THK Annual Report 2005

Annual Report 2005

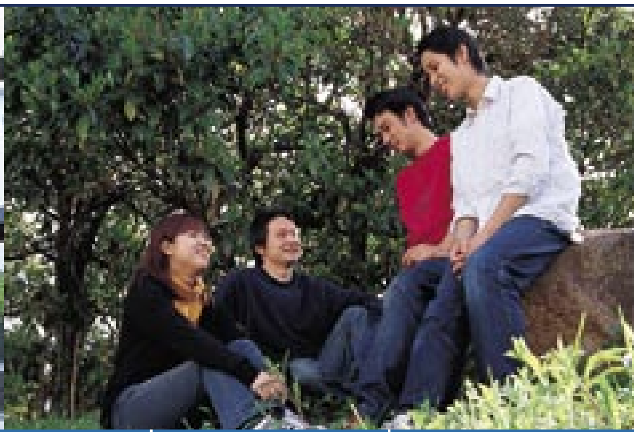
THK CO., LTD.

Contents

Profile

THK is a pioneer in the field of linear motion. We invented and later produced the world's first linear motion (LM) guide, a part that transforms rotary motion into linear motion. LM Guides are integral to the quest for higher precision, faster speeds, and energy conservation in industry. They can be found on countless machines around the world, including machine tools, industrial robots, semiconductor production equipment, and medical instruments. Our basic business philosophy is providing innovative products to the world and generating new trends to contribute to the creation of an affluent society. Since 1971, the year THK was founded, we have poured our imagination and strength into developing an array of products. In 1996, the creative minds here at THK were behind a further major innovation, LM Guides with Caged Ball Technology. The products in our current lineup—including LM Guides, Ball Screws and Ball Splines—all of which make use of Caged Ball Technology, which is trusted in critical application by many customers in diverse fields and regions.

In FY 2000, the thirtieth anniversary of THK's establishment, we drew up a Long-



Term Management Target called the Fiscal 2010 Vision. In the plan, we established the goal of expansion through full-scale globalization and development of new business areas with a view to achieving 300,000 million yen in consolidated sales by FY 2010. To implement "Full-Scale Globalization," we must provide the best products and services to our customers worldwide. As part of our drive to globalize, we are optimizing production systems in the four geographical regions where demand is strongest—Japan, Europe, North America, and elsewhere in Asia—while also striving to strengthen sales. Until recently we have principally operated as a supplier of parts to makers of capital goods. Today, however, we are beginning to explore fields closer to the consumer in order to succeed with "Development of New Business Areas." These include producing seismic isolation devices designed to protect human life, buildings and property from the threat of earthquakes, and parts to improve automobile safety and comfort. We are aiming to promote the twin targets of "Full-Scale Globalization" and "Development of New Business Areas" in order to achieve our goals.

THK Products

LM Guides are machine parts that are essential to the precision and speed of machine tools and various other industrial machinery.
In the future their application will expand from capital goods to consumer goods.

About LM Guides

Machine movement can be classified into two primary types: rotary motion and linear motion. To put it in everyday terms, spinning around on a swivel chair is rotary motion, and opening and closing a drawer is linear motion. THK's linear motion (LM) guide is an essential machine part that smoothly transforms the sliding linear motion of mechanical devices into a rotary motion, ensuring uniform and precise movement.

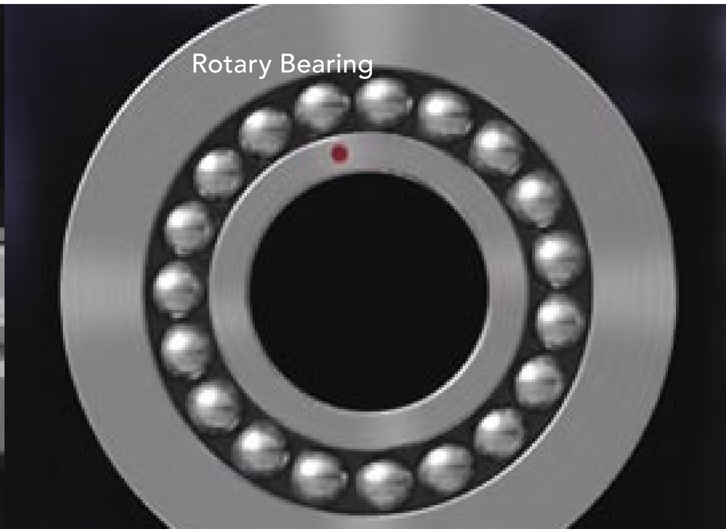
Until relatively recent times, the sliding motion that occurs in machines when rotary and linear motion parts meet created friction, producing resistance and heat. Smoothness and speed were also low. Approximately a century ago, the invention of rotary bearings solved these problems for rotary motion parts.

The linear bushing, which uses balls to create rotary motion in linear motion parts, was developed in the 1960s. But linear bushings were not durable enough, making them unsuitable for widespread use in machining equipment. Linear motion parts weren't capable of rolling with the necessary smoothness and speed until THK introduced the LM Guide in 1972. The LM Guide, characterized by strength and long life, came into common use in machining equipment after a major American machine tool manufacturer adopted it.

Our LM Guides are currently employed in a broad range of capital goods, including machine tools, industrial-use robots and semiconductor production equipment. We have also recently expanded the LM Guide's application range to include uses closer to the end consumer, including seismic isolation devices to protect human life, buildings and property from the threat of earthquakes as well as parts to improve the safety and comfort of automobiles.

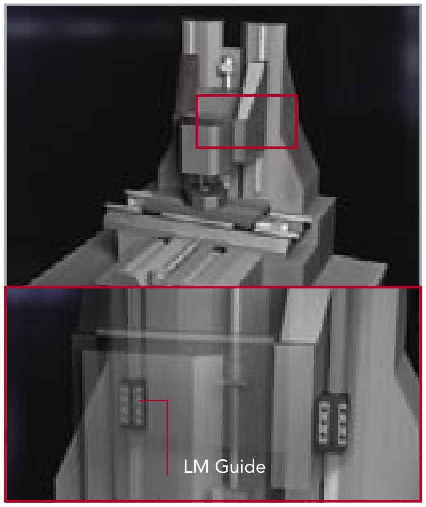
As the world's LM Guide pioneer, and as the top maker with a No. 1 market share, THK offers a wide range of products to respond to the various needs of our customers.


LM Guide


Rotary Bearing

LM Guide with Caged Ball Technology

LM Guides with Caged Ball Technology keep the balls within the ball cage in the form of a belt, preventing the balls from coming into contact with one another and resulting in long service life and less noise, heat and dust. This contributes to overall cost reductions for our clients.



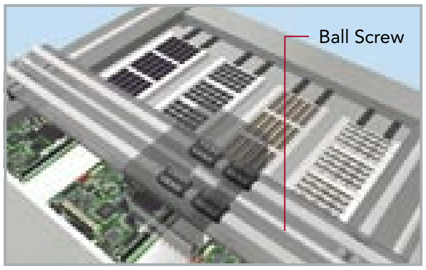
Application of LM Guides (Machine tools)

Our company's main product now is the next-generation LM Guide, the LM Guide with Caged Ball Technology, a pioneering device we developed in 1996. The ball cage is a resinous part that maintains and guides the balls. Compared to the previous LM Guide, the caged ball model creates less noise, has a longer life, and a longer maintenance-free period. It also offers increased speed and eliminates interference noise and friction between balls. The LM Guide with Caged Ball Technology is used in all types of industrial machinery, including machine tools and semiconductor production equipment.

THK maintains a full line of other products in addition to these LM Guides.

Ball Screw with Caged Ball Technology

Ball Screws with Caged Ball Technology have the balls evenly spaced within a cage, resulting in more speed, long service life, and less noise in keeping with the needs of our clients.

