

## Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 under Japanese GAAP

Company Name : THK CO., LTD.  
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 URL : <http://www.thk.com/>  
 Stock exchange listing : Tokyo Stock Exchange-First Section  
 Code number : 6481  
 Representative : Akihiro Teramachi, President and CEO  
 Contact : Kenji Nakane, Executive Officer, General Manager of Finance and Accounting  
 Department  
 Scheduled date of the ordinary  
 general meeting of shareholders : March 20, 2020  
 Scheduled starting date of  
 dividend payment : March 23, 2020  
 Scheduled date of filing the  
 Securities Report (Japanese  
 version only) : March 23, 2020

### 1. Consolidated Operating Results and Financial Position as of and for the fiscal year ended December 31, 2019 (January 1, 2019 to December 31, 2019)

#### (1) Consolidated Operating Results

Year Ended (Millions of Yen)	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
December 31, 2019	¥277,900	(21.4) %	¥17,265	(65.4) %	¥18,940	(63.4) %	¥9,602	(72.9) %
December 31, 2018	353,479	—	49,832	—	51,758	—	35,400	—
<i>(Note) Comprehensive income</i>	<i>Year ended December 31, 2019</i>		<i>Year ended December 31, 2018</i>		<i>¥7,733 million</i>		<i>(65.3) %</i>	
					<i>22,255 million</i>		<i>—</i>	

Year Ended (Millions of Yen)	Net Income Per Share-Basic	Net Income Per Share-Diluted
December 31, 2019	¥75.87	¥ —
December 31, 2018	279.70	—

Year Ended (Millions of Yen)	Return on Equity (Net income / Shareholders' equity)	Return on Assets (Ordinary income / Total assets)	Operating Income / Net Sales
December 31, 2019	3.4 %	4.1 %	6.2 %
December 31, 2018	12.8	11.5	14.1

*(Note) Equity earnings of affiliates* : *Year ended December 31, 2019* ¥103 million  
*Year ended December 31, 2018* 614 million

(Note) THK changed its closing date of each fiscal year from March 31 to December 31 starting from the fiscal year ended December 31, 2017. The fiscal year ended December 31, 2017 was an irregular accounting period of transition that covered nine months from April 1, 2017 to December 31, 2017; accordingly, the year-on-year percentage changes for the year ended December 31, 2018 in the above table are not presented.

## (2) Consolidated Financial Position

	Total Assets (Millions of Yen)	Net Assets (Millions of Yen)	Net Worth Ratio (%)	Net Assets Per Share (Yen)
As of December 31, 2019	¥459,909	¥294,229	61.6 %	¥2,238.77
As of December 31, 2018	462,931	294,719	61.3	2,240.74

(Note) Net worth ratio is defined as net worth divided by total assets. Net worth consists of shareholders' equity and adjustment/valuation items in net assets.

<i>Net worth</i>	<i>As of December 31, 2019:</i>	<i>¥283,355 million</i>
	<i>As of December 31, 2018:</i>	<i>283,605 million</i>

(Note) Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). The 2018 figures in the above table have been retrospectively adjusted in accordance with the revised standard.

## (3) Consolidated Cash Flows

Year Ended (Millions of Yen)	Net Cash Provided by Operating Activities	Net Cash Used in Investing Activities	Net Cash Provided by (Used in) Financing Activities	Cash and Cash Equivalents, End of Year
December 31, 2019	¥27,177	¥(30,000)	¥19,470	¥149,091
December 31, 2018	55,177	(33,055)	(11,645)	134,513

## 2. Dividends

	Dividend Per Share (Yen)						Total
	First end	Quarter	Second Quarter end	Third end	Quarter	Year/Period end	
Year ended December 31, 2018 (Actual)		—	47.00		—	38.00	85.00
Year ended December 31, 2019 (Actual)		—	24.00		—	8.00	32.00
Year ending December 31, 2020 (Projected)		—	—		—	—	—
	Total Amount of Dividends for the year/period (Millions of Yen)		Payout Ratio (Consolidated)		Cash Dividends / Net Assets (Consolidated)		
Year ended December 31, 2018 (Actual)	10,758		30.4%		3.9%		
Year ended December 31, 2019 (Actual)	4,050		42.2%		1.4%		
Year ending December 31, 2020 (Projected)	n/a		—		n/a		

THK's basic dividend policy is to set its payout ratio on a consolidated basis at 30% and a minimum dividend for a fiscal year at ¥15.00 per share (¥7.5 per share for both interim dividend and year-end dividend). The amounts of dividends for the year ending December 31, 2020 are planned to be determined in accordance with this policy and will be announced as soon as they are determined.



