

Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 under IFRS

Company Name	THK CO., LTD.
Head Office	Tokyo, Japan (Tel: +81-3-5730-3911)
URL	http://www.thk.com/
Stock exchange listing	Tokyo Stock Exchange-First Section
Code number	6481
Representative	Akihiro Teramachi, President and CEO
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Date of the ordinary general meeting of shareholders	March 20, 2020
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 December 31	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)		Total Comprehensive Income (Millions of Yen)	
2019	¥274,599	(20.3)%	¥18,277	(65.4)%	¥18,168	(65.2)%	¥11,690	(67.6)%	¥10,116	(57.0)%
2018	344,718	—	52,848	—	52,262	—	36,100	—	23,552	—

Year Ended December 31	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)	Profit Ratio to Equity Attributable to Owners of the Parent	Profit Before Tax Ratio to Total Assets	Operating Margin
2019	¥92.37	—	4.2%	3.9%	6.7%
2018	285.23	—	13.3	11.4	15.3

(For Reference) Share of profit in investments accounted for using the equity method:

Year ended December 31, 2019 ¥103 million
 Year ended December 31, 2018 614 million

(2) Consolidated Financial Position

As of December 31	Total Assets (Millions of Yen)	Total Equity (Millions of Yen)	Equity Attributable to Owners of the Parent (Millions of Yen)	Ratio of Equity Attributable to Owners of the Parent	Equity Attributable to Owners of the Parent (Yen)
2019	¥468,945	¥291,132	¥280,344	59.8%	¥2,214.98
2018	471,369	289,278	278,217	59.0	2,198.17

(3) Consolidated Cash Flows

Year Ended December 31	Net Cash Flows from Operating Activities (Millions of Yen)	Net Cash Flows from Investing Activities (Millions of Yen)	Net Cash Flows from Financing Activities (Millions of Yen)	Cash and Cash Equivalents at the End of Year (Millions of Yen)
2019	¥28,383	¥(30,040)	¥18,304	¥149,091
2018	56,500	(32,971)	(13,053)	134,513

2. Dividends

	Dividend Per Share (Yen)				
	First Quarter end	Second Quarter end	Third Quarter end	Year/Period end	Total
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 / Equity Attributable to Owners of the Parent (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.

3. 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	¥124,000	—%	¥1,700	—%	¥1,900	—%	¥200	—%	¥1.58
Year ending December 31, 2020	264,000	(3.9)	11,400	(37.6)	11,600	(36.2)	7,000	(40.1)	55.31

Other Financial Information

(1) Significant change in scope of consolidation: None

(2) Changes in accounting policy and estimates, and restatement due to:

- | | |
|------------------------------------|------|
| a. Changes in accounting standards | None |
| b. Other changes | None |
| c. Changes in accounting estimates | None |

(3) Number of shares

		(shares)
a. Common stock issued, including treasury stock, as of:	December 31, 2019	133,856,903
	December 31, 2018	133,856,903
b. Treasury stock as of:	December 31, 2019	7,289,461
	December 31, 2018	7,288,846
c. Average number of common stock for the year ended:	December 31, 2019	126,567,842
	December 31, 2018	126,568,475

For Reference: Outline of Non-consolidated Financial Statements under Japanese GAAP

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)

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

Consolidated Financial Statements

Consolidated Statements of Financial Position

(Millions of Yen)

	As of January 1, 2018 (Date of Transition to IFRSs)	As of December 31, 2018	As of December 31, 2019
Assets:			
Current assets:			
Cash and cash equivalents	¥129,920	¥134,513	¥149,091
Trade and other receivables	86,839	92,561	63,734
Inventories	43,802	50,065	48,120
Other financial assets	3	3	2
Other current assets	8,071	7,737	10,815
Total current assets	<u>268,637</u>	<u>284,881</u>	<u>271,764</u>
Non-current assets:			
Property, plant and equipment	127,236	141,716	155,055
Goodwill and intangible assets	26,399	23,501	21,440
Investments accounted for using the equity method	5,290	5,825	5,280
Other financial assets	9,763	8,631	9,991
Deferred tax assets	3,249	5,112	3,407
Net defined benefit asset	2,295	1,569	1,869
Other non-current assets	176	131	135
Total non-current assets	<u>174,411</u>	<u>186,488</u>	<u>197,180</u>
Total assets	<u><u>443,049</u></u>	<u><u>471,369</u></u>	<u><u>468,945</u></u>

(Millions of Yen)

