The THK logo is located in the top left corner. It consists of the letters 'T', 'H', and 'K' in a stylized, outlined red font. The 'T' and 'H' are connected at the top, and the 'K' is positioned to the right. The background of the entire page is white with several diagonal, semi-transparent grey bands and three solid red lines running from the bottom left towards the top right.

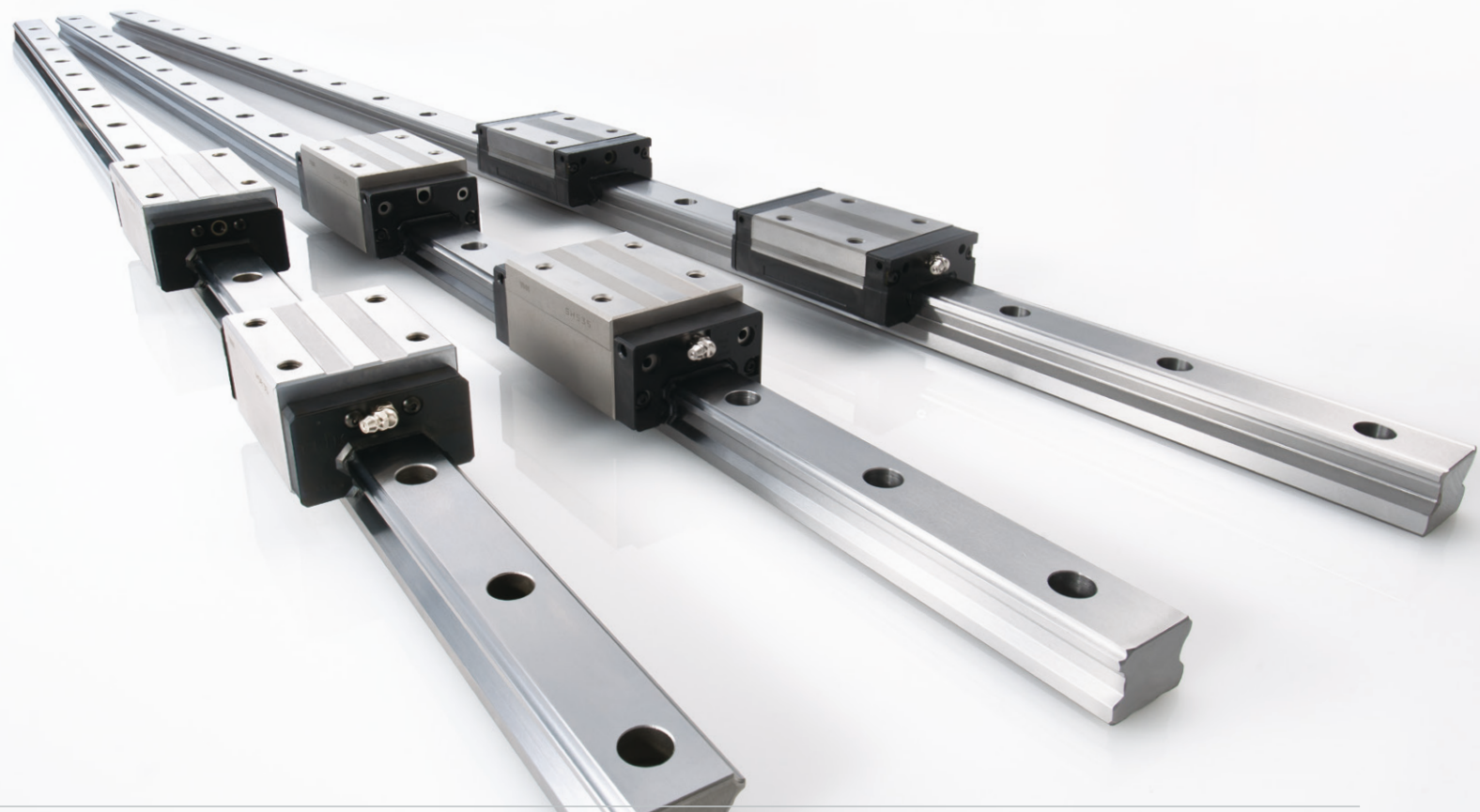
**THK**

**Annual Report**  
**2017**

## ABOUT THK

THK CO., LTD. manufactures and supplies vital machine components around the world. THK products help to convert slippage into controlled rotary motion, enabling parts of machinery to move smoothly, easily, and precisely in a straight line. As a company focused on creation and development driven by its corporate philosophy of *providing innovative products to the world and generating new trends to contribute to the creation of an affluent society*, THK has continued to focus on the development of a variety of products, including linear motion (LM) guides, since its establishment in 1971.

# Linear Motion



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# Key Characteristics

## THK's Key Characteristics

As the world's leading manufacturer in its field with a proven track record of long-standing success, THK has fostered three key characteristics over many years. Drawing on the strengths of its corporate culture, the Company is further honing these key characteristics in an effort to secure long-term growth.

### Original Core Technology

THK pioneered the development of the world's first LM guide based on an original concept and innovative technology. By providing components essential to increased precision, rigidity, speed, and energy efficiency in such wide-ranging fields as machine tools and industrial robots, the Company has consistently played a major role in the ongoing development of industry.

### Ample Expertise and Wide-Reaching Proposals

Since it successfully developed the world's first LM guide, THK has commanded a leading share of the global market. As it has worked to answer the needs of its variety of customers as a world-class manufacturer, THK has amassed an abundance of knowledge and cultivated the ability to propose a wide range of solutions for its customers in the field of industrial machinery. In addition to refining these key characteristics, THK has actively expanded its reach beyond the field of industrial machinery to also encompass consumer goods-related fields.

### Global Structure for Supplying Products

THK has actively promoted the development of an integrated production and sales structure with facilities and operations close to centers of demand. The Company currently maintains local production and sales networks that cover its four principal markets: Japan, the Americas, Europe, and Asia. As a result, THK is directly represented in 25 countries and regions around the world. The Company is making steady progress in building a global business platform, with the ratio of its sales outside of Japan reaching 59% at the end of the fiscal year ended March 2017.

## Creating an affluent society and achieving long-term growth



**Toughness**  
**High Quality**  
**Know-how**



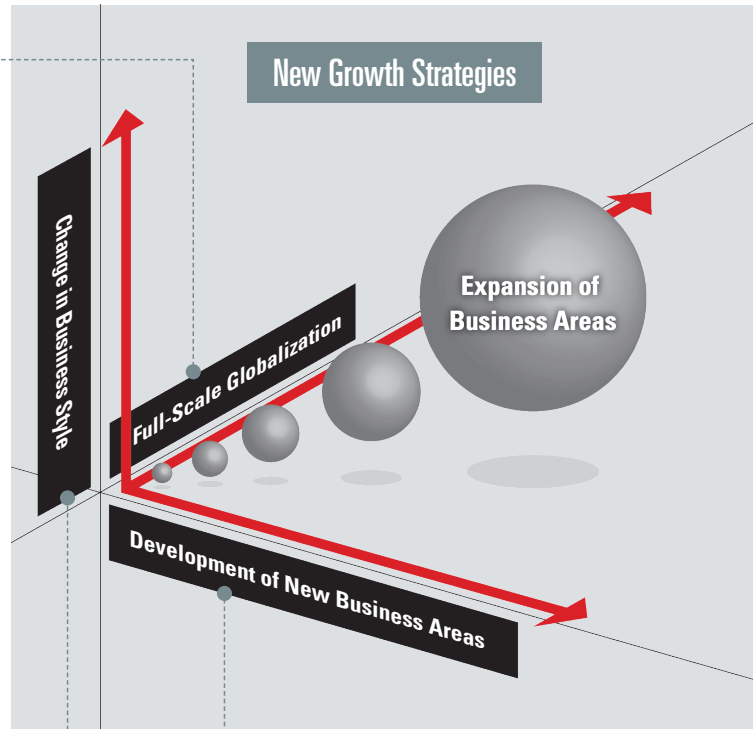
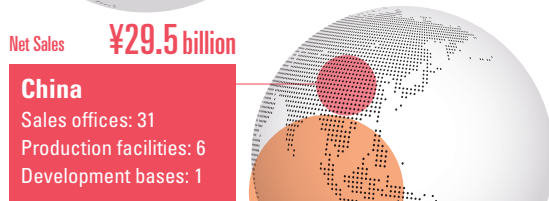
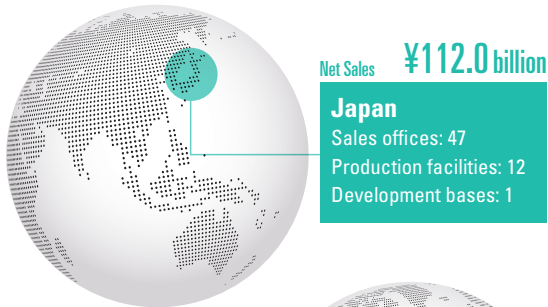
GROWTH STRATEGIES

# Strategies

Growth Strategies

## Full-Scale Globalization

THK has established an integrated production and sales structure with facilities and operations close to centers of demand to produce and sell locally in four regions: Japan, the Americas, Europe, and Asia. The Company is working to expand its sales networks and production capabilities in light of the mid- to-long term demand increases that were forecast for China and other emerging markets in recent years. In developed countries, THK is also working to expand its sales network in a bid to steadily capture demand amid expansion in its user base. Through these means, the Company is working diligently to promote substantial additional growth.



## Change in Business Style

As it makes strides in the areas of *full-scale globalization* and the *development of new business areas*, THK is working to transform the frameworks and methods by which it does business. The Company is also making efforts to further expand its business domains by ensuring the thorough use of technologies such as the IoT, cloud computing, AI, and robotics both in manufacturing and sales.





# Expansion

## Areas of Business

### Development of New Business Areas

THK is accelerating its expansion into consumer goods-related fields such as automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robotics, and renewable energy. In addition, THK has recognized the vast potential in other consumer goods-related fields, and it is honing its abundant expertise and the core linear motion system technology it has cultivated over time to accelerate the pace at which it develops new business areas.

Machine Tools  
Chip Mounting Machines  
Injection Molding Machines  
Industrial Robots  
Semiconductor Production Equipment  
FPD Production Equipment  
etc.

Automotive Parts  
Seismic Isolation and Damping Systems  
Medical Equipment  
Aircraft  
Renewable Energy  
Robots  
etc.

Capital Goods

+ Consumer Goods

Consumer Goods

### Industrial Machinery Business

THK contributes to the higher precision, rigidity, and speed of machinery by providing products, like the LM guide, which are essential components in such wide-ranging industrial equipment as machine tools and semiconductor production equipment.

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### Industrial Machinery Business (Other)

Using its core linear motion system technology, THK is ramping up its endeavors in consumer goods-related fields, including automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robotics, and renewable energy.

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### Automotive and Transportation Business

The THK Group is working to expand the scale of its business with a focus on L&S (linkage and suspension) parts for automobiles.

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# CONSOLIDATED PERFORMANCE OVERVIEW

Years ended March 31

	2007	2008	2009	2010	2011
Net Sales*1	¥ 174,710	¥ 208,708	¥ 179,269	¥ 115,330	¥ 190,661
Japan	119,513	136,321	109,566	70,295	117,304
The Americas	16,649	26,000	23,266	14,552	20,812
Europe	19,344	25,236	24,915	12,635	16,106
China	—	—	—	—	13,219
Asia and Other*2	19,203	21,150	21,520	17,846	23,218
Gross Profit	65,142	68,052	48,340	23,189	54,442
Operating Income (Loss)	31,815	26,937	8,523	(9,508)	21,844
Income (Loss) before Income Taxes and Minority Interests	34,524	26,701	6,284	(14,510)	21,612
Net Income (Loss) Attributable to Shareholders of THK CO., LTD.	21,038	18,323	1,204	(14,300)	13,959
Total Assets	263,280	264,229	240,350	236,374	279,768
Net Assets	189,039	192,953	177,712	162,258	167,937

\*1 Segments are based on where THK's customers are located.

\*2 China is included in and prior to the fiscal year 2009, which ended March 31, 2010.

## Per Share

Net Income (Loss)—Basic	¥ 158.36	¥ 139.53	¥ 9.36	¥ (111.20)	¥ 108.55
Net Income (Loss)—Diluted	157.22	138.74	—	—	—
Book Value	1,407.84	1,484.78	1,372.69	1,252.71	1,296.52
Cash Dividend	33	36	20	15	16

Number of Employees	5,563	6,924	7,266	7,559	8,025
Overseas Sales Ratio (%)	31.6	34.7	38.9	39.0	38.5
Operating Margin (%)	18.2	12.9	4.8	(8.2)	11.5
Return on Equity (ROE) (%)	11.8	9.7	0.7	(8.5)	8.5
Return on Assets (ROA) (%)	12.8	10.5	3.6	(3.9)	8.6
Net Worth Ratio (%)	71.1	72.3	73.4	68.2	59.6
Asset Turnover Ratio (Times)	0.69	0.79	0.71	0.48	0.74

Notes: 1. U.S. dollar amounts are provided for reference only, converted from Japanese yen at the rate of ¥112.20 = U.S. \$1, the approximate rate of exchange prevailing in Tokyo on March 31, 2017.

2. Return on assets (ROA) represents operating income (loss) plus interest and dividend income as a percentage of average total assets.

3. THK has applied the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan (ASBJ) Statement No. 5) and the Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8) in calculating net assets effective from the fiscal year 2006, which ended March 31, 2007.

4. The Accounting Standards for Business Combinations (ASBJ Statement No. 21, published on September 13, 2013) and other standards have been applied, and from the first-quarter consolidated cumulative accounting period, "Net income" is stated as "Net income (loss) attributable to shareholders of THK CO., LTD."

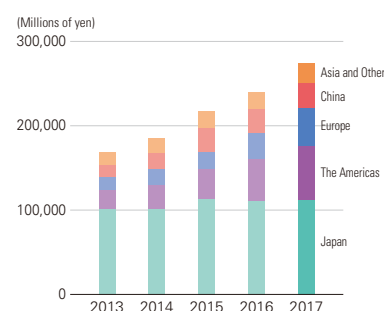
## In the fiscal year 2016, which ended March 31, 2017, net sales increased 13.8% year-on-year, to ¥273.5 billion.

Although Japan experienced a weakness in exports due to the increased value of the yen, the economy improved through the second half of the year, and demand increased in electronics and other fields. Other countries, such as China, experienced an overall increase in demand through the second half of the year. Under these circumstances, the THK Group worked vigorously to expand sales on a global scale, harnessing the results of prolonged efforts to strengthen its business structure. These efforts, in addition to the inclusion of 12 months of sales from the four THK RHYTHM AUTOMOTIVE (TRA) companies, compared to only 4 months being included last year, allowed this year's revenue to increase.

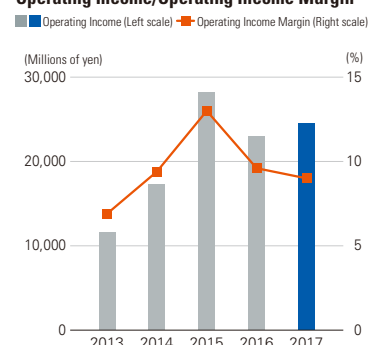
## Operating income increased 6.4% year-on-year, to ¥24.6 billion.

Although effects were felt from the increased value of the yen, operating income increased due to a rise in net sales and the inclusion of the full-year contribution to sales from the four TRA companies.

## Net Sales



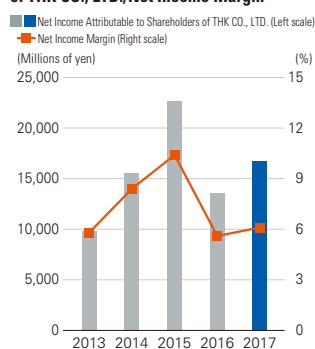
## Operating Income/Operating Income Margin



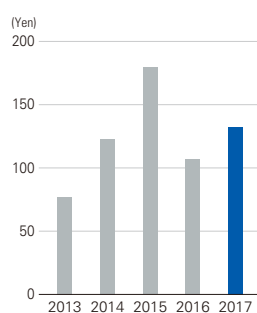
						Millions of yen	Thousands of U.S. dollars
2012	2013	2014	2015	2016	2017	2017	
¥ 196,866	¥ 168,366	¥ 185,466	¥ 217,678	¥ 240,478	¥ 273,577	\$ 2,438,297	
117,900	101,443	101,052	113,361	110,498	112,061	998,767	
22,279	22,527	28,900	34,856	50,343	63,025	561,723	
19,979	15,194	18,427	20,456	30,424	46,004	410,021	
17,087	13,203	19,351	28,302	27,967	29,513	263,046	
19,620	15,996	17,734	20,700	21,243	22,971	204,738	
53,975	44,298	52,903	67,024	67,766	70,464	628,029	
19,745	11,692	17,370	28,388	23,169	24,653	219,725	
18,520	14,737	24,004	33,501	19,612	23,057	205,499	
12,641	9,808	15,590	22,705	13,575	16,731	149,120	
288,333	293,145	336,416	373,610	407,808	414,931	3,698,141	
175,516	189,058	222,148	250,498	250,540	251,540	2,241,897	

						Yen	U.S. dollars
¥ 98.31	¥ 76.96	¥ 123.16	¥ 179.36	¥ 107.24	¥ 132.18	\$ 1.18	
—	—	—	—	—	—	—	
1,352.00	1,479.41	1,736.51	1,957.48	1,953.97	1,966.80	17.53	
20	18	26	50	50	41	0.37	
8,628	8,958	9,177	9,494	11,754	11,738		
40.1	39.7	45.5	47.9	54.1	59.0		
10.0	6.9	9.4	13.0	9.6	9.0		
7.4	5.4	7.7	9.7	5.5	6.7		
7.1	4.2	5.7	8.2	6.1	6.1		
60.3	63.9	65.3	66.3	60.7	60.0		
0.69	0.58	0.59	0.61	0.62	0.67		

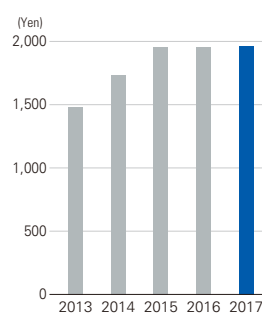
### Net Income Attributable to Shareholders of THK CO., LTD./Net Income Margin



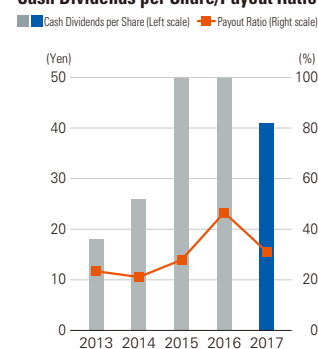
### Net Income per Share



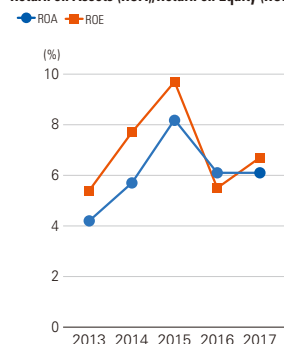
### Net Assets per Share



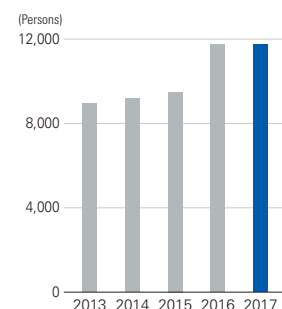
### Cash Dividends per Share/Payout Ratio



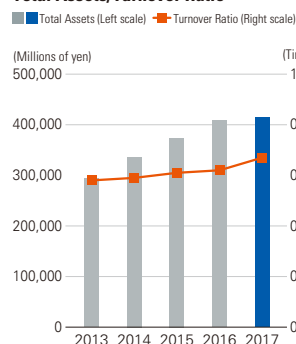
### Return on Assets (ROA)/Return on Equity (ROE)



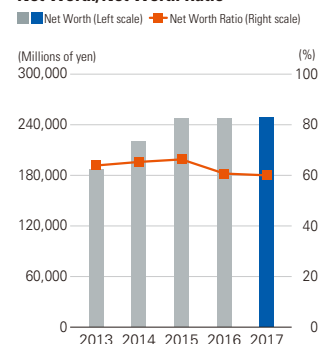
### Number of Employees



### Total Assets/Turnover Ratio



### Net Worth/Net Worth Ratio







# Increasing Our Corporate Value through Mid- to Long-Term Growth

THK CO., LTD.  
President and CEO

**Akihiro Teramachi**

## Looking Back on the Fiscal Year 2016

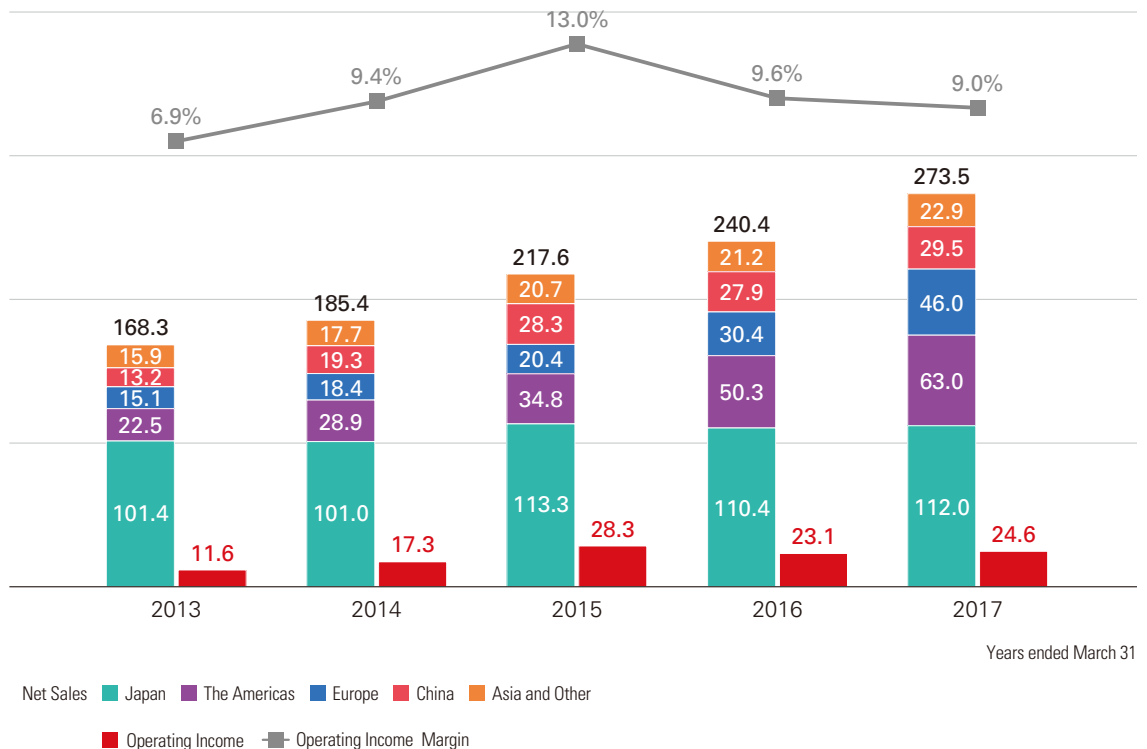
In the fiscal year 2016, which ended March 31, 2017, a moderate recovery continued in the global economy, led by Europe and the United States and other developed countries, despite a slowdown in the economic growth of China and other emerging countries. Although Japan experienced a weakness in exports due to the increased value of the yen, the economy improved overall, moderately recovering through the second half of the year. Under these circumstances, the THK Group worked vigorously to expand sales on a global scale, harnessing the results of prolonged efforts to strengthen our business structure. Furthermore, four THK RHYTHM AUTOMOTIVE (TRA) companies were added to the scope of consolidation after August 31, 2015, with the aim of further expanding our automotive and transportation business. Four months of results were included in the scope of consolidation for the fiscal year ended March 2016, but twelve months of results were included for the fiscal year ended March 2017. As a result, consolidated net sales reached ¥273.5 billion, an increase of 13.8% from the previous fiscal year. In terms of profits, even with the exchange rates shifting with the increased value of the yen compared to last year, due to an

increase in sales and other factors, operating income rose to ¥24.6 billion, an increase of 6.4% compared to the previous fiscal year, and the net income attributable to shareholders of THK CO., LTD., increased 23.2%, to ¥16.7 billion. We achieved more than our plan, which had been revised in February 2017 to reflect higher expectations.

