THK

ANNUAL REPORT 2020
Financial Section

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Management's Discussion & Analysis

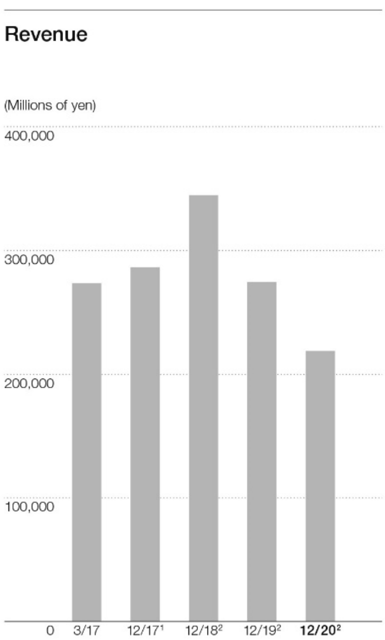
Analysis of Operating Results

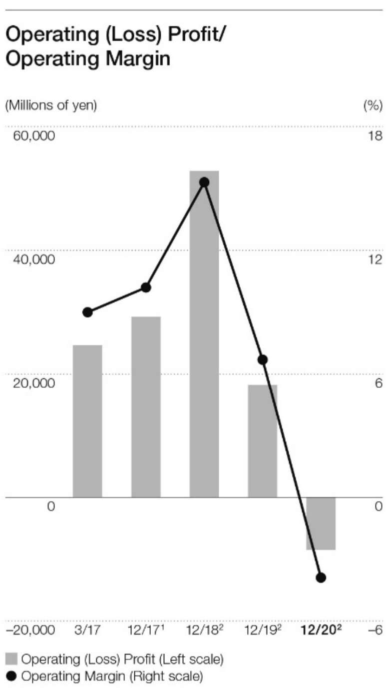
Revenue

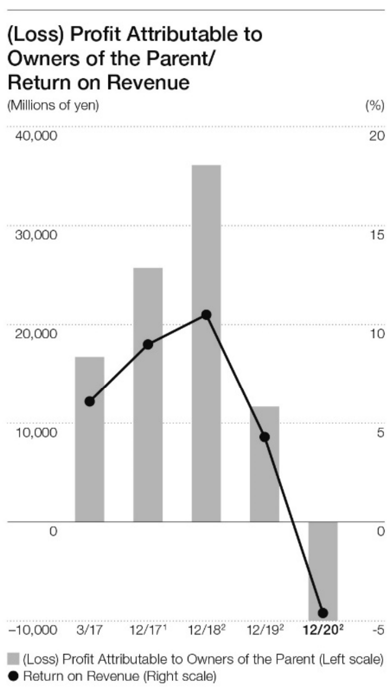
During this consolidated fiscal year, there were heightened concerns of negative growth in the world economy due to the impact of the global spread of the coronavirus (COVID-19) in the midst of continued low demand caused by economic friction between the United States and China.

The THK Group has identified *full-scale globalization*, the *development of new business areas*, and a *change in business style* as cornerstones of its growth strategy to expand markets for its products, including the LM (Linear Motion) Guide. Under its *full-scale globalization* strategy, the Group is expanding 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 THK Group is working to increase revenue from both currently existing and newly developed products, buoyed by their growing applications in fields related to consumer goods, such as automobiles, medical equipment, aircraft, and robots, as well as fields related to the mitigation of risks from natural disasters and climate change, such as seismic isolation and damping systems and renewable energy. Additionally, to promote these strategies, the Company is making full use of technologies such as AI, the IoT, and robots in a variety of different ways, thereby expanding its business domains by realizing a *change in business style*.

In these circumstances, the THK Group's industrial machinery business has experienced low demand primarily in developed countries due to the impact of the spread of the coronavirus in addition to the trade friction between the United States and China. In the automotive and transportation business, both stagnant car sales and the pandemic impacted the production and shipping of THK products primarily in the second quarter of the consolidated fiscal year under review. As a result, consolidated revenue was ¥218,998 million, a decrease of ¥55,601 million (-20.2%).







[1] This data reflects a modified reporting period that includes 9 months from consolidated companies whose fiscal years ended in March and 12 months from consolidated companies whose fiscal years ended in December.
[2] The THK Group decided to adopt IFRS beginning with the 2019 fiscal year. For the purposes of comparison, the results for the 2018 fiscal year are also noted in accordance with IFRS.

Income and Expenses

In terms of cost, the THK Group strove to minimize its losses by continuing to promote initiatives aimed at boosting productivity along with other improvement activities. However, the magnitude of the reduction in revenue resulted in a cost-to-sales ratio of 78.8%, an increase of 3.4 percentage points compared with the previous fiscal year.

In terms of SG&A expenses, efforts to reduce various expenses and streamline operations, a decrease in revenue, and other factors resulted in SG&A expenses of ¥44,833 million, a year-on-year reduction of ¥4,604 million (-9.3%). However, the ratio of SG&A expenses to revenue was 20.5%, an increase of 2.5 percentage points compared with the previous fiscal year.

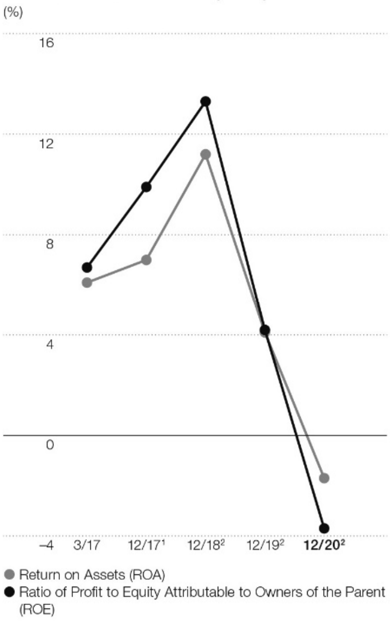
In addition, with regard to the THK consolidated subsidiaries in the automotive and transportation business segment, revenue decreased due to the worsening of the market environment triggered by the global spread of the coronavirus. Because signs indicated an impairment with regard to the fixed assets possessed by THK, the Company performed an impairment test based on International Financial Reporting Standards (IFRS). As a result of that test, impairment losses totaling ¥8,083 million were recorded under “Other Expenses.” At the same time, ¥738 million in restructuring charges were recorded under “Other Expenses” as a result of restructuring the Company’s production framework in an effort to improve profitability. In addition, ¥653 million in temporary costs related to addressing a claim for the automotive and transportation business were recorded under “Other Expenses.”

As a result, there was an operating loss of ¥8,499 million (compared to an operating profit of ¥18,277 million the previous year).

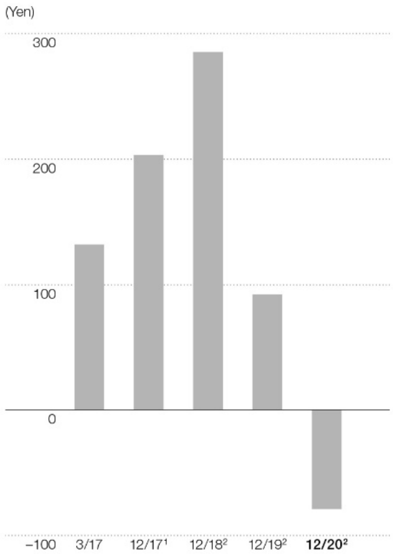
Financial income stood at ¥764 million, while financial costs totaled ¥1,990 million.

As a result, loss before income taxes stood at ¥9,725 million (compared to a profit before income taxes of ¥18,168 million the previous year), and loss attributable to owners of the parent stood at ¥9,992 million (compared to a ¥11,690 million profit attributable to owners of the parent the previous year).

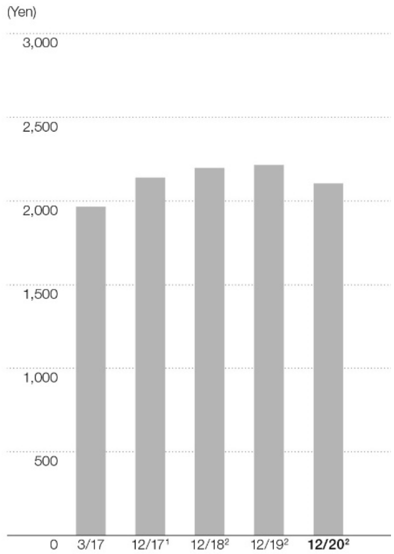
Return on Assets (ROA)/ Ratio of Profit to Equity Attributable to Owners of the Parent (ROE)



(Loss) Earnings per Share Attributable to Owners of the Parent



Equity per Share Attributable to Owners of the Parent



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² The THK Group decided to adopt IFRS beginning with the 2019 fiscal year. For the purposes of comparison, the results for the 2018 fiscal year are also noted in accordance with IFRS.

Segment Information

Japan

For the industrial machinery business in Japan, while demand for machine tool products remained low, demand related to electronics experienced a recovery, of which signs were observed in the second half of last year. In the automotive and transportation business, the spread of the coronavirus impacted the production and shipping of THK products primarily in the second quarter of the consolidated fiscal year. As a result, revenue was ¥90,378 million, a decrease of ¥27,361 million (-23.2%). As the result of a reduction in revenue, suspension of operations, and impairment losses totaling ¥5,158 million recorded under “Other Expenses” by THK RHYTHM CO., LTD.—a consolidated subsidiary in the automotive and transportation business segment—the segment loss (operating loss) stood at ¥17,400 million, a year-on-year decrease of ¥27,884 million.

The Americas

While demand related to the industrial machinery business in the Americas showed signs of recovery in electronics, the spread of the coronavirus impacted the production and shipping of automotive and transportation business products primarily in the second quarter of the consolidated fiscal year. As a result, revenue decreased ¥12,461 million (-21.3%) year-on-year, to ¥46,019 million. As the result of a reduction in revenue, suspension of operations, and impairment losses totaling ¥994 million recorded under “Other Expenses” by THK RHYTHM MEXICANA, S.A. DE C.V.—a consolidated subsidiary in the automotive and transportation business segment—the segment loss (operating loss) stood at ¥3,239 million, a year-on-year decrease of ¥2,226 million.

Europe

In the industrial machinery business, some locations in Europe suspended operations from mid-March to mid-April due to the spread of the coronavirus. In the automotive and transportation business, the spread of the coronavirus impacted the production and shipping of THK products primarily in the second quarter of the consolidated fiscal year. As a result, revenue decreased ¥15,868 million (-28.8%) year-on-year, to ¥39,274 million. As the result of a reduction in revenue, suspension of operations, and impairment losses totaling ¥1,930 million recorded under “Other Expenses” by THK RHYTHM AUTOMOTIVE GmbH—a consolidated subsidiary in the automotive and transportation business segment—the segment loss (operating loss) stood at ¥5,983 million, a year-on-year decrease of ¥6,271 million.

China

In China, locations in both the industrial machinery and automotive and transportation businesses suspended operations from the beginning of the Spring Festival holiday (Chinese New Year) to mid-February due to the spread of the coronavirus. However, demand recovered after that as economic activity resumed in China ahead of other regions. As a result, revenue increased ¥3,115 million (10.4%) year-on-year, to ¥33,085 million. As a result of increased revenue and other factors, segment income (operating profit) increased ¥1,192 million (47.0%) year-on-year, to ¥3,730 million.

Other

In other geographical segments, as the range of demand for THK products is steadily growing in India, the ASEAN region, and other parts of the world, the Group bolstered its sales network and undertook aggressive sales activities to acquire new customers. However, overall demand was sluggish due to the spread of the coronavirus, causing revenue to decrease ¥3,024 million (-22.8%) year-on-year, to ¥10,240 million. As a result of decreased revenue and other factors, segment income (operating profit) decreased ¥528 million (-45.0%) year-on-year, to ¥647 million.

Financial Position

Assets, Liabilities, and Equity

Assets

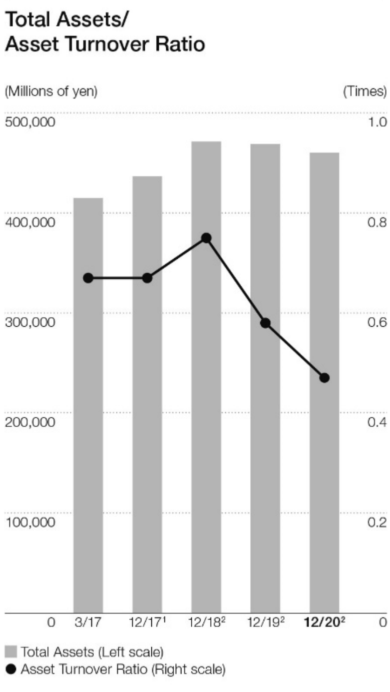
In terms of assets, while cash and cash equivalents rose ¥9,747 million, trade and other receivables decreased by ¥4,229 million; property, plant, and equipment by ¥9,133 million; and goodwill and intangible assets by ¥2,661 million. As a result of these and other factors, assets totaled ¥460,173 million, a decrease of ¥8,771 million from the end of the previous fiscal year.

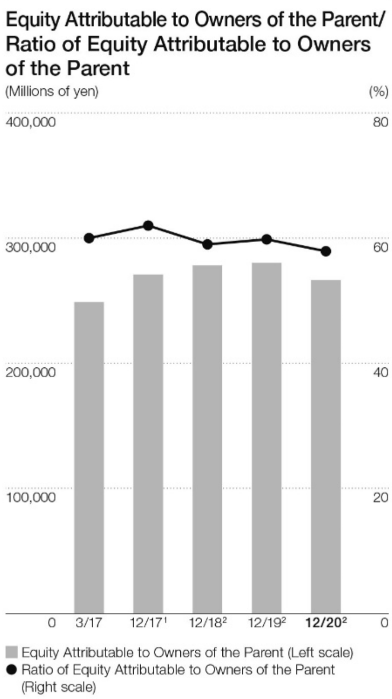
Liabilities

In terms of liabilities, while trade and other payables decreased by ¥2,531 million, bonds and borrowings rose ¥7,300 million. As a result of these and other factors, liabilities totaled ¥185,024 million, an increase of ¥7,211 million from the end of the previous fiscal year.

Equity

In terms of equity, retained earnings decreased by ¥11,214 million, other components of equity by ¥2,637 million, and non-controlling interests by ¥2,129 million. As a result of these and other factors, equity totaled ¥275,148 million, a decrease of ¥15,983 million from the end of the previous fiscal year.





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Cash Flows

Net cash provided by operating activities came to ¥25,399 million (compared to ¥28,383 million the previous fiscal year). The major cash inflows were depreciation and amortization of ¥18,675 million, impairment losses totaling ¥8,083 million, a ¥3,754 million decrease in trade and other receivables, a ¥687 million decrease in inventories, a ¥1,381 million increase in trade and other payables, and a ¥158 million income taxes refund. The major cash outflows included a loss before tax of ¥9,725 million.

Net cash used in investing activities totaled ¥18,406 million (compared to ¥30,040 million the previous fiscal year), primarily due to the purchase of property, plant, and equipment in the amount of ¥18,009 million.

Net cash provided by financing activities came to ¥3,977 million (compared to ¥18,304 million the previous fiscal year). The major cash inflows were proceeds from issuance of bonds totaling ¥30,000 million. The major cash outflows included ¥2,185 million in repayments of long-term borrowings, ¥20,000 million in payments for redemption of bonds, and ¥1,990 million of dividends paid.

As a result, cash and cash equivalents stood at ¥158,839 million as of December 31, 2020, an increase of ¥9,747 million compared with the previous fiscal year-end.

Risk Factors

The following represent the principal risks of which the THK Group is aware that may have a significant impact on its financial position, business results, and cash flow.

Please note that any items relating to the future are based on the best judgment of THK Group management as of March 22, 2021.

(1) THK's Risk Management System

In order to gain an accurate understanding of every kind of risk related to the business activities of the THK Group and to facilitate more appropriate risk-taking by executive staff, THK established a Risk Management Committee headed by the CEO and created a Group-wide risk management structure based on rules related to risk management. The committee establishes and formulates countermeasures to selected risks related to the THK Group's business activities and verifies whether the risk management structure is functioning in an effective manner.

In addition, THK considers risks to be uncertainties that impact the organization's profits and losses, and believes that uncertainty has both a positive and negative side. If THK appropriately hedges negative risks while actively taking positive risks, it will lead to continuous growth in the future.

(2) Identifying Risks

In accordance with its risk management rules, the entire THK Group performs an annual risk assessment. Based on the assessment reports received from each Group company around the world and each department of THK, each risk is mapped according to its probability and impact. The severity of each risk is thus evaluated, and the priority for implementing countermeasures is determined. The frequency and impact are each categorized as one of five levels. Risks that score highly and those that are named by a large number of companies and departments are considered to be of higher severity.

