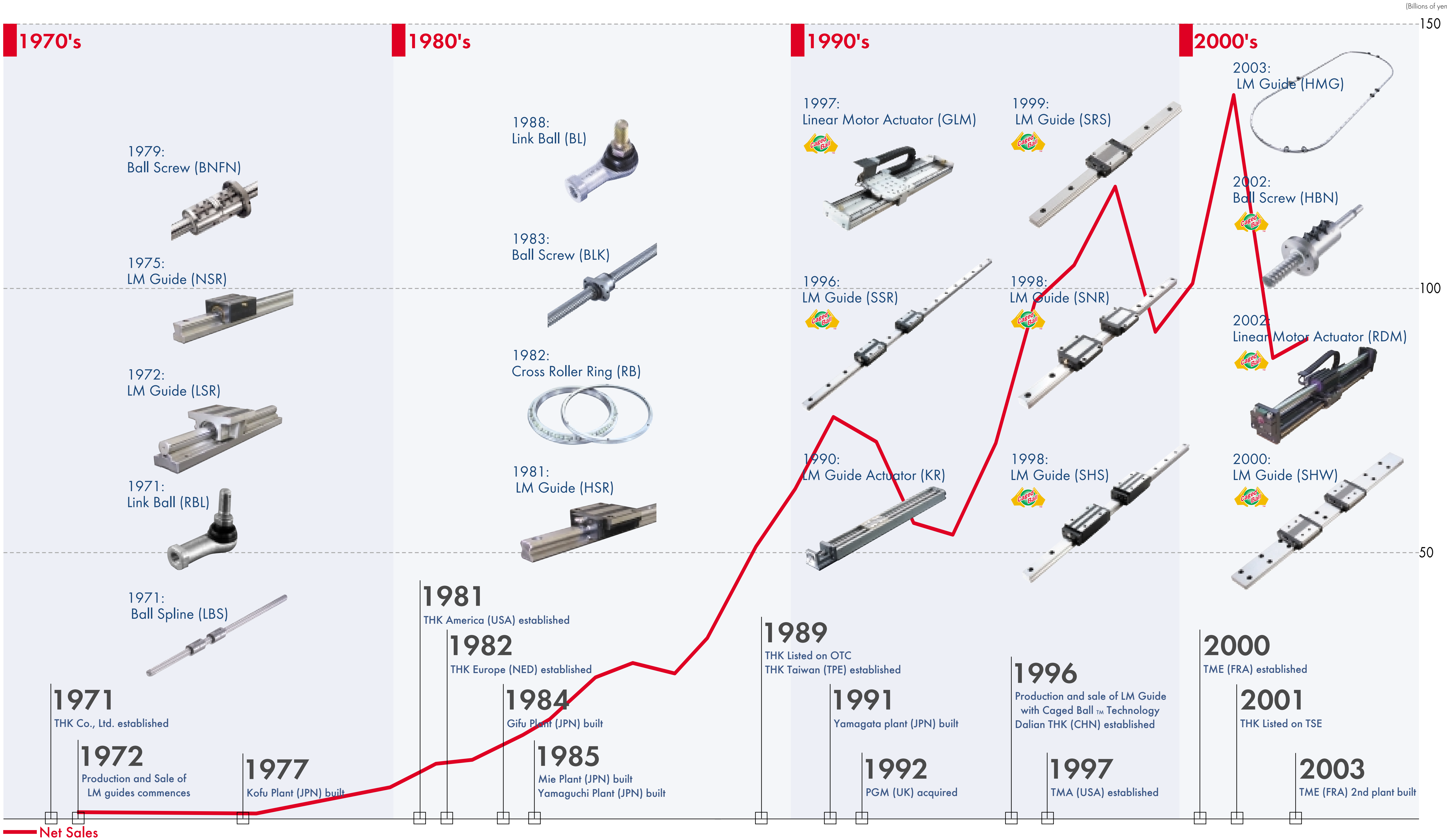
THK

The Mark of Linear Motion

Annual Report 2003

>>> History & Product Development



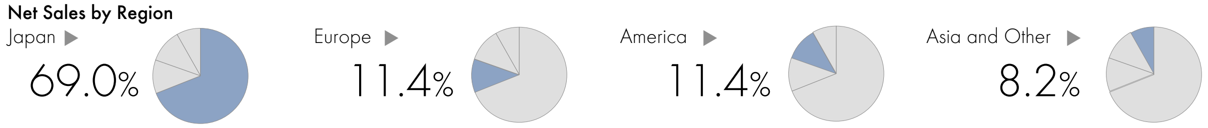
Note: FY1971-FY1989 Non-consolidated Net Sales
FY1990-FY2002 Consolidated Net Sales

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Net Sales	¥140,287	¥89,340	¥94,600	$ 787,021
Operating Income	25,695	2,176	4,893	40,707
Net Income	14,316	820	1,892	15,739
Total Assets	198,130	179,705	193,197	1,607,299
Total Shareholders' Equity	102,612	103,748	102,478	852,564
Per share amounts:		Yen		U.S. dollars
Net Income per Share	¥ 120.20	¥ 6.88	¥ 15.65	$ 0.130

Note: Throughout this report, U.S. dollars amounts represent translation of Japanese yen, for convenience only, at the rate of ¥120.20=U.S.$1.

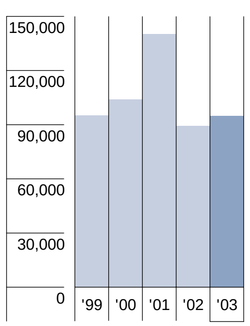
- In FY 2002 consolidated net sales was up 5.9% to ¥94.6 billion, and consolidated operating income was up 124.8% to ¥4.9 billion.
- "Building a Foundation for Global Business" is core global strategy to expand overseas sales.
- By the end of FY 2005, our medium-term management plan is targeting consolidated net sales of ¥160 billion and consolidated operating income of ¥30 billion.
- 'T''H''K' stand for "Toughness," "High Quality" and "Know-how." We accumulate Know-how that means the letter K of THK by continuous development and distribution of new products.
- One of our important management issues is environment conscious by LM Guide with Caged Ball™ Technology.

Net Sales by Region

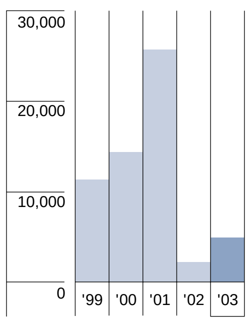


Note :The breakdown by geographic area is based on the degree of proximity to the geographic area.

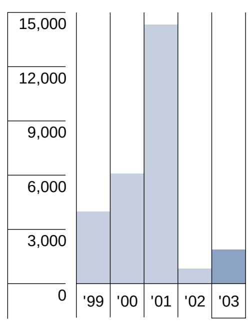
Net Sales
(Millions of Yen)



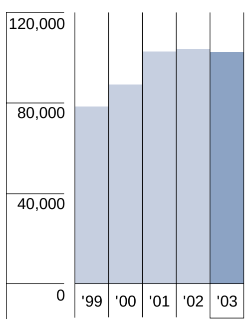
Operating Income
(Millions of Yen)



Net Income
(Millions of Yen)



Total Shareholders' Equity
(Millions of Yen)

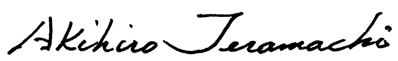


For companies operating in this period of prolonged economic recession, the pursuit of immediate profits and growth is similar to competing in a sporting event. My idea about the most important duty for a business person is, however, a company must not aim at short-term performance or swing between elation and desperation over stock price movement to achieve high scores; more importantly, it must deliver consistent profits to shareholders over the long-run and enhance real corporate value.

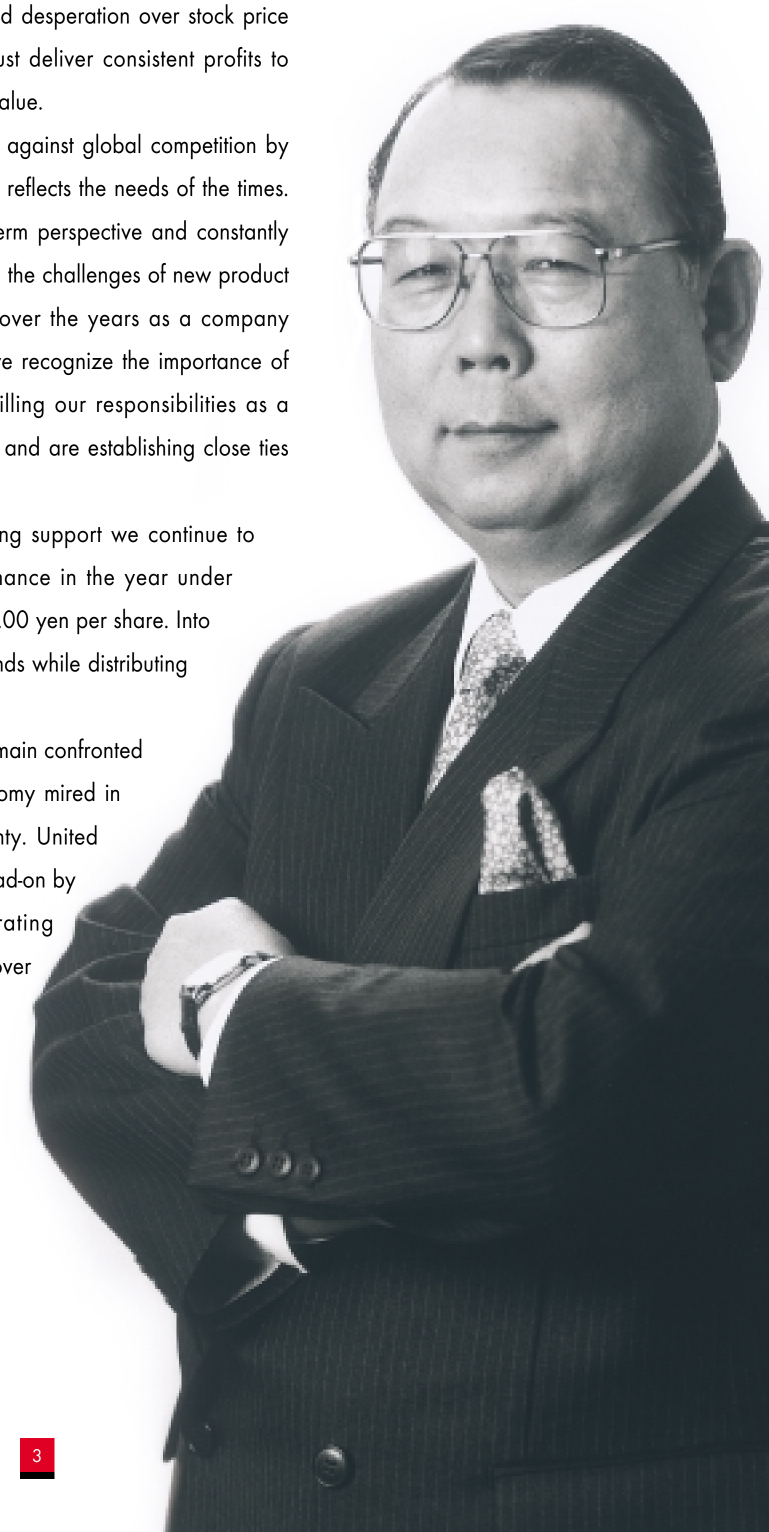
We create an operating framework geared to winning against global competition by executing tasks and making swift decisions in a manner that reflects the needs of the times. And we approach our day-to-day operations with a long-term perspective and constantly strive to improve corporate value. We aggressively embrace the challenges of new product development to maximize our core strengths, developed over the years as a company focused on creation and development. At the same time, we recognize the importance of coexisting harmoniously within society. Committed to fulfilling our responsibilities as a corporate citizen, we demonstrate care for the environment and are establishing close ties with local communities.