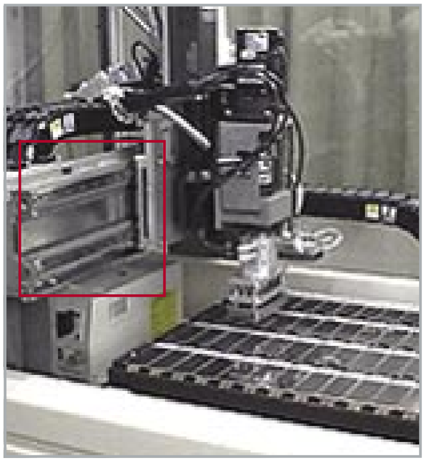


Application of Ball Screws (Electronics-related machinery)

The Ball Screw is an essential machine part that transforms rotary motion into linear motion by rotating multiple balls between the screw shaft and the nut. Its primary use is in the drive portion of linear motion parts in industrial-use machinery. The Ball Screw with Caged Ball Technology employs a ball cage, along with the older Ball Screws. The ball cage offers increased speed, reduced noise and longer life in machine tools, industrial-use robots, semiconductor production equipment and other machines. THK also produces high-load Ball Screws, perfect for replacing hydraulic cylinders in injection molding machines, presses, die-cast machines, blow molding machines, extrusion molding machines and many more applications.

Actuator

This is our Actuator series that combines LM Guides and Ball Screws or Linear Motors. The integrated structure allows for compactness as well as high precision and rigidity.



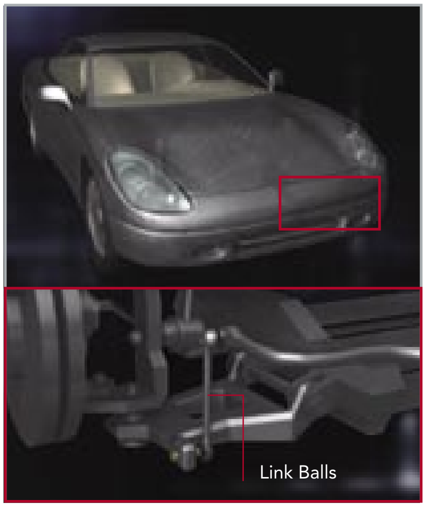
Application of Linear Motor Actuator (Medical instruments)

An Actuator is a combination of an LM Guide with either a Ball Screw or a Linear Motor.

The need for such modules is growing in order to shorten development time and reduce manufacturing lead time, primarily in the electronics industry. We are planning an expansion of the Actuator lineup. The Linear Motor Actuator, for example, is a unit product that combines a Linear Motor, a linear encoder and an LM Guide with Caged Ball Technology, producing smooth movement and highly precise positioning. We provide not only individual components but also this type of hybrid product to serve the increasingly diverse needs of our customers.

Link Balls

Link Balls utilize an all-in-one manufacturing process which makes use of an alminum die-cast. As a result, they are light-weight but also highly resistant to corrosion and wear-and-tear. They are extensively used in the underbody of automobiles.



Application of Link Balls (An automobile)

Link Balls are spherical joints primarily used as automotive parts. They are created through a unique process that involves placing precision-made steel ball bearings on a spherical surface, wrapping this in a die-cast and then, after molding the holder, welding the shank portion. Using a unified aluminum die-cast for molding improves resistance to corrosion and reduces friction, and also greatly reduces weight when compared to older steel products. Link Balls are often used in the undercarriage system, such as in height sensors and the joints connecting the automobile's stabilizers and the suspension, which improves vehicle safety and comfort. Beginning with the major automakers, use of Link Balls has been on the rise worldwide.

History of THK

Milestones

1970's

1971
Established

1972
Production and sale of LM Guides commences

1977
Kofu Plant (JPN) built

1980's

1981
THK America (USA) established

1982
THK Europe (GER) established

1984
Gifu Plant (JPN) built

1985
Mie Plant (JPN) built

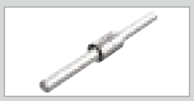
Yamaguchi Plant (JPN) built

1989
THK listed on OTC

THK Taiwan (TPE) established

Product Timeline

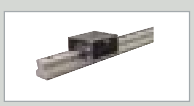
1970's



1971
Ball Spline
(LBS)

1971
Link Ball
(RBL)

1972
LM Guide
(LSR)



1975
LM Guide
(NSR)

1979
Ball Screw
(BNFN)

1980's

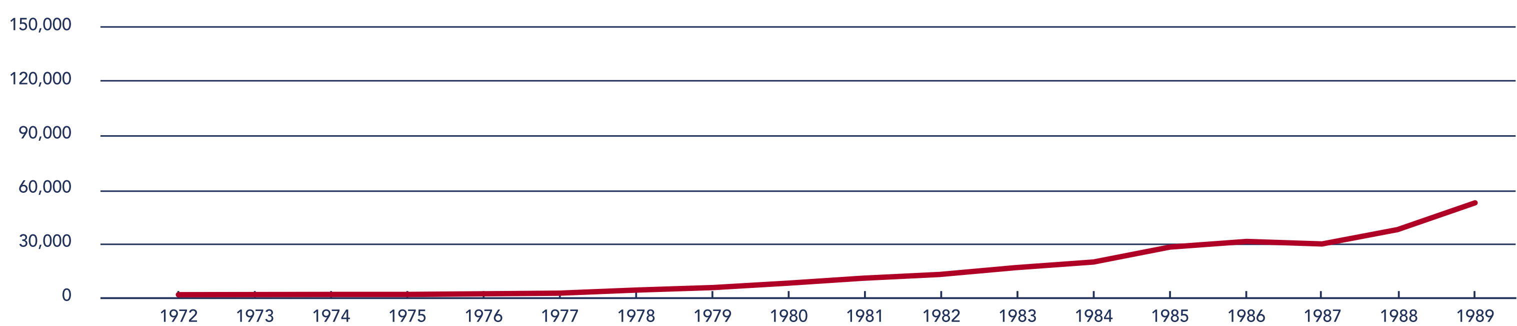
1981
LM Guide
(HSR)

1982
Cross Roller Ring
(RB)

1983
Ball Screw
(BLK)

1988
Link Ball
(BL)

Sales



1991
Yamagata Plant (JPN) built

1996
Production and sale of LM Guide with Caged Ball Technology commences

Dalian THK (CHN) established

1997
TMA (USA) established

2000
TME (FRA) established

2001
THK Listed on TSE

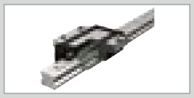
2003
THK SHANGHAI (CHN) established

2004
THK WUXI (CHN) established

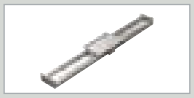
2005
THK LIAONING (CHN) established

1990's

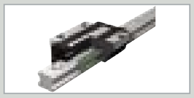
1990
LM Guide Actuator (KR)



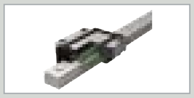
1996
LM Guide (SSR)



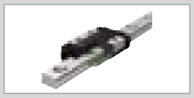
1997
Linear Motor Actuator (GLM)



1998
LM Guide (SHS)

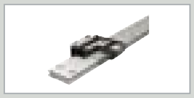


1998
LM Guide (SNR)



1999
LM Guide (SRS)

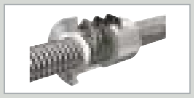
2000's



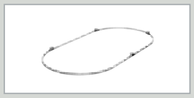
2000
LM Guide (SHW)

2001
Roller Guide (SRG)

2002
Linear Motor Actuator (RDM)

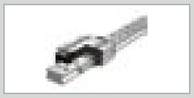


2002
Ball Screw (HBN)



2003
LM Guide (HMG)

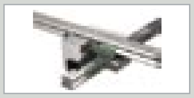
2003
LM Guide Actuator (SKR)



