343	**201,149**
Other	**9,299**	7,860	**82,886**
Net defined benefit asset (Note 8)	**90**	115	**802**
Deferred income taxes (Note 5)	**2,621**	2,765	**23,362**
Intangible assets	**4,422**	4,906	**39,415**
Other	**6,026**	1,994	**53,712**
Allowance for doubtful accounts	**(3,216)**	(177)	**(28,665)**
Total investments and other assets	**41,811**	38,808	**372,680**
Property, plant and equipment, at cost (Note 9)**:**			
Land	**17,879**	18,697	**159,363**
Buildings and structures	**62,128**	62,489	**553,774**
Machinery and equipment	**106,240**	105,423	**946,964**
Furniture and fixtures	**43,482**	42,640	**387,574**
Lease assets	**23,394**	20,885	**208,521**
Construction in progress	**5,562**	7,943	**49,576**
Total	**258,688**	258,079	**2,305,802**
Accumulated depreciation	**(177,438)**	(168,523)	**(1,581,584)**
Net property, plant and equipment	**81,250**	89,555	**724,217**
Total assets	**¥280,194**	¥301,325	**$2,497,495**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans (Notes 6 and 9)	**¥ 54,518**	¥ 52,873	**$ 485,943**
Long-term debt due within one year (Notes 6 and 9)	**29,789**	20,447	**265,522**
Payables (Note 6):			
Trade notes and accounts	**51,808**	55,019	**461,788**
Unconsolidated subsidiaries and affiliates	**1,221**	1,101	**10,883**
Other	**14,689**	11,193	**130,929**
Income taxes payable (Notes 5 and 6)	**993**	681	**8,851**
Accrued employees' bonuses	**3,793**	4,279	**33,808**
Accrued liabilities	**5,820**	2,657	**51,876**
Lease obligations due within one year (Notes 6 and 9)	**1,900**	1,551	**16,935**
Deferred income taxes (Note 5)	**7**	6	**62**
Other current liabilities	**8,852**	8,783	**78,901**
Total current liabilities	**173,396**	158,593	**1,545,556**
Long-term liabilities:			
Long-term debt due after one year (Notes 6 and 9)	**44,181**	55,621	**393,805**
Net defined benefit liability (Note 8)	**3,257**	3,452	**29,031**
Officers' retirement benefits	**112**	179	**998**
Deferred income taxes (Note 5)	**1,724**	305	**15,366**
Lease obligations due after one year (Notes 6 and 9)	**5,247**	4,800	**46,768**
Other noncurrent liabilities (Note 13)	**3,115**	2,867	**27,765**
Total long-term liabilities	**57,637**	67,228	**513,744**
Contingent liabilities (Note 12)			
Net assets (Note 10)**:**			
Stockholders' equity:			
Common stock:			
Authorized: 396,000,000 shares			
Issued: 140,331,565 shares	**11,037**	11,037	**98,377**
Capital surplus	**3,747**	3,747	**33,398**
Retained earnings	**29,447**	54,021	**262,474**
Treasury stock, at cost: 2,197,243 and 2,222,736 shares in 2017 and 2016, respectively	**(1,203)**	(1,221)	**(10,722)**
Total stockholders' equity	**43,028**	67,584	**383,527**
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities, net of taxes	**3,618**	2,496	**32,248**
Unrealized gains (losses) on hedging derivatives, net of taxes	**(16)**	(147)	**(142)**
Foreign currency translation adjustments	**(2,048)**	1,464	**(18,254)**
Remeasurements of defined benefit plans, net of taxes	**(1,032)**	(1,299)	**(9,198)**
Total accumulated other comprehensive income	**520**	2,513	**4,634**
Non-controlling interests in consolidated subsidiaries	**5,610**	5,405	**50,004**
Total net assets	**49,159**	75,503	**438,176**
Total liabilities and net assets	**¥280,194**	¥301,325	**$2,497,495**

See accompanying notes.

Consolidated Statements of Operations

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 19)	¥282,061	¥294,237	$2,514,136
Cost of sales	232,742	240,926	2,074,534
Gross profit	49,319	53,311	439,602
Selling, general and administrative expenses (Note 20)	47,737	47,816	425,501
Operating income (Note 19)	1,582	5,494	14,101
Other income (expenses):			
Interest and dividend income	248	237	2,210
Exchange gains (losses), net	(2,838)	(1,248)	(25,296)
Equity in net income of affiliates	3,385	4,147	30,172
Interest expense	(2,218)	(2,585)	(19,770)
Allowance for doubtful accounts	(1,702)	—	(15,170)
Taxes and dues	(673)	(486)	(5,998)
Gain (loss) on sales and disposals of property, plant and equipment, net	2,386	218	21,267
Extraordinary product warranty cost (Note 21)	(3,410)	—	(30,394)
Loss related to antitrust law (Note 22)	(7,777)	—	(69,319)
Structure reform cost (Notes 23 and 24)	(7,803)	—	(69,551)
Other, net	(145)	2,128	(1,292)
Other income (expenses)	(20,548)	2,410	(183,153)
Income (loss) before income taxes	(18,966)	7,905	(169,052)
Income taxes (Note 5)**:**			
Current	1,812	1,196	16,151
Deferred	1,071	(987)	9,546
Total income taxes	2,884	208	25,706
Net income (loss)	(21,850)	7,696	(194,758)
Net income attributable to non-controlling interests	638	731	5,686
Net income (loss) attributable to owners of the parent	¥ (22,488)	¥ 6,965	$ (200,445)

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Amounts per share of common stock:			
Net income (loss):			
Basic	¥ (162.82)	¥ 50.43	$ (1.45)
Diluted	—	—	—
Cash dividends applicable to the year	¥ —	¥ 15.00	$ —

See accompanying notes.

Consolidated Statements of Comprehensive Income

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income (loss)	¥(21,850)	¥7,696	$(194,758)
Other comprehensive income (Note 11):			
Net unrealized gains (losses) on securities, net of taxes	1,116	(2,111)	9,947
Unrealized gains (losses) on hedging derivatives, net of taxes	131	(44)	1,167
Foreign currency translation adjustments	(2,406)	(2,831)	(21,445)
Remeasurements of defined benefit plans, net of taxes	266	343	2,370
Share of other comprehensive income of affiliates accounted for using equity method	(1,490)	(1,007)	(13,281)
Total other comprehensive income	(2,381)	(5,652)	(21,222)
Comprehensive income	¥(24,232)	¥2,044	$(215,990)
Total comprehensive income attributable to:			
Owners of the parent	¥(24,481)	¥1,664	$(218,210)
Non-controlling interests	249	380	2,219