(4) Additional information

Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). In accordance with the revised standard, deferred tax assets and deferred tax liabilities are presented as "investments and other" and "long-term liabilities," respectively, in the consolidated balance sheet. As a result of the retrospective restatement for the figures in the consolidated balance sheet as of December 31, 2018, (a) current deferred tax assets decreased by ¥3,459 million, (b) non-current deferred tax assets increased by ¥3,040 million, (c) current deferred tax liabilities decreased by ¥7 million, and (d) non-current deferred tax liabilities decreased by ¥411 million. Deferred tax assets and liabilities that belong to the same taxable entity are offset resulting in a decrease of ¥418 million in total assets.

## For Reference: Outline of Non-consolidated Financial Statements

### 1. Non-Consolidated Operating Results and Financial Position as of and for the year ended December 31, 2019 (January 1, 2019 to December 31, 2019)

#### (1) Operating Results

Year Ended (Millions of Yen)	Net Sales		Operating Income		Ordinary Income		Net Income	
December 31, 2019	¥136,189	(26.9) %	¥11,933	(65.6) %	¥15,746	(59.7) %	¥7,559	(73.0) %
December 31, 2018	186,311	—	34,699	—	39,053	—	28,035	—
Year Ended March 31 (Yen)	Net Income Per Share-Basic		Net Income Per Share-Diluted					
December 31, 2019	¥59.72		¥ —					
December 31, 2018	221.50		—					

(Note) THK changed its closing date of each fiscal year from March 31 to December 31 starting from the fiscal year ended December 31, 2017. The fiscal year ended December 31, 2017 was an irregular accounting period of transition that covered nine months from April 1, 2017 to December 31, 2017; accordingly, the year-on-year percentage changes for the year ended December 31, 2018 in the above table are not presented.

#### (2) Financial Position

	Total Assets (Millions of Yen)	Net Assets (Millions of Yen)	Net Worth Ratio (%)	Net Assets Per Share (Yen)
As of December 31, 2019	¥373,849	¥245,086	65.6 %	¥1,936.36
As of December 31, 2018	374,844	244,616	65.3	1,932.63

(Note) Net worth ratio is defined as net worth divided by total assets. Net worth consists of shareholders' equity and adjustment/valuation items in net assets.

Net worth	As of December 31, 2019:	¥245,086 million
	As of December 31, 2018:	244,616 million

(Note) Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). The 2018 figures in the above table have been retrospectively adjusted in accordance with the revised standard.

### 2. Non-Consolidated forecasts for the year ending December 31, 2020 (January 1, 2020 to December 31, 2020)

	Revenue (Millions of Yen)	Operating Income (Millions of Yen)	Profit before Tax (Millions of Yen)	Profit Attributable to Owners of the Parent (Millions of Yen)	Profit per Share (Yen)
Six-month period ending June 30, 2020					
(amount)	¥56,000	¥1,300	¥2,200	¥1,800	¥14.22
(percentage)	(25.6)%	(84.5)%	(79.8)%	(78.7)%	n/a
Year ending December 31, 2020					
(amount)	¥125,000	¥7,400	¥8,900	¥6,800	¥53.72
(percentage)	(8.2)%	(38.0)%	(43.5)%	(10.0)%	n/a

## Management's Discussion and Analysis

### 1. Outline of operating results

#### (1) Operating results for the year (from January 1, 2019 to December 31, 2019)

In this year, while signs of economic slowdown were spreading mainly in China because of the US-China trade friction, there were growing concerns of the global economic slowdown. In Japan, uncertainty was spreading in the economy; exports and production weakened due to the declining demand from China and other countries.