	As of January 1, 2018 (Date of Transition to IFRSs)	As of December 31, 2018	As of December 31, 2019
Liabilities and equity:			
Liabilities:			
Current liabilities:			
Trade and other payables	¥54,915	¥59,578	¥42,825
Bonds and borrowings	22,359	12,208	22,228
Other financial liabilities	3,694	2,962	2,417
Income taxes payable	1,673	12,271	709
Other current liabilities	12,307	12,970	10,483
Total current liabilities	94,950	99,991	78,663
Non-current liabilities:			
Bonds and borrowings	48,088	55,360	73,041
Other financial liabilities	10,818	11,212	11,056
Net defined benefit liabilities	7,389	7,908	7,438
Provisions	291	307	176
Deferred tax liabilities	5,136	5,498	5,468
Other non-current liabilities	1,654	1,811	1,968
Total non-current liabilities	73,378	82,100	99,149
Total Liabilities	168,329	182,091	177,813
Equity			
Common stock	34,606	34,606	34,606
Capital surplus	40,440	40,420	40,413
Retained earnings	200,069	226,358	230,927
Treasury stock	(13,998)	(14,002)	(14,004)
Other components of equity	2,847	(9,164)	(11,598)
Total equity attributable to owners of the parent	263,965	278,217	280,344
Non-controlling interests	10,754	11,060	10,787
Total Equity	274,720	289,278	291,132
Total liabilities and equity	443,049	471,369	468,945

Consolidated Statements of Profit or Loss

(Millions of Yen)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Revenue	¥344,718	¥274,599
Cost of sales	242,733	207,130
Gross profit	101,985	67,469
Selling, general and administrative expenses	51,511	49,437
Other income	2,605	2,184
Other expenses	845	2,042
Share of profit in investments accounted for using the equity method	614	103
Operating income	52,848	18,277
Financial income	875	1,010
Financial costs	1,461	1,119
Profit before tax	52,262	18,168
Income tax expense	15,545	6,301
Profit for the year	<u>36,716</u>	<u>11,866</u>
Attributable to:		
Owners of the parent	36,100	11,690
Non-controlling interests	616	175
Total	<u>36,716</u>	<u>11,866</u>
Earnings per share:		
Basic(Yen)	285.23	92.37
Diluted(Yen)	—	—

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Profit for the year	¥36,716	¥11,866
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Financial assets measured at fair value through other comprehensive income	(1,734)	778
Remeasurements of defined benefit plans	(455)	658
Share of other comprehensive income (losses) of associates accounted under the equity method	(104)	102
Subtotal	(2,295)	1,539
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(11,257)	(2,789)
Share of other comprehensive income (losses) of associates	388	(499)
Subtotal	(10,869)	(3,289)
Other comprehensive income, net of tax	(13,164)	(1,749)
Comprehensive income	23,552	10,116
Attributable to:		
Owners of the parent	23,517	9,982
Non-controlling interests	35	134
Total	23,552	10,116

Consolidated Statements of Changes in Equity

(Millions of Yen)

Year Ended December 31, 2018	Equity attributable to owners of the parent				Other components of equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on
					translating foreign operations
Beginning balance	¥34,606	¥40,440	¥200,069	¥(13,998)	¥—
Profit for the year	—	—	36,100	—	—
Other comprehensive income	—	—	—	—	(10,267)
Total comprehensive income for the year	—	—	36,100	—	(10,267)
Purchase of treasury stock	—	—	—	(4)	—
Payment of dividends	—	—	(9,239)	—	—
Transfer from other components of equity to retained earnings	—	—	(572)	—	—
Other	—	(20)	—	—	—
Total transactions with owners	—	(20)	(9,811)	(4)	—
Ending balance	<u>34,606</u>	<u>40,420</u>	<u>226,358</u>	<u>(14,002)</u>	<u>(10,267)</u>

	Equity attributable to owners of the parent				Other components of equity	
	Financial assets measured at fair value through other comprehensive income				Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Subtotal	Total			
Beginning balance	¥—	¥2,847	¥263,965	¥10,754	¥274,720	
Profit for the year	—	—	36,100	616	36,716	
Other comprehensive income	(572)	(1,744)	(12,583)	(580)	(13,164)	
Total comprehensive income for the year	(572)	(1,744)	23,517	35	23,552	
Purchase of treasury stock	—	—	(4)	—	(4)	
Payment of dividends	—	—	(9,239)	—	(9,239)	
Transfer from other components of equity to retained earnings	572	572	—	—	—	
Other	—	—	(20)	270	249	
Total transactions with owners	572	572	(9,265)	270	(8,994)	
Ending balance	<u>—</u>	<u>(9,164)</u>	<u>278,217</u>	<u>11,060</u>	<u>289,278</u>	

(Millions of Yen)

