FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION & ANALYSIS

Analysis of Operating Results

■ Change in the Fiscal Year End

At the 47th General Meeting of Shareholders on June 17, 2017, a partial amendment to the articles of incorporation was approved, and the THK Group changed from a fiscal year end of March 31 to December 31, beginning with the 2017 fiscal year. As the transition takes place during this fiscal year, the scope of consolidation for this modified reporting period includes 9 months for consolidated companies whose fiscal years ended in March (April 1, 2017, to December 31, 2017) and 12 months for consolidated companies whose fiscal years ended in December (January 1, 2017, to December 31, 2017). For this reason, this report omits percentage comparisons with the previous reporting period.

■ Net Sales

During this fiscal year, a moderate recovery continued in the global economy, led by a trend of recovery in Europe and the United States and other developed countries, as well as signs of economic revival in China and other emerging countries. As a result of the recovery in the global economy, the Japanese economy moderately recovered, with a favorable trend in exports and capital investment as well as signs of overall improvement.

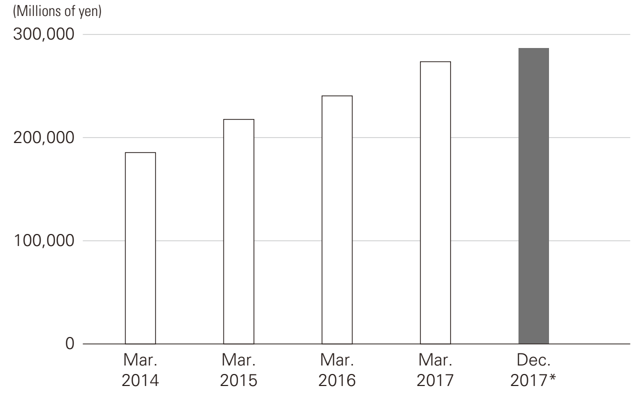
The THK Group has identified *full-scale globalization*, the *development of new business areas*, and a *change in business style* as cornerstones of its growth strategy to expand markets for its products, including LM (Linear Motion) Guides. Under its *full-scale globalization* strategy, the Group is striving to expand its production and sales structures globally to capture demand from China and other emerging countries, where the market is growing due to developments in factory automation (FA) and other areas, as well as the demand from developed countries, where the user base is expanding. Under the *development of new business areas* strategy, the Group is working to increase sales revenue from not only existing products, but also newly developed products, buoyed by growing use of the Company's products in such consumer goods-related fields as seismic isolation and damping systems, medical equipment, aircraft, robotics, renewable energy, and especially automotive parts. Additionally, in order to promote these strategies, the Company is making full use of new technologies such as AI and robots in a variety of different ways, thereby expanding its business domains by realizing a *change in business style*.

During this fiscal year, there was a favorable shift in overall demand for THK products for general machinery and machine tools, particularly in the electronics field, which has been driven by vigorous semiconductor-related investment. Capitalizing on the global business structure it has strengthened over time, THK captured that demand and converted it into sales, resulting in ¥286,603 million in consolidated net sales.

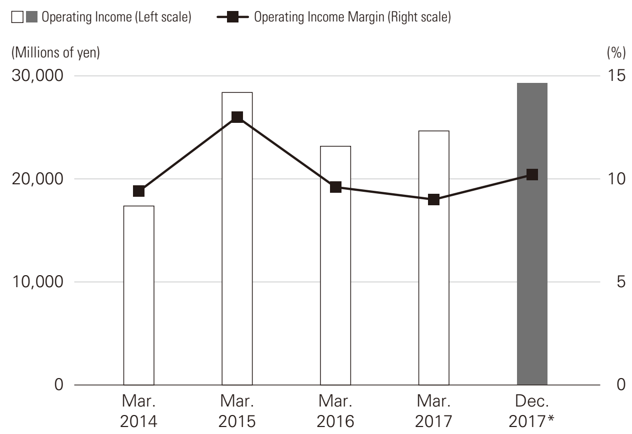
■ Cost of Sales and Selling, General and Administrative (SG&A) Expenses

Although costs increased with the expansion in net sales, with the favorable shift in overall demand, the Group has continued to pursue robotization, automation, and other activities to improve productivity. As a result of those efforts, the cost to sales ratio was 74.8%, and the ratio of SG&A expenses to sales was 14.9%.

Net Sales



Operating Income/Operating Income Margin



*This data reflects a modified reporting period that includes 9 months from consolidated companies whose fiscal years ended in March and 12 months from consolidated companies whose fiscal years ended in December.

■ Operating Income

As a result, the operating income was ¥29,279 million, and the operating margin was 10.2%.

■ Non-Operating Income and Expenses

Non-operating income was ¥2,830 million. This largely comprised ¥948 million of equity in earnings of affiliates and interest received of ¥465 million. Non-operating expenses were ¥855 million, due primarily to ¥360 million in interest expenses and a foreign exchange loss of ¥270 million.

■ Net Income Attributable to Shareholders of THK CO., LTD.

Additionally, the transfer of all shares belonging to THK subsidiary THK RHYTHM CO., LTD., to TRA Holdings CO., LTD., was announced October 23, 2017. The loss on valuation of subsidiary stocks was approved, and a consolidation adjustment was made for the profit on the sale of affiliate stocks. As a result, THK reported a net income attributable to shareholders of THK CO., LTD., of ¥25,729 million, net of ¥3,100 million in corporate income taxes, local inhabitants' taxes, and enterprise taxes.

Segment Information

Japan

As a result of the recovery in the global economy, the Japanese economy moderately recovered, with a favorable trend in exports and capital investment as well as signs of overall improvement. Under those circumstances, the Group saw expanded demand for products for electronics, general machinery, and machine tools, as well as a favorable trend in overall demand, which led to net sales of ¥106,072 million and an operating income (segment income) of ¥20,248 million.

The Americas

As the economy continued to recover in the Americas with steady consumer spending and capital investments, the Company worked diligently to expand transactions with existing customers by unifying production and sales while developing new business areas, including the medical equipment, aircraft, and energy-related fields and particularly the automotive field. Under those circumstances, the Group saw a favorable trend in demand for products for electronics and machine tools, which led to net sales of ¥67,130 million and an operating income (segment income) of ¥2,738 million.

Europe

In Europe, the economy continued to show a moderate recovery centered on consumer spending. In the fiscal year under review, the THK Group strove to expand transactions with existing customers by unifying production and sales to develop new business areas, including the medical equipment, aircraft, and robotics fields and particularly the automotive field. Under those circumstances, the Group saw a favorable trend in demand for products for general machinery and machine tools, which led to net sales of ¥57,247 million and an operating income (segment income) of ¥627 million.

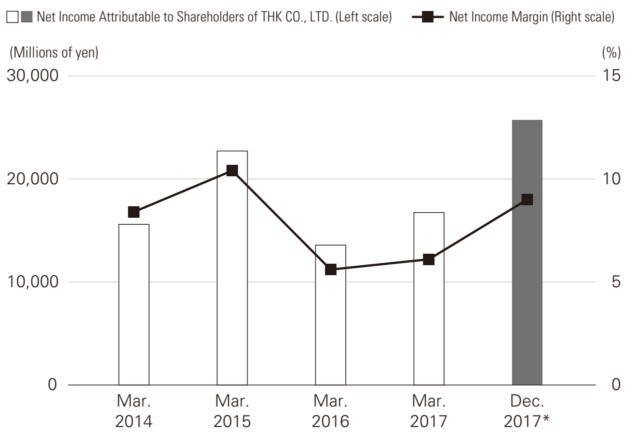
China

In conjunction with an expansion in demand that has accompanied investment in smartphones and automobiles in China, FA has progressed against the backdrop of rising wages and a shortage of labor, which in turn has broadened demand for the Company's products. Capitalizing on the sales and production structures it has actively strengthened over time, THK captured that demand and converted it into sales, resulting in ¥40,024 million in net sales and an operating income (segment income) of ¥3,126 million.

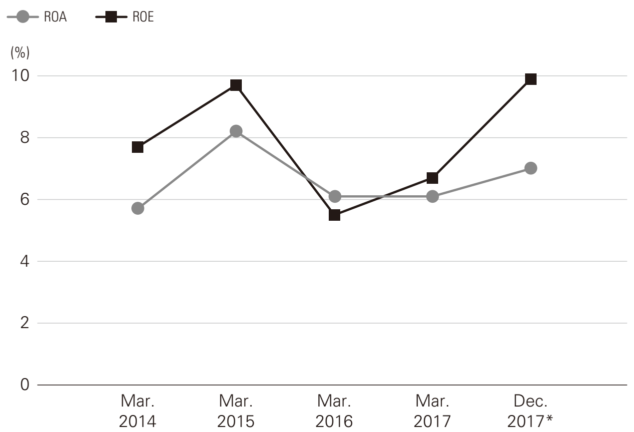
Asia and Other

As THK expanded its sales network in the ASEAN region and other parts of the world, the Group undertook aggressive sales activities to expand transactions with existing customers and acquire new customers. Those activities, and the effect of the expanded demand in China that was felt in certain regions, resulted in net sales of ¥16,128 million and an operating income (segment income) of ¥2,171 million.

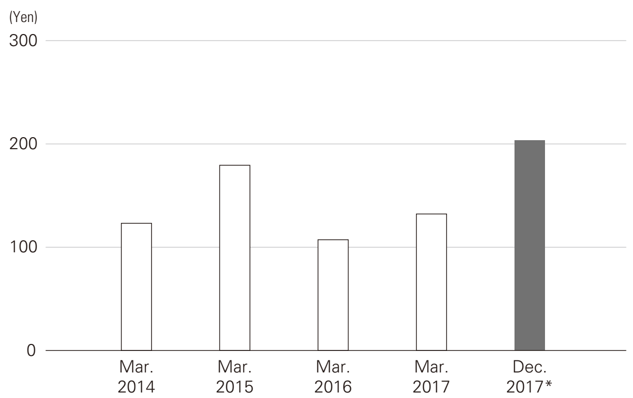
Net Income Attributable to Shareholders of THK CO., LTD./Net Income Margin



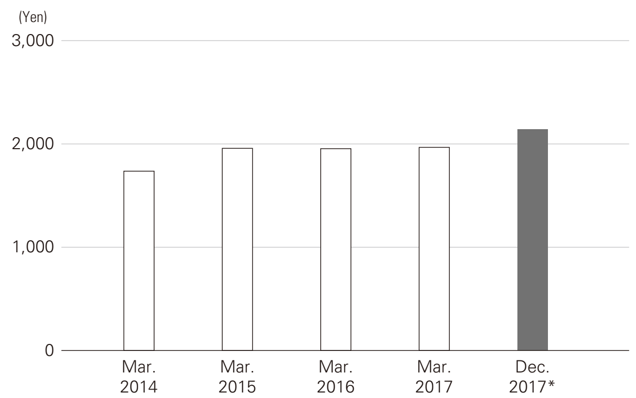
Return on Assets (ROA)/Return on Equity (ROE)



Net Income per Share



Net Assets per Share



Financial Position

■ Assets, Liabilities, and Net Assets

Assets

Total current assets stood at ¥270,975 million as of December 31, 2017, an increase of ¥11,147 million compared with the previous fiscal year end. Although cash and cash equivalents decreased ¥7,424 million as a result of capital investments and the repayment of long-term debt, trade accounts and notes receivable increased ¥11,623 million with the upswing in net sales, and inventories increased ¥6,373 million.

