February 10, 2017

# Consolidated Financial Results for the Third Quarter Ended December 31, 2016 under Japanese GAAP

| | | |
|---|---|---|
| Company Name | : | THK CO., LTD. |
| Head Office | : | Tokyo, Japan (Tel: +81-3-5434-0300) |
| 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, General Manager of Finance and Accounting Department, Corporate Strategy Division |
| Scheduled date of filing quarterly report (Japanese version only) | | February 13, 2017 |

**1. Consolidated Operating Results and Financial Position as of and for the nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)**

(1) Consolidated Operating Results

| Third Quarter Ended December 31 (Millions of Yen) | Net Sales | | Operating Income | | Ordinary Income | | Net Income Attributable to Owners of the Parent | |
|---|---|---|---|---|---|---|---|---|
| 2016 | ¥202,437 | 17.2% | ¥17,334 | (4.8) % | ¥16,302 | (4.8) % | ¥11,230 | (0.1) % |
| 2015 | 172,733 | 7.8 | 18,215 | (14.2) | 17,132 | (35.2) | 11,245 | (38.4) |

| | | | |
|---|---|---|---|
| *(Note) Comprehensive income (loss)* | *Third quarter ended December 31, 2016:* | *¥(18,188) million* | *―%* |
| | *Third quarter ended December 31, 2015:* | *5,403 million* | *(68.5)* |

| Third Quarter Ended December 31 (Yen) | Net Income Per Share-Basic | Net Income Per Share-Diluted |
|---|---|---|
| 2016 | ¥88.72 | ¥ ― |
| 2015 | 88.83 | ― |

*(Note) At March 31, 2016, THK adjusted the provisional accounting treatment for business combinations. The adjusted accounting treatment has been reflected on the consolidated financial statements for the third quarter ended December 31, 2015.*

(2) Consolidated Financial Position

| | Total Assets (Millions of Yen) | Net Assets (Millions of Yen) | Net Worth Ratio (%) | Net Assets Per Share (Yen) |
|---|---|---|---|---|
| December 31, 2016 | ¥383,901 | ¥227,125 | 58.5 % | ¥1,774.84 |
| March 31, 2016 | 407,808 | 250,540 | 60.7 | 1,953.97 |

| | | |
|---|---|---|
| *(Note) Net worth* | *As of December 31, 2016:* | *¥224,646 million* |
| | *As of March 31, 2016:* | *247,348 million* |

*(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.*

## 2. Dividends

| | Dividend Per Share (Yen) | | | | |
|---|---|---|---|---|---|
| | First Quarter End as of June 30 | Second Quarter End as of September 30 | Third Quarter End as of December 31 | Year end | Total |
| 2016 (Actual) | — | 25.00 | — | 25.00 | 50.00 |
| 2017 (Actual) | — | 16.00 | — | n/a | n/a |
| 2017 (Projected) | n/a | n/a | n/a | — | — |

*(Note 1) Change in dividend projection: None*

*(Note 2) The amount of year-end dividends for the year ending March 31, 2017 is planned to be determined in accordance with the targeted payout ratio of 30% on a consolidated basis and will be disclosed as soon as it is determined.*

## 3. Forecasts for the year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

| | 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) |
|---|---|---|---|---|---|
| Year ending March 31, 2017 | | | | | |
| (amount) | ¥271,000 | ¥24,000 | ¥22,200 | ¥15,600 | ¥123.25 |
| (percentage) | 12.7% | 3.6% | 16.0% | 14.9% | n/a |

*(Note 1) The forecasts announced on May 12, 2016 have been amended to as in the above table.*

*(Note 2) The above forecasts are based upon the information currently available at the time of the announcement of this report. Actual performance may differ from the estimates due to various unforeseen factors.*

## 4. Other Financial Information

(1) Significant change in scope of consolidation:

Newly consolidated subsidiaries (specified subsidiaries)
・THK CAPITAL UNLIMITED COMPANY
・THK FINANCE UNLIMITED COMPANY

(2) Simplified or particular accounting treatment for quarterly financial statements:

*(Income taxes)*

Certain consolidated subsidiaries determine their income tax expenses by multiplying net income for the quarter period by the estimated effective tax rate applicable to the fiscal year.