Year Ended December 31, 2019	Equity attributable to owners of the parent				Other components of equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations
Beginning balance	¥34,606	¥40,420	¥226,358	¥(14,002)	¥(10,267)
Profit for the year	—	—	11,690	—	—
Other comprehensive income	—	—	—	—	(3,212)
Total comprehensive income for the year	—	—	11,690	—	(3,212)
Purchase of treasury stock	—	—	—	(1)	—
Payment of dividends	—	—	(7,847)	—	—
Transfer from other components of equity to retained earnings	—	—	725	—	—
Other	—	(6)	—	—	—
Total transactions with owners	—	(6)	(7,121)	(1)	—
Ending balance	34,606	40,413	230,927	(14,004)	(13,479)

	Equity attributable to owners of the parent				Other components of equity		
	Financial assets measured at fair value through other comprehensive income		Remeasurements of defined benefit plans	Subtotal	Total	Non-controlling interests	Total equity
Beginning balance	¥1,102	¥—	¥(9,164)	¥278,217	¥11,060	¥289,278	
Profit for the year	—	—	—	11,690	175	11,866	
Other comprehensive income	779	725	(1,708)	(1,708)	(41)	(1,749)	
Total comprehensive income for the year	779	725	(1,708)	9,982	134	10,116	
Purchase of treasury stock	—	—	—	(1)	—	(1)	
Payment of dividends	—	—	—	(7,847)	—	(7,847)	
Transfer from other components of equity to retained earnings	—	(725)	(725)	—	—	—	
Other	—	—	—	(6)	(406)	(413)	
Total transactions with owners	—	(725)	(725)	(7,855)	(406)	(8,262)	
Ending balance	1,881	—	(11,598)	280,344	10,787	291,132	

Consolidated Statements of Cash Flows

(Millions of Yen)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Cash flows from operating activities:		
Profit before tax	¥52,262	¥18,168
Depreciation and amortization	16,600	18,085
Impairment losses	—	678
Change in net defined benefit assets and liabilities	(231)	(38)
Financial income	(875)	(1,010)
Financial costs	3,138	1,405
Share of profit in investments accounted for using the equity method	(614)	(103)
(Increase) decrease in trade and other receivables	(7,574)	28,588
(Increase) decrease in inventories	(7,958)	1,615
(Decrease) increase in trade and other payables	4,977	(19,887)
Other	2,151	(770)
Subtotal	61,875	46,731
Interests and dividends received	872	1,004
Interests paid	(357)	(419)
Income taxes paid	(5,888)	(18,933)
Net cash flows from operating activities	56,500	28,383
Cash flows from investing activities:		
Purchase of property, plant and equipment	(30,878)	(29,192)
Proceeds from sales of property, plant and equipment	186	51
Purchase of other financial assets	(1,967)	(392)
Other	(311)	(507)
Net cash flows from investing activities	(32,971)	(30,040)
Cash flows from financing activities:		
Proceeds from long-term borrowings	—	20,000
Repayments of long-term borrowings	(2,185)	(12,185)
Proceeds from issuance of bonds	20,000	20,000
Payments for redemption of bonds	(20,000)	—
Purchase of treasury stock	(4)	(1)
Dividends paid	(9,326)	(7,944)
Dividends paid to non-controlling shareholders	(8)	(106)
Repayments of lease obligations	(1,444)	(1,498)
Other	(84)	40
Net cash flows from financing activities	(13,053)	18,304
Effects of exchange rate changes on cash and cash equivalents	(5,883)	(2,069)
Net increase in cash and cash equivalents	4,592	14,577
Cash and cash equivalents at the beginning of the year	129,920	134,513
Cash and cash equivalents at the end of the year	134,513	149,091

Segment Information

1. Outline of reportable segments

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 segments consist 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 THK 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.

2. Reportable segments

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

	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
(Millions of Yen)								
Revenue:								
Sales to customers	¥157,849	¥64,526	¥59,482	¥46,223	¥16,636	¥344,718	¥—	¥344,718
Inter-segment	58,600	225	161	7,502	1,898	68,388	(68,388)	—
Total	216,450	64,751	59,644	53,726	18,534	413,107	(68,388)	344,718
Segment income	40,701	421	1,538	8,660	2,449	53,771	(923)	52,848
Financial income	1,759	1,374	983	2,021	452	6,592	(5,716)	875
Financial costs	1,035	1,593	840	1,849	409	5,727	(4,266)	1,461
Profit before tax	41,424	203	1,682	8,832	2,493	54,636	(2,374)	52,262
Segment assets	414,660	69,790	100,233	66,496	21,303	672,484	(201,114)	471,369
Other items:								
Depreciation and amortization	6,443	2,719	2,923	3,524	477	16,088	(63)	16,024
Impairment losses	—	—	—	—	—	—	—	—
Investments accounted for using the equity method	5,825	—	—	—	—	5,825	—	5,825
Share of profit in investments accounted for using the equity method	614	—	—	—	—	614	—	614
Capital expenditures	1,381	2,111	2,041	758	1,225	7,518	—	7,518

