

Consolidated Financial Results for the Second Quarter Ended September 30, 2016 under Japanese GAAP

Company Name : THK CO., LTD.
 Head Office : Tokyo, Japan (Tel: +81-3-5434-0300)
 URL : <http://www.thk.com/>
 Stock exchange listing : Tokyo Stock Exchange-First Section
 Code number : 6481
 Representative : Akihiro Teramachi, President and CEO
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 Scheduled date of filing quarterly report (Japanese version only) : November 11, 2016
 Scheduled starting date of dividend payment : December 5, 2016

1. Consolidated Operating Results and Financial Position as of and for the six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)

(1) Consolidated Operating Results

Second Quarter Ended September 30 (Millions of Yen)	Net Sales		Operating Income		Ordinary Income		Net Income attributable to owners of the parent	
2016	¥136,232	21.4%	¥11,672	(6.5) %	¥7,909	(32.4) %	¥5,228	(32.2) %
2015	112,186	5.6	12,488	(12.7)	11,694	(24.4)	7,709	(29.2)
(Note) Comprehensive income	Second quarter ended September 30, 2016:				¥(20,139) million		— %	
	Second quarter ended September 30, 2015:				8,327 million		139.7	

Second Quarter Ended September 30 (Yen)	Net Income Per Share-Basic	Net Income Per Share-Diluted
2016	¥41.30	¥ —
2015	60.90	—

(2) Consolidated Financial Position

	Total Assets (Millions of Yen)	Net Assets (Millions of Yen)	Net Worth Ratio (%)	Net Assets Per Share (Yen)
September 30, 2016	¥381,571	¥227,235	58.9 %	¥1,775.65
March 31, 2016	407,808	250,540	60.7	1,953.97

(Note 1) Net worth ratio is defined as net worth divided by total assets. Net worth consists of shareholders' equity and accumulated other comprehensive income in net assets.

Net worth : As of September 30, 2016: ¥224,775 million
 : As of March 31, 2016: 247,348 million

2. Dividends

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

(Note) Change in dividend projection: None

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

	Net Sales (Millions of Yen)	Operating Income (Millions of Yen)	Ordinary Income (Millions of Yen)	Net Income attributable to owners of the parent (Millions of Yen)	Net Income per Share (Yen)
Year ending March 31, 2017 (amount)	¥262,000	¥21,000	¥19,600	¥14,000	¥110.60
(percentage)	8.9%	(9.4)%	2.4%	3.1%	n/a

(Note 1) Change in forecasts: None

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

4. Other Financial Information

(1) Significant change in scope of consolidation: None

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

(Income taxes)

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

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

- | | |
|-----------------------------------|---|
| a. Changes in accounting standard | Please refer to "5. Accounting Changes" |
| b. Other changes | None |

(4) Number of shares

		(shares)
a. Common stock issued, including treasury stock, as of:		
	September 30, 2016	133,856,903
	March 31, 2016	133,856,903
b. Treasury stock as of:		
	September 30, 2016	7,269,737
	March 31, 2016	7,269,394
c. Average number of common stock for the six months ended:		
	September 30, 2016	126,587,289
	September 30, 2015	126,589,455

5. Accounting Changes

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

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

The effect of changing the depreciation method was to increase operating income, ordinary income and income before income taxes for the six-month period ended September 30, 2016 each by ¥645 million.

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

6. Additional information

(Establishment of foreign subsidiaries)

THK decided to establish two foreign subsidiaries in November 2016 following the resolution of the Board of Directors meeting held on September 26, 2016.

1. Reasons of the Establishment

In the course of the THK Group's global business expansion, THK decided to establish two wholly owned financial subsidiaries, namely, THK CAPITAL UNLIMITED COMPANY and THK FINANCE UNLIMITED COMPANY, for the purpose of strengthening the Group's financial functions such as implementing the global in-group financing system of operating funds, mitigating foreign exchange risks, and improving the Group's capital efficiency. The functional currencies of THK CAPITAL UNLIMITED COMPANY and THK FINANCE UNLIMITED COMPANY are U.S. dollar and Euro, respectively.

