

To Our Stakeholders

Leading-Edge Solutions to Capture Growing Markets



THK CO., LTD.
President and CEO
Akihiro Teramachi

Looking Back on the 2018 Fiscal Year

While the second half of the 2018 fiscal year saw an economic slowdown spreading through China and other regions due to the trade war between China and the United States, the global economy held firm as developed countries primarily in Europe and the Americas continued to experience sound economic growth led by domestic demand throughout the year. Despite signs of adjustment regarding demand in the electronics and other industries beginning in the second half of the year, the THK Group captured what had been an overall favorable trend in demand and converted it to sales. As a result, we achieved a record high year in terms of sales and profit, with consolidated net sales of ¥353.4 billion, an increase of 10.9% compared to the previous fiscal year; an operating income of ¥49.8 billion, an increase of 36.9%; and an ROE of 12.8%.

Amid a favorable trend in sales, our fixed costs rose as we actively increased our workforce and equipment to capture the vigorous demand in the industrial machinery business. However, we curtailed the degree by which they rose by implementing various cost controls, remaining within the projections we made at the beginning of the year. Additionally, the loss of unrealized gains from consolidation adjustments reduced our profit, and profitability worsened mainly in Europe and the Americas due to fluctuations in the exchange rate and sharp increases in material prices in the automotive and transportation business. Nevertheless, we were able to achieve a record-high profit because the effect of increased sales volumes in our industrial machinery business was greater than the effects of those factors.

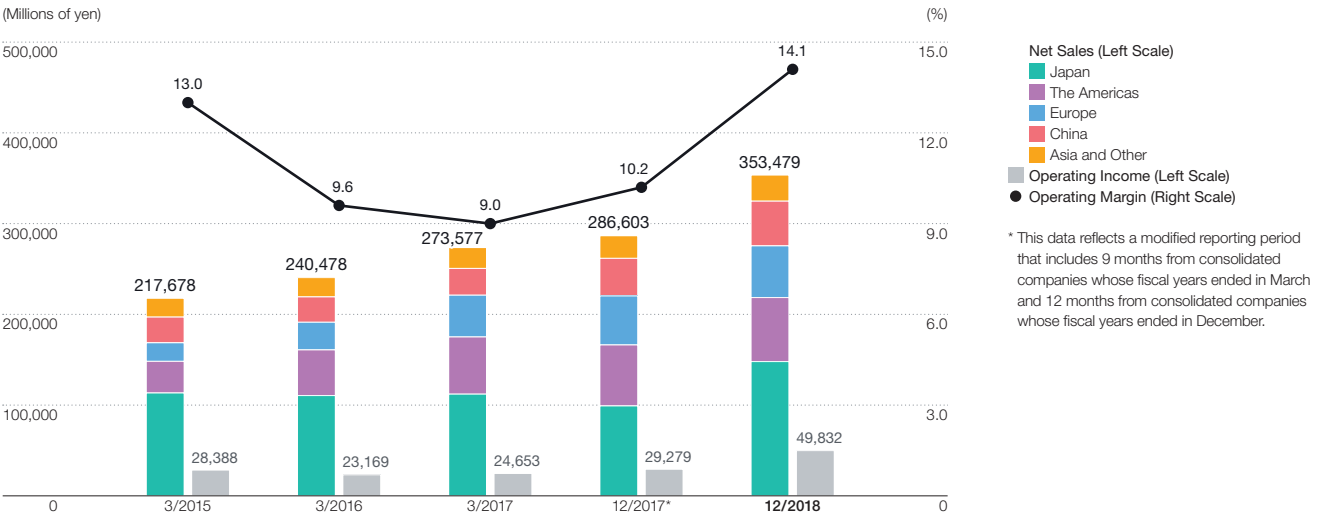
In this way, the 2018 fiscal year was a good start toward achieving our 2022 fiscal year management targets: consolidated net sales of ¥500 billion, an operating income of ¥100 billion, an ROE of 17%, and an EPS of ¥560.

Short-Term Adjustments and Medium- to Long-Term Market Expansion

Our demand environment is facing a period of adjustment. For our industrial machinery business, we are currently witnessing an adjustment in orders and overall cut-backs in investments in China and other regions due to the trade war between the United States and China, resulting in a lower baseline in orders in every region. Under these circumstances, we are anticipating lower revenue and profit in the 2019 fiscal year, which ends December 31, 2019. We are planning for our consolidated net sales to reach ¥310 billion, a decrease of 12.3%, and for our operating income to reach ¥28 billion, a decrease of 43.8% compared to the previous fiscal year.

However, as we weather this short-term period of adjustment, there is no doubt that the THK Group's markets will experience medium- to long-term growth. As current megatrends revolve around macrodynamic changes such as the rapid evolution of digital technology, the heightened momentum of environmental conservation, and the labor shortages and increased lifespans occurring in developed countries, the keywords to address these changes are AI, the IoT, CASE (Connected, Autonomous, Shared, Electric), Industry 4.0, automation, and labor and energy savings. These keywords

Financial Conditions



drive demand for the types of solutions THK offers, resulting in a dramatic medium- to long-term growth potential. Therefore, we will continue to invest in our medium- to long-term growth even as we control costs in the short term.