(3) Business Risks

Highly Significant Risks

1. 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, Asia, and other regions. In the event that any of the Group's places of business or those of its business partners 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, there could be a significant impact on THK's production and general business activities. The Group has formulated a business continuity plan (BCP) and has taken preemptive measures along with measures to continue and quickly recover its operations in the event of a crisis to minimize losses. Furthermore, THK has introduced a crisis management system in order to promptly comprehend the impact to the Company in the event of a natural disaster such as an earthquake or heavy rains, in addition to maintaining a structure that can quickly confirm which places of business and suppliers are in affected regions and the impact to the supply chain. However, it is difficult to completely avoid all risks, so the business results and financial position of the THK Group could ultimately be affected in the event of losses that exceed expectations.

   The worldwide spread of the coronavirus (COVID-19) has impacted economic activity, and it has had a significant effect on the THK Group's global business activities.

   As coronavirus infections spread, the THK Group began convening daily meetings of the coronavirus response task force beginning February 2020. The task force has coordinated with each THK Group company around the world to quickly take action based on the directives of each national government and local municipality.

Prioritizing the safety of its employees, customers, suppliers, and other stakeholders in addition to business continuity, THK instituted remote work and staggered working hours in order to prevent the spread of the virus. In addition to securing an environment that would allow operations to continue by actively utilizing remote working tools, the Company has continued to make every effort to maintain its supply chain network, including production and logistics, to ensure the uninterrupted provision of products and services.

At present, it is difficult to predict when the coronavirus pandemic will be over. If the situation grows more severe or extends further into the future, that could impact the THK Group's business results and financial position.

2. Business Expansion Outside of Japan

While the THK Group has manufacturing and sales operations in the Americas, Europe, Asia, and other regions, the rise of products made in China and other emerging economies has intensified competition on a global scale, particularly with regard to prices.

In addition to conducting daily sales activities in a customer-oriented manner by thinking, acting, and verifying things from the customer's perspective, the THK Group has continued to develop and provide high-performance products with high added value and implemented efforts to accurately grasp the needs of the customer and market by using IT tools such as OMNI edge—a service with networking capabilities that detects LM Guide failures and diagnoses lubrication status to enable predictive failure detection—and Omni THK—the Company's platform for communicating with customers. However, if THK is unable to sufficiently predict the needs of the industry and market and unable to develop appealing new products, if it introduces new products to the market too late, or if another company develops a revolutionary new product that causes THK's machine components and automotive components to lose their positions within the market, it could reduce THK's growth and profitability.

In addition, the Company monitors the latest export control conditions based on global political and economic conditions, regulations, tariffs, and security export controls, and it enacts measures to reevaluate the form of its transactions and its supply chain in order to reduce the impact to its business. However, shifts in political and economic conditions in countries and regions where the THK Group manufactures or sells products could have an impact on the THK Group's business results and financial position. Any unexpected legal and regulatory changes could also have a similar effect.

3. Workforce

The THK Group continues to hire talented employees both within and outside of Japan and support the growth of staff with the aim of empowering individuals in order to maintain competitiveness. In addition to strengthening its mid-career hiring efforts, THK is working to improve its systems and employee engagement by supporting the career success of women, elderly individuals, and people with disabilities; providing a system that enables employees to state their desires; and other means.

However, if hiring becomes increasingly competitive in every field due to the aging population and declining birthrate and THK is unable to hire the proper talent as planned, or if there is an inconsistency with talent development, it could hinder the Group's ability to pass on skills and expertise to new employees and limit the execution of the Group's business.

In addition, THK strives to establish stable labor-management relations. However, labor-management customs vary in each country, and if a labor dispute were to occur or labor-management relations were to deteriorate due to unforeseen legislative, economic, or social changes, or if employee wages particularly in emerging countries were to suddenly rise, it could affect the THK Group's business results and financial position.

4. Effect of Changes in Demand Trends Within Specific Industries

The THK Group manufactures and sells the LM Guide, ball screws, and other machine components, as well as link balls, suspension ball joints, and other transportation equipment components. The principal users of these products are companies that make industrial machinery and equipment, including machine tools, general machinery, and semiconductor manufacturing equipment, as well as manufacturers of transportation equipment. While the THK Group is striving through its three core strategies of full-scale globalization, the development of new business areas, and a change in business style to realize expansions in its business domains and distribute risk by not relying on specific customers or products, the performance of the THK Group is influenced by demand trends within industrial sectors such as machine tools, general machinery, semiconductor manufacturing equipment, and transportation equipment, whose manufacturers constitute the THK Group's major customers.

Therefore, the business results and financial position of the THK Group could be affected by drastic changes in demand trends in these specific industries in the future.

Significant Risks

1. Problems with Product Quality

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

In these circumstances, the THK Group has established a superior quality assurance system that conforms to various markets, in which each production facility both in and outside of Japan is certified with the ISO 9001 Quality Management System. In addition to maintaining a quality management structure for the industrial machinery business that ensures product and service development and creation conforms to that standard, THK has obtained certifications in quality standards adapted for the automotive and transportation business and new fields such as the aerospace industry.

However, because it is impossible to completely eliminate the risk of a product defect, in the unlikely event that an unforeseen product defect were to occur that could lead to a large-scale recall or to THK being held liable for those products, there could be substantial costs, a loss of trust among the general public, or a suspension of transactions, thereby affecting the business results and financial position of the THK Group.

Although the THK Group possesses global product liability insurance, there is no guarantee that it would cover all losses incurred through the reparation of damages.

2. Procurement of Raw Materials and Components

The THK Group procures the raw materials and components used in the manufacture of its products from multiple supply sources both in Japan and around the world. Considering these supply sources to be important partners in the pursuit of growth for both parties, THK has established collaborative frameworks to facilitate the sharing of information about new technology, production methods, and raw materials. As the Company works to maintain stable and continuous provision of supplies, it also thoroughly controls costs. Furthermore, in response to society's demand for strong ESG-related efforts throughout the supply chain, including with regard to the handling of conflict minerals and being environmentally conscious, the Group has distributed its CSR Procurement Guidelines to its suppliers to ensure procurement practices that reflect CSR.

However, the THK Group's business results and financial position could be affected in the event of a shortfall in raw materials and components owing to factors such as insufficient production capacity, poor quality, insolvency, or compliance violations on the part of its suppliers; a natural disaster such as a fire or earthquake; or unanticipated, sharp increases in the prices of raw materials arising from factors such as high crude oil prices, the social conditions in countries that supply raw materials, and rising demand in emerging countries.

3. 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 affected 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 affected by the exchange rate at the time of conversion.

4. Information Security

The THK Group occasionally collects personal information as well as confidential information relating to sales and technology as it conducts its business activities.

THK possesses and convenes an Information Security Committee, chaired by the CEO and attended by outside experts as observers, which maintains and strengthens management systems and rules related to information security. In addition, it responds as necessary to strengthened regulations in Japan and abroad concerning the protection of personal information, conducts training for employees to improve information literacy, and ensures that information is stringently managed.

The Group also utilizes various computer systems and IT networks for its entire business, and appropriate security measures have been taken for these systems.

As information security risks grow with increasingly sophisticated and clever cyberattack methods as well as the expanded use of cloud services, THK is working to strengthen its security appropriately. However, if part or all of this information were to be leaked due to a cyberattack, computer virus, unauthorized access, infrastructure failure, information system defect, or another factor, or if an unforeseen event were to cause the destruction or alteration of important data or cause a system to go down, there could be a loss of trust among the general public, suspension of business activities, expenses to implement countermeasures, significant financial penalties, or a suspension of transactions, thereby affecting the business results and financial position of the THK Group.

5. Environmental Problems

In the belief that it is a company’s social responsibility to leave the global environment in a healthy state for the next generation, the THK Group has established a basic environmental policy and works to develop energy-saving products, continuously reduce its environmental impact, and sustain and improve the natural environment. Furthermore, each of the THK Group’s production facilities is certified with the international ISO 14001 Environmental Management System. In addition to conforming to environmental regulations in Japan and abroad, the Group’s domestic and international factories adhere to regulations such as the EU’s Restriction of Hazardous Substances Directive (RoHS) and REACH Regulation, China’s Administrative Measure on the Control of Pollution Caused by Electronic Information Products, and THK’s Green Procurement Guidelines.

The Company has never caused any significant environmental problems; however, if an environmental problem were to occur in the future due to an unforeseen event, expenses to compensate damages or respond to the problem, administrative sanctions such as penalties, a loss of trust among the general public, or a suspension of production activities could affect the THK Group’s business results and financial position.

Furthermore, if environmental regulations become stricter and result in additional obligations or expenses, it could affect the THK Group’s business results and financial position.

6. Compliance

As the THK Group expands its business globally, it is subject to the laws and regulations of various countries.

In order to thoroughly instill compliance awareness and create a work environment that does not allow wrongful acts, the THK Group possesses and convenes a Compliance Committee chaired by the CEO and attended by outside experts as observers, which maintains structures aimed at complying with laws, internal regulations, and ethical norms to conduct fair business activities. The Company has also established the THK Group Action Charter and works to improve compliance awareness by notifying all Group employees of the standard of conduct they must follow and by conducting required internal training.

In addition, THK maintains an internal reporting system with three lines of contact: the department in charge of the system, the Audit and Supervisory Committee, and an external legal advisor. In the event of an act that does or may violate any laws or internal regulations, this system will accept the report, and action will be taken to prevent any compliance risks.

However, it is difficult to entirely avoid such risks while expanding business globally, so in the event of a legal violation, the THK Group could bear criminal, civil, or administrative liability, or experience a loss of trust among the general public, which could impact its business results and financial position.

Consolidated Financial Statements

Consolidated Statement of Financial Position

December 31, 2020 and 2019

	Note	Millions of yen		Thousands of U.S. dollars (Note 2)
		December 31, 2020	December 31, 2019	**December 31, 2020**
Assets				
Current assets:				
Cash and cash equivalents	6	**¥ 158,839**	¥ 149,091	**$ 1,538,392**
Trade and other receivables	7	**59,505**	63,734	**576,319**
Inventories	9	**47,237**	48,120	**457,501**
Other financial assets	8	**14**	2	**135**
Other current assets	10	**8,899**	10,815	**86,188**
Total current assets		**274,495**	271,764	**2,658,547**
Non-current assets:				
Property, plant, and equipment	11	**145,922**	155,055	**1,413,288**
Goodwill and intangible assets	12	**18,779**	21,440	**181,878**
Investments accounted for using the equity method		**5,686**	5,280	**55,070**
Other financial assets	8	**10,013**	9,991	**96,978**
Deferred tax assets	14	**2,937**	3,407	**28,445**
Net defined benefit asset	18	**2,227**	1,869	**21,569**
Other non-current assets	10	**110**	135	**1,065**
Total non-current assets		**185,678**	197,180	**1,798,334**
Total assets		**¥ 460,173**	¥ 468,945	**$ 4,456,881**

The accompanying notes are an integral part of these statements.

	Note	Millions of yen December 31, 2020	Millions of yen December 31, 2019	Thousands of U.S. dollars (Note 2) December 31, 2020
Liabilities and equity				
Liabilities				
Current liabilities:				
Trade and other payables	17	**¥ 40,293**	¥ 42,825	**$ 390,246**
Bonds and borrowings	15	**2,244**	22,228	**21,733**
Other financial liabilities	15	**2,579**	2,417	**24,978**
Provisions	19	**763**	-	**7.389**
Income taxes payable	14	**1,001**	709	**9,694**
Other current liabilities	20, 21	**11,617**	10,483	**112,513**
Total current liabilities		**58,500**	78,663	**566,585**
Non-current liabilities:				
Bonds and borrowings	15	**100,325**	73,041	**971,670**
Other financial liabilities	15	**11,243**	11,056	**108,891**
Net defined benefit liability	18	**7,014**	7,438	**67,932**
Provisions	19	**182**	176	**1,762**
Deferred tax liabilities	14	**5,463**	5,468	**52,910**
Other non-current liabilities	20, 21	**2,295**	1,968	**22,227**
Total non-current liabilities		**126,524**	99,149	**1,225,414**
Total liabilities		**185,024**	177,813	**1,792,000**
Equity:				
Equity attributable to owners of the parent:				
Common stock	22	**34,606**	34,606	**335,167**
Capital surplus	22	**40,413**	40,413	**391,409**
Retained earnings	22	**219,712**	230,927	**2,127,961**
Treasury stock	22	**(14,006)**	(14,004)	**(135,651)**
Other components of equity		**(14,235)**	(11,598)	**(137,869)**
Total equity attributable to owners of the parent		**266,491**	280,344	**2,581,026**
Non-controlling interests		**8,657**	10,787	**83,845**
Total equity		**275,148**	291,132	**2,664,871**
Total liabilities and equity		**¥ 460,173**	¥468,945	**$ 4,456,881**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Profit or Loss

Years ended December 31, 2020 and 2019

Years ended December 31	Note	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 2) 2020
Revenue	24	**¥ 218,998**	¥ 274,599	**$ 2,121,046**
Cost of sales		**172,567**	207,130	**1,671,351**
Gross profit		**46,430**	67,469	**449,685**
Selling, general, and administrative expenses	25	**44,833**	49,437	**434,217**
Other income	27	**3,960**	2,184	**38,353**
Other expenses	27	**14,217**	2,042	**137,694**
Share of profit in investments accounted for using the equity method		**160**	103	**1,549**
Operating (loss) profit		**(8,499)**	18,277	**(82,314)**
Financial income	28	**764**	1,010	**7,399**
Financial costs	28	**1,990**	1,119	**19,273**
(Loss) profit before income taxes		**(9,725)**	18,168	**(94,188)**
Income tax expense	14	**2,132**	6,301	**20,648**
(Loss) profit for the year		**¥ (11,857)**	¥ 11,866	**$ (114,837)**
(Loss) profit attributable to:				
Owners of the parent		**¥ (9,992)**	¥ 11,690	**$ (96,774)**
Non-controlling interests		**(1,865)**	175	**(18,062)**
		¥ (11,857)	¥ 11,866	**$ (114,837)**
(Loss) earnings per share attributable to owners of the parent (yen or U.S. dollars):				
Basic	30	**¥ (78.95)**	¥ 92.37	**$ (0.76)**
Diluted	30	**-**	-	**-**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

Years ended December 31, 2020 and 2019

Years ended December 31	Note	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 2) 2020
(Loss) profit for the year		**¥ (11,857)**	¥ 11,866	**$ (114,837)**
Other comprehensive income, net of tax:				
Items that may not be reclassified subsequently to profit or loss:				
Financial assets measured at fair value through other comprehensive income	29	**109**	778	**1,055**
Remeasurements of defined benefit plans	29	**718**	658	**6,953**
Share of other comprehensive income of an affiliate accounted for using the equity method	29	**7**	102	**67**
Total		**836**	1,539	**8,096**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	29	**(3,076)**	(2,789)	**(29,791)**
Share of other comprehensive income (loss) of an affiliate accounted for using the equity method	29	**306**	(499)	**2,963**
Total		**(2,769)**	(3,289)	**(26,818)**
Total other comprehensive loss, net of tax		**(1,933)**	(1,749)	**(18,721)**
Comprehensive (loss) income for the year		**¥(13,791)**	¥10,116	**$(133,569)**
Attributable to:				
Owners of the parent		**(11,897)**	9,982	**(115,225)**
Non-controlling interests		**(1,893)**	134	**(18,334)**
		¥(13,791)	¥10,116	**$(133,569)**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Equity

Years ended December 31, 2020 and 2019

	Note	Millions of yen				
		Equity attributable to owners of the parent				
						Other components of equity
		Common stock	**Capital surplus**	**Retained earnings**	**Treasury stock**	**Exchange differences on translating foreign operations**
Balance at January 1, 2019		¥34,606	¥40,420	¥226,358	¥ (14,002)	¥ (10,267)
Profit for the year		-	-	11,690	-	-
Other comprehensive loss	29	-	-	-	-	(3,212)
Total comprehensive income		-	-	11,690	-	(3,212)
Purchase of treasury stock	22	-	-	-	(1)	-
Payment of dividends	23	-	-	(7,847)	-	-
Transfer from other components of equity to retained earnings		-	-	725	-	-
Other		-	(6)	-	-	-
Total transactions with owners		-	(6)	(7,121)	(1)	-
Balance at December 31, 2019		**¥34,606**	**¥40,413**	**¥230,927**	**¥ (14,004)**	**¥ (13,479)**
Loss for the year		**-**	**-**	**(9,992)**	**-**	**-**
Other comprehensive loss	29	**-**	**-**	**-**	**-**	**(2,721)**
Total comprehensive loss		**-**	**-**	**(9,992)**	**-**	**(2,721)**
Purchase of treasury stock	22	**-**	**-**	-	**(2)**	**-**
Payment of dividends	23	**-**	**-**	**(1,961)**	**-**	**-**
Transfer from other components of equity to retained earnings		**-**	**-**	**732**	**-**	**-**
Other		**-**	**-**	**8**	**-**	-
Total transactions with owners		**-**	**-**	**(1,221)**	**(2)**	-
Balance at December 31, 2020		**¥34,606**	**¥40,413**	**¥219,712**	**¥ (14,006)**	**¥ (16,201)**