The THK Group has identified "Full-Scale Globalization," the "Development of New Business Areas," and "Change in Business Style" as cornerstones of its growth strategy to expand the markets of its products such as LM Guide (Linear Motion Guide). As to Full-Scale Globalization, while the markets in emerging countries such as China are growing by dint of the factory automation progress, which is also spreading to developed-country users, the THK Group endeavors to expand its global sales network to meet such demand. Regarding Development of New Business Areas, while the THK Group's products are getting widely adopted in various business fields, the THK Group is working on expanding sales of not only existing products but also new developed products. Such business fields include automobile parts, medical equipment, aircraft, and robot, which are close to consumer goods, as well as seismic isolation and damping systems and renewable energy, which offer products that reduce risks arising from natural disasters and climate change. In addition to promoting these strategies above, the THK Group is also committed to further expand its business fields by changing its business style enabled by making full use of AI and robot technologies in many ways.

In such a situation where overall demand was in an adjustment phase due to the US-China trade friction, the THK Group captured the demand, which had been accumulated at a high level before entering the adjustment phase. The sales, however, amounted to ¥277,900 million, down ¥75,579 million, or 21.4%, compared to the figure a year earlier, which was robust.

On the cost front, the THK Group continued to implement various activities to improve its productivity and to mitigate the decline in profitability. The cost to sales ratio, however, rose 4.6% from a year earlier to 75.7% due to the sharp decrease in sales.

Selling, general and administrative expenses amounted to ¥50,211 million, down ¥2,254 million, or 4.3%, compared to the figure a year earlier. This was mainly attributable to the THK Group's endeavors to contain costs and improve operating efficiency as well as the decreased sales. The ratio to net sales, however, worsened by 3.3% from a year earlier to 18.1%

As a result, operating income decreased from a year earlier by ¥32,566 million, or 65.4%, to ¥17,265 million. Ratio to net sales dropped by 7.9% to 6.2%.

Total non-operating income was ¥3,263 million of which major component was ¥907 million of interest income. Total non-operating expenses were ¥1,589 million of which major components were ¥294 million of interest expenses and ¥183 million of foreign exchange loss—net.

As a result, ordinary income decreased from a year earlier by ¥32,818 million, or 63.4%, to ¥18,940 million.

For certain fixed assets owned by THK RHYTHM AUTOMOTIVE CANADA LIMITED, a consolidated subsidiary of THK who is engaged in the transportation equipment business, the THK Group reviewed for impairment in accordance with "Guidance for Accounting Standard for Impairment of Fixed Assets" because there were indications of impairment arising from decline in profitability due to the deterioration in market conditions. As a result, the carrying amounts of such fixed assets were written down to their recoverable amounts and the THK Group recorded an impairment loss of ¥2,137 million as an extraordinary loss.

As a result, net income attributable to owners of the parent decreased from a year earlier by ¥25,798 million, or 72.9%, to ¥9,602 million.

## **(2) Operating results by segment**

### **(Japan)**

In Japan, while exports and production weakened due to the declining demand from China and other countries led by the US-China trade friction, the THK Group successfully generated sales by capturing demand which was favorable overall. Sales, however, decreased by ¥40,583 million, or 25.2%, to ¥120,159 million. Operating income (segment income) decreased by ¥24,946 million, or 64.9%, to ¥13,514 million due to the decreased sales.

### **(The Americas)**

In the Americas, while the economy continued its growth trend led by its domestic demand, the production and sales sections worked in unison to expand and deepen transactions with existing customers and to cultivate new business fields such as automobile, medical equipment, aircraft, and energy-related business. However, sales decreased by ¥11,401 million, or 16.3%, to ¥58,480 million due to the adjustment phase of demand mainly for electronics products. In addition to the decreased sales, the profitability of the transportation equipment business declined due mainly to the higher material costs and unexpected costs incurred for launching new forged aluminum products. As a result, the THK Group recorded ¥611 million of operating loss (segment loss), a turnaround of ¥920 million.

### **(Europe)**

In Europe, while there were weaknesses in exports and production mainly because of the US-China trade friction, the moderate economic growth continued because of the domestic demand mainly for consumer spending. In such a situation, the production and sales sections proactively worked in unison to expand transactions with existing customers and to cultivate new business fields such as automobile, medical equipment, aircraft and robot. Sales, however, decreased by ¥4,339 million, or 7.3%, to ¥55,143 million. As a result, the THK Group recorded ¥440 million of operating loss (segment loss), a turnaround of ¥515 million, mainly due to the decreased sales.