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income						
Year ended March 31, 2016	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	¥11,037	¥4,453	¥48,438	¥(1,190)	¥62,739	¥4,625	¥(102)	¥4,934	¥(1,642)	¥7,814	¥5,123	¥75,677
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	(731)	—	—	(731)	—	—	—	—	—	—	(731)
Net income attributable to owners of the parent	—	—	6,965	—	6,965	—	—	—	—	—	—	6,965
Cash dividends paid (¥10.00 per share)	—	—	(1,381)	—	(1,381)	—	—	—	—	—	—	(1,381)
Increase in net unrealized gains (losses) on securities, net of taxes	—	—	—	—	—	(2,128)	—	—	—	(2,128)	—	(2,128)
Decrease due to changes in fair value of hedging derivatives	—	—	—	—	—	—	(44)	—	—	(44)	—	(44)
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	—	(3,470)	—	(3,470)	—	(3,470)
Remeasurements of defined benefit plans	—	—	—	—	—	—	—	—	343	343	—	343
Increase in non-controlling interests	—	—	—	—	—	—	—	—	—	—	281	281
Disposal of treasury stock	—	24	—	456	481	—	—	—	—	—	—	481
Acquisition of treasury stock	—	—	—	(488)	(488)	—	—	—	—	—	—	(488)
Balance at end of year	¥11,037	¥3,747	¥54,021	¥(1,221)	¥67,584	¥2,496	¥(147)	¥1,464	¥(1,299)	¥2,513	¥5,405	¥75,503

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income						
Year ended March 31, 2017	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined 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	¥54,021	¥(1,221)	¥67,584	¥2,496	¥(147)	¥ 1,464	¥(1,299)	¥2,513	¥5,405	¥75,503
Net loss attributable to owners of the parent	**—**	**—**	**(22,488)**	**—**	**(22,488)**	**—**	**—**	**—**	**—**	**—**	**—**	**(22,488)**
Cash dividends paid (¥15.00 per share)	**—**	**—**	**(2,085)**	**—**	**(2,085)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,085)**
Increase in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**1,121**	**—**	**—**	**—**	**1,121**	**—**	**1,121**
Decrease due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**131**	**—**	**—**	**131**	**—**	**131**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,512)**	**—**	**(3,512)**	**—**	**(3,512)**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**266**	**266**	**—**	**266**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**205**	**205**
Disposal of treasury stock	**—**	**(0)**	**—**	**23**	**23**	**—**	**—**	**—**	**—**	**—**	**—**	**23**
Acquisition of treasury stock	**—**	**—**	**—**	**(5)**	**(5)**	**—**	**—**	**—**	**—**	**—**	**—**	**(5)**
Balance at end of year	**¥11,037**	**¥3,747**	**¥29,447**	**¥(1,203)**	**¥43,028**	**¥3,618**	**¥ (16)**	**¥(2,048)**	**¥(1,032)**	**¥ 520**	**¥5,610**	**¥49,159**

Thousands of U.S. dollars (Note 1)

	Stockholders' equity					Accumulated other comprehensive income						
Year ended March 31, 2017	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities, net of taxes	Unrealized gains (losses) on hedging derivatives, net of taxes	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at beginning of year	$98,377	$33,398	$481,513	$(10,883)	$602,406	$22,247	$(1,310)	$ 13,049	$(11,578)	$22,399	$48,177	$672,992
Net loss attributable to owners of the parent	**—**	**—**	**(200,445)**	**—**	**(200,445)**	**—**	**—**	**—**	**—**	**—**	**—**	**(200,445)**
Cash dividends paid ($0.13 per share)	**—**	**—**	**(18,584)**	**—**	**(18,584)**	**—**	**—**	**—**	**—**	**—**	**—**	**(18,584)**
Increase in net unrealized gains (losses) on securities, net of taxes	**—**	**—**	**—**	**—**	**—**	**9,991**	**—**	**—**	**—**	**9,991**	**—**	**9,991**
Decrease due to changes in fair value of hedging derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**1,167**	**—**	**—**	**1,167**	**—**	**1,167**
Adjustments from translation of foreign currency financial statements	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(31,304)**	**—**	**(31,304)**	**—**	**(31,304)**
Remeasurements of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,370**	**2,370**	**—**	**2,370**
Increase in non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,827**	**1,827**
Disposal of treasury stock	**—**	**(0)**	**—**	**205**	**205**	**—**	**—**	**—**	**—**	**—**	**—**	**205**
Acquisition of treasury stock	**—**	**—**	**—**	**(44)**	**(44)**	**—**	**—**	**—**	**—**	**—**	**—**	**(44)**
Balance at end of year	**$98,377**	**$33,398**	**$262,474**	**$(10,722)**	**$383,527**	**$32,248**	**$ (142)**	**$(18,254)**	**$ (9,198)**	**$ 4,634**	**$50,004**	**$438,176**

See accompanying notes.

Consolidated Statements of Cash Flows

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash flows from operating activities:			
Income (loss) before income taxes	**¥(18,966)**	¥ 7,905	**$(169,052)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**12,076**	12,374	**107,638**
Amortization of goodwill	**283**	166	**2,522**
Equity in net income of affiliates	**(3,385)**	(4,147)	**(30,172)**
Loss (gain) on sales and disposals of property, plant and equipment, net	**(2,386)**	(218)	**(21,267)**
Structure reform cost	**7,803**	—	**69,551**
Decrease (increase) in assets:			
Trade accounts and notes receivable	**1,148**	(1,147)	**10,232**
Inventories	**2,280**	(5,045)	**20,322**
Accounts receivable–other	**1,089**	(1,043)	**9,706**
Allowance for doubtful accounts	**1,934**	10	**17,238**
Other current assets	**1,321**	(430)	**11,774**
Increase (decrease) in liabilities:			
Trade accounts and notes payable	**(3,466)**	(592)	**(30,894)**
Accrued employees' bonuses	**(415)**	(165)	**(3,699)**
Accounts payable–other	**6,066**	(874)	**54,068**
Other current liabilities and long-term liabilities	**3,871**	184	**34,503**
Income taxes paid	**(2,177)**	(1,762)	**(19,404)**
Other, net	**2,971**	1,090	**26,481**
Net cash flows from operating activities	**10,048**	6,304	**89,562**
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(13,476)**	(11,141)	**(120,117)**
Proceeds from sale of property, plant and equipment	**6,388**	1,690	**56,939**
Purchases of intangible assets	**(257)**	(950)	**(2,290)**
Investments in affiliates	**(3,024)**	(4,427)	**(26,954)**
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 15)	**166**	—	**1,479**
Other, net	**(168)**	(103)	**(1,497)**
Net cash flows from investing activities	**(10,371)**	(14,932)	**(92,441)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**2,271**	6,528	**20,242**
Proceeds from long-term debt	**18,930**	13,960	**168,731**
Repayment of long-term debt	**(19,830)**	(10,516)	**(176,753)**
Repayment of lease obligations	**(1,746)**	(1,713)	**(15,562)**
Cash dividends paid	**(2,085)**	(1,381)	**(18,584)**
Other, net	**(19)**	(811)	**(169)**
Net cash flows from financing activities	**(2,479)**	6,066	**(22,096)**
Effect of exchange rate changes on cash and cash equivalents	**(638)**	(544)	**(5,686)**
Net increase (decrease) in cash and cash equivalents	**(3,440)**	(3,106)	**(30,662)**
Cash and cash equivalents at end of year (Note 15)	**¥ 14,040**	¥17,482	**$ 125,144**

See accompanying notes.

Notes to Consolidated Financial Statements

Sanden Holdings Corporation and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

Consolidation—The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (49 subsidiaries in 2017 and 52 subsidiaries in 2016). 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 acquisition of equity interests, Choon Tian Pte Ltd. and two other companies were included in the scope of consolidation for the year ended March 31, 2017.