(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	Total	Adjustments	Consolidated
Revenue:								
Sales to customers	¥117,740	¥58,480	¥55,143	¥29,969	¥13,265	¥274,599	¥—	¥274,599
Inter-segment	48,470	146	269	4,635	1,695	55,217	(55,217)	—
Total	166,210	58,627	55,413	34,604	14,961	329,817	(55,217)	274,599
Segment income (loss)	10,483	(1,012)	288	2,537	1,175	13,473	4,803	18,277
Financial income	4,048	1,228	1,089	1,880	470	8,718	(7,707)	1,010
Financial costs	1,148	1,162	707	1,527	369	4,914	(3,794)	1,119
Profit before tax	13,383	(946)	671	2,891	1,277	17,276	891	18,168
Segment assets	414,049	68,513	98,861	66,692	24,815	672,931	(203,985)	468,945
Other items:								
Depreciation and amortization	7,526	2,872	2,892	3,539	615	17,447	(74)	17,373
Impairment losses	—	678	—	—	—	678	—	678
Investments accounted for using the equity method	5,280	—	—	—	—	5,280	—	5,280
Share of profit in investments accounted for using the equity method	103	—	—	—	—	103	—	103
Capital expenditures	648	938	1,882	1,843	363	5,677	—	5,677

(Note) All adjustments are intercompany elimination.

3. Sales to customers, by services and major goods

(Millions of Yen)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Industrial equipment-related business	¥239,836	¥179,116
Transportation equipment-related business	104,882	95,483
Total	344,718	274,599

4. Geographical information

(1) Sales to customers

(Millions of Yen)

	Year Ended December 31, 2018	Year Ended December 31, 2019
Japan	¥145,238	¥109,424
The Americas	59,792	58,390
Europe	57,540	53,766
China	48,554	30,996
Other	33,592	22,021
Total	344,718	274,599

(2) Non-current assets

	(Millions of Yen)		
	As of January 1, 2018 (Date of Transition to IFRSs)	As of December 31, 2018	As of December 31, 2019
Japan	¥59,360	¥70,689	¥78,569
The Americas	23,904	23,729	25,238
Europe	24,029	22,197	21,534
China	30,858	29,868	29,820
Other	3,230	5,644	9,812
Total	<u>141,382</u>	<u>152,129</u>	<u>164,976</u>

(Note) Non-current assets in the table above are classified based on their physical locations and do not include financial instruments, deferred tax assets, and net defined benefit assets.

5. Major customers

Information on major customers is not presented because there was no single customer accounting for 10% or more of revenue on the consolidated statement of profit or loss.

Per Share Information

	(Millions of Yen)	
	Year Ended December 31, 2018	Year Ended December 31, 2019
Profit attributable to owners of the parent	¥36,100	¥11,690
Weighted-average number of issued shares	126,568	126,567
Basic earnings per share	285.23	92.37

(Note) THK did not have any shares with potentially-dilutive effects for the years ended December 31, 2018 and 2019.

Subsequent event

Not applicable

First-time adoption of IFRSs (disclosure regarding the transition to IFRSs)

THK has prepared its consolidated financial statements in accordance with IFRS from the year ended December 31, 2019. The date of transition to IFRSs from Japanese GAAP (hereinafter, "JGAAP") was January 1, 2018.

(1) Exemptions under IFRS 1

A first-time adopter of IFRSs is, in principle, required to retrospectively apply each IFRS standard effective at the end of its first IFRS reporting period. However, IFRS 1 provides two types of exceptions to this principle, those subject to mandatory application of the exemptions and those subject to voluntary application. The effects of applying these exemptions are adjusted to retained earnings or other components of equity on the date of transition. The exemptions voluntarily applied by THK Group are as follows:

(a) Business combinations

Under IFRS 1, an entity may elect not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the date of transition. THK has elected not to apply IFRS 3 retrospectively to the business combinations that occurred prior to the date of transition. Therefore, the amount of goodwill associated with the business combinations that occurred prior to the date of transition was recognized at the carrying amount based on JGAAP. Such goodwill was tested for impairment on the date of transition, regardless of whether there was any indication of impairment.

(b) Exchange differences on translation of foreign operations

An entity may elect to reset cumulative exchange differences on translation of foreign operations to zero as of the date of transition. THK Group has reset its cumulative exchange differences on translation of foreign operations to zero as of the transition date.

(c) Leases

The exemptions for leases are as follows:

1) An entity (a lessee) may elect to determine whether any arrangement contains a lease based on the facts and circumstances existing at the date of transition.

2) The lessee may measure that lease liability at the present value of the total remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition.

3) The lessee may measure and recognize a right-of-use asset at its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition.

4) The lessee may elect not to recognize right-of-use assets or lease liabilities for leases of low-value assets and leases with a lease term of 12 months or less from the date of transition.