2. Outline of the New Subsidiaries

(1) THK CAPITAL UNLIMITED COMPANY

Name	THK CAPITAL UNLIMITED COMPANY
Location	Dublin, Ireland
Representative	Akihiro Teramachi, President and CEO of THK
Business	In-group financing and fund management
Paid-in capital	USD 150 million
Shareholding ratio	THK 100%

(2) THK FINANCE UNLIMITED COMPANY

Name	THK FINANCE UNLIMITED COMPANY
Location	Dublin, Ireland
Representative	Akihiro Teramachi, President and CEO of THK
Business	In-group financing and fund management
Paid-in capital	EUR 50 million
Shareholding ratio	THK 100%

Management's Discussion and Analysis

1. Operating results (April 1, 2016 to September 30, 2016)

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

The THK Group has identified "Full-Scale Globalization," the "Development of New Business Areas," and "Change in Business Style" as cornerstones of its growth strategy to expand the markets of its products such as LM Guide (Linear Motion Guide). As to Full-Scale Globalization, while the markets in emerging countries such as China are growing by dint of the factory automation progress, which is also spreading to developed-country users, the THK Group endeavors to expand its global sales network to meet such demand. Regarding Development of New Business Areas, while the THK Group's products are getting widely adopted in new business fields such as automobile parts, seismic isolation and damping systems, medical equipment, aircraft, robot, and renewable energy, the THK Group is working on expanding sales of not only existing products but also new developed products. In addition to promoting these strategies above, the THK Group is also committed to further expand its business fields by changing its business style enabled by making full use of the Internet of Things (IoT), cloud computing, AI, robot in many ways.

In this six-month period, the THK Group operated proactively to expand its sales with its strengthened operating structure on a global scale. Moreover, in order to further expand its transportation equipment business, THK has included four subsidiaries into the scope of consolidation as THK RHYTHM AUTOMOTIVE ("TRA"). As a result, net sales for the period amounted to ¥136,232 million, up ¥24,046 million, or 21.4%, compared to the figure a year earlier.

On the cost front, the cost of sales to sales ratio worsened by 5.6% from a year earlier to 75.0% due to consolidating the four TRA subsidiaries of which cost of sales to sales ratios were higher than that of the THK Group's sales to industrial equipment-related industry. On the other hand, ratio of selling, general and administrative expenses to net sales improved by 3.0% from a year earlier to 16.5% because of consolidating the four TRA subsidiaries with lower ratios.

Along with the stronger yen as compared to the level a year earlier, operating income decreased from a year earlier by ¥816 million, or 6.5%, to ¥11,672 million. Ratio to net sales dropped by 2.5% to 8.6%.

Total non-operating income and expenses were ¥1,237 million and ¥4,999 million, respectively. The major component of non-operating expenses was ¥4,512 million of foreign exchange loss due to the stronger yen.

As a result, ordinary income decreased from a year earlier by ¥3,784 million, or 32.4%, to ¥7,909 million. Net income attributable to owners of the parent for the six-month period also decreased from a year earlier by ¥2,480 million, or 32.2%, to ¥5,228 million.

Segment Information

(Japan)

In Japan, the economy made a mild recovery; however, there were some weaknesses particularly in exports because of the strong yen. The THK Group operated proactively and cultivated new business fields such as seismic isolation and damping systems, medical equipment, renewable energy and robot. In such a situation, demand for machine tool products decreased whereas demand for electronics-related products increased. As a result, sales dropped by ¥1,311 million, or 2.2%, to ¥57,747 million, compared to the figure a year earlier. Operating income (segment income) amounted to ¥7,435 million, down ¥3,996 million, or 35.0%, from the figure a year earlier due mainly to the stronger yen as compared to the level a year earlier.

(The Americas)

In the Americas, while there were some weaknesses particularly in capital investments and exports, the economy continued a gradual recovery trend by dint of the robust consumer spending. In such a situation, the production and sales sections worked in unison to expand and deepen transactions with existing customers and to cultivate new business fields such as medical equipment, aircraft, and energy-related business. As a result, net sales for the six-month period amounted to ¥33,115 million, up ¥12,920 million, or 64.0%, from the figure a year earlier. Operating income (segment income) amounted to ¥1,817 million, up ¥742 million, or 69.0%, from the figure a year earlier. This was mainly attributable to the robust demand in the electronics industry and the two newly-consolidated TRA subsidiaries in the Americas.