### **(China)**

In China, while adjustment phases caused by the US-China trade friction concern were widely seen in capital investments, the THK Group captured the growing demand for electronics products and automation and robotization-related products. Sales, however, decreased by ¥15,884 million, or 34.0%, to ¥30,851 million. Operating income (segment income) decreased by ¥5,791 million, or 70.7%, to ¥2,402 million due to the decreased sales.



(Other)

In other countries and regions, the THK Group continued to expand and deepen transactions with existing customers and to cultivate new customers while demand for THK Group's products was widely expanded in India and the ASEAN countries. Sales, however, decreased by ¥3,370 million, or 20.3%, to ¥13,265 million, mainly owing to the decreased demand in China that unfavorably affected the sales in some countries. Operating income (segment income) decreased by ¥1,245 million, or 52.3%, to ¥1,138 million due to the decreased sales.

## 2. Financial position (As of December 31, 2019)

Total assets stood at ¥459,909 million, ¥3,022 million less than the previous fiscal year-end, due mainly to a combined effect of increase in (1) cash and bank deposits by ¥14,577 million, (2) merchandise and finished goods by ¥1,482 million, (3) buildings and structures—net by ¥8,804 million, and (4) machinery and equipment—net by ¥7,418 million and decrease in (1) accounts and notes receivable by ¥20,309 million, (2) electronically recorded monetary claims by ¥8,572 million, (3) work in process by ¥1,658 million, (4) raw materials and supplies by ¥1,769 million, and (5) construction in progress by ¥3,945 million.

Total liabilities stood at ¥165,679 million, ¥2,532 million less than the previous fiscal year-end, due mainly to a combined effect of increase in (1) bonds by ¥20,000 million and (2) long-term bank loans by ¥7,814 million and decrease in (1) accounts and notes payable by ¥4,242 million, (2) electronically recorded obligations by ¥10,757 million, and (3) income taxes payable by ¥11,561 million.

Net assets stood at ¥294,229 million, ¥489 million less than the previous fiscal year-end, due mainly to a combined effect of increase in retained earnings by ¥1,754 million and decrease in foreign currency translation adjustments by ¥3,342 million.

### For reference: Cash Flow Indices

	<u>Year ended March 31</u>		<u>Year ended December 31</u>		
	2016	2017	2017	2018	2019
Net Worth / Total Assets (%)	60.7	60.0	62.0	61.3	61.6
Market Capitalization / Total Assets (%)	68.1	90.4	129.7	59.6	86.4
Interest-bearing Debt / Operating Cash Flow (years)	4.3	2.1	2.7	1.2	3.5
Operating Cash Flow / Interest Paid (times)	46.3	101.1	71.1	215.3	92.4

(Note 1) All indices are computed based on the consolidated data.

(Note 2) Market capitalization equals the stock price at the end of year multiplied by the number of issued shares at the end of year.

### 3. Outlook

Considering the latest demand situation in the industrial machinery business that remains at a low level and uncertainties in the outlook of the external environment, THK expects ¥264,000 million of revenue for the year ending December 31, 2020. In terms of profitability, because of the lower sales and unfavorable effects of foreign exchange rate fluctuation, THK expects ¥11,400 million of operating income, ¥11,600 million of profit before tax, and ¥7,000 million of profit for the year attributable to the owners of the parent despite the continuous efforts to implement more effective cost control. The estimated effect of the coronavirus has been incorporated in the forecasts determination to the maximum extent possible as of February 10, 2020.

Year ending December 31, 2020 (Consolidated)

	Revenue	Operating Income	Profit before Tax	Profit for the Year
Millions of Yen	264,000	¥11,400	¥11,600	¥7,000
Component Ratio	100.0%	4.3%	4.4%	2.7%
Percentage Change	—%	—%	—%	—%

(Note): Since THK decided to voluntarily adopt International Financial Reporting Standards ("IFRS") starting from the consolidated financial statements to be included in the Securities Report for the year ended December 31, 2019, forecasts for the year ending December 31, 2020 has been determined in accordance with IFRS. Therefore, the estimated year-on-year percentage changes from the actual operating results for the year ended December 31, 2019 under Japanese GAAP are not presented.