THK Group has recognized and measured leases by applying the above exemptions.

(d) Designation of financial instruments recognized before the transition date

An entity may elect to make designations in accordance with IFRS 9 "Financial Instruments" based on the facts and circumstances existing at the date of transition. An entity may designate an investment in an equity instrument as measured at fair value through other comprehensive income based on the facts and circumstances that exist at the date of transition.

THK Group has applied the above exemptions and has made designations based on the facts and circumstances existing at the date of transition. Some investments in equity investments has been designated as measured at fair value through other comprehensive income.

(2) Mandatory exceptions to the retrospective application under IFRS 1

IFRS 1 prohibits retrospective applications of IFRSs to some items including “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting,” “non-controlling interests” and “classification and measurement of financial instruments.” THK Group applies these items prospectively from the date of transition.

(3) Reconciliations

Reconciliations based on IFRS 1 are as follows. In these reconciliations, the amounts under “Reclassification” include adjustments that affect neither retained earnings nor comprehensive income, whereas the amounts under “Difference in recognition and measurement” include adjustments that affect retained earnings and comprehensive income.

Reconciliation of equity on the date of transition (January 1, 2018)

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Assets:						Assets:
Current assets:						Current assets:
Cash and bank deposits	129,920	—	—	129,920		Cash and cash equivalents
Accounts and notes receivable	71,543	15,295	—	86,839	(1),(2)	Trade and other receivables
Electronically recorded monetary claims	15,514	(15,514)	—	—	(1)	
		3	—	3		Other financial assets
Merchandise and finished goods	14,357	29,445	—	43,802	(3)	Inventories
Work in process	10,104	(10,104)	—	—	(3)	
Raw materials and supplies	19,340	(19,340)	—	—	(3)	
Deferred tax assets	2,337	(2,337)	—	—	(5)	
Short-term loans receivable	3	(3)	—	—		
Other current assets	8,071	—	—	8,071		Other financial assets
Allowance for bad debts	(218)	218	—	—	(2)	
Total current assets	270,975	(2,337)	—	268,637		Total current assets
Fixed assets:						Non-current assets
Property, plant and equipment	115,934	1,181	10,121	127,236	(6), (7)	Property, plant and equipment
Intangibles	32,395	(1,181)	(4,814)	26,399	(7)	Goodwill and intangible assets
Long-term investments in securities	11,377	(6,087)	—	5,290	(4), (8)	Investments accounted for using the equity method
	—	8,842	920	9,763	(4), (11)	Other financial assets
Net defined benefit asset	2,295	—	—	2,295		Net defined benefit asset
Deferred tax assets	754	2,337	156	3,249	(5)	Deferred tax assets
Other	3,007	(2,831)	—	176		Other non-current assets
Allowance for bad debts	(75)	75	—	—		
Total fixed assets	165,689	2,337	6,384	174,411		Total non-current assets
Total assets	436,664	—	6,384	443,049		Total assets

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Liabilities:						Liabilities and equity:
Current liabilities:						Current liabilities:
Accounts and notes payable	22,330	32,585	—	54,915	(9)	Trade and other payables
Electronically recorded obligations	23,923	(21,909)	1,679	3,694	(4), (6), (9)	Other financial liabilities
Current portion of long-term bonds	20,000	2,283	75	22,359	(10), (11)	Bonds and borrowings
Current portion of Long-term bank loans	2,185	(2,185)	—	—	(10)	
Lease obligation	126	(126)	—	—	(4)	
Income taxes payable	1,673	—	—	1,673		Income taxes payable
Accrued bonuses to employees	2,971	(2,971)	—	—	(12)	
Other	19,986	(7,679)	—	12,307	(5), (9), (12)	Other current liabilities
Total current liabilities	93,196	(1)	1,755	94,950		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Bonds	20,000	27,480	607	48,088	(10), (11)	Bonds and borrowings
Long-term bank loans	27,480	(27,480)	—	—	(10)	
Lease obligation	114	(114)	—	—	(4)	
Deferred tax liabilities	—	975	9,843	10,818	(4), (6), (11)	Other financial liabilities
Reserve for retirement benefits for directors and corporate auditors	5,134	1	—	5,136	(5)	Deferred tax liabilities
Reserve for product warranty	108	118	64	291		Provisions
Net defined benefit liability	118	(118)	—	—		
Other	7,389	—	—	7,389		Net defined benefit liability
Other	1,368	(861)	1,147	1,654	(13)	Other non-current liabilities
Total long-term liabilities	61,713	1	11,663	73,378		Total non-current liabilities
Total liabilities	154,910	—	13,419	168,329		Total Liabilities

