

Financial Results for the Second Quarter of FY 2015 [Based on the Japanese Accounting Standards] (Consolidated)

November 6, 2015

Name of the company: Takachiho Koheki Co., Ltd. Stock Market: Tokyo Stock Exchange First Section
 Code No.: 2676 URL: <http://www.takachiho-kk.co.jp>
 Representative (job title): Hideo Toda (President and CEO)
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 Registration date of quarterly report: November 11, 2015
 Date of dividends payment: December 3, 2015

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Second Quarter of FY 2015 (from April 1, 2015 to September 30, 2015)

(1) Consolidated Operating Results (Cumulative) (Percent figures represent changes from the same period last year)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to the shareholders of the parent company	
	million yen	%	million yen	%	million yen	%	million yen	%
Second quarter of FY 2015	10,408	20.6	242	1.6	176	(46.5)	(15)	-
Second quarter of FY 2014	8,632	(7.6)	238	(31.7)	330	(11.0)	314	89.9

Note: Comprehensive income: (307 million yen) —% for the second quarter of FY 2015, 342 million yen (49.3%) for the second quarter of FY 2014

	Quarterly net income per share	Fully diluted quarterly net income per share
Second quarter of FY 2015	yen (1.57)	yen -
Second quarter of FY 2014	32.07	31.99

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
Second quarter of FY 2015	18,664	14,080	75.3	1,475.02
FY 2014	19,839	14,947	75.0	1,515.65

Reference: Owner's equity: 14,059 million yen for the second quarter of FY 2015
 14,879 million yen for FY 2014

2. Dividends

	Annual cash dividends per share				
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2014	-	12.00	-	12.00	24.00
FY 2015	-	12.00	-	-	-
FY 2015 forecast	-	-	-	12.00	24.00

Note: Revisions to the most recently disclosed dividend forecasts: None

3. Forecast of Consolidated Operating Results for FY 2015 (from April 1, 2015 to March 31, 2016)

(Percent figures represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to the shareholders of the parent company		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
FY 2015	23,000	22.3	1,160	68.6	1,160	34.0	630	6.8	65.60

Note: Revisions to the most recently disclosed forecast of operating results: None

* Notes:

- (1) Changes to principal subsidiaries for the current consolidated cumulative quarter (changes to specified subsidiary companies accompanying changes to the scope of consolidation): None
- (2) Application of special accounting treatment to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies and estimates, and retrospective restatement:
 - (i) Changes in accounting policies due to amendments of accounting standards: Applicable
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Retrospective restatement: None

Note: For details, see page 3 of the attached material section 2 “Summary Information (notes).”

(4) Number of shares issued (common stock)

(i) Number of shares issued at the end of the period (including treasury shares)	FY 2015 2Q	10,168,800	FY 2014	10,167,300
(ii) Number of treasury shares at the end of the period	FY 2015 2Q	636,807	FY 2014	349,807
(iii) Average number of shares issued during the period (QTD)	FY 2015 2Q	9,603,039	FY 2014 2Q	9,805,772

* Implementation of quarter review procedures

This summary of quarterly financial results is exempt from quarterly review procedures under the Financial Instrument and Exchange Act of Japan. As of the release of this summary of quarterly financial results, the review procedures for quarterly financial statements are in progress.

* Appropriate use of forecasts and other items warranting special mention:

(Notes to the forecasts)

The forecast of operating results and other forward-looking statements in this report are based on information currently available to the Company and certain assumptions that the Company considers reasonable, but the Company does not guarantee results and forecasts. The results may differ significantly from the forecasts due to a variety of factors.

(How to obtain supplementary materials for financial results)

The Company is scheduled to meet institutional investors and analysts on Tuesday, November 17, 2015, for a briefing. Supplementary materials on the financial results will be posted on the website of the Company promptly after the meeting.

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1. Qualitative information on financial results for the current quarter

(1) Explanation of Operating Results

The Japanese economy for the current consolidated cumulative second quarter was weak in the areas of exports and manufacturing caused by the economic slowdown in emerging countries; however, consumer spending remained solid and capital spending recovered with the improved corporate earnings. Generally, the economy trend is a gradual recovery. With the improvement in employment and income, the economy is expected to gradually recover due to the different economic countermeasures, but there is fear of the Japanese economy downturn along with the global economy downturn caused by the slowdown of Chinese economic growth.

Although the market environment for our Group remains harsh due to increasingly fierce competition, we are striving to improve profitability by creating original added value to achieve further growth and expand our global business by entering growing markets primarily in Asia.