Total non-current assets stood at ¥165,689 million as of December 31, 2017, an increase of ¥10,585 million compared with the previous fiscal year end. This increase was primarily due to a ¥7,294 million increase in tangible fixed assets from capital investments and a ¥3,124 million increase in investments and other assets.

Liabilities

Total liabilities stood at ¥154,910 million as of December 31, 2017, down ¥8,480 million compared with the previous fiscal year end. This decrease was primarily due to the repayment of ¥13,000 million of long-term debt, despite an increase of ¥3,564 million in trade accounts and notes payable and an increase of ¥2,040 million in accrued expenses.

Net Assets

Total net assets stood at ¥281,754 million as of December 31, 2017, an increase of ¥30,213 million compared with the previous fiscal year end. This increase was primarily due to the ¥25,729 million net income attributable to shareholders of THK CO., LTD., in addition to a ¥6,666 million increase in foreign currency translation adjustments and an ¥8,206 million increase in non-controlling interests, despite ¥7,726 million in payments for cash dividends.

■ Cash Flows

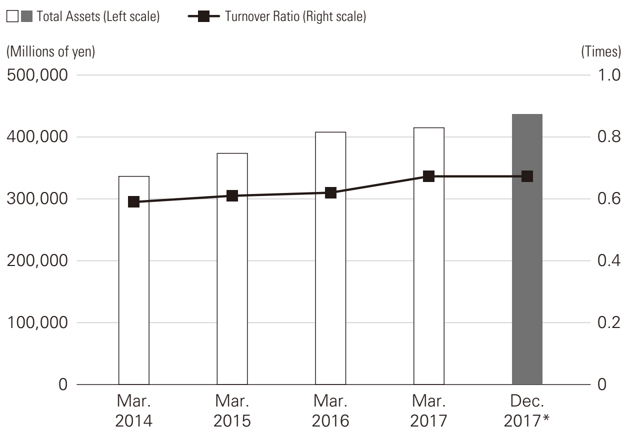
Net cash provided by operating activities came to ¥25,616 million. This total primarily reflects an income before income taxes of ¥31,034 million, depreciation and amortization of ¥13,240 million, a ¥9,897 million increase in trade accounts and notes receivable, and a ¥5,463 million increase in inventories.

Net cash used in investing activities totaled ¥15,831 million, primarily due to the purchase of fixed assets.

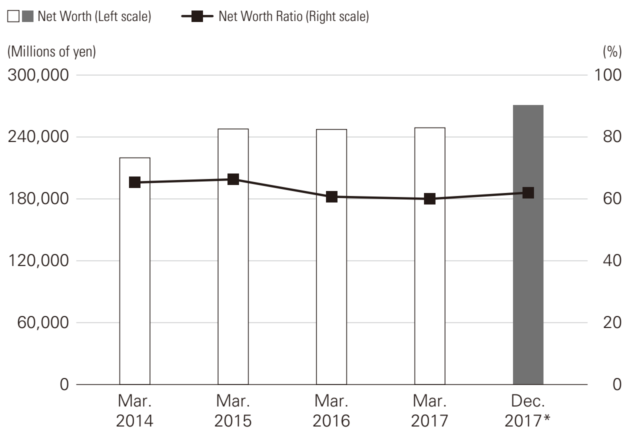
Net cash used in financial activities totaled ¥17,802 million, which included ¥13,000 million in the repayment of long-term debt and ¥7,726 million in cash dividends.

In addition to each of the aforementioned activities, accounting for the effect of exchange differences, cash and cash equivalents as of December 31, 2017, stood at ¥129,920 million, a decrease of ¥7,424 million compared with the end of the previous fiscal year.

Total Assets/Turnover Ratio



Net Worth/Net Worth Ratio



RISK FACTORS

Risk factors and uncertainties that could affect the THK Group's business results and financial position include, but are not limited to, the items outlined below.

Please note that any items relating to the future are based on the best judgment of THK Group management as of March 19, 2018.

Dependence on Linear Motion Systems

The principal business of the THK Group is the manufacture and sale of linear motion systems, notably LM Guides. Linear motion systems account for the majority of sales and are expected to continue to do so for the foreseeable future. Any unexpected technical revolution that jeopardizes the position of linear motion systems as a critical machine component could have a negative impact on the business results and financial position of the THK Group.

Effect of Changes in Production Trends within Specific Industries

The THK Group manufactures and sells LM Guides, ball screws, and other machine components, as well as link balls, suspension ball joints, and other transportation equipment components. The principal users of these products are companies that make industrial machinery and equipment, including machine tools, general machinery, and semiconductor manufacturing equipment, as well as manufacturers of transportation equipment. While the THK Group is striving through full-scale globalization, the development of new business areas, and a change in business style to realize expansions in its business domains, the performance of the THK Group is influenced by production trends within industrial sectors such as machine tools, general machinery, semiconductor manufacturing equipment, and transportation equipment, whose manufacturers constitute the THK Group's major customers.

As a result, the business results and financial position of the THK Group could be affected negatively in the future by a downturn in production levels in these specific industries.

Business Expansion Outside of Japan

The THK Group has manufacturing and sales operations in the Americas, Europe, China, and other regions. Economic downturns in countries where the THK Group manufactures or sells products, as well as the resulting reduction in demand for the Company's products, could have a negative impact on the THK Group's business results and financial position. Any unexpected legal and regulatory changes in countries other than Japan could also have a similar effect.

Exchange Rate Fluctuations

While the THK Group engages in the hedging of risks by means such as foreign exchange contracts for foreign currency transactions, primarily with regard to importing and exporting, there is the possibility that the Group's business results and financial position could be negatively impacted by any major exchange rate fluctuations.

Furthermore, the financial statements of THK's subsidiaries outside of Japan are converted to yen for the generation of the Company's consolidated financial statements. Thus, there is also the possibility that, even with there being no change in the value in the local currency, the amount on the consolidated financial statement after the conversion to yen could be negatively impacted by the exchange rate at the time of conversion.

Reliance on Specific Supply Sources

The THK Group procures some of its raw materials and parts from external supply sources. As a result, the THK Group's business results and financial position could be negatively affected in the event of a shortfall in raw materials and parts owing to factors such as a drop in the production capacity of suppliers, a natural disaster, or some other unforeseen incident.

Incidence of Non-Conforming Products

THK Group products are widely used in industrial machinery, including machine tools, industrial robots, and semiconductor manufacturing equipment. Applications for THK products have also expanded to include various areas related to consumer goods, including automobiles, seismic isolation and damping systems, medical equipment, aircraft, robots, and renewable energy.

Under these circumstances, the THK Group has worked to establish quality assurance systems to ensure that high product quality is maintained across all product sectors. However, any incidence of non-conforming product that arises in any of these markets could potentially result in substantial costs or a loss of trust among the general public, thereby exerting a negative impact on the business results and financial position of the THK Group.

Information Security

The THK Group collects, maintains, and manages personal information as well as trade secrets relating to its customers, business partners, and other affiliates as it conducts its business activities. Every effort is made to ensure that this information is stringently managed. However, if part or all of this information is leaked due to a computer virus, information system defect, or another factor, such an event would have the potential to exert a negative impact on the Group's credibility, which could similarly affect the Group's business results and financial position.

Disasters, Acts of Terrorism, Infectious Diseases, and Other Maladies

The THK Group possesses manufacturing facilities as well as sales offices in Japan, the Americas, Europe, China, and other regions. In the event that any of the Group's places of business are affected by natural disasters, including earthquakes and fires; political unrest due to acts of terrorism or war; or the outbreak of an infectious disease, the potential exists for the THK Group's business results and financial position to be negatively impacted.

Sharp Hikes in the Prices of Raw Materials

In the event of unanticipated sharp hikes in the prices of raw materials arising from factors such as high crude oil prices, the social conditions in countries that supply raw materials, and rising demand in emerging countries, the manufacturing costs of the Group's products can be expected to increase. As a result, there is a possibility that the THK Group's business results and financial position could be negatively impacted.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD., and consolidated subsidiaries