Sanwa Tech Co., Ltd. and three other subsidiaries, all of which had been included in the scope of consolidation, were merged into Sanwa Co., Ltd., which is a consolidated subsidiary, resulting in an exclusion of the former four subsidiaries from the scope of consolidation for the year ended March 31, 2017. In the same way, Sanden Denso Co., Ltd. and one other subsidiary, both of which had been included in the scope of consolidation, were merged into Sanwa Fabtech Co., Ltd., which is a consolidated subsidiary, resulting in an exclusion of the former two subsidiaries from the scope of consolidation for the year ended March 31, 2017.

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., Sanden Mexicana, S.A. de C.V., Consorcio Teksan, S.A. de C.V., Sanden Manufacturing Mexico S.A. de C.V. and Sanden Recursos Mexico SRL. de C.V. for the fiscal year ended December 31, 2016 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, 2016 and March 31, 2017. 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, 2017 is consolidated.

Equity method—The equity method was applied to the investments in 8 affiliates in 2017 and 2016, by using financial statements for the fiscal years of each affiliate, some of which differ from those of the Company. Investments in all other unconsolidated subsidiaries and affiliated companies including Sanpak Engineering Industries (PVT) Ltd. are stated at acquisition cost. These companies are not accounted for using the equity method, due to their immaterial impact on the consolidated net income and consolidated retained earnings. Earnings of such companies are recorded in the Company's books only to the extent that cash dividends are received.

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

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

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

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

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

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

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

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

Derivatives and hedges—Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains and losses in the consolidated statements of 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, currency swaps, interest rate swaps and commodity swaps mainly for the purpose of mitigating (i) fluctuation risk of foreign currency exchange rates with respect to receivables in foreign currency and future transactions in foreign currency, (ii) fluctuation risk of interest rates with respect to long-term debt, and (iii) fluctuation risk of commodity prices of raw materials.

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

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

Estimated useful lives are as follows:

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

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

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

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

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

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

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

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

Foreign currency translation—Under Japanese GAAP, all receivables and payables denominated in foreign currencies are translated at the exchange rate prevailing at the year-end, and differences arising from translation are included in the consolidated statements of 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 2017 presentation to reflect the changes of importance on some accounts. This reclassification had no impact on previously reported results of operations or retained earnings.

3. Inventories

The following is a summary of inventories at March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Merchandise and finished goods	**¥23,200**	¥25,225	**$206,792**
Work in process	**10,547**	8,563	**94,010**
Raw materials	**10,026**	13,968	**89,366**
Other inventories	**3,406**	2,828	**30,359**
Total	**¥47,180**	¥50,585	**$420,536**

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, 2017 and 2016.

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

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

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

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

	Thousands of U.S. dollars (Note 1)		
	2017		
Securities with book value exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$34,191**	**$77,422**	**$43,221**
Bonds	**—**	**—**	**—**
Others	**—**	**—**	**—**
Total	**$34,191**	**$77,422**	**$43,221**

Securities with book value not exceeding acquisition cost	Acquisition cost	Book value	Difference
Equity securities	**$ 837**	**$ 837**	**$ (0)**
Bonds	**2,674**	**2,665**	**(0)**
Others	**—**	**—**	**—**
Total	**$ 3,511**	**$ 3,511**	**$ (0)**

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, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Unlisted stock	**¥219**	¥225	**$1,952**

Total sales of available-for-sale securities for the years ended March 31, 2017 and 2016 amounted to ¥125 million ($1,114 thousand) and ¥3,190 million, and related gains amounted to ¥38 million ($338 thousand) and ¥1,531 million, respectively.

5. Income Taxes

The Company and its consolidated domestic subsidiaries are subject to corporation, inhabitants' and enterprise taxes, which, in the aggregate, indicate the statutory tax rate in Japan of approximately 30.7% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

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

	2016
Statutory tax rate:	32.8%
Nondeductible expense	1.8
Foreign tax credits	1.4
Different tax rates applied to overseas subsidiaries	(1.1)
Amortization of goodwill	0.7
Equity in net income of affiliates	(17.2)
Excess deferred taxes on unrealized profits on inventories eliminated for consolidation	(6.4)
Tax credit	(2.4)
Tax breaks for investment for facilities	(1.4)
Effect from change in tax rates	1.7
Valuation allowance	(9.4)
Others	2.1
Effective tax rate	2.6%

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

Significant components of the Sanden Group's deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Deferred tax assets:			
Unrealized gains on inventories from intercompany sales	**¥ 121**	¥ 121	**$ 1,078**
Accrued expenses	**429**	830	**3,823**
Warranty liabilities	**1,100**	305	**9,804**
Allowance for doubtful accounts	**598**	303	**5,330**
Doubtful accounts written off	**718**	691	**6,399**
Loss on devaluation for slow-moving inventory	**809**	653	**7,210**
Accrued employees' bonuses	**750**	915	**6,685**
Unrealized gains on fixed assets from intercompany sales	**104**	158	**926**
Depreciation	**701**	947	**6,248**
Net defined benefit liability	**515**	646	**4,590**
Net operating loss carryforward	**13,873**	10,796	**123,656**
Environmental liability	**144**	149	**1,283**
Impairment loss on long-lived assets	**1,255**	319	**11,186**
Tax breaks for investment for facilities	**1,470**	1,568	**13,102**
Others	**1,505**	1,544	**13,414**
Gross deferred tax assets	**24,098**	19,952	**214,796**
Less: Valuation allowance	**(17,337)**	(12,563)	**(154,532)**
Total deferred tax assets	**6,760**	7,389	**60,254**
Deferred tax liabilities:			
Depreciation	**(921)**	(806)	**(8,209)**
Net unrealized gain on securities	**(1,228)**	(845)	**(10,945)**
Effect on retained earnings of foreign affiliates	**(760)**	(788)	**(6,774)**
Others	**(589)**	(136)	**(5,250)**
Gross deferred tax liabilities	**(3,499)**	(2,576)	**(31,188)**
Net deferred tax assets	**¥ 3,261**	¥ 4,813	**$ 29,066**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Assets:			
Deferred income taxes	**¥2,372**	¥2,359	**$21,142**
Deferred income taxes, non-current	**2,621**	2,765	**23,362**
Liabilities:			
Deferred income taxes	**(7)**	(6)	**(62)**
Deferred income taxes, non-current	**(1,724)**	(305)	**(15,366)**
Net deferred tax assets	**¥3,261**	¥4,813	**$29,066**

Revision to the amounts of deferred tax assets and liabilities resulting from changes in income tax rates:

On November 18, 2016, the “Act for Partial Amendment of the Act for the Partial Amendment of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security (Act No. 85, 2016)” and the “Act for Partial Amendment of the Act for the Partial Amendment of the Local Tax Act and the Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security (Act No. 86, 2016)” were enacted in the Diet session. As a result of these amendments, the effective date of the proposed increase in the consumption tax rate to 10% has been postponed from April 1, 2017 to October 1, 2019.

In relation to these amendments, timing of abolishment of special local corporation tax, restoration of corporation enterprise tax, change of local corporation tax rate and change of the local inhabitant tax corporation levy has also been postponed from the fiscal years beginning on or after April 1, 2017 to the fiscal years beginning on or after October 1, 2019.