2003
Roller Guide (SRW)

2003
Linear Motor Actuator (CLM)

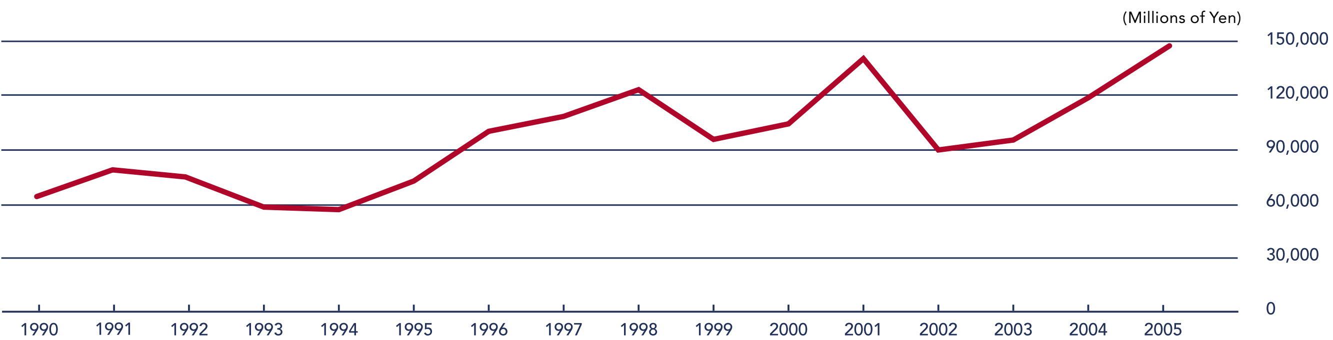
2004
Micro LM Guide (RSR1)



2004
Cross LM Guide (SCR)

2004
Linear Motor Actuator (KLM)

2004
Rod Actuator (CRES)



- FY 1971 - FY 1989 Non-Consolidated Net Sales
- FY 1990 - FY 2004 Consolidated Net Sales

Performance Summary

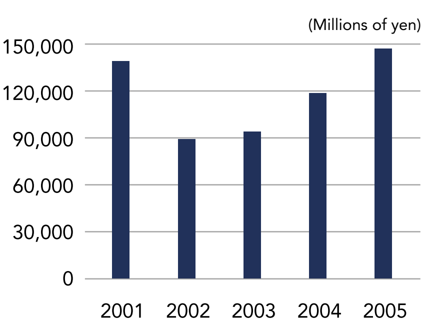
In the fiscal year ending March 2005, THK's consolidated sales reached 147,158 million yen, breaking the previous sales record established in FY 2000. In FY 2001, however, a shakeout in the electronics industry led to an unprecedented 36.3 percent year-on-year drop in sales. This radical downturn taught us some valuable business lessons. We identified two key issues from this experience and have put in place measures to address them. The key issues we identified were: 1) a need to broaden the appeal of our product range, and 2) a need to modify our production systems to handle radical fluctuations in demand. To address the first issue, we worked to broaden the range of demand for our products so that trends in a specific industry or region would not have such a large effect on our overall performance. We aggressively pursued domestic plans to gain new users and explore new fields. We also exported the THK Advantage Program (TAP1)—a results-producer in Japan—to our overseas locations to boost skills among our regional sales teams. To meet the second goal, we decided to construct a more flexible production system that could respond instantly to sudden changes in demand. We also challenged ourselves to reduce production lead times and expand our overseas production bases. In FY 2004, both of these initiatives proved successful. We expanded the range of demand for our products regionally and within the industry, and were able to restrict the level of back orders to a reasonable level despite recording our highest sales level ever.

Business for FY 2004 was in the black in all regions—Japan, the Americas, Europe and Asia—and consolidated operating income set a new record of 25,974 million yen. Productivity gains at THK's domestic manufacturing plants complemented better earnings at our overseas production plants. Even as expenses associated with prior investments rose due to activities facilitating an increase in future sales, such as the expansion of overseas production bases, we successfully managed to reduce our cost ratio below that of the previous peak period.

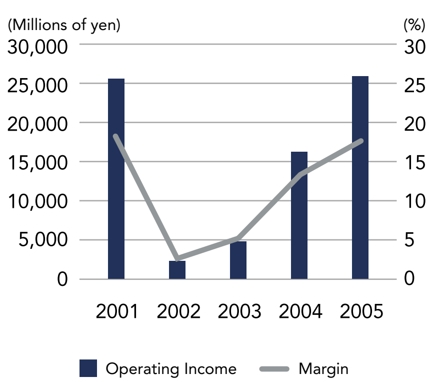
THK is constantly striving to increase its corporate value through improvements in profitability and capital efficiencies. We had set target management indexes of 20 percent for our operating profit margin and 10 percent for return on equity (ROE). In FY 2004, increases in expenses connected with prior investments kept our operating profit margin at 17.7 percent, although ROE did reach 14.7 percent. As we improve profitability and effectiveness, and pursue flexible approaches to changes in demand, we are aiming for an earnings structure that will sustain the target indexes stated above.

Years ended March 31

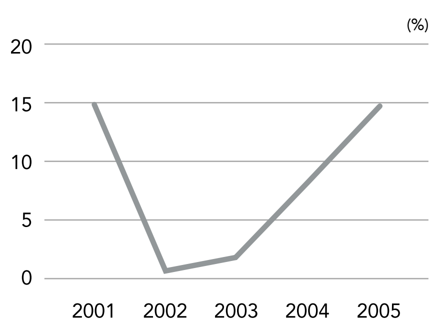
Net Sales



Operating Income, Margin



Return on Equity



5 Year Consolidated Financial Summary

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2004	**2005**	**2005**
Net Sales	¥ 140,287	¥ 89,340	¥ 94,600	¥ 119,254	¥ 147,158	$ 1,370,062
Japan	104,003	59,645	65,280	85,344	105,555	982,729
America	15,725	11,629	10,775	10,436	12,888	119,992
Europe	11,354	12,863	10,780	12,739	15,340	142,820
Asia and other	9,205	5,203	7,765	10,735	13,375	124,521
Cost of Sales	91,447	63,294	66,647	77,932	93,551	870,975
Gross Profit	48,840	26,046	27,953	41,322	53,607	499,087
Selling, General and Administrative Expenses	23,145	23,870	23,060	25,090	27,633	257,265
Operating Income	25,695	2,176	4,893	16,232	25,974	241,822
Income before Income Taxes and Minority Interest	24,330	833	3,597	15,521	26,845	249,933
Income Taxes	9,889	15	1,773	6,926	9,442	87,913
Net Income	14,316	820	1,892	8,584	17,348	161,513

	Yen					U.S. dollars (Note 1)
Per Share Data:	2001	2002	2003	2004	**2005**	**2005**
Net Income - basic	¥ 120.20	¥ 6.88	¥ 15.65	¥ 72.27	¥ 145.31	$ 1.353
Net Income - diluted	115.44	—	15.12	63.69	130.05	1.211
Shareholders' Equity per Share (Yen)	859.82	869.20	860.80	923.35	1,067.42	9.938

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2004	**2005**	**2005**
Total Assets	¥ 198,130	¥ 179,705	¥ 193,197	¥ 191,105	¥ 220,008	$ 2,048,298
Total Shareholders' Equity	102,612	103,748	102,478	109,182	127,650	1,188,435
Capital Expenditures	13,841	6,476	4,611	6,307	12,425	115,682
Depreciation	5,191	5,503	5,529	5,005	5,343	49,747
R&D Expenses	1,426	1,932	2,104	2,520	2,686	25,007

	2001	2002	2003	2004	**2005**
Operating Margin (%)	18.3	2.4	5.2	13.6	17.7
Net Income Percentage of Net Sales (%)	10.2	0.9	2.0	7.2	11.8
Return on Equity (%)	15.0	0.8	1.8	8.1	14.7
Return on Assets (%) (Note 2)	13.3	1.3	2.7	8.5	12.8
Equity Ratio (%)	51.8	57.7	53.0	57.1	58.0
Turnover Ratio (Times)	0.71	0.47	0.51	0.62	0.72

Note 1: Throughout this report, U.S. dollars amounts represent translation of Japanese yen, for convenience only, at the rate of ¥107.41=U.S.$1, the rate prevailing on March 31, 2005.

Note 2: Return on assets is the percentage of operating income and interest and dividend income to annual average balance of total assets.

President's Message

"FY 2004 was a banner year in THK's history of many great achievements, but for THK, a company aiming for long-term growth, this is only the first step."

FY 2004 was a year of record financial performance, expansion, and better-integrated operations at THK. On the financial side, our consolidated sales and earnings reached 147,100 million yen and 25,900 million yen, respectively, exceeding THK's previous best achieved in FY 2000. Having our U.S. and European production facilities operating at full capacity served as one major driver; a boost in both our domestic sales capability and productivity represented another. The optimum production system we have established in the U.S. and Europe ensures that our products are made right in the regions with highest demand. As a result, our sales and production teams can now work more closely together to win new clients and devise new applications for THK products. Our subsidiaries in both regions, previously in the red because of large capital investments, are now posting positive numbers. As the president of this company, it gives me great pleasure to deliver such a favorable report to our stakeholders.

