Takata Corporation

Consolidated Results

Second quarter ended September 30, 2015

The period April 1, 2015 to September 30, 2015

SUMMARY OF FINANCIAL STATEMENTS (Consolidated)

Results for the second quarter of the fiscal year ending March 31, 2016

(Results for the six-month period April 1, 2015–September 30, 2015)

Takata Corporation			November 6, 2015
Stock Code:	7312	Listed exchanges:	Tokyo 1st Section
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Scheduled submission of quarterly *hokokusho* (securities report):	November 13, 2015
Scheduled date of payment of dividend:	—
Availability of supplementary explanatory material for second quarter results:	Available
Presentation meeting for second quarter results:	Scheduled

1. Consolidated financial results for the six-month period ended September 30, 2015

1) Consolidated operating results

Millions of yen, rounded down

Percentage figures represent changes from the same period of the previous fiscal year

	Six months ended September 30, 2015		Six months ended September 30, 2014	
		% change		% change
Net sales	359,355	19.0	302,021	14.8
Operating income	19,557	32.8	14,725	11.6
Ordinary income	16,331	(10.2)	18,177	55.1
Net income attributable to owners of parent	(5,577)	—	(35,244)	—
Earnings per share (¥)	(67.07)		(423.81)	
Diluted earnings per share (¥)	—		—	

Note: Comprehensive income: Six months ended September 30, 2015: (¥9,585 million) (—%); Six months ended September 30, 2014: (¥31,379 million) (—%)

2) Consolidated financial position

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
Total assets	468,097	475,435
Net assets	138,964	148,766
Shareholders' equity ratio (%)	29.4	31.0
Net assets per share (¥)	1,655.26	1,770.34

Reference: Shareholders' equity as of September 30, 2015: ¥137,653 million; as of March 31, 2015: ¥147,224 million

2. Dividends

	Fiscal year ending March 31, 2016	Fiscal year ended March 31, 2015
Interim dividend per share (¥)	0.00	0.00
Year-end dividend per share (¥)	—	0.00
Annual dividend per share (¥)	—	0.00

Note: Revisions to the dividend forecasts: Yes

A year-end dividend forecast for the fiscal year ending March 31, 2016 has not been issued.

3. Consolidated full-year forecasts for the fiscal year ending March 31, 2016

Millions of yen

Percentage figures represent changes from the same period of the previous fiscal year

	Fiscal year ending March 31, 2016	
		% change
Net sales	720,000	12.0
Operating income	40,000	21.4
Ordinary income	36,500	(10.2)
Net income attributable to owners of parent	5,000	—
Earnings per share (¥)	60.12	

Note: Changes to the forecasts: Yes

For the revisions to the forecasts, please refer to the "Difference between Interim Forecasts and Actual Results for the Interim Period ended September 30, 2015 and Revision of Full-year Forecasts for the Fiscal Year ending March 31, 2016," which was released today (November 6, 2015).

<u>* Other</u>

1) Transfer of important subsidiaries during the period under review (Note: Indicates transfers of subsidiaries resulting in changes in the scope of consolidation): None

2) Adoption of simplified accounting methods or special accounting methods for the preparation of the quarterly financial statements: Adopted

3) Changes in accounting methods or disclosure:

1. Changes in accounting method: Yes
2. Other changes: None
3. Changes in accounting estimates: None
4. Retrospective restatements: None

4) Number of shares outstanding (ordinary shares)

	Year ending March 31, 2016	Year ended March 31, 2015
Shares outstanding at end of second quarter (including treasury shares)	83,161,700	
Shares outstanding at end of year (including treasury shares)		83,161,700
Treasury shares held at September 30	398	
Treasury shares held at March 31		398
Average shares outstanding during first six months	83,161,302	83,161,302

IMPORTANT NOTICE

<u>Disclosure of status of quarterly report review procedures</u>

This quarterly financial report is outside the scope of the review procedures for quarterly securities reports as stipulated under the Financial Instruments and Exchange Law. Under the Financial Instruments and Exchange Law, the review procedure for the quarterly securities report will be implemented at the time of disclosure of this quarterly financial report.