We truly appreciate the understanding and unwavering support we continue to receive from our shareholders. Reflecting on our performance in the year under review, we have declared total annual cash dividends of 15.00 yen per share. Into the future, we will continue to work to provide stable dividends while distributing earnings as appropriate considering our financial results.

Having entered the third year of the 21st century, we remain confronted by challenging business conditions, with the domestic economy mired in recession and the global economy gripped with uncertainty. United with our employees, we are tackling this difficult situation head-on by maintaining flexible responses to the challenging operating environment. We ask you to remain by our side watching over us as we aim at sustained growth into the future.



Akihiro Teramachi
President and CEO



The plan calls for the Group to broaden its business domain through full-scale global expansion and entry into new business areas.

Looking back on fiscal 2002, how would you describe the operating environment faced by THK?

Recession has expanded around the world to encompass the United States, which had been a driver of the world economy, and other advanced nations in Europe and elsewhere, leading to an unstable global economic situation. Meanwhile, industrialized nations sharply increased their investments in China, Eastern European, and other emerging economies. Indeed, fiscal 2002 was a year of major change, a year in which the world manufacturing picture was drastically rearranged.

Deflationary trends engulfed not only Japan but other countries worldwide, and such trends are adding impetus to the shift in manufacturing to China and Eastern Europe. These trends are having a major impact on the THK Group's major customers—manufacturers of semiconductor devices and construction equipment.

Against the background of worldwide deflation and the deteriorating situation in Iraq, the Japanese economy suffered from depressed stock markets, stagnating personal consumption, and further suppression of capital expenditures. In short, the domestic economy ended the year in a generally severe condition.

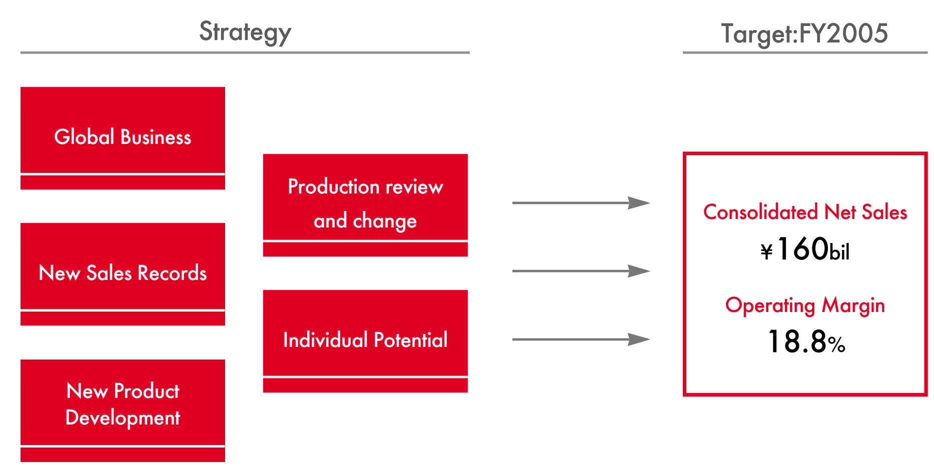
Despite the difficult operating environment, THK posted consolidated net sales of ¥94.6 billion, up 5.9% from the previous fiscal year. Domestic sales increased owing mainly to stronger demand from mainstay customers, especially makers of industrial robots and electronic machinery that made inventory adjustments. Despite increased sales to makers of LCDs and other flat-panel display-related devices in Asia, overseas sales declined, due to weaker sales in the Americas and Europe.

Operating income jumped 124.8%, to ¥4.8 billion. Despite incurring considerable strategic expenses in the form of upgrading overseas production capacity and reinforcing its overseas sales systems, the increase in domestic sales enabled THK to raise operating efficiency and productivity, which led to lower costs and increased earnings. The Company posted a net other loss, in contrast with net other income in fiscal 2001, due to a lower foreign exchange gain. Nevertheless, net income soared 130.5%, to ¥1.8 billion.

Can you summarize the progress of THK's medium-term management plan? What issues does the Company face, and what is your forecast for the future?

The THK Group has set long-term management targets to reach by the end of fiscal year 2010: consolidated net sales of ¥300 billion, of which overseas sales account for 50%, and sustained global market share of 60%. These targets are embodied in our long-term management plan, called Fiscal 2010 Vision. The plan calls for the Group to broaden its business domain through full-scale global expansion and entry into new business areas. As an important step in implementing that plan, we are currently pursuing a medium-term plan, announced in May 2002, covering the three-year period from fiscal 2002 to fiscal 2004. In the year under review, we made important progress in three areas. First, we expanded overseas sales. Second, we built systems for accelerating growth of orders. Third, we established standards as a leading manufacturer. Unfortunately, overseas sales have declined, and domestic demand did not pick up until the end of the year, so we were unable to reap the full benefits of work done in preparation for sharp order increases. For this reason, we have set the following three objectives for fiscal 2003, ending March 2004: continue expanding overseas sales, build production systems tailored to customers, and create systems more sensitive to demand fluctuations.

Medium-term Management Plan (Fiscal 2003-2005)



You make overseas visits on a regular basis. What is the purpose of such visits?

The primary reason is to pioneer new users and deepen relationships with our existing users overseas. Frankly speaking, when we first started making overseas visits, we heard that the Japanese style did not gel with overseas markets due to the difference of customs, cultures, religions, languages, and regulations in the each individual country and region; and we felt so, too. After multiple visits, however, we realized that the customer's heart is universal, both in Japan and overseas. No matter where customers are, they want the same to get products with better quality at reasonable prices when they need them, and they want to be the first to receive more services. Therefore, THK has adopted a more customer-oriented standpoint and aims for being the No. 1 company in keeping the heart of the customer in mind.

The opportunity for direct communication between top management and local employees is another important motive for my overseas visits. Although attitudes and guidelines in each country and region are understood, all of our people in overseas operations must foster the common basic philosophies, commitments and strategies of THK Group. My role is to explain directly to local employees my ideas and these above-mentioned aspects. That is the real significance of having top management make such trips. Without doubt, our overseas business will expand in the near future. For this reason, nurturing employees who are capable of comprehending the customer's heart, who follow the management strategies and operate on a global basis is an top priority for THK.

For the time being, our attempts to penetrate overseas markets with the THK brand will focus on sales activities and improving the capabilities of our employees.

How do you perceive market trends in various countries?

World economies are becoming increasingly global in nature, with boundaries separating nations and regions rapidly disappearing. Nevertheless, many problems remain unsolved, such as the conflict in Iraq and other issues in the Middle East. For this reason, THK bases its overseas business development decisions on careful judgments of specific situations.

In the United States, the pace of recovery in the IT sector is very weak. The automobile sector, by contrast, is benefiting from large-scale investments by major automakers in the development of next-generation vehicles. Thanks to these and other factors, the U.S. economy is showing signs of steady recovery. Turning to Western Europe, the German economy resembles Japan's in terms of growing deflation. Government policies in that nation to raise taxes have dampened investor and consumer sentiment. In Eastern Europe, by contrast, rapid industrialization has sparked a rush of companies seeking to establish a presence. The Russian and Ukrainian economies are also enjoying solid improvement. While Europe in general is showing weak economic growth, demand from major users in the machine tools and woodworking machinery sectors is projected to meet previous-year levels. In the Asia and Other region, we expect the pace of market growth to increase, especially in China. In South Korea and Taiwan, we notice some signs of improvement in the electronics sector, a major source of demand for our products. Overall, however, economic recovery in those nations is slow.

THK considers the world in terms of four key markets, including Japan. Spearheaded by the parent company, THK Manufacturing of America (TMA), and THK Manufacturing of Europe (TME), we will continue to build and reinforce our global network.

We plan to find the best possible corporate governance system after further close scrutiny of our situation.

Please describe how THK is developing new applications for its LM guides.

Many potential applications for our LM guides come to mind immediately. In the medical field, for example, surgical robots are being developed to perform medical procedures. LM guides would be crucial to undertake high-precision and accurate operations by remote communications technologies. In the electronics field, semiconductor technologies have entered the "nanometer" realm, and THK is already developing products with 10-nanometer precision. Meanwhile, to date, although applications for LM guides would be mostly centered for capital goods, we anticipate growing applications in consumer goods, which automobile and housing, and we strengthen product development, expand production sites and improving marketing skill. Moreover, we are seeking to raise our profile as a market leader by product-put approach through proactively offering application development proposals as well as market-in approach.

The term "corporate governance" is receiving a lot of attention. What is THK's basic stance in this regard?

Discussion of corporate governance has become highly fashionable lately. However, I think that arguments about U.S.-style versus Japanese-style corporate governance are premature. At first glance, U.S.-style governance seems to be superior, but it does not necessarily match the requirements of today's Japanese companies. The lack of outside director candidates and insufficient authority given to the CEO are two aspects of U.S.-style governance that make it difficult to transplant in Japan. Having said that, the Japanese way, which has centered on auditing, cannot be regarded as conforming to global standards.

We at THK plan to find the best possible corporate governance system after further close scrutiny of our situation. At present, we are actively reforming the Board of Directors to make it function more effectively. We are also upgrading and expediting the functions of the Management Conference, which serves as the Company's supreme decision-making body and consists mainly of directors. At the same time, we are reinforcing the auditing functions of the Board of Auditors. To maximize transparency, we will pursue active IR initiatives, while promoting extensive compliance awareness, instituting stricter accountability standards, and ensuring timely information disclosure.

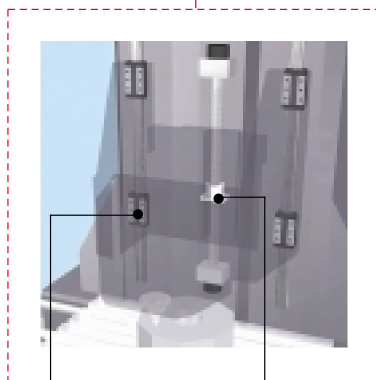
How do you envisage THK's future evolution?

In the near future, overseas sales will account for half of THK's revenues, perhaps more. We plan to expand our overseas operations and increase the ratio of non-Japanese employees. Although our Japan-oriented business development policy will remain unchanged, we anticipate steady increases in exchanges between personnel in Japan and our overseas group companies. We currently place high emphasis on English in our education program. Rather than simply teach the English language, however, we focus on nurturing the development of employees, both in Japan and overseas, into internationally competent ambassadors. These initiatives reflect our desire to become a truly global corporation.

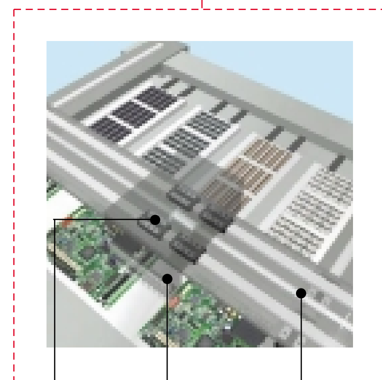
Machine Tools

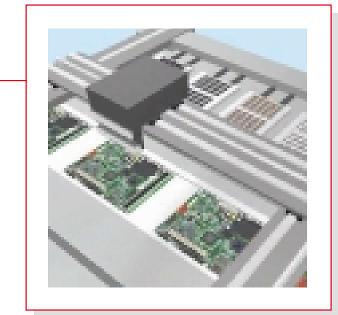
Machine tools called "mother machines" are used to manufacture of all types of parts and components. LM guides, which enable machine tools to operate with speed and accuracy, are crucial to the ability of such machines to process metals swiftly and precisely.