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Net assets:						Equity
Common stock	34,606	—	—	34,606		Common stock
Additional paid-in capital	40,440	—	—	40,440		Capital surplus
Treasury stock	(13,998)	—	—	(13,998)		Treasury stock
Total accumulated other comprehensive income	15,272	—	(12,425)	2,847	(14), (15)	Other components of equity
Retained earnings	194,626	—	5,443	200,069	(14), (15)	Retained earnings
	—	—	—	263,965		Total equity attributable to owners of the parent
Non-controlling interests	10,806	—	(52)	10,754		Non-controlling interests
Total net assets	281,754	—	(7,034)	274,720		Total Equity
Total liabilities and net assets	436,664	—	6,384	443,049		Total liabilities and equity

Reconciliation of equity on the previous fiscal year-end (December 31, 2018)

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Assets:						Assets:
Current assets:						Current assets:
Cash and bank deposits	134,513	—	—	134,513		Cash and cash equivalents
Accounts and notes receivable	69,722	22,838	—	92,561	(1),(2)	Trade and other receivables
Electronically recorded monetary claims	22,973	(22,973)	—	—	(1)	
	—	3	—	3		Other financial assets
Merchandise and finished goods	18,625	31,439	—	50,065	(3)	Inventories
Work in process	10,815	(10,815)	—	—	(3)	
Raw materials and supplies	20,624	(20,624)	—	—	(3)	
Deferred tax assets	3,459	(3,459)	—	—	(5)	
Short-term loans receivable	3	(3)	—	—		
Other current assets	7,737	—	—	7,737		Other financial assets
Allowance for bad debts	(134)	134	—	—	(2)	
Total current assets	288,340	(3,459)	—	284,881		Total current assets
Fixed assets:						Non-current assets
Property, plant and equipment	129,695	1,035	10,985	141,716	(6), (7)	Property, plant and equipment
Intangibles	28,106	(1,035)	(3,569)	23,501	(7)	Goodwill and intangible assets
Long-term investments in securities	9,665	(3,839)	—	5,825	(4), (8)	Investments accounted for using the equity method
	—	8,127	504	8,631	(4), (11)	Other financial assets
Net defined benefit asset	1,569	—	—	1,569		Net defined benefit asset
Deferred tax assets	1,554	3,459	99	5,112	(5)	Deferred tax assets
Other	4,502	(4,371)	—	131		Other non-current assets
Allowance for bad debts	(83)	83	—	—		
Total fixed assets	175,009	3,459	8,019	186,488		Total non-current assets
Total assets	463,350	—	8,019	471,369		Total assets

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Liabilities:						Liabilities and equity:
Current liabilities:						Current liabilities:
Accounts and notes payable	22,084	37,493	—	59,578	(9)	Trade and other payables
Electronically recorded obligations	26,938	(25,728)	1,752	2,962	(4), (6), (9)	Other financial liabilities
Current portion of long-term bonds	—	12,199	9	12,208	(10), (11)	Bonds and borrowings
Current portion of Long-term bank loans	12,185	(12,185)	—	—	(10)	
Lease obligation	85	(85)	—	—	(4)	
Income taxes payable	12,271	—	—	12,271		Income taxes payable
Accrued bonuses to employees	3,899	(3,899)	—	—	(12)	
Other	20,771	(7,801)	—	12,970	(5), (9), (12)	Other current liabilities
Total current liabilities	98,237	(7)	1,761	99,991		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Bonds	40,000	15,295	65	55,360	(10), (11)	Bonds and borrowings
Long-term bank loans	15,295	(15,295)	—	—	(10)	
Lease obligation	121	(121)	—	—	(4)	
Deferred tax liabilities	—	974	10,238	11,212	(4), (6), (11)	Other financial liabilities
Reserve for retirement benefits for directors and corporate auditors	5,491	7	—	5,498	(5)	Deferred tax liabilities
Reserve for product warranty	131	112	64	307		Provisions
Net defined benefit liability	112	(112)	—	—		
Other	7,908	—	—	7,908		Net defined benefit liability
Other	1,334	(852)	1,330	1,811	(13)	Other non-current liabilities
Total long-term liabilities	70,394	7	11,698	82,100		Total non-current liabilities
Total liabilities	168,631	—	13,460	182,091		Total Liabilities

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Net assets:						Equity
Common stock	34,606	—	—	34,606		Common stock
Additional paid-in capital	40,420	—	—	40,420		Capital surplus
Treasury stock	(14,002)	—	—	(14,002)		Treasury stock
Total accumulated other comprehensive income	1,794	—	(10,958)	(9,164)	(14), (15)	Other components of equity
Retained earnings	220,787	—	5,570	226,358	(14), (15)	Retained earnings
	—	—	—	287,217		Total equity attributable to owners of the parent
Non-controlling interests	11,113	—	(53)	11,060		Non-controlling interests
Total net assets	294,719	—	(5,441)	289,278		Total Equity
Total liabilities and net assets	463,350	—	8,019	471,369		Total liabilities and equity

Notes to the reconciliation of equity

(1) Electronically recorded monetary claims

Electronically recorded monetary claims, which were presented separately under JGAAP, are included in trade and other receivable under IFRS.