Although it represents a major milestone in our history, FY 2004 is merely one crucial stage in THK's concerted drive for growth. In our Fiscal 2010 Vision plan, developed in FY 2001, we set an ambitious goal of 300,000 million yen in consolidated sales as part of the Long-Term Management Target, aiming to more than double our FY 2000 sales of 140,200 million yen within a decade. The IT bubble burst during FY 2001, however, and sales fell approximately 50,000 million yen. From a sales perspective, it has taken three years just to return to the 2010 Vision's starting point. We were not simply and idly hoping for the external environment to improve

President and CEO **Akihiro Teramachi**

during that period, of course: we crafted a proactive three-year Medium-Term Management Plan that linked our Fiscal 2010 Vision to the business strategies of each of our divisions. We also thoroughly reviewed every operational process, reshaped our organizational structure, and conducted staff training, all with the aim of achieving the goals set out in the plan.

The 2010 Vision plan calls for the expansion of our business areas through two methods: "Full-Scale Globalization" and "Development of New Business Areas." In the area of "Full-Scale Globalization," we have worked hard to expand and enhance our overseas production facilities. For example, at THK Manufacturing of America, Inc. (TMA), established in 1997 in the state of Ohio, we finished building a second manufacturing facility. We also finished a second factory for THK Manufacturing of Europe S.A.S. (TME),

established in the French region of Alsace in 2000. Because these initiatives were carried out during a period of sluggish demand, conditions were initially tough in terms of operating performance. However, our strategy is now bearing fruit: TMA and TME currently supply 50 percent and 30 percent of local demand, respectively. Both have become major forces behind our market development drives in the U.S. and Europe.

In Asia, we are making an even deeper commitment to the ever-expanding Chinese market. At DALIAN THK CO., LTD., where we produce Ball Screws, we built a second manufacturing facility to accommodate increasing demand there. THK MANUFACTURING OF CHINA (WUXI) CO., LTD.—the first linear motion (LM) Guide production plant in China—began operations in January 2005. We are currently constructing a second LM Guide production plant in China at our THK Liaoning facility. In Korea, we increased our holding in SAMICK LMS CO., LTD., which produces and sells LM systems, further strengthening that strategic partnership. In Japan, we acquired DAITO SEIKI CO., LTD., as a wholly owned subsidiary to enhance our production system and increase efficiencies.

On the sales front, we expanded THK's sales network and also launched the THK Advantage Program (TAP1) to improve the skills of our overseas sales staff. The TAP1 program has already proven to be quite successful in Japan. It is my firm belief that staff development will always be the key issue for growth, no matter what the business is. As a group, we relentlessly promote improvement in the performance level of every staff member under our strategy of "Reinforce Individual Potential" from the Medium-Term Management Plan. Specific initiatives to boost performance include a comprehensive review of our staff evaluation system, new e-learning programs, and executive seminars for future management candidates.

As I mentioned above, development of new business areas is essential if THK is to expand its business. The FAI Division, which is responsible for automotive parts, has moved into a number of new businesses, and the use of THK auto products is growing steadily as a result. The ACE Division, which produces aseismatic structures that help buildings withstand earthquakes, is also acquiring more business. Although these divisions are not yet significant contributors to THK's overall sales, we are working to ensure that they account for 10 percent of sales by FY 2010.

"In the Medium-Term Management Plan announced in May 2005, our projected sales for FY 2005, which had been previously announced at 135,000 million yen, were adjusted upward to 148,000 million yen."

In May 2005, we announced a new three-year Medium-Term Management Plan that will commence in FY 2005. The plan lists five key strategies: "Build Globally-Oriented Organizations," "Set New Sales Records," "Move Forward on Fundamental Review of Production Systems," "Continue Development and Introduction of New Products," and "Reinforce Individual Potential." With production in the U.S. and Europe coming fully online and the establishment of our sales/production bases in China, THK's tetra-lateral sales and production system in Japan, North America, Europe and Asia is acquiring definition and momentum, to "Build Globally-Oriented Organizations." We will continue to build the optimal local production systems needed to satisfy our customers in each region. With the development, production and sales teams working together to expand our business areas globally, we aim to achieve total sales of 200,000 million yen and earnings of 42,000 million yen by FY 2007, the final year of the new Medium-Term Management Plan.

Sales in FY 2005, which is the first year of the Medium-Term Management Plan, are forecasted at 148,000 million yen, roughly the same as the previous period. In the previous Medium-Term Management Plan announced in May 2004, sales in FY 2005 were forecasted at 135,000 million yen. There were fears at the time of a slowdown in the American and Chinese economies, the driving forces behind the global economy. We expected a market correction, centering on electronics, between the last half of FY 2004 and first half of FY 2005. We also anticipated a basic recovery in demand for our products in the latter half of FY 2005. In reality, orders for THK products actually began to pick up in January 2005, however, and continue to rise. Recognizing that we had entered the recovery phase faster than originally predicted, we adjusted our projected FY 2005 sales. Profit projections were also revised upward from 21,000 million yen to 24,500 million yen, although this latter figure still represents a 6 percent reduction compared to the previous term. We also expect net sales and sales costs to be nearly parallel with the previous term. Increases in sales management costs, R&D expenses, and systematic expenses resulting from the consolidation of DAITO SEIKI CO., LTD. and four Chinese subsidiaries, among others, are seen as necessary investments in our growth strategy. We are confident, though, that these strategic investments will lead to greater net sales and profitability from FY 2006.

I believe that ample opportunities to expand still await THK through "Full-Scale Globalization" and "Development of New Business Areas." We will strive to maximize corporate value by actively reinvesting our profits according to our basic business philosophy of providing innovative products to the world and generating new trends to contribute to the creation of an affluent society. THK will continue to relentlessly innovate, and in doing so contribute to the success of our stakeholders. We ask for your continued support in this endeavor.

Akihiro Teramachi

Akihiro Teramachi
President and CEO
THK Co., Ltd.

Corporate Governance

THK will strive to continuously provide the best possible added value to stakeholders while improving operating transparency.

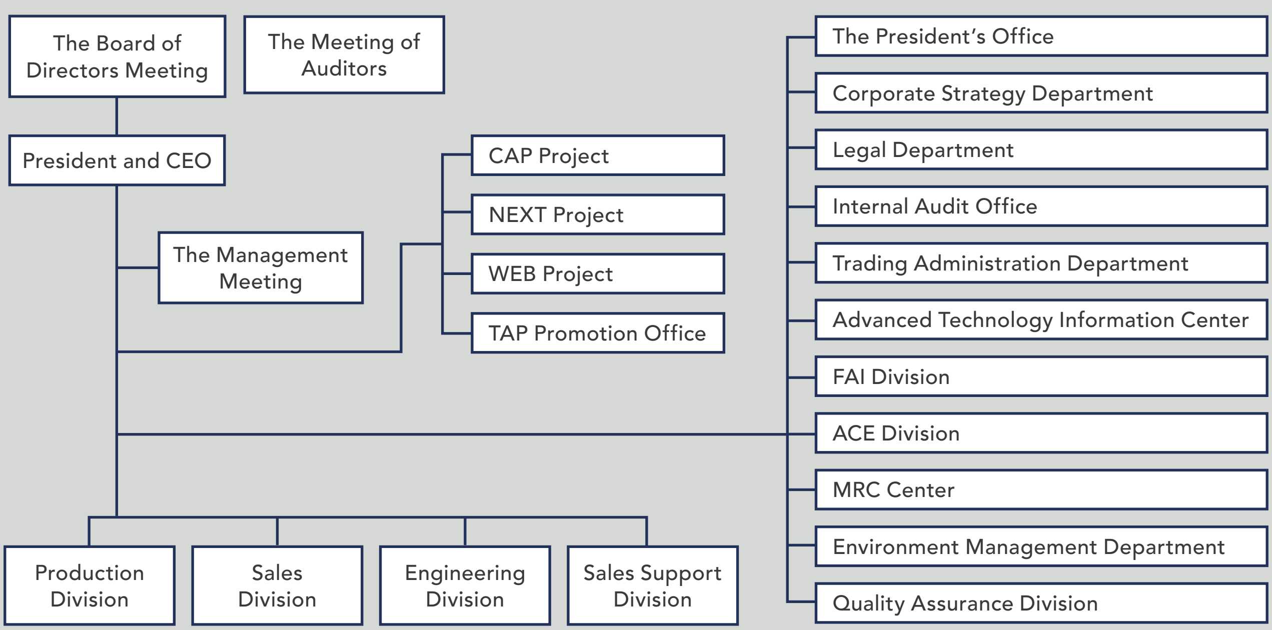
Basic Management Structure

The THK Board of Directors consists of 15 individuals. All board members are executive officers of the company; THK currently has no external directors. However, we have established a Management Meeting composed primarily of directors to separate the management oversight function from the day to day execution of the Company's business, and to ensure that the board effectively executes its functions.