	Note	Millions of yen					
		Equity attributable to owners of the parent					
		Other components of equity					
		Financial assets measured at fair value through other comprehensive income	**Remeasure-ments of defined benefit plans**	**Total**	**Total**	**Non-controlling interests**	**Total**
Balance at January 1, 2019		¥ 1,102	¥ -	¥ (9,164)	¥278,217	¥11,060	¥289,278
Profit for the year		-	-	-	11,690	175	11,866
Other comprehensive loss	29	779	725	(1,708)	(1,708)	(41)	(1,749)
Total comprehensive income		779	725	(1,708)	9,982	134	10,116
Purchase of treasury stock	22	-	-	-	(1)	-	(1)
Payment of dividends	23	-	-	-	(7,847)	-	(7,847)
Transfer from other components of equity to retained earnings		-	(725)	(725)	-	-	-
Other		-	-	-	(6)	(406)	(413)
Total transactions with owners		-	(725)	(725)	(7,855)	(406)	(8,262)
Balance at December 31, 2019		**¥ 1,881**	**¥ -**	**¥ (11,598)**	**¥280,344**	**¥10,787**	**¥ 291,132**
Loss for the year		**-**	**-**	**-**	**(9,992)**	**(1,865)**	**(11,857)**
Other comprehensive loss	**29**	**110**	**705**	**(1,905)**	**(1,905)**	**(28)**	**(1,933)**
Total comprehensive loss		**110**	**705**	**(1,905)**	**(11,897)**	**(1,893)**	**(13,791)**
Purchase of treasury stock	**22**	-	-	-	**(2)**	**-**	**(2)**
Payment of dividends	**23**	-	-	**-**	**(1,961)**	**-**	**(1,961)**
Transfer from other components of equity to retained earnings		**(26)**	**(705)**	**(732)**	**-**	**-**	**-**
Other		**-**	**-**	**-**	**8**	**(236)**	**(228)**
Total transactions with owners		**(26)**	**(705)**	**(732)**	**(1,955)**	**(236)**	**(2,192)**
Balance at December 31, 2020		**¥ 1,966**	**¥ -**	**¥ (14,235)**	**¥266,491**	**¥8,657**	**¥ 275,148**

		Thousands of U.S. dollars				
		Equity attributable to owners of the parent				
						Other components of equity
	Note	Common stock	Capital surplus	Retained earnings	Treasury stock	Exchange differences on translating foreign operations
Balance at December 31, 2019		**$335,167**	**$391,409**	**$2,236,581**	**$(135,631)**	**$(130,547)**
Loss for the year		**-**	**-**	**(96,774)**	**-**	**-**
Other comprehensive loss	**29**	**-**	**-**	**-**	**-**	**(26,353)**
Total comprehensive loss		**-**	**-**	**(96,774)**	**-**	**(26,353)**
Purchase of treasury stock	**22**	-	-	-	**(19)**	**-**
Payment of dividends	**23**	-	**-**	**(18,992)**	**-**	**-**
Transfer from other components of equity to retained earnings		-	**-**	**7,089**	**-**	**-**
Other		**-**	-	**77**	**-**	-
Total transactions with owners		**-**	**-**	**(11,825)**	**(19)**	-
Balance at December 31, 2020		**$335,167**	**$391,409**	**$2,127,961**	**$(135,651)**	**$(156,910)**

		Thousands of U.S. dollars					
		Equity attributable to owners of the parent					
		Other components of equity					
	Note	Financial assets measured at fair value through other comprehensive income	Remeasure-ments of defined benefit plans	Total	Total	Non-controlling interests	Total
Balance at December 31, 2019		**$18,217**	**$ -**	**$(112,329)**	**$2,715,196**	**$104,474**	**$2,819,680**
Loss for the year		**-**	**-**	**-**	**(96,774)**	**(18,062)**	**(114,837)**
Other comprehensive loss	**29**	**1,065**	**6,828**	**(18,450)**	**(18,450)**	**(271)**	**(18,721)**
Total comprehensive loss		**1,065**	**6,828**	**(18,450)**	**(115,225)**	**(18,334)**	**(133,569)**
Purchase of treasury stock	**22**	-	-	-	**(19)**	**-**	**(19)**
Payment of dividends	**23**	-	-	**-**	**(18,992)**	**-**	**(18,922)**
Transfer from other components of equity to retained earnings		**(251)**	**(6,828)**	**(7,089)**	**-**	**-**	**-**
Other		**-**	**-**	**-**	**77**	**(2,285)**	**(2,208)**
Total transactions with owners		**(251)**	**(6,828)**	**(7,089)**	**(18,934)**	**(2,285)**	**(21,230)**
Balance at December 31, 2020		**$19,041**	**$ -**	**$(137,869)**	**$2,581,026**	**$83,845**	**$ 2,664,871**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

Years ended December 31, 2020 and 2019

Years ended December 31	Note	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (Note 2) 2020
Cash Flows from Operating Activities:				
(Loss) profit before tax		**¥ (9,725)**	¥ 18,168	**$ (94,188)**
Depreciation and amortization		**18,675**	18,085	**180,871**
Impairment losses		**8,083**	678	**78,285**
Change in net defined benefit assets and liability		**(14)**	(38)	**(135)**
Financial income		**(764)**	(1,010)	**(7,399)**
Financial costs		**1,121**	1,405	**10,857**
Share of profit in investments accounted for using the equity method		**(160)**	(103)	**(1,549)**
Decrease in trade and other receivables		**3,754**	28,588	**36,358**
Decrease in inventories		**687**	1,615	**6,653**
Increase (decrease) in trade and other payables		**1,381**	(19,887)	**13,375**
Other, net		**1,794**	(770)	**17,375**
Subtotal		**24,834**	46,731	**240,523**
Interests and dividends received		**775**	1,004	**7,506**
Interests paid		**(368)**	(419)	**(3,564)**
Income taxes refund (paid)		**158**	(18,933)	**1,530**
Net cash provided by operating activities		**25,399**	28,383	**245,995**
Cash Flows from Investing Activities:				
Purchase of property, plant, and equipment		**(18,009)**	(29,192)	**(174,421)**
Proceeds from sales of property, plant, and equipment		**77**	51	**745**
Purchases of other financial assets		**(183)**	(392)	**(1,772)**
Proceeds from sales of other financial assets		**20**	-	**193**
Other, net		**(312)**	(507)	**(3,021)**
Net cash used in investing activities		**(18,406)**	(30,040)	**(178,266)**
Cash Flows from Financing Activities:				
Proceeds from long-term borrowings	31	**-**	20,000	**-**
Repayments of long-term borrowings	31	**(2,185)**	(12,185)	**(21,162)**
Proceeds from issuance of bonds	31	**30,000**	20,000	**290,556**
Payments for redemption of bonds	31	**(20,000)**	-	**(193,704)**
Purchase of treasury stock	22	**(2)**	(1)	**(19)**
Dividends paid	23	**(1,990)**	(7,944)	**(19,273)**
Dividends paid to non-controlling shareholders		**(232)**	(106)	**(2,246)**
Repayments of lease obligations	31	**(1,613)**	(1,498)	**(15,622)**
Other, net		**-**	40	**-**
Net cash provided by financing activities		**3,977**	18,304	**38,518**
Effects of exchange rate changes on cash and cash equivalents		**(1,222)**	(2,069)	**(11,835)**
Net increase in cash and cash equivalents		**9,747**	14,577	**94,401**
Cash and cash equivalents at the beginning of the year	6	**149,091**	134,513	**1,443,980**
Cash and cash equivalents at the end of the year	6	**¥ 158,839**	¥ 149,091	**$ 1,538,392**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Reporting Entity

THK CO., LTD. (the "Company") is an entity located in Japan. The consolidated financial statements of the Company as of December 31, 2020, and for the year then ended consist of the Company and its subsidiaries (collectively, “the Group”) and the Group’s share of investments in an affiliate. The business of the Group is described in Note 5, "Segment Information."

2. Basis of Preparation

Compliance with International Financial Reporting Standards ("IFRS") and First-Time Adoption

The accompanying consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) pursuant to the provisions of Article 93 of Regulations for Consolidated Financial Statements, as they meet the requirements for a "Specified Company Complying with Designated International Accounting Standards" as described in Article 1-2 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).

The accompanying consolidated financial statements were authorized by Akihiro Teramachi, Representative Director and President of the Company on March 22, 2021.

Basis of Measurement

Except for the items presented in Note 3, “Significant Accounting Policies,” the Group’s consolidated financial statements are prepared on a historical cost basis.

Functional Currency and Presentation Currency

The consolidated financial statements of the Group are prepared in Japanese yen, which is the Company’s functional currency, and the yen amounts of less than one million yen have been omitted. 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 represent or could be converted into U.S. dollars at that or any other rate. For this purpose, the rate of ¥103.25 to U.S. $1, the approximate rate of exchange prevailing in Tokyo on December 31, 2020, has been used for the translation of the accompanying consolidated financial statements as of December 31, 2020, and for the year then ended.

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.

3. Significant Accounting Policies

Basis of Consolidation

(1) Subsidiaries

Subsidiaries are entities that are controlled by the Group. The Group controls an entity when the Group has power over the entity, is exposed or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Group obtains control over the subsidiary until the date when it loses control over the subsidiary.

Intercompany receivables and payables, internal transactions, and unrealized profit or loss arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

Any change in ownership interests in a subsidiary that does not result in a loss of control over the subsidiary is accounted for as an equity transaction. The difference between adjustment of non-controlling interests and fair value of the consideration is directly recognized in equity as interest attributable to owners of the parent.

(2) Affiliate

An affiliate is an entity over which the Group has a significant influence over the decisions on financial and operating policy, but does not have control or joint control over those policies.

An affiliate is accounted for using the equity method from the date when the Group obtains significant influence until the date when the Group loses significant influence. Investments in an affiliate include goodwill, net of accumulated impairment losses, recognized in the acquisition.

Business Combinations

Business combinations are accounted for using the acquisition method. The consideration for acquisition is measured as the sum of the acquisition-date fair values of the assets transferred in exchange of the control over the acquiree, the liabilities assumed of the acquiree, and equity financial instruments issued by the Company. If the consideration for acquisition exceeds the fair value of identifiable assets and liabilities, the difference is recorded as goodwill in the consolidated statement of financial position. Otherwise, the difference is immediately credited to profit in the consolidated statement of profit or loss.

Whether non-controlling interests are measured at the fair value or at the proportional share of the recognized amount of identifiable net assets is determined for each business combination.

Additional acquisition of non-controlling interests after obtaining control is accounted for as the equity transaction, and accordingly, the goodwill is not recognized from the said transaction.

Identifiable assets and liabilities of the acquiree are measured at fair values at the date of acquisition except for the following:

- Deferred tax assets and liabilities and employee benefit contract-related assets and liabilities
- Share-based payment agreement using the shares of the acquiree
- Assets or disposal group classified as held for sale pursuant to IFRS 5, “Non-current assets held for sale and discontinued operations”

In case of business combinations achieved through step acquisition, its previously held interest equity in the acquiree is remeasured at its acquisition-date fair value, and the resulting gain or loss is recognized as profit or loss.

Foreign Currency Translation

(1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each company of the Group at the foreign exchange rate on the date of the transaction or at a rate that approximates the foreign exchange rate.

Monetary assets and monetary liabilities in foreign currency on the closing date are translated into the functional currency at the foreign exchange rate on the closing date.

Non-monetary assets and non-monetary liabilities in foreign currency that are measured at fair value are translated into the functional currency at the foreign exchange rate on the date of calculation of the fair value.

Exchange differences arising from translation or settlement are recognized as profit or loss. However, exchange differences arising from financial assets that are measured through other comprehensive income are recognized as other comprehensive income.

(2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the foreign exchange rate on the closing date, and their revenue and expenses are translated into Japanese yen using an average foreign exchange rate. Exchange differences arising from the translation of financial statements of foreign operations are recognized as other comprehensive income. Exchange differences on translating foreign operations are recognized as profit or loss in the period when the foreign operation is disposed of.

Financial Instruments

(1) Financial assets

(i) Initial recognition and measurement

The Group classifies financial assets into those that are measured at fair value through profit or loss or other comprehensive income and those that are measured at amortized cost. This classification is decided at the time of initial recognition.

The Group recognizes relevant financial instruments when it becomes a party to the contract of the financial assets.

Unless financial assets are classified into the category in which they are measured at fair value through profit or loss, the Group measures all financial assets at an amount that is obtained by adding transaction costs to the fair value.

A financial asset is classified into the category in which it is measured at amortized cost if it satisfies both of the following requirements:

・The financial asset is held based on a business model whose objective is to hold assets in order to collect the contractual cash flows.

・The contractual terms of the financial asset give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those that are measured at amortized cost are classified into the category in which they are measured at fair value.

As for equity financial assets that are measured at fair value, except for equity financial assets held for trading purpose that must be measured at fair value through profit or loss, the Group designates each equity financial asset as a financial asset that is measured at fair value through profit or loss or measured at fair value through other comprehensive income and applies the designation continuously.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows according to their classification.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

The amount of changes in the fair value of financial assets measured at fair value is recognized as profit or loss.

Of equity financial assets, however, the amount of changes in the fair value of those that are designated to be measured at fair value through other comprehensive income is recognized as other comprehensive income. Dividends from the said financial assets are recognized as profit or loss for the period as part of financial income.

(iii) Derecognition of financial assets

The Group derecognizes a financial asset if the contractual rights to the cash flows from the financial asset expire, or if the Group transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control over the transferred financial asset, the Group continues to recognize the liability related to the asset to the extent of its continuing involvement in the financial asset.

(iv) Impairment of financial assets

For financial assets measured at amortized cost, the Group recognizes an allowance for doubtful accounts on expected credit losses.

The Group assesses whether the credit risk of each financial asset has increased significantly from the time of initial recognition on each closing date and, if the credit risk has not increased significantly from the time of initial recognition, the Group recognizes an allowance for doubtful accounts on expected credit losses for 12 months. On the other hand, if the credit risk has increased significantly from the time of initial recognition, the Group recognizes an amount equal to the lifetime expected credit losses as an allowance for doubtful accounts.

If contractual payments are more than 30 days past due, the Group deems that the credit risk has increased significantly, in principle. However, when the Group assesses whether the credit risk has increased significantly, the Group takes into consideration reasonable and supportable information that is available (such as internal rating and external rating), in addition to information on payments past due.

If it is decided that the credit risk on a financial asset is low as of the closing date, the Group assesses that the credit risk on the financial asset has not increased significantly since initial recognition.

However, for trade receivables that do not contain a significant financial component, the Group always recognizes an allowance for doubtful accounts at an amount equal to the lifetime expected credit losses, regardless of whether the credit risk has increased significantly from the time of initial recognition.

Expected credit losses are measured at the present value of differences between all contractual cash flows to be paid to the entity pursuant to the contract and all cash flows expected to be received by the entity.

The Group estimates the expected credit losses of a financial asset in a manner that reflects the following:

・an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
・the time value of money, and
・ reasonable and supportable information that is available without undue cost or effort on the reporting date regarding past events, current conditions, and forecasts of future economic conditions.

If significant economic fluctuations have an impact, the necessary adjustments will be made to the expected credit losses measured in the manner stated above.

The Group directly reduces the gross carrying amount of a financial asset when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Provision of allowance for doubtful accounts on financial assets is recognized in profit or loss. If any event that will reduce an allowance for doubtful accounts arises, the reversal of the allowance for doubtful accounts is recognized in profit or loss.

(2) Financial liabilities

(i) Initial recognition and measurement

The Group classifies financial liabilities into those that are measured at fair value through profit or loss and those that are measured at amortized cost. This classification is decided at the time of initial recognition.

The Group initially recognizes debt instruments issued on the date of issuance. The Group initially recognizes all other financial liabilities on the date of transactions when the Group becomes a party to the contract of the relevant financial instruments.

While all financial liabilities are initially measured at fair value, financial liabilities that are measured at amortized cost are measured at an amount by deducting transaction costs directly attributable.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured as follows according to their classification:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value after initial recognition, and the changes thereof are recognized as profit or loss for the period.

(b) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method after initial recognition.

When the amortization and recognition by the effective interest method are discontinued, the resulting gains and losses are recognized as profit or loss for the period as part of financial costs.