Machine Tools



Electronics



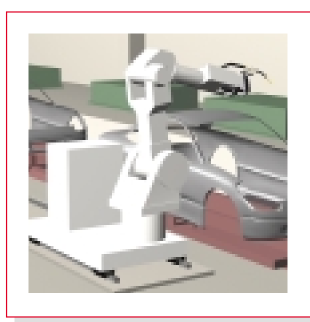


Semiconductor Production Equipment

Semiconductor and LCD production equipment is required high speed, accuracy and low particle emission, because even the tiniest piece of extraneous substance can cause major faults in the final product. Thanks to their original configuration, LM guides create minimal particles because there is little metal-on-metal contact. As such, they have become crucial components of semiconductor and LCD fabrication equipment.

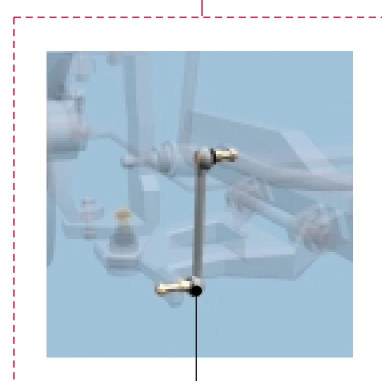
General Machinery

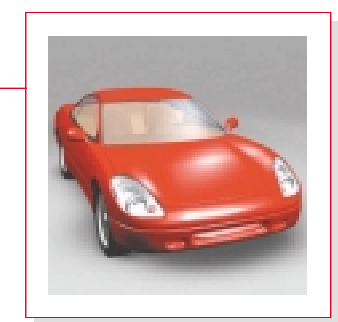
Industrial robots play an extremely important role in today's manufacturing world, because they permit the stable supply of high-quality products. LM guides and ball splines are used in the direct-drive sections of industrial robots, while our originally configured cross-roller rings are used in the rotating sections.



Industrial Robots

Other





Automobile

Link balls are key components in the chassis sections of passenger cars and special vehicles. Easy to lubricate and highly durable, link balls help improve driving stability at high speeds, for a safer and more comfortable driving experience.

Global Strategy

THK's medium-term management plan, covering the three-year period from April 2003 to March 2005, cites "Building a Foundation for Global Businesses" as a key management strategy.

Building a Foundation for Global Businesses

- Building a Tetra-lateral Operational Network: Japan, America, Europe, and Asia and Other
  - Definition of marketing strategy by region
  - Reinforcement of overseas applications engineering (AE) divisions to match regional characteristics
- Promotion of Regional Optimization of Production
  - Amendment and definition of roles of production bases on a tetra-lateral system
  - Review of production bases and manufacturing strategies
- Reinforcement of Global Administration system
  - Increasing asset management efficiency of the Group companies
  - Upgrading of information systems for global deployment

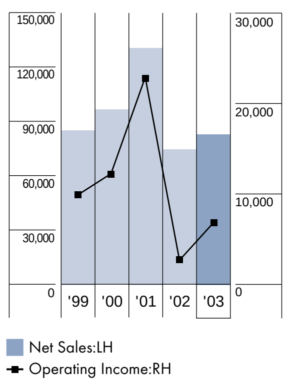
In the fiscal year ending March 2004, we have positioned "expansion of overseas sales" as a core management strategy. To this end, we will:

- Expand our overseas sales network and strengthening marketing and engineering capabilities
- Implementing top management's sales strategies
- Strengthening marketing support from Japan
- Quick response through the global SCM adoption
- Expand sales of core products

Geographical Segment Information

Japan

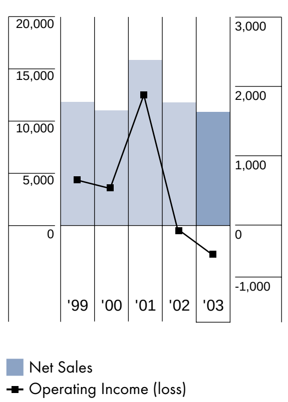
Net Sales/Operating Income
(Millions of Yen)



Japanese economy persisted severe environment throughout the period, however, our main customers had an increase in demand mainly for spot purchases with advancement of inventory adjustments. As a result, net sales in Japan increased 12.2% to ¥71,060 million, and operating income totaled ¥6,819 million. In Japan, we will bolster its frameworks of research and development, production and sales force to expand new business fields, including the FAI Division developing automobile components to help improve automobile safety, the ACE Division developing anti-earthquake and vibration-control devices to secure building safety, and the CAP Project and NEXT Project, etc.

America

Net Sales/Operating Income (loss)
(Millions of Yen)

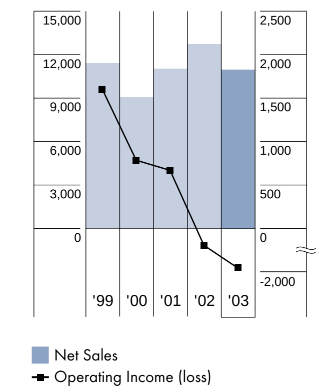


In North America, we reported relatively strong sales to the medical equipment- and automobile-related sectors, while demand in general increased toward the end of the year. However, demand from the electronics sector, a major source of income for the Company, was sluggish, leading to a low-key overall performance in the region. Net sales in America in the year under review declined 7.7%, to ¥10,732 million. U.S.-based THK Manufacturing of America, Inc. (TMA), our local subsidiary in the region, incurred considerable costs in getting its second production facility into full-scale operation. The Company thus reported a ¥622 million regional operating loss for the year. The second plant is a 27,600-square-meter facility that commenced operation in July 2001. Combined with TMA's first plant, it brings total floor space of our North America production facilities to 35,961 square meters. As TMA's core facility, the new plant will strengthen its ability to create products that meet the needs of local users.

Europe

Economic conditions in Europe remained difficult, highlighted by delayed recovery in Germany, the major economy in the region. As a result, overall demand, especially from the key construction machinery sector, languished. In response, we strove to increase the uptake level of THK products while cultivating new customers. However, regional net sales fell 13.7%, to ¥10,982 million. During the year, we incurred substantial costs in setting up a local subsidiary, France-based THK Manufacturing of Europe S.A.S. (TME), and in expanding our local sales force. Consequently, the Company reported a regional operating loss of ¥1,769 million. TME's first production facility, covering 16,140 square meters, commenced operation in July 2001. Anticipating further increased demand and responding needs from local users, in May 2003 TME completed construction of its second plant, covering 16,344 square meters.

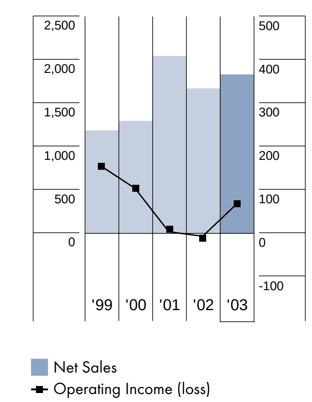
Net Sales/Operating Income (loss)
(Millions of Yen)



Asia and Other

In the year under review, the Company enjoyed relatively solid demand from Asian manufacturers of LCDs and other flat-panel displays. Demand from makers of construction machinery, a key source of business, was also strong. As a result, regional net sales grew 9.7%, to ¥1,826 million, and operating income totaled ¥67 million. In April 2002, THK opened a representative office in Shanghai, China, to complement its existing office in Beijing. We expect demand from the Asia and Other region to expand in the future, and are reinforcing our operations accordingly.

Net Sales/Operating Income (loss)
(Millions of Yen)



>>> Research & Development

THK's research and development activities conform to its corporate philosophy of "providing innovative products to the world and staying abreast of new trends to contribute to the creation of an affluent society." Adhering to this philosophy, we are developing product-out products that help our customers to provide high-value-added, and top-quality products and comprehensively reducing the manufacturing costs.

Based on this policy, we are setting up the following R&D subject in the current fiscal year.

1 Development of integrated "unit element" products combining linear motors and LM guides, to meet the requirments for higher precision as well as upsizing and higher speed in LCD and semiconductor production equipment.

2 Further development of our lineup of ecologically friendly products conforming to the E³ (Cubic E) Concept, which embodies our environmental policies, and expanding the product series of Caged Ball™ Technology products such as LM guides, ball screws, ball splines, and LM guide actuators.

3 Development of self-lubrication devices and methods that satisfy the strong market demand for products realizing long maintenance-free operation. We will also develop micro LM guides, micro ball screws, and micro ball splines for the micro-machine industry, which is expected to grow in the future.

Over the longer term, we are primarily planning to develop of the following types of products.

1 Development of products with fault-detection functions that enhance reliability in unmanned operation of machinery and around-the-clock factory operation.

2 Development of products with damping function to minimize vibration, noise, and settling time that tend to increase as machines are operated at high speed.

THK's product development system includes three departments (see diagram), and is designated for global markets and entry into new fields. We are committed to developing products that accurately and flexibly meet the needs for higher level of diversification and speed, and challenging "Know-how" that means the letter K of THK .

Engineering Development Department →	Development of core products
Fundamental Technological Laboratory →	Research into heat-treatment process, deformation-processing technologies, etc.
MRC Center →	Development of servo control technologies and software for near-future products

Products developed by the Research and Development Department are distributed by the THK's various applications development departments, which actively facilitate access to customers and markets in order to expand the Company's business domain.

FAI Division →	Develops key automotive components that help to enhance vehicle safety
ACE Division →	Mainly develops earthquake-immune components to enhance safety in housing construction
CAP Project →	Conceives and proposes automated commercial-off-the-shelf components in conjunction with ongoing IT innovations
NEXT Project →	Provides low-priced actuators


Durability testing devices for determining reliability of LM guides

LM Guide with Caged Roller™ Technology boasting high rigidity and quiet motion

Ball Screw with Caged Ball™ Technology boasting high-speed and high load capacity

LM Guide actuator with Caged Ball™ Technology

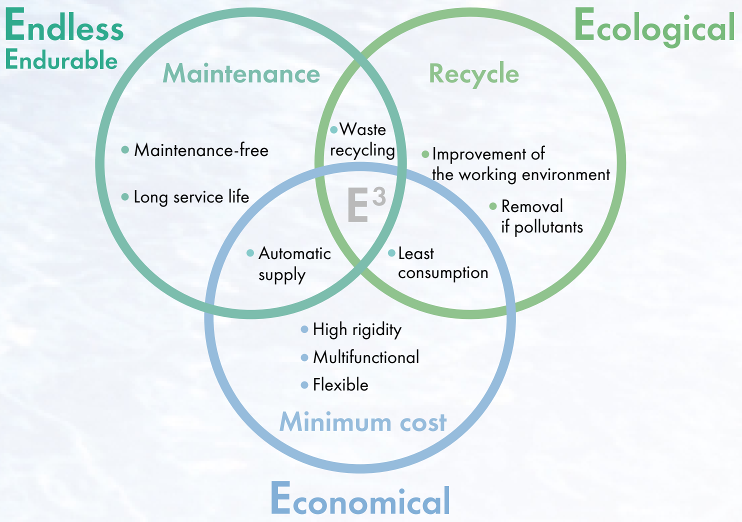
High-speed, high-precision, long-travel linear mortor unit

ISO 14001 Certificate

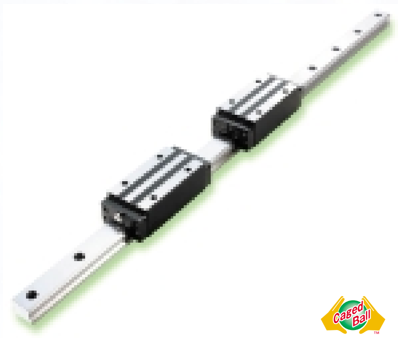
The THK Group regards care for the global environment as an important management issue. We fully recognize that our responsibility to society entails specific environmental protection actions. For this reason, we have set environmental targets, covering all aspects of our operations, enabling us to accurately grasp the impact our products and services have on the environment. We also have established Group-wide environmental standards to step up our compliance system and work for environmental management. We place ongoing emphasis on saving resources and recycling, with particular focus on cutting and reusing waste on the manufacturing side. Practically four out of our five facilities have obtained ISO 14001 certificate for environmental management systems. One plant in Gifu prefecture of Japan is applying for it, too. Together with our business partners and other companies, we are promoting harmonious coexistence with local communities. In unison with our communities, we are working to foster a stronger environmental awareness. Going forward, we will improve information-sharing throughout the Group and appropriately disclose information in an effort to better protect the environment.