We have also established an Internal Audit Office to monitor the appropriateness of day-to-day operations. The office's duties include examining subsidiaries and affiliates both in Japan and overseas, as well as the legitimacy and effectiveness of THK's business management. Furthermore, we are implementing activities to enhance the functions of the business monitoring committee, which is comprised of four auditors. A liaison meeting is held periodically by the auditors of our entire group of companies in Japan, including this company, to exchange information regarding auditing practices.

We have established a compliance committee to ensure that we are properly observing

Diagram of Management Organization (as of June 1, 2005)



Medium-Term Management Plan and Key Measures for FY 2005

Medium-Term Management Plan

- Build Globally-Oriented Organizations
- Set New Sales Records
- Move Forward on Fundamental Review of Production Systems
- Continue Development and Introduction of New Products
- Reinforce Individual Potential

Change of Business Environment and Influence of THK Group

Sharp rise in crude oil prices and raw materials / Continuing depreciation of consumer goods prices / Slowdown of world economy

Core Measures for FY 2005

1. Promotion of Global Strategy
2. Ongoing Expansion of New Markets
3. Development of New Markets to Respond to Business Cycle

all laws, rules and regulations and to create corporate rules and a code of conduct that reflect the social conditions. The compliance committee occupies a central position within THK, because it enables us to respond to the trust we receive from our shareholders and other stakeholders and embodies our accountability to these constituencies.

Strategic Planning and Transparency

The THK approach to corporate governance starts with an imperative to maximize our corporate value. We consider our basic business philosophy to be the single most important element in guaranteeing the transparency of our business management. We also make periodic disclosure regarding our business planning, which consists of our Long-Term Management Target, Medium-Term Management Plan and the Annual Management Plan, and issue progress reports to stakeholders.

Our basic business philosophy and current Long-Term Management Target, as well as Medium-Term Management Plan, are as follows:

Long-Term Management Target

To fully demonstrate the competitive abilities of this company and to further cement our position as the world's top manufacturer in our field, we established "Fiscal 2010 Vision" embodying a set of Long-Term Management Targets issued on the occasion of our 30th anniversary. The vision is intended to guide our evolution up until FY 2010 and to focus our thinking, with the ultimate goal of fulfilling our basic business philosophy, which is providing innovative products to the world and generating new trends to contribute to the creation of an affluent society. We intended to extend our business areas through "Full-Scale Globalization" and "Development of New Business Areas."

Medium-Term Management Plan

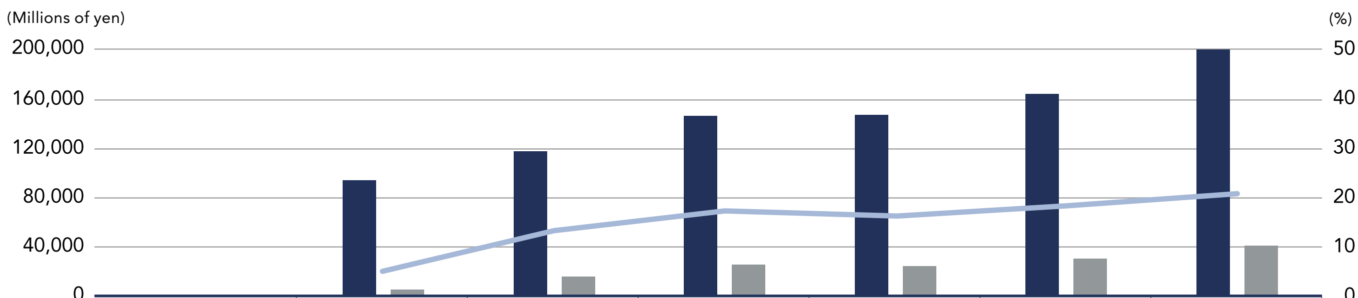
We have established a more specific Medium-Term Management Plan to help us achieve the Long-Term Management Target. Although our Long-Term Management Target is expressed as a fixed plan targeted for completion in FY 2010, the Medium-Term Management Plan is formulated for the forthcoming three-year period. This is a rolling plan reviewed each year in light of changes to the business environment and progress made to date. The management plan is used as a bridge between the Long-Term Management Target and the business strategies implemented by the individual divisions. The plan features a connection between the Long-Term Management Target, set by the management in a top-down fashion, with business strategies implemented by the individual divisions in a bottom-up fashion. Through this procedure the consistency and feasibility of our planning process is sustained at all times. THK announced its most recent Medium-Term Management Plan, in respect of the period FY 2005-07, in May 2005. The main features of the plan are shown in the diagram above.

Our Basic Stance on Profit Retention

THK's fundamental stance on retained earnings is to share profit with our shareholders while at the same time reinvesting in our business activities in line with our Long-Term Management Target. Our intention is to maintain a stable distribution of dividends taking into account our need for long-term capital investment and to strive to maximize our shareholders' equity, while proactively sharing profits.

Forecasts

Years ended March 31

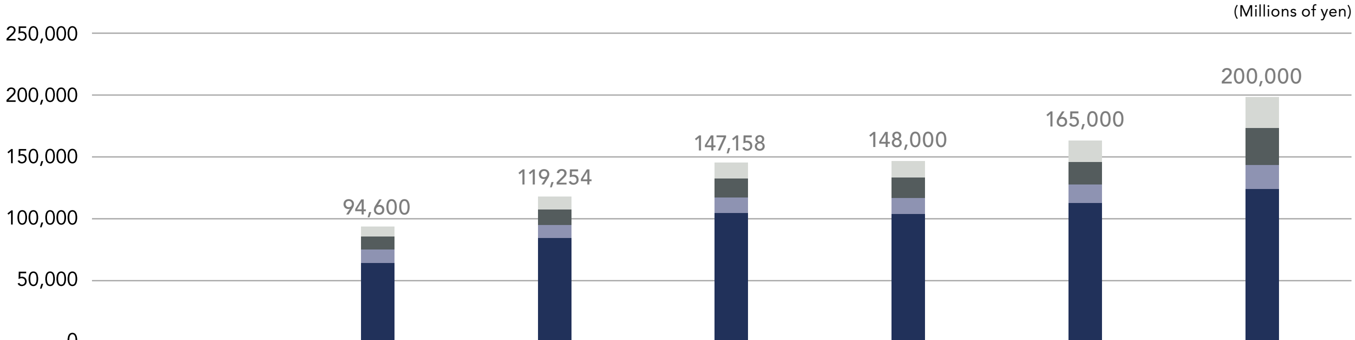


	2003	2004	2005	2006 (E)	2007 (E)	2008 (E)
Sales	94,600	119,254	147,158	148,000	165,000	200,000
Operating Income	4,893	16,232	25,974	24,500	31,000	42,000
Operating Margin (%)	5.2	13.6	17.7	16.6	18.8	21.0

Sales by Geographical Region

Years ended March 31

(Millions of yen)