(iii) Derecognition of financial liabilities
The Group derecognizes a financial liability when the financial liability is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expired.

(3) Presentation of financial assets and financial liabilities
Financial assets and financial liabilities are offset in the consolidated statement of financial position and are presented in a net amount only if the Group has a legal right to offset their balances and has the intention to settle them in a net amount or realize the assets and settle the liabilities at the same time.

(4) Derivatives
The Group uses derivatives of foreign exchange forward contracts and interest rate swap agreements to hedge the foreign exchange risk and interest rate risk, respectively. These derivatives are initially recognized at fair value when the contract is entered and are subsequently remeasured at fair value.

Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand and demand deposits withdrawable at any time.

Inventories
Inventories are measured at acquisition cost or net realizable value, whichever is lower. The net realizable value is an amount that is obtained by deducting the estimated costs required until completion and the estimated selling expenses from an estimated selling price in the normal course of business. The acquisition cost is calculated primarily based on the gross average method and includes the cost of purchase, the processing cost, and all costs required to reach the present location and status.

Property, Plant, and Equipment
Property, plant, and equipment are presented at the values obtained by deducting accumulated depreciation and accumulated impairment losses from the acquisition cost.

The acquisition cost includes costs directly related to the acquisition of an asset, costs for demolition and removal, and restoration costs of land.

Depreciation of each asset other than land and construction in progress is posted using the straight-line method over its estimated useful life. The estimated useful life by major asset item is as follows:
・Buildings and structures 5–50 years
・Machinery and vehicles 4–12 years

The estimated useful life, the residual value, and the depreciation method are reviewed at the end of each fiscal year, and if there is a change, it is applied prospectively as a change in accounting estimates.

Goodwill
The Group initially measures goodwill at the fair value of transfer amounts including recognized non-controlling interests in the acquiree measured at the date of acquisition, less the net recognized value (usually, fair value) of identifiable acquired assets and assumed liabilities at the date of acquisition.

Goodwill is not amortized, but is tested for impairment annually, or whenever there is any indication of possible impairment.

Impairment losses on goodwill are recognized in the consolidated statement of profit or loss and not reversed subsequently.

Goodwill is presented at the acquisition cost less accumulated impairment losses in the consolidated statement of financial position.

Intangible Assets
Intangible assets acquired individually are measured at the acquisition cost at the time of initial recognition.

Intangible assets acquired through business combinations are measured at fair value at the time of acquisition. After the initial recognition, they are stated at the acquisition cost less accumulated depreciation and accumulated impairment losses. Intangible assets, except for those with non-identifiable useful life, are amortized by the straight-line method over their estimated useful life after initial recognition, and they are stated at the amount obtained by deducting accumulated amortization and accumulated impairment losses from the acquisition cost. The estimated useful life of a major intangible asset is as follows:
・Software (for in-house use) 5 years

The estimated useful life, the residual value and the amortization method are reviewed at the end of each fiscal year, and if there is a change, it is applied prospectively as a change in accounting estimates.

Lease

As a lessee, the Group measures right-of-use assets at the acquisition cost and lease liabilities at the present value of total lease payments at the inception date of leases and presents right-of-use assets under “Property, plant, and equipment” and lease liabilities under “Other financial liabilities” in the consolidated statement of financial position.

Right-of-use assets are depreciated by the straight-line method over the earlier years of the useful life or the lease term.

Lease charges are allocated to financial costs and repayment of lease liabilities based on the interest method and financial costs are recognized in the consolidated statement of profit or loss.

However, for short-term leases with a lease term of 12 months or less and leases of low-value underlying assets, right-of-use assets, and lease liabilities are not recognized, and total lease payments are recognized using either the straight-line method or other systematic basis over the lease term.

Impairment of Non-financial Assets

For the carrying amount of non-financial assets of the Group other than inventories and deferred tax assets, the Group decides whether there is any indication of impairment on the closing date. If there is any indication of impairment, the Group estimates the recoverable amount of the assets. For goodwill and intangible assets whose useful life cannot be fixed or that are not yet available for use, the Group estimates the recoverable amount in the same period every year, regardless of whether there is any indication of impairment.

The recoverable amount of an asset or a cash-generating unit is set to be its value in use or its fair value after deducting the cost of sales, whichever is higher. In determining the value in use, estimated future cash flows are discounted to the present value by using a pre-tax discount rate that reflects the time value of money and risks inherent in the asset. Assets that are not tested individually in an impairment test are integrated into the minimal cash-generating unit that generates cash inflows that are largely independent from cash inflows from other assets or group of assets due to their continuous use. In impairment-testing goodwill, cash-generating units to which the goodwill is allocated are integrated so that the impairment-testing would be carried out reflecting the minimal unit related to the goodwill. Goodwill acquired through business combinations is allocated to the cash-generating units that are expected to obtain synergy effects from the business combination.

The company-wide assets of the Group do not generate independent cash inflows. If there is any indication of impairment in the company-wide assets, the Group determines the recoverable amounts of cash-generating units to which the company-wide assets are attributable.

If the carrying amount of an asset or a cash-generating unit exceeds the estimated recoverable amount, an impairment loss is recognized as profit or loss. An impairment loss recognized in relation to the cash-generating unit is first allocated in such a way as to reduce the carrying amount of goodwill allocated to the unit, and then the carrying amount of other assets in the cash-generating unit is reduced proportionally.

Employee Benefits

(1) Post-retirement benefits

The Group manages defined benefit plans and defined contribution plans as retirement benefit plans for employees.

For defined benefit plans, the amounts of defined benefit plan obligations computed by discounting the estimated future benefits vested as consideration for services rendered by the employees in the past and current years by each plan, less the fair value of plan assets, are recognized in the consolidated statement of financial position.

The Group determines the present value of defined benefit plan obligations and the related current service cost and past service cost using the projected unit credit method.

The discount rate is determined based on the market yield of high-grade corporate bonds at the closing date corresponding to discount periods that are set up based on the period through future expected payment date each year.

Liabilities or assets related to the defined benefit plans are determined at the present value of defined benefit plan obligations, less the fair value of plan assets.

Remeasurements of the defined benefit plans are recognized collectively as other comprehensive income in the period incurred and immediately transferred from other equity components to retained earnings.

Past service costs resulting from a plan amendment or curtailment are recognized as profit or loss in the earlier period when the plan was amended, or related restructuring costs and termination benefits were recognized.

For defined contribution plans, the amounts to be contributed to the said plan for the period are recognized as profit or loss when the employees rendered related services.

(2) Short-term employee benefits

Short-term employee benefits including wages are recognized as profit or loss when an employee has rendered related services.

Bonuses are recognized as a liability in case that the employer has legal obligation or constructive obligation and reliable estimation is possible.

Unused paid absences are recognized as a liability when an employee has rendered services that will entitle to accumulate future paid absences.

Provisions

Provisions are recognized if the Group has a current legal or constructive obligation as a result of past events, if an outflow of economic resources is likely to settle the obligation, and if the amount of the obligation can be reasonably estimated. If the time value of money is significant, estimated future cash flows are discounted to the present value by using a pre-tax interest rate that reflects the time value of money and risks inherent in the obligation. The rebate of the discounted amount associated with the passage of time is recognized as a financial cost.

Revenue

The Group recognizes revenue from contracts with customers, except for interest and dividend income based on IFRS 9, "Financial Instruments," by applying the following steps:

Step 1: Identify a contract with a customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when the performance obligation has been satisfied (or as the performance obligation is satisfied).

Financial Income and Financial Costs

Financial income consists of mainly interest income, dividends received, foreign exchange gains, and changes in fair value of financial assets measured at fair value through profit or loss. Interest income is recognized when incurred by the effective interest method. Dividends received are recognized when the right to receive dividends has been vested.

Financial costs consist of mainly interest expenses, foreign exchange losses, and changes in fair value of financial assets measured at fair value through profit or loss. Interest expenses are recognized when incurred by the effective interest method.

Government Subsidies

Government subsidies are recognized at fair value when the incidental conditions for the grant of the subsidies have been met and when reasonable assurance of receiving subsidies has been obtained.

If government subsidies are related to expense items, they are recognized systematically as revenue over the period when the related costs that are intended to be covered by the subsidies are recognized as an expense. Subsidies related to assets are recognized as deferred income and are recognized systematically as profit or loss over the estimated useful life of the related assets.

Income Taxes

Income tax expenses consist of current tax and deferred tax. These taxes are recognized as profit or loss unless they arise from an item that is directly recognized in other comprehensive income or equity, or unless they arise from a business combination.

Current tax is measured at an amount in which a payment to or refund from tax authorities is expected. A tax rate and tax law used for determining the tax amount are those that have been enacted or substantially enacted by the closing date.

Deferred tax is recognized for temporary differences, which are differences between the carrying amount of an asset or a liability and its tax base on the closing date, the tax loss carryforwards, and unused tax credits.

A deferred tax asset or a deferred tax liability is not recorded for the following temporary differences.

・Temporary differences arising from initial recognition of goodwill

・Temporary differences arising from initial recognition of an asset or a liability that arises from a transaction that affects neither accounting profit nor taxable income (loss), except for business combinations.

・As for deductible temporary differences associated with investments in subsidiaries and affiliates, in cases where the said temporary differences are unlikely to be recovered in the foreseeable future, or in cases where taxable income that will be subject to the use of the said temporary differences is unlikely to be realized.

・As for taxable temporary differences associated with investments in subsidiaries and affiliates, in cases where the said temporary differences are unlikely to be realized in the foreseeable future because it is possible to control the timing for realizing temporary differences.

A deferred tax liability is recognized for all taxable temporary differences, in principle, and the Group recognizes a deferred tax asset for all deductible temporary differences to the extent that enough taxable income to use deductible temporary differences is likely to be realized.

The carrying amount of deferred tax assets is reviewed every fiscal year, and the carrying amount is reduced for the portion for which it cannot be decided that enough taxable income to use all or part of deferred tax assets is likely to be realized. Unrecognized deferred tax assets are reviewed every fiscal year, and the Group recognizes a deferred tax asset to the extent that the deferred tax asset becomes likely to be recovered by future taxable income.

Deferred tax assets and liabilities are measured based on a tax rate and tax law that are expected to be applied to the period when the assets will be realized or liabilities will be settled based on the tax rate and tax law that have been enacted or substantially enacted on the closing date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets for the period and tax liabilities for the period and taxes are imposed on the same taxable entity by the same tax authority, or if it is intended to settle tax assets for the period and tax liabilities for the period in a net amount or intended to realize assets and settle liabilities at the same time even if the taxable entities are different.

Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to common shareholders of the parent by the weighted-average number of outstanding common stock adjusted for treasury stock for the period. Diluted earnings per share are not determined, since there exist no potential shares.

Segment Information

A business segment is a constituent unit of business activities that will earn revenue and give rise to expenses, including transactions with other business segments. Financial information for the outcome of the businesses of all business segments is available individually and is reviewed by the Board of Directors of the Company regularly to allocate management resources to each segment and evaluate their performances.

Treasury Stock

Treasury stock is valued at acquisition cost and deducted from equity. Gains or losses are not recognized in the purchase, sale, or cancellation of treasury stock of the Company. Differences between the carrying amount and consideration at the time of sale are recognized as equity.

4. Significant Accounting Estimates and Judgments

In the preparation of consolidated financial statements in compliance with IFRS, the management is required to apply accounting policies and make judgments, estimates, and assumptions that could have an impact on the amount of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

Estimates and assumptions that form the basis for estimates are reviewed on a continuing basis. The impact of the review of accounting estimates will be recognized in the accounting period when the estimates are reviewed and subsequent accounting periods.

Major judgments and estimates made by the management that could have a significant impact on the amounts in the consolidated financial statements are as follows:

・Scope of consolidation (Note 3, “Significant Accounting Policies - *Basis of Consolidation*”)
・Revenue recognition (Note 3, “Significant Accounting Policies - *Revenue*”)
・Matters concerning financial instruments (Note 3, “Significant Accounting Policies – *Financial Instruments*”; Note 8, “Other Financial Assets”; and Note 32, “Financial Instruments”)
・Valuation of inventories (Note 9, “Inventories”)
・Impairment of non-financial assets (Note 13, “Impairment of Non-financial Assets”)
・Recoverability of deferred tax assets (Note 14, “Income Taxes”)
・Accounting and valuation of provisions (Note 19, “Provisions”)
・Measurement of defined benefit plan obligations (Note 18, “Employee Benefits”)

5. Segment Information

Summary of Reportable Segments

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 management resources and evaluate their performances.

The Group’s main products are machinery parts such as the LM (Linear Motion) Guide and ball screws, and transportation equipment-related parts such as link balls and suspension ball joints. In each country, local subsidiaries establish their comprehensive business strategies and conduct their business activities in a similar way that the Company and domestic subsidiaries do in Japan.

Therefore, the reportable segment information consists of the five geographical segments, namely, Japan, the Americas, Europe, China, and Other based on the Group’s production/sales structure.

Information about Reportable Segments

The accounting policies for the reportable segments are the same as the Group's accounting policies stated in Note 3, “Significant accounting policies.”

Inter-segment revenues are based on market prices.

	Millions of yen							
	As of December 31, 2020, or for the year then ended							
	Japan	The Americas	Europe	China	Other	Total	Adjust-ments (Note 3)	Consoli-dated
Revenue:								
Sales to customers	**¥ 90,378**	**¥ 46,019**	**¥ 39,274**	**¥ 33,085**	**¥ 10,240**	**¥ 218,998**	**¥ -**	**¥ 218,998**
Inter-segment	**35,931**	**77**	**234**	**1,474**	**1,797**	**39,515**	**(39,515)**	**-**
Total	**126,309**	**46,096**	**39,508**	**34,560**	**12,038**	**258,513**	**(39,515)**	**218,998**
Segment (loss) profit (Note 4)	**(17,400)**	**(3,239)**	**(5,983)**	**3,730**	**647**	**(22,245)**	**13,746**	**(8,499)**
Financial income	**1,015**	**49**	**279**	**337**	**48**	**1,731**	**(966)**	**764**
Financial costs	**2,858**	**247**	**442**	**24**	**6**	**3,578**	**(1,588)**	**1,990**
(Loss) profit before income taxes	**(19,243)**	**(3,437)**	**(6,145)**	**4,044**	**689**	**(24,093)**	**14,368**	**(9,725)**
Segment assets	**¥ 400,473**	**¥ 65,127**	**¥94,956**	**¥ 71,022**	**¥ 24,730**	**¥ 656,311**	**¥ (196,137)**	**¥ 460,173**
Other items:								
Depreciation and amortization	**¥ 7,504**	**¥ 3,004**	**¥ 2,926**	**¥ 3,688**	**¥ 692**	**¥ 17,816**	**¥ (176)**	**¥ 17,639**
Impairment losses	**5,158**	**994**	**1,930**	**-**	**-**	**8,083**	**-**	**8,083**
Investments accounted for using the equity method	**5,686**	-	-	-	-	**5,686**	**-**	**5,686**
Share of profit of investments accounted for using the equity method	**160**	**-**	**-**	**-**	**-**	**160**	**-**	**160**
Capital expenditures	**1,467**	**645**	**573**	**1,240**	**177**	**4,103**	**-**	**4,103**

	Millions of yen							
	As of December 31, 2019, or for the year then ended							
	Japan	The Americas	Europe	China	Other	Total	Adjust-ments (Note 3)	Consoli-dated
Revenue:								
Sales to customers	¥ 117,740	¥ 58,480	¥ 55,143	¥ 29,969	¥ 13,265	¥ 274,599	¥ -	¥ 274,599
Inter-segment	48,470	146	269	4,635	1,695	55,217	(55,217)	-
Total	166,210	58,627	55,413	34,604	14,961	329,817	(55,217)	274,599
Segment profit (loss) (Note 4)	10,483	(1,012)	288	2,537	1,175	13,473	4,803	18,277
Financial income	4,048	1,228	1,089	1,880	470	8,718	(7,707)	1,010
Financial costs	1,148	1,162	707	1,527	369	4,914	(3,794)	1,119
Profit (loss) before income taxes	13,383	(946)	671	2,891	1,277	17,276	891	18,168
Segment assets	¥ 414,049	¥ 68,513	¥ 98,861	¥ 66,692	¥ 24,815	¥ 672,931	¥ (203,985)	¥ 468,945
Other items:								
Depreciation and amortization	¥ 7,526	¥ 2,872	¥ 2,892	¥ 3,539	¥ 615	¥ 17,447	¥ (74)	¥ 17,373
Impairment losses	-	678	-	-	-	678	-	678
Investments accounted for using the equity method	5,280	-	-	-	-	5,280	-	5,280
Share of profit of investments accounted for using the equity method	103	-	-	-	-	103	-	103
Capital expenditures	648	938	1,882	1,843	363	5,677	-	5,677

