



TAKAOKA TOKO CO., LTD.

Stock Exchange Code: 6617

The **8**th Fiscal Year

Interim Report

April 1, 2019 ▶ September 30, 2019



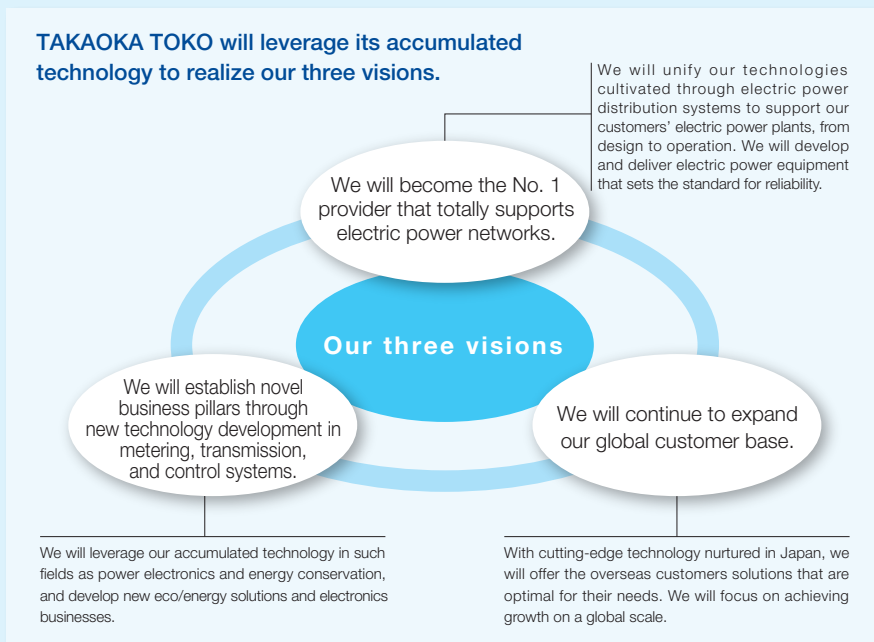
Toshiro Takebe

President and Representative Director
TAKAOKA TOKO CO., LTD.

Let me express my heartfelt gratitude to all shareholders for their continued support.

I hereby present the 8th Fiscal Year Interim Report (from April 1, 2019 to September 30, 2019) of TAKAOKA TOKO (the “Company”) and report on the overview of our business.

TAKAOKA TOKO will leverage its accumulated technology to realize our three visions.



Overview of the First Half of the Current Fiscal Year (April 1, 2019 to September 30, 2019)

During the first half of the current fiscal year, the Japanese economy was on a gradual recovery trend due to factors such as a recovery in personal consumption and increases in investments in rationalization and labor-saving efforts, maintenance and renewal of equipment, against the backdrop of a shortage of labor and the aging of equipment, amid continued improvements in the employment and income environment although weakness remained mainly in exports. Meanwhile, the economic outlook was unclear due to the impact of escalating tension between the U.S. and China over trade issues on the global economy and uncertainties concerning trends of overseas economies and policies.

In the electric power industry, the largest clientele of the TAKAOKA TOKO Group (the “Group”), competition is intensifying across business fields and regions due to the full liberalization of the electricity and gas retail market, and efforts are being made towards improved productivity and thorough cost reductions as domestic energy demand continues to decrease following advance in energy saving. Meanwhile, demand remained steady for decentralized energy-related equipment, including renewable energy equipment, and the renewal of existing aging equipment in Japan and for electric power infrastructure overseas, mainly in Asia.

In such a business environment, the Group has been further advancing the improvement of profitability of its existing businesses by establishing a system to promote Kaizen (improvement) based on the “TAKAOKA TOKO Group Fiscal Year 2020 Medium-Term Management Plan.” In addition, with the view to building bases for overseas business and coping with rapid advance in digitalization in domestic and overseas electric power fields, the Group has been striving to expand its business domains and reform business models. As part of such efforts, the Group acquired some shares of Applied Technical Systems Joint Stock Company, a Vietnamese firm, in June, entered into a business alliance agreement with the company and opened a representative office in Hanoi.