The end of our fiscal year is changing to December, which means that the end-of-year results in December 2017 will be calculated based on a modified reporting period. They will reflect the 9-month period of April to December for the companies whose fiscal years currently end in March, and the 12-month period of January to December for the companies whose fiscal years currently end in December. Based on this premise and a favorable trend in received orders, we plan to achieve consolidated net sales of ¥273.5 billion and an operating income of ¥28 billion. For the sake of comparison, calculating based on a fiscal year that ends in March, as it has until now, we expect to achieve record-high levels for our consolidated net sales at ¥305 billion, an increase of 11.5% compared to the previous year, and for our operating income at ¥34.5 billion, a year-on-year increase of 39.9%.

### Financial Condition

(Billions of yen)



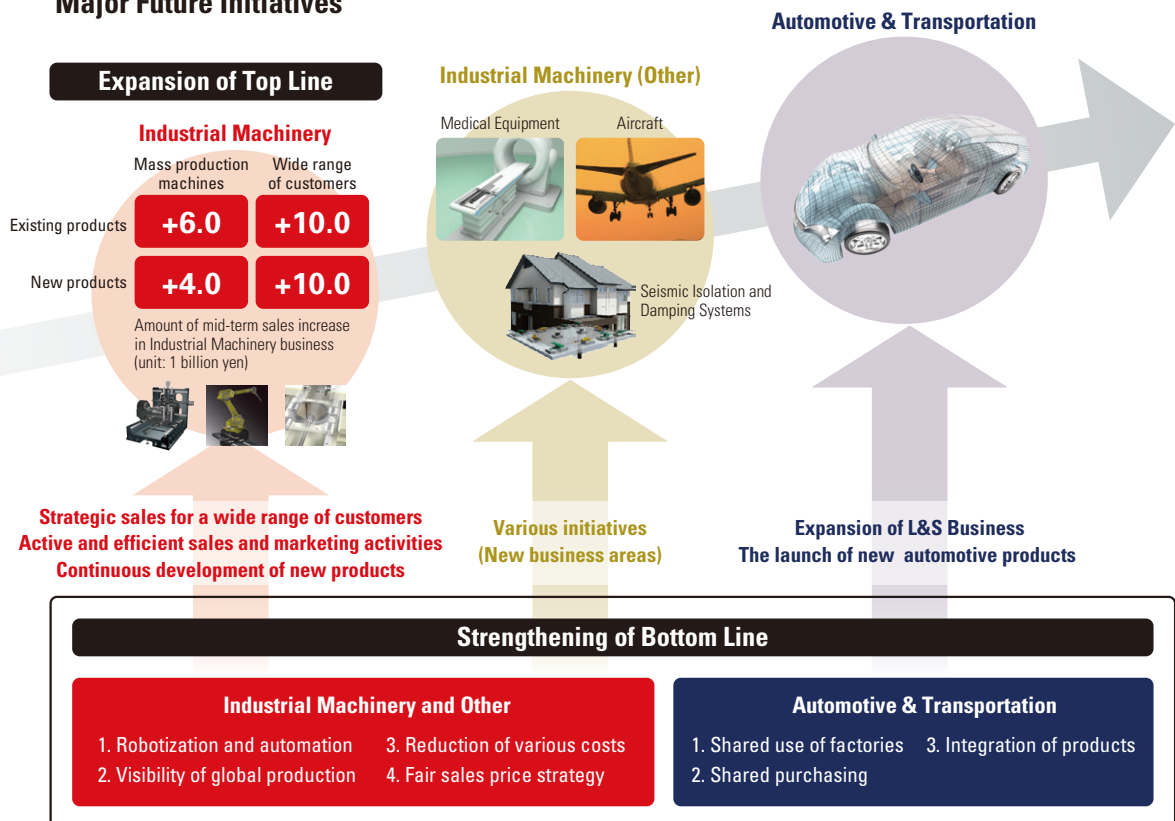
## Growth Strategies and Activities to Foster Mid- to Long-Term Growth

The THK Group has identified *full-scale globalization*, the *development of new business areas*, and a *change in business style* as cornerstones of our growth strategy to expand markets for our products, including LM guides. Under our *full-scale globalization* strategy, we are striving to expand our sales and production 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, we are working to increase sales revenue from not only existing products, but also newly developed products, buoyed by the growing use of our products in such consumer goods-related fields as automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robotics, and renewable energy. Additionally, in order to promote these strategies, we are striving to make full use of the IoT, cloud computing, AI, and robots in a variety of different areas such as sales, production, and development, thereby expanding our business domains by realizing a

*change in business style.*

Amid these efforts, we are promoting activities that will enable us to expand the top line of our industrial machinery business, other industrial machinery business, and automotive and transportation business, and thereby foster mid- to long-term growth. For our industrial machinery business, we will achieve a mid-term increase in sales of ¥30 billion by means of *strategic sales for a wide range of customers, active and efficient sales and marketing activities, and continuous development of new products.* In our other industrial machinery business, we will continue to work toward expanding the use of our products in new consumer goods-related fields. For our automotive and transportation business, by demonstrating synergy between THK, THK RHYTHM, and TRA, we will work to further expand our L&S (linkage and suspension) business and develop and expand sales of new products that make use of our core linear motion technology. We will also pursue increased profitability by engaging in activities that will strengthen the bottom line of each of these business areas.

### Major Future Initiatives





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## Industrial Machinery Business Activities

It has become clear that the result of our prolonged efforts to strengthen our marketing activities for our industrial machinery business is a great demand not only for products that will go into the mass production equipment manufactured by makers of machine tools and semiconductor production equipment, but also for special, custom-made equipment, in-house production equipment, equipment related to automation, and repair parts used by end users of equipment. This *wide range of customers* constitutes a market where we can expect higher profit margins than we earn from the products we make for the aforementioned mass production equipment, so we are developing various policies in order to acquire business in this market.

To prepare for expanding our sales to a wide range of customers, we are promoting efficient sales activities that utilize various IT tools in order to handle a massive volume of customers. We will first heighten our brand recognition and increasingly interact with customers through exhibitions and other means. We will then use marketing tools to analyze these customers, classify them by purchasing phase, and automatically provide them with the optimal kind of information. Then we will actually begin doing business with them at the optimal time. We will also analyze customer needs gathered during this continuous process, which will lead to THK developing new products and establishing new sales methods.

To give an example, semi-custom LM Guide Actuator Model SKR/KR products began being sold in August 2016 as the result of such activities. We took five custom products with high customer demand and made them into semi-custom products, allowing us to shorten the lead time to a minimum of 10 days. We are also able to shorten lead times by

making it possible for customers to use our newly launched, web-exclusive optimal product selection tools and easily calculate service life, select models, and even place orders without ever going through a salesperson. As a result of these kinds of efforts, we have seen a healthy increase in the number of semi-custom product orders received largely from the wide range of customers I previously mentioned. We will continue to invest more in other semi-custom order products with all due haste. In addition, we launched Omni THK in March 2017. This service allows customers to effortlessly select and order our products online at any time or from anywhere. Omni THK presents a different experience for every step of the process, from our customers first learning about our products to their actually placing an order. Whereas this process used to take place only during meetings with sales representatives or exclusively through our website, Omni THK allows customers to use our automated system to effortlessly purchase our products at any time or from any location, even if the customer is in a region where we do not have any sales branches. This website was initially made available for Singapore, Malaysia, and Thailand, but we will also be expanding it to other countries in stages.

In addition to these activities for expanding our top line, we are also working to strengthen our bottom line. In March 2017, we finished installing the Eagle System, which enables us to see the operation conditions of our machines at each facility in Japan, the Americas, Europe, and China at a glance. This will allow us to standardize global production. In the future, we will pursue dramatic improvements in productivity by connecting not just machines, but also products and our production employees to the network so that we can achieve visibility for every process.

---

## Industrial Machinery Business Activities (Other)

In our other industrial machinery business, we will continue to actively pursue sales and development activities to expand the use of our products in new consumer goods-related fields. With regard to the field of seismic isolation and damping systems, the use of our seismic isolation products for buildings and equipment has expanded due to increased BCP (business continuity plan) awareness. In the medical equipment field, the high precision found only in THK

products has garnered praise, and our products have been increasingly utilized in various types of equipment such as robotic surgical systems and walking assist devices. When it comes to aircraft, with items such as folding tables and reclining seats required to be safe and lightweight, our compact and highly rigid products are being put to ever greater use. In the field of robotics, we have been working to expand our lineup of SEED Solutions, which are a series

of components for robot technology systems. At the same time, we have also started providing educational institutions with basic sets of TRX robot hands that can grasp objects of various shapes and sizes at a special price. For the wind power generator segment of our business related to the

renewable energy field, we have begun selling low-torque shaft units for vertical-axis wind turbines. Meanwhile, we continue to expand our hydroelectric generator business, and we're starting to perform trials in rivers in several regions of Japan.

## Automotive and Transportation Business Activities

With regard to our automotive and transportation business, as a global supplier with independently operating sales, production, and development structures established around the globe, we are working to expand our L&S business with a wide variety of automotive makers and expand the use of our linear motion products in the automotive industry. We are striving for further expansion of our L&S business through activities that make use of both THK RHYTHM's and TRA's sales and production structures to obtain orders. As part of that effort, the automotive parts business from THK America and THK Europe has been

integrated with THK RHYTHM and TRA, respectively. We are also making use of THK RHYTHM's business foundation to expand our business in China and other emerging markets. With regard to linear motion products for automotive applications, we plan to use this year to test the mass production lines we built in 2016 and begin selling these products in 2018. We will take advantage of the momentum provided by the development of self-driving car technology and the increasing incorporation of electrical components in automobiles to further expand the use of our products.

## Toward Future Growth

As I have outlined, we are confident that THK will continue to enjoy substantial opportunities for future growth. We are equally confident in our ability to expand the scope of our business through *full-scale globalization*, the *development of new business areas*, and a *change in business style*. In order to increase our profitability, we will continue to strengthen our initiatives to improve the efficiency of our fixed costs and our variable expense ratio in addition to accelerating our growth strategies. Toward the same end, we will also establish a solid business foundation that will allow us to continue growing no matter what happens in the external environment. These efforts will enable us to increase our corporate value, thereby meeting the expectations of our shareholders and other stakeholders. As we work toward achieving our established goals, we kindly request the continued support and understanding of all our stakeholders.

July 2017



*Akihiro Teramachi*

THK CO., LTD.  
President and CEO **Akihiro Teramachi**

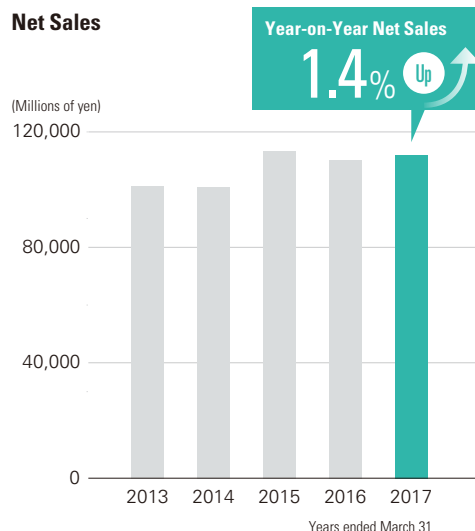
# REVIEW BY GEOGRAPHIC REGION

## Japan

### Operating Conditions and Performance Review

Sales in Japan increased 1.4% year-on-year, to ¥112 billion.

Although Japan experienced a weakness in exports due to the increased value of the yen, the economy improved overall, moderately recovering through the second half of the year. In addition to actively expanding its sales activities, the THK Group has developed new business areas such as seismic isolation and damping systems, medical equipment, renewable energy, and robotics. With these developments, revenue increased primarily due to rising sales in the electronics field.



Bases (As of March 31, 2017)			Group Companies (As of March 31, 2017)	
Japan	Sales offices	47	• THK CO., LTD.	
	Production facilities	12	• THK INTECHS CO., LTD.	
	Development bases	1	• TALK SYSTEM CORPORATION	
	Distribution centers	3	• THK NIIGATA CO., LTD.	
			• THK RHYTHM CO., LTD.	
			• NIPPON SLIDE CO., LTD.	

### Year Ended March 2017 Operating Activities (Results)

#### Sales

- THK worked diligently to deepen its relationships in existing fields such as machine tools and semiconductor production equipment. At the same time, the Company took steps to cultivate new fields, including medical equipment, renewable energy, and robotics.
- To prepare for expanding sales to a wide range of customers, in addition to starting to sell certain products as semi-custom products, the Company developed efficient sales activities utilizing IT tools such as the web-exclusive optimal product selection tools.

#### Production

- In addition to building a production structure that is capable of flexibly addressing changes in demand, THK continued to adhere strictly to its policy of providing the highest standard in quality, cost, and delivery (QCD).
- To further improve productivity, in addition to pursuing automation and robotization in its production processes, the Company utilized the IoT to implement the Eagle System, which provides visibility for the operation conditions of machines in its factories.

#### Other

- THK strove to build a business base that is capable of withstanding global competition. To this end, the Company undertook a variety of improvement measures aimed at strengthening its business base.

### Year Ending December 2017 Operating Activities (Plan)

#### Sales

- To continue expanding sales to a wide range of customers, THK will promote efficient sales activities that utilize various IT tools and semi-custom order products.
- THK will accelerate the pace of efforts to develop new business areas, including medical equipment, renewable energy, and robotics. The Company will also ramp up efforts to cultivate new markets such as the IoT and self-driving automobile fields.

#### Production

- The Company will strive to improve its productivity through the automation and robotization of its production processes, as well as through various means that utilize the IoT, such as the Eagle System.

#### Other

- Looking ahead, THK will increase sales and steadily improve profit margins by continuing to adopt a proactive stance toward various improvement activities and further strengthening its business base.

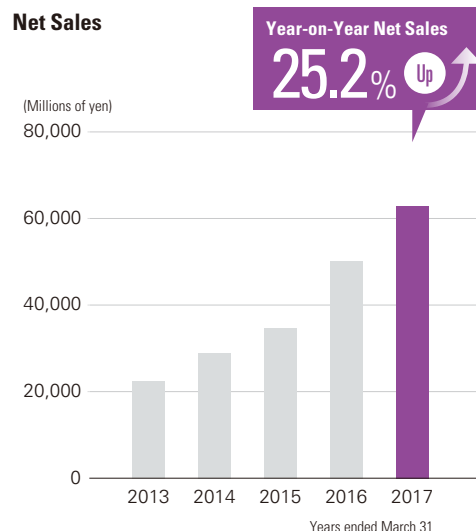


# The Americas

## Operating Conditions and Performance Review

Sales in the Americas increased 25.2% year-on-year, to ¥63 billion.

In the Americas, economic recovery continued 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 and aircraft fields as well as energy-related fields. These developments and the demand in the electronics field staying steady, as well as the addition of two North American TRA companies into the scope of consolidation, allowed sales to increase.



Bases (As of March 31, 2017)			Group Companies (As of March 31, 2017)	
United States	Sales offices	7	<ul style="list-style-type: none"> <li>• THK Holdings of America, L.L.C.</li> <li>• THK America, Inc.</li> <li>• THK Manufacturing of America, Inc.</li> <li>• THK RHYTHM NORTH AMERICA CO., LTD.</li> <li>• THK RHYTHM MEXICANA, S.A. DE C.V.</li> <li>• THK RHYTHM AUTOMOTIVE MICHIGAN CORPORATION</li> <li>• THK RHYTHM AUTOMOTIVE CANADA LIMITED</li> <li>• THK BRAZIL INDUSTRIA E COMERCIO LTDA.</li> </ul>	
	Production facilities	3		
Canada	Sales offices	1		
	Production facilities	2		
Mexico	Production facilities	1		
Brazil	Sales offices	1		

### Year Ended March 2017 Operating Activities (Results)

#### Sales

- With capital goods manufacturers shifting their production activities overseas, particularly to Asia, the THK Group worked diligently to uncover opportunities in fresh fields—such as medical equipment, aircraft, and energy-related areas—and to cultivate new markets, including Mexico and Canada.
- The THK Group deepened relationships with existing customers while expanding its market share by taking business from competitors. Furthermore, the Group promoted sales activities targeting a wide range of customers.

#### Production

- To further improve productivity, in addition to pursuing automation and robotization in its production processes, the Company utilized the IoT to implement the Eagle System, which provides visibility for the operation conditions of machines in its factories.

### Year Ending December 2017 Operating Activities (Plan)

#### Sales

- The THK Group will continue to deepen relationships with existing customers while expanding its market share by taking business from competitors. Furthermore, the Group will continue to strengthen its effective sales activities targeting a wide range of customers.
- The Company will actively drive sales activities in new business areas such as robotics to generate new demand.

#### Production

- THK will take full advantage of its position as the only company in its industry to maintain a production platform in North America. At the same time, the Company will expand its product lineup to match market needs.
- The Company will strive to improve its productivity through the automation and robotization of its production processes, as well as through various means that utilize the IoT, such as the Eagle System.

# Europe

## Operating Conditions and Performance Review

Sales in Europe increased 51.2% year-on-year, to ¥46 billion.

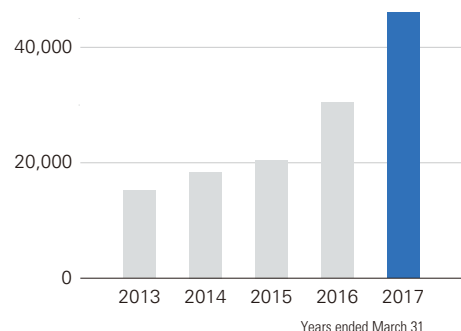
In Europe, the economy continued to show a moderate recovery. In the fiscal year under review, THK strove to expand transactions with existing customers by unifying production and sales while developing aggressive sales activities to explore new business areas, including the fields of medical equipment, aircraft, and robotics. Sales in this region increased due to these activities and the inclusion of two European TRA companies in the scope of consolidation.

### Net Sales

(Millions of yen)  
60,000

Year-on-Year Net Sales

51.2% Up



#### Bases (As of March 31, 2017)

Germany	Sales offices	2
	Production facilities	1
	Development bases	1
United Kingdom	Sales offices	1
Ireland	Production facilities	1
Italy	Sales offices	1
Sweden	Sales offices	1
Austria	Sales offices	1
Spain	Sales offices	1
France	Sales offices	1
	Production facilities	1
Turkey	Sales offices	1
Czech Republic	Sales offices	1
	Production facilities	1
Netherlands	Sales offices	1
Russia	Sales offices	1

#### Group Companies (As of March 31, 2017)

- THK Europe B.V.
- THK GmbH
- THK France S.A.S.
- THK Manufacturing of Europe S.A.S.
- THK Manufacturing of Ireland Ltd.
- THK RHYTHM AUTOMOTIVE GmbH
- THK RHYTHM AUTOMOTIVE CZECH a.s.
- THK Capital ULC.
- THK Finance ULC.

## Year Ended March 2017 Operating Activities (Results)

### Sales

- Amid efforts to build an effective database based on major customers and demand estimates, the THK Group aggressively engaged in sales activities. At the same time, the Group continued to upgrade and expand its distribution and sales network.
- The THK Group focused its sales activities on new areas, including robots and 3D printers, where the market is expected to expand in the future.