	Thousands of U.S. dollars							
	As of December 31, 2020, or for the year then ended							
	Japan	The Americas	Europe	China	Other	Total	Adjust-ments (Note 3)	Consoli-dated
Revenue:								
Sales to customers	$ 875,331	$ 445,704	$ 380,377	$ 320,435	$ 99,176	$ 2,121,046	$ -	$ 2,121,046
Inter-segment	348,000	745	2,266	14,276	17,404	382,711	(382,711)	-
Total	1,223,331	446,450	382,644	334,721	116,590	2,503,757	(382,711)	2,121,046
Segment (loss) profit (Note) 4	(168,523)	(31,370)	(57,946)	36,125	6,266	(215,447)	133,133	(82,314)
Financial income	9,830	474	2,702	3,263	464	16,765	(9,355)	7,399
Financial costs	27,680	2,392	4,280	232	58	34,653	(15,380)	19,273
(Loss) profit before income taxes	(186,372)	(33,288)	(59,515)	39,167	6,673	(233,346)	139,157	(94,188)
Segment assets	$3,878,673	$ 630,769	$ 919,670	$ 687,864	$ 239,515	$ 6,356,523	$(1,899,631)	$ 4,456,881
Other items:								
Depreciation and amortization	$72,677	$29,094	$28,338	$35,719	$6,702	$172,552	$(1,704)	$170,837
Impairment losses	49,956	9,627	18,692-	-	-	78,285	-	78,285
Investments accounted for using the equity method	55,070	-	-	-	-	55,070	-	55,070
Share of profit of investments accounted for using the equity method	1,549	-	-	-	-	1,549	-	1,549
Capital expenditures	$14,208	$6,246	$5,549	$12,009	$1,714	$39,738	$ -	$39,738

Notes:

1. Segmentation by country or area is determined based on geographical proximity.
2. The main countries or areas that belong to the reportable segments other than Japan and China are as follows:
   (1) "The Americas": The United States of America and others
   (2) "Europe": Germany, France, and others
   (3) "Other": Taiwan, Singapore, and others
3. "Adjustments" are as follows:
   (1) Adjustments of "Segment profit (loss)" in an amount of ¥13,746 million ($133,133 thousand) and ¥4,803 million for the years ended December 31, 2020 and 2019, respectively, represent elimination of inter-segment transactions
   (2) Adjustments of "Segment assets" in an amount of ¥ (196,137) million ($ (1,899,631) thousand) and ¥ (203,985) million for the years ended December 31, 2020 and 2019, respectively, are all elimination of inter-segment transactions.
   (3) Adjustments of "Depreciation and amortization" in an amount of ¥ (176) million ($ (1,704) thousand) and ¥ (74) million for the years ended December 31, 2020 and 2019, respectively, are all elimination of inter-segment transactions.
4. "Segment profit (loss)" is reconciled with operating income in the consolidated statements of profit or loss.

Information about Products and Services

Sales to customers by products and services are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Industrial equipment	¥145,492	¥179,116	$1,409,123
Transportation equipment	73,505	95,483	711,912
Total	¥218,998	¥274,599	$2,121,046

Geographic Information

Information about sales and non-current assets is as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Japan	¥84,675	¥109,424	$820,096
The Americas	46,097	58,390	446,460
Europe	37,625	53,766	364,406
China	34,006	30,996	329,355
Other	16,594	22,021	160,716
Total	¥218,998	¥274,599	$2,121,046

(Note) Sales are based on the location of the sales destination.

Non-current assets

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Japan	¥72,848	¥78,569	$705,549
The Americas	22,497	25,238	217,888
Europe	18,496	21,534	179,138
China	29,266	29,820	283,447
Other	10,611	9,812	102,769
Total	¥153,720	¥164,976	$1,488,813

(Note) Non-current assets are based on the location of the assets and do not include financial instruments, deferred tax assets, and net defined benefit asset.

Information about Major Customers

There is no applicable matter to be noted, since any single external customer does not account for more than 10% of consolidated sales.

6. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

Non-current assets

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Cash and cash equivalents	¥158,839	¥149,091	$1,538,392

7. Trade and Other Receivables

Trade and other receivables comprise the following:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Notes and accounts receivable	¥46,402	¥49,413	$449,414
Electronically recorded receivables	13,177	14,400	127,622
Allowance for doubtful accounts	(75)	(79)	(726)
Total	¥59,505	¥63,734	$576,319

Trade and other receivables are classified as financial assets measured at amortized cost.

8. Other Financial Assets

Components of Other Financial Assets

Other financial assets comprise the following:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Financial assets measured at amortized cost:			
Key deposits	¥8	¥11	$77
Guarantee deposits	1,266	1,307	12,261
Long-term loans	1,587	1,578	15,370
Other	1,277	1,244	12,368
Financial assets measured at fair value through profit or loss:			
Derivative assets	93	330	900
Other	746	747	7,225
Financial assets measured at fair value through other comprehensive income:			
Equity securities	4,928	4,641	47,728
Other	118	132	1,142
Total	¥10,027	¥9,993	$97,113
Current assets	¥14	¥2	$135
Non-current assets	10,013	9,991	96,978
Total	¥10,027	¥9,993	$97,113

Financial Assets Measured at Fair Value through Other Comprehensive Income

Main issues and their fair values of financial assets measured at fair value through other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
Issues	2020	2019	2020
NITTOKU	¥1,246	¥1,141	$12,067
TSUGAMI	467	335	4,523
KOMATSU	391	364	3,786
OKUMA	287	289	2,779
NACHI-FUJIKOSHI	269	301	2,605
TOKYO SEIMITSU	252	221	2,440

Equity securities are designated as financial assets measured at fair value through other comprehensive income since they are held for strategic investment purposes.

Derecognition of Financial Assets Measured at Fair Value through Other Comprehensive Income

The Group discontinued recognition of financial assets measured at fair value through other comprehensive income because the Group sold certain financial assets measured at fair value through other comprehensive income for the purpose of optimization of assets and reviewing business relations.

Fair value at the time of sales and accumulated gains or losses recognized as other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

Millions of yen				Thousands of U.S. dollars	
Year ended December 31				Year ended December 31	
2020		2019		2020	
Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
¥26	¥26	¥ -	¥ -	$251	$251

When financial assets measured at fair value through other comprehensive income are derecognized, the related accumulated gains or losses recognized as other comprehensive income are transferred to retained earnings. Accumulated gains or losses (net of tax) as other comprehensive income transferred to retained earnings amount to ¥26 million ($251 thousand) in the year ended December 31, 2020.

The breakdown of divided income recognized from equity financial instruments is as follows:

Millions of yen				Thousands of U.S. dollars	
Year ended December 31				Year ended December 31	
2020		2019		2020	
Investments derecognized in the year	Investments held as of the year-end	Investments derecognized in the year	Investments held as of the year-end	Investments derecognized in the year	Investments held as of the year-end
¥113	¥86	¥ -	¥102	$1,094	$832

9. Inventories
Inventories comprise the following:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Merchandise and finished goods	19,329	¥20,108	$187,205
Work in process	9,783	9,156	94,750
Raw material and supplies	18,124	18,855	175,535
Total	¥47,237	¥48,120	$457,501

The amounts of devaluated inventories recognized as expenses are ¥743 million ($7,196 thousand) and ¥1,823 million for the years ended December 31, 2020 and 2019, respectively.

10. Other Assets
Other assets comprise the following:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Other current assets:			
Prepaid expenses	¥1,515	¥1,638	$14,673
Advance payments	592	651	5,733
Other receivables	3,777	5,759	36,581
Other	3,013	2,766	29,181
Total	¥8,899	¥10,815	$86,188
Other non-current assets:			
Long-term prepaid expenses	¥110	¥135	$1,065
Total	¥110	¥135	$1,065

11. Property, Plant, and Equipment
Table of Changes
Changes in acquisition costs, accumulated depreciation, and accumulated impairment losses and carrying amounts are as follows:

Carrying amount	Millions of yen					
	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
At January 1, 2019	¥14,832	¥40,431	¥62,561	¥19,720	¥4,170	¥141,716
Acquisition	59	709	1,699	27,715	750	30,935
Depreciation	(32)	(3,686)	(10,320)	-	(1,719)	(15,760)
Impairment losses	-	-	(631)	-	(2)	(633)
Sales or disposal	-	(46)	(282)	312	(22)	(39)
Transfer from construction in progress	-	11,231	18,804	(31,671)	1,556	(78)
Translation difference of foreign operations	(51)	(260)	(497)	(147)	(44)	(1,001)
Other	747	(25)	35	(803)	(36)	(82)
At December 31, 2019	15,553	48,354	71,369	15,126	4,651	155,055
Acquisition	-	564	762	13,737	697	15,761
Depreciation	(35)	(3,768)	(10,869)	-	(1,736)	(16,409)
Impairment losses	(986)	(890)	(5,139)	(1)	(540)	(7,559)
Sales or disposal	-	(144)	(270)	(77)	(30)	(523)
Transfer from construction in progress	10	1,973	11,491	(14,536)	938	(123)
Translation difference of foreign operations	(39)	(179)	(261)	(530)	81	(930)
Other	-	19	24	605	-	650
At December 31, 2020	¥14,502	¥45,927	¥67,106	¥14,324	¥4,061	¥145,922

(Note) Depreciation of property, plant, and equipment is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of profit or loss.

Carrying amount	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
	Thousands of U.S. dollars					
At December 31, 2019	$150,634	$468,319	$691,225	$146,498	$45,046	$ 1,501,743
Acquisition	-	5,462	7,380	133,046	6,750	152,648
Depreciation	(338)	(36,493)	(105,268)	-	(16,813)	(158,924)
Impairment losses	(9,549)	(8,619)	(49,772)	(9)	(5,230)	(73,210)
Sales or disposal	-	(1,394)	(2,615)	(745)	(290)	(5,065)
Transfer	96	19,108	111,292	(140,784)	9,084	(1,191)
Translation difference of foreign operations	(377)	(1,733)	(2,527)	(5,133)	784	(9,007)
Other	-	184	232	5,859	-	6,295
At December 31, 2020	$140,455	$444,813	$649,937	$138,731	$39,331	$1,413,288

Acquisition costs	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
	Millions of yen					
At January 1, 2019	¥15,057	¥86,516	¥199,609	¥19,720	¥22,023	¥342,927
At December 31, 2019	15,867	97,454	215,606	15,126	23,618	367,673
At December 31, 2020	15,855	99,430	223,476	14,325	24,063	377,151

Acquisition costs	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
	Thousands of U.S. dollars					
At December 31, 2020	$153,559	$963,002	$2,164,416	$138,740	$233,055	$3,652,794

Accumulated depreciation and impairment losses	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
	Millions of yen					
At January 1, 2019	¥225	¥46,085	¥137,047	¥ -	¥17,853	¥201,211
At December 31, 2019	313	49,100	144,237	-	18,966	212,617
At December 31, 2020	1,353	53,503	156,369	1	20,001	231,229

Accumulated depreciation and impairment losses	Land	Buildings and structures	Machinery and vehicles	Construction in progress	Other	Total
	Thousands of U.S. dollars					
At December 31, 2020	$13,104	$518,188	$1,514,469	$ 9	$193,714	$2,239,506

12. Goodwill and Intangible Assets

Table of Changes

Acquisition costs, accumulated amortization, and accumulated impairment losses and carrying amounts of goodwill and intangible assets are as follows:

Carrying amount	Goodwill	Intangible assets		Total
	Millions of yen			
		Software	Other	
At January 1, 2019	¥6,602	¥2,055	¥14,843	¥23,501
Acquisition	-	458	7	465
Amortization	-	(747)	(1,565)	(2,313)
Impairment losses	-	(44)	-	(44)
Sales or disposal	-	47	76	123
Translation differences of foreign operations	28	(6)	(196)	(174)
Other	-	56	(174)	(117)
At December 31, 2019	6,630	1,819	12,989	21,440
Acquisition	-	395	-	395
Amortization	-	(695)	(1,554)	(2,249)
Impairment losses	-	(221)	(302)	(524)
Sales or disposal	-	(2)	-	(2)
Translation differences of foreign operations	(226)	16	(170)	(380)
Other	-	98	-	98
At December 31, 2020	¥6,404	¥1,412	¥10,962	¥18,779

Carrying amount	Thousands of U.S. dollars			
	Goodwill	Intangible assets		Total
		Software	Other	
At December 31, 2019	$64,213	$17,617	$125,801	$207,651
Acquisition	-	3,825	-	3,825
Amortization	-	(6,731)	(15,050)	(21,782)
Impairment losses	-	(2,140)	(2,924)	(5,075)
Sales or disposal	-	(19)	-	(19)
Translation differences of foreign operations	(2,188)	154	(1,646)	(3,680)
Other	-	949	-	949
At December 31, 2020	$62,024	$13,675	$106,169	$181,878

(Note) Amortization of intangible assets is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of profit or loss.

Acquisition costs	Millions of yen			
	Goodwill	Intangible assets		Total
		Software	Other	
At January 1, 2019	¥12,840	¥6,320	¥20,732	¥39,893
At December 31, 2019	12,780	6,777	20,523	40,081
At December 31, 2020	12,355	7,130	20,167	39,653

Acquisition costs	Thousands of U.S. dollars			
	Goodwill	Intangible assets		Total
		Software	Other	
At December 31, 2020	$119,661	$69,055	$195,322	$384,048

Accumulated amortization and impairment losses	Millions of yen			
	Goodwill	Intangible assets		Total
		Software	Other	
At January 1, 2019	¥6,237	¥4,264	¥5,889	¥16,391
At December 31, 2019	6,149	4,957	7,533	18,641
At December 31, 2020	5,951	5,718	9,204	20,874

Accumulated amortization and impairment losses	Thousands of U.S. dollars			
	Goodwill	Intangible assets		Total
		Software	Other	
At December 31, 2020	$57,636	$55,380	$89,142	$202,169

The carrying amounts of “Other” in each reporting period include customer-related assets of THK RHYTHM AUTOMOTIVE MICHIGAN CORPORATION in the amounts of ¥3,249 million ($31,467 thousand) and ¥4,169 million, and customer-related assets of THK RHYTHM AUTOMOTIVE CZECH a.s. in the amounts of ¥7,020 million ($67,990 thousand) and ¥7,502 million at December 31, 2020 and December 31, 2019, respectively. Their residual amortization period is 5 to 11 years.

Research and development activities recognized as expenses in the years ended December 31, 2020 and 2019, amounted to ¥5,349 million ($51,806 thousand) and ¥5,739 million, respectively. These are included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of profit or loss.

13. Impairment of Non-financial Assets

Impairment Losses

The Group is grouping non-current assets based on the minimum unit of asset group distinguished to generate independent cash inflows in determining impairment losses. Impairment losses are recorded under "Other expenses" in the consolidated statement of profit or loss. The components of impairment losses by asset type are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Property, plant, and equipment:			
Buildings and structures	¥ 890	¥ -	$ 8,619
Machinery and vehicles	5,139	631	49,772
Land	986	-	9,549
Construction in progress	1	-	9
Other	540	2	5,230
Intangible assets:			
Software	221	44	2,140
Other	302	-	2,924
Total	¥8,083	¥678	$78,285

With respect to impairment losses recognized on property, plant, and equipment for the year ended December 31, 2020, the Group recorded impairment losses of ¥8,083 million ($78,285 thousand) since the profitability of business assets of THK RHYTHM; THK RHYTHM MEXICANA, S.A. DE C.V.; and THK RHYTHM AUTOMOTIVE GmbH declined and the carrying amount of those assets was written down to the recoverable amount. The recoverable amount of the assets is measured at their fair values less costs of disposal based on the real estate appraisal value and other factors. The fair value hierarchy is Level 3.

Impairment of Goodwill

Goodwill arising from business combinations is allocated to cash-generating units that will benefit from the business combination at the date of acquisition.
The breakdown of the carrying amount of goodwill by segment is as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
The Americas	¥1,817	¥1,932	$17,598
Europe	4,586	4,698	44,416
Total	¥6,404	¥6,630	$62,024

The Group tests goodwill for impairment every year or whenever there is any indication of impairment. The recoverable amount used in the impairment test is determined based on the value in use.
The value in use, reflecting past experiences and external information, is computed by discounting the estimated cash flows based on the next five-year business plan authorized by the management and the growth rate at the discount rates of 8.91%-9.38% (9.74%-9.77% on December 31, 2019) based on the weighted-average capital cost before tax of the applicable cash-generating unit or cash-generating unit group. The growth rate has been determined at 0% (0% on December 31, 2019) considering the long-term average growth rate of the industry or the country to which the cash-generating unit or cash-generating unit group belongs and does not exceed the long-term average growth rate of the market.
If the future cash flows that are major assumptions used in the impairment test were reduced or the discount rates rose, respectively, additional impairment losses may be incurred.