Against rising concern over global environmental problems, the needs of processing machinery to be further energy saving and long-term maintenance-free are increasing at manufacturing premises. THK provides "Liner guides friendly environment" concept, called "E^3 (Cubic E)", for these demands.

"E^3" refers to "Ecological" (Human and earth friendly technologies), "Economical" (High performance at a low cost), and "Endless" (Long service life).

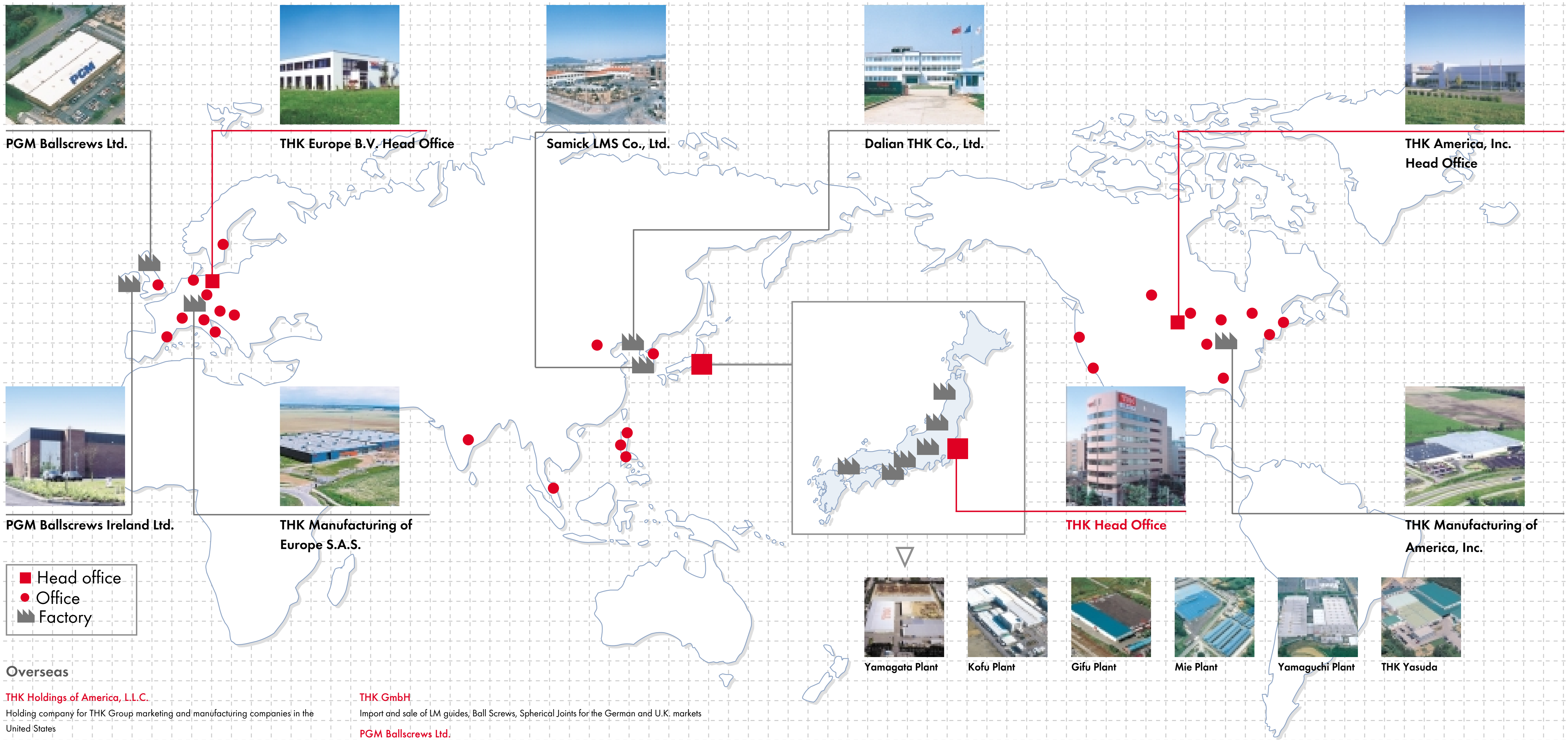


This environmental concept was symbolized in "LM Guide with Caged Ball™ Technology" commercialized in 1996. Our Caged Ball™ LM Guides feature low noise and low vibration and high resistance to ash and dust, which contribute to improve the work environment. Moreover, the high-speed performance requires no maintenance for long periods of time, and the materials used in the products and manufacturing process less damaging to the environment, which are highly esteemed by our users.



LM Guide with Caged Ball™ Technology

>>> Network



Overseas

THK Holdings of America, L.L.C.
Holding company for THK Group marketing and manufacturing companies in the United States

THK America, Inc
Import and sale of LM guides, Ball Screws, Spherical Joints in America

THK Manufacturing of America, Inc.
Manufacture of LM guides, Spherical Joints

THK Europe B.V.
Import of LM guides, Ball Screws, Spherical Joints, distribution center and holding company for THK Group European marketing companies

THK GmbH
Import and sale of LM guides, Ball Screws, Spherical Joints for the German and U.K. markets

PGM Ballscrews Ltd.
Manufacture of precision Ball Screws for Europe and the United States

PGM Ballscrews Ireland Ltd.
Manufacture of rolled Ball Screws for Europe and the United States

THK Manufacturing of Europe S.A.S.
Manufacture of LM guides, Spherical Joints

THK TAIWAN Co., Ltd.
Import and sale of LM guides, Ball Screws, Spherical Joints for the Taiwanese market

Domestic

THK Yasuda Co., Ltd.
Manufacture of Ball splines for THK

Talk System Co., Ltd.
Bearings, electric conductive devices, and other (computer-aided design [CAD]); also computer-aided manufacturing (CAM) and Internet provider

Beldex Corporation
Manufacture of three-dimensional measurement instruments, sale of glass-cutting machines

Daito Seiki Co., Ltd.
Manufacture of sock-knitting and production machinery; purchase and sale of LM guides


PRESIDENT AND CEO
Akihiro Teramachi


SENIOR MANAGING DIRECTOR
Katsuhito Imai


MANAGING DIRECTOR
Yoshimi Sato


DIRECTOR
Toshihiro Teramachi


DIRECTOR
Takeki Shirai


DIRECTOR
Masamichi Ishii

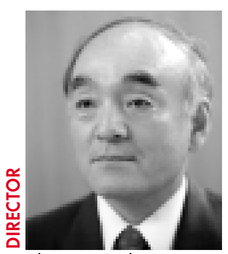

DIRECTOR
Katsuyoshi Muto


DIRECTOR
Isamu Hatanaka


DIRECTOR
Kotaro Yoshihara


DIRECTOR
Junichi Kuwabara


DIRECTOR
Hiroshi Funahashi


DIRECTOR
Shigeru Wako


DIRECTOR
Mikio Matsui


DIRECTOR
Hiroshi Hyodo


STANDING AUDITOR
Yoshito Nagafuchi


STANDING AUDITOR
Akira Sugi


AUDITOR
Shigeharu Mabuchi


AUDITOR
Shoji Namiki

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2003
Net Sales	¥ 95,006	¥103,955	¥140,287	¥ 89,340	¥ 94,600	$ 787,021
Cost of Sales	64,443	69,817	91,447	63,294	66,647	554,465
Gross Profit	30,563	34,138	48,840	26,046	27,953	232,556
Selling, General and Administrative Expenses	19,178	19,795	23,145	23,870	23,060	191,849
Operating Income	11,385	14,343	25,695	2,176	4,893	40,707
Income before Income Taxes and minority interest	7,463	11,415	24,330	833	3,597	29,921
Income Taxes	3,376	5,297	9,889	15	1,773	14,751
Net Income	4,016	6,078	14,316	820	1,892	15,739

Per Share of Common Stock:	Yen					U.S. dollars
	1999	2000	2001	2002	2003	2003
Net income - basic	¥ 34.51	¥ 52.31	¥ 120.20	¥ 6.88	¥ 15.65	$ 0.130
Net income- diluted	33.20	49.99	115.44	6.88	15.12	0.126

	Millions of yen					Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2003
Total Assets	¥ 194,385	¥195,750	¥198,130	¥179,705	¥193,197	$1,607,299
Total Shareholders' Equity	78,242	88,061	102,612	103,748	102,478	852,564
Capital Expenditures	4,680	3,573	13,841	6,476	4,611	38,358
Depreciation	5,450	5,272	5,191	5,503	5,529	46,000
R&D Expenses	954	1,415	1,426	1,932	2,104	17,506

	1999	2000	2001	2002	2003
Operating Income Percentage of Net Sales (%)	12.0	13.8	18.3	2.4	5.2
Net Income Percentage of Net Sales (%)	4.2	5.8	10.2	0.9	2.0
Return on Equity (%)	5.1	7.3	15.0	0.8	1.8
Return on Assets (%)	5.9	7.6	13.3	1.3	2.7
Equity Ratio (%)	40.2	45.0	51.8	57.7	53.0
Book Value per Share (Yen)	676.98	746.67	859.82	869.20	860.80
Debt Equity Ratio (Times)	1.1	0.8	0.5	0.5	0.6
Interest Coverage Ratio (Times)	4.5	7.2	21.1	2.3	5.8

Note 1: Throughout this report, U.S. dollars amounts represent translation of Japanese yen, for convenience only, at the rate of ¥120.20=U.S.$1.
Note 2: Return on assets is the percentage of operating income and interest and dividend income to average total assets.

Performance Review

Sales

In fiscal 2002, ended March 31, 2003, THK Co., Ltd., faced a generally difficult operating environment. Against the backdrop of worldwide deflationary trends and the worsening situation in Iraq, stock markets and personal consumption stagnated, while capital investments remained subdued. Despite the challenges, THK posted consolidated net sales of ¥94,600 million, up 5.9% from the previous fiscal year. Domestic sales grew 9.4%, to ¥65,280 million, thanks to an increase in demand mainly for spot purchases with the advancement of inventory adjustments among our major customers in such sectors as industrial robotics and electronics-related machines and tools, etc. Overseas sales remained largely unchanged, at ¥29,320 million, and accounted for 31.0% of net sales. Despite increased sales to makers LCDs and other flat-panel display-related devices in Asia, sales in the U.S. and Europe declined.

Cost of Sales, SG & A Expenses

Cost of sales rose 5.3%, to ¥66,647 million, and represented 70.5% of net sales, down slightly from 70.8%. Gross profit grew 7.3%, to ¥27,953 million, and the gross profit ratio was 29.5%.