### Production

- To further improve productivity, in addition to pursuing automation and robotization in its production processes, the Company utilized the IoT to implement the Eagle System, which provides visibility for the operation conditions of machines in its factories.

## Year Ending December 2017 Operating Activities (Plan)

### Sales

- THK will work to further improve customer satisfaction by deepening its relationships with existing customers and enhancing aspects of customer service such as on-time delivery and tech support.
- The Company will actively pursue efficient sales activities aimed at a wide range of customers by providing various IT tools.

### Production

- The Company will strive to improve its productivity through the automation and robotization of its production processes, as well as through various means that utilize the IoT, such as the Eagle System.

### Development

- With the Germany-based R&D division of TRA, the THK Group will collectively strengthen its integrated structure that includes the linear motion-related R&D efforts of the Company and the automobile-related activities of THK RHYTHM.

# China

## Operating Conditions and Performance Review

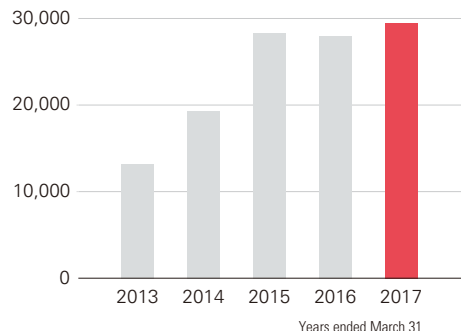
Sales in China increased 5.5% year-on-year, to ¥29.5 billion.

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 despite a slowdown in economic growth. Under these circumstances, the THK Group made aggressive efforts to expand sales, harnessing sales networks that it has strengthened over time. Revenue increased due to these factors and the general rise in demand throughout the second half of the year that steadily led to sales.

### Net Sales

(Millions of yen)  
40,000

Year-on-Year Net Sales  
**5.5%** Up



Bases (As of March 31, 2017)		Group Companies (As of March 31, 2017)	
China	Sales bases	31	• THK (CHINA) CO., LTD.
	Production facilities	6	• THK (SHANGHAI) CO., LTD.
	Development bases	1	• DALIAN THK CO., LTD.
			• THK MANUFACTURING OF CHINA (WUXI) CO., LTD.
			• THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.
			• THK RHYTHM GUANGZHOU CO., LTD.
			• THK RHYTHM CHANGZHOU CO., LTD.
			• THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD.

## Year Ended March 2017 Operating Activities (Results)

### Sales

- In China, the THK Group continued to upgrade and expand its sales network while cultivating new areas and new customers. The Group also worked to expand its market share in ball screws and its mainstay LM guides.

### Production

- To further improve productivity, in addition to pursuing automation and robotization in its production processes, the Company utilized the IoT to implement the Eagle System, which provides visibility for the operation conditions of machines in its factories.
- THK MANUFACTURING OF CHINA (CHANGZHOU) began full operations in July 2016 to better meet customers' needs related to areas such as automation. This facility also produces equipment and provides maintenance services for THK's manufacturing facilities in China.

### Development

- In collaboration with the Group's R&D operations in Japan, the engineering department of THK (CHINA) CO., LTD., continued to make efforts to develop products that reflect the local needs of emerging markets.

## Year Ending December 2017 Operating Activities (Plan)

### Sales

- In China, the THK Group will continue to upgrade and expand its sales network while cultivating new areas and new customers. The Group will also work to expand its market share in ball screws and its mainstay LM guides.

### Production

- The Company will strive to improve its productivity through the automation and robotization of its production processes, as well as through various means that utilize the IoT, such as the Eagle System.

### Development

- In collaboration with the Group's R&D operations in Japan, the engineering department of THK (CHINA) CO., LTD., will continue to make efforts to develop products that reflect the local needs of emerging markets.

# Asia and Other

## Operating Conditions and Performance Review

Sales in other regions increased 8.1% year-on-year, to ¥22.9 billion.

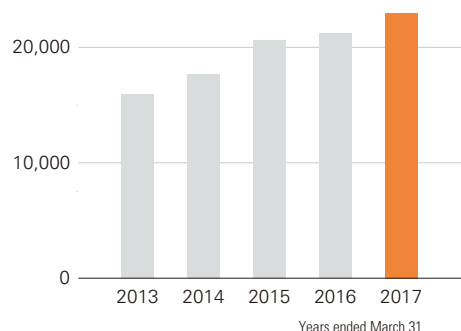
As the THK Group expanded its sales network in the ASEAN region and India, the Group undertook aggressive sales activities to expand transactions with existing customers and acquire new customers. In addition, as certain regions were impacted by the recovery of demand in China, revenue increased due to the Company steadily translating an increase in demand to sales.

### Net Sales

Year-on-Year Net Sales

8.1% Up

(Millions of yen)  
30,000



Bases (As of March 31, 2017)				Group Companies (As of March 31, 2017)	
Taiwan	Sales offices	3		• THK TAIWAN CO., LTD.	
Singapore	Sales offices	1		• THK LM SYSTEM Pte. Ltd.	
India	Sales offices	5		• THK RHYTHM (THAILAND) CO., LTD.	
Thailand	Sales offices	1		• THK MANUFACTURING OF VIETNAM CO., LTD.	
	Production facilities	1		• THK RHYTHM MALAYSIA Sdn. Bhd.	
South Korea	Sales offices	13		• THK India Private Limited	
	Production facilities	4		• SAMICK THK CO., LTD.	
Vietnam	Production facilities	1			
Malaysia	Production facilities	1			

### Year Ended March 2017 Operating Activities (Results)

#### Sales

- In Taiwan, efforts such as steadily taking business from competitors and capitalizing on expanding demand led to a rise in sales, especially in areas related to machine tools, semiconductors, and flat panel displays. The Company also strengthened its sales activities to a wide range of customers.
- In the ASEAN region, the THK Group endeavored to strengthen its sales to a wide range of customers by measures such as working to expand the area covered by ASEAN Customer Support and launching Omni THK, a service that allows customers to easily go from selecting products to placing orders, in Singapore, Thailand, and Malaysia in March 2017.

#### Production

- In addition to undertaking a variety of improvement activities across its production processes, the THK Group promoted automation and robotization. Through these means, the Group expanded production output and lowered manufacturing costs.

### Year Ending December 2017 Operating Activities (Plan)

#### Sales

- In Taiwan, the Company will expand sales to a wide range of customers by continuing to expand its sales and distribution network and strengthening its customer service.
- In the ASEAN region, the THK Group will utilize Omni THK to further expand sales to a wide range of customers, even in regions where there are no THK sales offices.

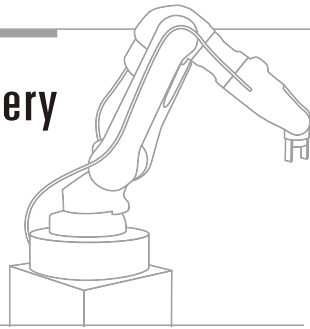
#### Production

- In addition to undertaking a variety of improvement activities across its production processes, the THK Group will promote automation and robotization. Through these means, the Group will expand production output and lower manufacturing costs.



REVIEW BY BUSINESS SEGMENT

Industrial Machinery Business



Overview

THK has continued to expand the scale of its industrial machinery business by providing LM guides and other products that are components of industrial machinery such as machine tools and semiconductor production equipment. In addition, THK is actively engaged in the manufacture and sale of electric actuators and unit products that combine many machine elements. In this manner, THK is making significant contributions to increasing precision, rigidity, speed, and energy efficiency in the industrial machinery field, while at the same time addressing production line automation needs.

Business Environment and Initiatives

In an effort to expand its top line, THK is strengthening its global sales network and constructing a global production structure. At the same time, the Group is pursuing initiatives to expand its sales activities to work with the wide range of customers it has been made aware of through its marketing activities.

These particular customers are not machine manufacturers, but rather the end users of equipment, who will use THK parts in their

in-house production equipment and equipment related to automation. In an effort to reach every one of these customers, THK is employing new strategies to attract and interact with more customers at product exhibitions. The Company is also pursuing highly efficient sales activities to further heighten customers' understanding of THK, while also making use of various IT tools to provide the optimal service and information to customers at each step of the purchasing process. In addition, THK began selling semi-custom LM Guide Actuator Model SKR/KR products in August 2016, primarily in Japan. THK took five custom products with high customer demand and made them into semi-custom products, allowing the lead time to be shortened to a minimum of 10 days. In an effort to further shorten lead times, in January 2017, the Group began providing a set of online optimal product selection tools that can be used to easily calculate product life or select a part number from a smart phone or computer. In March 2017, the Company launched Omni THK, a website for use in Singapore, Malaysia, and Thailand, to enable customers to easily purchase THK products at any time, even if there are no THK sales offices nearby. Moving forward, the Company plans to expand this type of system to other regions, not only strengthening how THK serves a wide range of customers, but also determining their needs and accurately using that information to develop new products and sales methods.

To strengthen its bottom line, in addition to robotization and automation of its production lines, THK is also promoting measures that utilize the IoT. In March 2017, THK finished installing the Eagle System, which enables the operation conditions of machines at each facility in Japan, the Americas, Europe, and China to be viewed at a glance. In the future, THK aims to further increase productivity by using this system not just for equipment, but also for its products and personnel.

Industrial Machinery Business (Other)

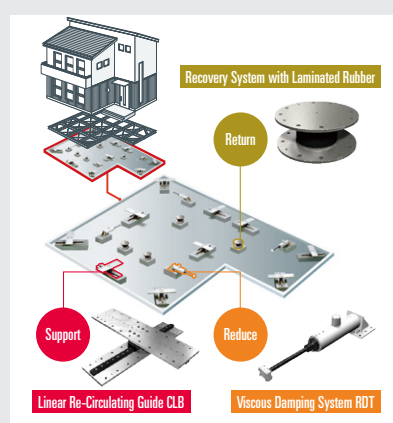
Activities in New Areas of Business

THK is committed to cultivating opportunities in consumer goods-related fields as part of its efforts to promote the development of new business areas. To this end, the Company will draw on the underlying strengths of its accumulated core linear motion system technology and ample expertise in other areas of the industrial machinery field. The applications of THK's compact and highly rigid products have expanded into many fields where they help people to live safe and comfortable lives.

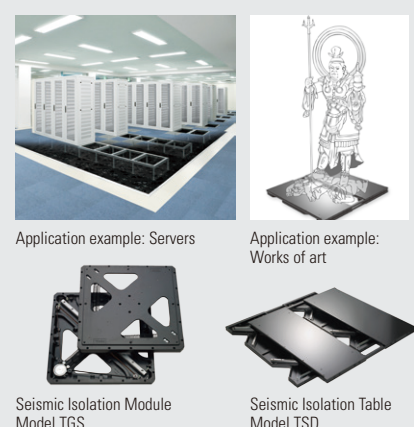
Seismic Isolation and Damping Systems

In the seismic isolation and damping systems field, the THK Group is employing its core linear motion system technology to supply a broad range of products from seismic isolation and damping systems for high-rise buildings, low-rise residences, and historical structures such as temples and shrines, to seismic isolation tables for servers and a variety of manufacturing equipment. In this manner, the Group is helping to minimize the damage caused by earthquakes.

Seismic Isolation System for Buildings



Seismic Isolation Platforms




## Industrial Machinery Business Activities

### Expand Sales to a Wide Range of Customers through Efficient Sales Operations

**Semi-custom products (SKR/KR)**


- Semi-customization for five products in high demand
- Shipped in as little as 10 days



**Web-exclusive optimal product selection tools**


[Main Functions]

Calculate product life	Select optimal model
Download CAD data	Confirm delivery date



Sales support tool for indirect selling/internal use to further expand the range of customers

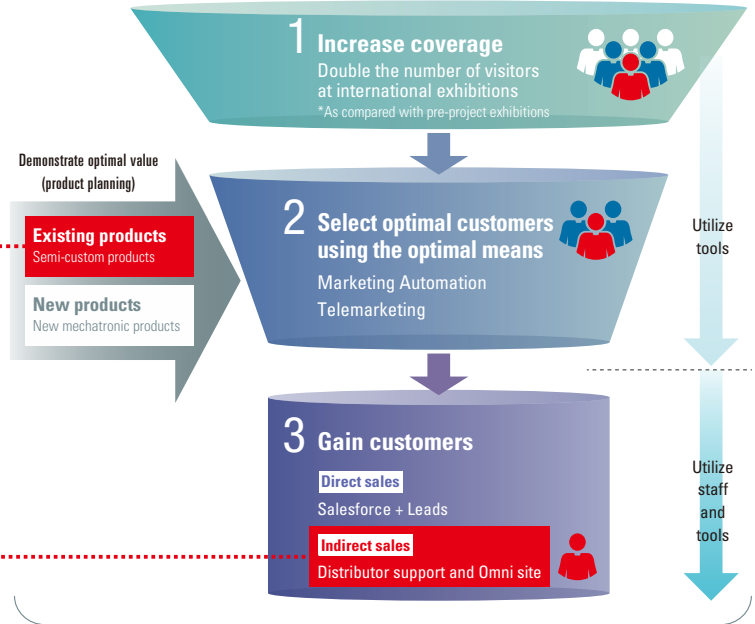
**Omni THK**



**Omni THK**  
Easy Selection, Easy Purchasing  
- anytime, anywhere !

THK utilizes all sales channels to reach a wide range of customers so that they can purchase what they want anytime, anywhere.

Contact optimal customers at the optimal timing to accurately communicate THK's strengths to them and ascertain their needs



Analyze data and perform PDCA through a web-SFA/CRM-ERP collaboration

Further develop new business areas and enhance profitability

#### Medical Equipment

In the medical equipment field, LM guides, electric actuators, and related products are increasingly being used, mainly in analysis and measurement equipment that require a high level of reliability and quality. The Group's products are also expanding into next-generation medical equipment, including robotic surgical systems and walking assist devices.



#### Aircraft

In the aircraft field, the THK Group is witnessing an upswing in the use of its compact and highly rigid products that is spurred by a demand for mechanical parts that are safe and lightweight. Centered mainly on aircraft interiors, this expansion in THK product use includes products that are suited for control sticks, the reclining mechanisms of aircraft seats, and the sliding parts of folding tables and cockpit doors.



#### Robotics

In the robotics field, the THK Group is developing and marketing optimal components for use in robots across a broad range of fields. This extends from industrial robots that contribute to the automation of production lines to next-generation robots that can be expected to deliver benefits in consumer-related fields.

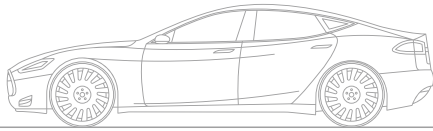


#### Renewable Energy

The THK Group is working to develop and promote the sale of products for use as mechanical components in the renewable energy field. THK has begun selling low-torque shaft units for wind power generation systems and is establishing deep ties within each region and conducting tests for hydroelectric generators.



# Automotive and Transportation Business



## Overview

In its automotive and transportation business, as a global supplier with independently operating sales, production, and development structures established around the globe, the THK Group supplies a wide range of customers in the automotive manufacturing sector with undercarriage L&S (linkage and suspension) products.

Since its foundation, THK has continued to promote its link balls, which are the mainstay of its automotive and transportation business, alongside other products. Working to further expand its business, the Company acquired RHYTHM CORPORATION (currently THK RHYTHM CO., LTD.) in 2007. In 2015, THK completed the transfer of the L&S business from what was previously TRW Automotive Inc. and incorporated it into the THK Group as THK RHYTHM AUTOMOTIVE (TRA), thereby establishing a global business platform. The Company is also promoting synergistic activities through means such as integrating the

automotive component businesses of THK America and THK Europe into THK RHYTHM and TRA, respectively.

## Business Environment and Initiatives

For its L&S business, the THK Group is expanding activities to obtain orders in China and other emerging markets by making use of both TRA's and THK RHYTHM's sales and production structures, employing strategies such as making proposals to use THK RHYTHM's Chinese plants to supply European automakers who are primarily supplied by TRA. Furthermore, the Group is working diligently to exhibit synergies that will strengthen profitability, including the integration of products and steps to reinforce joint purchasing by region.

In terms of new automotive products, the THK Group is working to expand the use of linear motion-related products for next-generation L&S systems, steering, brakes, suspensions, and various other automotive mechanisms. Mass production lines were built in 2016 for new products whose future use by customers has already been confirmed, and those lines are being tested in 2017. With sales scheduled to begin in 2018, preparations for expanding this business are progressing steadily. As demand for linear motion products is expected to rise from the momentum provided by the development of self-driving car technology and the increasing incorporation of electrical components in automobiles, the THK Group will further accelerate the expansion of linear motion product usage in these areas.

### Expansion of L&S (Linkage and Suspension) Business



**July 2016: Integrated THK America's automotive parts business into THK RHYTHM**

**January 2017: Integrated THK Europe's automotive parts business into TRA**



Expanding sales activities through the shared sales and production systems of THK RHYTHM and TRA

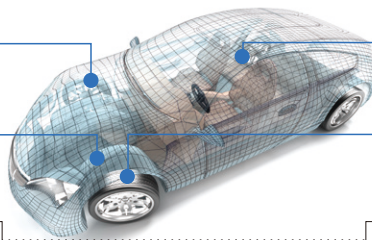
### Linear Motion Products for Automobiles

Electric power steering parts

Next-generation suspension parts

Interior

Next-generation brake parts



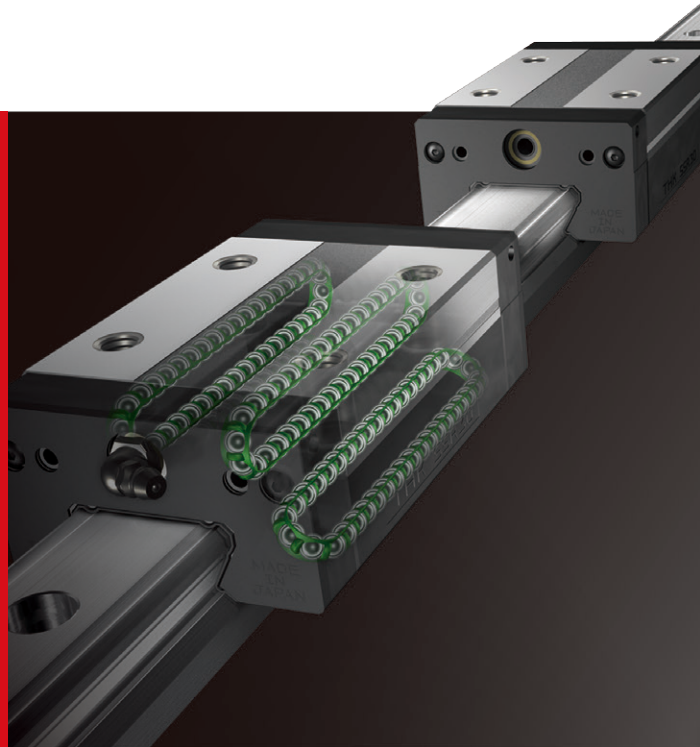
2017: Mass production line testing

2018: Sales scheduled to begin

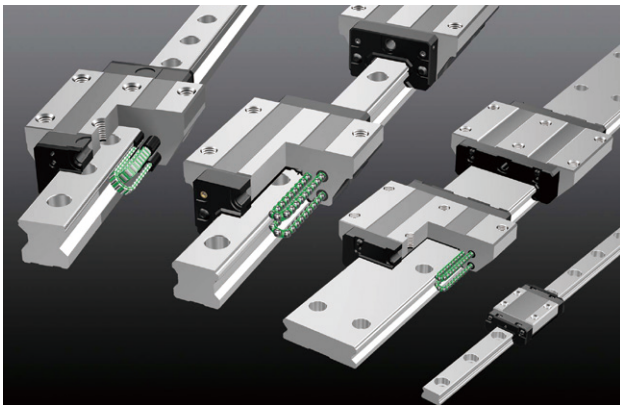
With the growing trend of electric and self-driving cars, we will accelerate the development of linear motion products for automobiles

# Innovative Products

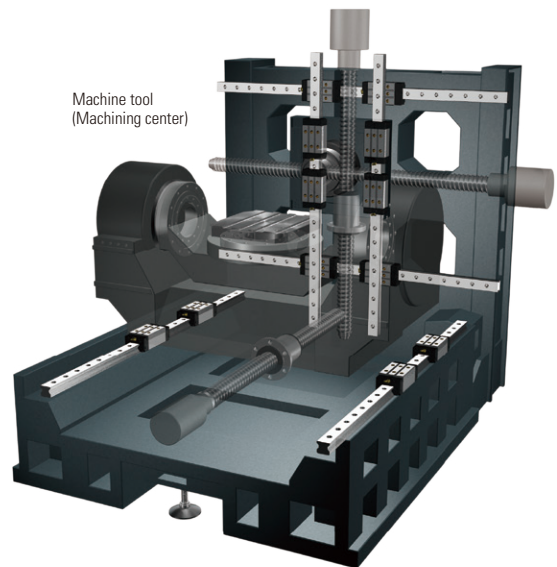
THK was the first company in the world to develop the linear motion (LM) guide, which is based on an original concept and innovative technology. LM guides are machine components vital to mechatronics systems, and they are used in various industries. THK also develops, produces, and supplies to the world a range of other vital machine components, including ball splines and ball screws, as well as automotive and transportation components, such as L&S (linkage and suspension) components.