(Europe)

In Europe, the signs of recovery were continuously seen. In such a situation, the production and sales sections proactively worked in unison to expand transactions with existing customers and to cultivate new business fields such as medical equipment, aircraft and robot. As a result, net sales for the six-month period amounted to ¥26,103 million, up ¥15,232 million, or 140.1%, from the figure a year earlier. Operating income (segment income) amounted to ¥754 million, up ¥286 million, or 61.0%, from the figure a year earlier. This was mainly attributable to the increased demand in the machine tool industry and the electronics industry, as well as the two newly-consolidated TRA subsidiaries in Europe.

(China)

In China, the THK Group's products were getting widely adopted because of the factory automation progress brought by the shortage in labor and the hike in personnel expenses. In such a situation, the THK Group implemented aggressive business activities with its strengthened sales channels; however, sales amounted to ¥13,340 million, down ¥1,930 million, or 12.6%, from the figure a year earlier. This was mainly attributable to overall decreases in demand because of the economic slowdown in China. Despite the declining sales, the THK Group recorded ¥51 million of operating income (segment income), a turnaround of ¥139 million from the operating loss (segment loss) recorded a year earlier because of various measures implemented to improve profitability.

(Other)

In other countries and regions, the THK Group continued to expand and deepen transactions with existing customers and to cultivate new customers while expanding its sales channels in the ASEAN countries and India. However, the economic slowdown of China influenced in some areas of Other segment. As a result, net sales for the six-month period amounted to ¥5,925 million, down ¥864 million, or 12.7%, from the figure a year earlier. Operating income (segment income) amounted to ¥563 million, down ¥282 million, or 33.4%, from the figure a year earlier, due to the decreased sales.

2. Financial position (As of September 30, 2016)

Total assets stood at ¥381,571 million, ¥26,237 million less than the previous fiscal year-end, due mainly to a combined effect of increase in electronically recorded monetary claims by ¥2,607 million, decrease in cash and bank deposits by ¥3,197 million, decrease in merchandise and finished goods by ¥3,169 million, decrease in buildings and structures-net by ¥3,973 million, decrease in machinery and equipment by ¥3,954 million, and decrease in goodwill by ¥2,211 million.

Total liabilities stood at ¥154,336 million, ¥2,932 million less than the previous fiscal year-end, due mainly to decrease in long-term bank loans by ¥615 million.

Net assets stood at ¥227,235 million, ¥23,304 million less than the previous fiscal year-end, due mainly to a combined effect of increase in retained earnings by ¥2,063 million and decrease in foreign currency translation adjustments by ¥24,791 million.

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

No change from the forecasts reported in the announcement dated May 12, 2016.

Consolidated Financial Statements

Consolidated Balance Sheets

(Millions of Yen)

	Year End -Previous Year As of March 31, 2016	Second Quarter End -Current Year As of September 30, 2016
Assets		
Current Assets:		
Cash and bank deposits	¥126,964	¥123,766
Accounts and notes receivable	65,977	63,150
Electronically recorded monetary claims	5,523	8,130
Merchandise and finished goods	16,619	13,450
Work in process	7,352	7,608
Raw materials and supplies	15,270	14,253
Other current assets	11,313	8,296
Less: Allowance for bad debts	(162)	(156)
Total current assets	248,858	238,499
Fixed Assets:		
Property, plant and equipment -net:		
Buildings and structures	33,543	29,569
Machinery and equipment	50,101	46,146
Other	25,784	25,113
Total property, plant and equipment –net	109,428	100,828
Intangibles		
Goodwill	12,780	10,568
Other	23,688	19,674
Total intangibles	36,468	30,243
Investments and Other		
Long-term investments in securities	7,052	6,577
Other	6,099	5,483
Less: Allowance for bad debts	(99)	(60)
Total investments and other	13,052	12,000
Total fixed assets	158,950	143,072
Total assets	407,808	381,571

	(Millions of Yen)	
	Year End -Previous Year As of March 31, 2016	Second Quarter End -Current Year As of September 30, 2016
Liabilities		
Current Liabilities:		
Accounts and notes payable	¥20,129	¥19,854
Electronically recorded obligations	16,544	17,688
Current portion of long-term bonds	2,253	2,185
Income taxes payable	806	2,031
Accrued bonuses	3,193	3,501
Other	16,645	12,722
Total current liabilities	59,572	57,983
Long-term Liabilities:		
Bonds	53,000	53,000
Long-term bank loans	30,280	29,665
Reserve for retirement benefits for directors and corporate auditors	129	106
Reserve for product warranty	142	128
Net defined benefit liability	7,195	7,105
Other	6,948	6,346
Total long-term liabilities	97,695	96,352
Total liabilities	157,268	154,336
Net Assets		
Shareholders' equity :		
Common stock	34,606	34,606
Additional paid-in capital	44,584	44,584
Retained earnings	165,076	167,140
Treasury stock	(13,950)	(13,951)
Total shareholders' equity	230,317	232,380
Accumulated other comprehensive income (loss):		
Net unrealized gain on available-for-sale securities	665	782
Foreign currency translation adjustments	17,759	(7,032)
Remeasurements of defined benefit plans	(1,394)	(1,356)
Total accumulated other comprehensive income (loss)	17,030	(7,605)
Non-controlling interests	3,192	2,460
Total net assets	250,540	227,235
Total liabilities and net assets	407,808	381,571