In the System Segment, we worked to expand global business by increasing the added value of our flagship products - Electronic Article Surveillance Systems and Access Control Systems; developing new markets for RFID Systems, Retail Security Solution, Cloud-based Wireless LAN Systems - and expanding the Fire Protection System Business by Takachiho Fire, Security & Services (Thailand) Ltd. in Thailand to the ASEAN region through the acquisition of Guardfire; and developing the Fire Protection System business for the POG* business.

In the Device Segment Semiconductors Business, we have promoted the sale of telecom-related new products and enhancing board design proposals using a variety of semiconductors. In the Industrial Systems Business, we have focused on sales promotions in global markets by promoting the sale of Electronic Lock for overseas ATMs and establishing new sales channels for Mechanical Components in the U.S.

For operating results in the current consolidated cumulative second quarter, sales increased 20.6 percent YOY to 10,408 million yen by newly reflecting the income statement of Guardfire in the consolidated financial statements and the recovering system segment sales.

In terms of profit/loss status, we offset the decline in gross profit from increased merchandise procurement costs caused by yen depreciation with an increase in sales. Operating income increased 1.6 percent YOY to 242 million yen. Ordinary income decreased 46.5 percent YOY to 176 million yen due to foreign exchange losses of 91 million yen from the revaluation of foreign currency-denominated claims. Quarterly net income attributable to the shareholders of the parent company decreased 329 million yen YOY to a loss of 15 million yen because of the loss on the valuation of investment securities of 69 million yen from a decline in market prices of holding shares and the corporate tax increased in comparison with last year because corporate tax in last year was low from the assignment of non-current assets.

*Fire Protection Systems for the oil, gas, petrochemical and power generation industries.

The Operating results of each Segment are as follows:

(System Segment)

System Segment sales increased 40.4 percent YOY to 5,785 million yen and operating income increased 118 million yen YOY to 22 million yen.

For Security Solution Products, sales increased 53.4 percent YOY to 3,666 million yen with the income from Guardfire being newly reflected in the consolidated financial statement from the consolidated first quarter and sales of IP (Network) Cameras staying firm for GMSs (general merchandise stores).

For Other System Solution Products, sales increased 38.5 percent YOY to 923 million yen from the recognition of deals on mailing equipment for sending "The Social Security and Tax Number System"-related documents.

For Customer Service Products, sales increased 12.4 percent YOY to 1,195 million yen because of the increase in installation fees arising from the above-mentioned sales increase in retails security products and business solution products.

(Device Segment)

Device Segment sales increased 2.5 percent YOY to 4,623 million yen and operating income decreased 34.0 percent YOY to 219 million yen from the effect of yen depreciation on semiconductor products.

For Semiconductor Products, sales decreased 1.5 percent YOY to 1,780 million yen from weak sales of analog products.

For Mechanical Component Products, sales increased 5.1 percent YOY to 2,842 million yen because sales of Mechanical Components for Japanese manufacturers' overseas ATMs remain solid including slide rails and electronic locks.

* The classification of reporting segments has changed from the consolidated first quarter. In comparison to the same quarter the last fiscal year, values for the same period the last fiscal year are used after reclassification into the changed classification. The details are as described in section 3 "Quarterly Consolidated Financial Statements, (3) Notes on Quarterly Consolidated Financial Statements (including Segment Information)." The customer service segment is included in the system segment with sales and operating income increasing to 1,063 million yen and 84 million yen for the previous consolidated cumulative second quarter.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the current consolidated fiscal year decreased 1,175 million yen from the end of the last fiscal year to 18,664 million yen. Merchandise and finished goods increased 330 million yen while goodwill, notes, and accounts receivable-trade and cash and deposits decreased 488 million yen, 449 million yen, and 366 million yen, respectively.

Liabilities decreased 307 million yen from the end of the last consolidated fiscal year to 4,584 million yen because notes and accounts payable-trade decreased 263 million yen. Net assets decreased 867 million yen from the end of the last consolidated fiscal year to 14,080 million yen because treasury shares increased 308 million yen while retained earnings decreased 214 million yen due to dividend payments and foreign currency translation adjustment decreased 254 million yen. The equity ratio increased 0.3 percent from the end of the previous consolidated fiscal year to 75.3 percent.