14. Income Taxes

Deferred Tax Assets and Deferred Tax Liabilities

The breakdown of the deferred tax assets and liabilities by major cause and their changes are as follows:

	Millions of yen			
	January 1, 2020	Recognition through profit or loss	Recognition at other comprehensive income	December 31, 2020
Deferred tax assets:				
Net defined benefit liability	¥886	¥ (43)	¥ (123)	¥ 718
Inventories (unrealized profit)	862	(277)	-	585
Accrued bonuses to employees	873	(96)	-	777
Tax loss carryforwards	711	(1)	-	710
Loss on devaluation of inventories	213	(15)	-	198
Enterprise tax payable	-	56	-	56
Unrealized gain on intercompany sales of property, plant, and equipment	468	(16)	-	451
Accumulated depreciation	328	40	-	369
Accrued expenses	188	(17)	-	170
Allowance for doubtful accounts	9	(3)	-	6
Unused paid absences	387	98	-	485
Derivatives	35	90	-	125
Other	394	75	-	470
Total	¥5,359	¥ (109)	¥ (123)	¥5,126
Deferred tax liabilities:				
Depreciation	¥2,234	¥304	¥ -	¥2,539
Adjustment to book value of a subsidiary due to fair value measurement at the inception of consolidation	1,523	(176)	-	1,346
Financial assets measured at fair value through other comprehensive income	2,007	-	137	2,144
Unrealized gains on land revaluation	1,172	-	-	1,172
Special depreciation reserve for tax purpose	0	(0)	-	0
Other	482	(32)	-	450
Total	¥7,420	¥ 95	¥137	¥7,652

	Millions of yen			
	January 1, 2019	Recognition through profit or loss	Recognition at other comprehensive income	December 31, 2019
Deferred tax assets:				
Net defined benefit liability	¥1,087	¥ 21	¥ (222)	¥ 886
Inventories (unrealized profit)	1,203	(340)	-	862
Accrued bonuses to employees	966	(93)	-	873
Tax loss carryforwards	344	367	-	711
Loss on devaluation of inventories	234	(20)	-	213
Enterprise tax payable	668	(668)	-	-
Unrealized gain on intercompany sales of property, plant, and equipment	496	(28)	-	468
Accumulated depreciation	389	(60)	-	328
Accrued expenses	225	(37)	-	188
Impairment losses	20	(11)	-	9
Allowance for doubtful accounts	415	(27)	-	387
Unused paid absences	-	35	-	35
Other	467	(72)	-	394
Total	¥6,519	¥ (937)	¥ (222)	¥5,359
Deferred tax liabilities:				
Depreciation	¥1,776	¥457	¥ -	¥2,234
Adjustment to book value of a subsidiary due to fair value measurement at the inception of consolidation	1,712	(189)	-	1,523
Financial assets measured at fair value through other comprehensive income	1,677	-	329	2,007
Unrealized gains on land revaluation	1,175	(3)	-	1,172
Special depreciation reserve for tax purpose	2	(2)	-	0
Derivatives	140	(140)	-	-
Other	419	62	-	482
Total	¥6,905	¥184	¥329	¥7,420

	Thousands of U.S. dollars			
	January 1, 2020	Recognition through profit or loss	Recognition at other comprehensive income	December 31, 2020
Deferred tax assets:				
Net defined benefit liability	$8,581	$ (416)	$(1,191)	$6,953
Inventories (unrealized profit)	8,348	(2,682)	-	5,665
Accrued bonuses to employees	8,455	(929)	-	7,525
Tax loss carryforwards	6,886	(9)	-	6,876
Loss on devaluation of inventories	2,062	(145)	-	1,917
Enterprise tax payable	-	542	-	542
Unrealized gain on intercompany sales of property, plant, and equipment	4,532	(154)	-	4,368
Accumulated depreciation	3,176	387	-	3,573
Accrued expenses	1,820	(164)	-	1,646
Allowance for doubtful accounts	87	(29)	-	58
Unused paid absences	3,748	949	-	4,697
Derivatives	338	871	-	1,210
Other	3,815	726	-	4,552
Total	$51,903	$(1,055)	$(1,191)	$49,646
Deferred tax liabilities:				
Depreciation	21,636	2,944	-	24,590
Adjustment to book value of a subsidiary due to fair value measurement at the inception of consolidation	14,750	(1,704)	-	13,036
Financial assets measured at fair value through other comprehensive income	19,438	-	1,326	20,765
Unrealized gains on land revaluation	11,351	-	-	11,351
Special depreciation reserve for tax purpose	0	(0)		0
Other	4,668	(309)	-	4,358
Total	$71,864	$920	$1,326	$74,111

Tax loss carryforwards for which deferred tax assets are not recognized and future deductible temporary differences are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Tax loss carryforwards	¥18,692	¥11,132	$181,036
Deductible temporary differences	18,029	9,427	174,615
Total	¥36,721	¥20,559	$355,651

Tax loss carryforwards for which deferred tax assets are not recognized will expire as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Within 1 year	¥ -	¥ -	$ -
After 1 to 2 years	59	-	571
After 2 to 3 years	208	61	2,014
After 3 to 4 years	493	388	4,774
After 5 years	17,931	10,682	173,665
Total	¥18,692	¥11,132	$181,036

The aggregate amounts of future taxable temporary differences relating to investments in subsidiaries for which deferred tax liabilities are not recognized are ¥2,221 million ($21,510 thousand) million and ¥2,480 million at December 31, 2020 and 2019, respectively.
The deferred tax liabilities are not recognized, since it is possible for the Group to control the timing of realization of temporary differences and it is likely that temporary differences may not be realized within foreseeable periods.

Income Tax Expenses

The components of income tax expenses are as follows:

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Current income taxes	¥1,928	¥5,176	$18,673
Deferred income taxes	203	1,125	1,966
Total	¥2,132	¥6,301	$20,648

The causes of the differences between the statutory tax rate and the average effective tax rate are as follows:

Years ended December 31	2020	2019
Statutory tax rate	30.6%	30.6%
Non-deductible items such as entertainment expenses	(2.6)	1.1
Non-taxable items such as dividends received	6.0	(9.9)
Equity in earnings of an affiliate accounted for using the equity method	0.5	(0.2)
Inhabitant per capita tax	(0.7)	0.4
Statutory tax rate difference between parent and subsidiaries	1.2	(2.7)
Difference from effective tax rate applied	1.4	(1.7)
Special tax credit for research and development	0.5	(2.4)
Valuation allowance	(57.8)	8.9
Investments in consolidated subsidiaries	(5.0)	10.1
Other	4.0	0.5
Average effective tax rate	(21.9)	34.7

The Group is subject to mainly corporate income tax, inhabitant taxes, and enterprise tax, and the statutory tax rate computed based on these taxes is 30.6% and 30.6% for the years ended December 31, 2020 and 2019, respectively. Foreign subsidiaries are subject to income taxes applicable in each jurisdiction.

15. Bonds and Borrowings

Components of Financial Liabilities

The components of "Bonds and borrowings" and "Other financial liabilities" are as follows:

	Millions of yen December 31 2020	2019	Thousands of U.S. dollars December 31 2020	Average interest rate (%)	Due
Short-term borrowings	¥179	¥54	$1,733	0.000	
Current portion of long-term borrowings	2,065	2,173	20,000	(0.177)	
Current portion of bonds	-	20,000	-	-	
Long-term borrowings	30,325	33,041	293,704	0.262	2022-2029
Bonds	70,000	40,000	677,966	0.187	2023-2027
Short-term lease liabilities	1,650	1,621	15,980	-	
Long-term lease liabilities	9,176	9,756	88,871	-	2022-2036
Other	2,996	2,096	29,016	-	
Total	¥116,392	¥108,743	$1,127,283	-	
Current liabilities	¥4,824	¥24,645	$46,721	-	
Non-current liabilities	111,568	84,097	1,080,561	-	
Total	¥116,392	¥108,743	$1,127,283	-	

(Note) The average interest rate is stated at the weighted-average interest rate applicable to the year-end closing balance.

Summary of the issuance conditions of bonds issued by the Company is as follows:

Issue	Date of issuance	Millions of yen December 31 2020	Millions of yen December 31 2019	Thousands of U.S. dollars December 31 2020	Interest rate (%)	Due
9th unsecured bonds	Apr. 25, 2013	¥ -	¥10,000 (10,000)	$ -	0.660	Apr. 24, 2020
10th unsecured bonds	Oct. 23, 2015	-	10,000 (10,000)	-	0.296	Oct. 23, 2020
11th unsecured bonds	Feb. 7, 2018	10,000	10,000	96,852	0.140	Feb. 7, 2023
12th unsecured bonds	Feb. 7, 2018	10,000	10,000	96,852	0.270	Feb. 7, 2025
13th unsecured bonds	Feb. 6, 2019	10,000	10,000	96,852	0.170	Feb. 6, 2024
14th unsecured bonds	Feb. 6, 2019	10,000	10,000	96,852	0.290	Feb. 6, 2026
15th unsecured bonds	Feb. 7, 2020	10,000	-	96,852	0.250	Feb. 5, 2027
16th unsecured bonds	Sep. 15, 2020	10,000	-	96,852	0.010	Sep. 15, 2023
17th unsecured bonds	Sep. 15, 2020	10,000	-	96,852	0.180	Sep. 12, 2025
Total		¥70,000	¥60,000 (20,000)	$677,966	-	-

(Note) The amounts in the parentheses represent the redeemable amounts within one year.

16. Leases

The Group mainly leases buildings and vehicles under the contractual terms from 5 years through 15 years. There are no significant purchase options, escalation clauses, and restrictions imposed by lease agreements (restrictions on dividends, additional borrowings, and additional leases).

The components of profit or loss on leases are as follows:

Years ended December 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Depreciation of the right-of-use assets:			
Land	¥46	¥32	$445
Buildings and structures	1,190	1,192	11,525
Machinery and vehicles	305	316	2,953
Other	80	117	774
Total	¥1,623	¥1,658	$15,719
Impairment losses on the right-of-use assets:			
Buildings and structures	¥324	¥-	$3,138
Machinery and vehicles	78	-	755
Other	80	-	774
Total	¥483	¥-	$4,677
Interest expenses on lease liabilities	¥109	¥133	$1,055
Short-term lease expenses	1,250	1,338	12,106
Low-value asset lease expenses	49	65	474
Variable lease charges (Note)	2	1	19

(Note) Variable lease charges not included in measurement of lease liabilities

The components of carrying amounts of the right-of-use assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Right-of-use assets:			
Land	¥1,657	¥1,718	$16,048
Buildings and structures	8,749	10,024	84,736
Machinery and vehicles	683	764	6,615
Other	698	461	6,760
Total	¥11,789	¥12,968	$114,179

The right-of-use assets increased by ¥731 million ($7,079 thousand) and ¥786 million in the years ended December 31, 2020 and 2019, respectively.

Total amounts of cash flows related to leases for the years ended December 31, 2020 and 2019, are ¥1,722 million ($16,677 thousand) and ¥1,612 million, respectively.

Maturity analysis of lease liabilities is presented in Note 32, “Financial Instruments - *Liquidity Risk Management*.”

17. Trade and Other Payables

The components of “Trade and other payables” are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Notes and accounts payable	¥18,110	¥17,842	$175,399
Electronically recorded payables	15,658	16,181	151,651
Other	6,524	8,801	63,186
Total	¥40,293	¥42,825	$390,246

Trade and other payables are classified as financial liabilities measured at amortized cost.

18. Employee Benefits

The Company and certain consolidated subsidiaries adopt contributory and non-contributory defined benefit plans and defined contribution plans to provide for retirement benefits of employees.

These pension plans are exposed to general investment risk, interest rate risk, inflation risk, etc., but the management considers that they are not immaterial.

Contributory defined benefit plans are managed by the pension funds legally separated from the Group. The Board of pension funds and pension management trustees are required by laws and regulations to act with the objective of maximizing the benefits for the plan participants and responsible for managing the plan assets in accordance with the predetermined policies.

Defined Benefit Plans

(1) Reconciliation of defined benefit plan obligations and plan assets

Reconciliation between defined benefit plan obligations and plan assets and net defined benefit liability and asset recorded in the consolidated statement of financial position is as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Present value of contributory defined benefit plan obligations	¥26,921	¥26,275	$260,736
Fair value of plan assets	(24,774)	(23,259)	(239,941)
Subtotal	2,146	3,016	20,784
Present value of non-contributory defined benefit plan obligations	2,639	2,553	25,559
Net defined benefit liability and asset	4,786	5,569	46,353
Amounts recorded in the consolidated statement of financial position:			
Net defined benefit liability	7,014	7,438	67,932
Net defined benefit asset	(2,227)	(1,869)	(21,569)
Net defined benefit liability and asset recorded in the consolidated statement of financial position	¥4,786	¥5,569	$46,353

(2) Reconciliation of present value of defined benefit plan obligations

Changes in the present value of the defined benefit plan obligations are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Beginning balance of fair value of defined benefit plan obligations	¥28,828	¥26,729	$279,205
Current service cost	1,291	1,307	12,503
Interest cost	344	372	3,331
Remeasurements			
Actuarial difference arising from changes in financial assumptions	197	865	1,907
Retirement benefits paid	(839)	(754)	(8,125)
Exchange differences of translating foreign operations	(262)	309	(2,537)
Ending balance of fair value of defined benefit plan obligations	¥29,560	¥28,828	$286,295

The weighted-average duration of the defined benefit plan obligations is 12.8 years and 13.2 years at December 31, 2020 and 2019, respectively.

(3) Reconciliation of fair value of plan assets

Changes in the fair value of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Beginning balance of fair value of plan assets	¥23,259	¥20,390	$225,268
Interest income	352	391	3,409
Remeasurements			
Income from plan assets	1,019	1,597	9,869
Contribution from employers	1,067	1,071	10,334
Retirement benefits paid	(642)	(540)	(6,217)
Exchange differences on translating foreign operations	(281)	349	(2,721)
Ending balance of fair value of plan assets	¥24,774	¥23,259	$239,941

The Group plans to contribute premiums of ¥1,140 million ($11,041 thousand) in the year ending December 31, 2021.

(4) The Components of plan assets

Major components of plan assets are as follows:

	Millions of yen						Thousands of U.S. dollars		
	December 31						December 31		
	2020			2019			2020		
	Assets with positive market prices	Assets without positive market prices	Total	Assets with positive market prices	Assets without positive market prices	Total	Assets with positive market prices	Assets without positive market prices	Total
Cash and cash equivalents	¥69	¥ -	¥69	¥49	¥ -	¥49	$668	$ -	$668
Equity financial instruments:									
Domestic equity securities	1,905	-	1,905	1,730	-	1,730	18,450	-	18,450
Foreign equity securities	7,185	-	7,185	6,521	-	6,521	69,588	-	69,588
Debt financial instruments:									
Domestic bonds	3,153	-	3,153	3,093	-	3,093	30,537	-	30,537
Foreign bonds	6,405	-	6,405	5,911	-	5,911	62,033	-	62,033
Life insurance general account	-	4,626	4,626	-	4,446	4,446	-	44,803	44,803
Other	-	1,427	1,427	-	1,505	1,505	-	13,820	13,820
Total	¥18,720	¥6,054	¥24,774	¥17,307	¥5,951	¥23,259	$181,307	$58,634	$239,941

The Group’s investment policy of plan assets aims to secure constant profits for the medium- to long-term to ensure the payments of defined benefit plan obligations for the future in accordance with the internal rule. Specifically, investment is managed by setting target profitability and asset portfolio ratio by investment asset within the acceptable risk determined every year and maintaining the asset portfolio ratio. In reviewing the asset portfolio ratio, the management timely considers the introduction of plan assets that are highly linked with the changes in defined benefit plan obligations.

In addition, in compliance with the corporate defined benefit pension law, the Group reviews the amount of contribution by recalculating the premium every fifth year so that the fiscal balance could be maintained in the future.

(5) Major actuarial assumptions
Major actuarial assumptions used are as follows:

	%	
	December 31	
	2020	2019
Discount rate	0.6	0.5

(6) Sensitivity Analysis
The impact on the present value of the defined benefit plan obligations when the discount rate used in actuarial calculation changed by 0.5% is as follows: This analysis assumes that all other parameters are constant, but practically the changes in other parameters may impact the sensitivity analysis.

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
In case that the discount rate increased by 0.5%	¥ (1,719)	¥ (2,048)	$ (16,648)
In case that the discount rate decreased by 0.5%	1,845	2,412	17,869

Defined Contribution Plans
The amount recognized as an expense related to defined contribution plans is ¥495 million ($4,794 thousand) and ¥529 million for the years ended December 31, 2020 and 2019, respectively.