## LM Guides



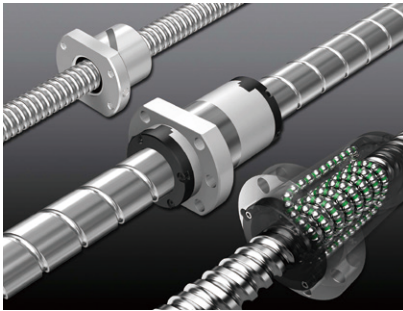
LM guides are machine components that convert sliding motion into rolling motion, enabling machine parts to move smoothly, easily, and precisely in a straight line. As a result, LM guides help to enhance the precision, rigidity, and speed of a wide range of industrial machinery. In 1996, THK developed the next generation of LM guides: the Caged Ball LM Guide. Later, in 2001, the Company also introduced the Caged Roller LM Guide to the market to continue expanding the applications of the LM guide. The cages are resin parts that hold and guide the balls or rollers as they move. The



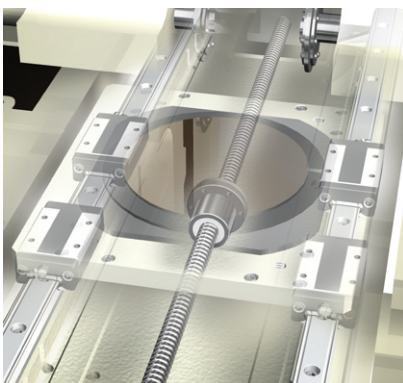
use of cages reduces noise and friction by preventing direct contact between the balls or rollers. This allows for a longer service life, reduced noise, and an extended period of maintenance-free operation in comparison with previous LM guides. LM guides with caged ball and caged roller technology are now vital components of many types of manufacturing equipment, such as machine tools and semiconductor production equipment.



## Ball Screws



Ball screws are machine components that function by causing a large number of balls to circulate between a screw shaft and a nut. This mechanism efficiently converts rotary motion into linear motion. With the Caged Ball Screw, THK has incorporated caged ball technology into their existing ball screw designs, thus helping to achieve longer life with reduced noise and provide an extended maintenance-free period. As a result, these products are now essential elements in machine tools, industrial robots, semiconductor production equipment, and other manufacturing equipment. THK also offers ball screws that are designed to support high loads, making them ideally suited for replacing the hydraulic cylinders used in equipment such as injection molding machines, presses, and die casting machines.

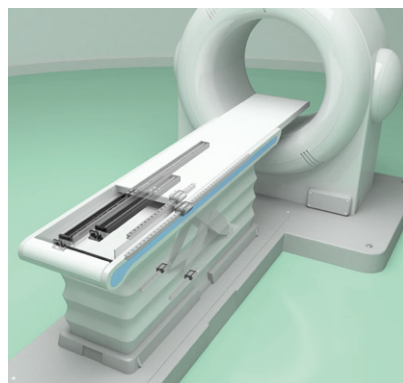


Semiconductor production equipment (Dicing saw)

## Electric Actuators

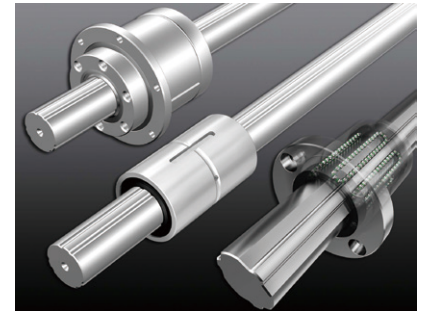


Electric actuators are hybrid products combining a guide component such as an LM guide with a ball screw, linear motor, or other drive component. In industries such as electronics, there is an increasing need to shorten development and manufacturing lead times. Modularization allows these electric actuators to meet such requirements by simplifying the design and reducing assembly time. THK offers a varied lineup of electric actuators ranging from basic, low-priced units to high-end components designed to operate with high precision or perform to clean room specifications. Such advanced electric actuators have become indispensable parts in equipment used in the manufacture or inspection of semiconductors and liquid crystal displays.

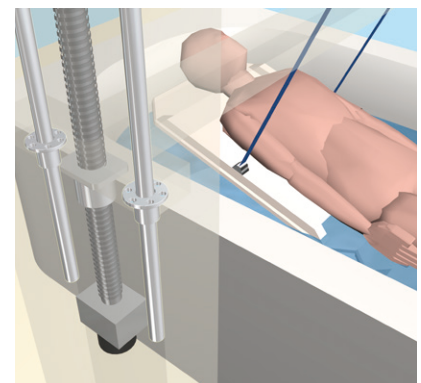


Medical equipment (CT scanner)

## Ball Splines



Developed in 1971, the same year that THK was established, ball splines were the precursor to the LM guide. Balls roll along a rounded groove machined into the spline's shaft. This critical advance boosts the load that the device can tolerate and permits the transmission of torque, resulting in a revolutionary linear motion system. Compared with the products that came before, these ball splines boosted the permissible load by a factor of 13 and service life by a factor of 2,200. Today, these high-performance ball splines are used in a variety of equipment, including industrial robots, medical devices, and chip mounters.



Assistive device for bathing

## Cross Roller Rings



Cross roller rings are roller bearings that feature internal cylindrical rollers arranged orthogonally so as to facilitate load bearing in every direction. The incorporation of the spacer cages between rollers prevents roller skew and friction between the rollers. Possessing high rigidity while maintaining a compact structure, cross roller rings are used in the rotating parts of many different types of industrial machinery, including the joint areas and rotating parts of industrial robots, as well as machining center swivel tables. Other applications include rotating parts of medical equipment and semiconductor production equipment.

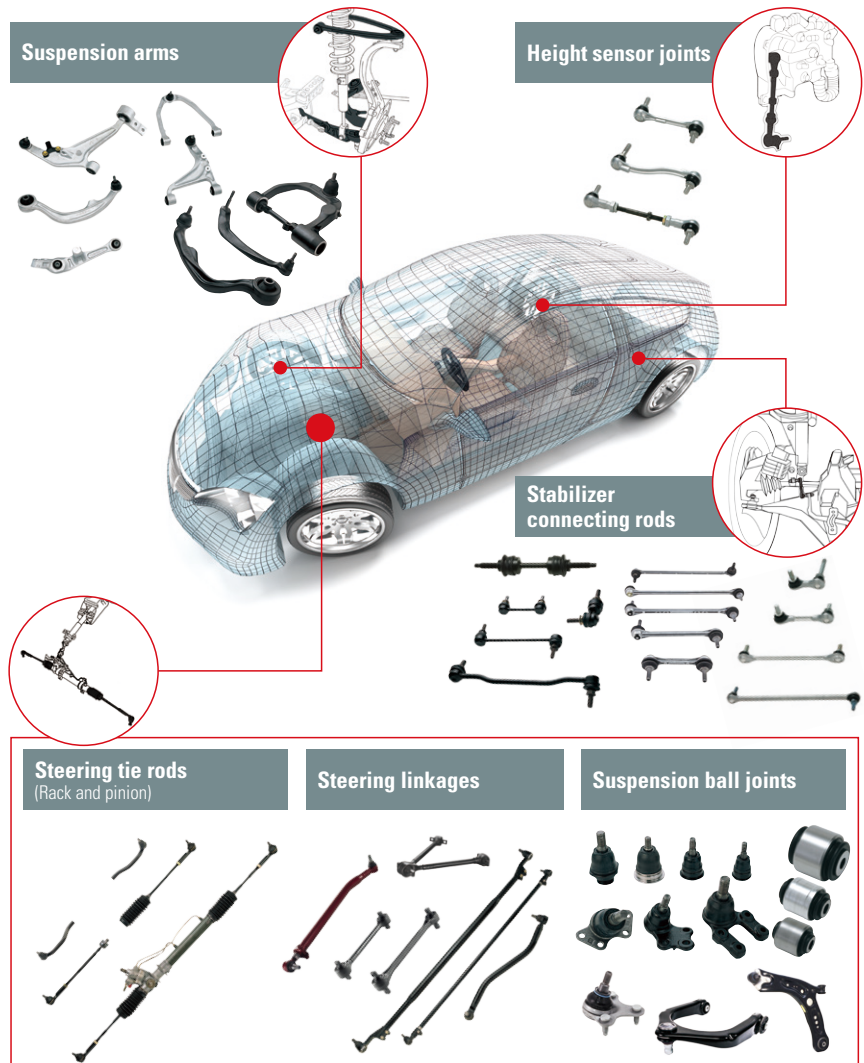


Industrial robot

## Automotive and Transportation Equipment-Related Products

Ever since the Company was founded, THK has continued to expand its lineup of L&S products, such as the link ball, a spherical slide bearing with a ball stud. Made from aluminum, THK's link balls are highly resistant to corrosion and wear. They are also considerably lighter than traditional steel parts. The Company's lineup of link balls has been widely adopted for use in a number of undercarriage systems, such as height sensors and the joint sections connecting stabilizers to the suspension.

Furthermore, Group companies THK RHYTHM and THK RHYTHM AUTOMOTIVE are actively engaged in producing L&S products, including steering and suspension components. In addition to the cold-forged ball joints that have been its mainstay, THK RHYTHM is expanding the range of products it offers to include aluminum links that integrate ball joints with aluminum suspension links. These critical safety components are held to the highest standards of quality and performance and help to enhance the safety and comfort of automobiles.



# RESEARCH AND DEVELOPMENT

Guided by the corporate philosophy of *providing innovative products to the world and generating new trends to contribute to the creation of an affluent society*, THK continually strives to create original products as a company focused on creation and development.

## A Global R&D System for the Next Generation

THK is endeavoring to use its core linear motion system technology and expertise to develop its mainstay linear motion systems, mechatronic devices such as XY precision stages and linear motor actuators, and products in the consumer goods-related fields of automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robotics, and renewable energy at our R&D facility, the Technology Center (Tokyo).

In 2010, the THK Group established the R&D Center in China. This facility, which was THK's first R&D facility outside of Japan, began full operation in 2012. With the addition of THK RHYTHM AUTOMOTIVE's German R&D facility in 2015, the THK Group is on its way to building R&D structures oriented toward the Americas, Europe, and Asia in order to more accurately meet the needs of customers around the world.

## Fiscal Year 2016 Initiatives

To meet the varied needs of its customers in the industrial machinery field, THK has expanded its lineup of LM guide products and developed products that contribute to the automation of customers' production lines, including lightweight electric actuators and cross roller rings that allow for more lightweight robots. Furthermore, THK is committed to research and development in consumer goods-related fields such as renewable energy, where it has developed a low-torque shaft unit for vertical-axis wind turbines that conforms to safety standards for small wind turbines. In another such field, robotics, THK has been working

to expand its SEED Solutions lineup, a series of components for robot technology systems for next-generation robots.

In the automotive and transportation industry, THK has utilized new production methods to introduce aluminum products to the market in order to meet the customer need for more lightweight automobiles. The Company has also improved upon its production methods to further expand future sales. Even in the new production methods it has developed, both in cold forging and precision press technology, THK has distinguished itself from its competitors. Furthermore, THK plans to use the unified research and development efforts of THK, THK RHYTHM, and TRA to expand the use of linear motion products in the automotive industry.

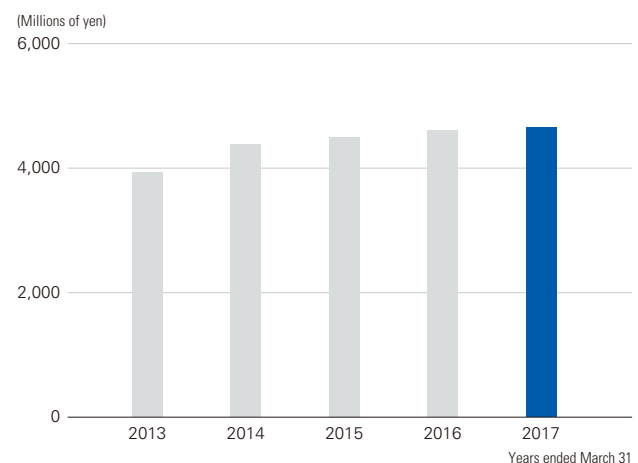
## Policies and Initiatives for Fiscal Year 2017

The THK Group plans to continuously focus its efforts in the fiscal year 2017 on the efficient development of new products with the aim of further expanding applications for THK's technology. Above all, with the acceleration in AI, the IoT, and robotization, THK will work to develop new products that incorporate IoT technology into its linear motion products. Furthermore, with its strengthened capacity for development on a global scale, THK will work with THK RHYTHM and TRA to incorporate its accumulated core linear motion technology into the development of products used in the automotive industry. In this manner, these members of the THK Group will work to maximize the synergistic effect of putting their respective technologies to use in one another's fields to contribute to the development of new products.

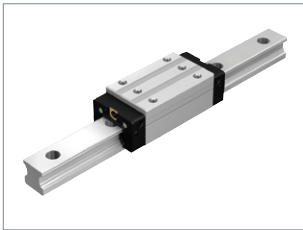


Technology Center (Tokyo)

## R&D Expenses

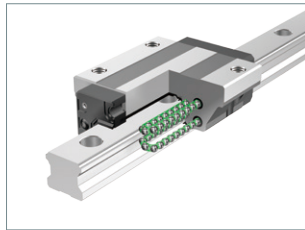


**MAJOR NEW PRODUCTS**



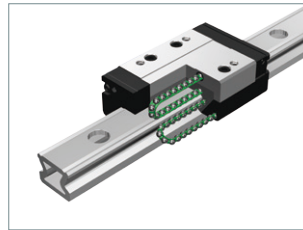
**DB Type LM Guide Model HDR**

This product's DB structure heightens its rigidity, making it ideal for use in applications that require movement along a single axis, such as train station platform doors.



**Caged Ball LM Guide Model SHS-M**

This product is made of stainless steel, giving it greater corrosion resistance and making it capable of handling a range of different environments.



**Light LM Guide Model SHS-N**

This product uses a hollow rail, which weighs approximately 40% less than a typical rail, contributing to an increase in equipment speed and energy efficiency.



**Caged Ball Screw Model SDA-V**

This ball screw complies with DIN specifications, an industry standard in Germany. The Model SDA-V is intended to spearhead the Group's efforts to secure a firm foothold in Europe and emerging markets such as China where DIN specifications are typically accepted. This product expands THK's lineup of large lead ball screws and allows for even higher speeds.



**Cross Roller Ring for Robots Model RF**

This product has an attached mounting flange, which both shortens the assembly time for the customer and helps to make robots and other machines more lightweight.



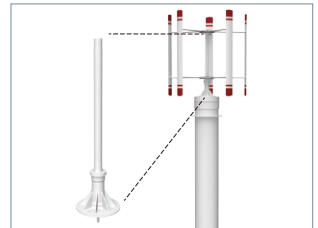
**Lightweight Actuator Model CFK**

Carbon is used in the material for the outer rail, making this product weigh 50% less than a typical actuator.



**Lightweight Actuator Model ALK**

This product uses components made of aluminum, making it significantly more lightweight. Available in a wide array of colors, this product can also be used in consumer goods-related fields.



**Low-Torque Shaft Unit for Vertical-Axis Wind Turbines Model WLS**

This product greatly lowers torque resistance, thereby reducing energy loss and contributing to greater efficiency in energy output. In addition, this product conforms to safety standards for small wind turbines, making it a very reliable product.

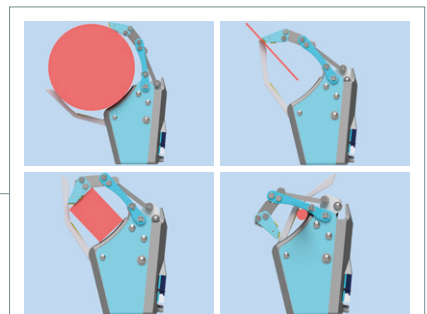


**Components for Robot Technology Systems SEED Solutions**

With SEED Solutions, THK is expanding its lineup of smart actuators and other products that enable the easy construction of service robots. THK is working to expand the use of one product on this lineup, the Robot Hand TRX, by selling it to educational institutions at a special price.



**Robot Hand TRX (Academic package)**



Just like a human hand, the TRX can grasp objects of various shapes and sizes.



## ESG

Based on its corporate philosophy of *providing innovative products to the world and generating new trends to contribute to the creation of an affluent society*, THK is pursuing growth as a company and expanding its business while being cognizant of the importance of addressing environmental, social, and governance (ESG) concerns.

## Harmony with the Environment



To promote environmental activities throughout the entire THK Group, the production facilities, sales offices, and distribution centers work together to implement activities that will reduce the burden on the environment. The Group also monitors the progress of environmental efforts and expands effective policies throughout the organization.

With regard to the results of its initiatives in 2016, the Group was unable to meet the objective for the management of hazardous materials (PRTR substance use target: 61,673 kg\*, actual: 71,113 kg). However, it did achieve its targets for conserving energy and preventing global warming (CO<sub>2</sub> emissions ratio target: 0.78\*, actual: 0.76) as well as for conserving resources and achieving zero emissions (zero emissions rate target: less than 0.50%, actual: 0.13%\*).

\*These targets were adjusted because data was taken from 12 Japanese production facilities instead of 8 as in previous years.

### LED Lighting

In 2016, THK and its consolidated subsidiaries replaced LED lighting at 20 of their production facilities. Furthermore, when the THK MANUFACTURING OF CHINA (CHANGZHOU) facility began operating in July 2016, 536 bulbs (out of a total 676 used for illumination) were LEDs. A total of 4,405 bulbs were upgraded to LEDs, allowing the Company to save around 2,122 MWh of energy. THK will pursue energy-saving measures this year and in the future by continuing to switch to LED lighting in stages.

#### Production Facilities That Upgraded to LEDs

	Plant	Bulbs Replaced
Japan	GIFU Plant	874
	YAMAGATA Plant	741
	KOFU Plant	323
	THK INTECHS MISHIMA Plant	282
	YAMAGUCHI Plant	209
	THK INTECHS SENDAI Plant	134
	THK RHYTHM Kyushu Plant	82
	THK RHYTHM Hamamatsu Plant	57
	NIPPON SLIDE	36
China	THK MANUFACTURING OF CHINA (CHANGZHOU)	536
	THK MANUFACTURING OF CHINA (LIAONING)	52
	DALIAN THK	18
Europe	THK RHYTHM AUTOMOTIVE CZECH	280
Asia	THK RHYTHM MALAYSIA	98
	THK RHYTHM THAILAND	72
The Americas	THK Manufacturing of America	330
	THK RHYTHM AUTOMOTIVE CANADA (St. Catharines)	207
	THK RHYTHM AUTOMOTIVE CANADA (Tillsonburg)	30
	THK RHYTHM AUTOMOTIVE MICHIGAN	22
	THK RHYTHM NORTH AMERICA	22
		4,405

### Using Solar Panels at the THK INTECHS MISHIMA Plant

By updating Plant 2's air conditioning equipment in June 2016, the THK INTECHS MISHIMA Plant's monthly energy usage increased by 15,000 kWh. Therefore, they installed 192 solar panels on the roof of the development building in January 2017 and began generating solar power in an effort to reduce their energy consumption as much as they could. The energy generated is primarily used for the compressors in Plant 2, but it can also be diverted to other electrical systems as needed. An LCD screen has also been set up in the entrance that makes it easy to see how much energy is being generated by putting it in terms of fluorescent bulbs and LCD screens.



Solar panels installed on top of the development building

# Involvement in Society



## Quality Assurance

THK has established a quality assurance structure with each production facility both in and outside of Japan certified with the ISO 9001 Quality Management System and other quality standards that allow the Company to adapt to different industries, such as the automotive and aerospace industries, depending on the products each facility produces. The THK Group has also established a system that allows quality data to be shared globally. In addition to gathering feedback from customers in each region, analyzing it, and providing rapid and appropriate service, the Company endeavors to develop products that meet market needs and to improve quality. In its mission to satisfy all of its customers, THK always strives to maintain and improve product quality, thereby delivering safe, dependable products and maintaining uniform quality all over the world.

### Quality Policy

We implement quality assurance activities that ensure we always deliver products that will satisfy our customers and earn their trust.

### Quality Management System Certification Status (Facilities)

	ISO 9001	JIS Q 9100 Aerospace Industry	ISO/TS 16949 Automotive Industry
Japan	11	1	3
Outside of Japan	11	—	7
Total	22	1	10

## Quality Management Process



## Together with Our Suppliers

Throughout our supply chain, from design to sales, THK strives to adhere to societal norms and be environmentally conscious in order to facilitate the creation of a sustainable society. We have formed good partnerships with our suppliers, aiming for mutually beneficial relationships.

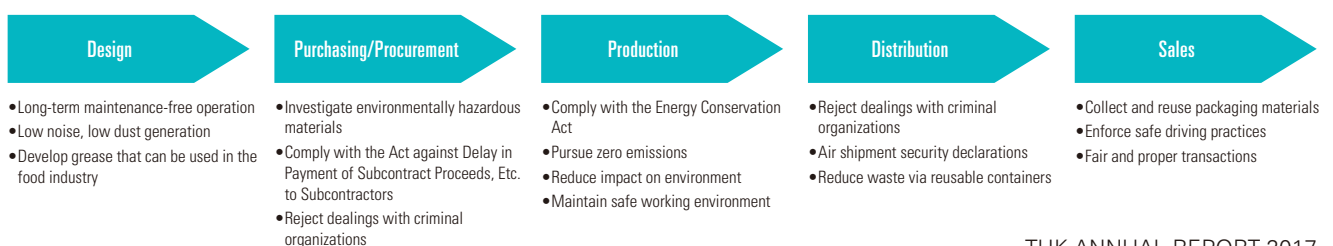
### THK Basic Policy on Procurement

In order to continue to provide THK products that satisfy our customers, we establish good, healthy, and mutually beneficial relationships with our suppliers.

#### Activities

1. Procurement practices emphasizing communication with suppliers. Evaluating and choosing suppliers with thorough consideration for QCDES
2. Fair and equitable dealings in compliance with all pertinent laws and societal norms
3. Efforts to minimize costs. Encouraging the active pursuit of cost-saving projects and value-analysis initiatives
4. Pursuit of global procurement
5. Implementation of a BCP (business continuity plan)
6. Environmental consciousness through green procurement

## THK's Supply Chain



## Corporate Governance



### **Basic Stance on Corporate Governance**

With the aim of maximizing its corporate value, THK strives to maintain a solid corporate governance to make mid- to long-term improvements to its corporate value by sustaining growth through appropriate cooperation with all its shareholders and other stakeholders.