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

a. Changes in accounting standard — Please refer to “5. Accounting Changes”
b. Other changes — None

(4) Number of shares

| | | (shares) |
|---|---|---|
| a. Common stock issued, including treasury stock, as of: | December 31, 2016 | 133,856,903 |
| | March 31, 2016 | 133,856,903 |
| b. Treasury stock as of: | December 31, 2016 | 7,283,942 |
| | March 31, 2016 | 7,269,394 |
| c. Average number of common stock for the nine months ended: | December 31, 2016 | 126,585,772 |
| | December 31, 2015 | 126,589,084 |

## 5. Accounting Changes

(1) Prior to April 1, 2016, the depreciation method for property, plant and equipment of THK and its domestic consolidated subsidiaries mainly was the declining-balance method, whereas that of certain consolidated subsidiaries in the United States of America was the accelerated depreciation method. Effective April 1, 2016, THK and the aforementioned consolidated subsidiaries changed their depreciation method to the straight-line method.

From the viewpoint of unification of the THK Group's accounting policies responding to the progress of globalization, THK and its consolidated subsidiaries reviewed the usage situation of their property, plant and equipment. As a result of the review, THK found that such assets would work stably and determined that the straight-line method would reflect the actual economic conditions of such assets more appropriately.

The effect of changing the depreciation method was to increase operating income, ordinary income and income before income taxes for the nine-month period ended December 31, 2016 each by ¥1,077 million.

(2) Effective April 1, 2016, THK applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Statement No. 26, issued by Accounting Standards Board of Japan on March 28, 2016).

## Management’s Discussion and Analysis

**1. Operating results (April 1, 2016 to December 31, 2016)**

During this nine-month period, the economic growth in emerging countries such as China slowed down; however, the world economy continued its modest recovery which was mainly led by Europe and the United States of America that maintained their recovery trend. In Japan, the economy made a mild recovery; however, there were some weaknesses particularly in exports because of the strong yen.

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 new business fields such as automobile parts, seismic isolation and damping systems, medical equipment, aircraft, robot, and renewable energy, the THK Group is working on expanding sales of not only existing products but also new developed products. 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 the Internet of Things (IoT), cloud computing, AI, robot in many ways.

In this nine-month period, the THK Group operated proactively to expand its sales with its strengthened operating structure on a global scale. Moreover, in order to further expand its transportation equipment business, THK has included four subsidiaries into the scope of consolidation as THK RHYTHM AUTOMOTIVE ("TRA"). As a result, net sales for the period amounted to ¥202,437 million, up ¥29,703 million, or 17.2%, compared to the figure a year earlier.

On the cost front, the cost of sales to sales ratio worsened by 4.2% from a year earlier to 74.6% due to consolidating the four TRA subsidiaries of which cost of sales to sales ratios were higher than that of the THK Group’s sales to industrial equipment-related industry. On the other hand, ratio of selling, general and administrative expenses to net sales improved by 2.2% from a year earlier to 16.8% because of consolidating the four TRA subsidiaries with lower ratios.

Along with the stronger yen as compared to the level a year earlier, operating income decreased from a year earlier by ¥881 million, or 4.8%, to ¥17,334 million. Ratio to net sales dropped by 1.9% to 8.6%.

Total non-operating income and expenses were ¥1,787 million and ¥2,820 million, respectively. The major component of non-operating expenses was ¥2,202 million of foreign exchange loss due to the stronger yen.

As a result, ordinary income decreased from a year earlier by ¥830 million, or 4.8%, to ¥16,302 million. Net income attributable to owners of the parent for the nine-month period also decreased from a year earlier by ¥14 million, or 0.1%, to ¥11,230 million.

**Segment Information**

(Japan)

In Japan, the economy made a mild recovery; however, there were some weaknesses particularly in exports because of the strong yen. The THK Group operated proactively and cultivated new business fields such as seismic isolation and damping systems, medical equipment, renewable energy and robot. In such a situation, sales increased by ¥580 million, or 0.7%, to ¥88,656 million, compared to the figure a year earlier, owing mainly to increased demand for electronics-related products. On the other hand, operating income (segment income) amounted to ¥12,042 million, down ¥3,421 million, or 22.1%, from the figure a year earlier due mainly to the stronger yen as compared to the level a year earlier.

(The Americas)

In the Americas, while there were some weaknesses particularly in capital investments, the economy continued a gradual recovery trend by dint of the robust consumer spending. In such a situation, the production and sales sections worked in unison to expand and deepen transactions with existing customers and to cultivate new business fields such as medical equipment, aircraft, and energy-related business. As a result, net sales for the nine-month period amounted to ¥47,492 million, up ¥14,442 million, or 43.7%, from the figure a year earlier. Operating income (segment income) amounted to ¥2,332 million, up ¥421 million, or 22.1%, from the figure a year earlier. This was mainly attributable to the robust demand in the electronics industry and the two newly-consolidated TRA subsidiaries in the Americas.