As a result, for the period under review, we posted net sales of ¥38,830 million (a year-on-year decrease of 2.5%) due to a decline in the smart meter sales despite an increase in overseas construction projects.

In terms of profit, we posted operating loss of 1,191 million yen (operating loss of 324 million yen in the previous corresponding period), ordinary loss of 1,169 million yen (ordinary loss of 230 million yen in the previous corresponding period), and loss attributed to shareholders of the parent company of 887 million yen (loss attributed to shareholders of the parent company of 461 million yen in the previous corresponding period), due to a decrease in sales of smart meters despite positive factors such as cost reductions in equipment for power receiving and transformation equipment.

The quarterly business results of the Group are prone to seasonal fluctuations due to the tendency of net sales from its mainstay business, the Electric Equipment Business, to focus in the fourth quarter of the fiscal year.

Outlook for the Fiscal Year

In the business environment surrounding the Group, customers in the electric power industry are expected to continue improving productivity and thoroughly curbing costs in the midst of intensifying competition due to the full liberalization of the electricity and gas retail market. Meanwhile, private-sector demand is expected to remain at high levels, mainly for decentralized energy-related equipment, including renewable energy-related equipment, and the renewal of existing aging equipment.

In overseas markets, business opportunities for the Company are increasing thanks to a continued increase in electric power demand in the Asian region.

Under such a business environment, the Group will strive to build new earnings bases by concentrating management resources on growth areas, while further advancing productivity improvements and cost reduction initiatives.

The business forecast of the fiscal year ending on March 31, 2020 remains unchanged from that published on April 24, 2019, estimating net sales of 97,000 million yen, operating income of 2,000 million yen, ordinary income of 2,100 million yen, and profit attributed to shareholders of the parent company of 1,100 million yen.

The forecast for interim dividend also remains unchanged at 25 yen per share, based on the consolidated business results for the period under review, as well as the business forecast for the current fiscal year.

Status by Segment

The status of each segment is as follows:

Electric Equipment Business

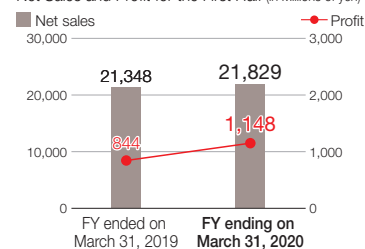
Major products and services Equipment for power receiving, transforming and distribution, monitoring and control systems, control equipment, etc.

Basic strategies of the segment

- Reduction of all product costs and acceleration of the development of new products
- Sales expansion in social infrastructure areas and to regional electric power companies
- Building bases for overseas business

We achieved net sales of 21,829 million yen (a year-on-year increase of 2.3%) and segment profit of 1,148 million yen (a year-on-year increase of 35.9%), mainly due to an increase in overseas construction projects and cost reductions in equipment for power receiving and transformation equipment.

Net Sales and Profit for the First Half (in Millions of yen)



Metering Business

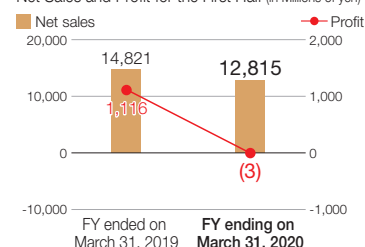
Major products and services Transformers, various types of meters (for electricity, gas, and water service), undertaking of replacement of expired meters ^(*), etc.
* "Replacement of expired meters" means the replacement work of electric meters conducted pursuant to the Measurement Act.