### **THK's Corporate Governance Structure**

In June 2014, THK introduced an executive officer system. After the Company's 46<sup>th</sup> General Meeting of Shareholders on June 18, 2016, and in conjunction with its establishment of an Audit and Supervisory Committee, THK instituted a non-mandatory Nomination Advisory Committee and a Remuneration Advisory Committee to act as advisors to the Board of Directors. In doing so, THK has endeavored to bring enhanced transparency and objectivity to management, strengthen the auditing functions of the Board of Directors, and bring greater speed and efficiency to management-related decision-making and the management of corporate affairs.

### **Board of Directors**

THK's Board of Directors comprises a total of eight directors—including one outside director—who are not members of the Audit and Supervisory Committee, in addition to three outside directors who are Audit and Supervisory Committee members. The Board of Directors makes decisions on important matters of general management and carries out the oversight of directors and executive officers in the execution of their duties. In addition, the number of outside directors, whose independence meets the evaluation criteria stipulated by the Tokyo Stock Exchange and THK, has been increased from two to four. Increasing the number of outside directors who possess specialized professional knowledge and qualifications related to corporate accounting or general management will further enhance management neutrality, legality, and validity while improving the board's management oversight function.

### **Audit and Supervisory Committee**

Comprising three outside directors who are Audit and Supervisory Committee members, the Audit and Supervisory Committee utilizes the internal control system to audit and supervise directors and executive officers with regard to the current status of the execution

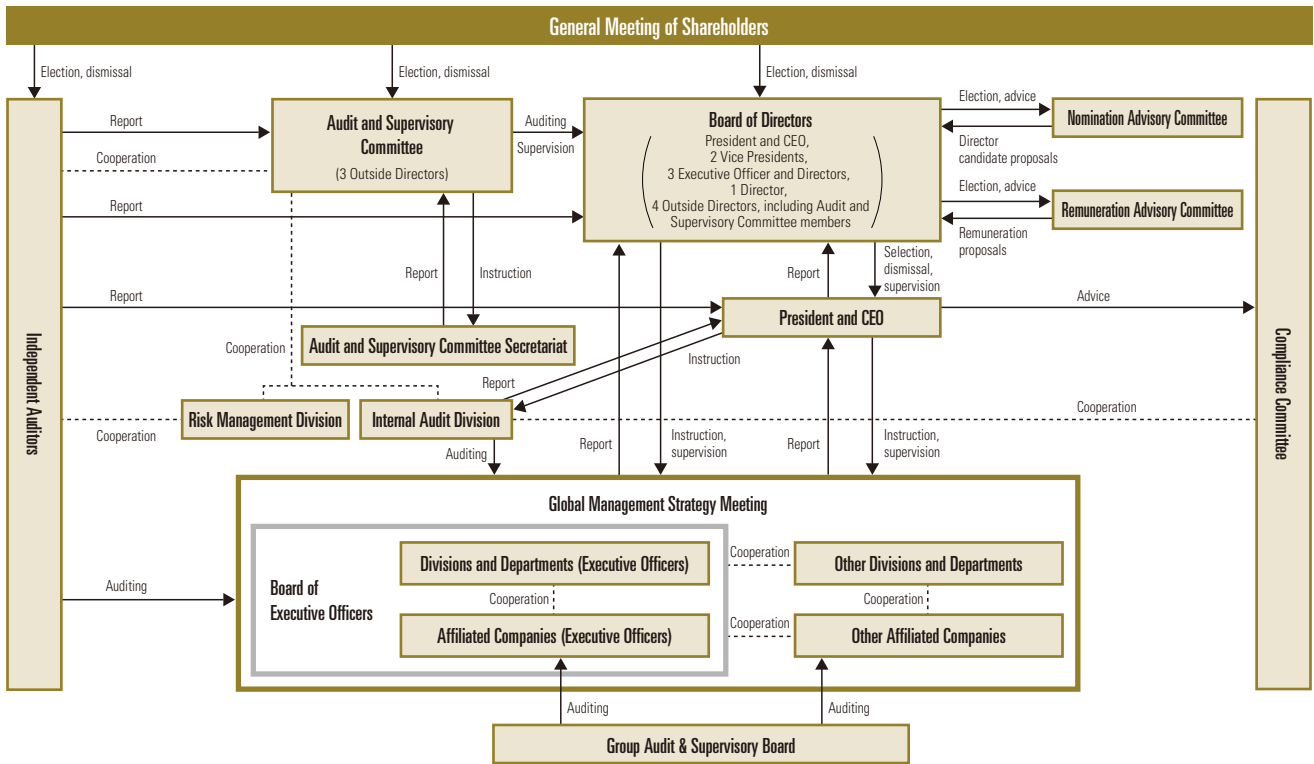
of their duties. The effectiveness of the audits is also enhanced by collaboration between the Audit and Supervisory Committee and independent auditors. In addition, the Audit and Supervisory Committee Secretariat, which comprises three full-time staff members, has been established to support the Audit and Supervisory Committee and its members. The Audit and Supervisory Committee Secretariat follows the instructions of the Audit and Supervisory Committee, coordinates with each department, and conveys instructions to the Internal Audit Division and the Risk Management Division, which is responsible for the maintenance and operation of internal controls.

### **Nomination Advisory Committee and Remuneration Advisory Committee**

The non-mandatory Nomination Advisory Committee and Remuneration Advisory Committee are each composed of four directors, two of which are outside directors. This composition is in accordance with the rules for both committees, which stipulate that outside directors must make up half or more of the members. As advisory bodies to the Board of Directors, both committees review and deliberate on director candidates and remuneration proposals, and they propose the content and outcomes of those deliberations to the Board of Directors. The Board of Directors conducts its own deliberations on the subject matter before deciding on a resolution.

### **Executive Officer System**

By introducing the executive officer system, THK endeavored to accelerate decision-making and operational execution, in addition to improving the management oversight function of the Board of Directors and clarifying roles and responsibilities relating to the management of corporate affairs. The Company implemented its Board of Executive Officers, which is attended by directors and executive officers, and established the Global Management Strategy Meeting, which is attended by members of the Board of Executive Officers in addition to those in charge of each division, department, and affiliate company, as a means to share information throughout the Group and improve corporate governance through collaboration between the directors, executive officers, and other members of the management team. To clarify the roles and responsibilities of executive officers relating to the management of corporate affairs, an executive officer's term in office is deemed to be one year.



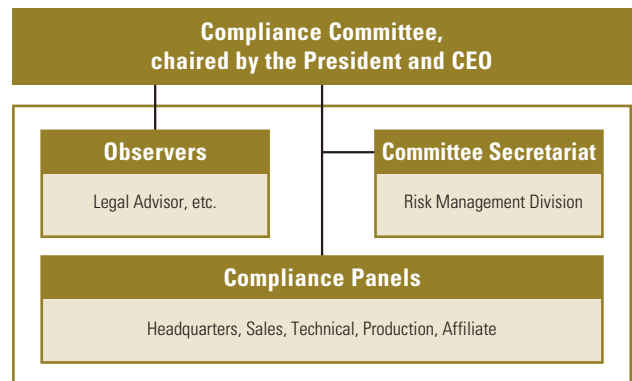
## General Meeting of Shareholders

THK has consistently regarded active communication with all stakeholders as a crucial part of management. Accordingly, the Company is actively committed to maintaining fair and proper disclosure of corporate information. In an aim to have open meetings, THK has held its General Meeting of Shareholders on a Saturday in mid-June every year since 1998, thereby avoiding the period when many shareholder meetings are scheduled. At the General Meeting of Shareholders, the Company provides seating for business partners and other stakeholders to observe the proceedings, and it holds a product exhibition after the end of the meeting in an effort to help more people gain a greater understanding of the Company.



## Compliance Structure

The Compliance Committee, chaired by the CEO, approves the annual activity plan and reports on the execution of those activities, as well as on the handling of legal violations by employees and other matters to report internally. This committee is also attended by outside directors and legal advisors, and it functions in a proper and legal manner. In addition, THK's operating divisions have all established compliance working groups reporting to the Compliance Committee, with the working group members being selected from each site and region. The working group members play an important role in maintaining the compliance system by means such as holding voluntary seminars on compliance and fulfilling an advisory function.





# BOARD OF DIRECTORS

As of June 20, 2017

## Directors



**Akihiro Teramachi**

President and CEO



**Toshihiro Teramachi**

Executive Vice President and CIO



**Hiroshi Imano**

Executive Vice President and CFO



**Nobuyuki Maki**

Director and Senior Managing Executive Officer  
Senior General Manager of  
Automotive & Transportation Company



**Takashi Teramachi**

Director and Senior Managing Executive Officer  
Senior General Manager of  
Industrial Machinery Company  
Representative Director and President of  
THK INTECHS CO., LTD.



**Junji Shimomaki**

Director and Managing Executive Officer  
General Manager of  
Industrial Machinery Company  
Senior General Manager of Sales Division,  
Industrial Machinery Company



**Junichi Sakai**

Director  
(In charge of Quality Assurance, Risk Management,  
and Production Engineering)



**Masaaki Kainosho**

Outside Director



**Masakatsu Hioki**

Outside Director  
(Audit and Supervisory Committee Member)



**Tomitoshi Omura**

Outside Director  
(Audit and Supervisory Committee Member)



**Yoshiki Ueda**

Outside Director  
(Audit and Supervisory Committee Member)

## Executive Officers

Managing Executive Officer

**Takashi Okubo**

Executive Vice Chairman of THK (CHINA) CO., LTD.

Managing Executive Officer

**Masaki Sugita**

Representative Director and President of THK Holdings of America, L.L.C.  
Representative Director and President of THK America, Inc.

Managing Executive Officer

**Tetsuya Hayashida**

Special Appointive Officer to President

Managing Executive Officer

**Masato Sawada**

General Manager of Automotive & Transportation Company  
Director and Executive Vice Chairman of THK RHYTHM CO., LTD.

Managing Executive Officer

**Takanobu Hoshino**

General Manager of IMT Division, Industrial Machinery Company  
Director and Executive Vice Chairman of THK INTECHS CO., LTD.

Managing Executive Officer

**Akihiko Kambe**

Senior General Manager of Production Division, Industrial Machinery Company

Managing Executive Officer

**Kaoru Hoshide**

Senior General Manager of Engineering Division, Industrial Machinery Company

Executive Officer

**Naoki Kinoshita**

President of THK (CHINA) CO., LTD.

Executive Officer

**Toshiki Matsuda**

Representative Director and President of THK Europe B.V.  
Representative Director and President of THK GmbH  
Representative Director and President of THK France S.A.S.  
Representative Director and President of THK Manufacturing of Europe S.A.S.  
Representative Director and President of THK Manufacturing of Ireland Ltd.

Executive Officer

**Yukio Yamada**

General Manager of Sales Division, Industrial Machinery Company  
General Manager of International Sales Division, Sales Division, Industrial Machinery Company

Executive Officer

**Takehiro Nakanishi**

Deputy Senior General Manager of Production Division, Industrial Machinery Company  
General Manager of Production Engineering Department, Production Division, Industrial Machinery Company  
General Manager of Global Procurement Department, Production Division, Industrial Machinery Company

Executive Officer

**Yasutoshi Hoshino**

Deputy General Manager of Corporate Strategy Headquarters

Executive Officer

**Junichi Kuwabara**

General Manager of ACE Division, Industrial Machinery Company

Executive Officer

**Kenji Nakane**

General Manager of Finance & Accounting Department, Corporate Strategy Headquarters

Executive Officer

**Akira Furihata**

Representative Director and President of THK RHYTHM CO., LTD.

# FINANCIAL SECTION

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# MANAGEMENT'S DISCUSSION & ANALYSIS

## Analysis of Operating Results

### ■ Net Sales

In the fiscal year 2016, which ended March 31, 2017, a moderate recovery continued in the global economy, led by Europe and the United States and other developed countries, despite a slowdown in the economic growth of China and other emerging countries. Although Japan experienced a weakness in exports due to the increased value of the yen, the economy improved overall, moderately recovering through the second half of the year.

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 the Company's products, including LM 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 automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robotics, and renewable energy. Additionally, in order to promote these strategies,

the Company is making full use of the IoT, cloud computing, AI, and robots from a variety of different angles, thereby expanding its business domains by realizing a *change in business style*.

During the fiscal year under review, the THK Group vigorously worked to expand sales on a global scale, harnessing the results of prolonged efforts to strengthen its business structure. Furthermore, four THK RHYTHM AUTOMOTIVE (TRA) companies were added to the scope of consolidation after August 31, 2015, with the aim of further expanding the Group's automotive and transportation business. As a result, consolidated net sales increased to ¥273,577 million, up ¥33,098 million (13.8%) compared to last year.

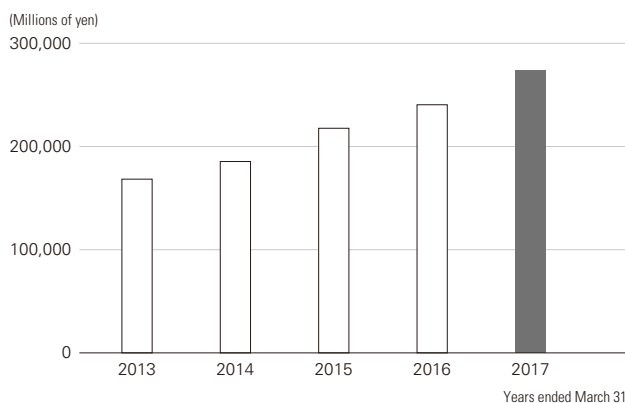
### ■ Cost of Sales

With the addition of the four TRA companies, which have higher cost to sales ratios than the industrial machinery business, the cost to sales ratio increased 2.4 percentage points from last year, to 74.2%.

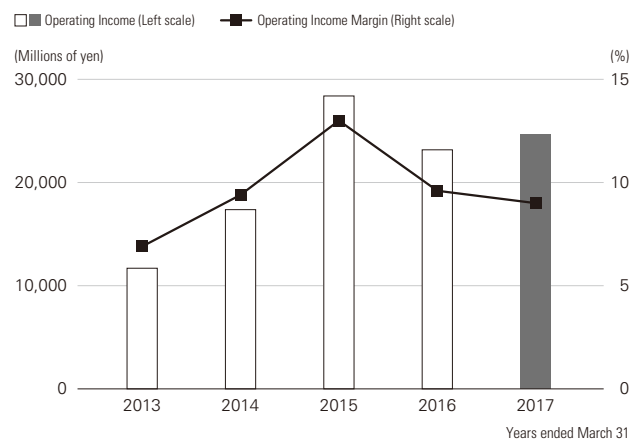
### ■ Selling, General, and Administrative (SG&A) Expenses

With the addition of the four TRA companies, which have lower ratios of SG&A expenses to sales than the industrial machinery business, the ratio of SG&A expenses to sales decreased 1.8 percentage points from last year, to 16.7%.

### Net Sales



### Operating Income/Operating Income Margin





**Operating Income**

As a result, while operating income was ¥24,653 million, up ¥1,483 million (6.4%) compared to the previous fiscal year, the operating margin decreased 0.6 percentage points, to 9.0%.

**Non-Operating Income and Expenses**

Non-operating income was ¥2,596 million. This largely comprised ¥524 million of equity in earnings of affiliates and interest received of ¥418 million. Non-operating expenses were ¥3,851 million due mainly to a foreign exchange loss of ¥2,942 million, which resulted from the increased value of the yen.

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

As a result, the net income attributable to shareholders of THK CO., LTD., rose to ¥16,731 million, which was an increase of ¥3,155 million (23.2%) compared to the previous fiscal year.

**Segment Information**

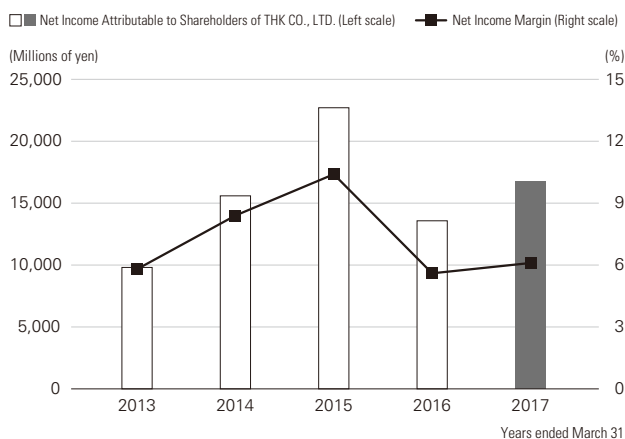
**Japan**

Although Japan experienced a weakness in exports due to the increased value of the yen, the economy improved overall, moderately recovering through the second half of the year. In addition to actively expanding its sales activities, the THK Group is developing new business areas such as seismic isolation and damping systems, medical equipment, renewable energy, and robotics. With these developments and the rising demand in the electronics field, sales increased to ¥121,865 million, up ¥3,014 million (2.5%) compared to the previous fiscal year. Meanwhile, from a profit perspective, the operating income (segment income) decreased ¥910 million (4.6%) year-on-year, to ¥18,809 million, due primarily to the shift in exchange rates because of the increased value of the yen.

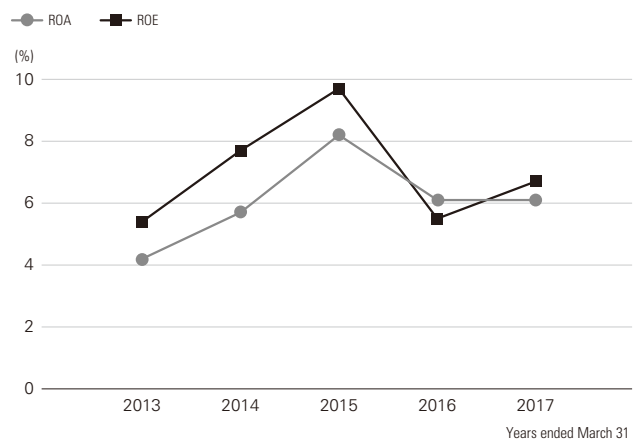
**The Americas**

In the Americas, economic recovery continued 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 and aircraft fields as well as energy-related fields. With these developments and the demand in the electronics field staying steady, as well as the addition of two North American TRA companies into the scope of consolidation, sales increased ¥13,378 million (27.0%) year-on-year, to ¥62,870 million. The operating income (segment income) increased ¥215 million (10.3%), to ¥2,311 million.

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



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



## Europe

In Europe, the economy continued to show a moderate recovery. In the fiscal year under review, THK strove to expand transactions with existing customers by unifying production and sales while developing aggressive sales activities to explore new business areas, including the fields of medical equipment, aircraft, and robotics. With these developments, in addition to bringing two European TRA companies into the scope of consolidation, sales increased ¥17,552 million (56.2%) year-on-year, to ¥48,775 million. The operating income (segment income) increased ¥17 million (2.7%), to ¥649 million.

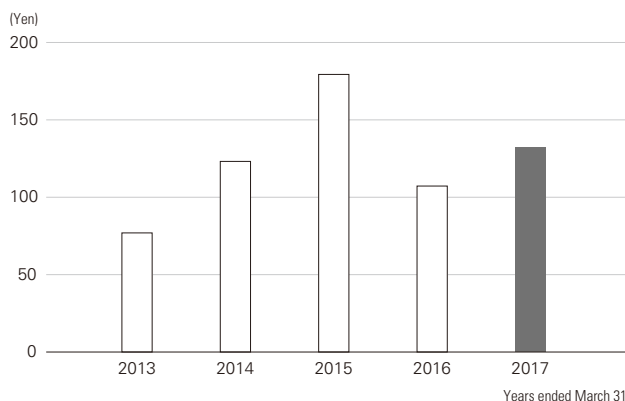
## China

In China, where 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, the Group undertook aggressive sales activities, optimizing the sales networks it has strengthened over time. As a result, the range of demand has broadened despite the slowdown of economic growth. However, sales decreased ¥164 million (0.6%) year-on-year, to ¥28,008 million, primarily due to the shift in exchange rates from the increasing value of the yen. Meanwhile, from a profit perspective, the operating income (segment income) increased ¥2,095 million compared to the previous fiscal year, to ¥750 million. This turnaround was made possible through the many efforts aimed at improving profitability.

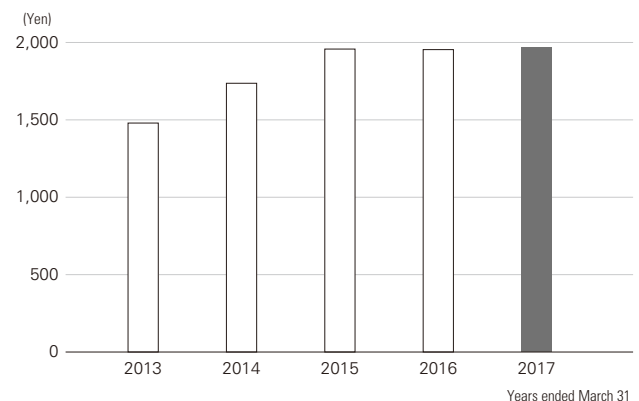
## Other

In other regions, as the THK Group expanded its sales network in the ASEAN region and India, the Group undertook aggressive sales activities to expand transactions with existing customers and acquire new customers. However, due in part to the shift in exchange rates from the increased value of the yen, sales decreased ¥682 million (5.4%) compared to the previous fiscal year, to ¥12,056 million. Meanwhile, the operating income (segment income) increased ¥68 million (5.4%), to ¥1,336 million.