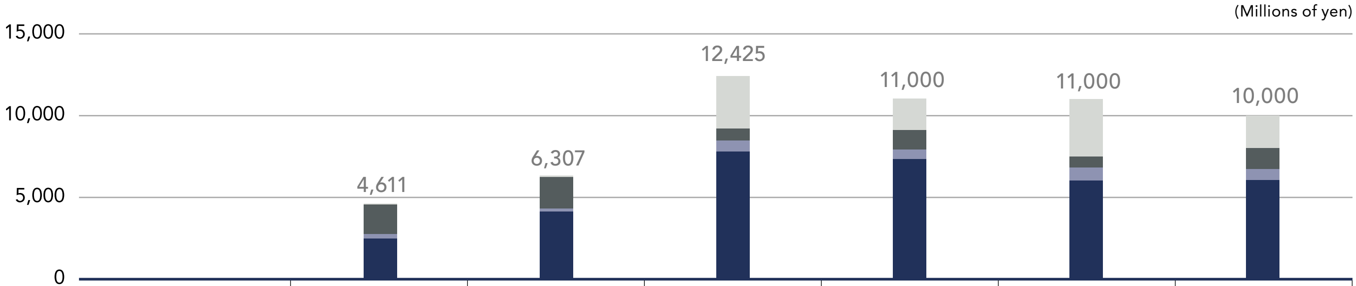


	2003	2004	2005	2006 (E)	2007 (E)	2008 (E)
Asia and Other	7,765	10,735	13,375	13,300	17,500	25,000
Europe	10,780	12,739	15,340	16,800	18,500	30,000
America	10,775	10,436	12,888	12,700	15,000	20,000
Japan	65,280	85,344	105,555	105,200	114,000	125,000

Capital Expenditure

Years ended March 31

(Millions of yen)

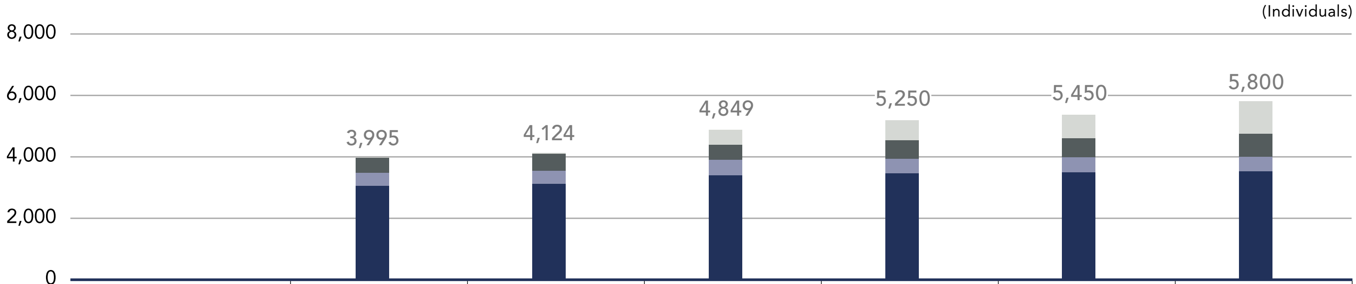


	2003	2004	2005	2006 (E)	2007 (E)	2008 (E)
Asia and Other	2	5	3,226	1,900	3,500	2,000
Europe	1,895	2,039	732	1,200	700	1,300
America	271	173	684	600	800	700
Japan	2,443	4,090	7,783	7,300	6,000	6,000

Employees

Years ended March 31

(Individuals)

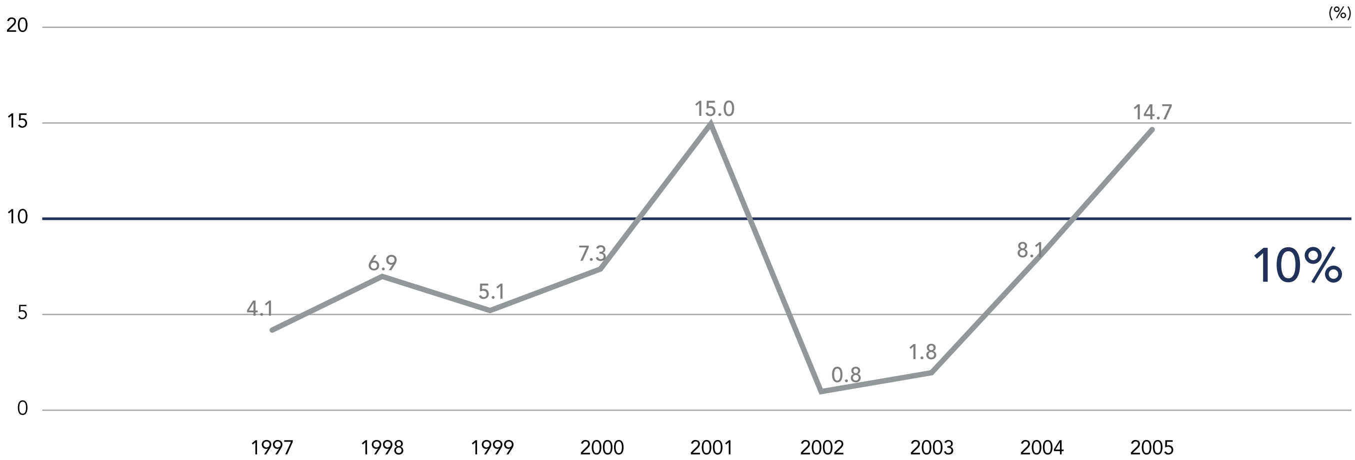


	2003	2004	2005	2006 (E)	2007 (E)	2008 (E)
Asia and Other	25	26	480	710	840	1,060
Europe	522	563	509	600	620	700
America	401	421	481	490	500	520
Japan	3,047	3,114	3,379	3,450	3,490	3,520