Consolidated Balance Sheets

December 31, 2017, and March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2017	March 31, 2017	**December 31, 2017**
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 18)	**¥ 129,920**	¥ 137,345	**$ 1,149,226**
Receivables (Note 18):			
Trade accounts and notes receivable (Note 3)	**85,457**	72,636	**755,922**
—Unconsolidated subsidiaries and affiliates	**1,600**	2,798	**14,153**
Other receivables	**1,593**	2,035	**14,091**
—Unconsolidated subsidiaries and affiliates	**1,102**	897	**9,747**
	89,754	78,367	**793,931**
Less allowance for doubtful receivables	**(218)**	(174)	**(1,928)**
	89,535	78,192	**791,994**
Inventories (Note 4)	**43,802**	37,428	**387,456**
Short-term loans receivable	**3**	3	**26**
Deferred tax assets (Note 15)	**2,337**	2,780	**20,672**
Other current assets	**5,374**	4,075	**47,536**
Total current assets	**270,975**	259,827	**2,396,948**
Investments and Other:			
Investments in securities (Notes 6 and 18)	**6,087**	4,107	**53,843**
Investments in unconsolidated subsidiaries and affiliates	**5,290**	4,182	**46,793**
Net defined benefit asset (Note 8)	**2,295**	2,110	**20,300**
Long-term loans receivable	**72**	61	**637**
Deferred tax assets (Note 15)	**754**	1,444	**6,669**
Other investments	**2,860**	2,328	**25,298**
Total investments and other	**17,359**	14,235	**153,551**
Property, Plant and Equipment (Note 5):			
Buildings and structures	**72,565**	69,730	**641,884**
Machinery, equipment, vehicles and others (Note 14)	**212,559**	196,866	**1,880,221**
	285,124	266,596	**2,522,105**
Less accumulated depreciation	**(193,598)**	(180,188)	**(1,712,498)**
	91,525	86,408	**809,597**
Land	**13,955**	13,854	**123,440**
Construction in progress	**10,452**	8,377	**92,454**
Total property, plant and equipment	**115,934**	108,639	**1,025,510**
Intangibles:			
Goodwill	**11,449**	11,251	**101,273**
Other	**20,945**	20,976	**185,272**
Total intangibles	**32,395**	32,228	**286,554**
Total assets	**¥ 436,664**	¥ 414,931	**$ 3,862,574**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2017	March 31, 2017	**December 31, 2017**
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current portion of long-term debt (Notes 7 and 18)	**¥ 22,185**	¥ 15,185	**$ 196,240**
Payables (Note 18):			
Trade accounts and notes payable	**45,190**	41,728	**399,734**
—Unconsolidated subsidiaries and affiliates	**1,063**	960	**9,402**
Other payables	**5,773**	3,346	**51,065**
—Unconsolidated subsidiaries and affiliates	**121**	37	**1,070**
	52,148	46,073	**461,282**
Income taxes payable	**1,673**	3,865	**14,798**
Accrued bonuses to employees	**2,971**	3,398	**26,280**
Other accrued expenses	**8,639**	6,599	**76,417**
Lease obligations	**126**	147	**1,114**
Other current liabilities	**5,452**	5,610	**48,226**
Total current liabilities	**93,196**	80,880	**824,378**
Long-term Liabilities:			
Long-term debt (Notes 7 and 18)	**47,480**	67,480	**419,991**
Reserve for directors' and corporate auditors' retirement benefits	**108**	116	**955**
Reserve for product warranty	**118**	129	**1,043**
Long-term lease obligations	**114**	156	**1,008**
Net defined benefit liability (Note 8)	**7,389**	7,827	**65,360**
Deferred tax liabilities (Note 15)	**5,134**	5,359	**45,413**
Other liabilities	**1,368**	1,440	**12,100**
Total long-term liabilities	**61,713**	82,510	**545,891**
Commitment and Contingent Liabilities (Notes 9 and 10)			
Net Assets (Note 11):			
Shareholders' equity			
Common stock			
Authorized: 465,877,700 shares; Issued: 133,856,903 shares as of December 31, 2017, and March 31, 2017	**34,606**	34,606	**306,112**
Additional paid-in capital	**40,440**	44,584	**357,717**
Retained earnings	**194,626**	176,617	**1,721,592**
Treasury stock, at cost: 7,287,650 shares and 7,285,746 shares as of December 31, 2017, and March 31, 2017, respectively	**(13,998)**	(13,991)	**(123,821)**
Total shareholders' equity	**255,675**	241,817	**2,261,609**
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	**2,847**	1,585	**25,183**
Foreign currency translation adjustments	**13,459**	6,793	**119,053**
Remeasurements of defined benefit plans	**(1,033)**	(1,256)	**(9,137)**
Total accumulated other comprehensive income	**15,272**	7,122	**135,090**
Non-controlling interests	**10,806**	2,600	**95,586**
Total net assets	**281,754**	251,540	**2,492,295**
Total liabilities and net assets	**¥ 436,664**	¥ 414,931	**$ 3,862,574**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Nine months ended December 31, 2017, and year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Nine months ended December 31, 2017	Year ended March 31, 2017	**Nine months ended December 31, 2017**
Net Sales	**¥ 286,603**	¥ 273,577	**$ 2,535,187**
Cost of Sales (Note 13)	**214,490**	203,112	**1,897,302**
Gross profit	**72,112**	70,464	**637,877**
Selling, General and Administrative Expenses (Notes 12 and 13)	**42,833**	45,811	**378,885**
Operating income	**29,279**	24,653	**258,991**
Non-Operating Income (Expenses):			
Interest and dividend income	**551**	497	**4,873**
Interest expenses	**(360)**	(397)	**(3,184)**
Foreign exchange loss, net	**(270)**	(2,942)	**(2,388)**
Equity in earnings of an affiliate	**948**	524	**8,385**
Rental income	**317**	403	**2,804**
Loss on sales and disposal of property, plant and equipment, net	**(123)**	(341)	**(1,088)**
Impairment loss (Note 5)	**(54)**	—	**(477)**
Other, net	**747**	659	**6,607**
	1,755	(1,596)	**15,524**
Income before income taxes	**31,034**	23,057	**274,515**
Income Taxes (Note 15)			
Current	**5,091**	6,447	**45,033**
Deferred	**(195)**	(64)	**(1,724)**
Total income taxes	**4,895**	6,383	**43,299**
Net income	**26,139**	16,673	**231,216**
Net income (loss) attributable to non-controlling interests	**409**	(58)	**3,617**
Net income attributable to shareholders of THK CO., LTD.	**¥ 25,729**	¥ 16,731	**$ 227,589**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Nine months ended December 31, 2017, and year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Nine months ended December 31, 2017	Year ended March 31, 2017	**Nine months ended December 31, 2017**
Net Income	**¥ 26,139**	¥ 16,673	**$ 231,216**
Other Comprehensive Income (Loss) (Note 16):			
Net unrealized gain on available-for-sale securities	**1,255**	920	**11,101**
Foreign currency translation adjustments	**6,469**	(10,990)	**57,222**
Remeasurements of defined benefit plans	**227**	171	**2,007**
Share of other comprehensive income (loss) of an affiliate accounted for under the equity method	**317**	(542)	**2,804**
Total other comprehensive income (loss)	**8,270**	(10,441)	**73,153**
Comprehensive Income	**34,409**	6,231	**304,369**
Attributable to:			
Shareholders of THK CO., LTD.	**33,879**	6,823	**299,681**
Non-controlling interests	**¥ 530**	(591)	**$ 4,688**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Nine months ended December 31, 2017, and year ended March 31, 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	¥ 34,606	¥ 44,584	¥ 165,076	¥ (13,950)	¥ 230,317
Cash dividends	—	—	(5,190)	—	(5,190)
Net income attributable to shareholders of THK CO., LTD.	—	—	16,731	—	16,731
Purchase of treasury stock	—	—	—	(41)	(41)
Net changes of items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2017	**¥ 34,606**	**¥ 44,584**	**¥ 176,617**	**¥ (13,991)**	**¥ 241,817**
Cash dividends	**—**	**—**	**(7,721)**	**—**	**(7,721)**
Net income attributable to shareholders of THK CO., LTD.	**—**	**—**	**25,729**	**—**	**25,729**
Purchase of treasury stock	**—**	**—**	**—**	**(6)**	**(6)**
Changes in parent's interest due to transactions with non-controlling shareholders	**—**	**(4,143)**	**—**	**—**	**(4,143)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at December 31, 2017	**¥ 34,606**	**¥ 40,440**	**¥ 194,626**	**¥ (13,998)**	**¥ 255,675**

	Millions of yen					
	Accumulated other comprehensive income					
	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥ 665	¥ 17,759	¥ (1,394)	¥ 17,030	¥ 3,192	¥ 250,540
Cash dividends	—	—	—	—	—	(5,190)
Net income attributable to shareholders of THK CO., LTD.	—	—	—	—	—	16,731
Purchase of treasury stock	—	—	—	—	—	(41)
Net changes of items other than shareholders' equity	920	(10,965)	137	(9,907)	(591)	(10,499)
Balance at March 31, 2017	**¥ 1,585**	**¥ 6,793**	**¥ (1,256)**	**¥ 7,122**	**¥ 2,600**	**¥ 251,540**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(7,721)**
Net income attributable to shareholders of THK CO., LTD.	**—**	**—**	**—**	**—**	**—**	**25,729**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(6)**
Changes in parent's interest due to transactions with non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**(4,143)**
Net changes of items other than shareholders' equity	**1,261**	**6,666**	**222**	**8,149**	**8,206**	**16,355**
Balance at December 31, 2017	**¥ 2,847**	**¥ 13,459**	**¥ (1,033)**	**¥ 15,272**	**¥ 10,806**	**¥ 281,754**

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 31, 2017	**$ 306,112**	**$ 394,374**	**$ 1,562,291**	**$ (123,759)**	**$ 2,139,026**
Cash dividends	**—**	**—**	**(68,297)**	**—**	**(68,297)**
Net income attributable to shareholders of THK CO., LTD.	**—**	**—**	**227,589**	**—**	**227,589**
Purchase of treasury stock	**—**	**—**	**—**	**(53)**	**(53)**
Changes in parent's interest due to transactions with non-controlling shareholders	**—**	**(36,647)**	**—**	**—**	**(36,647)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at December 31, 2017	**$ 306,112**	**$ 357,717**	**$ 1,721,592**	**$ (123,821)**	**$ 2,261,609**

	Thousands of U.S. dollars (Note 1)					
	Accumulated other comprehensive income					
	Net unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2017	**$ 14,020**	**$ 60,088**	**$ (11,110)**	**$ 62,998**	**$ 22,998**	**$ 2,225,033**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(68,297)**
Net income attributable to shareholders of THK CO., LTD.	**—**	**—**	**—**	**—**	**—**	**227,589**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**(53)**
Changes in parent's interest due to transactions with non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**(36,647)**
Net changes of items other than shareholders' equity	**11,154**	**58,965**	**1,963**	**72,083**	**72,587**	**144,670**
Balance at December 31, 2017	**$ 25,183**	**$ 119,053**	**$ (9,137)**	**$ 135,090**	**$ 95,586**	**$ 2,492,295**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Nine months ended December 31, 2017, and year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Cash Flows from Operating Activities:			
Income before income taxes	**¥ 31,034**	¥ 23,057	**$ 274,515**
Adjustments:			
Depreciation and amortization	**13,240**	13,185	**117,116**
Impairment loss	**54**	—	**477**
Amortization of goodwill	**854**	978	**7,554**
Interest and dividend income	**(551)**	(497)	**(4,873)**
Interest expenses	**360**	397	**3,184**
Foreign exchange loss, net	**110**	1,409	**973**
Equity in earnings of an affiliate	**(948)**	(524)	**(8,385)**
Loss on sales and disposal of property, plant and equipment, net	**165**	341	**1,459**
Changes in assets and liabilities:			
Increase in accounts and notes receivable	**(9,897)**	(5,906)	**(87,545)**
(Increase) decrease in inventories	**(5,463)**	422	**(48,323)**
Increase in accounts and notes payable	**2,246**	7,416	**19,867**
(Decrease) increase in provisions	**(439)**	172	**(3,883)**
Increase in net defined benefit liability	**420**	421	**3,715**
Other, net	**856**	1,819	**7,571**
Subtotal	**32,044**	42,693	**283,449**
Interest and dividend received	**542**	480	**4,794**
Interest paid	**(398)**	(351)	**(3,520)**
Income taxes paid	**(6,572)**	(2,646)	**(58,133)**
Net cash provided by operating activities	**25,616**	40,175	**226,590**
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment and intangibles	**(15,699)**	(17,482)	**(138,867)**
Proceeds from sales of property, plant and equipment	**26**	20	**229**
Increase in investments in securities, unconsolidated subsidiaries and affiliates	**(209)**	(238)	**(1,848)**
Increase in loans receivable	**(11)**	(125)	**(97)**
Payment for insurance fund	**(7)**	—	**(61)**
Cancellation of insurance fund	**—**	11	**—**
Other, net	**69**	(145)	**610**
Net cash used in investing activities	**(15,831)**	(17,960)	**(140,035)**
Cash Flows from Financing Activities:			
Repayment of long-term debt	**—**	(2,185)	**—**
Redemption of corporate bonds	**(13,000)**	—	**(114,993)**
Cash dividends	**(7,726)**	(5,185)	**(68,341)**
Proceeds from payment from non-controlling shareholders	**3,000**	—	**26,536**
Purchase of treasury stock	**(6)**	(41)	**(53)**
Repayment of lease obligations	**(69)**	(137)	**(610)**
Net cash used in financing activities	**(17,802)**	(7,548)	**(157,470)**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	**593**	(4,285)	**5,245**
Net (Decrease) Increase in Cash and Cash Equivalents	**(7,424)**	10,380	**(65,670)**
Cash and Cash Equivalents at Beginning of Year	**137,345**	126,964	**1,214,904**
Cash and Cash Equivalents at End of Year	**¥ 129,920**	¥ 137,345	**$ 1,149,226**

The accompanying notes are an integral part of these statements.