(Europe)

In Europe, the signs of recovery were continuously seen. 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 medical equipment, aircraft and robot. As a result, net sales for the nine-month period amounted to ¥37,382 million, up ¥17,855 million, or 91.4%, from the figure a year earlier. Operating income (segment income) amounted to ¥872 million, up ¥47 million, or 5.8%, from the figure a year earlier. This was attributable to the increased demand in the machine tool industry and the electronics industry, as well as the two newly-consolidated TRA subsidiaries in Europe.

(China)

In China, the THK Group's products were getting widely adopted because of the factory automation progress brought by the shortage in labor and the hike in personnel expenses. In such a situation, the THK Group implemented aggressive business activities with its strengthened sales channels. As a result, THK Group successfully broadened the demand base even though the economy in China was slowing down. Sales, however, amounted to ¥20,097 million, down ¥2,070 million, or 9.3%, from the figure a year earlier due mainly to the stronger yen as compared to the level a year earlier. Despite the declining sales, the THK Group recorded ¥307 million of operating income (segment income), a turnaround of ¥838 million from the operating loss (segment loss) recorded a year earlier because of the various measures implemented to improve profitability.

(Other)

In other countries and regions, the THK Group continued to expand and deepen transactions with existing customers and to cultivate new customers while expanding its sales channels in the ASEAN countries and India. However, the economic slowdown influenced in some areas of Other segment and the yen was stronger as compared to the level a year earlier. As a result, net sales for the nine-month period amounted to ¥8,807 million, down ¥1,103 million, or 11.1%, from the figure a year earlier. Operating income (segment income) amounted to ¥894 million, down ¥178 million, or 16.7%, from the figure a year earlier, due to the decreased sales.

## 2. Financial position (As of December 31, 2016)

Total assets stood at ¥383,901 million, ¥23,907 million less than the previous fiscal year-end, due mainly to a combined effect of increase in electronically recorded monetary claims by ¥4,150 million, decrease in cash and bank deposits by ¥3,270 million, decrease in merchandise and finished goods by ¥2,930 million, decrease in raw materials and supplies by ¥1,106 million, decrease in machinery and equipment by ¥4,073 million, and decrease in goodwill by ¥2,507 million.

Total liabilities stood at ¥156,775 million, ¥492 million less than the previous fiscal year-end, due mainly to a combined effect of increase in electronically recorded obligations by ¥2,955 million and decrease in accrued bonuses by ¥1,065 million.

Net assets stood at ¥227,125 million, ¥23,414 million less than the previous fiscal year-end, due mainly to a combined effect of increase in retained earnings by ¥6,040 million and decrease in foreign currency translation adjustments by ¥29,415 million.

## 3. Forecast for the fiscal year ending March 31, 2017

For details of the financial forecasts for the year ending March 31, 2017, please refer to “Notice Regarding Amendments in Financial Forecasts” announced on February 10, 2017.

## Consolidated Financial Statements

### Consolidated Balance Sheets

(Millions of Yen)

| | Year End -Previous Year As of March 31, 2016 | Third Quarter End -Current Year As of December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and bank deposits | ¥126,964 | ¥123,694 |
| Accounts and notes receivable | 65,977 | 64,235 |
| Electronically recorded monetary claims | 5,523 | 9,673 |
| Merchandise and finished goods | 16,619 | 13,689 |
| Work in process | 7,352 | 8,063 |
| Raw materials and supplies | 15,270 | 14,163 |
| Other current assets | 11,313 | 7,303 |
| Less: Allowance for bad debts | (162) | (152) |
| Total current assets | 248,858 | 240,670 |
| Fixed Assets: | | |
| Property, plant and equipment -net: | | |
| Buildings and structures | 33,543 | 29,641 |
| Machinery and equipment | 50,101 | 46,027 |
| Other | 25,784 | 25,297 |
| Total property, plant and equipment −net | 109,428 | 100,965 |
| Intangibles | | |
| Goodwill | 12,780 | 10,272 |
| Other | 23,688 | 19,311 |
| Total intangibles | 36,468 | 29,584 |
| Investments and Other | | |
| Long-term investments in securities | 7,052 | 7,516 |
| Other | 6,099 | 5,224 |
| Less: Allowance for bad debts | (99) | (60) |
| Total investments and other | 13,052 | 12,680 |
| Total fixed assets | 158,950 | 143,230 |
| Total assets | 407,808 | 383,901 |