Targeted Management Indices

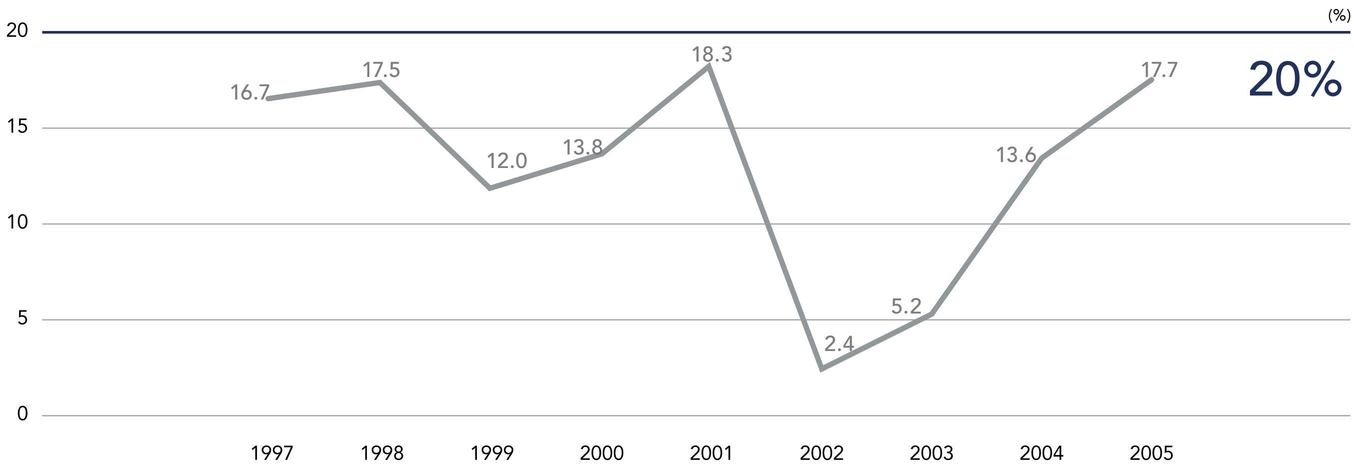
ROE

Years ended March 31



Operating Margin

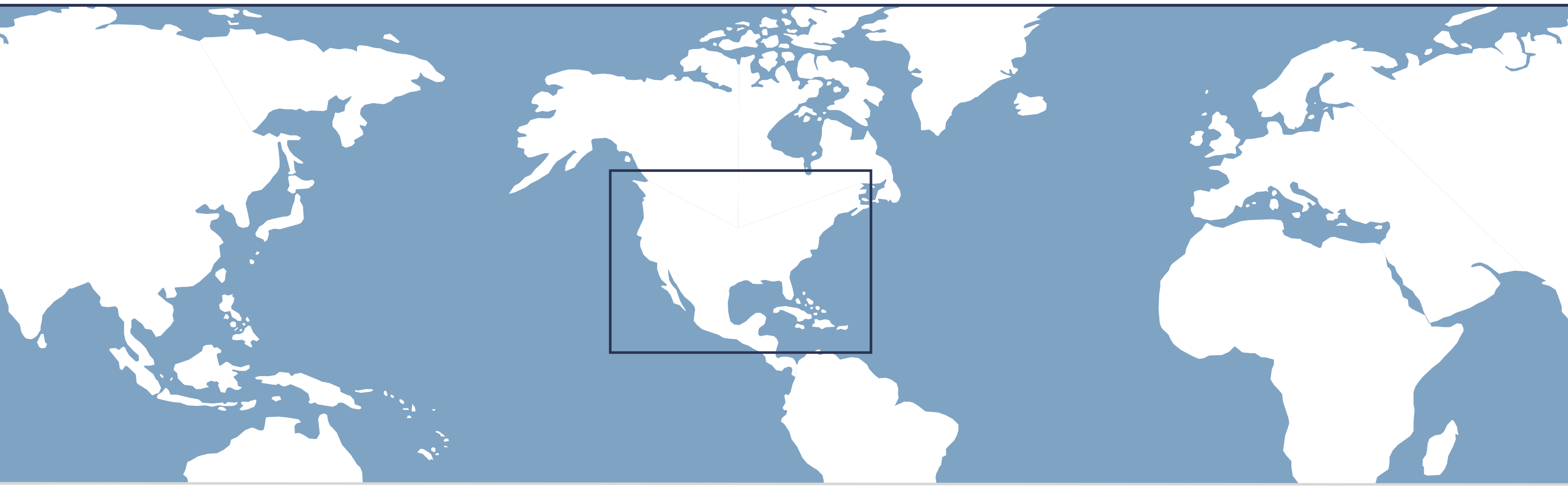
Years ended March 31



THK Overseas

Since production bases were established in the United States and Europe, and began operating in earnest in FY 2004, we have been able to unify our production and sales operations. We have also begun expansion of our production and sales bases in Asia, where the market is expected to grow in the future.

America



THK Holdings of America, L.L.C. is the holding company that manages our sales and production companies in the United States. THK Holdings recorded a 32.5% increase in sales during FY 2004 (in local currency terms), enabling it to report its first profit since FY 2000. While external factors such as the generally favorable U.S. economy helped, we believe most of the credit should go to our production and sales forces, who worked together on the launch of full-scale operations at our manufacturing subsidiary, THK Manufacturing of America, Inc. (TMA). With TMA starting full-scale production, THK America Inc. can now conduct business negotiations with its customers with confidence, knowing that the production capacity is in place. There is a great dynamic operating between production and sales, with an increase in orders received both driving production up and bringing manufacturing costs down. TMA is now capable of satisfying approximately 50 percent of local demand. In FY 2004 we witnessed a clear manifestation of the synergy that results from the production and sales forces working as one. We consider that production in regions of high demand is the optimal method for growing the business. This method reached fruition in FY 2004.

THK America Inc. was established in 1981 as our sales location for THK products in the North American market. Sales in FY 2004 increased by 32.8 percent over the previous year (in local currency terms). Efforts were made to further cultivate our existing customer base, and as a result we were able to increase sales in areas of traditional strength, such as electronics and general machinery. We have, on the other hand, also made efforts to develop new customers and new applications. To accurately gauge what new applications are needed, we visited prospective FORTUNE 500 customers and accompanied our

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

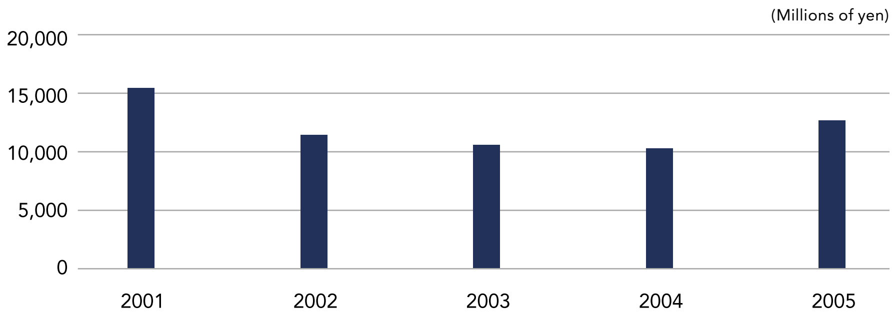
distributors during their sales activities. As a result, we were able to develop new relationships with a major medical equipment manufacturer and a new project for the manufacturer of a specialized vehicle unit. We further cultivated the market in Mexico as well. Behind all these accomplishments we see the improved skills our salespeople have gained from the THK Advantage Program (TAP-A1), which allowed them to conduct proposal-type sales activities. Of course, the start of full-scale operations at TMA made THK America an organization capable of providing the products our customers required in a timely fashion and in the quantities required. Since demand for electronics-related products is unclear for FY 2005, we need to keep a watchful eye on these trends. At the present time, however, we believe that we will be able to report an increase in revenue during FY 2005 as well, since demand for electronics-related products is still favorable.

Nobuyuki Maki
President of THK Manufacturing of America, Inc.

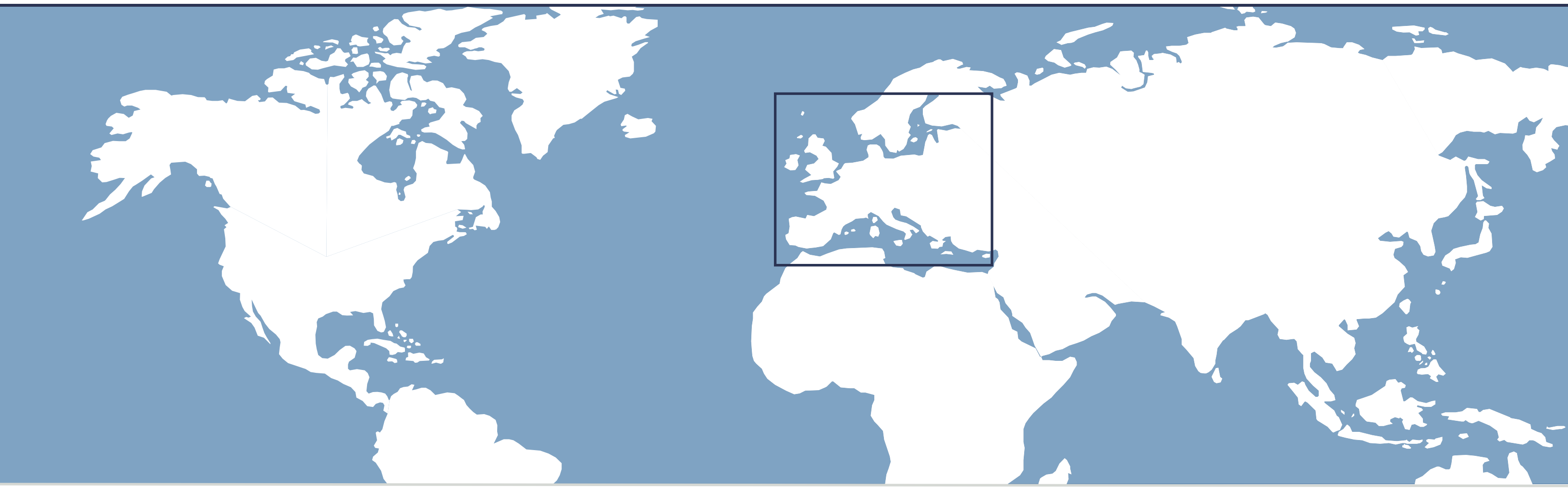
TMA was established as our manufacturing arm in North America in 1997 to produce LM Guides and Link Balls. The company reviewed its work standards for manufacturing processes and subsequently implemented improvements on the automated processes and the production control system as a part of THK's cost-reduction activities in FY 2004. An example of practical results arising from such efforts was a 30 percent increase in assembly efficiency gained through the introduction of automated ball insertion machines. Another advance, this time in thermal processing, became possible upon the introduction of automated thermal process transport equipment, which allows operations to continue even during the holidays. Through such improvements in our production efficiency, production capacity grew rapidly, which in turn led to a dramatic reduction in unit production costs. Even though quality, costs and logistics are the responsibility of our production organization, requiring continued effort for further improvements, we believe that significant results were obtained during fiscal 2004. In the future, we intend to work to further improve productivity while making efforts to expand our product lineup to respond more effectively to local needs.