<u>Appropriate application of forecasts, etc.</u>

Forecasts in this document are based on a number of assumptions and beliefs made in light of information available at the time of issue. Actual financial results may differ materially depending on changes in the business environment and other factors.

TAKATA

I. Operating results and financial position

Note: In the following section all comparisons are with the six-month period April 1, 2015 to September 30, 2015, unless stated otherwise.

1. Operating results

For the global economy during the six-month period under review, the U.S. and European economies continued to show steady improvement, whereas many emerging nations, including Brazil and Russia, suffered an economic downturn, triggered by lower crude oil and resource prices. In China, the economic deceleration became apparent, while the ASEAN countries and India showed steady economic growth reflecting strong domestic demand. The Japanese economy continued a moderate recovery path owing to improved employment conditions and personal consumption.

In the automobile industry, automobile production and sales continued to be strong in the United States, and steady growth was seen in Europe although some weakness was observed as well. In China, the slowing economy put automobile production on a declining trend. In some emerging markets, including Brazil, Russia and Indonesia, the declining trend of automobile production and sales intensified. In Japan also, a declining trend in automobile production and sales continued.

Amid this economic environment, the Takata Group’s consolidated net sales for the first six months of the fiscal year ending March 31, 2016, increased 19.0% to ¥359,355 million, reflecting revenue increases in all regions. Operating income increased 32.8% to ¥19,557 million, supported by increased earnings in the Americas and Asia, offsetting decreases in Japan and Europe. Meanwhile, ordinary income declined 10.2% to ¥16,331 million due to a foreign exchange loss. Special losses were recorded in relation to airbag recall-related expenses and the payment of civil penalties to the NHTSA, which resulted in a net loss attributable to owners of parent of ¥5,577 million compared with a net loss of ¥35,244 million in the same period of the previous year.

Results by geographical segment were as follows:

(1) Japan

In Japan, Takata’s net sales for the first six months of the fiscal year under review increased 5.2% to ¥60,914 million due to an increase in export sales to group companies, despite a decline in sales to automakers resulting from a decrease in domestic vehicle production. Operating income fell 41.2% to ¥2,234 million, mainly affected by an increase in recall-related expenses and decreased sales to automakers.

(2) The Americas

In the Americas, Takata’s net sales for the first six months of the fiscal year increased 28.6% to ¥176,207 million, reflecting ongoing increases in U.S. vehicle production and sales, despite continued sluggishness in vehicle production and sales in Brazil. Operating income surged 133.4% to ¥7,652 million, chiefly reflecting increased earnings on higher revenues in the United States, as well as a reduction in manufacturing costs, although there were deteriorating factors such as increases in recall-related expenses in the U.S., decreased revenues in Brazil, and a hike in material costs due to depreciation of the Real.

(3) Europe

In Europe, Takata’s net sales for the first six months of the fiscal year increased 9.2% to ¥92,744 million, as vehicle production showed steady improvement in key markets centering on Germany. Despite the sales increase, operating income fell 10.0% to ¥908 million due to such factors as increases in material costs and general and administrative expenses.

(4) Asia

In Asia, vehicle production decreased in China and Indonesia, but grew steadily in the other regions. As a result, Takata’s net sales for the first six months of the fiscal year increased 16.9% to ¥88,179 million. Primarily due to the effect of the sales increases, operating income increased 32.1% to ¥9,304 million.

TAKATA

2. Financial position

Total assets as of September 30, 2015 decreased ¥7,338 million to ¥468,097 million, largely due to a decrease in cash, which was partly offset by an increase in inventories and tangible assets.

Total liabilities as of September 30, 2015 increased ¥2,463 million to ¥329,132 million. The primary reason for this increase was an increase in accounts payable and other long-term liabilities, which was partly offset by a decrease in warranty reserve.

Net assets as of September 30, 2015 decreased ¥9,801 million to ¥138,964 million. This was primarily because a net loss attributable to owners of parent of ¥5,577 million was recorded.