(Millions of Yen)

| | Year End -Previous Year As of March 31, 2016 | Third Quarter End -Current Year As of December 31, 2016 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts and notes payable | ¥20,129 | ¥19,388 |
| Electronically recorded obligations | 16,544 | 19,499 |
| Current portion of long-term bonds | ― | 13,000 |
| Current portion of long-term bank loans | 2,253 | 2,185 |
| Income taxes payable | 806 | 2,083 |
| Accrued bonuses | 3,193 | 2,128 |
| Other | 16,645 | 15,247 |
| Total current liabilities | 59,572 | 73,532 |
| Long-term Liabilities: | | |
| Bonds | 53,000 | 40,000 |
| Long-term bank loans | 30,280 | 29,665 |
| Reserve for retirement benefits for directors and corporate auditors | 129 | 111 |
| Reserve for product warranty | 142 | 131 |
| Net defined benefit liability | 7,195 | 7,074 |
| Other | 6,948 | 6,260 |
| Total long-term liabilities | 97,695 | 83,243 |
| Total liabilities | 157,268 | 156,775 |
| **Net Assets** | | |
| Shareholders' equity : | | |
| Common stock | 34,606 | 34,606 |
| Additional paid-in capital | 44,584 | 44,584 |
| Retained earnings | 165,076 | 171,116 |
| Treasury stock | (13,950) | (13,986) |
| Total shareholders' equity | 230,317 | 236,321 |
| Accumulated other comprehensive income (loss)： | | |
| Net unrealized gain on available-for-sale securities | 665 | 1,292 |
| Foreign currency translation adjustments | 17,759 | (11,656) |
| Remeasurements of defined benefit plans | (1,394) | (1,310) |
| Total accumulated other comprehensive income (loss) | 17,030 | (11,674) |
| Non-controlling interests | 3,192 | 2,479 |
| Total net assets | 250,540 | 227,125 |
| Total liabilities and net assets | 407,808 | 383,901 |

# Consolidated Statements of Income

(Millions of Yen)

| | Third Quarter Ended December 31, 2015 (From April 1, 2015 to December 31, 2015) | Third Quarter Ended December 31, 2016 (From April 1, 2016 to December 31, 2016) |
|---|---|---|
| Net sales | ¥172,733 | ¥202,437 |
| Cost of sales | 121,619 | 151,011 |
| Gross profit | 51,113 | 51,425 |
| Selling, general and administrative expenses | 32,897 | 34,090 |
| Operating income | 18,215 | 17,334 |
| Non-operating income: | | |
| Interest income | 311 | 344 |
| Equity earnings of affiliates | 571 | 251 |
| Other | 948 | 1,191 |
| Total non-operating income | 1,831 | 1,787 |
| Non-operating expense: | | |
| Interest expenses | 314 | 306 |
| Foreign exchange loss, net | 2,266 | 2,202 |
| Other | 333 | 311 |
| Total non-operating expenses | 2,915 | 2,820 |
| Ordinary income | 17,132 | 16,302 |
| Extraordinary gains: | | |
| Gain on sales of property, plant and equipment | 32 | 12 |
| Total extraordinary gains | 32 | 12 |
| Extraordinary losses: | | |
| Loss on sales and disposal of property, plant and equipment | 324 | 117 |
| Other | 0 | ― |
| Total extraordinary losses | 324 | 117 |
| Income before income taxes | 16,840 | 16,197 |
| Income taxes-current | 4,979 | 4,710 |
| Income taxes-deferred | 911 | 430 |
| Total income taxes | 5,890 | 5,140 |
| Net income | 10,950 | 11,056 |
| Net loss attributable to non-controlling interests | (295) | (173) |
| Net income attributable to owners of the parent | 11,245 | 11,230 |

## Consolidated Statements of Comprehensive Income (Loss)

(Millions of Yen)

| | Third Quarter Ended December 31, 2015 (From April 1, 2015 to December 31, 2015) | Third Quarter Ended December 31, 2016 (From April 1, 2016 to December 31, 2016) |
|---|---|---|
| Net income | ¥10,950 | ¥11,056 |
| Other comprehensive income: | | |
| Net unrealized gain (loss) on available-for-sale securities | (247) | 629 |
| Foreign currency translation adjustments | (4,598) | (29,174) |
| Remeasurements of defined benefit plans | (3) | 88 |
| Share of other comprehensive loss of affiliates accounted under the equity method | (697) | (788) |
| Total other comprehensive loss | (5,546) | (29,244) |
| Comprehensive income (loss) | 5,403 | (18,188) |
| Attributable to: | | |
| Owners of the parent | 5,795 | (17,475) |
| Non-controlling interests | (392) | (713) |