Basic strategies of the segment

- Enhancement of the product lineup of transformers compatible with the separation of electrical power production from power distribution and transmission
- Establishment of efficient production systems in Japan, China and Korea

We achieved net sales of 12,815 million yen (a year-on-year decrease of 13.5%) and segment loss of 3 million yen (segment profit of 1,116 million yen in the corresponding period of the previous fiscal year), due to a decline in sales of smart meters.

Net Sales and Profit for the First Half (in Millions of yen)



Energy Solution Business

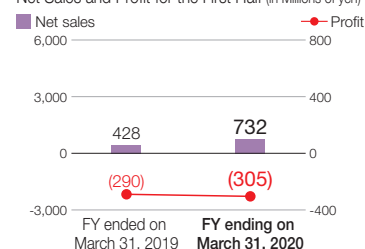
Major products and services Energy metering and control equipment, quick chargers for electric vehicles, etc.

Basic strategies of the segment

- Leading the market for quick chargers for electric vehicles
- Expansion of businesses related to smart grids

We achieved net sales of 732 million yen (a year-on-year increase of 70.8%) and segment loss of 305 million yen (segment loss of 290 million yen in the corresponding period of the previous fiscal year), due to an increase in research and development expenses despite an increase in EMS-related sales.

Net Sales and Profit for the First Half (in Millions of yen)



Information System/Applied Optics Inspection System Business

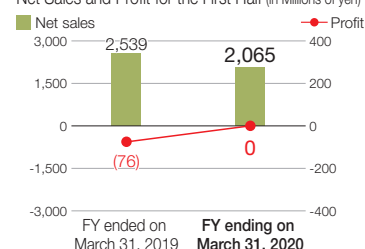
Major products and services 3D inspection systems ⁽¹⁾, thin client systems ⁽²⁾, embedded software, etc.
⁽¹⁾ A "3D inspection system" means a system to measure and inspect external appearance (height, depth and surface form) of electronic circuit substrates.
⁽²⁾ A "thin client system" is a simple structured terminal for information networks with a simple structure, which has no application software or data, with no external memory devices or hard disks on the terminal side. It has superiority in preventing leakage of information, including personal information.

Basic strategies of the segment

- Promotion of cost reductions in inspection systems and strengthening of overseas sales
- New product development in solutions and communication systems

We achieved net sales of 2,065 million yen (a year-on-year decrease of 18.7%) and segment profit of 0 million yen (segment loss of 76 million yen in the corresponding period of the previous fiscal year), due to decreased sales of information systems and fluctuations in the model composition.

Net Sales and Profit for the First Half (in Millions of yen)



Investment in and business alliance with Vietnamese company ATS

In June 2019, the Company acquired 25% of the shares of Applied Technical Systems Joint Stock Company (ATS), a Vietnamese company that provides control systems for power networks, and entered into a business alliance agreement with ATS.

ATS, a leading company in the field of automation systems for substations in Vietnam, is expanding its initiatives for next-generation power solutions, including renewable energies.

In August, we opened a representative office in Hanoi, Vietnam, with a view to facilitating the business alliance with ATS and developing business in the Southeast Asian market, centering on Vietnam.

We will strive to expand business to the digital grid field ^(*) in Japan and other countries by combining the technology we have cultivated with the capabilities of ATS to develop solutions in accordance with international standards.

*The digital grid field is a new business field that arises from digitalization of power networks.



Ceremony for the business alliance

Initiatives for overseas business

TAKAOKA TOKO KOREA CO., LTD., which started full-swing production of gas transformers in July 2019, aims to obtain more orders through sales and production activities in Korea.

In the Philippines, we started operation of the pilot project of power distribution automation system ^(*) as part of the Japan International Cooperation Agency's (JICA) project for popularization and promotion of power distribution system operation system and management technology. We have been selected as a supplier for the project.