Impact of these amendments is immaterial since there will be no change in the statutory income tax rate utilized for the measurement of deferred tax assets and liabilities although change in composition of the statutory income tax rates between rates for national taxes and local taxes will occur.

6. Financial Instruments

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

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

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

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

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

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

Principally, the purposes of long-term debt and lease obligations are for financing capital investment, and the longest maturity is 14 years after March 31, 2017. A large part of them are borrowed or issued with fixed interest rates; therefore, there is no interest rate risk. The Sanden Group enters into interest rate swap agreements to reduce exposure to losses resulting from adverse fluctuations in interest rates on the part of long-term debt with variable interest rates.

The Sanden Group entered into financial derivative transactions such as forward exchange contracts, to hedge exchange rate risk associated with foreign currency denominated trade receivables and payables, interest rate swap agreements to reduce exposure to losses resulting from adverse fluctuations in interest rates on long-term debt, 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, 2017)

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2017 are as follows.

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

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

	Thousands of U.S. dollars (Note 1)		
	2017		
	Book value	Fair value	Difference
(1) Cash and time deposits	$ 125,144	$ 125,144	$ —
(2) Receivables *1	749,175	749,175	—
(3) Consumption taxes receivable	28,933	28,933	—
(4) Investment securities	80,934	80,934	—
Total assets	$ 984,205	$ 984,205	$ —
(1) Payables	$ 603,618	$ 603,618	$ —
(2) Short-term bank loans	485,943	485,943	—
(3) Lease obligations due within one year	16,935	17,078	142
(4) Income taxes payable	8,851	8,851	—
(5) Long-term debt	659,327	663,784	4,447
(6) Lease obligations due after one year	46,768	47,259	490
Total liabilities	$1,821,481	$1,826,562	$5,080
Derivatives *2	$ (4,082)	$ (4,082)	$ —

*1: Allowance for doubtful accounts associated with trade notes and accounts receivable is deducted.

*2: Derivative assets and liabilities are disclosed on a net basis.

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

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

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	**2017**
Investment securities:		
Unlisted	**¥ 219**	**$ 1,952**
Unconsolidated subsidiaries and affiliates	**22,567**	**201,149**

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, 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2017		**2017**	
	Within 1 year	More than 1 year	Within 1 year	More than 1 year
Cash and time deposits	**¥ 14,040**	**¥—**	**$125,144**	**$—**
Receivables	**84,050**	**—**	**749,175**	**—**
Consumption taxes receivable	**3,246**	**—**	**28,933**	**—**
Investment securities with maturities				
(1) Bonds	**300**	**—**	**2,674**	**—**
(2) Others	**—**	**—**	**—**	**—**
Total	**¥101,636**	**¥—**	**$905,927**	**$—**

3. Fair values of financial instruments (at March 31, 2016)

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

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

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

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

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

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

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

	Millions of yen
	2016
Investment securities:	
Unlisted	¥ 225
Unconsolidated subsidiaries and affiliates	21,343

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

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

	Millions of yen	
	2016	
	Within 1 year	More than 1 year
Cash and time deposits	¥ 17,491	¥ —
Receivables	89,602	—
Consumption taxes receivable	4,581	—
Investment securities with maturities		
(1) Bonds	—	300
(2) Others	—	—
Total	¥111,675	¥300

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, 2017 and 2016:

(Forward exchange contracts and currency swaps)

	Millions of yen								Thousands of U.S. dollars (Note 1)			
	2017				2016				**2017**			
Transaction	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)
Forward exchange contracts	**¥35,540**	**¥—**	**¥(480)**	**¥(480)**	¥16,728	¥ —	¥346	¥346	**$316,784**	**$—**	**$(4,278)**	**$(4,278)**
Currency swaps	**94**	**—**	**27**	**27**	154	154	62	62	**837**	**—**	**240**	**240**
Total	**¥35,633**	**¥—**	**¥(452)**	**¥(452)**	¥16,882	¥154	¥409	¥409	**$317,612**	**$—**	**$(4,028)**	**$(4,028)**

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

(Interest rate swaps)

	Millions of yen			
	2016			
Transaction	Contract amount	More than 1 year	Fair value	Unrealized gains (losses)
Receiving floating rate and paying fixed rate	¥33	¥—	¥(0)	¥(0)
Total	¥33	¥—	¥(0)	¥(0)

There were no interest rate swaps, which are stated at fair value and to which hedge accounting is not applied, at March 31, 2017.

2. Derivative transactions to which hedging accounting was applied at March 31, 2017 and 2016:

(Forward exchange contracts)

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

			Thousands of U.S. dollars (Note 1)		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2017					
Deferral hedge accounting	Forward exchange contracts	Accounts payable	**$ 1,845**	**$—**	**$ (0)**
		Accounts receivable	**68,473**	**—**	**1,132**
Total			**$70,309**	**$—**	**$1,123**

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

(Interest rate swaps)

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

			Thousands of U.S. dollars (Note 1)		
			Contract amount		
Hedging accounting method	Transaction	Hedged items		More than 1 year	Fair value
2017					
Exceptional method	Receiving floating rate and paying fixed rate	Long-term debt	**$171,878**	**$27,007**	**$ —** *1
Deferral hedge accounting	Receiving floating rate and paying fixed rate	Long-term debt	**73,669**	**41,420**	**(1,176)**
Total			**$245,547**	**$68,428**	**$(1,176)**

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

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

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

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, 2017, and therefore the excess is recorded in net defined benefit asset.

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

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

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

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

(1) Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Balance at beginning of year	**¥7,465**	¥8,095	**$66,538**
Service cost	**175**	283	**1,559**
Interest cost	**174**	215	**1,550**
Actuarial losses (gains)	**142**	(562)	**1,265**
Benefits paid	**(277)**	(330)	**(2,469)**
Termination of the defined benefit retirement plan	**(30)**	—	**(267)**
Exchange differences	**(152)**	(236)	**(1,354)**
Balance at end of year	**¥7,496**	¥7,465	**$66,815**

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Balance at beginning of year	**¥4,128**	¥4,500	**$36,794**
Expected return on plan assets	**259**	273	**2,308**
Actuarial gains (losses)	**(16)**	(355)	**(142)**
Contributions paid by the employers	**153**	172	**1,363**
Benefits paid	**(196)**	(237)	**(1,747)**
Exchange differences	**2**	(225)	**17**
Balance at end of year	**¥4,329**	¥4,128	**$38,586**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Funded retirement benefit obligations	**¥6,174**	¥6,140	**$55,031**
Plan assets	**(4,329)**	(4,128)	**(38,586)**
	1,845	2,012	**16,445**
Unfunded retirement benefit obligations	**1,321**	1,325	**11,774**
Net defined benefit liability at end of year	**3,167**	3,337	**28,228**
Net defined benefit liability	**3,257**	3,452	**29,031**
Net defined benefit asset	**(90)**	(115)	**(802)**
Net defined benefit liability at end of year	**¥3,167**	¥3,337	**$28,228**

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Service cost	**¥175**	¥283	**$1,559**
Interest cost	**174**	215	**1,550**
Expected return on plan assets	**(259)**	(273)	**(2,308)**
Amortization of actuarial losses (gains)	**129**	90	**1,149**
Others	**—**	0	**—**
Total retirement benefit costs for the fiscal year	**¥219**	¥316	**$1,952**

Note: In addition to the above retirement benefit costs, additional severance payments for early retirement of ¥1,987 million ($17,711 thousand) were made, which were charged to the consolidated statements of operations as part of "Structure reform cost" in other expenses for the year ended March 31, 2017.