19. Provisions
The components and changes of provisions are as follows:

	Millions of yen			
	Asset retirement obligations	Provision for restructuring	Other provisions	Total
At December 31, 2019	¥64	¥ -	¥111	¥176
Increase during the year	-	763	18	781
Interest expenses on discounting	0	-	-	0
Decrease (purpose use) during the period	-	-	(6)	(6)
Decrease (reversal) during the period	-	-	(5)	(5)
At December 31, 2020	¥64	¥763	¥118	¥945

	Thousands of U.S. dollars			
	Asset retirement obligations	Provision for restructuring	Other provisions	Total
At December 31, 2019	$619	$ -	$1,075	$1,704
Increase during the period	-	7,389	174	7,564
Interest expenses on discounting	0	-	-	0
Decrease (purpose use) during the period	-	-	(58)	(58)
Decrease (reversal) during the period	-	-	(48)	(48)
At December 31, 2020	$619	$7,389	$1,142	$9,152

The components of provisions in the consolidated statement of financial position are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Current liabilities	¥763	¥ -	$7,389
Non-current liabilities	182	176	1,762
Total	¥945	¥176	$9,152

Asset retirement obligation
The asset retirement obligation is stated at the amount expected to be paid in future based on the past restoration experience to provide for the restoration obligations related to the rental buildings and others that are used by the Group.

These costs are estimated to be paid after a lapse of the estimated period to be used, which were determined considering the useful life of improvements added to the rented buildings, etc., but it will be subject to the future business plan and others.

Provision for restructuring

The Group has been working for structural reform toward profit improvement in the transportation equipment business and recorded the estimated amount of costs to be incurred associated with restructuring the production system. These costs are expected to be paid in the following fiscal year.

20. Other Liabilities

The components of other liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Other current liabilities:			
Consumption taxes payable	¥623	¥253	$6,033
Accrued bonuses	3,227	3,306	31,254
Other accrued expenses	7,403	6,659	71,699
Other	363	264	3,515
Total	¥11,617	¥10,483	$112,513
Other non-current liabilities:			
Unused paid absences	¥1,779	¥1,442	$17,230
Other	515	525	4,987
Total	¥2,295	¥1,968	$22,227

21. Deferred Revenue

The components of deferred revenue are as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Current liabilities:			
Government subsidies	¥139	¥1	$1,346
Other	-	0	-
Total	¥139	¥1	1,346
Non-current liabilities:			
Government subsidies	¥282	¥277	$2,731
Other	-	5	-
Total	¥282	¥282	$2,731

Deferred revenue related to government subsidies represents the money received on mainly the purchase of property, plant, and equipment.

There is no executory condition incidental to government subsidies recognized as deferred revenue, nor other contingent event.

22. Equity and Other Equity Items

Authorized Number of Shares and Outstanding Number of Shares Issued

Changes in authorized number of shares and outstanding number of shares issued are as follows:

	Shares	
Years ended December 31	2020	2019
Authorized number of shares:		
Common stock	465,877,700	465,877,700
Outstanding number of shares issued:		
Beginning balance	133,856,903	133,856,903
Increase (decrease)	-	-
Ending balance	133,856,903	133,856,903

Treasury Stock

Number of treasury stock and changes in the balance are as follows:

	Number of shares	Millions of yen Amount	Thousands of U.S. dollars Amount
January 1, 2019	7,288,846	¥14,002	
Increase (decrease) during the period	615	1	
December 31, 2019	7,289,461	14,004	$135,631
Increase (decrease) during the period	785	2	19
December 31, 2020	7,290,246	¥14,006	$135,651

(Notes) 1. Main reasons for increase (decrease) during the period are due to the purchase or selling requisition of shares of less than one unit.

2. The number of shares issued by the Company and held by an affiliate is 10,000 shares each at December 31, 2020 and 2019.

Capital Surplus

In the Companies Act of Japan (“Companies Act”), it is stipulated that one half or more of the amounts pertaining to payment or benefits for the issuance of shares shall be included in common stock, and the remainder shall be included in capital reserve under capital surplus. Capital reserve can be transferred to common stock with a resolution of the shareholders’ meeting.

Retained Earnings

The Companies Act requires that an amount equal to 10% of the dividends from surplus be appropriated as capital reserve included in capital surplus or legal reserve included in retained earnings until the aggregated amount of capital reserve and the legal reserve equals 25% of common stock. Legal reserve may be appropriated to cover deficit or reversed with a resolution of the shareholders’ meeting.

23. Dividends

Dividends paid for the years ended December 31, 2020 and 2019, are as follows:

	2020			
Resolution	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 20, 2020 Shareholders’ meeting	¥1,012	¥8	December 31, 2019	March 23, 2020
August 6, 2020 Board of Directors’ meeting	949	7.5	June 30, 2020	September 7, 2020

	2019			
Resolution	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 16, 2019 Shareholders’ meeting	¥4,809	¥38	December 31, 2018	March 18, 2019
August 7, 2019 Board of Directors’ meeting	3,037	24	June 30, 2019	September 9, 2019

Resolution	2020			
	Amount of dividends (Thousands of U.S. dollars)	Dividend per share (U.S. dollars)	Record date	Effective date
March 20, 2020 Shareholders' meeting	$9,801	$0.07	December 31, 2019	March 23, 2020
August 6, 2020 Board of Directors' meeting	9,191	0.07	June 30, 2020	September 7, 2020

Dividends with an effective date in the following year are as follows:

Resolution	2020			
	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 20, 2021 Shareholders' meeting	¥949	¥7.5	December 31, 2020	March 22, 2021

Resolution	2019			
	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 20, 2020 Shareholders' meeting	¥1,012	¥8	December 31, 2019	March 23, 2020

Resolution	2020			
	Amount of dividends (Thousands of U.S. dollars)	Dividend per share (U.S. dollars)	Record date	Effective date
March 20, 2021 Shareholders' meeting	$9,191	$0.07	December 31, 2020	March 22, 2021

24. Revenue

Components of Revenue

The components of major products and services and their reportable segments are as follows:

	Millions of yen					
	Reportable segment					
Year ended December 31, 2020	Japan	The Americas	Europe	China	Other	Total
Product and service						
Industrial machinery	¥82,120	¥15,560	¥13,020	¥27,526	¥7,264	¥145,492
Transportation equipment	8,257	30,459	26,253	5,558	2,976	73,505
Total	¥90,378	¥46,019	¥39,274	¥33,085	¥10,240	¥218,998
Timing of recognition of sales						
Date of transfer	¥90,378	¥46,019	¥39,274	¥33,085	¥10,240	¥218,998
Total	¥90,378	¥46,019	¥39,274	¥33,085	¥10,240	¥218,998

	Millions of yen					
	Reportable segment					
Year ended December 31, 2019	Japan	The Americas	Europe	China	Other	Total
Product and service						
Industrial machinery	¥106,792	¥18,445	¥21,708	¥23,670	¥8,499	¥179,116
Transportation equipment	10,947	40,035	33,434	6,299	4,766	95,483
Total	¥117,740	¥58,480	¥55,143	¥29,969	¥13,265	¥274,599
Timing of recognition of sales						
Date of transfer	¥117,740	¥58,480	¥55,143	¥29,969	¥13,265	¥274,599
Total	¥117,740	¥58,480	¥55,143	¥29,969	¥13,265	¥274,599

Year ended December 31, 2020	Thousands of U.S. dollars Reportable segment Japan	The Americas	Europe	China	Other	Total
Product and service						
Industrial machinery	$795,351	$150,702	$126,101	$266,595	$70,353	$1,409,123
Transportation equipment	79,970	295,002	254,266	53,830	28,823	711,912
Total	$875,331	$445,704	$380,377	$320,435	$99,176	$2,121,046
Timing of recognition of sales						
Date of transfer	$875,331	$445,704	$380,377	$320,435	$99,176	$2,121,046
Total	$875,331	$445,704	$380,377	$320,435	$99,176	$2,121,046

Major products and services of the Group are industrial machinery and transportation equipment. The revenue is recognized when the control over the products has been transferred to the customer based on the contract with the customer. Revenue is measured at the amount of the consideration promised in the contract with the customer, less the amount of discount and rebates, and sales return is reduced from the revenue.

Outstanding contracts

Receivables, contract assets, and contract liabilities arising from contracts with customers are as follows:

	Millions of yen December 31 2020	2019	Thousands of U.S. dollars December 31 2020
Contract liabilities:	¥388	¥263	$3,757

Revenue recognized in the years ended December 31, 2020 and 2019, which was included in contract liabilities at the beginning of the year, amounted to ¥263 million ($2,547 thousand) and ¥282 million, respectively.

25. Selling, General, and Administrative Expenses

The components of selling, general, and administrative expenses are as follows:

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Packing and transportation expense	¥3,583	¥4,732	$34,702
Promotion and advertising expense	872	1,461	8,445
Personnel expense	21,209	22,319	205,414
Depreciation and amortization	3,985	4,152	38,595
Research and development expense	4,976	5,182	48,193
Other	10,206	11,588	98,847
Total	¥44,833	¥49,437	$434,217

26. Personnel Expense

The components of personnel expense are as follows:

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Salary and allowances	¥42,715	¥46,781	$413,704
Bonuses	3,028	3,548	29,326
Retirement benefits	1,400	1,769	13,559
Other	14,705	16,556	142,421
Total	¥61,849	¥68,656	$599,021

(Note) Personnel expense is included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statement of profit or loss.

27. Other Income and Expenses

Other Income

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Gain on sales of property, plant, and equipment	¥ 48	¥ 34	$ 464
Rental income	368	374	3,564
Employment adjustment subsidy (Note)	1,913	-	18,527
Other	1,630	1,775	15,786
Total	¥3,960	¥2,184	$38,353

Note: Employment adjustment subsidy in an amount of ¥1,913 million ($18,527 thousand) associated with the impact of the coronavirus (COVID-19) is recorded under "Other Income."

Other Expenses

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Loss on sales of property, plant, and equipment	¥158	¥289	$ 1,530
Impairment losses (Note 1)	8,083	678	78,285
Restructuring charges (Note 2)	738	-	7,147
Lay-off expenses (Note 3)	3,907	-	37,840
Other	1,328	1,074	12,861
Total	¥14,217	¥2,042	$137,694

Notes:

1. See Note 13 "Impairment of Non-financial Assets."
2. The Group has been working for structural reform toward profit improvement in the transportation equipment business and recorded the costs associated with restructuring the production system in an amount of ¥738 million ($7,147 thousand) as restructuring charges under "Other Expenses."
3. The Group suspended operations of certain plants due to the impact of the spread of the coronavirus (COVID-19). Fixed costs and other costs incurred during the shut-down period in an amount of ¥3,907 million ($37,840 thousand) are recorded as lay-off expenses under "Other Expenses."

28. Financial Income and Financial Costs

Financial Income

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Interest income			
Financial assets measured at amortized cost	¥564	¥907	$5,462
Dividend income			
Financial assets measured at fair value through other comprehensive income	199	102	1,927
Total	¥764	¥1,010	$7,399

Financial Costs

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Interest expense			
Financial liabilities measured at amortized cost	¥259	¥274	$2,508
Lease liabilities	109	133	1,055
Foreign exchange loss	441	28	4,271
Other	1,179	683	11,418
Total	¥1,990	¥1,119	$19,273

29. Other Comprehensive Loss

The amount recognized during the year on each item of other comprehensive loss, reclassification adjustments to profit or loss, and tax effects are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Financial assets measured at fair value through other comprehensive income			
Amount recognized during the period	¥ 246	¥ 1,103	$2,382
Tax effect	(137)	(324)	(1,326)
Financial assets measured at fair value through other comprehensive income	109	778	1,055
Remeasurements of defined benefit plans			
Amount recognized during the period	842	881	8,154
Tax effect	(123)	(222)	(1,191)
Remeasurements of defined benefit plans	718	658	6,953
Exchange differences on translating foreign operations			
Amount recognized during the period	(3,076)	(2,789)	(29,791)
Reclassification adjustments	-	-	-
Before tax effects	(3,076)	(2,789)	(29,791)
Tax effect	-	-	-
Exchange differences on translating foreign operations	(3,076)	(2,789)	(29,791)
Share of other comprehensive income (loss) of investments accounted for using the equity method			
Amount recognized during the period	314	(397)	3,041
Reclassification adjustments	-	-	-
Share of other comprehensive income (loss) of investments accounted for using the equity method	314	(397)	3,041
Total other comprehensive loss	¥ (1,933)	¥ (1,749)	$(18,721)

30. Earnings per Share

Basic earnings per share are computed as follows: There is no potential common stock which has a dilutive effect.

Years ended December 31	2020	2019	2020
Profit for the year attributable to owners of the parent	¥ (9,992) million	¥ 11,690 million	$ (96,774) thousand
Weighted-average number of outstanding shares issued	126,567 thousand	126,567 thousand	
Basic earnings per share (Yen, U.S. dollar)	¥ (78.95)	¥ 92.37	$ (0.76)

31. Cash Flow Information

Changes of Liabilities Arising from Financing Activities

Changes of liabilities arising from financing activities are as follows:

	Millions of yen					
	Year ended December 31, 2020					
	January 1, 2020	Changes involving cash flows	Changes not involving cash flows			December 31, 2020
			Exchange rate	New leases	Other	
Short-term borrowings	¥ 54	¥ 125	¥ -	¥ -	¥ -	¥ 179
Long-term borrowings	35,215	(2,185)	(640)	-	-	32,390
Bonds	60,000	10,000	-	-	-	70,000
Lease liabilities	11,377	(1,613)	19	1,188	(144)	10,826
Derivatives	114	-	22	-	1,014	1,151
Total	¥106,761	¥6,327	¥ (598)	¥1,188	¥869	¥114,548

	Millions of yen					
	Year ended December 31, 2019					
	January 1, 2019	Changes involving cash flows	Changes not involving cash flows			December 31, 2019
			Exchange rate	New leases	Other	
Short-term borrowings	¥ 14	¥ 40	¥ -	¥ -	¥ -	¥ 54
Long-term borrowings	27,555	7,814	(154)	-	-	35,215
Bonds	40,000	20,000	-	-	-	60,000
Lease liabilities	12,154	(1,498)	(34)	898	(143)	11,377
Derivatives	(455)	-	-	-	569	114
Total	¥79,268	¥26,357	¥ (189)	¥898	¥426	¥106,761

	Thousands of U.S. dollars					
	Year ended December 31, 2020					
	January 1, 2020	Changes involving cash flows	Changes not involving cash flows			December 31, 2020
			Exchange rate	New leases	Other	
Short-term borrowings	$ 523	$ 1,210	$ -	$ -	$ -	$ 1,733
Long-term borrowings	341,065	(21,162)	(6,198)	-	-	313,704
Bonds	581,113	96,852	-	-	-	677,966
Lease liabilities	110,188	(15,622)	184	11,506	(1,394)	104,852
Derivatives	1,104	-	213	-	9,820	11,147
Total	$1,034,004	$ 61,278	$(5,791)	$11,506	$8,416	$1,109,423

Derivatives are held for the purpose of hedging foreign currency denominated trade receivables and payables and long-term borrowings.

32. Financial Instruments

Capital Management

The Group implements capital management aiming to maximize corporate value through sustainable growth.

The Group is using ROE, EPS, etc. as major indicators for capital management.

These indicators are periodically reported to the management and monitored.

The Group is not subject to significant capital restrictions.

Financial Risk Management

In the course of its management activities, the Group is exposed to financial risk including credit risk, liquidity risk, foreign exchange risk, interest rate risk, and market price fluctuation risk, and conducts risk management based on definite policies to reduce the applicable financial risk. In addition, the Group is using derivatives to avoid foreign exchange risk or interest rate risk and does not hold or issue derivatives for speculative purposes.

(1) Credit risk management

The Group implements credit control on trade receivables and secures receivables from customers in accordance with the customer credit management rule. In addition, the applicable divisions are periodically monitoring the customers' financial position for major customers and timely identify doubtful receivables arising from deterioration of financial position to reduce the risk.

The Group is engaged in derivative contracts only with financial institutions with a high credit rating and when the management believes the associated credit risk is minimized.

The carrying amounts of financial assets presented in the consolidated financial statements represent the maximum value of exposure to credit risk of the Group's financial assets.

The Group determines allowance for doubtful accounts by classifying the applicable receivables into trade receivables and other receivables. Any receivables, if all or a part of receivables are not collected, or considered to be extremely difficult to collect, are regarded as defaults.

When the delayed payment is not caused by a temporary need for funds, but caused from significant financial difficulties of the debtors and collectibility of receivables is judged to be particularly doubtful, the management makes judgement that the credit impairment is incurred.