Also, Takaoka Engineering Co., Ltd. has received an order for works on gas engine generators as part of Myanmar's emergency project to improve electric power supply and an order for works on equipment for power receiving and transformation equipment for solar power generation as part of Uruguay's project to introduce clean energy, and others. Its track records concerning the introduction of solar power generation in the Republic of Tunisia and the Republic of Rwanda and the improvement of power infrastructure in the African region, including the United Republic of Tanzania, were posted on a dedicated website, set up by the Japan Business Federation, for the Sustainable Development Goals (SDGs) ⁽²⁾ as examples that fall under "Affordable and clean energy," one of the SDGs.

The Group will continue to push forward with proactive overseas development.

*1 Power distribution automation system is a system to isolate a fault section and quickly recover the power supply in case of an accident at a distribution system.

*2 SDGs are international goals to realize a sustainable world, which were adopted at the United Nations Sustainable Development Summit 2015 held in September 2015.



Solar power generation equipment installed overseas

Development of Kaizen activities

The Group has been developing various kinds of Kaizen activities for the improvement of profitability to achieve the goals of the Fiscal Year 2020 Medium-Term Management Plan.

With respect to initiatives directly related to the achievement of the goals of the plan, heads of departments set targets as top-down themes and manage their progress at the Kaizen Guidance Meeting held monthly.

In addition, all groups in the Company set themes and are promoting initiatives for the improvement of operational efficiency and shift to high value-added operations, with the view to accelerating the Kaizen activities and accumulating results by involving all employees.

As we promote these activities, we considered revamping production lines and introducing new equipment at plants. At the Oyama Factory, we reduced manufacturing lead time by improving the production line of gas circuit breakers (GCBs) and enhanced production capacity through the introduction of new processing machines for switchgears.

Furthermore, among our initiatives to promote Kaizen activities, including education, are the Kaizen Triple Education and the Companywide Kaizen Challenge Report Meeting. The former is a program offered to group managers, team leaders and persons in charge, who belong to each department, with a view to fostering leaders who can implement activities and give guidance in such activities. The latter is a meeting to commend on excellent Kaizen activities.

Through these initiatives, we will further accelerate Kaizen activities.



New processing machine for switchgears



Kaizen Triple Education

Overview of Consolidated Financial Statements

Consolidated Balance Sheets (in Millions of yen)

Item	Previous Fiscal Year As of March 31, 2019	First Half FY As of September 30, 2019
[Assets]		
Current Assets	55,130	48,641
Non-current Assets	44,092	45,497
Property, plants and equipment	37,681	37,316
Intangible assets	2,796	2,720
Investments and other assets	3,614	5,459
Total Assets	99,222	94,138
[Liabilities]		
Current Liabilities	26,210	23,649
Long-term Liabilities	21,157	20,064
Total Liabilities	47,367	43,714
[Net Assets]		
Shareholders' Equity	48,096	46,812
Accumulated other comprehensive income	(354)	(293)
Non-controlling interests	4,113	3,904
Total Net Assets	51,855	50,424
Total Liabilities and Net Assets	99,222	94,138

Note: Amounts less than one million yen have been truncated.

Consolidated Statements of Income (in Millions of yen)

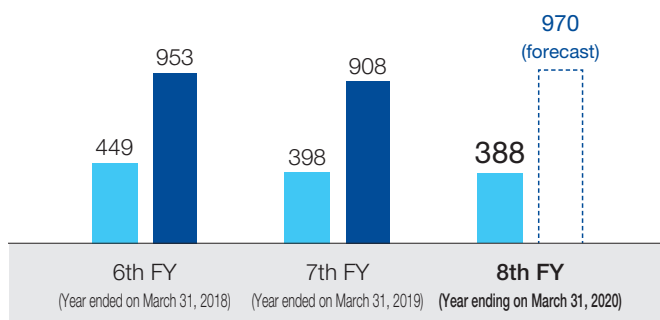
Item	Previous First Half FY From April 1, 2018 to September 30, 2018	Current First Half FY From April 1, 2019 to September 30, 2019
Net sales	39,828	38,830
Cost of sales	32,311	32,020
Gross profit	7,516	6,809
General and administrative expenses	7,840	8,001
Operating loss	(324)	(1,191)
Non-operating income	157	133
Non-operating expenses	63	111
Ordinary loss	(230)	(1,169)
Extraordinary income	0	0
Extraordinary loss	155	64
Loss before income taxes	(385)	(1,234)
Income taxes	(96)	(144)
Net loss	(288)	(1,090)
Profit (loss) attributable to non-controlling interests	172	(203)
Loss attributed to shareholders of the parent company	(461)	(887)