(5) Remeasurements of defined benefit plans, before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Actuarial gains (losses)	**¥280**	¥349	**$2,495**
Total balance at end of year	**¥280**	¥349	**$2,495**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Actuarial gains (losses) that are yet to be recognized	**¥(1,019)**	¥(1,299)	**$(9,082)**
Total balance at end of year	**¥(1,019)**	¥(1,299)	**$(9,082)**

(7) Plan assets

a. Plan assets comprise:

	2017	2016
Bonds	**44%**	53%
Equity securities	**49**	41
Cash and time deposits	**2**	4
Others	**4**	2
Total	**100%**	100%

b. Long-term expected rate of return

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

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2017 and 2016:

	2017	2016
Discount rate	**0.3%–3.8%**	0.3%–5.8%
Long-term expected rate of return	**0.3%–7.5%**	0.3%–7.5%

3. Defined contribution plans

Contributions to defined contribution plans of the Company and its consolidated subsidiaries were ¥2,411 million ($21,490 thousand) and ¥2,382 million for the fiscal years ended March 31, 2017 and 2016, respectively.

4. Assets not transferred to the defined contribution pension plan

Assets of ¥1,229 million, which had not yet been transferred to the defined contribution pension plan at March 31, 2016, were recorded in other accounts payable (current liabilities). The assets have been transferred to the defined contribution pension plan by March 31, 2017.

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

Short-term bank loans bore weighted-average interest rates of 1.47% and 1.58% at March 31, 2017 and 2016, respectively.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Loans from banks, insurance companies and agricultural cooperatives, bearing weighted-average rates of 1.36% and 1.56% at March 31, 2017 and 2016, respectively	**¥73,970**	¥76,069	**$659,327**
	73,970	76,069	**659,327**
Less: Amount due within one year	**29,789**	20,447	**265,522**
Amount due after one year	**¥44,181**	¥55,621	**$393,805**

The aggregate annual maturities of long-term debt at March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥29,789	$265,522
2019	16,625	148,186
2020	13,641	121,588
2021	9,857	87,859
2022	3,521	31,384
2023 and thereafter	534	4,759

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

For the year ended March 31, 2016

Contracts dated September 16, 2011 (¥10.0 billion of long-term debt due within one year at March 31, 2016)

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

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

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

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

For the year ended March 31, 2017

The Company does not have any loan contracts with financial covenants at March 31, 2017.

The following assets were pledged as collateral for short-term bank loans of ¥2,296 million ($20,465 thousand) and long-term debt of ¥1,616 million ($14,404 thousand) at March 31, 2017 and short-term bank loans of ¥1,624 million and long-term debt of ¥2,853 million at March 31, 2016:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Inventories and other	**¥3,765**	¥3,469	**$33,559**
Land and buildings and structures, machinery and equipment, etc., net	**5,309**	5,899	**47,321**
Total	**¥9,074**	¥9,369	**$80,880**

The aggregate annual maturities of lease obligations at March 31, 2017 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	**¥1,900**	**$16,935**
2019	**1,595**	**14,216**
2020	**1,332**	**11,872**
2021	**1,040**	**9,269**
2022	**809**	**7,210**
2023 and thereafter	**470**	**4,189**

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 year ended March 31, 2017.

11. Comprehensive Income (Loss)

Amounts reclassified to net income in the current year that were recognized in other comprehensive income for the years ended March 31, 2017 and 2016 and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net unrealized gains (losses) on securities, net of taxes:			
Increase (decrease) during the year	**¥ 1,540**	¥(1,539)	**$ 13,726**
Reclassification adjustments	**(38)**	(1,531)	**(338)**
Sub-total, before tax	**1,501**	(3,071)	**13,379**
Tax (expense) or benefit	**(384)**	960	**(3,422)**
Total, net of tax	**1,116**	(2,111)	**9,947**
Unrealized gains (losses) on hedging derivatives, net of taxes:			
Increase (decrease) during the year	**(706)**	202	**(6,292)**
Reclassification adjustments	**850**	(285)	**7,576**
Sub-total, before tax	**143**	(82)	**1,274**
Tax (expense) or benefit	**(12)**	37	**(106)**
Total, net of tax	**131**	(44)	**1,167**
Foreign currency translation adjustments:			
Increase (decrease) during the year	**(2,406)**	(2,831)	**(21,445)**
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	**159**	207	**1,417**
Reclassification adjustments	**120**	143	**1,069**
Sub-total, before tax	**280**	349	**2,495**
Tax (expense) or benefit	**(13)**	(6)	**(115)**
Total, net of tax	**266**	343	**2,370**
Share of other comprehensive income of affiliates accounted for using equity method:			
Increase (decrease) during the year	**(1,490)**	(1,007)	**(13,281)**
Total other comprehensive income (loss)	**¥(2,381)**	¥(5,652)	**$(21,222)**

12. Contingent Liabilities

At March 31, 2017 and 2016, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Discounted notes	**¥ —**	¥ 34	**$ —**
Guarantees or reservation of guarantees for loans of affiliated companies from banks and other lenders	**¥911**	¥974	**$8,120**

For the year ended March 31, 2017

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) demanding compensation for damage from the breaches have been filed in North America. The outcome of the lawsuits may affect the Sanden Group's business performance, however, it is difficult to reasonably estimate their amount at this moment, and their impacts on the Sanden Group's operating results and financial condition are unclear.

13. Environmental Matters

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

The Vendo Company provided for the liability based on the estimated obligation relating to the costs for the remediation, which amounted to ¥360 million ($3,208 thousand) and ¥372 million at March 31, 2017 and 2016, 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, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Cash and time deposits	**¥14,040**	¥17,491	**$125,144**
Less: Time deposits with maturities more than three months	**—**	(9)	**—**
Cash and cash equivalents	**¥14,040**	¥17,482	**$125,144**

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

1. Choo Tian Pte Ltd.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**¥1,998**	**$17,809**
Non-current assets	**22**	**196**
Goodwill	**20**	**178**
Current liabilities	**(1,988)**	**(17,719)**
Foreign currency translation adjustments	**(1)**	**(8)**
Acquisition cost of shares	**52**	**463**
Cash and cash equivalents	**216**	**1,925**
Proceeds from acquisition, net	**¥ 164**	**$ 1,461**

2. Good Life Manufacturing Sdn. Bhd.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**¥312**	**$2,780**
Non-current assets	**516**	**4,599**
Goodwill	**52**	**463**
Current liabilities	**(860)**	**(7,665)**
Long-term liabilities	**(6)**	**(53)**
Foreign currency translation adjustments	**(1)**	**(8)**
Acquisition cost of shares	**13**	**115**
Cash and cash equivalents	**15**	**133**
Proceeds from acquisition, net	**¥ 2**	**$ 17**