Average exchange rates assumed and used for the above forecasts are as follows:

U.S. dollar 1=¥105.00      Euro 1=¥117.00

### 4. Basic policies regarding distribution of profits and dividends

Not only its basic policy which is to provide shareholders with stable and continuous dividends, THK also places priority on providing shareholders with proactive distribution of profit befitting operating results, simultaneously strengthening its financial soundness by securing internal reserve. According to this policy, THK sets its payout ratio on a consolidated basis at 30% and a minimum dividend for a fiscal year at ¥15.00 per share (¥7.5 per share for both interim dividend and year-end dividend). THK plans to make effective use of internal reserve by investing it to research and development activities, production facilities, and IT systems, to respond globalization.

In accordance with these policies, the Company plans ¥8.00 per share for the year-end dividends. As a result, cash dividends applicable for the year ended December 31, 2019 will be ¥32.00 per share, including the interim dividends of ¥24.00 per share.

The amounts of dividends for the year ending December 31, 2020 are planned to be determined in accordance with these policies.

### **Application of Accounting Standards**

THK decided to voluntarily adopt IFRS in place of the currently applied Japanese GAAP in order to improve the international comparability of financial information in capital market and to enhance its business management by unifying accounting standards across THK group.

THK will disclose its financial information under IFRS starting from the consolidated financial statements to be included in the Securities Report for the year ending December 31, 2019.

## Consolidated Financial Statements

### Consolidated Balance Sheets

(Millions of Yen)

	Year End -Previous Year As of December 31, 2018	Year End -Current Year As of December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and bank deposits	¥134,513	¥149,091
Accounts and notes receivable	69,722	49,413
Electronically recorded monetary claims	22,973	14,400
Merchandise and finished goods	18,625	20,108
Work in process	10,815	9,156
Raw materials and supplies	20,624	18,855
Short-term loans receivable	3	2
Other current assets	7,737	10,815
Less: Allowance for bad debts	(134)	(79)
Total current assets	284,881	271,764
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	71,113	81,997
Accumulated depreciation	(41,587)	(43,667)
Buildings and structures-net	29,525	38,329
Machinery, equipment and vehicles	198,123	214,136
Accumulated depreciation and impairment losses	(135,388)	(143,982)
Machinery, equipment and vehicles-net	62,735	70,153
Land	13,797	13,758
Construction in progress	19,720	15,774
Other	21,826	24,708
Accumulated depreciation and impairment losses	(17,909)	(19,524)
Other-net	3,917	5,183
Total property, plant and equipment –net	129,695	143,200
Intangibles		
Goodwill	10,003	9,002
Other	18,102	15,923
Total intangibles	28,106	24,946
Investments and other		
Long-term investments in securities	9,665	10,669
Net defined benefit asset	1,569	1,869
Deferred tax assets	4,594	3,061
Other	4,502	4,459
Less: Allowance for bad debts	(83)	(61)
Total investments and other	20,248	19,997
Total fixed assets	178,049	188,144
Total assets	462,391	459,909

(Millions of Yen)

	Year End -Previous Year As of December 31, 2018	Year End -Current Year As of December 31, 2019
<b>Liabilities</b>		
Current liabilities:		
Accounts and notes payable	¥22,084	¥17,842
Electronically recorded obligations	26,938	16,181
Current portion of long-term bonds	—	20,000
Current portion of Long-term bank loans	12,185	2,185
Lease obligation	85	244
Income taxes payable	12,271	709
Accrued bonuses to employees	3,899	3,306
Other	20,764	16,828
Total current liabilities	98,230	77,298
Long-term liabilities:		
Bonds	40,000	40,000
Long-term bank loans	15,295	33,110
Lease obligation	121	784
Deferred tax liabilities	5,079	5,554
Reserve for retirement benefits for directors and corporate auditors	131	104
Reserve for product warranty	112	6
Net defined benefit liability	7,908	7,438
Other	1,334	1,381
Total long-term liabilities	69,982	88,381
Total liabilities	168,212	165,679
<b>Net assets</b>		
Shareholders' equity:		
Common stock	34,606	34,606
Additional paid-in capital	40,420	40,413
Retained earnings	220,787	222,542
Treasury stock	(14,002)	(14,004)
Total shareholders' equity	281,811	283,557
Accumulated other comprehensive income:		
Net unrealized gain on available-for-sale securities	1,102	1,881
Foreign currency translation adjustments	2,755	(586)
Remeasurements of defined benefit plans	(2,063)	(1,497)
Total accumulated other comprehensive income (loss)	1,794	(202)
Non-controlling Interests	11,113	10,873
Total net assets	294,719	294,229
Total liabilities and net assets	462,931	459,909