Selling, general, and administrative expenses declined 3.4%, to ¥23,060 million. The ratio of selling, general and administrative expenses to net sales declined to 24.3%, from 26.8%.

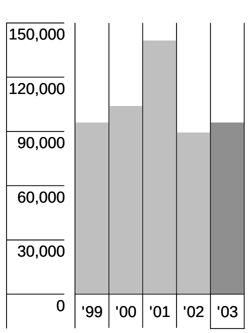
Operating Income, Net Income

Operating income jumped 124.8%, to ¥4,893 million. Despite incurring considerable strategic expenses in the form of upgrading overseas production capacity and reinforcing its overseas sales systems, the increase in domestic sales enabled the Company to raise operating efficiency and productivity, which led to lower costs and increased earnings. The ratio of operating income to net sales rose to 5.2%, from 2.4%.

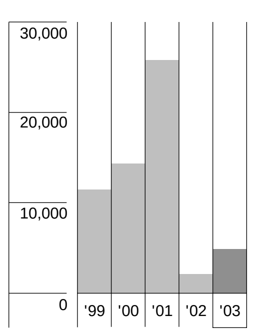
Other income, including interest income and exchange profit, amounted to ¥835 million, and other expenses, such as interest expenses, write-down of long-term investments in securities, a loss on sales/disposal of property and equipment and other, totaled ¥2,131 million. As a result, income before income taxes and minority interest soared 331.6%, to ¥3,597 million.

Net income climbed 130.5%, to ¥1,892 million. As a result, return on sales rose to 2.0%, from 0.9%. Net income per share increased to ¥15.65, from ¥6.88.

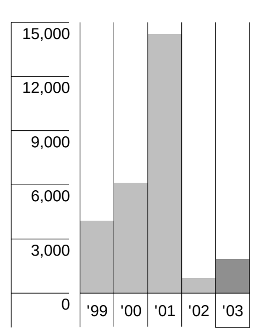
Net Sales
(Millions of Yen)



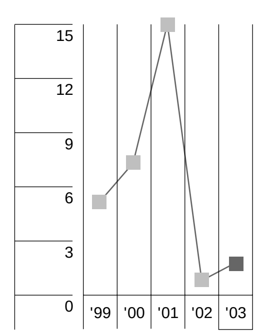
Operating Income
(Millions of Yen/%)



Net Income
(Millions of Yen/%)



ROE
(%)



Financial Position

Assets

As of March 31, 2003, THK had total assets of ¥193,197 million, up 7.5% from a year earlier.

Current assets increased 16.3%, to ¥135,613 million, owing mainly to a rise in cash and time deposits, as well as notes and accounts receivable. The current ratio slipped to 282%, from 324%. Tangible fixed assets declined 3.8%, to ¥42,391 million, due largely to declines in buildings and structures, as well as machinery, equipment, and vehicles. Deferred charges and intangible fixed assets dropped 21.4%, to ¥2,043 million, while investments and other assets fell 20.0%, to ¥13,150 million, stemming partly from a decline in long-term investments in securities.

Liabilities and Shareholders' Equity

Total liabilities increased 19.6%, to ¥90,409 million.

Current liabilities jumped 33.8%, to ¥48,149 million. Despite declines in short-term bank loans and current portion of long-term debt, current liabilities were pushed up by increases in notes and accounts payable, as well as current portion of convertible bonds. Long-term liabilities grew 6.7%, to ¥42,260 million, due to an increase in bonds with new share subscription rights.

Total shareholders' equity slipped 1.2%, to ¥102,478 million, due mainly to a decline in foreign-currency translation adjustments and a valuation adjustment for marketable securities. The equity ratio declined to 53.0%, from 57.7%. Book value per share slipped ¥8.40, to ¥860.80.

Cash Flows

Net cash provided by operating activities amounted to ¥16,012 million, up ¥12,740 million from the previous year. Major factors in this gain include a ¥2,763 million increase in income before income taxes and minority interests, a ¥2,502 million increase decrease in inventories, a ¥5,221 million increase in trade payables, and a ¥5,524 million refund of interim taxes paid in the previous fiscal year.

Net cash used in investing activities totaled ¥3,910 million, down ¥3,998 million from the previous year. Primary items included ¥1,199 million in payments for purchases short-term investments in securities and ¥4,760 million for purchases of property, plant, and equipment, mainly in the form of ongoing investments in business assets.

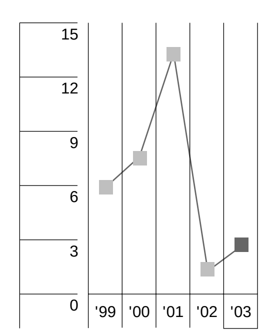
Net cash provided by financing activities was ¥5,424 million, down ¥1,507 million. Despite a ¥2,887 million decrease in short-term bank loans, ¥4,787 million in repayments of long-term debt, and ¥8,000 million in redemption of bonds, the Company raised ¥22,905 million in issues of bonds with new share subscription rights.

As a consequence, cash and cash equivalents at year-end stood at ¥72,534 million, up ¥17,526 million from a year earlier.

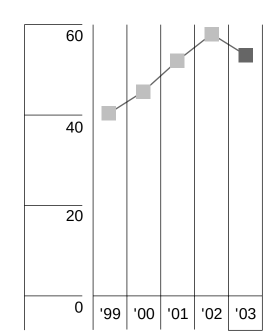
Forward-Looking Statements

This annual report contains forward-looking statements that reflect the Company's business plans, performance projections, and strategic forecasts. Such statements are based on information currently available to the Company. However, changes in the operating environment may cause actual results and achievements to differ from those anticipated in this report.

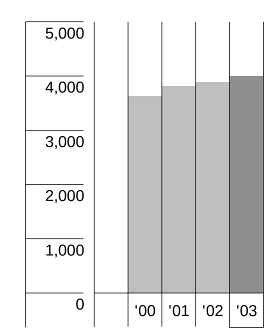
ROA
(%)



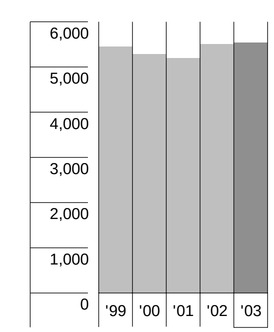
Equity Ratio
(%)



Employees
(Individuals)



Depreciation
(Millions of Yen)



THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets
as of March 31, 2002 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
ASSETS			
Current Assets:			
Cash and bank deposits (Notes 6 and 13)	¥ 43,368	¥ 66,460	$ 552,911
Short-term investments in securities (Notes 6 and 13)	9,137	7,004	58,267
Accounts and notes receivable-			
Trade	23,817	33,115	275,495
Unconsolidated subsidiaries and affiliates	1,055	1,949	16,213
Other	6,024	456	3,802
	30,896	35,520	295,510
Less: allowance for bad debts	(470)	(384)	(3,195)
	30,426	35,136	292,315
Inventories (Note 5)	26,431	23,748	197,568
Short-term advances (Note 13)-			
Unconsolidated subsidiaries and affiliates	215	252	2,100
Other	4,000	8	67
Deferred tax assets (Note 12)	2,521	2,249	18,710
Other current assets	514	756	6,296
Total current assets	116,612	135,613	1,128,234
Investments and Other:			
Long-term investments in securities (Notes 4 and 6)	4,766	3,845	31,984
Investments in unconsolidated subsidiaries and affiliates (Note 4)	5,753	4,667	38,825
Deferred tax assets (Note 12)	2,446	2,134	17,754
Other investments	3,478	2,504	20,834
	16,443	13,150	109,397
Property, Plant and Equipment (Notes 6 and 8):			
Buildings and structures	27,553	27,405	227,998
Machinery and equipment	67,026	67,436	561,030
	94,579	94,841	789,028
Less: accumulated depreciation	(61,369)	(64,012)	(532,545)
	33,210	30,829	256,483
Land	10,253	10,258	85,341
Construction in progress	587	1,304	10,846
	44,050	42,391	352,670
Deferred Charges and Intangibles	2,600	2,043	16,998
Total assets	¥ 179,705	¥ 193,197	$1,607,299

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2003	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 6,551	¥ 3,306	$ 27,503
Current portion of long-term debt (Note 6)	12,168	19,755	164,354
Accounts and notes payable-			
Trade	10,559	14,941	124,301
Unconsolidated subsidiaries and affiliates	1,306	2,096	17,436
Other	395	688	5,727
	12,260	17,725	147,464
Income taxes payable	108	1,668	13,880
Accrued expenses	3,640	4,842	40,286
Other current liabilities	1,253	853	7,092
Total current liabilities	35,980	48,149	400,579
Long-term Liabilities:			
Long-term debt (Note 6)	36,610	39,192	326,059
Reserve for employees' retirement benefits (Note 11)	1,346	1,484	12,343
Reserve for directors' and statutory auditors' retirement benefits	1,512	1,194	9,933
Other liabilities (Note 12)	142	390	3,243
Total long-term liabilities	39,610	42,260	351,578
Minority Interest	367	310	2,578
Shareholders' Equity:			
Common stock, no par value for 2002 and 2003:			
Authorized: 465,877,700 shares for 2002 and 2003:			
Issued: 119,363,018 shares for 2002 and 2003:	23,106	23,106	192,232
Additional paid-in capital	30,962	30,962	257,589
Retained earnings	48,585	48,687	405,049
Net unrealized gain on other securities (Note 4)	45	(355)	(2,954)
Foreign currency translation adjustments	1,053	481	4,002
Treasury stock, at cost: 1,800 shares and 347,765 shares			
for 2002 and 2003, respectively	(3)	(403)	(3,354)
Total shareholders' equity	103,748	102,478	852,564
Contingent Liabilities (Note 7)			
Total liabilities and shareholders' equity	¥ 179,705	¥ 193,197	$ 1,607,299

The accompanying notes are an integral part of these statements.