16. Amounts per Share

Net assets and net income (loss) per share as at and for the years ended March 31, 2017 and 2016, respectively, are as follows:

	Yen		U.S. dollars (Note 1)
	2017	2016	**2017**
Net assets per share	**¥315.27**	¥507.56	**$2.81**
Net income (loss) per share	**(162.82)**	50.43	**(1.45)**

Basic and diluted net income (loss) per share of common stock for the years ended March 31, 2017 and 2016 have been computed based on the following:

	Number of shares	
	2017	2016
Weighted-average number of shares of common stock	**138,121,055**	138,114,721

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Net income (loss) attributable to owners of the parent	**¥(22,488)**	¥6,965	**$(200,445)**
Net income (loss) attributable to owners of the parent relating to common stock	**(22,488)**	6,965	**(200,445)**

	Yen		U.S. dollars (Note 1)
	2017	2016	**2017**
Basic net income (loss) per share of common stock	**¥(162.82)**	¥50.43	**$(1.45)**

Diluted net income per common share for the year ended March 31, 2017 is not presented as the Company recorded a net loss and did not have common stock with potential dilutive effect. Diluted net income per common share for the year ended March 31, 2016 is not presented as the Company did not have common stock with potential dilutive effect.

The Company has introduced the executive compensation BIP Trust ("BIP Trust") from the year ended March 31, 2016. The Company's shares held by the 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.

The weighted-average number of shares held by the BIP Trust was 815,476 shares and 488,887 shares for the years ended March 31, 2017 and 2016, respectively. The total number of shares held by the BIP Trust at the balance sheet date was 797,707 shares and 837,411 shares as of March 31, 2017 and 2016, respectively.

17. Business Combination

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

1. Outline of the transaction

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

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

(2) Date of the transaction
January 1, 2017

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

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

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

2. Outline of accounting policy applied

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

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

1. Outline of the transaction

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

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

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

(4) Name after the transaction
Unchanged

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

2. Outline of accounting policy applied

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

3. Additional acquisition of shares in subsidiary

Acquisition cost and consideration paid
Cash ¥645 million

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

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

(2) Decreases in capital surplus due to transactions with non-controlling shareholders
¥731 million

18. Related Party Transactions

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

Company name or Name of director	Type of business or Occupation	Ownership of the Company (%)	Nature of transaction or account balance	Millions of yen	Thousands of U.S. dollars (Note 1)
Sanden Kankyo Mirai Zaidan (Sanden Environmental Future Foundation)	*1	—	Donation	¥ 20	$ 178
Ushikubo-Amada Ikuei Zaidan (Ushikubo-Amada Scholarship Foundation)	*2	—	Donation	30	267
Sanden Al Salam LLC.	Sales of automotive air-conditioning	43.0	Sales	8,845	78,839
			Receivable	17,801	158,668
	—		Other investments*3	3,836	34,191
Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sales of automotive air-conditioning	43.0	Sales	15,859	141,358
			Receivable	5,212	46,456

Donation—Donations contributed to the foundation are determined based on approval of the Board of Directors.

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

*1: The objectives of Zaidan's activities are to develop the people's consciousness and to create new ideas for the environment.
*2: The objective of Zaidan's activities is to provide scholarships for developing promising human resources in the next generation.
*3: An allowance for doubtful accounts of ¥3,106 million ($27,685 thousand) 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, 2016 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	6,474
			Receivable*2	19,023

Donation—Donation contributed to the foundation is determined based on approval of the Board of Directors.

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

*1: The objectives of Zaidan's activities are to develop the people's consciousness and to create new ideas for the environment.
*2: An allowance for doubtful accounts of ¥1,429 million was provided for account receivables to Sanden Al Salam LLC.

3.The summaries of financial statements of the two significant affiliates for the fiscal years ended March 31, 2017 and 2016 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2017		2016		**2017**	
	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Sanden Al Salam LLC.
Total current assets	**¥44,960**	**¥37,646**	¥43,300	¥41,766	**$400,748**	**$335,555**
Total non-current assets	**21,297**	**3,972**	21,472	1,460	**189,829**	**35,404**
Total current liabilities	**33,230**	**33,679**	36,182	31,437	**296,193**	**300,196**
Total long-term liabilities	**724**	**13**	798	340	**6,453**	**115**
Total net assets	**32,302**	**7,925**	27,792	11,448	**287,922**	**70,639**
Sales	**74,804**	**28,813**	81,003	26,178	**666,761**	**256,823**
Income before income taxes	**7,214**	**682**	8,177	700	**64,301**	**6,078**
Net income	**¥ 6,062**	**¥ 666**	¥ 6,899	¥ 700	**$ 54,033**	**$ 5,936**

19. Segment Information

1. Summary of reporting segment

(1) Reporting segments

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

The Company plans the comprehensive strategies and extends business activities for each product, system and service globally.
Therefore, the Company has designated these reporting segments: the "Automotive Systems Business" and the "Commercial Store Systems Business."

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

(2) Method of measurement of sales, profit (loss), assets, and other items for each reporting segment
The accounting policies of the reportable segment are consistent with the description of the accounting policies.

Information by reporting segment for the years ended March 31, 2017 and 2016 is summarized as follows:

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

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

Note: “Others” include household equipment, car sales and bicycle accessories, etc.

	Thousands of U.S. dollars (Note 1)				
	2017				
	Reporting segment				
	Automotive Systems Business	Commercial Store Systems Business	Total	Others	Total consolidated
Net sales:					
Outside customers	**$1,775,381**	**$635,627**	**$2,411,017**	**$103,119**	**$2,514,136**
Operating income (loss)	**$ 39,379**	**$ (3,297)**	**$ 36,081**	**$ (21,980)**	**$ 14,101**
Total assets	**$1,838,506**	**$537,989**	**$2,376,504**	**$120,991**	**$2,497,495**
Depreciation and amortization	**87,538**	**15,919**	**103,458**	**4,180**	**107,638**
Amortization of goodwill	**623**	**1,898**	**2,522**	**—**	**2,522**
Equity in earnings of affiliates	**27,328**	**2,843**	**30,172**	**—**	**30,172**
Impairment loss	**32,026**	**6,444**	**38,470**	**481**	**38,960**
Investments in equity-method companies	**157,286**	**41,465**	**198,752**	**—**	**198,752**
Increase in property, plant and equipment and intangible assets	**99,839**	**10,562**	**110,410**	**5,214**	**115,634**

2. Geographic information

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

(1) Sales

	Millions of yen						Thousands of U.S. dollars (Note 1)					
	2017						**2017**					
		Asia						Asia				
	Japan		thereof China	Europe	North America	Total consolidated	Japan		thereof China	Europe	North America	Total consolidated
Net sales:												
Outside customers	**¥88,484**	**¥95,758**	**¥53,583**	**¥65,998**	**¥31,819**	**¥282,061**	**$788,697**	**$853,534**	**$477,609**	**$588,269**	**$283,617**	**$2,514,136**

(2) Property, plant and equipment

	Millions of yen							Thousands of U.S. dollars (Note 1)						
	2017							2017						
		Asia		Europe					Asia		Europe			
	Japan		thereof China		thereof Poland	North America	Total consolidated	Japan		thereof China		thereof Poland	North America	Total consolidated
Property, plant and equipment	**¥38,664**	**¥18,632**	**¥11,219**	**¥17,946**	**¥11,086**	**¥6,006**	**¥81,250**	**$344,629**	**$166,075**	**$100,000**	**$159,960**	**$98,814**	**$53,534**	**$724,217**