## Consolidated Statements of Income

(Millions of Yen)

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Net sales	¥353,479	¥277,900
Cost of sales	251,181	210,423
Gross profit	102,298	67,477
Selling, general and administrative expenses:		
Freight expenses	5,057	4,732
Advertisement expenses	1,387	1,461
Salaries and benefits	16,257	16,025
Accrual for bonuses	1,574	1,271
Net periodic retirement costs	539	623
Rent expenses	2,742	2,551
Depreciation and amortization	2,620	2,858
Research and development	5,149	5,182
Amortization of goodwill	887	840
Other	16,248	14,664
Total selling, general and administrative expenses	52,465	50,211
Operating income	49,832	17,265
Non-operating income:		
Interest income	772	907
Dividend income	102	102
Equity earnings of affiliates	614	103
Rent income	390	374
Other	2,123	1,775
Total non-operating income	4,003	3,263
Non-operating expenses:		
Interest expenses	256	294
Foreign exchange loss, net	1,178	183
Loss from a disaster	—	181
Other	644	930
Total non-operating expenses	2,078	1,589
Ordinary income	51,758	18,940

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Extraordinary gain:		
Gain on sales of property, plant and equipment	¥88	¥34
Total extraordinary gain	88	34
Extraordinary losses:		
Loss on sales of property, plant and equipment	31	75
Loss on disposal of property, plant and equipment	285	289
Impairment losses	—	2,137
Total extraordinary losses	316	2,502
Income before income taxes	51,529	16,471
Income taxes-current	16,097	5,176
Income taxes-deferred	(585)	1,475
Total income taxes	15,511	6,652
Net income	36,017	9,819
Net income attributable to non-controlling interests	617	217
Net income attributable to owners of the parent	35,400	9,602

## Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Net income	¥36,017	¥9,819
Other comprehensive income:		
Net unrealized gain (loss) on available-for-sale securities	(1,734)	778
Foreign currency translation adjustments	(11,376)	(2,932)
Remeasurements of defined benefit plans	(935)	464
Share of other comprehensive income (losses) of affiliates accounted under the equity method	284	(397)
Total other comprehensive loss	(13,762)	(2,086)
Comprehensive income	22,255	7,733
Attributable to:		
Owners of the parent	21,969	7,605
Non-controlling interests	286	127



## Consolidated Statements of Changes in Net Assets

(Millions of Yen)

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
<b>Shareholders' equity</b>		
Common stock		
Beginning balance	¥34,606	¥34,606
Ending balance	34,606	34,606
Additional paid-in capital		
Beginning balance	40,440	40,420
Change in the year:		
Change in the parent's ownership interest due to transaction with non-controlling interests	(20)	(6)
Total change in the year	(20)	(6)
Ending balance	40,420	40,413
Retained earnings		
Beginning balance	194,626	220,787
Change in the year:		
Dividends paid	(9,239)	(7,847)
Net income attributable to owners of the parent	35,400	9,602
Total change in the year	26,161	1,754
Ending balance	220,787	222,542
Treasury stock		
Beginning balance	(13,998)	(14,002)
Change in the year:		
Purchase of treasury stocks	(4)	(1)
Total change in the year	(4)	(1)
Ending balance	(14,002)	(14,004)
Total shareholders' equity		
Beginning balance	255,675	281,811
Change in the year:		
Dividends paid	(9,239)	(7,847)
Net income	35,400	9,602
Purchase of treasury stocks	(4)	(1)
Change in the parent's ownership interest due to transaction with non-controlling interests	(20)	(6)
Total change in the year	26,135	1,746
Ending balance	281,811	283,557