Consolidated Statements of Income

(Millions of Yen)

	Second Quarter Ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	Second Quarter Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Net sales	¥112,186	¥136,232
Cost of sales	77,804	102,129
Gross profit	34,382	34,103
Selling, general and administrative expenses	21,893	22,431
Operating income	12,488	11,672
Non-operating income:		
Interest income	225	256
Equity earnings of affiliates	397	152
Other	646	828
Total non-operating income	1,269	1,237
Non-operating expense:		
Interest expenses	177	240
Foreign exchange loss, net	1,588	4,512
Other	298	246
Total non-operating expenses	2,064	4,999
Ordinary income	11,694	7,909
Extraordinary gains:		
Gain on sales of property, plant and equipment	31	5
Total extraordinary gains	31	5
Extraordinary losses:		
Loss on sales and disposal of property, plant and equipment	231	89
Total extraordinary losses	231	89
Income before income taxes	11,493	7,825
Income taxes-current	3,816	2,604
Income taxes-deferred	118	157
Total income taxes	3,934	2,762
Net income	7,558	5,063
Net loss attributable to non-controlling interests	(150)	(165)
Net income attributable to owners of the parent	7,709	5,228

Consolidated Statements of Comprehensive Income

(Millions of Yen)		
	Second Quarter Ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	Second Quarter Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Net income	¥7,558	¥5,063
Other comprehensive income:		
Net unrealized gain (loss) on available-for-sale securities	(436)	120
Foreign currency translation adjustments	1,458	(24,466)
Remeasurements of defined benefit plans	(2)	41
Share of other comprehensive income (losses) of affiliates accounted under the equity method	(251)	(898)
Total other comprehensive income (loss)	768	(25,202)
Comprehensive income (loss)	8,327	(20,139)
Attributable to:		
Owners of the parent	8,446	(19,407)
Non-controlling interests	(119)	(731)

Consolidated Statements of Cash Flows

(Millions of Yen)

	Second Quarter Ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	Second Quarter Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Cash flows from operating activities:		
Income before income taxes	¥11,493	¥7,825
Depreciation and amortization	5,969	6,762
Loss on sale/disposal of property, plant and equipment	200	85
Increase in provisions	257	291
Increase (decrease) in net defined benefit liability	(38)	104
Interest and dividend income	(270)	(299)
Interest expenses	177	240
Foreign exchange loss	1,408	5,398
Equity in earnings of affiliates	(397)	(152)
Amortization of goodwill	189	506
Increase in trade receivables	(2,625)	(4,439)
Decrease (increase) in inventories	(4,179)	568
Increase in trade payables	2,921	4,192
Other	(1,278)	(917)
Subtotal	13,828	20,166
Interest and dividend received	490	489
Interest paid	(171)	(240)
Income taxes paid	(7,598)	(2,810)
Net cash provided by operating activities	6,549	17,603
Cash flows from investing activities:		
Purchase of property, plant and equipment	(6,859)	(5,465)
Proceeds from sale of property, plant and equipment	602	5
Purchase of investments in securities	(9)	(80)
Payment for purchase of newly consolidated subsidiaries' stocks	(24,667)	—
Increase in loans receivable	—	(93)
Collection on loans	0	3
Payment for a business transfer	(22,135)	—
Payment for insurance reserves	—	9
Other	(3)	17
Net cash used in investing activities	(53,072)	(5,602)