2. Summary information (notes)

(1) Changes in accounting policies and accounting estimates and restatement

(Changes in accounting policies)

(Application of Accounting Standards for Business Combinations)

We applied the “Accounting Standards for Business Combinations” (ASBJ Statement No. 21 of September 13, 2013, hereinafter “Business Combinations Accounting Standards”), “Accounting Standards for Consolidated Financial Statements” (ASBJ Statement No. 22 of September 13, 2013, hereinafter “Consolidated Accounting Standards”) and “Accounting Standards for Business Divestures” (ASBJ Statement No. 7 of September 13, 2013, hereinafter “Business Divestures Accounting Standards”) from the first quarter of the current consolidated fiscal year. We recognized as capital surplus differences arising from changes in our equity in subsidiaries when we continued to control the subsidiaries while we changed the accounting method for expenses related to the acquisition so that the expenses were recognized in the consolidated fiscal year when they were incurred. As for business combinations after the beginning of the first quarter of the current consolidated fiscal year, the accounting method changed so that the review of the allocations of acquisition cost resulting from determination of provisional accounting was reflected in the quarterly consolidated financial statements for the quarterly consolidated financial period for the date of the business combination. Additionally, we changed the presentation of quarterly net income and minority interests to non-controlling interests. To reflect these changes in presentation, we reclassified the quarterly consolidated financial statements for the last consolidated cumulative second quarter and consolidated financial statements for the last consolidated fiscal year.

In the quarterly consolidated cash flow statements for the current consolidated cumulative second quarter, cash flow related to the acquisition of shares of subsidiaries not resulting in changes to the scope of consolidation is recorded in the section on cash flow from financing activities. Business Combinations Accounting Standards are applied to transitional treatments as stipulated in 58-2 (4) of Business Combination Accounting Standards, 44-5 (4) of the Consolidated Accounting Standards and 57-4 (4) of Business Divestures Accounting Standards from beginning of the first quarter of the current consolidated fiscal year to the future. These changes have minimal effect on operating income, ordinary income, and quarterly income before income taxes for the current consolidated cumulative second quarter and the capital surplus at end of the second quarter of the current consolidated fiscal year.

(2) Additional information

(Changes in the scope of consolidation or the scope of application of the equity method)

(Change in closing date of consolidated subsidiaries)

As for Guardfire Limited and Guardfire Singapore Pte., Ltd., whose closing date was December 31, among consolidated subsidiaries, we conventionally used the financial statements as of the same day and made the needed adjustments to significant transactions between the closing date and consolidated closing date. From the first quarter of the current consolidated fiscal year, the closing date changed to March 31. Profits or losses for three months from January 1, 2015, to March 31, 2015, associated with this change were adjusted as changes in retained earnings.

3. Quarterly Consolidated Financial Statements
 (1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2015)	Second quarter of the current consolidated fiscal year (as of September 30, 2015)
Assets		
Current assets		
Cash and deposits	5,637	5,270
Notes and accounts receivable - trade	6,608	6,159
Securities	700	700
Merchandise and finished goods	2,202	2,532
Other	482	386
Allowance for doubtful accounts	(20)	(6)
Total current assets	15,609	15,042
Non-current assets		
Property, plant and equipment	360	353
Intangible assets		
Goodwill	2,213	1,725
Other	136	140
Total intangible assets	2,350	1,866
Investments and other assets		
Investment securities	1,012	878
Other	507	524
Allowance for doubtful accounts	—	(0)
Total investments and other assets	1,519	1,402
Total non-current assets	4,229	3,622
Total assets	19,839	18,664

(Unit: Millions of yen)

	Previous consolidated fiscal year (as of March 31, 2015)	Second quarter of the current consolidated fiscal year (as of September 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,128	2,865
Income taxes payable	70	154
Provision for bonuses	281	254
Provision for directors' bonuses	14	3
Other	750	654
Total current liabilities	4,245	3,933
Non-current liabilities		
Net defined benefit liability	579	579
Other	67	72
Total non-current liabilities	646	651
Total liabilities	4,892	4,584
Net assets		
Shareholders' equity		
Capital stock	1,207	1,207
Capital surplus	1,169	1,168
Retained earnings	12,405	12,190
Treasury shares	(298)	(607)
Total shareholders' equity	14,483	13,959
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	293	252
Foreign currency translation adjustment	92	(161)
Re-measurements of defined benefit plans	9	9
Total accumulated other comprehensive income	396	100
Subscription rights to shares	15	16
Non-controlling interests	51	3
Total net assets	14,947	14,080
Total liabilities and net assets	19,839	18,664

(2) Quarterly Consolidated Income Statements and Statements of Comprehensive Income
(Quarterly Consolidated Income Statement)
(Consolidated cumulative second quarter)