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

for the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2003
Net Sales	¥ 140,287	¥ 89,340	¥ 94,600	$ 787,021
Cost of Sales	91,447	63,294	66,647	554,465
Gross profit	48,840	26,046	27,953	232,556
Selling, General and Administrative Expenses (Note 10)	23,145	23,870	23,060	191,849
Operating income	25,695	2,176	4,893	40,707
Non-Operating Income/(Expenses):				
Interest and dividend income	550	356	219	1,820
Interest expenses	(1,139)	(1,041)	(888)	(7,388)
Loss on sales of long-term investments in securities	(219)	–	–	–
Amortization of bond discount	(114)	–	–	–
Loss on sales/disposal of property and equipment	(471)	(153)	(403)	(3,350)
Foreign exchange gain, net	1,741	801	352	2,925
Equity earnings (losses) of unconsolidated subsidiaries and affiliates	330	8	(12)	(101)
Rental income	125	132	149	1,236
One-time provision for directors' and statutory auditors' retirement benefits for the period prior to April 1, 2000 (Note 3)	(1,309)	–	–	–
Loss on write-down of long-term investments in securities	(6)	(875)	(510)	(4,243)
Loss on write-down of other investments	(389)	–	–	–
Liquidation loss of unconsolidated subsidiaries	–	(466)	–	–
Loss on change in interest in affiliated company	–	(136)	(318)	(2,649)
Other, net	(464)	31	115	964
	(1,365)	(1,343)	(1,296)	(10,786)
Income before income taxes and minority interest	24,330	833	3,597	29,921
Income Taxes (Note 12)	9,889	15	1,773	14,751
Income before minority interest	14,441	818	1,824	15,170
Minority interest in (income)/loss of consolidated subsidiaries	(125)	2	68	569
Net income	¥ 14,316	¥ 820	¥ 1,892	$ 15,739

	Yen			U.S. dollars (Note 1)
Per Share Data:				
Net income – basic	¥ 120.20	¥ 6.88	¥ 15.65	$ 0.130
– diluted	¥ 115.44	–	¥ 15.12	$ 0.126

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

for the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2003
Common Stock				
At beginning of year	¥ 21,733	¥ 23,076	¥ 23,106	$ 192,232
Conversion of convertible bonds to common stock	34	30	–	–
Exercise of stock warrants to common stock	1,309	–	–	–
At end of year	¥ 23,076	¥ 23,106	¥ 23,106	$ 192,232
Additional Paid-In Capital				
At beginning of year	¥ 29,220	¥ 30,932	¥ 30,962	$ 257,589
Conversion of convertible bonds to common stock	34	30	–	–
Exercise of stock warrants to common stock	1,678	–	–	–
At end of year	¥ 30,932	¥ 30,962	¥ 30,962	$ 257,589
Retained Earnings				
At beginning of year	¥ 37,109	¥ 49,614	¥ 48,585	$ 404,205
Net income	14,316	820	1,892	15,739
Cash dividends	(1,781)	(1,789)	(1,790)	(14,895)
Directors' bonuses	(30)	(60)	–	–
At end of year	¥ 49,614	¥ 48,585	¥ 48,687	$ 405,049
Net Unrealized Gain on Other Securities				
At beginning of year	¥ –	¥ 268	¥ 45	$ 375
Change in the year	268	(223)	(400)	(3,329)
At end of year	¥ 268	¥ 45	¥ (355)	$ (2,954)
Foreign Currency Translation Adjustments				
At beginning of year	¥ –	¥ (1,278)	¥ 1,053	$ 8,766
Change in the year	(1,278)	2,331	(572)	(4,764)
At end of year	¥ (1,278)	¥ 1,053	¥ 481	$ 4,002
Treasury Stock, at cost				
At beginning of year	¥ (1)	¥ (0)	¥ (3)	$ (31)
Purchase of treasury stock	(49)	(6)	(17)	(143)
Sales of treasury stock	50	3	–	–
Change in the year of treasury stock held by an affiliated company	–	–	(383)	(3,180)
At end of year	¥ (0)	¥ (3)	¥ (403)	$ (3,354)
Total Shareholders' Equity at end of year	¥102,612	¥103,748	¥ 102,478	$ 852,564

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended March 31, 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2003
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 24,330	¥ 833	¥ 3,597	$ 29,921
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,813	6,164	6,164	51,278
Increase/(decrease) in provisions	2,352	(128)	(390)	(3,248)
Loss on sale/disposal of property and equipment	471	153	403	3,350
Interest and dividend income	(550)	(356)	(219)	(1,820)
Interest expenses	1,139	1,041	888	7,388
Foreign exchange gain, net	(380)	(135)	(141)	(1,170)
Equity earnings (losses) of unconsolidated subsidiaries and affiliates	(330)	(8)	12	101
Loss on write-down of long-term investments in securities	6	875	510	4,243
Liquidation loss of unconsolidated subsidiaries	–	466	–	–
Loss on change in interest in affiliated company	–	136	318	2,649
Changes in assets and liabilities:				
(Increase)/decrease in accounts and notes receivable	(9,831)	22,138	(10,254)	(85,306)
Decrease in inventories	5,557	4,697	2,502	20,817
Increase/(decrease) in accounts and notes payable	1,649	(15,976)	5,221	43,433
Other, net	392	(1,285)	2,560	21,297
Subtotal	30,618	18,615	11,171	92,933
Interest and dividend income received	586	374	220	1,833
Interest expenses paid	(1,261)	(1,003)	(903)	(7,512)
Income taxes (paid)/refunded	(6,940)	(14,714)	5,524	45,959
Net cash provided by operating activities	23,003	3,272	16,012	133,213
Cash Flows from Investing Activities:				
(Increase)/decrease in time deposits due over three months	–	(498)	468	3,894
Payments for purchase of short-term investments in securities	(1,549)	(1,999)	(1,199)	(9,978)
Proceeds from sales of short-term investments in securities	4,287	2,063	1,328	11,052
Payments for purchase of property, plant and equipment	(11,076)	(9,225)	(4,760)	(39,599)
Proceeds from sales of property, plant and equipment	1,286	194	149	1,239
Payments for purchase of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	(250)	(486)	(10)	(80)
Proceeds from sales of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	132	888	104	862
Payments of short-term advances	(689)	(663)	(335)	(2,790)
Collections of short-term advances	537	1,819	345	2,872
Net cash used in investing activities	(7,322)	(7,907)	(3,910)	(32,528)
Cash Flows from Financing Activities:				
Decrease in short-term bank loans	(5,178)	(1,512)	(2,887)	(24,018)
Borrowings of long-term debt	900	1,210	–	–
Repayments of long-term debt	(5,173)	(6,038)	(4,787)	(39,821)
Proceeds from issuance of bonds	–	15,000	22,905	190,553
Redemption of bonds	(14,855)	–	(8,000)	(66,556)
Exercise of stock warrants to common stock	2,705	–	–	–
Cash dividends	(1,784)	(1,790)	(1,790)	(14,895)
Other, net	1	60	(17)	(143)
Net cash provided by (used in) financing activities	(23,384)	6,930	5,424	45,120
Effect of Exchange Rate Changes on Cash and Cash Equivalents	885	664	1	4
Net Increase/(Decrease) in Cash and Cash Equivalents	(6,818)	2,959	17,527	145,809
Cash and Cash Equivalents at Beginning of Year (Note 13)	58,866	52,048	55,007	457,633
Cash and Cash Equivalents at End of Year (Note 13)	¥ 52,048	¥ 55,007	¥ 72,534	$ 603,442

The accompanying notes are an integral part of these statements.

1.Basis of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by THK CO., LTD. (the "Company") and its subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Financial Bureau in Japan have been reclassified in these financial statements for the convenience of readers outside Japan.

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20=U.S.$1, the rate of exchange on March 31, 2003 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

2.Basis of Consolidation

(a) Scope of Consolidation

The Company had 21 subsidiaries ("controlling companies"–companies whose decision making is controlled) as at March 31, 2003 (22 as at March 31, 2002). The consolidated financial statements for the year ended March 31, 2003 include the accounts of the Company and 13 (13 for 2002) of its subsidiaries. The 13 major subsidiaries, which have been consolidated with the Company, are listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal year ended
THK Holdings of America, L.L.C. (USA)	100%	Dec.31, 2002
THK America, Inc. (USA)	100	Dec.31, 2002
THK Manufacturing of America, Inc. (USA)	100	Dec.31, 2002
THK Neturen America L.L.C.(USA)	50	Dec.31, 2002
THK Europe B.V. (the Netherlands)	100	Dec.31, 2002
THK GmbH (Germany)	100	Dec.31, 2002
PGM Ballscrews Ltd. (UK)	100	Dec.31, 2002
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec.31, 2002
THK Manufacturing of Europe,S.A.S. (France)	100	Dec.31, 2002
THK TAIWAN Co., Ltd.(Taiwan)	94.99	Dec.31, 2002
THK Yasuda Co., Ltd. (Japan)	70	Mar.31, 2003
Talk System Co., Ltd. (Japan)	98.90	Mar.31, 2003
Beldex Corporation (Japan)	94.73	Mar.31, 2003

The accounts for the year ended March 31,2003 of the remaining 8 (9 for 2002) subsidiaries are insignificant, meaning that these accounts have not been consolidated with the Company since combined assets, net sales, net income and retained earnings of these companies, in the aggregate, are not significant in relation to those of the Companies.

(b) Elimination of Inter-company Transactions

For the purposes of preparing the consolidated financial statements of the Companies, all significant inter-company transactions, account balances and unrealized profits among the Companies have been entirely eliminated.

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 2003, the Company had 3 (4 for 2002) affiliates ("influencing companies"–companies whose financial and operating or business decision making can be influenced by the Companies in material degree, and are not subsidiaries) . The equity method is applied only to the investment in Daito Seiki Co., Ltd., since the investments in other unconsolidated subsidiaries and affiliates do not have material effects on consolidated net income and retained earnings in the consolidated financial statements, had they been accounted for using the equity method. Thus the investments in the unconsolidated subsidiaries and affiliates are carried at cost or less.

(d) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries)

Until the year ended March 31, 2000, the translations of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes were performed by applying the current exchange rate method. Under this method, all assets, liabilities, revenues, costs and expenses are translated into yen at exchange rates prevailing at the end of each fiscal year and the common stock and additional paid-in capital accounts are translated at historical rates.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standards for foreign currency translation, which are effective for periods beginning on or after April 1, 2000. Under the new standards, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" in the shareholders' equity. The adoption of the new standards did not have a material impact on the consolidated financial statements of the company.

3.Summary of Significant Accounting Policies

(a) Inventories

Inventories held by the Company, THK Yasuda Co., Ltd., Talk System Co., Ltd. and THK Manufacturing of Europe S.A.S. are valued at cost, cost being determined using the annual average cost method. Inventories held by THK America, Inc., THK Manufacturing of America, Inc., PGM Ballscrews Ltd. and PGM Ballscrews Ireland Ltd. are valued at the lower of cost or market value, cost being determined using the first-in first-out method. Inventories held by THK Europe B.V., THK GmbH and THK TAIWAN Co., Ltd. are valued at the lower of cost or market value, cost being determined using the moving-average method. Inventories held by Beldex Corporation are valued at cost, cost being determined using identified cost method.

(b) Financial Instruments

Until the year ended March 31, 2000, short-term investments in securities (current portfolio) and long-term investments in securities (non-current portfolio) listed on stock exchanges were valued at the lower of cost or market value, cost being determined using the moving average method.

Appropriate write-downs were recorded for unlisted securities that experience substantial decline in value and where such impairments of value are considered not to be temporary.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standards for financial instruments, which are effective for periods beginning on or after April 1, 2000. As a result of adopting of the new standards, income before income taxes and minority interest for the year ended March 31, 2001 has decreased by ¥1,189 million, compared to the amount which would have been reported if the previous standards had been applied consistently. The effect of adopting the new standards on segment information is discussed in Note 14.

(i) Derivatives

All derivatives are stated at fair value, with changes in fair values included in net profit or loss for the period in which they arise.

(ii) Securities

Securities held by the Company and its subsidiaries are classified into the following categories;

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of applying the equity method would be immaterial.

Other securities, for which market quotations are available, are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount.

Other securities, for which market quotations are not available, are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates, or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Under the standards, 'other securities' such as bonds that mature within one year or less and those categorized as cash equivalents in the cash flow statements are presented as "current" and the other securities excluding the above are presented as "non-current".

(c) Property, Plant and Equipment

For the Company and its domestic subsidiaries, depreciation is computed using the declining-balance method at the rates based on the estimated useful lives of assets. For its overseas subsidiaries, depreciation is computed using the straight-line and accelerated methods in accordance with their local accounting standards and regulations. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 10 years for machinery and equipment.

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

(d) Amortization

Amortization of intangible assets (included in "Deferred Charges and Intangibles" account) is computed using the straight-line method over 8 to 15 years.

Software costs for internal use are amortized over their estimated useful lives (less than 5 years) on a straight-line basis.

Premiums or discounts on debt securities are amortized over the period that bonds remain outstanding.