(2) Allowance for bad debts

Allowance for bad debts (current) were presented separately under JGAAP. Under IFRS, trade and other receivables are presented at an amount after deducting allowances. Allowance for bad debts (non-current) are presented after offsetting against other financial assets (non-current).

(3) Inventories

Merchandise and finished goods, work in process, and raw materials and supplies, which were presented separately under JGAAP, are included in inventories under IFRS.

(4) Other financial assets and liabilities

Long-term investments in securities, which were presented separately under JGAAP, are included in other financial assets (non-current) under IFRS. Lease obligation (current) and lease obligation (non-current), which were presented separately under JGAAP, are included in other financial liabilities (current) and other financial liabilities (non-current), respectively, under IFRS.

(5) Deferred tax assets and liabilities, including reevaluation of the recoverability of deferred tax assets

Current deferred tax assets under JGAAP were reclassified to non-current deferred tax assets because all deferred taxes and liabilities shall not be classified as current assets or liabilities under IFRS. In adopting IFRS, THK Group reevaluated the recoverability of all deferred tax assets.

(6) Property, plant and equipment and leases

Under JGAAP, an entity as a lessee classifies its leases into either finance leases or operating leases. Operating leases of THK Group were accounted for by the same method as applied to ordinary rental transactions. Under IFRS, because there are no such classification for a lessee's lease, THK Group recognizes right-of-use assets and lease obligations.

(7) Goodwill and impairment of non-financial assets

Goodwill was amortized under JGAAP. Under IFRS, it is not amortized on or after the date of transition but tested for impairment annually. The accumulated amortization up to the date of transition was reversed.

In testing for impairment as of the date of transition, because the recoverable amount of assets was less than their carrying amount, THK recorded impairment losses for the following items:

(a) ¥1,621 million of assets of THK RHYTHM AUTOMOTIVE CANADA LIMITED (goodwill: ¥52 million; property, plant and equipment: ¥1,363 million; and intangible assets: ¥205 million)

(b) ¥4,501 million of goodwill of THK RHYTHM AUTOMOTIVE CZECH a.s. and THK RHYTHMAUTOMOTIVE GmbH

The recoverable amount of the assets of (a) above was measured at their fair values less costs of disposal based on the real estate appraisal value and other factors. The recoverable amounts of (b) above were measured at their value in use determined based on the discount rates ranging from 7.83% to 8.34%. Considering the long-term average growth rate of the industry or country to which the cash-generating unit or group of cash-generating units belong, the growth rate is zero and does not exceed the long-term average growth rate of the market.

(8) Investments accounted for using the equity method

Investments accounted for using the equity method, which were included in long-term investments in securities under JGAAP, are presented separately under IFRS.

(9) Electronically recorded obligations and other payables

Under JGAAP, electronically recorded obligations were presented separately and other payables were included in other (current). Under IFRS, they are included in trade and other payables.

(10) Bonds and borrowings

Current portion of long-term bonds and current portion of long-term bank loans, which were presented separately in the current liability section under JGAAP, are included in bonds and borrowings (current) under IFRS. Long-term bonds and long-term bank loans, which were presented separately in the long-term liability section under JGAAP, are included in bonds and borrowings (non-current) under IFRS.

(11) Derivatives and borrowings

Under JGAAP, interest rate swap contracts and interest rate and currency swap contracts that qualify for hedge accounting and meet specific matching criteria were not remeasured at their fair values. Under IFRS, as hedge accounting is not applied to such derivatives, they are measured at fair value through profit or loss.

(12) Other current liabilities

Accrued bonuses to employees, which were presented separately under JGAAP, are included in other current liabilities under IFRS.

(13) Unused paid absences

Unused paid absences, which are not recognized under JGAAP, are accounted as a liability and included in other non-current liabilities under IFRS.

(14) Retirement benefit

Under JGAAP, actuarial gains and losses as well as prior service costs were recognized in other comprehensive income as incurred, and were amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees. Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred, and immediately reclassified to retained earnings. Prior service costs are recognized in profit or loss as incurred under IFRS.

(15) Exchange differences on translation of foreign operations

In adopting the exemption provision for the first-time adoption of IFRSs, cumulative exchange differences of foreign operations as of the date of transition are transferred to retained earnings.