THK CO., LTD., and consolidated subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of THK CO., LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards as to application and disclosure requirements.

The accompanying consolidated financial statements include certain reclassifications and rearrangements to present them in a form that is more familiar to readers outside Japan. Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications have been made solely for comparability of the consolidated financial statements, and do not affect net income or net assets. In addition, the notes to the consolidated financial statements include information that is not required under Japanese GAAP, but which is provided herein as additional information.

Effective from the current fiscal year, the Company and its consolidated subsidiaries with fiscal closing dates other than December 31 changed their fiscal closing dates to December 31 in order to promote management on a Group-wide basis, as well as to enhance the further transparency of management through timely and appropriate disclosure of management information, including operating performances, etc. As a result of this change of the fiscal closing date from March 31 to December 31, the current reporting period covers the nine-month period from April 1, 2017, to December 31, 2017, for the Company and its consolidated subsidiaries whose fiscal closing dates were March 31, and the twelve-month period from January 1, 2017, to December 31, 2017, for the consolidated subsidiaries whose fiscal closing dates were December 31.

Operating results from January 1, 2017, to March 31, 2017, of the consolidated subsidiaries whose fiscal closing dates were December 31 are adjusted through the consolidated statement of income, where net sales, operating income and income before income taxes during these three months were included in the amounts of ¥44,414 million ($392,870 thousand), ¥2,129 million ($18,832 thousand) and ¥1,979 million ($17,505 thousand), respectively.

U.S. dollar amounts presented in the consolidated financial statements are included solely for the convenience of the readers. These translations should not be construed as presentations that the yen amounts actually represent or could be converted into U.S. dollars at that or any other rate. For this purpose, the rate of ¥113.05 to U.S. $1, the approximate rate of exchange prevailing in Tokyo on December 29, 2017, has been used for the translation of the accompanying consolidated financial statements as of December 31, 2017, and for the nine months then ended.

As permitted by the Financial Instruments and Exchange Act, amounts of less than one million yen have been omitted. U.S. dollar amounts are translated from such yen amounts, and amounts of less than one thousand dollars have been omitted. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are controlled by the Company. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, those companies over which the Company is able to directly or indirectly exercise control are to be consolidated even if the holding ratio equals 50% or less. All significant inter-company transaction accounts and unrealized inter-company profits are eliminated upon consolidation. For consolidated subsidiaries and an affiliate whose closing dates are different from that of the Company, certain adjustments necessary for consolidation have been made.

The Company had 39 subsidiaries as of December 31, 2017, and 38 subsidiaries as of March 31, 2017. The consolidated financial statements for the nine months ended December 31, 2017, and the year ended March 31, 2017, include the accounts of the Company and its 36 and 35 consolidated subsidiaries (collectively, "the Group"), respectively. Investments in the remaining three subsidiaries, including THK BRAZIL INDUSTRIA E COMERCIO LTDA., are not consolidated and stated at cost, because these companies are small in size, and if these companies had been consolidated, the effect on the consolidated financial statements would not have been significant.

(Changes in the scope of consolidation)

Changes in the scope of consolidation for the nine months ended December 31, 2017, were as follows:

TRA Holdings CO., LTD., which was newly established during the nine months ended December 31, 2017, was included in the scope of consolidation.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary (goodwill) at the date of acquisition is amortized over 15 years by the straight-line method.

(Application of the equity method)

The Company had three affiliates and three unconsolidated subsidiaries as of December 31, 2017, and March 31, 2017. Under the control concept, companies over which the Company directly or indirectly has the ability to exercise significant influence are accounted for using the equity method. For the nine months December 31, 2017, and the year ended March 31, 2017, the Company has applied the equity method to investment in SAMICK THK CO., LTD. Investments in the remaining affiliates and unconsolidated subsidiaries (THK BRAZIL INDUSTRIA E

COMERCIO LTDA., etc.) are stated at cost. If the equity method had been applied to the investments in those companies, the effect on the consolidated financial statements would not have been significant.

(Change in the fiscal closing dates of the Company and certain consolidated subsidiaries)

As noted in Note 1, the fiscal closing date was unified into December 31, effective from the current fiscal year. Consequently, the fiscal closing date of consolidated subsidiaries agrees with that of the Company as of December 31, 2017. The reporting period of the current fiscal year ended December 31, 2017, for the Company, its domestic consolidated subsidiaries and THK India Pvt. Ltd. is the nine months from April 1, 2017, to December 31, 2017, and that for overseas consolidated subsidiaries, excluding THK India Pvt. Ltd., is the twelve months from January 1, 2017, to December 31, 2017.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP; (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are immaterial: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in net assets; 3) expensing capitalized development costs of research and development; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) exclusion of non-controlling interests from net income, if contained.

(b) Translation of Foreign Currency Financial Statements

Assets and liabilities of foreign subsidiaries and an affiliate are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Net assets except for minority interest account at the beginning of the year are translated into Japanese yen at historical rates. Profit and loss accounts are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from use of different rates are presented as foreign currency translation adjustments in the accumulated other comprehensive income of the net assets section.

(c) Inventories

Inventories, except for work in process, are stated at cost determined principally by the gross average method. Work in process for ordered products is stated at cost determined principally by the specific identified cost method. If acquisition cost of an inventory exceeds its net selling value, the carrying amount of such inventory is written down to its net selling value, and the difference is charged to income.

(d) Financial Instruments

Securities

Investments in securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of net assets. If the fair value of available-for-sale securities is not readily determinable, such investments are stated at cost.

With respect to equity investments in investment business limited partnerships, which are regarded as securities pursuant to paragraph 2 of Article 2 of the Financial Instruments and Exchange Act, such investments are stated using net equity based on the recent available financial statements as of the reporting dates which are provided by the partnership agreements.

For other than temporary declines in fair value, investments in securities are written down to the net realizable value, and the difference is charged to income.

Derivatives and Hedging Accounting

The Group uses a variety of derivative financial instruments, including forward foreign exchange contracts, interest rate swap contracts and interest rate and currency swap contracts to manage foreign exchange risks and interest rate risks. The Company has established a control environment, which includes policies and procedures for risk assessments and approval, and reporting and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue derivative financial instruments for speculative purposes.

Hedge accounting method:

For forward foreign exchange contracts which satisfy the required condition under the related Japanese accounting standards, the hedged foreign currency-denominated receivables and payables are translated at the contract rates, and no gains or losses are recognized.

For interest rate swap contracts which satisfy the required condition under the related Japanese accounting standards, the differential paid or received under the swap contracts are recognized and included in the interest income or expenses.

For interest rate and currency swap contracts which satisfy the required condition under the related Japanese accounting standards, the hedged foreign currency assets and liabilities are translated at the contract rates, no gains or losses on the translation are recognized and the differential paid or received on interest rates under swap contracts are recognized and included in the interest income or expenses.

Hedging instruments and hedged items are as follows:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency-denominated receivables and payables
Interest rate swap contracts	Interest on bank loans
Interest rate and currency swap contracts	Foreign currency-denominated loans and interest thereof

Hedging policy:

Forward foreign exchange contracts aim to hedge foreign exchange fluctuation risk and fix cash flows associated with collection of and payment for foreign currency-denominated receivables and payables.

Interest rate swap contracts aim to hedge interest rate fluctuation risk associated with bank loans.

Interest rate and currency swap contracts aim to hedge foreign exchange fluctuation risk and interest rate fluctuation risk associated with foreign currency denominated bank loans.

Assessment of hedge effectiveness:

With respect to forward foreign exchange contracts, assessment of hedge effectiveness is omitted since significant conditions concerning hedging instruments and hedged items are identical, and it is assumed in advance that those contracts will offset market fluctuations or cash flow fluctuations upon and continuously after the beginning of the hedge.

With respect to interest rate swap contracts, assessment of hedge effectiveness is omitted since they meet the requirements for special hedge accounting treatments.

With respect to interest rate and currency swap contracts, assessment of hedge effectiveness is omitted since they meet the requirements for applicable special accounting treatments as mentioned above.

(e) Property, Plant and Equipment (except for leased assets)

Property, plant and equipment of the Company and its domestic consolidated subsidiaries are depreciated using the straight-line method.

The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 12 years for machinery, equipment and vehicles.

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(f) Intangibles

Intangible assets are amortized using the straight-line method.

Software for internal use by the Company and domestic consolidated subsidiaries is amortized on a straight-line basis over a period of five years, the estimated useful life of the software.

(g) Lease

Leased assets under finance lease arrangements that do not transfer ownership are depreciated using the straight-line method over the lease term as the useful life, with the residual value deemed to be zero.

(h) Allowance for Doubtful Receivables

Allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(i) Accrued Bonuses to Employees

Accrued bonuses to employees are stated at an estimated amount to be paid in the following year based on the employees' compensation in the current year.

(j) Reserve for Directors' and Corporate Auditors' Retirement Benefits

Reserve for directors' and corporate auditors' retirement benefits represents the liability at the amount that would be required if all eligible directors and corporate auditors retired at each balance sheet date.

(k) Reserve for Product Warranty

Reserve for product warranty is stated at amount based on the Group's past experience in order to cover possible warranty liabilities.