3. Consolidated operating result forecasts and other forward-looking information

For revisions to the consolidated operating results forecasts, please refer to "Difference between Interim Forecasts and Actual Results for the Interim Period ended September 30, 2015 and Revision of Full-year Forecasts for the Fiscal Year ending March 31, 2016," which was released today (November 6, 2015).

II. Notes

1. Adoption of simplified accounting methods or special accounting methods for the preparation of the quarterly financial statements:

The effective tax rate is estimated by making a reasonable estimation of the effective tax rate on net income before income taxes for the full fiscal year after the application of tax effect accounting, and applying this rate to net income before income taxes for the six-month period under review. In these financial statements, income taxes—deferred is included in total income taxes.

2. Changes in accounting policy, changes in accounting estimates, and restatements:

Change in accounting policy

As of the first quarter of the fiscal year under review, revised Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013), revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22 issued on September 13, 2013) and revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7 issued on September 13, 2013) and others have been adopted. In accordance with this application, the accounting method has been changed to recognize the difference arising from changes in a parent's ownership interest in a subsidiary that do not result in loss of control as capital surplus, and to recognize acquisition-related costs as expenses in the fiscal period the costs are incurred. In addition, for business combinations carried out on and after April 1, 2015, the accounting method has been changed to reflect adjustments to the amount allocated to acquisition costs arising from the finalization of the provisional accounting treatment on the quarterly consolidated financial statements of the period in which the business combination date falls. In addition, changes have been made in the presentation concerning "net income" as well as "minority interests" to "non-controlling interests." To reflect these changes in presentation, reclassification adjustments have been made to the consolidated financial statements for the six-month period ended September 30, 2014, and the fiscal year ended March 31, 2015.

The aforementioned accounting standards are adopted from the beginning of the first quarter of the fiscal year under review onwards, in accordance with the transitional treatment provided for in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

This change has no impact on profits and losses for the six-month period under review.

III. Consolidated Financial Statements

1. Consolidated balance sheets

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
ASSETS		
Current assets		
Cash	54,854	69,125
Notes and accounts receivable	125,051	123,720
Marketable securities	7,418	7,243
Inventories	77,061	70,990
Other	45,608	46,006
Allowance for doubtful accounts	(3,704)	(3,561)
Total current assets	306,289	313,524
Fixed assets		
Tangible assets	115,701	114,141
Intangible assets	4,299	4,971
Investments and other assets	41,806	42,797
Total fixed assets	161,807	161,910
Total assets	468,097	475,435
LIABILITIES		
Current liabilities		
Accounts payable	70,126	66,889
Short-term borrowings	20,764	20,867
Current portion of long-term borrowings	6,461	10,170
Accrued income taxes	5,929	5,630
Warranty reserve	68,064	75,244
Other	54,542	53,667
Total current liabilities	225,889	232,470
Long-term liabilities		
Bonds	30,000	30,000
Long-term borrowings	28,283	25,271
Deferred income taxes	18,996	19,462
Net defined benefit liability	16,501	15,252
Reserve for directors' retirement benefits	567	569
Other	8,893	3,641
Total long-term liabilities	103,242	94,198
Total liabilities	329,132	326,669

1. Consolidated balance sheets (cont'd.)

Millions of yen, rounded down

	As of September 30, 2015	As of March 31, 2015
NET ASSETS		
Shareholders' equity		
Capital	41,862	41,862
Capital surplus	42,328	42,328
Retained earnings	61,930	67,508
Treasury shares	(0)	(0)
Total shareholders' equity	146,119	151,697
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	6,808	8,368
Deferred losses on hedging instruments	(134)	(1)
Foreign currency translation adjustments	(9,689)	(7,289)
Remeasurements of defined benefit plans	(5,450)	(5,550)
Total accumulated other comprehensive income	(8,466)	(4,473)
Non-controlling interests	1,311	1,542
Total net assets	138,964	148,766
Total liabilities and net assets	468,097	475,435