Note: Amounts less than one million yen have been truncated.

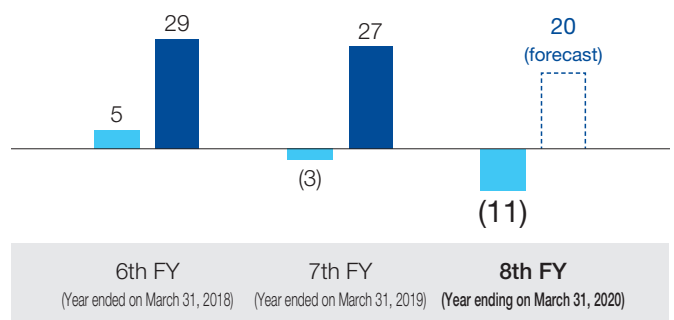
Consolidated Financial Highlights

■ First Half FY ■ Full FY

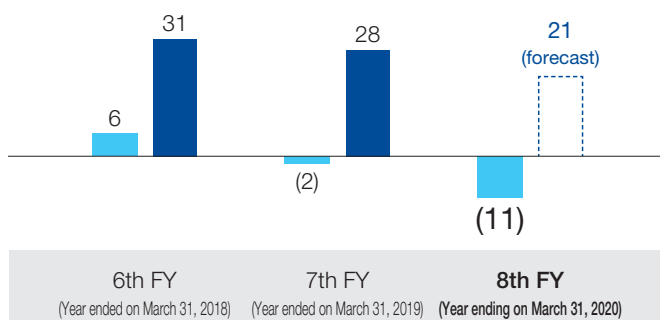
Net sales (in Hundred millions of yen)



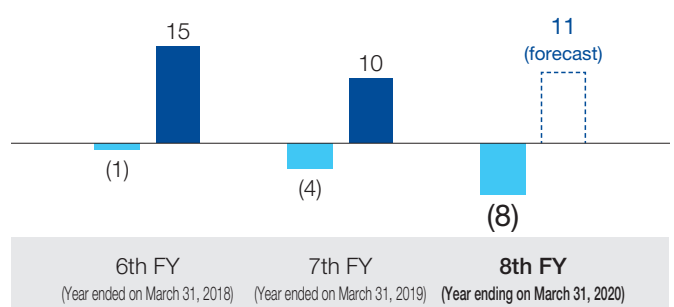
Operating income (in Hundred millions of yen)



Ordinary income (in Hundred millions of yen)



Profit attributed to shareholders of the parent company (in Hundred millions of yen)



(Note) Amounts less than one hundred million yen are truncated.

Company Profile

Company Name: TAKAOKA TOKO CO., LTD.
 Established on: October 1, 2012
 Capital: 8 billion yen
 Head Office: 8F Hulic Toyosu Prime Square
 5-6-36 Toyosu, Koto-ku, Tokyo 135-0061 Japan
 TEL: +81-3-6371-5000
 FAX: +81-3-6371-5436

Affiliated Companies: Takaoka Engineering Co., Ltd.
 TAKAOKA CHEMICAL CO., LTD.
 Toko Kizai Corporation
 Takaoka Densetsu Co., Ltd.
 FUSHUN TAKAOKA SWITCHGEAR COMPANY LIMITED
 Applied Technical Systems Joint Stock Company
 WATT LINE SERVICE Co., Ltd.
 Toko Electric (Suzhou) Co., Ltd.
 Toshiba Toko Meter Systems Co., Ltd.
 TAKAOKA TOKO KOREA CO., LTD.
 TACTICO, Ltd.
 MintWave Co., Ltd.
 UQUEST, LTD.