(16) Retained earnings

	(Millions of Yen)	
	As of January 1, 2018 (Date of Transition to IFRSs)	As of December 31, 2018
Property, plant and equipment	(1,363)	(1,075)
Goodwill and intangible assets	(4,814)	(3,582)
Unused paid absence	(1,147)	(1,330)
Retirement benefit	(1,033)	(2,086)
Cumulative exchange differences on translation of foreign operations	13,459	13,459
Other	133	33
Subtotal	5,234	5,418
Tax effect	156	99
Non-controlling interests	52	53
Total	5,443	5,570

Reconciliation of comprehensive income for the previous year (from January 1, 2018 to December 31, 2018)

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Net sales	353,479	—	(8,760)	344,718	(1)	Revenue
Cost of sales	251,181	—	(8,448)	242,733	(1), (3), (4)	Cost of sales
Gross profit	102,298	—	(312)	101,985		Gross profit
Selling, general and administrative expenses:	52,465	—	(954)	51,511	(1), (2), (3) (4)	Selling, general and administrative expenses
	—	614	—	614	(6)	Share of profit in investments accounted for using the equity method
	—	2,601	3	2,605	(6)	Other income
	—	845	—	845	(6)	Other expenses
Operating income	49,832	2,370	644	52,848		Operating income
Non-operating income	4,003	(4,003)	—	—	(6)	
Non-operating expenses	2,078	(2,078)	—	—	(6)	
Extraordinary gains	88	(88)	—	—	(6)	
Extraordinary losses	316	(316)	—	—	(6)	
	—	875	—	875	(5), (6)	Financial income
	—	1,549	(88)	1,461	(5), (6)	Financial costs
Income before income taxes	51,529	—	732	52,262		Profit before tax
Income taxes-current	16,097	(585)	34	15,545	(7)	Income tax expense
Income taxes-deferred	(585)	585	—	—	(7)	
Net income	36,017	—	698	36,716		Profit for the year
Other comprehensive income	—	—	—	—		Other comprehensive income
						Items that may not be reclassified subsequently to profit or loss:
Net unrealized gain (loss) on available-for-sale securities	(1,734)	—	—	(1,734)		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(935)	—	479	(455)	(3)	Remeasurements of defined benefit plans
	—	(104)	—	(104)		Share of other comprehensive income (losses) of associates accounted under the equity method

(Millions of Yen)

Presentation under JGAAP	JGAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Presentation under IFRS
Foreign currency translation adjustments	(11,376)	—	118	(11,257)		Items that may be reclassified subsequently to profit or loss: Exchange differences on translating foreign operations
Share of other comprehensive income (losses) of affiliates accounted under the equity method	284	104	—	388		Share of other comprehensive income (losses) of associates
Total other comprehensive loss	(13,762)	—	598	(13,164)		Other comprehensive income, net of tax
Comprehensive income	22,255	—	1,296	23,552		Comprehensive income



Notes to the reconciliation of comprehensive income

(1) Revenue

In a resale (buy-sell) contract where THK Group purchases materials from a customer and resales the processed product after manufacturing the materials to the customer, sales and corresponding cost of sales were recorded at the time of resale under JGAAP. Under IFRS, revenue is recognized at the time of resale at a net amount equivalent to the processing fee. Certain rebates, which were included in selling, general and administrative expenses under JGAAP, are offset against revenue under IFRS.

(2) Goodwill

Amortization of goodwill was recognized under JGAAP; however, it is discontinued as of the date of transition because goodwill is not amortized under IFRS.

(3) Retirement benefit

Under JGAAP, actuarial gains and losses as well as prior service costs were recognized in other comprehensive income as incurred, and were amortized on a straight-line basis over a certain number of years no longer than the average remaining service period of employees. Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred, and immediately reclassified to retained earnings. Prior service costs are recognized in profit or loss as incurred under IFRS.

(4) Paid absences

Paid absences, which are not recognized under JGAAP, are recognized as personell expenses under IFRS.

(5) Derivatives and borrowings

Under JGAAP, interest rate swap contracts and interest rate and currency swap contracts that qualify for hedge accounting and meet specific matching criteria were not remeasured at their fair values. Under IFRS, as hedge accounting is not applied to such derivatives, they are measured at fair value through profit or loss.

(6) Presentation

Financial-related items included in non-operating income, non-operating expenses, extraordinary gains, and extraordinary losses under JGAAP are reclassified and presented as financial income or financial costs under IFRS. Items other than financial-related items are included in other income, other expenses, or share of profit in investments accounted for using the equity method under IFRS.

(7) Income tax expense

Income taxes—current and income taxes—deferred, which were presented separately under JGAAP, are collectively presented as income tax expense under IFRS. In adopting IFRS, THK Group reevaluated the recoverability of all deferred tax assets.

Reconciliation of cash flows (from January 1, 2018 to December 31, 2018)

Lease payments for operating lease contracts, which were included in cash flows from operating activities under JGAAP, are presented as repayments for lease obligations in cash flows from financing activities under IFRS.

Additional notes:

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.