(e) Allowance for Bad Debts

An allowance for bad debts is recorded, in amounts considered to be appropriate, based primarily upon the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(f) Reserve for Employees' Retirement Benefits

Until the year ended March 31, 2000, the Company recorded a reserve for employees' retirement benefits based on tax regulations. The balance of the liability at March 31, 2000 was the amount which would be required to be paid if all employees voluntarily terminated their employment at those dates.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standards for employees' retirement benefits, which are effective for periods beginning on or after April 1, 2000. In accordance with the new standards, the reserve for employees' retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except for the unrecognized actuarial differences which are amortized on a straight-line basis over the period of 10 years from the next year in which they arise. As permitted under the new standards, the transition liability arising from adopting the standards at April 1, 2000 was charged to income.

The adoption of the new standards did not have a material impact on the accompanying consolidated financial statements.

(g) Reserve for Directors' and Statutory Auditors' Retirement Benefits

Until the year ended March 31, 2000, the Company had recognized the retirement benefits for directors and statutory auditors on a cash basis.

Effective from the year ended March 31, 2001, the Company has changed its accounting policy to record a reserve for directors' and statutory auditors' retirement benefits equivalent to the liability the Company would have to pay if all eligible directors and statutory auditors resigned at the balance sheet date.

The change was made in line with the revision of the internal regulations for directors' and statutory auditors' retirement benefits and the general prevalence of such accounting practices in Japan. The change was made for the purpose of appropriate matching of revenue and related costs by allocating the cost of reserve for directors' and statutory auditors' retirement benefits to each term in office.

As a result of the change, for the year ended March 31, 2001, selling, general and administrative expenses and non-operating expense increased by ¥115 million and ¥1,309 million, respectively, and income before income taxes and minority interest decreased by ¥1,424 million, compared with the previous basis. The effect of this change on segment information is discussed in Note 14.

(h) Lease

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(i) Foreign Currency Translation

Until the year ended March 31, 2000, monetary assets and liabilities, except long-term accounts, denominated in foreign currencies were translated into Japanese yen at the current exchange rates prevailing at the respective balance sheet dates. Resulting translation gains or losses were included in the determination of net income for the year.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standards for foreign currency translation, which are effective for periods beginning on or after April 1, 2000. Under the new standards, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period. The adoption of the new method had no impact on the accompanying consolidated financial statements.

(j) Accounting for Consumption Tax

Consumption tax is levied at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld upon sale is not included in the amount of "net sales" in the accompanying consolidated statements of income but is recorded as a liability. The consumption tax paid by the Company and domestic subsidiaries on the purchases of goods and services is not included either in the amounts of costs or expenses in the consolidated statements of income, but is recorded as an asset and the net balance of liability less asset is included in "other current liabilities" in the consolidated balance sheets.

(k) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(l) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits that can be withdrawn on demand and short-term investments with original maturity of three months or less and which represent a minor risk of fluctuations in value.

(m) Net Income per Share

Net income per share is calculated by dividing net income, as adjusted for appropriation of retained earnings for directors' bonus, by the weighted-average number of shares outstanding during the reported period. The calculation of diluted net income per share is similar to the calculation of net income per share, except that the weighted-average number of shares outstanding includes the additional dilution from assumed conversion of convertible bonds of the Company.

4. Long-term Investments in Securities and Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 2002 and 2003, "other securities" with available market value were as follows:

	Millions of yen		
	2002		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 366	¥ 542	¥ 176
Other	20	28	8
Subtotal	386	570	184
Carrying amounts not in excess of acquisition cost:			
Equity securities	2,739	2,233	(506)
Total	¥ 3,125	¥ 2,803	¥ (322)

	Millions of yen		
	2003		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 314	¥ 376	¥ 62
Other	16	20	4
Subtotal	330	396	66
Carrying amounts not in excess of acquisition cost:			
Equity securities	2,291	1,773	(518)
Total	¥ 2,621	¥ 2,169	¥ (452)

	Thousand of U.S. dollars		
	2003		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$ 2,612	$ 3,126	$ 514
Other	129	166	37
Subtotal	2,741	3,292	551
Carrying amounts not in excess of acquisition cost:			
Equity securities	19,061	14,753	(4,308)
Total	$ 21,802	$ 18,045	$ (3,757)

Proceeds and net realized gain (loss) from the sales of "other securities" for the years ended March 31, 2001, 2002 and 2003 were immaterial.

5. Inventories

Inventories at March 31, 2002 and 2003 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Finished goods	¥ 15,437	¥ 14,080	$ 117,134
Work in process	4,978	3,931	32,703
Raw materials and supplies	6,016	5,737	47,731
Total	¥ 26,431	¥ 23,748	$ 197,568

6. Short-term Bank Loans and Long-term Debt

The annual average interest rates applicable to short-term bank loans at March 31, 2002 and 2003 were 1.21% and 1.17%, respectively.

Long-term debt at March 31, 2002 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
0.3%. Convertible bonds 2003, currently convertible at ¥2,717 ($22)	¥ 13,905	¥ 13,905	$ 115,682
1.95%. Straight bonds 2003	1,000	1,000	8,319
1.95%. Straight bonds 2003	1,000	1,000	8,319
2.25%. Straight bonds 2003	1,000	1,000	8,319
2.6%. Straight bonds 2003	5,000	–	–
0.52%. Euro yen straight bonds 2003	3,000	–	–
Floating rate Industrial development revenue bonds 2003			
(5.15% for 2002, 4.8% for 2003) of a consolidated subsidiary	488	444	3,693
0.91%. Straight bonds 2006	10,000	10,000	83,195
1.37%. Straight bonds 2008	5,000	5,000	41,598
Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 ($14)	–	23,000	191,348
Loans from banks:			
Collateralized	6,339	2,048	17,045
Non-collateralized	2,046	1,550	12,895
	48,778	58,947	490,413
Less – current portion	12,168	19,755	164,354
	¥ 36,610	¥ 39,192	$ 326,059

At March 31, 2003, the Company and THK America, Inc. had unused committed lines of credit amounting to ¥13,599 million ($113,132 thousand).

At March 31, 2003, the following assets were pledged for collateralized short-term bank loans, current portion of long term loans, and long-term loans.

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Short-term investments in securities	¥ 900	$ 7,486
Long-term investments in securities	390	3,243
Property, plant and equipment	3,300	27,452
Industrial factory foundation	11,545	96,051
Time deposit due over three months	30	250

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2003, were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2003	2003
2005	¥ 842	$ 7,007
2006	250	2,080
2007	10,100	84,027
2008 and thereafter	28,000	232,945
	¥ 39,192	$ 326,059

7. Contingent Liabilities

Contingent liabilities at March 31, 2003 with respect to loans guaranteed (for non-consolidated subsidiaries and affiliates), amounted to ¥302 million ($2,512 thousand).

8. Leases

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥637 million, ¥697 million and ¥666 million ($5,541 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively. Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2002 and 2003 were as follows:

	Millions of yen		
	2002		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 3,209	¥ 71	¥ 3,280
Accumulated depreciation	1,456	19	1,475
Net leased property	¥ 1,753	¥ 52	¥ 1,805

	Millions of yen		
	2003		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 2,956	¥ 72	¥ 3,028
Accumulated depreciation	975	34	1,009
Net leased property	¥ 1,981	¥ 38	¥ 2,019

	Thousands of U.S. dollars		
	2003		
	Machinery and equipment	Other	Total
Acquisition costs	$ 24,595	$ 596	$ 25,191
Accumulated depreciation	8,115	279	8,394
Net leased property	$ 16,480	$ 317	$ 16,797

Future minimum lease payments under finance leases as of March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥ 645	¥ 607	$ 5,050
Due after one year	1,160	1,412	11,747
Total	¥ 1,805	¥ 2,019	$ 16,797

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Depreciation of the leased property, which is not reflected in the accompanying consolidated statements of income, computed by using the straight-line method, would be ¥637 million, ¥697 million and ¥666 million ($5,542 thousand) for the years ended March 31, 2001, 2002 and 2003, respectively.

Obligations under non-cancelable operating leases as of March 31, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Due within one year	¥ 652	¥ 711	$ 5,912
Due after one year	2,343	1,839	15,300
Total	¥ 2,995	¥ 2,550	$ 21,212

9. Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks. The Company has established a control environment, which includes policies and procedures for risk assessments and for the approval, and reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

For the years ended March 31, 2002 and 2003, the Company utilized certain interest rate swap and currency swap agreements. Market value information for such swaps held by the Company at March 31, 2002 and 2003 has been omitted as such swap agreements qualified the conditions for hedge accounting under the related Japanese accounting standards and the effects of such swap agreements have been reflected on the accompanying consolidated financial statements.

10. Research and Development

Research and development expenses for the years ended March 31, 2001, 2002 and 2003 were ¥1,426 million, ¥1,932 million and ¥2,104 million ($17,506 thousand), respectively, and were included in "Selling, General and Administrative Expenses".

11. Reserve for Employees' Retirement Benefits

The Company, its domestic subsidiaries and certain overseas subsidiaries have both retirement lump-sum payment programs and defined benefit pension plans. Occasionally, when certain qualified employees retire, additional retirement benefits will be paid. Except for the above overseas subsidiaries, other overseas subsidiaries have mainly defined contribution plans.

The reserve for employees' retirement benefits as of March 31, 2002 and 2003 was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Projected benefit obligations	¥ 3,802	¥ 4,140	$ 34,437
Plan assets	(1,801)	(1,888)	(15,706)
	2,001	2,252	18,731
Unrecognized actuarial differences	(655)	(768)	(6,388)
Reserve for employees' retirement benefit	¥ 1,346	¥ 1,484	$ 12,343

Net periodic pension and severance costs for the years ended March 31, 2001, 2002 and 2003 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Service cost	¥ 262	¥ 303	¥ 336	$ 2,790
Interest cost	81	91	89	742
Expected return on plan assets	(48)	(49)	(9)	(73)
Amortization of transition amount	82	–	–	–
Recognized actuarial differences	–	25	68	566
Net periodic pension and severance costs	¥ 377	¥ 370	¥ 484	$ 4,025

Assumptions used for calculation of the above information were as follows:

	As of March 31		
	2001	2002	2003
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	3.0%	2.5%	2.5%
Expected rate of return on plan assets	3.0%	3.0%	0.5%
Amortization of unrecognized actuarial differences	10 years	10 years	10 years

12. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the Company and its subsidiaries for the years ended March 31, 2001, 2002 and 2003 was 42.1%.

At March 31, 2002 and 2003, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Loss on devaluation of inventories	¥ 745	¥ 951	$ 7,912
Software	796	759	6,317
Elimination of inter-company profit (inventories)	842	690	5,741
Reserve for directors' and statutory auditors' retirement benefits	636	486	4,042
Allowance for bad debts	581	474	3,945
Reserve for employees' retirement benefits	366	466	3,876
Net operating loss carried forward	1,223	411	3,419
Accrued bonuses to employees	271	409	3,401
Loss on write-down of investment securities	365	162	1,346
Enterprise tax payable	–	142	1,187
Other	961	917	7,628
Gross deferred tax assets	6,786	5,867	48,814
Less: valuation allowance	(837)	(976)	(8,120)
Total deferred tax assets	5,949	4,891	40,694
Deferred tax liabilities:			
Enterprise tax refundable	(459)	–	–
Special depreciation reserve	(327)	(239)	(1,987)
Other	(222)	(333)	(2,770)
Total deferred tax liabilities	(1,008)	(572)	(4,757)
Net deferred tax assets	¥ 4,941	¥4,319	$ 35,937

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Current assets – Deferred tax assets	¥ 2,521	¥ 2,249	$ 18,710
Investments and other – Deferred tax assets	2,446	2,134	17,754
Long-term liabilities – Other liabilities	(26)	(64)	(527)
Net deferred tax assets	¥ 4,941	¥ 4,319	$ 35,937

For the year ended March 31, 2001, the difference between the statutory tax rate and the effective tax rate was insignificant.