(l) Accounting for Employees' Retirement Benefits

1) Methods to determine the estimated retirement benefits to be attributed to the reporting period
   The benefit formula is employed for the method of determining the estimated retirement obligation to be attributed to the reporting period.
2) Amortization of actuarial gains/losses and prior service cost
   Prior service cost is amortized pro rata in the years from the following fiscal year by the straight-line method, based on the average remaining service years (15 years) of the employees when incurred. Actuarial gains/losses are amortized pro rata in the years from the following fiscal year by the straight-line method, based on the average remaining service years (from 5 to 18 years) of the employees when incurred.
3) Application of the simplified method for small businesses
   For certain consolidated subsidiaries, a simplified method is applied for the calculation of retirement benefit obligations and retirement benefit expenses whereby the necessary retirement benefit provisions for voluntary resignations at the end of the consolidated fiscal year are recorded as retirement benefit obligations.

(m) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward foreign exchange contracts.

(n) Consumption Taxes

Japanese consumption taxes are levied at the flat rate of eight percent on all domestic consumption of goods and services, with certain exemptions. The consumption taxes received by the Company and domestic subsidiaries on sales are excluded from net sales, but are recorded as a liability. The consumption taxes paid by the Company and domestic subsidiaries on purchases of goods and services are excluded from costs or expenses, but are recorded as an asset. The net balance of liability after offsetting against assets is included in "Other current liabilities" in the consolidated balance sheets.

(o) Income Taxes
Japanese income taxes consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are determined by applying currently enacted tax laws to the temporary differences.

(p) Cash and Cash Equivalents
Cash and cash equivalents are composed of cash on hand, bank deposits that can be withdrawn on demand and short-term investments with original maturity of three months or less and which carry a minor risk of fluctuations in value.

(q) Per Share Information
Net assets per share is computed by dividing net assets except minority interests at the year-end by the number of common stock outstanding at the year-end.

Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

3. Notes receivable

December 31, 2017, falls on a bank holiday. The following notes receivable matured in that date were accounted for as if they were settled on that date:

	Millions of yen	Thousands of U.S. dollars
Notes receivable (including electronically recorded receivables)	¥ 2,087	$ 18,460

4. Inventories

Inventories as of December 31, 2017, and March 31, 2017, comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Merchandise and finished goods	**¥ 14,357**	¥ 12,860	**$ 126,996**
Work in process	**10,104**	8,607	**89,376**
Raw materials and supplies	**19,340**	15,960	**171,074**
Total	**¥ 43,802**	¥ 37,428	**$ 387,456**

5. Long-lived Assets

For the nine months ended December 31, 2017, the Group recognized an impairment loss on the following asset group:

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Hamamatsu city, Shizuoka	Assets planned to be disposed of	Land	¥ 54	$ 477

In assessing whether there is an impairment of long-lived assets, assets are grouped basically based on managerial accounting units. Among rental properties, idle assets and those properties which the Board of Directors made a decision to dispose of, significant assets planned to be disposed of are treated as an individual grouping by item.

For the asset group planned to be disposed of, the Company wrote down the book value to the recoverable amount, and such amount was recognized as an impairment loss. The recoverable amount of the applicable asset group is measured at net selling value and assessed by the estimated sales value.

No impairment loss was recognized for the year ended March 31, 2017.

6. Investments in Securities

As of December 31, 2017, and March 31, 2017, available-for-sale securities with available fair value were as follows:

	Millions of yen		
	December 31, 2017		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
Carrying amount (fair value) exceeds acquisition cost: Equity securities	**¥ 5,467**	**¥ 1,461**	**¥ 4,005**
Carrying amount (fair value) does not exceed acquisition cost: Equity securities	**12**	**12**	**(0)**
Total	**¥ 5,480**	**¥ 1,474**	**¥ 4,005**

	Millions of yen		
	March 31, 2017		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
Carrying amount (fair value) exceeds acquisition cost: Equity securities	¥ 3,307	¥ 1,028	¥ 2,279
Carrying amount (fair value) does not exceed acquisition cost: Equity securities	366	430	(64)
Total	¥ 3,674	¥ 1,459	¥ 2,215

	Thousands of U.S. dollars		
	December 31, 2017		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
Carrying amount (fair value) exceeds acquisition cost: Equity securities	**$ 48,359**	**$ 12,923**	**$ 35,426**
Carrying amount (fair value) does not exceed acquisition cost: Equity securities	**106**	**106**	**(0)**
Total	**$ 48,474**	**$ 13,038**	**$ 35,426**

As of December 31, 2017, and March 31, 2017, available-for-sale securities whose fair value is not reliably determinable were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Available-for-sale securities			
Unlisted equity securities	**¥ 193**	¥ 193	**$ 1,707**
Investments in investment business limited partnerships	**413**	239	**3,653**

These unlisted equity securities and investments in investment business limited partnerships are not included in "Available-for-securities" in the above table.

"Acquisition cost" in the above table refers to the cost after deducting impairment losses. No impairment losses on available-for-sale securities value were recognized during the nine months ended December 31, 2017, and the year ended March 31, 2017.

When the fair value of each issue of securities declined more than 50% of the acquisition cost, impairment losses would be recognized. When the fair value declined between 30% and 50% of the acquisition cost, whether the impairment losses should be recognized or not is determined by considering the financial positions as of the latest fiscal year end and operating results for the past two fiscal years and comparing the average month-end closing market price during the past 24 months with the acquisition cost by each issue.

There were no available-for-sale securities sold during the nine months ended December 31, 2017, and the year ended March 31, 2017.

7. Long-term Debt

Long-term debt as of December 31, 2017, and March 31, 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Bank loans 0.076% due in 2026	**¥ 29,665**	¥ 29,665	**$ 262,406**
Corporate bonds issued by the Company:			
0.715% Unsecured straight bonds due in 2017	—	13,000	—
0.850% Unsecured straight bonds due in 2018	**10,000**	10,000	**88,456**
0.430% Unsecured straight bonds due in 2018	**10,000**	10,000	**88,456**
0.660% Unsecured straight bonds due in 2020	**10,000**	10,000	**88,456**
0.296% Unsecured straight bonds due in 2020	**10,000**	10,000	**88,456**
	¥ 69,665	¥ 82,665	**$ 616,231**
Current portion	**(22,185)**	(15,185)	**(196,240)**
Long-term debt, less current portion	**¥ 47,480**	¥ 67,480	**$ 419,991**

Annual maturities of long-term debt as of December 31, 2017, are as follows:

Millions of yen

December 31, 2017	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Bonds	¥ 20,000	¥ —	¥ 20,000	¥ —	¥ —	¥ —
Bank loans	2,185	12,185	2,185	2,185	2,185	8,740
Total	¥ 22,185	¥ 12,185	¥ 22,185	¥ 2,185	¥ 2,185	¥ 8,740

Thousands of U.S. dollars

December 31, 2017	Due within 1 year	Due after 1 to 2 years	Due after 2 to 3 years	Due after 3 to 4 years	Due after 4 to 5 years	Due after 5 years
Bonds	$ 176,912	$ —	$ 176,912	$ —	$ —	$ —
Bank loans	19,327	107,784	19,327	19,327	19,327	77,310
Total	$ 196,420	$ 107,784	$ 196,240	$ 19,327	$ 19,327	$ 77,310

8. Employees' Retirement Benefits

1. Outline of the retirement benefit plans adopted

The Company and consolidated subsidiaries adopt contributory and non-contributory defined benefit plans and defined contribution plans.

Under the defined benefit corporate pension plans (all of which are contributory), lump-sum severance benefits or pensions based on salaries and service years are provided.

Under lump-sum payment plans (all of which are non-contributory), lump-sum payments based on salaries and service years are provided.

Under some defined benefit corporate pension plans and lump-sum payment plans of certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated using a simplified method.

2. Defined Benefit Plans

(1) The changes in projected benefit obligations for the nine months ended December 31, 2017, and the year ended March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Beginning balance of projected benefit obligation	¥ 24,842	¥ 23,725	$ 219,743
Service cost	962	1,073	8,509
Interest cost	287	334	2,538
Actuarial differences	524	160	4,635
Retirement benefits paid	(420)	(485)	(3,715)
Other	427	35	3,777
Ending balance of projected benefit obligations	¥ 26,624	¥ 24,842	$ 235,506

(2) The changes in plan assets for the nine months ended December 31, 2017, and the year ended March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Beginning balance of plan assets	¥ 19,126	¥ 18,023	$ 169,181
Expected return on plan assets	578	545	5,112
Actuarial differences	801	264	7,085
Contribution from the employer	627	827	5,546
Retirement benefits paid	(315)	(342)	(2,786)
Impact from foreign exchanges	712	(191)	6,298
Ending balance of plan assets	¥ 21,530	¥ 19,126	$ 190,446

(3) Reconciliation between the ending balances of defined benefit obligations and plan assets and net defined benefit liability recorded in the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	December 31, 2017
Contributory defined benefit obligations	¥ 25,414	¥ 23,749	$ 224,803
Plan assets	(21,530)	(19,126)	(190,446)
	3,883	4,623	34,347
Non-contributory defined benefit obligations	1,210	1,093	10,703
Net liability recorded in the consolidated balance sheet	¥ 5,094	¥ 5,716	$ 45,059
Net defined benefit liability	7,389	7,827	65,360
Net defined benefit asset	(2,295)	(2,110)	(20,300)
Net liability recorded in the consolidated balance sheet	¥ 5,094	¥ 5,716	$ 45,059

(4) The components of retirement benefit expenses for the nine months ended December 31, 2017, and the year ended March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Service cost	¥ 962	¥ 1,073	$ 8,509
Interest cost	287	334	2,538
Expected return on plan assets	(578)	(545)	(5,112)
Amortization of actuarial differences	93	122	822
Amortization of prior service costs	103	138	911
Retirement benefit expenses on defined benefit plans	¥ 868	¥ 1,122	$ 7,678

(5) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before tax effect) on "Other comprehensive income" were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Prior service costs	¥ 103	¥ 138	$ 911
Actuarial differences	369	258	3,264
Total	¥ 473	¥ 396	$ 4,183

(6) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before tax effect) on "Accumulated other comprehensive income" were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	Nine months ended December 31, 2017
Unrecognized prior service costs	¥ 1,211	¥ 1,315	$ 10,712
Unrecognized actuarial differences	(40)	329	(353)
Total	¥ 1,170	¥ 1,645	$ 10,349

Note: Above amounts are related to the Company and consolidated subsidiaries, and remeasurements of defined benefit plans on "Accumulated other comprehensive income" include unrecognized items (corresponding to the equity) of affiliates accounted for using the equity method.