Steps Toward Further Growth

Under these circumstances, the THK Group has begun providing new solutions in various domains to create a new kind of customer experience. For our industrial machinery business, we have enhanced the functions of Omni THK, the customer communication platform we have been expanding. Beginning in the ASEAN region, our e-commerce website's Fast Delivery service is now also available in China, Brazil, and Japan. We also plan to launch two new services this year: Your Catalog, which digitally links customer and THK product information, and Forecast, which enables customers to manage planned versus actual orders by comparing their demand forecasts with THK's production plan. Furthermore, in collaboration with NTT DOCOMO and Cisco Systems, we have begun preparations to commercialize OMNIedge: a predictive failure detection service for equipment, made possible through sensing technology that visualizes THK's LM Guides and other linear motion components. While the IoT, automation, and interconnectivity offer benefits, there is also a risk that a problem with one element, such as a malfunctioning component, could impact the whole. OMNIedge also addresses these risks, facilitating predictive machine maintenance that will help improve the end user's productivity and lower their overall costs. In addition, the ability

to visualize the reliability of THK products will further enhance our company's value even as new manufacturers enter the market. We have created a system that is not just for THK products, but one that other machine manufacturers can use as a platform. Moving forward, we will capitalize on these features of OMNIedge and develop it as a system that will further expand the linear motion product business in addition to functioning as a service business.

To cultivate new business fields, we continue to develop and propose new products for medical equipment, aircraft, seismic isolation and damping systems, renewable energy, and other fields, thereby steadily expanding the use of our products. Additionally, due to labor shortages and rising labor costs, there has been an increasing demand for products that will reduce labor needs in service industries such as logistics, retail, and restaurants. We will continue to make every effort to capture this demand by developing new products, exhibiting at trade shows, collaborating with other companies, and other means.

The external environment for the automotive and transportation business continues to be a difficult one, with exchange rate fluctuations and a sharp rise in the cost of raw materials, but we will work to improve our cost structure and prepare for medium- to long-term growth. Even as we expand our current L&S (Linkage and Suspension) business with new transactions, we are accelerating our efforts to develop and sell new automotive products that make use of our core linear motion technology, spurred by the momentum of self-driving automobiles, electric vehicles, and other CASE trends.

As part of our efforts in both business divisions, we have strengthened our global production structure to support medium- to long-term top-line expansion. We have finished constructing additional facilities at the THK Yamagata plant and THK MANUFACTURING OF VIETNAM, and THK India has begun constructing a new factory to begin operations in January 2020. Each facility in the automotive and transportation business, particularly in the Americas and Asia, has also made investments to increase production in preparation for new business. At the same time, we are controlling costs and strengthening our bottom line through improvements in productivity achieved by utilizing automation, robotization, and the IoT in our production processes and implementing IT tools in our internal business processes, including in our sales and administrative departments.

Striving for Sustainable Growth and Solutions to Social Challenges

Our high-performance, high-quality products have contributed to labor and energy savings and advancements in machinery and many other industries. We will continue to seize new opportunities for market expansion that capitalize on the aforementioned keywords that accompany evolving trends and respond to the demands to advance industry and protect the environment. Fulfilling our role as a corporation indispensable to society, we will achieve sustainable growth and improve 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 of all stakeholders.



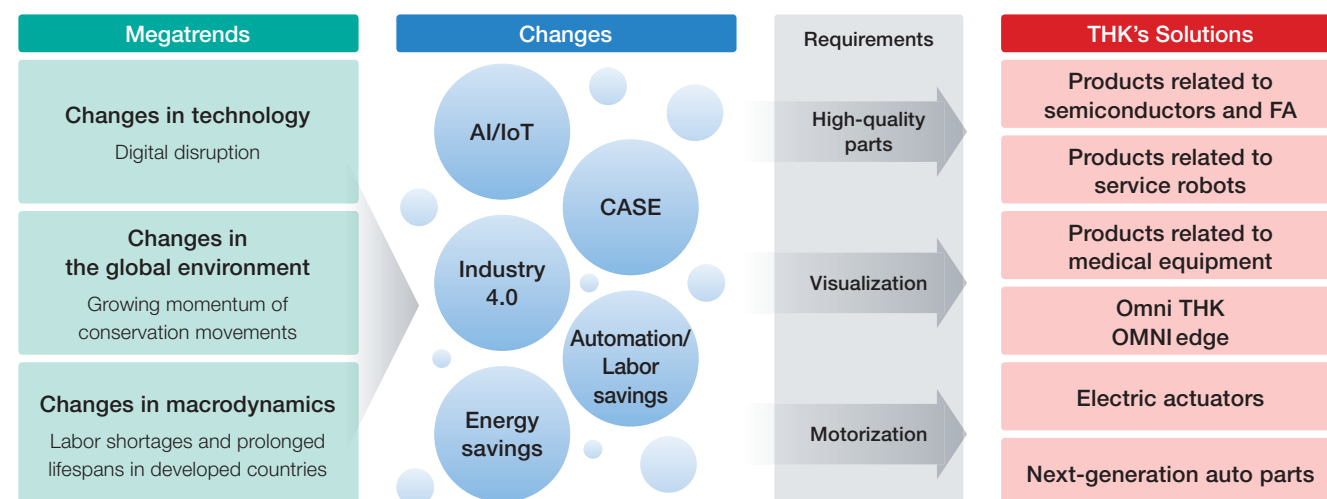
April 2019

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Medium- to Long-Term Market Expansion



Progress and Approach of Management Targets