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
<b>Other comprehensive income</b>		
Net unrealized gain on available-for-sale securities		
Beginning balance	¥2,847	¥1,102
Net change in the year		
Net changes in the items other than shareholders' equity	(1,744)	779
Total change in the year	(1,744)	779
Ending balance	1,102	1,881
Foreign currency translation adjustments		
Beginning balance	13,459	2,755
Net change in the year		
Net changes in the items other than shareholders' equity	(10,704)	(3,342)
Total change in the year	(10,704)	(3,342)
Ending balance	2,755	(586)
Remeasurements of defined benefit plans		
Beginning balance	(1,033)	(2,063)
Net change in the year		
Net changes in the items other than shareholders' equity	(1,030)	566
Total change in the year	(1,030)	566
Ending balance	(2,063)	(1,497)
Total other comprehensive income (loss)		
Beginning balance	15,272	1,794
Net change in the year		
Net changes in the items other than shareholders' equity	(13,478)	(1,996)
Total change in the year	(13,478)	(1,996)
Ending balance	1,794	(202)
<b>Non-controlling interests</b>		
Beginning balance	10,806	11,113
Net change in the year		
Net changes in the items other than shareholders' equity	306	(239)
Total change in the year	306	(239)
Ending balance	11,113	10,873

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
<b>Total net assets</b>		
Beginning balance	281,754	294,719
Change in the year:		
Dividends paid	(9,239)	(7,847)
Net income	35,400	9,602
Purchase of treasury stocks	(4)	(1)
Change in the parent's ownership interest due to transaction with non-controlling interests	(20)	(6)
Net changes in the items other than shareholders' equity	(13,171)	(2,236)
Total change in the year	12,964	(489)
Ending balance	294,719	294,229

## Consolidated Statements of Cash Flows

(Millions of Yen)

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Cash flows from operating activities :		
Income before income taxes	¥51,529	¥16,471
Depreciation and amortization	15,562	16,931
Impairment losses	—	2,137
Loss on sale/disposal of property, plant and equipment	228	330
Increase (decrease) in provisions	938	(783)
Decrease in net defined benefit liability	(231)	(38)
Interest and dividend income	(875)	(1,010)
Interest expenses	256	294
Foreign exchange loss	2,970	583
Equity in earnings of affiliates	(614)	(103)
Amortization of goodwill	887	840
Decrease (Increase) in trade receivables	(7,547)	28,671
Decrease (Increase) in inventories	(7,958)	1,615
Increase (decrease) in trade payables	3,624	(14,978)
Other	1,677	(5,550)
Subtotal	60,447	45,411
Interest and dividend received	872	1,004
Interest paid	(253)	(305)
Income taxes paid	(5,888)	(18,933)
Net cash provided by operating activities	55,177	27,177
Cash flows from investing activities :		
Purchase of property, plant and equipment	(31,412)	(29,658)
Proceeds from sale of property, plant and equipment	186	51
Purchase of investments in securities	(250)	(325)
Increase in loans receivable	(1,597)	(10)
Payment for insurance reserves	(207)	(60)
Other	226	2
Cash flows used in investing activities	(33,055)	(30,000)

	Year Ended December 31, 2018 (From January 1, 2018 to December 31, 2018)	Year Ended December 31, 2019 (From January 1, 2019 to December 31, 2019)
Cash flows from financing activities:		
Proceeds from long-term bank loans	¥—	¥20,000
Repayments of long-term bank loans	(2,185)	(12,185)
Redemption of bonds	(20,000)	—
Proceeds from issuance of bonds	20,000	20,000
Dividends paid	(9,326)	(7,944)
Dividends paid to non-controlling shareholders	(8)	(106)
Purchase of treasury stocks	(4)	(1)
Repayments of lease obligations	(121)	(291)
Net cash provided by (used in) financing activities	(11,645)	19,470
Foreign currency translation adjustments on cash and cash equivalents	(5,883)	(2,069)
Net increase in cash and cash equivalents	4,592	14,577
Cash and cash equivalents, beginning of the year	129,920	134,513
Cash and cash equivalents, end of the year	134,513	149,091

## Information on Impairment Losses

### For the year ended December 31, 2018 (January 1, 2018 to December 31, 2018)

Not applicable.

### For the year ended December 31, 2019 (January 1, 2019 to December 31, 2019)

The THK Group recorded an impairment loss for the following assets:

Location	Usage	Category	Impairment Loss (Millions of Yen)
City of St. Catharines, Ontario, Canada	Operating asset	Machinery and equipment	¥1,927
		Other	209
	Total		2,137

In principle, fixed assets of the THK Group are classified into asset groups based on the managerial accounting units.