(7) Plan assets
a. Components of plan assets
Plan assets consisted of the following:

	December 31, 2017	March 31, 2017
Debt securities	**36%**	35%
Equity securities	**44%**	44%
General account	**19%**	20%
Other	**1%**	1%
Total	**100%**	100%

b. Method of determining the long-term expected rate of return on plan assets
The long-term expected rate of return on plan assets is determined considering allocation of plan assets which are expected currently and in the future and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Main actuarial assumptions used for the nine months ended December 31, 2017, and the year ended March 31, 2017 , were set forth as follows:

	Nine months ended December 31, 2017	Year ended March 31, 2017
Discount rate	**0.5%**	0.5%
Long-term expected rate of return	**2.0%**	2.5%

3. Defined Contribution Plans
The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥323 million ($2,857 thousand) and ¥356 million for the nine months ended December 31, 2017, and the year ended March 31, 2017, respectively.

9. Committed Line of Credit

As of December 31, 2017, and March 31, 2017, the Group had committed lines of credit amounting to ¥15,000 million ($132,684 thousand). None of the committed lines of credit were used.

10. Contingent Liabilities

As of December 31, 2017, and March 31, 2017, the Group had no material contingent liabilities.

11. Net Assets

The Companies Act of Japan (the "Act") requires that at least 50% of the paid-in capital of new share issues be transferred to the "Common stock" account and the amount not exceeding 50% of the paid-in capital be included in capital surplus as "Additional paid-in capital."

Under the Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Interim dividends may be paid at any time during the fiscal year upon resolution by the Board of Directors if the company has prescribed so in its articles of incorporation.

The Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve or as additional paid-in capital depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The changes in the number of issued shares of common stock and treasury stock during the nine months ended December 31, 2017, and the year ended March 31, 2017 were as follows:

	Number of shares			
	April 1, 2017	Increase	Decrease	December 31, 2017
Outstanding shares issued:				
Common stock	133,856,903	—	—	133,856,903
Treasury stock:				
Common stock	7,285,746	1,904	—	7,287,650

An increase of 1,904 shares in treasury stock is due to acquisition of less than one share unit.

The treasury stock in the above table includes treasury stock (shares issued by the Company) acquired by an affiliate accounted for using the equity method which is attributed to the Company.

	Number of shares			
	April 1, 2016	Increase	Decrease	March 31, 2017
Outstanding shares issued:				
Common stock	133,856,903	—	—	133,856,903
Treasury stock:				
Common stock	7,269,394	16,352	—	7,285,746

An increase of 16,352 shares in treasury stock is due to acquisition of less than one share unit.

The treasury stock in the above table includes treasury stock (shares issued by the Company) acquired by an affiliate accounted for using the equity method which is attributed to the Company.

Nine months ended December 31, 2017
The following cash dividend payments were approved during the fiscal year:

General shareholders' meeting held on June 17, 2017:

	Total amount Millions of yen (Thousands of U.S. dollars)	Per share amount Yen (U.S. dollar)	Dividend record date	Effective date
Common stock	¥ 3,164 million ($ 27,987 thousand)	¥ 25.00 ($ 0.22)	Mar. 31, 2017	Jun. 19, 2017

Board of Directors meeting held on November 13, 2017:

	Total amount Millions of yen (Thousands of U.S. dollars)	Per share amount Yen (U.S. dollar)	Dividend record date	Effective date
Common stock	¥ 4,556 million ($ 40,300 thousand)	¥ 36.00 ($ 0.31)	Sep. 30, 2017	Dec. 5, 2017

Year ended March 31, 2017
The following cash dividend payments were approved during the fiscal year:

General shareholders' meeting held on June 18, 2016:

	Total amount Millions of yen	Per share amount Yen	Dividend record date	Effective date
Common stock	¥ 3,164 million	¥ 25.00	Mar. 31, 2016	Jun. 20, 2016

Board of Directors meeting held on November 10, 2016:

	Total amount Millions of yen	Per share amount Yen	Dividend record date	Effective date
Common stock	¥ 2,025 million	¥ 16.00	Sep. 30, 2016	Dec. 5, 2016

12. Amortization of Goodwill

Amortization of goodwill included in selling, general and administrative expenses for the nine months ended December 31, 2017, and the year ended March 31, 2017, were ¥854 million ($7,554 thousand) and ¥978 million, respectively.

13. Research and Development

Research and development expenses included in cost of sales or selling, general and administrative expenses for the nine months ended December 31, 2017, and the year ended March 31, 2017, were ¥4,415 million ($39,053 thousand) and ¥5,235 million, respectively.

14. Lease

a. Finance leases

The Group mainly leases computer machines and peripheral devices (tools, furniture and fixtures) used at the head office and other locations.

Leased assets under finance lease arrangements are depreciated using the straight-line method over the lease term as useful life, with the residual value deemed to be zero.

b. Operating leases

Lease commitments under non-cancelable operating leases as of December 31, 2017, and March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Due within one year	**¥ 457**	¥ 329	**$ 4,042**
Due after one year	**649**	541	**5,740**
Total	**¥ 1,107**	¥ 871	**$ 9,792**

15. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.9% for the nine months ended December 31, 2017, and the year ended March 31, 2017.

As of December 31, 2017, and March 31, 2017, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Deferred tax assets:			
Net defined benefit liability	**¥ 1,677**	¥ 1,884	**$ 14,834**
Unrealized gain on intercompany sales of inventories	**1,007**	934	**8,907**
Tax loss carried forward	**962**	1,243	**8,509**
Valuation loss of investments in affiliates	**900**	6,987	**7,961**
Accrued bonuses to employees	**775**	968	**6,855**
Loss on devaluation of inventories	**638**	790	**5,643**
Unrealized gain on intercompany sales of property, plant and equipment	**479**	539	**4,237**
Accrued expenses	**344**	212	**3,042**
Accumulated depreciation	**296**	314	**2,618**
Retirement benefits payable to directors and corporate auditors	**259**	262	**2,291**
Enterprise tax payable	**111**	304	**981**
Impairment loss	**109**	92	**964**
Loss on devaluation of investments in securities	**59**	60	**521**
Allowance for doubtful receivables	**42**	43	**371**
Other	**588**	844	**5,201**
Total	**8,254**	15,483	**73,011**
Less: valuation allowance	**(3,158)**	(9,577)	**(27,934)**
Total deferred tax assets	**5,095**	5,905	**45,068**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(2,399)**	(1,867)	**(21,220)**
Adjustment to book value of a subsidiary due to fair value measurement at the inception of consolidation	**(1,989)**	(1,911)	**(17,593)**
Depreciation	**(1,318)**	(1,729)	**(11,658)**
Unrealized gains on land revaluation	**(1,179)**	(1,175)	**(10,429)**
Special depreciation reserve for tax purpose	**(6)**	(32)	**(53)**
Other	**(245)**	(417)	**(2,167)**
Total deferred tax liabilities	**(7,139)**	(7,134)	**(63,149)**
Net deferred tax (liabilities) assets	**¥ (2,043)**	¥ (1,229)	**$ (18,071)**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the nine months ended December 31, 2017, and the year ended March 31, 2017, was as follows:

	Nine months ended December 31, 2017	Year ended March 31, 2017
Normal effective statutory tax rate	**30.9%**	30.9%
Non-deductible items such as entertainment expenses	**0.7**	0.6
Non-taxable items such as dividends received	**(0.9)**	(2.4)
Amortization of goodwill	**0.8**	1.1
Equity in earnings of affiliates	**(0.9)**	(0.7)
Inhabitant per capita tax	**0.2**	0.3
Statutory tax rate difference between parent and subsidiaries	**(1.5)**	(1.4)
Difference from effective tax rate applied	**(0.1)**	—
Tax credit for research and development	**(1.8)**	(2.4)
Special tax incentives	**(0.9)**	(2.3)
Valuation allowance	**(21.1)**	1.6
Investments in consolidated subsidiaries	**0.8**	2.3
Consolidation adjustment of gain on sales of shares in affiliates	**9.8**	—
Other	**(0.2)**	0.1
Actual effective tax rate	**15.8%**	27.7%

16. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the nine months ended December 31, 2017, and the year ended March 31, 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Nine months ended December 31, 2017	Year ended March 31, 2017	**Nine months ended December 31, 2017**
Net unrealized gain on available-for-sale securities:			
Gain recognized during the year	**¥ 1,788**	¥ 1,301	**$ 15,816**
Reclassification adjustment to net income	**—**	—	**—**
Amount before tax effect	**1,788**	1,301	**15,816**
Tax effect	**(533)**	(381)	**(4,714)**
Net unrealized gain on available-for-sale securities	**1,255**	920	**11,101**
Foreign currency translation adjustments:			
Gain (loss) recognized during the year	**6,469**	(10,990)	**57,222**
Reclassification adjustment to net income	**—**	—	**—**
Amount before tax effect	**6,469**	(10,990)	**57,222**
Tax effect	**—**	—	**—**
Foreign currency translation adjustments	**6,469**	(10,990)	**57,222**
Remeasurements of defined benefit plans:			
Gain recognized during the year	**285**	136	**2,521**
Reclassification adjustment to net income	**188**	260	**1,662**
Amount before tax effect	**473**	396	**4,183**
Tax effect	**(245)**	(225)	**(2,167)**
Remeasurements of defined benefit plans	**227**	171	**2,007**
Share of other comprehensive income (loss) of an affiliate accounted for under the equity method:			
Income (loss) recognized during the year	**317**	(542)	**2,804**
Reclassification adjustment to net income	**—**	—	**—**
Share of other comprehensive income (loss) of an affiliate accounted for under the equity method	**317**	(542)	**2,804**
Total other comprehensive income (loss)	**¥ 8,270**	¥ (10,441)	**$ 73,153**

17. Per Share Information

Per share information as of and for the nine months ended December 31, 2017, and the year ended March 31, 2017, is as follows:

	Yen		U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Net income – basic	**¥ 203.28**	¥ 132.18	**$ 1.79**
Net assets	**2,140.71**	1,966.80	**18.93**

Diluted net income per share for the nine months ended December 31, 2017, and the year ended March 31, 2017, is not presented since the Company did not have any kind of securities with potential dilutive effect in the fiscal years.

18. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

The Group's use of its surplus funds is limited to short-term deposits and other low-risk financial assets. As to raising funds, the Group finances by issuing bonds and bank loans in accordance with business plans. The Group does not hold or issue derivative financial instruments for speculative purposes.

(2) Nature and risks of financial instruments

Notes and accounts receivable are subject to credit risks of customers. Receivables denominated in foreign currencies arising from the Group's global business are subject to foreign exchange risks. The Group controls these risks by utilizing forward foreign exchange contracts applicable to net amounts of receivables and payables denominated in foreign currencies.

Most investment securities consist of equity securities and are subject to market value volatility risks.

Most of notes and accounts payable are due within a year.