### Net Income per Share



### Net Assets per Share



## Financial Position

### Assets, Liabilities, and Net Assets

#### Assets

Total current assets stood at ¥259,827 million as of March 31, 2017, an increase of ¥10,968 million compared with the previous fiscal year end. While trade accounts and notes receivable climbed ¥3,933 million in line with the upswing in net sales, inventories decreased ¥1,813 million. Cash and cash equivalents, on the other hand, increased ¥10,380 million due primarily to free cash flow.

Total non-current assets stood at ¥155,103 million as of March 31, 2017, a decrease of ¥3,846 million compared with the previous fiscal year end. In addition to a decrease in property, plant, and equipment of ¥788 million, intangibles also decreased ¥4,240 million.

#### Liabilities

Total liabilities came to ¥163,390 million, up ¥6,122 million compared with March 31, 2016. Major movement in liabilities included a decrease in long-term debt of ¥2,800 million, but also an increase in trade accounts and notes payable of ¥6,015 million.

#### Net Assets

Total net assets stood at ¥251,540 million as of March 31, 2017, an increase of ¥1,000 million compared with the previous fiscal year end. While net income attributable to shareholders of THK CO., LTD., came to ¥16,731 million, THK undertook payments for cash dividends of ¥5,185 million. At the same time, foreign currency translation adjustments declined ¥10,965 million compared with the previous fiscal year end.

#### Cash Flows

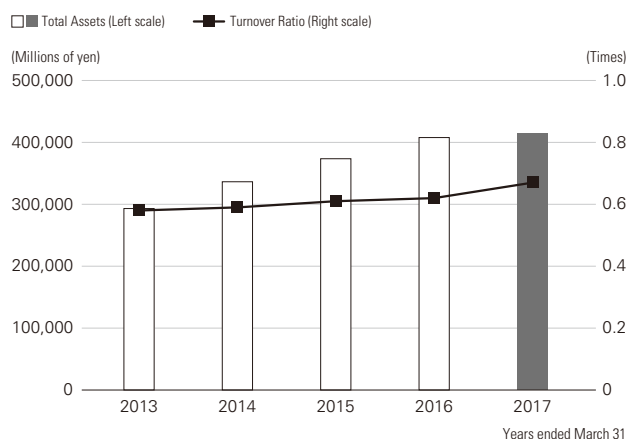
Net cash provided by operating activities came to ¥40,175 million. The major cash inflows were an income before income taxes of ¥23,057 million as well as depreciation and amortization of ¥13,185 million. The principal cash outflows included an increase in trade accounts and notes payable of ¥7,416 million.

Net cash used in investing activities totaled ¥17,960 million, primarily due to the purchase of fixed assets.

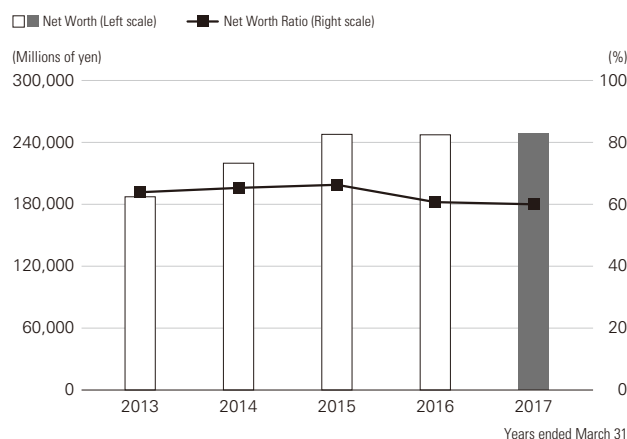
Net cash provided by financing activities was ¥7,548 million. The major cash outflows included the payment of cash dividends and the repayment of long-term debts.

In addition to each of the aforementioned activities, accounting for the effect of exchange differences, cash and cash equivalents as of March 31, 2017, stood at ¥137,345 million, an increase of ¥10,380 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 June 19, 2017.

### **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 production 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 production 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 production 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 newly emerging markets, 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

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents (Note 17)	¥ 137,345	¥ 126,964	\$ 1,224,108
Receivables (Note 17):			
Trade accounts and notes receivable	72,636	70,034	647,379
—Unconsolidated subsidiaries and affiliates	2,798	1,466	24,937
Other receivables	2,035	2,620	18,137
—Unconsolidated subsidiaries and affiliates	897	944	7,994
	78,367	75,066	698,458
Less allowance for doubtful receivables	(174)	(162)	(1,550)
	78,192	74,904	696,898
Inventories (Note 3)	37,428	39,242	333,582
Short-term loans receivable	3	4	26
Deferred tax assets (Note 13)	2,780	2,573	24,777
Other current assets	4,075	5,170	36,319
Total current assets	259,827	248,858	2,315,748
<b>Investments and Other:</b>			
Investments in securities (Notes 4 and 17)	4,107	2,573	36,604
Investments in unconsolidated subsidiaries and affiliates	4,182	4,479	37,272
Net defined benefit asset (Note 6)	2,110	1,493	18,805
Long-term loans receivable	61	63	543
Deferred tax assets (Note 13)	1,444	2,060	12,869
Other investments	2,328	2,381	20,748
Total investments and other	14,235	13,052	126,871
<b>Property, Plant and Equipment:</b>			
Buildings and structures	69,730	70,389	621,479
Machinery, equipment, vehicles and others (Note 12)	196,866	194,384	1,754,598
	266,596	264,773	2,376,078
Less accumulated depreciation	(180,188)	(178,198)	(1,605,953)
	86,408	86,575	770,124
Land	13,854	13,998	123,475
Construction in progress	8,377	8,854	74,661
Total property, plant and equipment	108,639	109,428	968,262
<b>Intangibles:</b>			
Goodwill	11,251	12,780	100,276
Other	20,976	23,688	186,951
Total intangibles	32,228	36,468	287,237
Total assets	¥ 414,931	¥ 407,808	\$ 3,698,137

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Current portion of long-term debt (Notes 5 and 17)	¥ 15,185	¥ 2,253	\$ 135,338
Payables (Note 17):			
Trade accounts and notes payable	41,728	35,750	371,907
—Unconsolidated subsidiaries and affiliates	960	923	8,556
Other payables	3,346	7,930	29,821
—Unconsolidated subsidiaries and affiliates	37	145	329
	46,073	44,750	410,632
Income taxes payable	3,865	806	34,447
Accrued bonuses to employees	3,398	3,193	30,285
Other accrued expenses	6,599	6,678	58,814
Lease obligations	147	190	1,310
Other current liabilities	5,610	1,699	50,000
Total current liabilities	80,880	59,572	720,855
<b>Long-term Liabilities:</b>			
Long-term debt (Notes 5 and 17)	67,480	83,280	601,426
Reserve for directors' and corporate auditors' retirement benefits	116	129	1,033
Reserve for product warranty	129	142	1,149
Long-term lease obligations	156	234	1,390
Net defined benefit liability (Note 6)	7,827	7,195	69,759
Deferred tax liabilities (Note 13)	5,359	5,488	47,762
Other liabilities	1,440	1,224	12,834
Total long-term liabilities	82,510	97,695	735,383
<b>Commitment and Contingent Liabilities (Notes 7 and 8)</b>			
<b>Net Assets (Note 9):</b>			
Shareholders' equity			
Common stock			
Authorized: 465,877,700 shares; Issued: 133,856,903 shares as of March 31, 2017 and 2016	34,606	34,606	308,431
Additional paid-in capital	44,584	44,584	397,361
Retained earnings	176,617	165,076	1,574,126
Treasury stock, at cost: 7,285,746 shares and 7,269,394 shares as of March 31, 2017 and 2016, respectively	(13,991)	(13,950)	(124,696)
Total shareholders' equity	241,817	230,317	2,155,231
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	1,585	665	14,126
Foreign currency translation adjustments	6,793	17,759	60,543
Remeasurements of defined benefit plans	(1,256)	(1,394)	(11,194)
Total accumulated other comprehensive income	7,122	17,030	63,475
Non-controlling interests	2,600	3,192	23,172
Total net assets	251,540	250,540	2,241,889
Total liabilities and net assets	¥ 414,931	¥ 407,808	\$ 3,698,137

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Net Sales</b>	<b>¥ 273,577</b>	¥ 240,478	<b>\$ 2,438,297</b>
<b>Cost of Sales (Note 11)</b>	<b>203,112</b>	172,711	<b>1,810,267</b>
Gross profit	70,464	67,766	628,021
<b>Selling, General and Administrative Expenses (Notes 10 and 11)</b>	<b>45,811</b>	44,597	<b>408,297</b>
Operating income	24,653	23,169	219,723
<b>Non-Operating Income (Expenses):</b>			
Interest and dividend income	497	485	4,429
Interest expenses	(397)	(426)	(3,538)
Foreign exchange loss, net	(2,942)	(5,716)	(26,221)
Equity in earnings of an affiliate	524	644	4,670
Rental income	403	387	3,591
(Loss) gain on sales and disposal of property, plant and equipment, net	(341)	472	(3,039)
Other, net	659	595	5,873
	(1,596)	(3,557)	(14,224)
Income before income taxes	23,057	19,612	205,499
<b>Income Taxes (Note 13)</b>			
Current	6,447	5,289	57,459
Deferred	(64)	1,073	(570)
Total income taxes	6,383	6,363	56,889
Net income	16,673	13,249	148,600
<b>Net loss attributable to non-controlling interests</b>	<b>(58)</b>	(325)	<b>(516)</b>
<b>Net income attributable to shareholders of THK CO., LTD.</b>	<b>¥ 16,731</b>	¥ 13,575	<b>\$ 149,117</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
<b>Net Income</b>	<b>¥ 16,673</b>	¥ 13,249	<b>\$ 148,600</b>
<b>Other Comprehensive Loss (Note 14):</b>			
Net unrealized gain (loss) on available-for-sale securities	920	(643)	8,199
Foreign currency translation adjustments	(10,990)	(4,818)	(97,950)
Remeasurements of defined benefit plans	171	(1,223)	1,524
Share of other comprehensive loss of an affiliate accounted for under the equity method	(542)	(565)	(4,830)
Total other comprehensive loss	(10,441)	(7,250)	(93,057)
<b>Comprehensive Income</b>	<b>6,231</b>	5,999	<b>55,534</b>
Attributable to:			
Shareholders of THK CO., LTD.	6,823	6,519	60,811
Non-controlling interests	¥ (591)	¥ (520)	\$ (5,267)

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

Years ended March 31, 2017 and 2016

	Millions of yen				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2015	¥ 34,606	¥ 44,584	¥ 158,463	¥ (13,943)	¥ 223,711
Cash dividends	—	—	(6,962)	—	(6,962)
Net income attributable to shareholders of THK CO., LTD.	—	—	13,575	—	13,575
Purchase of treasury stock	—	—	—	(6)	(6)
Disposal of treasury stock	—	—	—	0	0
Net changes of items other than shareholders' equity	—	—	—	—	—
<b>Balance at March 31, 2016</b>	<b>¥ 34,606</b>	<b>¥ 44,584</b>	<b>¥ 165,076</b>	<b>¥ (13,950)</b>	<b>¥ 230,317</b>
<b>Cash dividends</b>	<b>—</b>	<b>—</b>	<b>(5,190)</b>	<b>—</b>	<b>(5,190)</b>
<b>Net income attributable to shareholders of THK CO., LTD.</b>	<b>—</b>	<b>—</b>	<b>16,731</b>	<b>—</b>	<b>16,731</b>
<b>Purchase of treasury stock</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(41)</b>	<b>(41)</b>
<b>Net changes of items other than shareholders' equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Balance at March 31, 2017</b>	<b>¥ 34,606</b>	<b>¥ 44,584</b>	<b>¥ 176,617</b>	<b>¥ (13,991)</b>	<b>¥ 241,817</b>

	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, 2015	¥ 1,312	¥ 22,940	¥ (166)	¥ 24,086	¥ 2,701	¥ 250,498
Cash dividends	—	—	—	—	—	(6,962)
Net income attributable to shareholders of THK CO., LTD.	—	—	—	—	—	13,575
Purchase of treasury stock	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	—	—	—	0
Net changes of items other than shareholders' equity	(646)	(5,181)	(1,227)	(7,055)	490	(6,565)
<b>Balance at March 31, 2016</b>	<b>¥ 665</b>	<b>¥ 17,759</b>	<b>¥ (1,394)</b>	<b>¥ 17,030</b>	<b>¥ 3,192</b>	<b>¥ 250,540</b>
<b>Cash dividends</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(5,190)</b>
<b>Net income attributable to shareholders of THK CO., LTD.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>16,731</b>
<b>Purchase of treasury stock</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(41)</b>
<b>Net changes of items other than shareholders' equity</b>	<b>(920)</b>	<b>(10,965)</b>	<b>137</b>	<b>(9,907)</b>	<b>(591)</b>	<b>(10,499)</b>
<b>Balance at March 31, 2017</b>	<b>¥ 1,585</b>	<b>¥ 6,793</b>	<b>¥ (1,256)</b>	<b>¥ 7,122</b>	<b>¥ 2,600</b>	<b>¥ 251,540</b>

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Balance at March 31, 2016</b>	<b>\$ 308,431</b>	<b>\$ 397,361</b>	<b>\$ 1,471,265</b>	<b>\$ (124,331)</b>	<b>\$ 2,052,736</b>
<b>Cash dividends</b>	<b>—</b>	<b>—</b>	<b>(46,256)</b>	<b>—</b>	<b>(46,256)</b>
<b>Net income attributable to shareholders of THK CO., LTD.</b>	<b>—</b>	<b>—</b>	<b>149,117</b>	<b>—</b>	<b>149,117</b>
<b>Purchase of treasury stock</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(365)</b>	<b>(365)</b>
<b>Net changes of items other than shareholders' equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Balance at March 31, 2017</b>	<b>\$ 308,431</b>	<b>\$ 397,361</b>	<b>\$ 1,574,126</b>	<b>\$ (124,696)</b>	<b>\$ 2,155,231</b>

	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
<b>Balance at March 31, 2016</b>	<b>\$ 5,926</b>	<b>\$ 158,279</b>	<b>\$ (12,424)</b>	<b>\$ 151,782</b>	<b>\$ 28,449</b>	<b>\$ 2,232,976</b>
<b>Cash dividends</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(46,256)</b>
<b>Net income attributable to shareholders of THK CO., LTD.</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>149,117</b>
<b>Purchase of treasury stock</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(365)</b>
<b>Net changes of items other than shareholders' equity</b>	<b>(8,199)</b>	<b>(97,727)</b>	<b>1,221</b>	<b>(88,297)</b>	<b>(5,267)</b>	<b>(93,573)</b>
<b>Balance at March 31, 2017</b>	<b>\$ 14,126</b>	<b>\$ 60,543</b>	<b>\$ (11,194)</b>	<b>\$ 63,475</b>	<b>\$ 23,172</b>	<b>\$ 2,241,889</b>

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

Years ended March 31, 2017 and 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2016
		2017
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes	¥ 23,057	¥ 19,612
Adjustments:		\$ 205,499
Depreciation and amortization	13,185	13,643
Amortization of goodwill	978	664
Interest and dividend income	(497)	(485)
Interest expenses	397	426
Foreign exchange loss, net	1,409	2,659
Equity in earnings of an affiliate	(524)	(644)
Loss (gain) on sales and disposal of property, plant and equipment, net	341	(472)
Changes in assets and liabilities:		
Increase in accounts and notes receivable	(5,906)	(1,318)
Increase in inventories	422	(3,386)
Increase in accounts and notes payable	7,416	1,094
Increase in provisions	172	13
Increase in net defined benefit liability	421	75
Other, net	1,819	992
Subtotal	42,693	32,875
Interest and dividend received	480	504
Interest paid	(351)	(508)
Income taxes paid	(2,646)	(13,117)
Net cash provided by operating activities	40,175	19,753
<b>Cash Flows from Investing Activities:</b>		
Purchase of property, plant and equipment and intangibles	(17,482)	(15,522)
Proceeds from sales of property, plant and equipment	20	1,743
Increase in investments in securities, unconsolidated subsidiaries and affiliates	(238)	(67)
Increase in loans receivable	(125)	(11)
Payment for acquisition of subsidiaries' shares resulting in change in scope of consolidation	—	(24,379)
Payment for transfer of business	—	(24,161)
Payment for insurance fund	—	(671)
Cancellation of insurance fund	11	—
Other, net	(145)	385
Net cash used in investing activities	(17,960)	(62,685)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	—	22,534
Repayment of long-term debt	(2,185)	(7,000)
Proceeds from issuance of corporate bonds	—	10,000
Cash dividends	(5,185)	(6,953)
Proceeds from payment from non-controlling shareholders	—	1,011
Purchase of treasury stock	(41)	(6)
Proceeds from sales of treasury stock	—	0
Repayment of lease obligations	(137)	(321)
Payment for acquisition of subsidiaries' shares not resulting in change in scope of consolidation	—	(10)
Net cash (used in) provided by financing activities	(7,548)	19,252
<b>Foreign Currency Translation Adjustments on Cash and Cash Equivalents</b>	<b>(4,285)</b>	<b>(4,596)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>10,380</b>	<b>(28,275)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>126,964</b>	<b>155,239</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>¥ 137,345</b>	<b>¥ 126,964</b>
		<b>\$ 1,224,108</b>

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL 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.

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 ¥112.20 to U.S. \$1, the approximate rate of exchange prevailing in Tokyo on March 31, 2017, have been used for the translation of the accompanying consolidated financial statements as of March 31, 2017 and for the year 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 38 subsidiaries as of March 31, 2017 and 36 subsidiaries as of March 31, 2016. The consolidated financial statements for the years ended March 31, 2017 and 2016 include the accounts of the Company and its 35 (33 in 2016) consolidated subsidiaries (collectively, "the Group"). 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 year ended March 31, 2017 were as follows:

THK CAPITAL UNLIMITED COMPANY and THK FINANCE UNLIMITED COMPANY, which were newly established during the year ended March 31, 2017, were 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 5 to 15 years by the straight-line method.

The fiscal year closing date of 29 overseas consolidated subsidiaries,

excluding THK India Pvt. Ltd., is December 31. In consolidating these accounts, financial statements as of and for the year ended December 31 are used after making necessary adjustments for consolidation to the significant intercompany transactions during the period between January 1 and March 31. The fiscal year closing date of other consolidated subsidiaries is March 31.

### 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.

The Company had three affiliates and three unconsolidated subsidiaries as of March 31, 2017 and 2016. 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 years ended March 31, 2017 and 2016, 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.

**(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 beginning of 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 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 qualify 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 qualify 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 qualify the required condition under the related Japanese accounting standards, the hedged foreign currency assets and liabilities are translated at the contract rates and 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 fixed 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 continuously on and 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 of 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 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 are 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.

**(r) Accounting Changes**

**Accounting changes which are difficult to distinguish from changes in accounting estimates**

Regarding the depreciation method of property, plant and equipment (excluding lease assets), the Company and its domestic consolidated subsidiaries had adopted mainly the declining-balance method and certain U.S. consolidated subsidiaries had adopted the accelerated declining-balance method, but effective from current fiscal year, they changed their depreciation method to the straight-line method.

The Group judged that the straight-line method as a depreciation method for property, plant and equipment would reflect more appropriately its actual economic status because the property, plant and equipment are expected to operate stably, after the Group investigated the actual status of use of the property, plant and equipment from the viewpoint of unification of the Group accounting policies of domestic and foreign companies as the Group developed global activities in the recent years.

As a result of this change, operating income and income before taxes for the year ended March 31, 2017 increased by ¥1,582 million

(\$14,038 thousand), respectively, compared to those amounts under the previous method.

**(s) Changes in Accounting Estimates**

**Changes in the estimates of asset retirement obligation**

The Company and certain domestic consolidated subsidiaries decided to relocate the head office in the year ended March 31, 2017. Pursuant to this decision, regarding asset retirement obligation which represents the restoring costs in accordance with the real estate rent contract of the head office, the uncollectible amounts of key money on the building rent contract are reasonably estimated and the amounts attributed to the current fiscal year are charged to income in place of recording asset retirement obligation.

As a result of this change, operating income and income before taxes for the year ended March 31, 2017 decreased by ¥13 million (\$115 thousand), respectively, compared to those amounts under the previous method.

**(t) Additional Information**

**Application of Implementation Guidance on Recoverability of Deferred Tax Assets**

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan ("ASBJ") Guidance No. 26 issued on March 28, 2016) from the year ended March 31, 2017.

**3. Inventories**

Inventories as of March 31, 2017 and 2016 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished goods	¥ 12,860	¥ 16,619	\$ 114,616
Work in process	8,607	7,352	76,711
Raw materials and supplies	15,960	15,270	142,245
Total	¥ 37,428	¥ 39,242	\$ 333,582

**4. Investments in Securities**

As of March 31, 2017 and 2016, available-for-sale securities with available fair value were as follows:

	Millions of yen		
	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

	Millions of yen		
	2016		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
Carrying amount (fair value) exceeds acquisition cost: Equity securities	¥ 2,096	¥ 1,006	¥ 1,089
Carrying amount (fair value) does not exceed acquisition cost: Equity securities	258	435	(176)
Total	¥ 2,354	¥ 1,442	¥ 912



Thousands of U.S. dollars

	2017		
	Carrying amount	Acquisition cost	Net unrealized gain (loss)
Carrying amount (fair value) exceeds acquisition cost: Equity securities	\$ 29,474	\$ 9,162	\$ 20,311
Carrying amount (fair value) does not exceed acquisition cost: Equity securities	3,262	3,832	(570)
Total	\$ 32,745	\$ 13,003	\$ 19,741

As of March 31, 2017 and 2016, available-for-sale securities whose fair value is not reliably determinable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Available-for-sale securities			
Unlisted equity securities	¥ 193	¥ 173	\$ 1,720
Investments in investment business limited partnerships	239	45	2,130

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 years ended March 31, 2017 and 2016.

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 years ended March 31, 2017 and 2016.