The Group is always setting allowance for doubtful accounts at the amount corresponding to projected credit losses throughout the period on the trade receivables that do not include significant financial elements.

Changes in allowance for doubtful accounts are as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended December 31	2020	2019	2020
Beginning balance	¥141	¥218	$1,365
Increase during the period	43	36	416
Decrease during the period (purpose use)	(46)	(44)	(445)
Decrease during the period (reversal)	(7)	(59)	(67)
Other changes	-	(9)	-
Ending balance	¥129	¥141	$1,249

There are no financial assets written down in the year ended December 31, 2020, for which collection activities are continued.

Credit risk exposures on trade receivables are as follows:

Lapsed days overdue	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
No delay	¥57,868	¥60,935	$560,464
Within 30 days	1,220	2,089	11,815
After 30 days, within 60 days	194	253	1,878
After 60 days, within 90 days	174	241	1,685
After 90 days	122	294	1,181
Total	¥59,580	¥63,814	$577,046

With respect to receivables other than trade receivables, there are no receivables of which credit risk is remarkably increased, and there is no material credit risk on their carrying amount.

(2) Liquidity risk management
Liquidity risk is a risk that the Group may not be able to execute payment on the payment due date in performing its repayment obligations of financial liabilities that have become due.
The Group is managing liquidity risk by preparing and updating the cash-flow plan on a timely basis.

Financial liabilities (including derivative financial instruments) by due dates are as follows:

At December 31, 2020	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year, within 5 years	After 5 years
Non-derivative financial liabilities:					
Short-term borrowings	¥ 179	¥ 179	¥ 179	¥ -	¥ -
Trade and other payables	40,293	40,293	40,293	-	-
Long-term borrowings	32,390	33,111	2,142	8,608	22,360
Bonds	70,000	70,631	131	50,488	20,052
Lease liabilities	10,826	11,269	1,564	4,820	4,884
Derivative financial liabilities:					
Currency derivatives	34	34	34	-	-
Interest rate and currency swaps	692	692	115	461	115
Interest rate swaps	517	517	-	-	517
Total	¥154,934	¥156,729	¥44,461	¥64,338	¥47,930

At December 31, 2019	Millions of yen				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year, within 5 years	After 5 years
Non-derivative financial liabilities:					
Short-term borrowings	¥ 54	¥ 54	¥ 54	¥ -	¥ -
Trade and other payables	42,825	42,825	42,825	-	-
Long-term borrowings	35,215	36,147	2,271	9,085	24,790
Bonds	60,000	60,601	20,182	20,334	20,085
Lease liabilities	11,377	11,962	1,553	4,691	5,717
Derivative financial liabilities:					
Interest rate and currency swaps	128	128	18	73	36
Interest rate swaps	316	316	-	-	316
Total	¥149,917	¥152,036	¥66,905	¥34,184	¥50,946

At December 31, 2020	Thousands of U.S. dollars				
	Carrying amount	Contractual cash flows	Within 1 year	After 1 year, within 5 years	After 5 years
Non-derivative financial liabilities:					
Short-term borrowings	$ 1,733	$ 1,733	$ 1,733	$ -	$ -
Trade and other payables	390,246	390,246	390,246	-	-
Long-term borrowings	313,704	320,687	20,745	83,370	216,561
Bonds	677,966	684,077	1,268	488,600	194,208
Lease liabilities	104,852	109,142	15,147	46,682	47,302
Derivative financial liabilities					
Currency derivatives	329	329	329	-	-
Interest rate and currency swaps	6,702	6,702	1,113	4,464	1,113
Interest rate swaps	5,007	5,007	-	-	5,007
Total	$1,500,571	$1,517,956	$430,615	$623,128	$464,213

(Note) Net receivables and payables arising from derivatives are presented in a net amount.

(3) Foreign currency exchange risk
The Group is engaged in foreign currency denominated transactions since it is developing global businesses, and its profit or loss and cash-flows are exposed to a risk associated with foreign currency exchange rate changes.
In order to avoid such risk, forward foreign exchange contracts are utilized as hedging derivatives for foreign currency-denominated trade receivables and payables. The derivative contracts are executed and controlled by the Finance &

Accounting Department of the Corporate Strategy Headquarters, and the senior manager reports the transaction status to the regular Board of Directors every month.

Foreign exchange sensitivity analysis
Regarding unhedged exposures of foreign currency denominated assets and liabilities, when Japanese yen appreciates 1% against USD, the euro, and Chinese yuan, the impacts therefrom on profit before income taxes in the consolidated statement of profit or loss in each reporting period are as follows.

In this analysis, however, it is assumed that other factors for changes (outstanding balance, interest rate, etc.) are constant.

		Millions of yen		Thousands of U.S. dollars
Year ended December 31	Currency	2020	2019	2020
Profit before income taxes	U.S. dollars	¥ (23)	¥ (44)	$(222)
	Euro	(13)	(34)	(125)
	Chinese yuan	(18)	(2)	(174)

(4) Interest Rate Risk Management
The Group is paying interests arising from raising funds required for working capital and capital investment in proceeding business activities. The Group is exposed to interest rate risk that future cash flows on interests may be changed, since the interest amounts are subject to the fluctuations of market interest rates when the Group borrows at the floating interest rates.

The Group is utilizing interest rate swaps to control the interest rate fluctuation risk associated with borrowings and interest rate and currency swaps to control the foreign currency exchange rate fluctuation risk and the interest rate fluctuation risk associated with foreign currency-denominated borrowings.

Interest rate sensitivity analysis
When the interest rates rise 1%, the impacts therefrom on profit before income taxes in the consolidated statement of profit or loss in each reporting period are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Profit before income taxes	¥1,360	¥1,309	$13,171

(5) Market price fluctuation risk management
Certain equity financial instruments held by the Group are exposed to market price fluctuation risk. The Group holds equity financial instruments for management strategy purposes, and not for short-term trading purposes.

Equity financial instruments include listed and non-listed equity securities, and the management identifies market prices and financial position of the issuers (customers or suppliers) on a regular basis.

The management believes the market price fluctuation risk at December 31, 2020, is not material.

Fair Value of Financial Instruments
For financial instruments measured at fair value, the amount of fair value measurement is classified into three levels from Level 1 through Level 3 according to the observability and significance of the inputs used for the measurement.

Level 1: Market prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Fair value determined using observable prices other than those in Level 1, either directly or indirectly
Level 3: Fair value determined using an assessment technique that includes unobservable inputs

(1) Method of determining the fair value
The method of determining the fair value is as follows:
(Cash and cash equivalents, trade and other receivables, trade and other payables)
As these items are settled within a short period and have the fair values approximately equal to the carrying amounts, they are stated at the carrying amounts.

(Other financial assets, other financial liabilities)
The fair values of listed equity securities are determined based on the market price at the closing date. For the fair values of unlisted equity securities, the fair values are determined using the assessment techniques based on the discounted future cash flows, the assessment techniques based on the market price of similar companies, and assessment techniques based on the net asset value.

Derivatives are determined based on the prices provided by the counterpart financial institutions as financial assets or financial liabilities measured at fair value through profit or loss.

The fair values of lease obligations are determined based on the present value of future cash flows discounted at the rate considering the lease term and credit risk. As the fair values approximate the carrying amounts, they are stated at the carrying amounts.

(Bonds and borrowings)
The fair values of bonds are determined based on the market prices or the prices provided by the counterpart financial institutions.

For the long-term borrowings with the floating interest rates, as the market interest rate is reflected within a short period and the fair values approximate the carrying amounts, they are stated at the carrying amounts.

(2) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows:

	Millions of yen				Thousands of U.S. dollars	
	December 31				December 31	
	2020		2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost						
Bonds	¥70,000	¥69,913	¥60,000	¥60,029	$677,966	$677,123
Total	¥70,000	¥69,913	¥60,000	¥60,029	$677,966	$677,123

(Note) Fair values of bonds are classified into Level 2.

(3) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is as follows:

	Millions of yen			
At December 31, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	¥ -	¥93	¥ -	¥ 93
Equity securities, etc.	-	-	746	746
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Equity securities, etc.	4,405	-	523	4,928
Other	-	-	118	118
Total	¥4,405	¥93	¥1,389	¥5,887
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	¥ -	¥1,244	¥ -	¥1,244
Total	¥ -	¥1,244	¥ -	¥1,244

	Millions of yen			
At December 31, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	¥ -	¥330	¥ -	¥ 330
Equity securities, etc.	-	-	747	747
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Equity securities, etc.	4,164	-	477	4,641
Other	-	-	132	132
Total	¥4,164	¥330	¥1,357	¥5,852
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	¥ -	¥445	¥ -	¥445
Total	¥ -	¥445	¥ -	¥445

	Thousands of U.S. dollars			
At December 31, 2020	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	$ -	$900	$ -	$900
Equity securities, etc.	-	-	7,225	7,225
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Equity securities, etc.	42,663	-	5,065	47,728
Other	-	-	1,142	1,142
Total	$42,663	$900	$13,452	$57,016
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	$ -	$12,048	$ -	$12,048
Total	$ -	$12,048	$ -	$12,048

Transfers among the levels of the fair value hierarchy are recognized on the date when any events causing transfers or changes in conditions were incurred. In each reporting period, there is no significant transfer between Level 1 and Level 2.

(4) Valuation process
For financial instruments classified as Level 3, external valuation professionals or appropriate persons responsible for valuation are implementing analysis on their valuation and valuation results pursuant to the valuation policy and procedures authorized by the responsible person of the Finance & Accounting Department. The valuation results are reviewed and authorized by the senior manager of the Finance & Accounting Department of the Corporate Strategy Headquarters.

(5) Reconciliation between the beginning balance and the ending balance of the financial instruments classified as Level 3
Changes from the beginning balance to the ending balance of the financial instruments classified as Level 3 are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Beginning balance	¥1,357	¥939	$13,142
Total gains and losses			
Net losses (Note 1)	(88)	(62)	(852)
Other comprehensive loss (Note 2)	(8)	-	(77)
Purchase	139	309	1,346
Sales	(0)	-	(0)
Other	(10)	170	(96)
Ending balance	¥1,389	¥1,357	$13,452
Changes during the period of unrealized gains (losses) recorded in net profit or loss on the assets held at the end of the reporting period (Note 1)	¥ (88)	¥ (62)	$(852)

(Notes) 1. These are included in “Financial income” and “Financial costs” in the consolidated statement of profit or loss.
2. These are included in “Financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

33. Significant Subsidiaries
Major consolidated subsidiaries are disclosed in “Subsidiaries & Affiliate” on page 52 of this report.

34. Related Parties
Remuneration to main management

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Fixed remuneration and performance-based remuneration	¥427	¥545	$4,135
Total	¥427	¥545	$4,135

35. Commitment
Commitment related to payments after the closing date is as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31		December 31
	2020	2019	2020
Acquisition of property, plant, and equipment	¥1,669	¥5,172	$16,164
Total	¥1,669	¥5,172	$16,164

36. Subsequent Events
There is no applicable subsequent event.

37. Additional Information
Accounting estimates associated with the spread of the coronavirus (COVID-19)
The spread of COVID-19 has been affecting the business activities of the Group and accordingly resulted in the decrease of its sales revenue for the year ended December 31, 2020. The Group is making accounting estimates for the impairment of non-current assets and recoverability of deferred tax assets, assuming that the situation will gradually improve in the future.
If the impact of the COVID-19 pandemic becomes more severe than predicted, it might negatively impact the financial position and operating results of the Group.
Taking into consideration that the impact of the COVID-19 pandemic has been prolonged for the year ended December 31, 2020, the Group deliberately reconsidered uncertainties on accounting estimates and implemented a review of the business plans of certain consolidated subsidiaries. As a result, impairment losses on property, plant, and equipment; goodwill; and intangible assets have been recognized. Regarding the details of the impact, refer to Note 13, “Impairment of Non-financial Assets.”

Subsidiaries & Affiliate

As of December 31, 2020

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 CO., LTD.	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	70.00
NIPPON SLIDE CO., LTD.	Manufacture and sale of slide rails	Tokyo, Japan	100.00
TRA Holdings, CO., LTD.	Holding and management company	Tokyo, Japan	70.00
THK Holdings of America, L.L.C.	Holding and management company	Illinois, U.S.A.	100.00
THK America, Inc.	Sale of the LM Guide, ball screws	Illinois, U.S.A.	100.00
THK Manufacturing of America, Inc.	Manufacture of the LM Guide, special bearings	Ohio, U.S.A.	100.00
THK RHYTHM NORTH AMERICA CO., LTD.	Transportation equipment-related business	Tennessee, U.S.A.	70.00
THK RHYTHM MEXICANA, S.A. DE C.V.	Transportation equipment-related business	Guanajuato, Mexico	99.99
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 the LM Guide, ball screws	Ratingen, Germany	100.00
THK France S.A.S.	Sale of the LM Guide, ball screws	Tremblay-en-France, France	100.00
THK Manufacturing of Europe S.A.S.	Manufacture of the LM Guide, ball screws	Ensisheim, France	100.00
THK Manufacturing of Ireland Ltd.	Manufacture of ball screws	Dublin, Ireland	100.00
THK RHYTHM AUTOMOTIVE GmbH	Transportation equipment-related business	Dusseldorf, Germany	100.00
THK RHYTHM AUTOMOTIVE CZECH a.s.	Transportation equipment-related business	Dacice, Czech Republic	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 the LM Guide	Dalian, China	100.00
THK (SHANGHAI) CO., LTD.	Sale of the LM Guide, ball screws	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 the LM Guide	Wuxi, China	100.00
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.	Manufacture of the LM Guide	Dalian, China	100.00
THK RHYTHM GUANGZHOU CO., LTD.	Transportation equipment-related business	Guangzhou, China	70.00
THK RHYTHM CHANGZHOU CO., LTD.	Transportation equipment-related business	Changzhou, China	75.00
THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD.	Manufacture of LM-related parts, unit products	Changzhou, China	100.00
THK TAIWAN CO., LTD.	Sale of the LM Guide, ball screws	Taipei, Taiwan	100.00
THK LM SYSTEM Pte. Ltd.	Sale of the LM Guide, ball screws	Kaki Bukit, Singapore	100.00
THK RHYTHM (THAILAND) CO., LTD.	Transportation equipment-related business	Rayong, Thailand	70.00
THK MANUFACTURING OF VIETNAM CO., LTD.	Manufacture of the LM Guide, slide rails	Bac Ninh, Vietnam	100.00
THK RHYTHM MALAYSIA Sdn. Bhd.	Transportation equipment-related business	Penang, Malaysia	56.00
THK India Pvt. Ltd.	Sale of the LM Guide, ball screws	Karnataka, India	99.98

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

Corporate Data

As of December 31, 2020

Company Profile

Headquarters	2-12-10 Shibaura, Minato-ku, Tokyo 108-8506, Japan Telephone: +81-3-5730-3911
Established	April 1971
Number of Employees	12,914 (consolidated); 3,957 (parent company)
Month of Ordinary General Meeting of Shareholders	March
URL	www.thk.com
Independent Auditors	Grant Thornton Taiyo LLC

Stock Information

Common Stock: Authorized Issued	465,877,700 shares 133,856,903 shares
Stock Exchange Listing	Tokyo Stock Exchange (First Section)
Stock Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
Number of Shareholders	17,265

Major Shareholders

Shareholders	Number of Issued Shares Held (Thousands of shares)	Shareholding Ratio (%)
Custody Bank of Japan, Ltd. (Trust Account)	14,869	11.74
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,899	10.19
SSBTC CLIENT OMNIBUS ACCOUNT	3,728	2.94
Akihiro Teramachi	3,399	2.68
FTC CO., LTD.	2,774	2.19
JP MORGAN CHASE BANK 385635	2,733	2.15
THE CHASE MANHATTAN BANK 385013	2,365	1.86
Custody Bank of Japan, Ltd. (Trust Account 5)	1,978	1.56
Custody Bank of Japan, Ltd. (Trust Account 6)	1,785	1.41
STATE STREET BANK WEST CLIENT - TREATY 505234	1,781	1.40

[1] The Company holds 7.286 million shares of treasury stock, but it is omitted from the above list of major shareholders.
[2] The calculation of the shareholding ratio does not include treasury stock.

Shareholder Composition

Shareholder Type	Number of Shareholders	Number of Issued Shares Held (Thousands of shares)	Shareholding Ratio (%)
Financial Institutions	68	46,463	34.71
Securities Companies	35	2,418	1.81
Other Corporations	263	4,866	3.64
Overseas Institutions	597	57,751	43.14
Individuals and Others	16,301	15,070	11.26
Treasury Stock	1	7,286	5.44

Stock Price and Trading Volume

THK CO., LTD.

URL: www.thk.com