## Segment Information

### For the nine months ended December 31, 2015 (April 1, 2015 to December 31, 2015)

(Millions of Yen)

| | Japan | The Americas | Europe | China | Other | Adjust -ments | Consoli -dated |
|---|---|---|---|---|---|---|---|
| Sales to customers | ¥88,076 | ¥33,049 | ¥19,527 | ¥22,168 | ¥9,911 | ¥− | ¥172,733 |
| Inter-segment | 31,917 | 13 | 10 | 4,707 | 1,010 | (37,658) | − |
| Total | 119,993 | 33,063 | 19,537 | 26,875 | 10,921 | (37,658) | 172,733 |
| Operating income (loss) | 15,463 | 1,910 | 824 | (530) | 1,073 | (525) | 18,215 |

*(Note 1) Adjustments of operating income (loss) of ¥ (525) million consist of ¥736 million of intercompany elimination and ¥ (1,262) million of corporate expenses not allocable to a specific segment. Such expenses are mainly comprised of selling, general and administrative expenses.*

*(Note 2) For the nine-month period ended December 31, 2015, THK made a provisional accounting treatment for the business transfer fromTRW Automotive Inc. because the allocation of acquisition costs had not been completed. Since the allocation of acquisition costs completed by March 31, 2016, the adjusted accounting treatment has been reflected on the consolidated financial statements for the nine-month period ended December 31, 2015. As a result, operating income in the Americas segment and Europe segment for the nine-month period ended December 31, 2015 decreased by ¥45 million and ¥32 million, respectively.*

*(Note 3) In the Americas segment, THK provisionally recorded ¥13,336 million of goodwill arising from the business transfer from TRW Automotive Inc. in the nine-month period ended December 31, 2015. The amount of goodwill was subsequently adjusted to ¥2,616 million since the allocation of acquisition costs was completed.*

*In Europe segment, THK provisionally recorded ¥20,192 million of goodwill arising from the business transfer from TRW Automotive Inc. and acquisition of all shares of THK RHYTHM AUTOMOTIVE CZECH a. s. (formerly, TRW-DAS. a.s.), in the nine-month period ended December 31, 2015. The amount of goodwill was subsequently adjusted to ¥10,618 million since the allocation of acquisition costs was completed.*

### For the nine months ended December 31, 2016 (April 1, 2016 to December 31, 2016)

(Millions of Yen)

| | Japan | The Americas | Europe | China | Other | Adjust -ments | Consoli -dated |
|---|---|---|---|---|---|---|---|
| Sales to customers | ¥88,656 | ¥47,492 | ¥37,382 | ¥20,097 | ¥8,807 | ¥− | ¥202,437 |
| Inter-segment | 31,139 | 105 | 73 | 2,905 | 912 | (35,135) | − |
| Total | 119,796 | 47,597 | 37,455 | 23,002 | 9,720 | (35,135) | 202,437 |
| Operating income | 12,042 | 2,332 | 872 | 307 | 894 | 885 | 17,334 |

*(Note 1) All adjustments are intercompany elimination.*

*(Note 2) As discussed in 5. Accounting Changes, prior to April 1, 2016, the depreciation method for property, plant and equipment of THK and its domestic consolidated subsidiaries mainly was the declining-balance method, whereas that of certain consolidated subsidiaries in the United States of America was the accelerated depreciation method. Effective April 1, 2016, THK and the aforementioned consolidated subsidiaries changed their depreciation method to the straight-line method. As a result, operating income in the Japan segment and the Americas segment increased by ¥965 million and ¥112 million, respectively, as compared to those calculated using the former depreciation method.*

## Business Combination

(Significant adjustment to the provisional amounts of the acquisition costs in the comparative information)

At the end of the nine-month period ended December 31, 2015, THK reported provisional amounts for the business transfer of the linkage and suspension business (the "L&S business") of TRW Automotive Inc. (now a part of ZF Friedrichshafen AG) in Europe and North America and purchase of shares of a TRW subsidiary that were executed on August 31, 2015. Since the accounting for this business combination completed by March 31, 2016, the acquisition costs initially allocated in the comparative information included in the consolidated financial statements for the nine-month period ended December 31, 2016 have been adjusted as follows:

| Item | Adjustments (Millions of Yen) |
|---|---|
| Goodwill (provisional) | ¥33,529 |
| Property, plant and equipment | (2,559) |
| Intangibles | (20,781) |
| Deferred tax liabilities | 2,368 |
| Others | 678 |
| Total adjustments | (20,294) |
| Goodwill (adjusted) | 13,235 |

The effect on the operating results of the nine-month period ended December 31, 2015 was to decrease operating income, ordinary income and income before income taxes each by ¥77 million, due mainly to decreased amortization of goodwill and increased amortization of intangibles.

## Additional notes:

(1) Going concern issues: Not applicable.

(2) Significant change in shareholders' equity: 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.