## 5. Long-term Debt

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bank loans 0.076% due in 2026	¥ 29,665	¥ 32,533	\$ 264,393
Corporate bonds issued by the Company:			
0.715% Unsecured straight bonds due in 2017	13,000	13,000	115,864
0.850% Unsecured straight bonds due in 2018	10,000	10,000	89,126
0.430% Unsecured straight bonds due in 2018	10,000	10,000	89,126
0.660% Unsecured straight bonds due in 2020	10,000	10,000	89,126
0.296% Unsecured straight bonds due in 2020	10,000	10,000	89,126
	¥ 82,665	¥ 85,533	\$ 736,764
Current portion	(15,185)	(2,253)	(135,338)
Long-term debt, less current portion	¥ 67,480	¥ 83,280	\$ 601,426

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

	Millions of yen					
	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	¥ 13,000	¥ 20,000	¥ —	¥ 20,000	¥ —	¥ —
Bank loans	2,185	2,185	12,185	2,185	2,185	8,740
Total	¥ 15,185	¥ 22,185	¥ 12,185	¥ 22,185	¥ 2,185	¥ 8,740

	Thousands of U.S. dollars					
	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	\$ 115,864	\$ 178,253	\$ —	\$ 178,253	\$ —	\$ —
Bank loans	19,474	19,474	108,600	19,474	19,474	77,896
Total	\$ 135,338	\$ 197,727	\$ 108,600	\$ 197,727	\$ 19,474	\$ 77,896

## 6. 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 are contributory), lump-sum severance benefits or pensions based on salaries and service years are provided.

Under lump-sum payment plans (all 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 years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance of projected benefit obligation	¥ 23,725	¥ 15,336	\$ 211,452
Service cost	1,073	791	9,563
Interest cost	334	280	2,976
Actuarial differences	160	1,673	1,426
Retirement benefits paid	(485)	(354)	(4,322)
Increase due to business combinations	—	6,305	—
Other	35	(307)	311
Ending balance of projected benefit obligations	¥ 24,842	¥ 23,725	\$ 221,408

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Beginning balance of plan assets	¥ 18,023	¥ 10,438	\$ 160,632
Expected return on plan assets	545	361	4,857
Actuarial differences	264	(291)	2,352
Contribution from the employer	827	791	7,370
Retirement benefits paid	(342)	(267)	(3,048)
Increase due to business combinations	—	7,368	—
Impact from foreign exchanges	(191)	(378)	(1,702)
Ending balance of plan assets	¥ 19,126	¥ 18,023	\$ 170,463

(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
	2017	2016	2017
Contributory defined benefit obligations	¥ 23,749	¥ 22,626	\$ 211,666
Plan assets	(19,126)	(18,023)	(170,463)
	4,623	4,603	41,203
Non-contributory defined benefit obligations	1,093	1,098	9,741
Net liability recorded in the consolidated balance sheet	¥ 5,716	¥ 5,701	\$ 50,944
Net defined benefit liability	7,827	7,195	69,759
Net defined benefit asset	(2,110)	(1,493)	(18,805)
Net liability recorded in the consolidated balance sheet	¥ 5,716	¥ 5,701	\$ 50,944

(4) The components of retirement benefit expenses for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 1,073	¥ 791	\$ 9,563
Interest cost	334	280	2,976
Expected return on plan assets	(545)	(361)	(4,857)
Amortization of actuarial differences	122	(88)	1,087
Amortization of prior service costs	138	138	1,229
Retirement benefit expenses on defined benefit plans	¥ 1,122	¥ 760	\$ 10,000

(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
	2017	2016	2017
Prior service costs	¥ 138	¥ 138	\$ 1,229
Actuarial differences	258	(2,227)	2,299
Total	¥ 396	¥ (2,089)	\$ 3,529

(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
	2017	2016	2017
Unrecognized prior service costs	¥ 1,315	¥ 1,453	\$ 11,720
Unrecognized actuarial differences	329	579	2,932
Total	¥ 1,645	¥ 2,033	\$ 14,661

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:

	2017	2016
Debt securities	35%	35%
Equity securities	44%	43%
General account	20%	20%
Other	1%	2%
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 years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.5%	0.5%
Long-term expected rate of return	2.5%	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 ¥356 million (\$3,172 thousand) and ¥478 million for the years ended March 31, 2017 and 2016, respectively.

## 7. Committed Line of Credit

As of March 31, 2017 and 2016, the Group had committed lines of credit amounting to ¥15,000 million (\$133,689 thousand). None of the committed lines of credit were used.

## 8. Contingent Liabilities

As of March 31, 2017 and 2016, the Group had no material contingent liabilities.

## 9. 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 years ended March 31, 2017 and 2016 were as follows:

	Number of shares			March 31, 2017
	April 1, 2016	Increase	Decrease	
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.

	Number of shares			March 31, 2016
	April 1, 2015	Increase	Decrease	
Outstanding shares issued:				
Common stock	133,856,903	—	—	133,856,903
Treasury stock:				
Common stock	7,266,746	2,698	50	7,269,394

An increase of 2,698 shares in treasury stock is due to acquisition of less than one share unit.

A decrease of 50 shares in treasury stock is due to additional purchase requisition 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.

### 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 (Thousands of U.S. dollars)	Per share amount Yen (U.S. dollar)	Dividend record date	Effective date
Common stock	¥ 3,164 million (\$ 28,199 thousand)	¥ 25.00 (\$ 0.22)	Mar.31, 2016	Jun. 20, 2016

Board of Directors meeting held on November 10, 2016:

	Total amount Millions of yen (Thousands of U.S. dollars)	Per share amount Yen (U.S. dollar)	Dividend record date	Effective date
Common stock	¥ 2,025 million (\$ 18,048 thousand)	¥ 16.00 (\$ 0.14)	Sep. 30, 2016	Dec. 5, 2016

### Year ended March 31, 2016

The following cash dividend payments were approved during the fiscal year:

General Meeting of Shareholders held on June 20, 2015:

	Total amount Millions of yen	Per share amount Yen	Dividend record date	Effective date
Common stock	¥ 3,797 million	¥ 30.00	Mar. 31, 2015	Jun. 22, 2015

Board of Directors meeting held on November 12, 2015:

	Total amount Millions of yen	Per share amount Yen	Dividend record date	Effective date
Common stock	¥ 3,164 million	¥ 25.00	Sep. 30, 2015	Dec. 7, 2015

## 10. Amortization of Goodwill

Amortization of goodwill included in selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥978 million (\$8,716 thousand) and ¥664 million, respectively.

## 11. Research and Development

Research and development expenses included in cost of sales or selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥5,235 million (\$46,657 thousand) and ¥5,074 million, respectively.



## 12. 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 March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 329	¥ 535	\$ 2,932
Due after one year	541	510	4,821
Total	¥ 871	¥ 1,046	\$ 7,762

## 13. 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% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

As of March 31, 2017 and 2016, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Valuation loss of investments in affiliates	¥ 6,987	¥ 6,987	\$ 62,272
Net defined benefit liability	1,884	2,078	16,791
Tax loss carried forward	1,243	1,275	11,078
Accrued bonuses to employees	968	945	8,627
Unrealized gain on intercompany sales of inventories	934	870	8,324
Loss on devaluation of inventories	790	890	7,040
Unrealized gain on intercompany sales of property, plant and equipment	539	681	4,803
Accumulated depreciation	314	299	2,798
Enterprise tax payable	304	57	2,709
Retirement benefits payable to directors and corporate auditors	262	266	2,335
Accrued expenses	212	252	1,889
Impairment loss	92	95	819
Loss on devaluation of investments in securities	60	59	534
Allowance for doubtful receivables	43	42	383
Other	844	623	7,522
Total	15,483	15,425	137,994
Less: valuation allowance	(9,577)	(9,430)	(85,356)
Total deferred tax assets	5,905	5,995	52,629
Deferred tax liabilities:			
Adjustment to book value of a subsidiary due to fair value measurement at the inception of consolidation	(1,911)	(2,366)	(17,032)
Unrealized gains on available-for-sale securities	(1,867)	(1,486)	(16,639)
Depreciation	(1,729)	(1,409)	(15,409)
Unrealized gains on land revaluation	(1,175)	(1,175)	(10,472)
Special depreciation reserve for tax purpose	(32)	(34)	(285)
Other	(417)	(393)	(3,716)
Total deferred tax liabilities	(7,134)	(6,865)	(63,582)
Net deferred tax (liabilities) assets	¥ (1,229)	¥ (870)	\$ (10,953)

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 year ended March 31, 2017 was as follows (For the year ended March 31, 2016, it is omitted because the difference between the normal effective statutory tax rate and the actual effective tax rate is less than 5% of the normal effective statutory tax rate):

	<b>2017</b>
Normal effective statutory tax rate	<b>30.9%</b>
Non-deductible items such as entertainment expenses	<b>0.6</b>
Non-taxable items such as dividends received	<b>(2.4)</b>
Amortization of goodwill	<b>1.1</b>
Equity in earnings of affiliates	<b>(0.7)</b>
Inhabitant per capita tax	<b>0.3</b>
Statutory tax rate difference between parent and subsidiaries	<b>(1.4)</b>
Tax credit for research and development	<b>(2.4)</b>
Special tax incentives	<b>(2.3)</b>
Valuation allowance	<b>1.6</b>
Investments in consolidated subsidiaries	<b>2.3</b>
Other	<b>0.1</b>
Actual effective tax rate	<b>27.7%</b>

#### 14. Other Comprehensive Loss

The components of other comprehensive loss for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	<b>2017</b>	2016	<b>2017</b>
Net unrealized gain (loss) on available-for-sale securities:			
Gain (loss) recognized during the year	¥ 1,301	¥ (936)	\$ 11,595
Reclassification adjustment to net income	—	0	—
Amount before tax effect	1,301	(936)	11,595
Tax effect	(381)	292	(3,395)
Net unrealized gain (loss) on available-for-sale securities	920	(643)	8,199
Foreign currency translation adjustments:			
Loss recognized during the year	(10,990)	(4,818)	(97,950)
Reclassification adjustment to net income	—	—	—
Amount before tax effect	(10,990)	(4,818)	(97,950)
Tax effect	—	—	—
Foreign currency translation adjustments	(10,990)	(4,818)	(97,950)
Remeasurements of defined benefit plans			
Gain (loss) recognized during the year	136	(1,993)	1,212
Reclassification adjustment to net income	260	50	2,317
Amount before tax effect	396	(1,942)	3,529
Tax effect	(225)	719	(2,005)
Remeasurements of defined benefit plans	171	(1,223)	1,524
Share of other comprehensive loss of an affiliate accounted for under the equity method:			
Loss recognized during the year	(542)	(565)	(4,830)
Reclassification adjustment to net income	—	—	—
Share of other comprehensive loss of an affiliate accounted for under the equity method	(542)	(565)	(4,830)
Total other comprehensive loss	¥ (10,441)	¥ (7,250)	\$ (93,057)

## 15. Supplementary Information to Consolidated statements of Cash Flows

Major components of assets and liabilities of a company which newly became a consolidated subsidiary due to acquisition of shares:

### Year ended March 31, 2017

There was no applicable information for the year ended March 31, 2017

### Year ended March 31, 2016

Components of assets and liabilities at the beginning of consolidation of THK RHYTHM AUTOMOTIVE CZECH a.s., which newly became a consolidated subsidiary due to acquisition of shares and relationship between acquisition value of shares and net payment for acquisition, are as follows:

	Millions of yen
Current assets	¥ 5,205
Noncurrent assets	16,561
Goodwill	9,883
Current liabilities	(3,689)
Noncurrent liabilities	(2,702)
Acquisition value of shares	25,257
Cash and cash equivalents	(877)
Net payment for acquisition	¥ 24,379

Major components of assets and liabilities associated with business transfer made in consideration for cash and cash equivalents:

### Year ended March 31, 2017

There was no applicable information for the year ended March 31, 2017

### Year ended March 31, 2016

Components of assets and liabilities acquired by business transfer of L&S (Linkage and Suspension) business from TRW Automotive Inc. and relationship between acquisition value of the business and net payment for acquisition are as follows:

	Millions of yen
Current assets	¥ 7,438
Noncurrent assets	18,426
Goodwill	3,351
Current liabilities	(5,144)
Noncurrent liabilities	(0)
Acquisition value of shares	24,073
Cash and cash equivalents	—
Foreign exchange translation differences	88
Net payment for acquisition	¥ 24,161

## 16. Per Share Information

Per share information as of and for the years ended March 31, 2017 and 2016 is as follows:

	yen		U.S. dollars
	2017	2016	2017
Net income – basic	¥ 132.18	¥ 107.24	\$ 1.17
Net assets	1,966.80	1,953.97	17.52

Diluted net income per share for the years ended March 31, 2017 and 2016 is not presented since the Company did not have any kind of securities with potential dilutive effect in the fiscal years.

## 17. 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 nine years. 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 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 18 do not represent the volume of underlying market risks of the derivative transactions.

Financial instruments whose fair value is readily determinable as of March 31, 2017 and 2016 are as follows:

	Millions of yen		
	2017		
	Carrying amount	Fair value	Difference
<b>Assets:</b>			
(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	¥ —
<b>Liabilities:</b>			
(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	¥ —	¥ —	¥ —

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Millions of yen			
<b>2016</b>			
	Carrying amount	Fair value	Difference
<b>Assets:</b>			
(1) Cash and cash equivalents	¥ 126,964	¥ 126,964	¥ —
(2) Trade accounts and notes receivable	71,500	71,500	—
(3) Investments in securities			
Available-for-sale securities	2,354	2,354	—
Total	¥ 200,820	¥ 200,820	¥ —
<b>Liabilities:</b>			
(4) Trade accounts and notes payable	¥ 36,673	¥ 36,673	¥ —
(5) Long-term debt—Bonds and bank loans, including current portion	85,534	86,477	943
Total	¥ 122,207	¥ 123,151	¥ 943
Derivatives	¥ —	¥ —	¥ —

Thousands of U.S. dollars			
<b>2017</b>			
	Carrying amount	Fair value	Difference
<b>Assets:</b>			
(1) Cash and cash equivalents	<b>\$ 1,224,108</b>	<b>\$ 1,224,108</b>	<b>\$ —</b>
(2) Trade accounts and notes receivable	<b>672,317</b>	<b>672,317</b>	<b>—</b>
(3) Investments in securities			
Available-for-sale securities	<b>32,745</b>	<b>32,745</b>	<b>—</b>
Total	<b>\$ 1,929,180</b>	<b>\$ 1,929,180</b>	<b>\$ —</b>
<b>Liabilities:</b>			
(4) Trade accounts and notes payable	<b>\$ 380,463</b>	<b>\$ 380,463</b>	<b>\$ —</b>
(5) Long-term debt—Bonds and bank loans, including current portion	<b>736,764</b>	<b>742,620</b>	<b>5,944</b>
Total	<b>\$ 1,117,237</b>	<b>\$ 1,123,181</b>	<b>\$ 5,944</b>
Derivatives	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

**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 4.

**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 18.

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 March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	<b>2017</b>	2016	<b>2017</b>
Unlisted equity securities	<b>¥ 193</b>	¥ 173	<b>\$ 1,720</b>
Investments in investment business limited partnerships	<b>239</b>	45	<b>2,130</b>



Detailed information about investments in securities is discussed in Note 5.

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

	Millions of yen		Thousands of U.S. dollars	
	2017		2017	
	Due within one year	Due after one year	Due within one year	Due after one year
(1) Cash and cash equivalents	¥ 137,345	—	\$ 1,224,108	—
(2) Trade accounts and notes receivable	75,434	—	672,317	—
Total	¥ 212,779	—	\$ 1,896,426	—

Maturities of long-term debt as of March 31, 2017 are disclosed in Note 5.

## 18. 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 March 31, 2017 and 2016 is as follows:

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

	Millions of yen		
	2016		
	Contract Amount		Fair value of derivative instruments
Within one year	Over one year		
Interest rate and currency swaps (fixed rate payment in JPY, floating rate receipt in USD)	¥ 11,265	¥ 10,138	¥ (140)

	Thousands of U.S. dollars		
	2017		
	Contract Amount		Fair value of derivative instruments
Within one year	Over one year		
Interest rate and currency swaps (fixed rate payment in JPY, floating rate receipt in USD)	\$ 175,267	\$ 155,793	\$ 5,231

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Millions of yen			
<b>2016</b>			
	Contract Amount		Fair value of derivative instruments
	Within one year	Over one year	
Interest rate swaps (fixed rate payment, floating rate receipt)	¥ 10,000	¥ 10,000	¥ (137)

Thousands of U.S. dollars			
<b>2017</b>			
	Contract Amount		Fair value of derivative instruments
	Within one year	Over one year	
Interest rate swaps (fixed rate payment, floating rate receipt)	\$ 89,126	\$ 89,126	\$ (668)

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

## 19. Asset Retirement Obligation

### As of March 31, 2017

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 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.

### As of March 31, 2016

Under rent agreements of the head office and other spaces, the Group is obliged to pay restoring costs at relocation. The asset retirement obligation, however, is not reasonably determinable because the rent periods are uncertain. The Group also has obligation for disposal costs of PCB (polychlorinated biphenyl)-containing wastes and contamination survey on land. The asset retirement obligation, however, is not reasonably determinable because the time of performance, amount, and other factors of such obligations are uncertain. Therefore, the aforementioned obligations are not recognized in the accompanying consolidated financial statements.

## 20. 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 its 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, each local subsidiary establishes its comprehensive business strategies and conduct its 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 other), (3) Europe (Germany, France and other), (4) China, and (5) Other (Taiwan, Singapore and other) 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 transfer are stated at amounts based on their fair market values. All adjustments in the following tables are inter-segment elimination on consolidation.

As noted in (r) "Accounting Changes" under "2. Significant Accounting Policies," the Company and its domestic consolidated

subsidiaries had adopted mainly the declining-balance method and certain U.S. consolidated subsidiaries adopted mainly the accelerated declining-balance method in the previous years, but effective from the current fiscal year, they changed their depreciation method to the straight-line method.

As a result of this change, segment profit of "Japan" and "The Americas" increased by ¥1,432 million (\$12,762 thousand) and ¥150 million (\$1,336 thousand), respectively, compared to those amounts under the previous method.

Segment information of the Group as of March 31, 2017 and 2016 and for the years then ended is as follows:

### Reportable segments

Millions of yen								
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 (loss)	¥ 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

Millions of yen								
2016								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Sales to customers	¥ 118,851	¥ 49,491	¥ 31,223	¥ 28,173	¥ 12,738	¥ 240,478	¥ —	¥ 240,478
Inter-segment	41,287	17	26	5,831	1,352	48,516	(48,516)	—
Total	160,138	49,509	31,249	34,005	14,091	288,994	(48,516)	240,478
Segment profit (loss)	¥ 19,719	¥ 2,096	¥ 632	¥ (1,344)	¥ 1,267	¥ 22,372	¥ 797	¥ 23,169
Assets	¥ 348,106	¥ 88,686	¥ 65,047	¥ 65,747	¥ 14,502	¥ 582,090	¥ (174,281)	¥ 407,808
Other items								
Depreciation and amortization	¥ 5,644	¥ 2,272	¥ 1,019	¥ 4,437	¥ 447	¥ 13,821	¥ (177)	¥ 13,643
Amortization of goodwill	61	58	231	—	312	664	—	664
Investment in an affiliate accounted for under the equity method	4,312	—	—	—	—	4,312	—	4,312
Increase in property, plant and equipment and intangibles	10,686	18,383	5,319	3,272	496	38,157	522	38,680

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Thousands of U.S. dollars

2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Sales to customers	\$ 1,086,140	\$ 560,338	\$ 434,714	\$ 249,625	\$ 107,450	\$ 2,438,297	\$ —	\$ 2,438,297
Inter-segment	400,909	347	418	36,461	13,048	451,203	(451,203)	—
Total	1,487,058	560,686	435,133	286,096	120,508	2,889,500	(451,203)	2,438,297
Segment profit (loss)	\$ 167,638	\$ 20,597	\$ 5,784	\$ 6,684	\$ 11,907	\$ 212,629	\$ 7,085	\$ 219,723
Assets	\$ 3,241,809	\$ 602,308	\$ 755,409	\$ 541,898	\$ 133,689	\$ 5,275,133	\$ (1,576,987)	\$ 3,698,137
Other items								
Depreciation and amortization	\$ 39,661	\$ 26,158	\$ 17,887	\$ 31,693	\$ 2,789	\$ 118,199	\$ (686)	\$ 117,513
Amortization of goodwill	178	1,399	5,784	—	1,345	8,716	—	8,716
Investment in an affiliate accounted for under the equity method	35,793	—	—	—	—	35,793	—	35,793
Increase in property, plant and equipment and intangibles	75,632	31,033	32,156	19,224	1,666	159,732	(721)	159,001

### Notes:

- Segmentation by country or area is determined based on geographical proximity.
- Main countries or areas which belong to the reportable segments other than Japan or China are as follows:
  - "The Americas": The United States of America and others
  - "Europe": Germany, France and others
  - "Other": Taiwan, Singapore and others
- "Adjustments" are as follows:
  - Adjustments of "Segment profit (loss)" in an amount of ¥795 million (\$7085 thousand) for the year ended March 31, 2017 represent elimination of inter-segment transactions. Adjustments of "Segment profit (loss)" in an amount of ¥797 million for the year ended March 31, 2016 include elimination of inter-segment transactions in an amount of ¥2,285 million and corporate expenses not allocated to each reportable segment in an amount of ¥ (1,487) million. Corporate expenses represent mainly general and administrative expenses not attributed to reportable segments.
  - Adjustments of "Segment assets" in an amount of ¥176,938 million (\$1,576,987 thousand) and ¥174,281 million for the years ended March 31, 2017 and 2016, respectively, are all elimination of inter-segment transactions.
  - Adjustments of "Depreciation and amortization" in an amount of ¥77 million (\$686 thousand) and ¥177 million for the years ended March 31, 2017 and 2016, respectively, are all elimination of inter-segment transactions.
  - Adjustments of "Increase in property, plant and equipment and intangibles" in an amount of ¥81 million (\$721 thousand) and ¥522 million for the years ended March 31, 2017 and 2016, respectively, are all elimination of inter-segment transactions.
- "Segment profit (loss)" is reconciled with operating income in the consolidated statements of income.