For the year ended March 31, 2002 and 2003, the reconciliation of the statutory tax rate to the effective tax rate was as follows:

	2002	2003
Statutory tax rate	42.1%	42.1%
Increase (reduction) in taxes resulting from:		
Permanent differences	3.1	1.0
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	50.2	25.6
Changes in tax consequences related to devaluation of investments in consolidated subsidiaries and affiliates	(110.6)	(21.8)
Equalization inhabitant taxes	7.0	1.7
Tax rate differences between domestic and overseas	9.3	(0.7)
Change in tax rate resulting from enactment of income tax regulations	–	2.0
Others	1.7	(0.6)
Effective income tax rate	2.8%	49.3%

Due to changes in Japanese tax regulations, effective April 1, 2004, the statutory rate was reduced to approximately 40.69%, and such rate was used to calculate the future expected tax effects of temporary differences, which are expected to be realized on and after April 1, 2004.

13. Reconciliation of Cash and Cash Equivalents per Consolidated Cash Flow Statements with Account Balances on Consolidated Balance Sheets

Cash and cash equivalents at March 31, 2002 and 2003 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash and bank deposits	¥ 43,368	¥ 66,460	$ 552,911
Short-term investments in securities	9,137	7,004	58,267
Short-term advances	4,215	–	–
	56,720	73,464	611,178
Less:			
Time deposit due over three months	(498)	(30)	(250)
Short-term investments in securities excluding M.M.F. and others	(1,000)	(900)	(7,486)
Short-term advances excluding repurchase agreement	(215)	–	–
	¥ 55,007	¥ 72,534	$ 603,442

14. Segment Information

(1) Industry Segment Information

As the sales, operating income and assets of the machinery parts segment are over 90% of total sales, total operating income and total assets of the Company and consolidated subsidiaries, industry segment information is not required to be disclosed. The Company and consolidated subsidiaries are operating in one industry segment: production and sales of linear motion systems.

(2) Geographical Segment Information

Net sales of the Companies for the years ended March 31, 2001, 2002 and 2003 classified by geographic segments were summarized as follows:

Millions of yen

2001	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income-							
Net Sales:							
Customers	¥111,641	¥ 15,610	¥ 10,994	¥ 2,042	¥140,287	¥ –	¥140,287
Inter-segment	18,985	404	129	–	19,518	(19,518)	–
Total	130,626	16,014	11,123	2,042	159,805	(19,518)	140,287
Operating expenses	107,771	14,144	10,459	2,039	134,413	(19,821)	114,592
Operating income	¥ 22,855	¥ 1,870	¥ 664	¥ 3	¥ 25,392	¥ 303	¥ 25,695
II. Assets -							
Assets	¥167,859	¥ 19,575	¥ 12,157	¥ 1,867	¥201,458	¥ (3,328)	¥198,130

As discussed in Note 3(g), the Company, during the year ended March 31, 2001, changed its accounting policy to record a reserve for directors' and statutory auditors' retirement benefits, in an amount equal to the liability the Company would have to pay if all eligible directors and statutory auditors resigned at the balance sheet date. As a result of the change, operating expenses in Japan in the above table increased by ¥115 million and operating income in Japan decreased by the same amount compared with the previous basis.

As discussed in Note 3(b), effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standards for financial instruments, which are effective for periods beginning on or after April 1, 2000. As a result of adopting of the new standards, operating expense in Japan for the year ended March 31, 2001 has increased by ¥438 million and operating income in Japan has decreased by the same amounts as compared with the amount which would have been reported if the previous standards had been applied consistently.

Millions of yen

2002	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income -							
Net sales:							
Customers	¥ 63,316	¥ 11,632	¥ 12,726	¥ 1,666	¥ 89,340	¥ –	¥ 89,340
Inter-segment	11,396	190	130	–	11,716	(11,716)	–
Total	74,712	11,822	12,856	1,666	101,056	(11,716)	89,340
Operating expenses	72,059	11,876	13,641	1,673	99,249	(12,085)	87,164
Operating income/(loss)	¥ 2,653	¥ (54)	¥ (785)	¥ (7)	¥ 1,807	¥ 369	¥ 2,176
II. Assets -							
Assets	¥154,625	¥ 16,219	¥ 13,530	¥ 1,242	¥185,616	¥ (5,911)	¥179,705

Millions of yen

2003	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income -							
Net sales:							
Customers	¥ 71,060	¥ 10,732	¥ 10,982	¥ 1,826	¥ 94,600	¥ –	¥ 94,600
Inter-segment	12,193	148	98	–	12,439	(12,439)	–
Total	83,253	10,880	11,080	1,826	107,039	(12,439)	94,600
Operating expenses	76,434	11,502	12,849	1,759	102,544	(12,837)	89,707
Operating income/(loss)	¥ 6,819	¥ (622)	¥ (1,769)	¥ 67	¥ 4,495	¥ 398	¥ 4,893
II. Assets -							
Assets	¥173,615	¥ 15,830	¥ 15,551	¥ 1,471	¥206,467	¥ (13,270)	¥193,197

Thousands of U.S. dollars

2003	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income -							
Net sales:							
Customers	$ 591,180	$ 89,289	$ 91,363	$ 15,189	$ 787,021	$ –	$ 787,021
Inter-segment	101,443	1,229	815	–	103,487	(103,487)	–
Total	692,623	90,518	92,178	15,189	890,508	(103,487)	787,021
Operating expenses	635,891	95,696	106,891	14,631	853,109	(106,795)	746,314
Operating income/(loss)	$ 56,732	$ (5,178)	$ (14,713)	$ 558	$ 37,399	$ 3,308	$ 40,707
II. Assets -							
Assets	$ 1,444,380	$ 131,701	$ 129,379	$ 12,234	$1,717,694	$(110,395)	$ 1,607,299

(3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company plus the sales by the overseas consolidated subsidiaries) for the years ended March 31, 2001, 2002 and 2003 were summarized as follows:

	Millions of yen			
	2001			
	America	Europe	Asia and other	Total
Overseas sales	¥ 15,725	¥ 11,354	¥ 9,205	¥ 36,284
Consolidated net sales				¥ 140,287
Overseas sales as a percentage of consolidated net sales	11.2%	8.1%	6.6%	25.9%

	Millions of yen			
	2002			
	America	Europe	Asia and other	Total
Overseas sales	¥ 11,629	¥ 12,863	¥ 5,203	¥ 29,695
Consolidated net sales				¥ 89,340
Overseas sales as a percentage of consolidated net sales	13.0%	14.4%	5.8%	33.2%

	Millions of yen / (Thousands of U.S. dollars)			
	2003			
	America	Europe	Asia and other	Total
Overseas sales	¥ 10,775	¥ 10,780	¥ 7,765	¥ 29,320
	($ 89,643)	($ 89,686)	($ 64,597)	($ 243,926)
Consolidated net sales				¥ 94,600
				($ 787,021)
Overseas sales as a percentage of consolidated net sales	11.4%	11.4%	8.2%	31.0%

To the Shareholders and Board of Directors of
THK CO., LTD.

We have audited the accompanying consolidated balance sheets of THK CO., LTD. and its consolidated subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures, and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THK CO., LTD. and its consolidated subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As discussed in Notes 2 and 3, THK CO., LTD. and its consolidated subsidiaries changed their accounting policies for foreign currency translation, financial instruments, employees' retirement benefits and reserve for directors' and statutory auditors' retirement benefits in the year ended March 31, 2001.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 21, 2003

1. Treasury Stock Acquisition

The acquisition of the Company's outstanding shares has been resolved at the Annual General Meeting of Shareholders ("AGM") which was held on June 21, 2003 as follows:

(i) Period From the resolution to the next AGM held after the fiscal year
(ii) Class of stock to be acquired: Common stock of THK CO., LTD.
(iii) Maximum number of shares to be acquired 5,000,000 shares
(iv) Maximum amount of acquisition: Yen 10,000,000,000

2. Stock Option Plan Summary

Stockholders resolved to implement the stock option plan at the AGM in accordance with provision of Section 20 and 21, Article 280 of the Commercial Code. The Company will grant stock subscription rights (*shinkabu yoyaku ken*) as stock option to board members and employees of the Company as outlined below:

(i) Plan resolution Date
June 21, 2003
(ii) Grantees
Board members and employees of the Company
(iii) Exercise period of stock options
From June 21, 2005 to June 20, 2008
(iv) Class of stocks subject to exercise of stock subscription rights
Common stock of the Company
(v) Number of shares to be granted
not exceeding 1,000,000 shares
(vi) Paid-in-price upon the exercise of each option
The exercise price will be the average closing price for the Company's common stock on the Tokyo Stock Exchange of each day (excluding days on which no trades are concluded) of the month preceding the month during which the stock subscription rights are issued (with amounts of less than 1 rounded up to the nearest yen) multiplied by 1.05. However, if this amount is less than the closing price on the issuance date (in the event no trades are concluded on that date, the preceding day on which a trade is concluded), the closing price on the issue date should be the exercise price.
(Adjustment of exercise price) In the event the Company carries out a stock split or reverse stock split, the exercise price will be adjusted in accordance with the following formula (with amounts of less than 1 rounded up to the nearest yen).

$$\text{Exercise price before adjustment} \times \frac{1}{\text{Stock split or reverse split ratio}}$$

However, in the event the Company issues new shares or disposes treasury stock (*jiko kabushiki*) at an amount less than the market price (excluding the conversion of convertible bonds) the exercise price should be adjusted in accordance with the following formula (with amounts of less than 1 rounded up to the nearest yen)

$$\text{Exercise price before adjustment} \times \frac{\text{Number of shares issued and outstanding} + \dfrac{\text{Number of shares newly issued} \times \text{Subscription price per share}}{\text{Share price before new issue}}}{\text{Number of shares issued and outstanding} + \text{Number of shares newly issued}}$$

"Number of shares issued and outstanding" is the total number of shares issued by the Company excluding treasury stocks held by the Company. In the event treasury stocks are disposed, "Number of shares newly issued" and "Subscription price per share" shall be read as "Number of treasury stock shares disposed" and "Disposed price." In addition, in the event of a certain occurrence such as a merger or spin-off which necessitates the Company to adjust the exercise price, the exercise price shall be adjusted rationally in consideration of the conditions of such an event.
(vii) Terms and conditions:
When stock options are allotted the Company and counter party, the board members and employees to who the stock options are being allotted, will enter into "Agreement for Stock Subscription Allotments". Eligible persons must remain in their status as a board member or employee at the time the stock options are exercised. In the event a person receiving stock options allotment dies or leaves the Company due to expiration of the term of office (board members), or becoming retirement age set by the Company (employees), with the board of director's approval, the person or legal heir may exercise the options.
Any transfer of stock options requires the approval by the board of directors of the Company.

As of March 31, 2003

Company profile

Head office	3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503, Japan
Tel.	+81-3-5434-0300
Established	April 1971
Number of employees	2,781
Month of ordinary general meeting of shareholders	June
Website address	http://www.thk.co.jp/

Stock information

Common stock:	
Authorized	465,877,700
Issued	119,363,018
Stock Exchange Listings	Tokyo Stock Exchange
Number of shareholders	32,672 (Unit shareholders: 31,369)
Auditing corporation	ChuoAoyama Audit Corporation

THK

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