During the year ended December, 31, 2019, the THK Group determined that the carrying amounts of certain operating assets of THK RHYTHM AUTOMOTIVE CANADA LIMITED, a consolidated subsidiary, were unrecoverable due to decline in profitability. As a result, the carrying amounts of such fixed assets were written down to their recoverable amounts and the difference was recorded as an impairment loss.

The recoverable amounts of operating assets are measured at their net realizable value determined based on real estate appraisal values.

## Segment Information

THK's reportable segments are components of THK Group for which respective financial information is separately available. Operating results of each segment is reviewed periodically by the Board of Directors to determine allocation of operating resources and evaluate its performance.

THK Group's main products are machinery parts such as LM (linear motion) guides and ball screws, and transportation equipment-related parts such as link balls and suspension ball joints. In each country, local subsidiaries establish their comprehensive business strategies and conduct their business activities in a similar way that THK and domestic subsidiaries do in Japan.

Therefore, the reportable segment information consists of the five geographical segments, namely; (1) Japan, (2) The Americas (the United States and others), (3) Europe (Germany, France and others), (4) China, and (5) Other (Taiwan, Singapore and others) based on the Group's production/sales structure.

Segment income is computed based on operating income. The reportable segment information is prepared under the same accounting policies as those used in consolidation. Inter-segment sales and transfer are stated at amounts based on their fair market values. All adjustments in the following tables are intersegment elimination on consolidation.

**For the year ended December 31, 2018 (January 1, 2018 to December 31, 2018)**

	(Millions of Yen)							
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥160,742	¥69,882	¥59,482	¥46,735	¥16,636	¥-	¥353,479	
Inter-segment	58,600	225	161	7,502	1,898	(68,388)	-	
<b>Total</b>	<b>219,343</b>	<b>70,107</b>	<b>59,644</b>	<b>54,238</b>	<b>18,534</b>	<b>(68,388)</b>	<b>353,479</b>	
Operating income	38,460	309	74	8,194	2,384	408	49,832	
Assets	403,763	70,515	112,708	64,767	21,162	(209,986)	462,931	
Other items								
Depreciation and amortization	5,480	3,082	2,629	3,406	426	(63)	14,962	
Amortization of goodwill	-	159	728	-	-	-	887	
Investments to affiliates accounted under the equity method	5,659	-	-	-	-	-	5,659	
Capital expenditures	17,547	3,653	3,208	5,204	3,057	459	33,131	

(Note) All adjustments are intercompany elimination.

**For the year ended December 31, 2019 (January 1, 2019 to December 31, 2019)**

	(Millions of Yen)							
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥120,159	¥58,480	¥55,143	¥30,851	¥13,265	¥-	¥277,900	
Inter-segment	48,470	146	269	4,635	1,695	(55,217)	-	
<b>Total</b>	<b>168,629</b>	<b>58,627</b>	<b>55,413</b>	<b>35,486</b>	<b>14,961</b>	<b>(55,217)</b>	<b>277,900</b>	
Operating income (loss)	13,514	(611)	(440)	2,402	1,138	1,262	17,265	
Assets	404,028	67,498	100,943	66,683	24,720	(203,965)	459,909	
Other items								
Depreciation and amortization	6,453	3,112	2,751	3,539	552	(74)	16,335	
Amortization of goodwill	-	156	683	-	-	-	840	
Investments to affiliates accounted under the equity method	5,280	-	-	-	-	-	5,280	
Capital expenditures	17,353	5,037	3,170	5,086	4,801	(1,642)	33,807	

(Note) All adjustments are intercompany elimination.



**Additional notes:**

Going concern issues: Not applicable.

**Other Information**

All the figures in this report except per share information are rounded down to the nearest million.

This information is summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange in accordance with its disclosure rules and presentation manners, which are different from those applied in the annual reports of THK due to reclassification and rearrangement made therein. This English translation is intended solely for the convenience of readers, and not intended in any way to substitute or replace the original Japanese version. If there is any discrepancy between the original Japanese version and this translation, the original Japanese version shall supersede all information in this translation. All the figures in this report are unaudited.