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

(1) Sales

	Millions of yen					
	2016					
		Asia				
	Japan		thereof China	Europe	North America	Total consolidated
Net sales:						
Outside customers	¥96,089	¥90,130	¥48,216	¥70,292	¥37,724	¥294,237

(2) Property, plant and equipment

	Millions of yen						
	2016						
		Asia		Europe			
	Japan		thereof China		thereof Poland	North America	Total consolidated
Property, plant and equipment	¥42,900	¥17,811	¥10,191	¥20,499	¥11,788	¥8,344	¥89,555

20. Supplementary Information

The main items of selling, general and administrative expenses for the years ended March 31, 2017 and 2016 in the accompanying consolidated statements of operations were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Employees' salaries and bonuses	**¥17,491**	¥18,024	**$155,905**
Freight	**3,652**	4,585	**32,551**
Depreciation	**2,448**	2,512	**21,820**
Provision for:			
Employees' bonuses	**1,605**	1,698	**14,306**
Warranty liabilities	**1,945**	980	**17,336**
Retirement benefit costs	**829**	788	**7,389**

Research and development expenses are recognized as incurred. Research and development expenses charged to general and administrative expenses or total manufacturing cost for the years ended March 31, 2017 and 2016 were ¥7,910 million ($70,505 thousand) and ¥6,771 million, respectively.

21. Extraordinary Product Warranty Cost

For the year ended March 31, 2017, the Company decided to collect certain products from markets that were manufactured and already sold in the past in Automotive Systems Business and Commercial Store Systems Business, which could have defects or potential defects. Costs for inspections and replacements of the collected products reasonably estimated were charged to the consolidated statements of operations as extraordinary product warranty costs in other expenses for the period.

22. Loss related to Antitrust Law

Loss related to antitrust law represents fines imposed on violations of European Union competition law with regard to certain automotive systems business.

23. Structure Reform Cost

As part of measures for the Sanden Group's structural reforms resolved by the Board of Directors meeting of the Company held on August 5, 2016, the Company and its consolidated subsidiaries have been working on (1) focus of investment for growth driver through extensive review of the overall business portfolio, (2) rationalization through integration and consolidation of operations and organizations and (3) improvement of investment efficiency through selection and concentration. As a result of implementations of the measures, in the Automotive Systems Business, the Commercial Store Systems Business and Other Business, additional severance payment for early retirement of ¥1,987 million ($17,711 thousand), impairment loss on long-lived assets of ¥4,371 million ($38,960 thousand) and other losses of ¥1,443 million ($12,862 thousand) including loss on valuation of inventories were charged to the consolidated statements of operations as structure reform costs in other expenses for the year ended March 31, 2017.

24. Impairment Loss

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

1. Details of asset groups impaired

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

2. Method of asset grouping

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

3. Events and circumstances that led to recognition of impairment loss
As part of measures for the Sanden Group's structural reforms resolved by the Board of Directors meeting of the Company held on August 5, 2016, the Company and its consolidated subsidiaries have been working on (1) concentration of investment into growing business through review of the business portfolio, (2) rationalization through integration and consolidation of operations and organizations and (3) improvement of investment efficiency through selection and concentration. As a result of changes in the Group's production frameworks, the consolidations or reorganizations in the Group, and the selections and concentrations of further assets investments, production facilities in the asset groups described in 1. Details of asset groups impaired above became excessive or no longer recoverable, in terms of costs, within remaining useful lives of major assets in the groups, resulting in written 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 net selling value and value in use. Net selling values are primarily based on appraisal values obtained from real estate appraisers.

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

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	**¥ 136**	**$ 1,212**
Machinery and equipment	**3,280**	**29,236**
Furniture and fixtures	**176**	**1,568**
Land	**203**	**1,809**
Others	**575**	**5,125**
Total	**¥4,371**	**$38,960**

25. Subsequent Events

At the Board of Directors meeting held on May 19, 2017, the Company resolved to submit a proposal for change in the number of shares constituting one trading unit and consolidation of shares to the 91st annual general shareholders' meeting held on June 22, 2017. The proposal has been resolved as proposed at the shareholders' meeting.

1. Change in the number of shares constituting one trading unit
(1) Reason for change
Japanese stock exchanges have been working to promote standardization of one trading unit for domestic listed companies (number of shares constituting one trading unit) into a unit of 100 shares based on the "Action Plan for Consolidating Trading Units" in order to improve convenience for investors and other market participants. The Company decided to change one trading unit of the Company shares to 100 shares, giving respect to objectives of the action plan.
(2) Details of change
The Company changes its number of shares constituting one trading unit of the Company's common stock from 1,000 shares to 100 shares effective October 1, 2017.

2. Consolidation of shares
(1) Purpose of consolidation
As stated in 1. Change in the number of shares constituting one trading unit above, the Company decided to change its number of shares constituting one trading unit from 1,000 shares to 100 shares. At the same time, considering mid- to long-term fluctuation in the Company's stock prices, the Company has decided to consolidate its shares at a ratio of one share for every five shares in order to adjust the level of the investment unit to be regarded as appropriate by Japanese stock exchanges.

(2) Details of consolidation
a. Type of shares subject to the consolidation
Common stock
b. Ratio of the consolidation
The consolidation of shares shall be executed on October 1, 2017, at a ratio of one share for each five shares owned by shareholders who are recorded in the shareholder register as of the close of September 30, 2017.
c. Number of shares to be reduced due to the consolidation
Total number of issued shares before the consolidation (as of March 31, 2017)
140,331,565 shares
Number of shares to be reduced due to the consolidation
112,265,252 shares
Total number of issued shares after the consolidation
28,066,313 shares

Note: The number of shares to be reduced due to the consolidation and total number of issued shares after the consolidation are theoretical numbers calculated using the total number of issued shares before the consolidation multiplied by the ratio of the consolidation of shares.

(3) Treatment for fractional shares less than one share
Fractional shares less than one share resulting from the consolidation of shares shall be subject to a bulk sale in accordance with Article 235 of the Companies Act of Japan. The proceeds from the bulk sale shall be distributed to holders of the fractional shares in proportion to the respective number of their fractional shares.

3. Effect on per share information
Assuming the consolidation of shares were made on April 1, 2015, per share information as of and for the years ended March 31, 2017 and 2016 is as follows:

	Yen		U.S. dollars (Note 1)
	2017	2016	**2017**
Net assets per share of common stock	**¥1,576.34**	¥2,537.79	**$14.05**
Basic net income (loss) per share of common stock	**(814.10)**	252.15	**(7.25)**

Note: Diluted net income per common share is not presented for the years ended March 31, 2017 and 2016 as the Company did not have common stock with potential dilutive effect for the periods.