Bonds and bank loans are financed for working capital or capital investment use and other investments for which the maximum redemption/repayment period is eight years and three months. Long-term debt is exposed to interest rate fluctuation risk and foreign exchange fluctuation risk, but with respect to certain long-term debt, the principal and interest are hedged by derivatives (interest rate swaps and interest rate and currency swap contracts).

The Group utilizes forward foreign exchange contracts to manage foreign exchange fluctuation risk associated with foreign currency-denominated trade receivables and payables, interest rate swap contracts to manage interest rate fluctuation risk associated with long-term debt and interest rate and currency swap contracts to manage foreign exchange fluctuation risk and interest rate fluctuation risk associated with foreign currency-denominated bank loans within the extent of actual demand. With respect to hedging instruments and hedged items, hedging policy and assessment method of hedge effectiveness concerning hedge accounting, please see Note 2 (d).

(3) Risk management

(a) Credit risks—The Company controls customers' credit risks in accordance with internal rules for controlling receivables. Appropriate departments of the Company monitor major customers' financial conditions to promptly obtain information about possible bad debts. Because the counterparties of derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

(b) Market risks—The Company utilizes forward foreign exchange contracts to manage foreign exchange fluctuation risk identified by currency associated with foreign currency-denominated trade receivables and payables. The Company also utilizes interest rate swap contracts to manage interest rate risks associated with bank loans and interest rate and currency swap contracts to manage foreign exchange fluctuation risk and interest rate fluctuation risk associated with foreign currency-denominated bank loans. As to investments in securities, fair value and the financial condition of investees are periodically reviewed. Derivative transactions are executed and controlled by the Corporate Strategy Division. The general manager of the Corporate Strategy Division reports results and conditions of derivative transactions at the Board of Director's meetings on a monthly basis.

(c) Liquidity risks—Each company of the Group prepares and updates cash-flow plans and maintains appropriate amounts of ready liquidity.

(4) Other information

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Because such valuation techniques include certain assumptions, results may differ if different assumptions are used in the valuation. The contract amounts for derivatives listed in Note 19 do not represent the volume of underlying market risks of the derivative transactions.

Financial instruments whose fair value is readily determinable as of December 31, 2017, and March 31, 2017, are as follows:

	Millions of yen		
	December 31, 2017		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash and cash equivalents	**¥ 129,920**	**¥ 129,920**	**¥ —**
(2) Trade accounts and notes receivable	**87,058**	**87,058**	**—**
(3) Investments in securities			
Available-for-sale securities	**5,480**	**5,480**	**—**
Total	**¥ 222,459**	**¥ 222,459**	**¥ —**
Liabilities:			
(4) Trade accounts and notes payable	**¥ 46,253**	**¥ 46,253**	**¥ —**
(5) Long-term debt—Bonds and bank loans, including current portion	**69,665**	**69,984**	**319**
Total	**¥ 115,919**	**¥ 116,238**	**¥ 319**
Derivatives	**¥ —**	**¥ —**	**¥ —**

	Millions of yen		
	March 31, 2017		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash and cash equivalents	¥ 137,345	¥ 137,345	¥ —
(2) Trade accounts and notes receivable	75,434	75,434	—
(3) Investments in securities			
Available-for-sale securities	3,674	3,674	—
Total	¥ 216,454	¥ 216,454	¥ —
Liabilities:			
(4) Trade accounts and notes payable	¥ 42,689	¥ 42,689	¥ —
(5) Long-term debt—Bonds and bank loans, including current portion	82,665	83,322	667
Total	¥ 125,354	¥ 126,021	¥ 667
Derivatives	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	December 31, 2017		
	Carrying amount	Fair value	Difference
Assets:			
(1) Cash and cash equivalents	**$ 1,149,226**	**$ 1,149,226**	**$ —**
(2) Trade accounts and notes receivable	**770,084**	**770,084**	**—**
(3) Investments in securities			
Available-for-sale securities	**48,474**	**48,474**	**—**
Total	**$ 1,967,793**	**$ 1,967,793**	**$ —**
Liabilities:			
(4) Trade accounts and notes payable	**$ 409,137**	**$ 409,137**	**$ —**
(5) Long-term debt—Bonds and bank loans, including current portion	**616,231**	**619,053**	**2,821**
Total	**$ 1,025,378**	**$ 1,028,199**	**$ 2,821**
Derivatives	**$ —**	**$ —**	**$ —**

Note:
Assets:
(1) and (2) —As these items are settled within a year and have fair values approximately equal to their carrying amounts, they are stated at the carrying amounts.
(3) —Fair value of equity securities is stated at quoted market price. Fair value information of investment securities is discussed in Note 6.

Liabilities:
(4) —As these items are settled within a year and have fair values approximately equal to their carrying amounts, they are stated at the carrying amounts.
(5) —Fair value of bonds is stated at present value of a total amount of its principal and interest discounted by a rate determined considering its remaining periods and credit risks.
Bank loans are payable with variable interest rates. Fair value of bank loans is stated at carrying amount because fair value of such bank loans is considered approximately equal to its carrying amount based on the following assumptions: (a) variable interest rates reflect the current market rate, and (b) the Company's credit status has not significantly changed after the issuance.

Derivatives —Details and information are discussed in Note 19.

Financial instruments which do not have quoted market prices and whose fair value is not reliably determinable are not included in the table above. Such financial instruments as of December 31, 2017, and March 31, 2017, are as follows:

	Millions of yen		Thousands of U.S dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Unlisted equity securities	**¥ 193**	¥ 193	**$ 1,707**
Investments in investment business limited partnerships	**413**	239	**3,653**

Detailed information about investments in securities is discussed in Note 6.

Maturity analysis for financial assets as of December 31, 2017, is as follows:

	Millions of yen	
	December 31, 2017	
	Due within one year	Due after one year
(1) Cash and cash equivalents	**¥ 129,920**	—
(2) Trade accounts and notes receivable	**87,058**	—
Total	**¥ 216,978**	—

	Thousands of U.S. dollars	
	December 31, 2017	
	Due within one year	Due after one year
(1) Cash and cash equivalents	**$ 1,149,226**	—
(2) Trade accounts and notes receivable	**770,084**	—
Total	**$ 1,919,310**	—

Maturities of long-term debt as of December 31, 2017, are disclosed in Note 7.

19. Derivatives and Hedging Activities

Derivatives to which hedge accounting is applied:

The Group utilizes interest rate swap agreements to hedge interest rate risks associated with its bank loans and interest rate and currency swap contracts to hedge foreign exchange risk and interest rate risks associated with its foreign currency-denominated bank loans. The Group's interest rate swaps and interest rate and currency swap contracts qualify for hedge accounting and meet specific matching criteria under Japanese GAAP and are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expenses or income, and the foreign currency assets and liabilities hedged by interest rate and currency swap contracts are translated at the contract rates, and no gains or losses are recognized.

Fair value information of such derivatives as of December 31, 2017, and March 31, 2017, is as follows:

	Millions of yen		
	December 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate and currency swaps (fixed rate payment in JPY, floating rate receipt in USD)	**¥ 19,665**	**¥ 17,480**	**¥ 919**

	Millions of yen		
	March 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate and currency swaps (fixed rate payment in JPY, floating rate receipt in USD)	¥ 19,665	¥ 17,480	¥ 587

	Thousands of U.S. dollars		
	December 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate and currency swaps (fixed rate payment in JPY, floating rate receipt in USD)	**$ 173,949**	**$ 154,621**	**$ 8,129**

	Millions of yen		
	December 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate swaps (fixed rate payment, floating rate receipt)	**¥ 10,000**	**¥ 10,000**	**¥ (48)**

	Millions of yen		
	March 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate swaps (fixed rate payment, floating rate receipt)	¥ 10,000	¥ 10,000	¥ (75)

	Thousands of U.S. dollars		
	December 31, 2017		
	Contract Amount		
	Within one year	Over one year	Fair value of derivative instruments
Interest rate swaps (fixed rate payment, floating rate receipt)	**$ 88,456**	**$ 88,456**	**$ (424)**

Fair value of derivative instruments in the table above is stated at the amount obtained from financial institutions, the counterparties of the contracts.

20. Asset Retirement Obligation

The Group recognizes restoration duty at the time of leaving based on the real estate rent contracts of the Company's head office, etc., as asset retirement obligation.

Regarding asset retirement obligation as of December 31, 2017, and March 31, 2017, the Company reasonably estimates the amount of security deposits related to the building rent contracts that are not expected to be ultimately collected and records the amount attributed to the current fiscal year in place of recording a liability.

21. Business Combination

Transaction under common control

The Company transferred all shares of THK RHYTHM CO., LTD. (hereinafter, "RHYTHM") , which was a consolidated subsidiary of the Company, to TRA Holdings CO., LTD. (hereinafter, "TRA") on November 14, 2017, following the resolution of the Board of Directors meeting held on October 23, 2017.

(1) Overview of business combination

a. Name of the subsidiary and its business outline
   Name of the subsidiary: THK RHYTHM CO., LTD.
   Business outline: Sales and manufacturing of parts for automotive equipment and other transportation equipment

b. Date of transfer of shares
   November 14, 2017 (Date of transfer of shares)
   December 31, 2017 (Deemed date of transfer)

c. Legal form of business combination
   Sales of shares in consideration for cash

d. Purpose of the transfer of shares
   On October 5, 2017, the Company established TRA for the purpose of integrating transportation equipment business, following the development of this business.
   The Company decided to transfer all shares of RHYTHM held by the Company to TRA in order to enhance the business value of transportation equipment business within the Group and reinforce the THK Group's management.

e. Number of shares transferred and status of holding shares before and after the transfer

Number of shares held before the transfer:	4,900 shares (Ownership ratio: 100%)
Number of shares transferred:	4,900 shares
Number of shares held after the transfer:	0 share (Ownership ratio: 0%)

(2) Overview of accounting treatments performed

The Company accounted for the transaction as a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013).

(3) Matter concerning the changes in the Company's interest due to the transaction with non-controlling shareholders

a. Major factor of the changes in capital surplus

Sales of shares in a subsidiary not followed by a change in scope of consolidation

b. Amount of decreased capital surplus following the transaction with non-controlling shareholders

¥4,143 million ($36,647 thousand)

22. Segment Information

The reportable segments are components of the Group for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors to determine allocation of operating resources and evaluate their performance.

The 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 the Company 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 discussed in Note 2. Inter-segment sales and transfers are stated at amounts based on their fair market values. All adjustments in the following tables are inter-segment elimination on consolidation.