## Sales by business

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Industrial Equipment-Related Business	¥ 164,310	¥ 163,363	\$ 1,464,438
Transportation Equipment-Related Business	109,266	77,114	973,850
Total	¥ 273,577	¥ 240,478	\$ 2,438,297

## Sales by geographical area

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

	Millions of yen					
	2016					
	Japan	The Americas	Europe	China	Other	Total
Sales to customers	¥ 110,498	¥ 50,343	¥ 30,424	¥ 27,967	¥ 21,243	¥ 240,478

	Thousands of U.S. dollars					
	2017					
	Japan	The Americas	Europe	China	Other	Total
Sales to customers	\$ 998,761	\$ 561,720	\$ 410,017	\$ 263,039	\$ 204,732	\$ 2,438,297

## Tangible fixed assets by geographical area

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

Millions of yen						
2016						
	Japan	The Americas	Europe	China	Other	Total
Tangible fixed assets	¥ 43,390	¥ 16,350	¥ 12,924	¥ 33,493	¥ 3,269	¥ 109,428

Thousands of U.S. dollars						
2017						
	Japan	The Americas	Europe	China	Other	Total
Tangible fixed assets	\$ 419,331	\$ 150,071	\$ 122,638	\$ 251,042	\$ 25,160	\$ 968,262

## Amortization and unamortized balance of goodwill by reportable segment

Millions of yen								
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

Millions of yen								
2016								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Amortization	¥ 61	¥ 58	¥ 231	¥ —	¥ 312	¥ 664	¥ —	¥ 664
Unamortized balance	20	2,542	10,052	—	164	12,780	—	12,780

Thousands of U.S. dollars								
2017								
	Japan	The Americas	Europe	China	Other	Total	Adjustments	Consolidated
Amortization	\$ 178	\$ 1,399	\$ 5,784	\$ —	\$ 1,345	\$ 8,716	\$ —	\$ 8,716
Unamortized balance	—	20,525	79,750	—	—	100,276	—	100,276

## 21. Subsequent Events

### Appropriation of retained earnings

The following appropriation of retained earnings as of March 31, 2017 was approved at the Company's General Meeting of Shareholders 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 (\$ 28,199 thousand)	¥ 25.00 (\$ 0.22)	Mar.31, 2017	Jun. 19, 2017

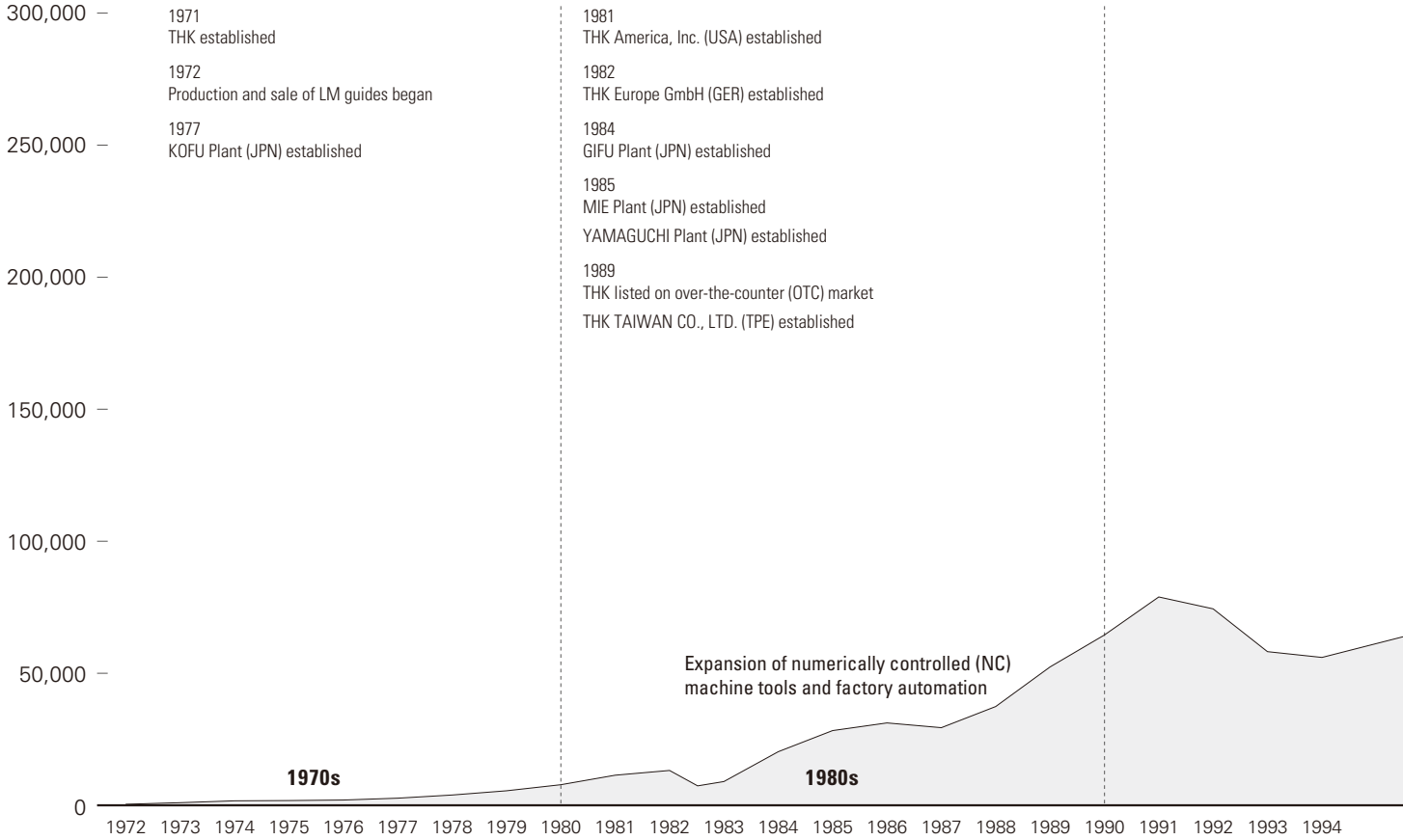
The payments will be financed from internal and external resources.



# CORPORATE HISTORY

## Net Sales

(Millions of yen)



### The 1970s:

#### Establishment and the Early Years

While rolling motion was commonly achieved through rolling contact utilizing rotary bearings, linear motion was considered impossible to achieve through rolling contact, and it primarily came from sliding contact instead.

In 1971, THK developed the ball spline, which enabled a higher level of linear motion precision and performance. This ball spline was the predecessor to THK's current mainstay product, the LM guide, which was first introduced in 1972.

In 1978, the Company's products were adopted by a U.S.-based pioneer of the machining center and world-class leader of its day. This breakthrough was the catalyst for the increased use of LM guides in machine tools.

#### The Ball Spline

Developed in the same year that THK was established, the ball spline was the precursor to the LM guide. This revolutionary product allows balls to roll along a rounded groove machined into the ball spline's shaft, boosting the load that the device can tolerate and permitting the transmission of torque.



### The 1980s:

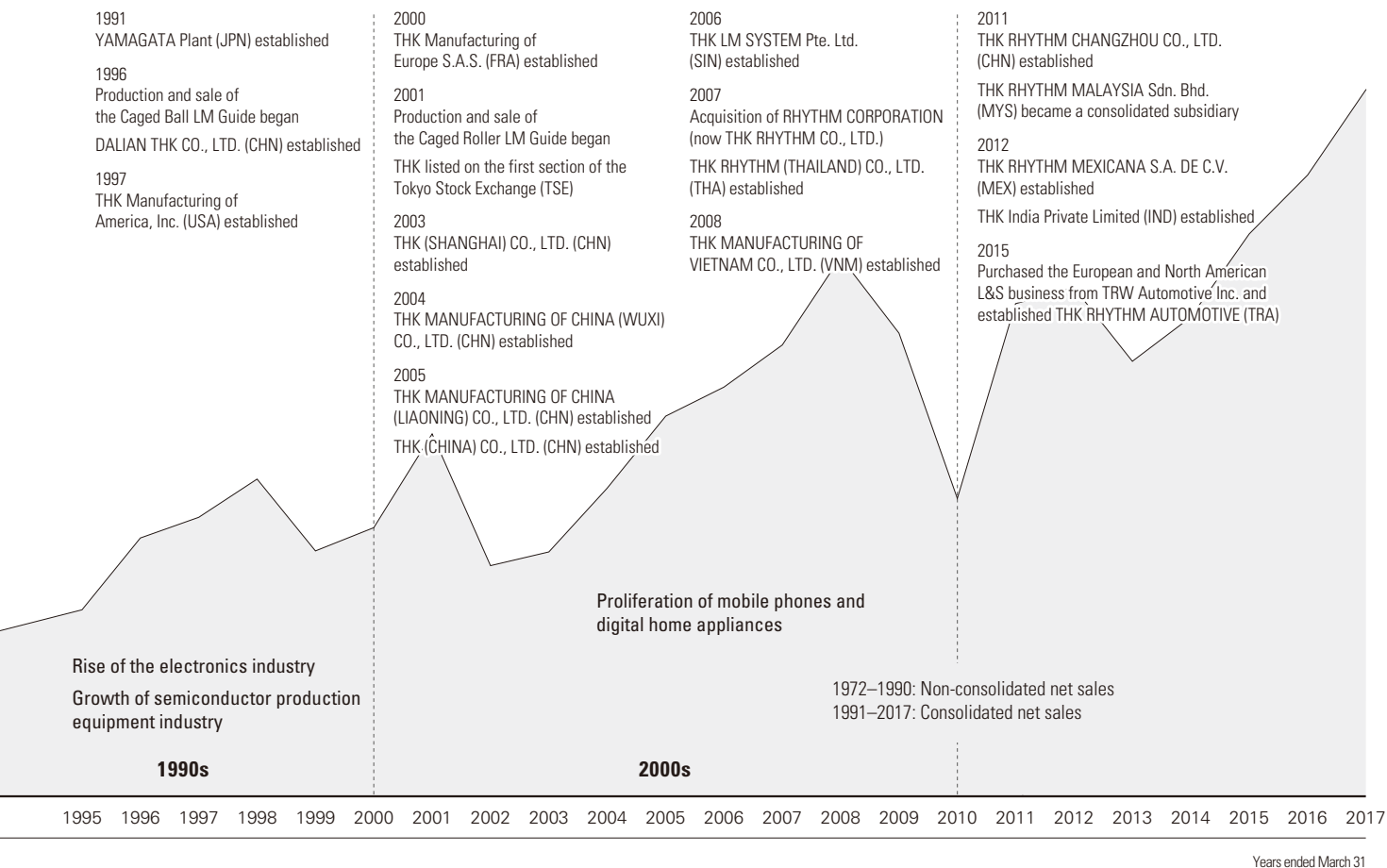
#### Significant Developments in Factory Automation (FA)

The 1973 oil crisis saw the demise of heavy industry, pushing technology-based industries, such as the automotive, semiconductor, and home appliance industries, increasingly to the fore. Buoyed by depreciation in the value of the yen as well as the outstanding quality of products manufactured in Japan, export volumes to Europe and the United States climbed steadily. Under these circumstances, there was a demand for mass production of high-quality products. With FA advancing across production front lines, machine tool production volumes increased, and the proportion of advanced machine tools with numerical control (NC) saw steady growth. Against this backdrop, the application of LM guides experienced explosive growth.

#### The LM Guide

Developed utilizing the structure and mechanism of ball splines, LM guides today are THK's mainstay product. Benefiting from the use of the Company's LM guides by a major U.S.-based machine tool manufacturer, the application of THK's products in machine tools saw significant growth.





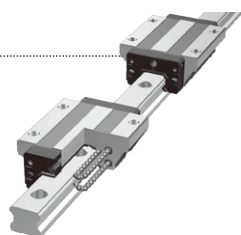
The 1990s:

## The Rise of the Electronics Industry

During the 1990s, the number of LM guides used in semiconductor production equipment surged dramatically, in line with the increase in semiconductor demand. Entering the 2000s, amid the proliferation of mobile devices and digital home appliances, as well as the upswing in demand for semiconductor, flat panel display, and other similar production equipment, there was a rise in the use of LM guides, especially the second-generation Caged Ball LM Guide. In tune with the increasing globalization of manufacturing, THK accelerated its business development globally.

### The Caged Ball LM Guide

The Caged Ball LM Guide was developed as the second-generation LM guide. By keeping the balls in place, the use of caged ball technology extends service life, reduces noise, and enables long-term maintenance-free operation when compared with first-generation LM guides.



Future Growth:

## Expanding Business Domains by Implementing Three Growth Strategies

Driven by its growth strategies of *full-scale globalization*, the *development of new business areas*, and a *change in business style*, THK is working to expand its business domains.

As a part of its *full-scale globalization* endeavors, THK has established an integrated production and sales structure that encompasses Japan, the Americas, Europe, and Asia in a bid to better address local demand. In addition to upgrading and expanding its sales network while strengthening its production capabilities in emerging markets such as China, THK is also bolstering sales channels in developed countries where the user base continues to expand.

With an eye on the *development of new business areas*, the THK Group is witnessing an increase in the use of its products in consumer goods-related fields, including transportation equipment, seismic isolation and damping systems, medical equipment, aircraft, renewable energy, and robotics. Moreover, THK is further honing its accumulated core linear motion system technology and expertise to better realize the vast potential in other consumer goods fields. In this manner, the Company is accelerating the pace of new business area development.

In addition to promoting these strategies, THK is making full use of the IoT, cloud computing, AI, and robots from a variety of perspectives, thereby expanding its business domains by effecting a *change in business style*.

## SUBSIDIARIES & AFFILIATE

As of March 31, 2017

Subsidiaries	Main Operations	Head Office	Percentage Owned by the Company, Directly or Indirectly (%)
THK INTECHS CO., LTD.	Manufacture and sale of vital machinery components and machinery	Tokyo, Japan	100.00
TALK SYSTEM CORPORATION	Sale of machinery parts and various types of equipment	Tokyo, Japan	99.00
THK NIIGATA CO., LTD.	Manufacture of ball splines	Niigata, Japan	100.00
THK RHYTHM CO., LTD.	Transportation equipment-related business	Shizuoka, Japan	100.00
NIPPON SLIDE CO., LTD.	Manufacture and sale of slide rails	Tokyo, Japan	100.00
THK Holdings of America, L.L.C.	Holding and management company	Illinois, U.S.A.	100.00
THK America, Inc.	Sale of LM guides, ball screws, spherical joints	Illinois, U.S.A.	100.00
THK Manufacturing of America, Inc.	Manufacture of LM guides, spherical joints	Ohio, U.S.A.	100.00
THK RHYTHM NORTH AMERICA CO., LTD.	Transportation equipment-related business	Tennessee, U.S.A.	100.00
THK RHYTHM MEXICANA, S.A. DE C.V.	Transportation equipment-related business	Guanajuato, Mexico	100.00
THK RHYTHM AUTOMOTIVE MICHIGAN CORPORATION	Transportation equipment-related business	Michigan, U.S.A.	100.00
THK RHYTHM AUTOMOTIVE CANADA LIMITED	Transportation equipment-related business	Ontario, Canada	100.00
THK Europe B.V.	Holding and management company	Amsterdam, Netherlands	100.00
THK GmbH	Sale of LM guides, ball screws, spherical joints	Ratingen, Germany	100.00
THK France S.A.S.	Sale of LM guides, ball screws, spherical joints	Tremblay-en-France, France	100.00
THK Manufacturing of Europe S.A.S.	Manufacture of LM guides, ball screws, spherical joints	Ensisheim, France	100.00
THK Manufacturing of Ireland Ltd.	Manufacture and sale of ball screws	Dublin, Ireland	100.00
THK RHYTHM AUTOMOTIVE GmbH	Transportation equipment-related business	Krefeld, Germany	100.00
THK RHYTHM AUTOMOTIVE CZECH a.s.	Transportation equipment-related business	Dacice, Czech	100.00
THK CAPITAL UNLIMITED COMPANY	Financing and loan management for affiliated companies in the Americas	Dublin, Ireland	100.00
THK FINANCE UNLIMITED COMPANY	Financing and loan management for affiliated companies in Europe	Dublin, Ireland	100.00
THK (CHINA) CO., LTD.	Holding and management company, sale of LM guides	Dalian, China	100.00
THK (SHANGHAI) CO., LTD.	Sale of LM guides, ball screws, spherical joints	Shanghai, China	100.00
DALIAN THK CO., LTD.	Manufacture and sale of ball screws, actuators	Dalian, China	70.00
THK MANUFACTURING OF CHINA (WUXI) CO., LTD.	Manufacture of LM guides	Wuxi, China	100.00
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.	Manufacture of LM guides	Dalian, China	100.00
THK RHYTHM GUANGZHOU CO., LTD.	Transportation equipment-related business	Guangzhou, China	100.00
THK RHYTHM CHANGZHOU CO., LTD.	Transportation equipment-related business	Changzhou, China	100.00
THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD.	Manufacture of LM-related parts, unit products	Changzhou, China	100.00
THK TAIWAN CO., LTD.	Sale of LM guides, ball screws, spherical joints	Taipei, Taiwan	100.00
THK LM SYSTEM Pte. Ltd.	Sale of LM guides, ball screws, spherical joints	Kaki Bukit, Singapore	100.00
THK RHYTHM (THAILAND) CO., LTD.	Transportation equipment-related business	Rayong, Thailand	100.00
THK MANUFACTURING OF VIETNAM CO., LTD.	Manufacture of slide rails	Bac Ninh, Vietnam	100.00
THK RHYTHM MALAYSIA Sdn. Bhd.	Transportation equipment-related business	Penang, Malaysia	80.00
THK India Private Limited	Sale of LM guides, ball screws, spherical joints	Karnataka, India	100.00

Affiliate	Main Operations	Head Office	Percentage Owned by the Company, Directly or Indirectly (%)
SAMICK THK CO., LTD.	Manufacture and sale of LM guides	Daegu, South Korea	33.82

# CORPORATE DATA

As of March 31, 2017

## Company Profile

Head Office	3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503, Japan Telephone +81-3-5434-0351
Established	April 1971
Number of Employees	11,738 (consolidated); 3,429 (parent company)
Month of Ordinary General Meeting of Shareholders	June
URL	<a href="http://www.thk.com/">http://www.thk.com/</a>
Independent Auditors	Grant Thornton Taiyo LLC.

## Stock Information

Common Stock: Authorized	465,877,700 shares
Issued	133,856,903 shares
Stock Exchange Listing	Tokyo Stock Exchange (1st Section)
Stock Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
Number of Shareholders	16,493

## Major Shareholders

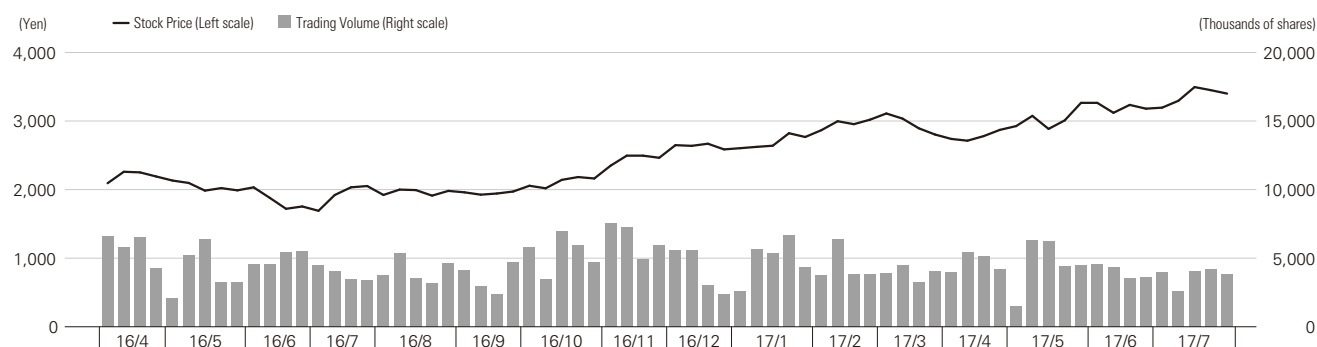
Shareholders	Number of Issued Shares Held	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,524,300	7.86
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,204,100	5.38
JP MORGAN CHASE BANK 385632	4,624,729	3.45
Akihiro Teramachi	3,597,610	2.68
FTC CO., LTD.	2,774,000	2.07
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	2,762,093	2.06
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,595,700	1.93
BNYM SA/NV FOR BNYM FOR BNYM GCM CLIENT ACCTS M ILM FE	2,407,712	1.79
NORTHERN TRUST CO. (AVFC) RE SSD00	2,354,100	1.75
Japan Trustee Services Bank, Ltd. (Trust Account 2)	1,893,700	1.41

\*In addition to the aforementioned, there are 7,282,364 shares (5.44%) of treasury stock held by the Company.

## Shareholder Composition

Shareholder Type	Number of Shareholders	Number of Issued Shares Held	Shareholding Ratio (%)
Financial Institutions	63	38,937,600	29.09
Securities Companies	31	2,639,163	1.97
Other Corporations	241	4,768,066	3.56
Overseas Institutions	518	64,404,735	48.11
Individuals and Others	15,639	15,824,975	11.82
Treasury Stock	1	7,282,364	5.44

## Stock Price and Trading Volume



**THK CO., LTD.**

URL: <http://www.thk.com/>