2. Consolidated statements of operations

Consolidated statements of income

Millions of yen, rounded down

	Six months ended September 30, 2015	Six months ended September 30, 2014
Net sales	359,355	302,021
Cost of sales	300,657	253,374
Gross profit	58,697	48,646
Selling, general and administrative expenses	39,139	33,921
Operating income	19,557	14,725
Non-operating income		
Interest income	379	310
Dividend income	199	180
Foreign exchange gain	—	3,803
Other	340	183
Total non-operating income	919	4,478
Non-operating expenses		
Interest expenses	487	582
Foreign exchange losses	3,430	—
Other	228	443
Total non-operating expenses	4,146	1,025
Ordinary income	16,331	18,177
Special gains		
Gain on sales of investment securities	703	—
Gain on sales of fixed assets	228	—
Total special gains	931	—
Special losses		
Warranty reserve	—	47,626
Recall-related loss	8,627	—
Penalties	8,530	—
Settlement package	885	2,314
Business restructuring loss	130	—
Total special losses	18,174	49,941
Net loss before income taxes	(911)	(31,763)
Total income taxes	4,552	3,492
Net loss	(5,464)	(35,255)
Net income (loss) attributable to non-controlling interests	113	(11)
Net loss attributable to owners of parent	(5,577)	(35,244)

Consolidated statements of comprehensive income

Millions of yen, rounded down

	Six months ended September 30, 2015	Six months ended September 30, 2014
Net loss	(5,464)	(35,255)
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities	(1,560)	724
Deferred gains (losses) on hedging instruments	(132)	592
Foreign currency translation adjustments	(2,528)	2,483
Remeasurements of defined benefit plans	99	75
Total other comprehensive income	(4,121)	3,876
Comprehensive income	(9,585)	(31,379)
Total comprehensive income (loss) attributable to:		
Shareholders of Takata Corporation	(9,570)	(31,445)
Non−controlling interests	(15)	65

3. Consolidated statements of cash flows

Millions of yen, rounded down

	Six months ended September 30, 2015	Six months ended September 30, 2014
Operating activities		
Net loss before income taxes	(911)	(31,763)
Depreciation and amortization	10,712	8,904
Gain on sales of investment securities	(703)	—
Gain on sales of fixed assets	(228)	—
Settlement package	885	2,314
(Decrease) Increase in warranty reserve	(7,235)	40,907
Interest and dividend income	(578)	(491)
Interest expenses	487	582
Increase in notes and accounts receivable	(2,460)	(1,629)
Increase in inventories	(6,461)	(10,326)
Increase (Decrease) in accounts payable	4,048	(507)
Increase in other current assets	(3,553)	(6,071)
(Decrease) Increase in other current liabilities	(1,176)	1,225
Increase (Decrease) in other non-current liabilities	6,163	(447)
Other	5,299	2,490
Subtotal	4,288	5,188
Interest and dividends received	578	491
Interest paid	(503)	(536)
Settlement package paid	(77)	(2,314)
Income taxes paid	(2,969)	(5,838)
Net cash provided by (used in) operating activities	1,316	(3,010)
Investing activities		
Purchases of fixed assets	(14,057)	(14,427)
Proceeds from sales of fixed assets	513	197
Purchases of intangible assets	(371)	(403)
Proceeds from sales of investment securities	979	—
Other	112	(384)
Net cash used in investing activities	(12,823)	(15,018)
Financing activities		
Net (decrease) increase in short-term borrowings	(412)	4,434
Proceeds from long-term borrowings	4,053	—
Repayment of long-term borrowings	(4,828)	(5,536)
Payment of dividends	—	(1,247)
Other	(215)	(128)
Net cash used in financing activities	(1,403)	(2,479)
Effect of exchange rate changes on cash and cash equivalents	(1,015)	1,645
Net decrease in cash and cash equivalents	(13,925)	(18,861)
Cash and cash equivalents at beginning of period	75,672	105,356
Cash and cash equivalents at end of period	61,746	86,494

4. Notes to the consolidated quarterly financial statements

(Items related to assumptions used for going concerns)
No applicable items

(Items related to significant change in shareholders' equity)
No applicable items

(Segment information)