	Second Quarter Ended September 30, 2015 (From April 1, 2015 to September 30, 2015)	Second Quarter Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)
Cash flows from financing activities:		
Proceeds from short-term bank loans	23,818	—
Dividends paid	(3,792)	(3,160)
Purchase of treasury stocks	(4)	(0)
Repayments of lease obligations	(150)	(97)
Net cash provided (used) in financing activities	19,871	(3,258)
Foreign currency translation adjustments on cash and cash equivalents	(635)	(11,940)
Net decrease in cash and cash equivalents	(27,287)	(3,197)
Cash and cash equivalents, beginning of the period	155,239	126,964
Cash and cash equivalents, end of the period	127,951	123,766

Segment Information

For the six months ended September 30, 2015 (April 1, 2015 to September 30, 2015)

							(Millions of Yen)	
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥59,058	¥20,195	¥10,871	¥15,271	¥6,790	¥—	¥112,186	
Inter-segment	22,704	10	7	3,424	746	(26,892)	—	
Total	81,763	20,205	10,878	18,695	7,536	(26,892)	112,186	
Operating income (loss)	11,432	1,075	468	(87)	845	(1,245)	12,488	

(Note 1) Adjustments of operating income (loss) of ¥1,245 million consist of ¥120 million of intercompany elimination and ¥1,125 million of corporate expenses not allocable to a specific segment. Such expenses are mainly comprised of selling, general and administrative expenses.

(Note 2) In the Americas segment, THK provisionally recorded ¥13,336 million of goodwill arising from the business transfer from TRW Automotive Inc. in the six-month period ended September 30, 2015. The amount of goodwill was subsequently adjusted to ¥2,616 million since the allocation of acquisition costs was completed.

In Europe segment, THK provisionally recorded ¥20,192 million of goodwill arising from the business transfer from TRW Automotive Inc. and acquisition of all shares of THK RHYTHM AUTOMOTIVE CZECH a. s. (formerly, TRW-DAS. a.s.), in the six-month period ended September 30, 2015. The amount of goodwill was subsequently adjusted to ¥10,618 million since the allocation of acquisition costs was completed.

For the six months ended September 30, 2016 (April 1, 2016 to September 30, 2016)

							(Millions of Yen)	
	Japan	The Americas	Europe	China	Other	Adjustments	Consolidated	
Sales to customers	¥57,747	¥33,115	¥26,103	¥13,340	¥5,925	¥—	¥136,232	
Inter-segment	20,243	23	63	1,764	621	(22,715)	—	
Total	77,990	33,139	26,166	15,104	6,546	(22,715)	136,232	
Operating income	7,435	1,817	754	51	563	1,048	11,672	

(Note 1) All adjustments are intercompany elimination.

(Note 2) As discussed in 5. Accounting Changes, prior to April 1, 2016, the depreciation method for property, plant and equipment of THK and its domestic consolidated subsidiaries mainly was the declining-balance method, whereas that of certain consolidated subsidiaries in the United States of America was the accelerated depreciation method. Effective April 1, 2016, THK and the aforementioned consolidated subsidiaries changed their depreciation method to the straight-line method. As a result, operating income in the Japan segment and the Americas segment increased by ¥568 million and ¥76 million, respectively, as compared to those calculated using the former depreciation method.

Business Combination

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

At the end of the six-month period ended September 30, 2015, THK reported provisional amounts for the business transfer of the linkage and suspension business (the "L&S business") of TRW Automotive Inc. (now part of ZF Friedrichshafen AG) in Europe and North America and purchase of shares of a TRW subsidiary that were executed on August 31, 2015. Since the accounting for this business combination completed by March 31, 2016, the acquisition costs initially allocated in the comparative information included in the consolidated financial statements for the six-month period ended September 30, 2016 have been adjusted as follows:

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

The adjustments above do not have any impact on the consolidated statements of income for the six-month ended September 30, 2015.

Additional notes:

- (1) Going concern issues: Not applicable.
- (2) Significant change in shareholders' equity: Not applicable.

Other Information

This report is not subject to the quarterly review procedures set forth in the Japanese Financial Instruments and Exchange Act. Therefore, the quarterly review procedures for accompanying consolidated financial statements are not finished at the time of the announcement of this report.

All the figures in this report except per share information are rounded down to the nearest million.

This information is summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange in accordance with its disclosure rules and presentation manners, which are different from those applied in the annual reports of THK due to reclassification and rearrangement made therein. This English translation is intended solely for the convenience of readers, and not intended in any way to substitute or replace the original Japanese version. If there is any discrepancy between the original Japanese version and this translation, the original Japanese version shall supersede all information in this translation. All the figures in this report are unaudited.