(Unit: Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2014 to September 30, 2014)	Current consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)
Net sales	8,632	10,408
Cost of sales	6,301	7,860
Gross profit	2,331	2,547
Selling, general and administrative expenses	2,092	2,305
Operating income	238	242
Non-operating income		
Interest income	1	1
Dividend income	7	8
Foreign exchange gains	55	—
Insurance income	11	—
Compensation income	14	6
Share of profit of entities accounted for using equity method	—	0
Other	4	11
Total non-operating income	93	28
Non-operating expenses		
Interest expenses	0	0
Share of loss of entities accounted for using equity method	0	—
Foreign currency losses	—	91
Other	0	2
Total non-operating expenses	1	94
Ordinary income	330	176
Extraordinary income		
Gain on sales of non-current assets	2	—
Gain on sales of investment securities	0	21
Gain on reversal of subscription rights to shares	11	0
Total extraordinary income	14	21
Extraordinary losses		
Loss on valuation of investment securities	—	69
Total extraordinary losses	—	69
Quarterly income before income taxes	345	129
Income taxes - current	57	144
Income taxes - deferred	(29)	(1)
Total income taxes	27	142
Profit (loss)	318	(13)
Profit attributable to non-controlling interests	3	1
Profit (loss) attributable to owners of parent	314	(15)

(Quarterly Consolidated Statements of Comprehensive Income)
(Consolidated cumulative second quarter)

(Unit: Millions of yen)

	Previous consolidated cumulative second quarter (From April 1, 2014 to September 30, 2014)	Current consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)
Profit (loss)	318	(13)
Other comprehensive income		
Valuation difference on available-for-sale securities	30	(40)
Foreign currency translation adjustment	6	(252)
Remeasurements of defined benefit plans, net of tax	(12)	(0)
Total other comprehensive income	24	(293)
Comprehensive income	342	(307)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	338	(309)
Comprehensive income attributable to non-controlling interests	3	1

- (3) Notes on the quarterly consolidated financial statements
 (Note on going-concern assumption)
 Not applicable
 (Note in case of remarkable changes in amount of shareholders' equity)
 No changes in the applicable matter
 (Segment Information, etc.)
 [Segment Information]

- I Previous consolidated cumulative second quarter (From April 1, 2014 to September 30, 2014)
 Information concerning amounts of sales and profit or loss for each reporting segment

(Unit: Millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the quarterly consolidated income statements (Note) 2
Sales					
Sales to external customers	4,121	4,511	8,632	—	8,632
Internal sales and transfers between segments	—	—	—	—	—
Total	4,121	4,511	8,632	—	8,632
Segment profit (loss)	(96)	332	235	2	238

(Notes) 1. Adjustments to segment profit or loss of 2 million yen are consolidated adjustments.

2. Segment profit or loss is reconciled to operating income on the quarterly consolidated income statements.

- II Current consolidated cumulative second quarter (From April 1, 2015 to September 30, 2015)

1. Information concerning amounts of sales and profit or loss for each reporting segment

(Unit: Millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the quarterly consolidated income statements (Note) 2
Sales					
Sales to external customers	5,785	4,623	10,408	—	10,408
Internal sales and transfers between segments	—	—	—	—	—
Total	5,785	4,623	10,408	—	10,408
Segment profit	22	219	241	1	242

(Notes) 1. Adjustments to segment profit or loss of 1 million yen are consolidated adjustments.

2. Segment profit is reconciled to operating income on the quarterly consolidated income statements.

2. Changes in reporting segments

From the first quarter of the current consolidated fiscal year, the conventional three reporting segments of system, device, and customer service changed to the two reporting segments of system and device.

This change is based on a review of the conventional segment classification after the expansion of overseas business where actual business management is presented more appropriately through the integration and management of the conventional customer service segment, which had been engaged in system design, delivery and installation, and maintenance of products from the system segment.

Segment information for the last consolidated cumulative second quarter is based on the changed segment classification.

4. Supplementary Information

Actual results of sales

(Unit: Millions of yen)

Segment	Previous quarter (Second quarter of FY 2014)	Current quarter (Second quarter of FY 2015)
Security Solution Products	2,390	3,666
Other System Solution Products	667	923
Customer Service Products	1,063	1,195
System Total	4,121	5,785
Semiconductors Products	1,807	1,780
Mechanical Component Products	2,704	2,842
Device Total	4,511	4,623
Total	8,632	10,408

(Note) From the first quarter of the current consolidated fiscal year, the conventional three reporting segments of system, device, and customer service changed to the two reporting segments of system and device.

The customer service segment is included in the system segment as customer service products.

The information for the last consolidated cumulative second quarter is based on the changed segment classification.