Six-month period ended September 30, 2015

1. Net sales and operating income or loss by reporting segment

Millions of yen, rounded down

	Japan	The Americas	Europe	Asia	Total	Eliminations and Corporate (Note 1)	Consolidated (Note 2)
Net sales							
(1) Sales to external customers	36,727	165,281	85,884	71,461	359,355	—	359,355
(2) Inter-segment sales or transfers	24,187	10,925	6,859	16,717	58,690	(58,690)	—
Total	60,914	176,207	92,744	88,179	418,046	(58,690)	359,355
Segment operating income	2,234	7,652	908	9,304	20,099	(541)	19,557

Notes:

1. In segment operating income, eliminations and corporate of minus ¥541 million includes minus ¥505 million in eliminations of inter-segment sales and minus ¥36 million in goodwill amortization.
2. Segment operating income is based on adjusted operating income as recorded in the consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reporting segment
None

Six-month period ended September 30, 2014

1. Net sales and operating income or loss by reporting segment

Millions of yen, rounded down

	Japan	The Americas	Europe	Asia	Total	Eliminations and Corporate (Note 1)	Consolidated (Note 2)
Net sales							
(1) Sales to external customers	37,013	128,103	78,550	58,354	302,021	—	302,021
(2) Inter-segment sales or transfers	20,878	8,942	6,361	17,074	53,256	(53,256)	—
Total	57,891	137,045	84,911	75,428	355,277	(53,256)	302,021
Segment operating income	3,797	3,278	1,010	7,044	15,131	(405)	14,725

Notes:

1. In segment operating income, eliminations and corporate of minus ¥405 million includes minus ¥369 million in eliminations of inter-segment sales and minus ¥36 million in goodwill amortization.
2. Segment operating income is based on adjusted operating income as recorded in the consolidated statements of income

2. Impairment losses on fixed assets and goodwill by reporting segment
None

(Notes to the quarterly consolidated balance sheets)
Contingent Liability

(1) Market measures (Safety recalls and safety campaigns)

Market measures have been implemented for certain airbag products previously manufactured by TK HOLDINGS INC. ("TKH"), which is the Company's U.S. subsidiary. As a result, a provision for product warranties was recorded to the extent that a reasonable estimate of costs expected to be incurred is possible. It is currently not possible to determine whether and how much additional cost in excess of the provision may arise in the future, since the Company is currently in the process of investigating this matter both on its own and through various discussions with its automotive manufacturer customers.

Further, public hearings were held at the U.S. Congress on two occasions–in November and December 2014–in relation to the market measures of airbags manufactured by Takata. Two additional public hearings were held in June 2015. The U.S. National Highway Traffic Safety Administration (NHTSA) requested that the Company, TKH and their automotive manufacturer customers expand the scope of the safety campaigns that had been limited to areas with high temperature and absolute humidity and conduct a nationwide recall for certain airbag inflators. Automotive manufacturers responded by expanding their safety campaigns to other regions of the United States in the third quarter of the Company's fiscal year ended March 31, 2015. Some automotive manufacturers also have initiated voluntary collections in regions outside of the United States to investigate the possibility of defects and the cause of any such defects. By September 2015, some automotive manufacturers expanded the scope of their market measures in Japan, the United States and other markets. The Group is providing its full support to these expanded efforts. Safety campaigns are conducted by automotive manufacturers as a preventative measure at a stage when the cause of a defect is still unknown, and involve the voluntary recall of vehicles and replacement of the relevant components at no cost to the affected car owners. In cases where these safety campaigns result in the recognition of a defect in Takata's products, there is a possibility that the Group may incur a certain percentage of the costs of these safety campaigns. As investigations into the cause of the problems are ongoing, it is currently not possible to make a reasonable estimate of any amount of costs to be incurred by the Group.