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of Sanden Holdings Corporation:

We have audited the accompanying consolidated financial statements of Sanden Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 9, 2017
Tokyo, Japan

Corporate Data

Name		SANDEN HOLDINGS CORPORATION
Representative		Kin-ei Kanda, Director & President
Established		July 30, 1943
Capital (As of March 31, 2017)		¥11,037 million
Net sales (Fiscal year ended March 31, 2017)		¥282,061 million
Number of employees (As of March 31, 2017)		13,398 (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

Group companies (As of May 31, 2017)

Japan	Sanden Automotive Climate Systems Corporation	Isesaki, Gunma
	Sanden Automotive Components Corporation	Isesaki, Gunma
	Sanden Retail Systems Corporation	Isesaki, Gunma
	Sanden Living & Environmental Systems Corporation	Isesaki, Gunma
	Sanden Environmental Products Corporation	Isesaki, Gunma
	Sanden Advanced Technology Corporation	Isesaki, Gunma
	Sanden Business Expert Corporation	Isesaki, Gunma
	Sanwa Corporation	Isesaki, Gunma
	Sanwa Fabtech Corporation	Maebashi, Gunma
	SD Maintenance Corporation	Kita-ku, Tokyo
	Sanden System Engineering Corporation	Isesaki, Gunma
	Sanden Logistics Corporation	Isesaki, Gunma
	Sanden Facility Corporation	Maebashi, Gunma
	Sanden Real Estate Corporation	Isesaki, Gunma
	Honda Cars Takasaki Corporation	Takasaki, Gunma
	Sankyo Kosan Corporation	Isesaki, Gunma
	Asahi Sangyo Co., Ltd.	Honjyo, Saitama
	Sanwa Coatex Corporation	Isesaki, Gunma
	Sanden Bright Partner Corporation	Isesaki, Gunma
Overseas	Sanden International (U.S.A.), Inc.	Wylie, Texas, U.S.A.
	SandenVendo America Inc.	Dallas, Texas, U.S.A.
	Sanden of America Inc.	Wylie, Texas, U.S.A.
	Sanden Manufacturing Mexico S.A. de C.V.	Ramos Arizpe Coah. CP, Mexico
	Sanden International (Europe) Ltd.	Basingstoke, Hampshire, UK
	Sanden Manufacturing Europe S.A.S.	Tinteniac, France
	Sanden Manufacturing Poland SP.z o.o.	Polkowice, Poland
	SandenVendo Europe S.p.A.	Casale Monferrato, Italy
	Sanden International (Singapore) Pte. Ltd.	Singapore
	Sanden Airconditioning (Malaysia) Sdn. Bhd.	Selangor Darul Ehsan, Malaysia
	Sanden Intercool (Thailand) Public Co., Ltd.	Singburi, Thailand
	Sanden Huayu Automotive Air-Conditioning Co., Ltd.	Shanghai, The People’s Republic of China
	Sanden Shanghai Refrigeration Co., Ltd.	Shanghai, The People’s Republic of China

Stock Information

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, 2017)	140,331,565 shares
Trading unit of shares (As of March 31, 2017)	1,000 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, 2017)	9,625

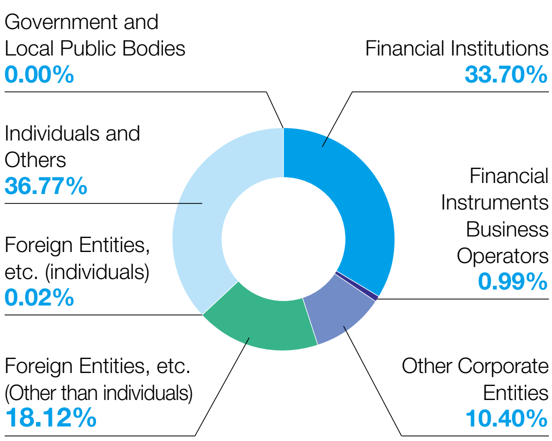
Major shareholders (Top 10) (As of March 31, 2017)

	Name of shareholders	Number of shares (Thousands)	Percentage of voting rights
1	Sanden's Customers Share Holding Association	7,589	5.46
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	6,500	4.68
3	Mizuho Corporate Bank, Ltd.	5,088	3.66
4	The Gunma Bank, Ltd.	5,087	3.66
5	Japan Trustee Services Bank, Ltd. (Trust Account)	4,844	3.48
6	Daido Life Insurance Co., Ltd.	3,471	2.49
7	Sanden's Employee Share Holding Association	3,074	2.21
8	DFA INTL SMALL CAP VALUE PORTFOLIO	2,714	1.95
9	BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS	2,500	1.80
10	Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,242	1.61

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

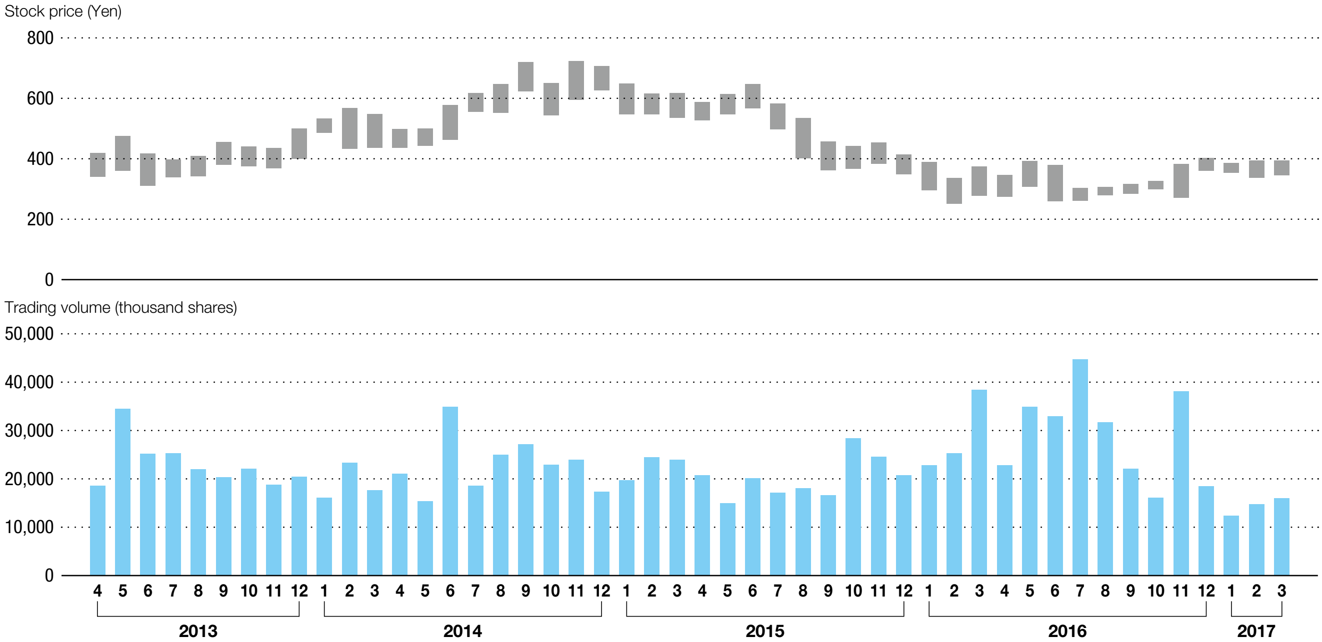
Distribution of shares by type of shareholder

(As of March 31, 2017)



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



SANDEN
Delivering Excellence

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