Directors and Corporate Auditors

President and Representative Director	Toshiro Takebe	Director	Harunobu Kameyama
Director	Naoshi Nishikawa	Director	Yasuhiro Mishima
Director	Shiro Odagiri	Standing Statutory Auditor	Yoshinori Kurosawa
Director	Takenori Fujii	Standing Statutory Auditor	Yoshihiro Wasekura
Director	Kunihiko Mizumoto	Auditor	Noriaki Taketani
Director	Kaoru Okame	Auditor	Yuichiro Takada
Director	Yoshinori Kaneko		

* Directors Yoshinori Kaneko, Harunobu Kameyama and Yasuhiro Mishima are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.

* Auditors Noriaki Taketani and Yuichiro Takada are Outside Auditors as stipulated in Article 2, Item 16 of the Companies Act.

Share Information

Total number of authorized shares: 40,000,000
 Total number of outstanding shares: 16,218,062
 (Excluding 58,243 treasury shares)
 Number of shareholders: 11,265

List of Major Shareholders (Top 10)

Name of Shareholder	Shares Held (shares)	Shareholding Ratio (%)
TEPCO Power Grid, Incorporated	5,671,260	34.96
The Master Trust Bank of Japan, Ltd. (Trust account)	1,060,800	6.54
Japan Trustee Services Bank, Ltd. (Trust account)	357,300	2.20
GOVERNMENT OF NORWAY	337,100	2.07
TAKAOKA TOKO Employees' Stock Holding Association	246,797	1.52
DFA INTL SMALL CAP VALUE PORTFOLIO	241,244	1.48
TAJU LIFE INSURANCE COMPANY LIMITED	209,700	1.29
Meiji Yasuda Life Insurance Company	200,000	1.23
Japan Trustee Services Bank, Ltd. (Trust account 5)	199,900	1.23
Japan Trustee Services Bank, Ltd. (Trust account 9)	195,700	1.20

Note: Shareholding ratios are calculated after deducting treasury stock (58,243 shares).

Shareholder Memo

Fiscal year: April 1 through March 31 of the following year

Annual general meeting of shareholders: Late June every year

Record date

Voting rights at annual general meeting of shareholders: March 31

Year-end dividends: March 31

Interim dividends: September 30

Number of shares per unit: 100

Administrator of shareholder registry:

Sumitomo Mitsui Trust Bank, Limited

1-4-1 Marunouchi, Chiyoda-ku, Tokyo

Mailing address:

(Contact for telephone inquiries)

Stock Transfer Agency Department

Sumitomo Mitsui Trust Bank, Limited

2-8-4 Izumi, Suginami-ku, Tokyo 168-0063 Japan

Tel. 0120-782-031 (toll-free in Japan)

Contact points: Sumitomo Mitsui Trust Bank, Limited

Main office and branches across the country

Method of public notices:

Public notices of the Company shall be published on its website described below: <https://www.tktk.co.jp/ir/stockinfo/publicnotice/>

Financial instruments exchange on which the Company's stock is listed:

First Section of the Tokyo Stock Exchange

■ Contact information for changes in addresses, purchase of shares less than one unit and other requests:

Please contact the securities company where you have accounts.

Shareholders who hold special accounts in lieu of accounts at securities companies are requested to contact Sumitomo Mitsui Trust Bank, Limited, the account manager for special accounts.

Requests for forms pertaining to procedures for special account are also handled at the following URL:

<https://www.smtb.jp/personal/agency/request/>

■ Payment of unclaimed dividends:

Please contact Sumitomo Mitsui Trust Bank, Limited, the administrator of the share registry.