[Agreement with the NHTSA regarding additional market measures in the United States]

TKH mainly has been engaged in efforts and discussions with the NHTSA to address the issue of Takata's airbag inflators. As a result, on May 18, 2015 (U.S. time), TKH entered into a Consent Order with the NHTSA to conduct additional market measures, and in accordance with the Consent Order, TKH filed four Defect Information Reports ("DIRs") on its airbag inflators with the NHTSA on the same day. The DIRs contemplate expanding market measures by automakers, to be overseen by the NHTSA, covering certain types of driver-side and passenger-side inflators. The DIRs describe the results of the investigation so far and the Company's current understanding of the long-term potential for the performance of some inflators to be affected by exposure over several years to persistent conditions of high temperature and humidity, potentially in combination with other factors, including the possibility of manufacturing variability. Under certain circumstances over time, these factors can result in the over-aggressive deployment of some inflators, which may produce a rupture of the inflator housing. In accordance with the Consent Order, TKH, upon mutual consultation with the affected automotive manufacturers, submitted to the NHTSA a plan outlining the measures that will be taken by TKH itself and in cooperation with the affected automotive manufacturers to achieve the purposes of the National Traffic and Motor Vehicle Safety Act of 1966 as well as the Consent Order. The Company and TKH will maintain full cooperation with the NHTSA and automotive manufacturers and ensure swift replacement of inflators in the subject vehicles by accelerating efforts to increase the production of replacement inflators and procure them from other suppliers as a preventive measure with a top priority on driver safety. Meanwhile, the Company will continue to take the necessary measures to identify the underlying cause of this problem. It is currently not possible to estimate the percentage or amount of costs to be incurred by the Company in relation to such market measures.

Depending on future developments in relation to the market measures, there is a possibility that the Company's financial position, financial performance and cash flows may be materially affected.

(2) Lawsuits, etc. arising from airbag defects

In connection with airbags manufactured by Takata, the Company and its US subsidiaries have received notices of a number of proposed class action lawsuits in the U.S. The proposed class action lawsuits filed in federal court have been transferred to the United States District Court for Southern District of Florida for coordinated MDL pre-trial proceedings. An Amended Consolidated Class Action Complaint was filed on April 30, 2015 against the Company and its U.S. subsidiaries. The Company and its U.S. subsidiaries have also received notices of a number of lawsuits in Canada including the proposed class action lawsuits where the plaintiffs have claimed compensatory damages and punitive damages in excess of CA$2.4 billion. Additionally, the U.S. subsidiary of the Company has been subpoenaed by a U.S. federal grand jury to produce documents related to airbags, and also received one or more Special Orders and a General Order from the NHTSA requesting that it submit similar documents. At this stage it is not possible to estimate the likelihood or amount of any damages or penalties, etc., other than the civil penalties described in "Significant subsequent events" arising in connection with these lawsuits, etc. Depending on future developments in relation to such lawsuits, etc., there is a possibility that the Group's financial position, financial performance and cash flows may be affected.

(3) Matters related to U.S. anti-trust laws

During the fiscal year ended March 31, 2014, the Company recorded a special loss in connection with a settlement reached with the U.S. Department of Justice for a breach of U.S. anti-trust laws. The Company and its U.S. subsidiary have also received notifications of class action lawsuits in the U.S. and Canada. It is currently not possible to reasonably estimate the likelihood or amount of any claims for damages arising in connection with this matter.

(Significant subsequent events)

TKH, the Company's U.S. subsidiary, has entered into a new Consent Order with the NHTSA on November 3, 2015 (U.S. time), regarding the issues related to a series of recalls concerning Takata airbags.

As part of the Consent Order, TKH has agreed to pay a civil penalty of US$70 million (recorded as a special loss for the second quarter of the fiscal year under review) in six installments by the end of October 2020, partly because it failed to meet a notice clause of the National Traffic and Motor Vehicle Safety Act of 1966. TKH may become liable for additional civil penalties of up to US$130 million if it fails to meet certain obligations under the Consent Order. Takata has also agreed to implement a series of actions, including the phasing out of the manufacture and sale of non-desiccated Phase Stabilized Ammonium Nitrate (PSAN) Takata inflators by the end of 2018 in accordance with a certain plan. Also, it will not enter into any new contracts to provide PSAN inflators, irrespective of whether or not they use desiccants.

There is a possibility that the phasing out of the manufacture and sale of PSAN Takata inflators on existing contracts and not entering into any new contracts could materially affect the Group's financial position, financial performance and cash flows in the future. However, it is currently not possible to reasonably estimate the amount of such effects.