Segment information of the Group as of December 31, 2017, and March 31, 2017, and for the nine months and the year then ended is as follows:

Reportable segments

	Millions of yen							
	December 31, 2017							
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Sales to customers	**¥ 106,072**	**¥ 67,130**	**¥ 57,247**	**¥ 40,024**	**¥ 16,128**	**¥ 286,603**	**¥ —**	**¥ 286,603**
Inter-segment	**41,345**	**112**	**31**	**4,579**	**1,400**	**47,469**	**(47,469)**	**—**
Total	**147,418**	**67,242**	**57,278**	**44,604**	**17,528**	**334,072**	**(47,469)**	**286,603**
Segment profit	**¥ 20,248**	**¥ 2,738**	**¥ 627**	**¥ 3,126**	**¥ 2,171**	**¥ 28,913**	**¥ 365**	**¥ 29,279**
Assets	**¥ 371,737**	**¥ 71,002**	**¥ 117,181**	**¥ 61,486**	**¥ 17,736**	**¥ 639,142**	**¥ (202,477)**	**¥ 436,664**
Other items								
Depreciation and amortization	**¥ 3,263**	**¥ 3,083**	**¥ 2,298**	**¥ 3,340**	**¥ 428**	**¥ 12,415**	**¥ (69)**	**¥ 12,346**
Amortization of goodwill	**—**	**161**	**692**	**—**	**—**	**854**	**—**	**854**
Investment in an affiliate accounted for under the equity method	**5,123**	**—**	**—**	**—**	**—**	**5,123**	**—**	**5,123**
Increase in property, plant and equipment and intangibles	**7,220**	**3,251**	**4,288**	**2,889**	**199**	**17,848**	**80**	**17,928**

	Millions of yen							
	March 31, 2017							
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Sales to customers	¥ 121,865	¥ 62,870	¥ 48,775	¥ 28,008	¥ 12,056	¥ 273,577	¥ —	¥ 273,577
Inter-segment	44,982	39	47	4,091	1,464	50,625	(50,625)	—
Total	166,848	62,909	48,822	32,100	13,521	324,202	(50,625)	273,577
Segment profit	¥ 18,809	¥ 2,311	¥ 649	¥ 750	¥ 1,336	¥ 23,857	¥ 795	¥ 24,653
Assets	¥ 363,731	¥ 67,579	¥ 84,757	¥ 60,801	¥ 15,000	¥ 591,870	¥ (176,938)	¥ 414,931
Other items								
Depreciation and amortization	¥ 4,450	¥ 2,935	¥ 2,007	¥ 3,556	¥ 313	¥ 13,262	¥ (77)	¥ 13,185
Amortization of goodwill	20	157	649	—	151	978	—	978
Investment in an affiliate accounted for under the equity method	4,016	—	—	—	—	4,016	—	4,016
Increase in property, plant and equipment and intangibles	8,486	3,482	3,608	2,157	187	17,922	(81)	17,840

	Thousands of U.S. dollars							
	December 31, 2017							
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Sales to customers	**$ 938,275**	**$ 593,808**	**$ 506,386**	**$ 354,038**	**$ 142,662**	**$ 2,535,187**	**$ —**	**$ 2,535,187**
Inter-segment	**365,723**	**990**	**274**	**40,504**	**12,383**	**419,893**	**(419,893)**	**—**
Total	**1,304,007**	**594,798**	**506,660**	**394,551**	**155,046**	**2,955,081**	**(419,893)**	**2,535,187**
Segment profit	**$ 179,106**	**$ 24,219**	**$ 5,546**	**$ 27,651**	**$ 19,203**	**$ 255,754**	**$ 3,228**	**$ 258,991**
Assets	**$ 3,288,252**	**$ 628,058**	**$ 1,036,541**	**$ 543,883**	**$ 156,886**	**$ 5,653,622**	**$ (1,791,039)**	**$ 3,862,574**
Other items								
Depreciation and amortization	**$ 28,863**	**$ 27,271**	**$ 20,327**	**$ 29,544**	**$ 3,785**	**$ 109,818**	**$ (610)**	**$ 109,208**
Amortization of goodwill	**—**	**1,424**	**6,121**	**—**	**—**	**7,554**	**—**	**7,554**
Investment in an affiliate accounted for under the equity method	**45,316**	**—**	**—**	**—**	**—**	**45,316**	**—**	**45,316**
Increase in property, plant and equipment and intangibles	**63,865**	**28,757**	**37,930**	**25,555**	**1,760**	**157,877**	**707**	**158,584**

Notes:

1. Segmentation by country or area is determined based on geographical proximity.
2. The main countries or areas which belong to reportable segments other than Japan or China are as follows:
   (1) "The Americas": The United States of America and others
   (2) "Europe": Germany, France and others
   (3) "Other": Taiwan, Singapore and others
3. "Adjustments" are as follows:
   (1) Adjustments of "Segment profit (loss)" in an amount of ¥365 million ($3,228 thousand) for the nine months ended December 31, 2017, represent elimination of inter-segment transactions.
   Adjustments of "Segment profit (loss)" in an amount of ¥795 million for the year ended March 31, 2017, represent elimination of inter-segment transactions.
   (2) Adjustments of "Segment assets" in an amount of ¥202,477 million ($1,791,039 thousand) and ¥176,938 million for the nine months ended December 31, 2017, and the year ended March 31, 2017, respectively, are all eliminations of inter-segment transactions.
   (3) Adjustments of "Depreciation and amortization" in an amount of ¥69 million ($610 thousand) and ¥77 million for the nine months ended December 31, 2017, and the year ended March 31, 2017, respectively, are all eliminations of inter-segment transactions.
   (4) Adjustments of "Increase in property, plant and equipment and intangibles" in an amount of ¥80 million ($707 thousand) and ¥81 million for the nine months ended December 31, 2017, and the year ended March 31, 2017, respectively, are all eliminations of inter-segment transactions.
4. "Segment profit (loss)" is reconciled with operating income in the consolidated statements of income.

Sales by business for the nine months ended December 31, 2017, and the year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars
	December 31, 2017	March 31, 2017	**December 31, 2017**
Industrial Equipment-Related Business	**¥ 175,645**	¥ 164,310	**$ 1,553,693**
Transportation Equipment-Related Business	**110,957**	109,266	**981,486**
Total	**¥ 286,603**	¥ 273,577	**$ 2,535,187**

Sales by geographical area

	Millions of yen					
	Nine months ended December 31, 2017					
	Japan	The Americas	Europe	China	Other	Total
Sales to customers	**¥ 99,099**	**¥ 67,194**	**¥ 54,001**	**¥ 41,410**	**¥ 24,896**	**¥ 286,603**

	Millions of yen					
	Year ended March 31, 2017					
	Japan	The Americas	Europe	China	Other	Total
Sales to customers	¥ 112,061	¥ 63,025	¥ 46,004	¥ 29,513	¥ 22,971	¥ 273,577

	Thousands of U.S. dollars					
	Nine months ended December 31, 2017					
	Japan	The Americas	Europe	China	Other	Total
Sales to customers	**$ 876,594**	**$ 594,374**	**$ 477,673**	**$ 366,298**	**$ 220,221**	**$ 2,535,187**

Tangible fixed assets by geographical area

Millions of yen						
December 31, 2017						
	Japan	The Americas	Europe	China	Other	Total
Tangible fixed assets	**¥ 50,398**	**¥ 17,416**	**¥ 16,976**	**¥ 28,479**	**¥ 2,663**	**¥ 115,934**

Millions of yen						
March 31, 2017						
	Japan	The Americas	Europe	China	Other	Total
Tangible fixed assets	¥ 47,049	¥ 16,838	¥ 13,760	¥ 28,167	¥ 2,823	¥ 108,639

Thousands of U.S. dollars						
December 31, 2017						
	Japan	The Americas	Europe	China	Other	Total
Tangible fixed assets	**$ 445,802**	**$ 154,055**	**$ 150,163**	**$ 251,915**	**$ 23,555**	**$ 1,025,510**

Loss on impairment on property, plant and equipment by reportable segment

Millions of yen								
Nine months ended December 31, 2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Loss on impairment	**¥ 54**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ 54**	**¥ —**	**¥ 54**

Thousands of U.S. dollars								
Nine months ended December 31, 2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Loss on impairment	**$ 477**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 477**	**$ —**	**$ 477**

No loss on impairment was recognized for the year ended March 31, 2017.

Amortization and unamortized balance of goodwill by reportable segment

Millions of yen								
Nine months ended December 31, 2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Amortization	**¥ —**	**¥ 161**	**¥ 692**	**¥ —**	**¥ —**	**¥ 854**	**¥ —**	**¥ 854**
Unamortized balance	**—**	**2,064**	**9,385**	**—**	**—**	**11,449**	**—**	**11,449**

Millions of yen								
Year ended March 31, 2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Amortization	¥ 20	¥ 157	¥ 649	¥ —	¥ 151	¥ 978	¥ —	¥ 978
Unamortized balance	—	2,303	8,948	—	—	11,251	—	11,251

Thousands of U.S. dollars								
Nine months ended December 31, 2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Amortization	**$ —**	**$ 1,424**	**$ 6,121**	**$ —**	**$ —**	**$ 7,554**	**$ —**	**$ 7,554**
Unamortized balance	**—**	**18,257**	**83,016**	**—**	**—**	**101,273**	**—**	**101,273**

23. Subsequent Events

Appropriation of retained earnings

The following appropriation of retained earnings as of December 31, 2017, was approved at the Company's shareholders' meeting held on March 17, 2018:

	Total amount Millions of yen (Thousands of U.S. dollars)	Per share amount Yen (U.S. dollar)	Dividend record date	Effective date
Common stock	¥ 3,290 million ($ 29,102 thousand)	¥ 26.00 ($ 0.22)	Dec. 31, 2017	Mar. 19, 2018

Issuance of domestic corporate bonds

The Company issued domestic corporate bonds on February 7, 2018, as follows based on the resolution made by the Board of Directors meeting held on June 17, 2017:

1. 11th series of unsecured bonds
   (1) Total amount of issuance: ¥10,000 million ($88,456 thousand)
   (2) Issue price: ¥100 ($0.88) per face value of ¥100 ($0.88) of each corporate bond
   (3) Interest rate: 0.140% per annum
   (4) Redemption period: 5 years
   (5) Redemption method: Bullet maturing on February 7, 2023
   Retirement purchase is allowed at any time after the payment date.
   (6) Payment date: February 7, 2018
   (7) Use of fund: Fund for redemption of corporate bonds

2. 12th series of unsecured bonds
   (1) Total amount of issuance: ¥10,000 million ($88,456 thousand)
   (2) Issue price: ¥100 ($0.88) per face value of ¥100 ($0.88) of each corporate bond
   (3) Interest rate: 0.270% per annum
   (4) Redemption period: 7 years
   (5) Redemption method: Bullet maturing on February 7, 2025
   Retirement purchase is allowed at any time after the payment date.
   (6) Payment date: February 7, 2018
   (7) Use of fund: Fund for redemption of corporate bonds