Trend in Sales

Years ended March 31



Europe



The holding company that manages THK sales and production companies in Europe, THK Europe B.V., was able to achieve an operating profit for four straight quarters for the first time since FY 2000. Sales for FY 2004 increased by 17.5 percent over those of the previous year (in respective local currency terms). Although the external environment, such as the slow recovery of the European economy, provided some support, we believe that the synergistic effects arising from our production and sales forces coming together as one resulted in the favorable sales amounts and profits.

The sales network of THK Europe B.V., comprised of 12 locations throughout Europe and extending as far as South Africa, encompasses the entire European region. The network achieved a 19.6 percent increase in sales over the previous fiscal term (in respective local currency terms) in FY 2004, enjoying a steady flow of orders for products in our core fields of general machinery and machine tools and proactively cultivating new customers. A customer map was produced for individual fields within the machine industry for the latter purpose. New business development teams were organized to focus on those businesses we have yet to develop a relationship with, and the teams visited these businesses to conduct proactive sales activities. Furthermore, we have been assessing potential new fields of business and participating, for example, in medical and rehabilitation-related exhibitions. A great number of German and French businesses have been relocating their manufacturing facilities from Western Europe to Eastern Europe, and we have responded

Toshiro Teramachi
Director
President and Representative Director of THK Europe B.V.
President and Representative Director of THK GmbH

without delay by enhancing sales support for distributors in the Czech Republic and Poland. We have also improved our distributor networks in Russia, Turkey and South Africa, and initiated a strategy for expanding new emerging markets by participating in an exhibition in Russia. Moreover, we made efforts to boost profitability by moving forward with integrated logistics and improved operating efficiency. The outlook for the European economy in FY 2005 is uncertain. THK Europe B.V. is coping with this by proactively exploring undeveloped fields, such as the medical equipment industry, optical equipment industry, and aviation industry, and expanding sales of unit products to take advantage of the strengths of our manufacturing plants in Europe. It is also expanding sales in the press machine and injection molding machine industries, and for items such as Link Ball products for the automotive industry.

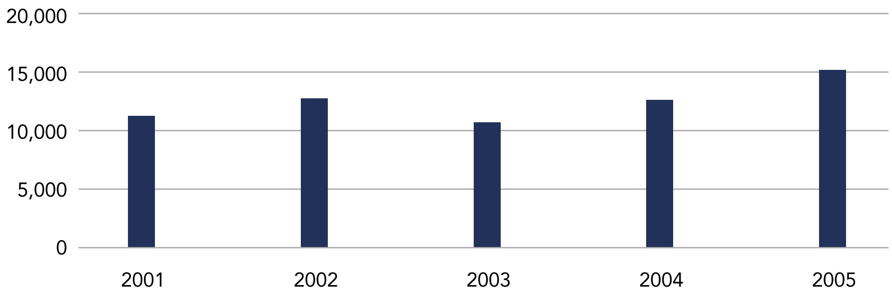
Tetsuya Hayashida
President of THK Manufacturing of Europe S.A.S.

THK Manufacturing of Europe S.A.S. (TME) carried out various activities to upgrade production in FY 2004, including multitasking processes, multiplying the number of products made, and optimizing inter-process logistics. Multitasking processes dramatically decreased production downtime and led to a more motivated workforce. We were therefore able to increase production without hiring more personnel as predicted in the initial plan. This kept our fixed costs down. The company used this operational efficiency and higher production levels to achieve profitability a year ahead of schedule. Supported by the high quality of its workers, TME has attained a level of productivity that actually exceeds the average for companies in industrialized nations. Although TME currently has the capacity to meet approximately 30 percent of demand in the European region, the company plans to boost that to 50 percent, responding to the highly sophisticated needs of European customers.

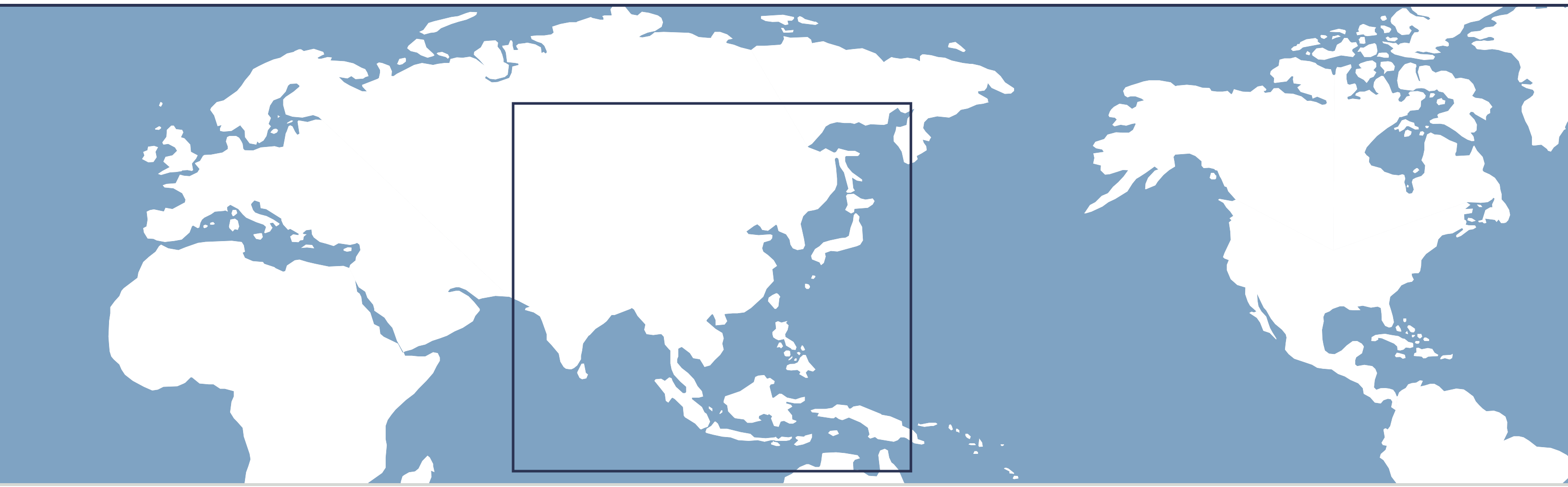
Trend in Sales

Years ended March 31

(Millions of yen)



Asia



In Asia, we are making efforts to increase sales and expand production organizations in China, where we have grown rapidly in recent years, as well as in Taiwan and Korea. Our establishment of THK TAIWAN CO., LTD. in 1989 to handle our sales there was just the first of our activities in Asia. In 1991, we followed up with a capital participation in and technical alliance with SAMIK LMS CO., LTD. of Korea. DALIAN THK CO., LTD. was established in Dalian in China in 1996, which started manufacturing and selling precision Ball Screws and Actuators. We started THK (SHANGHAI) CO., LTD. in 2003, and in the following year established THK MANUFACTURING OF CHINA (WUXI) CO., LTD., which was the very first LM Guide manufacturing plant in China. We announced the establishment of THK MANUFACTURING (LIAONING) CO., LTD. in Dalian in March 2005. FY 2004 was a period of preparation for organizing the production and sales forces as one. We are now at the stage where we can implement business developments with the production and sales forces acting as one entity in Asia as well.

Sales for FY 2004 at THK TAIWAN CO., LTD. were up sharply, rising 41.7 percent over the previous year (in local currency terms). The external environment was favorable, with on firm demand for machine tools in China. We believe that enhanced collaboration with distributors and more focused interaction with prospective customers contributed to the jump in sales.

Takashi Okubo
Director
President of DALIAN THK CO., LTD.

Susumu Oogami
President of THK TAIWAN CO., LTD.

In the area of new applications, a major motorcycle manufacturer is now using our Link Balls, and a bank adopted our earthquake dampening equipment. Profits increased approximately threefold compared with the previous year. The level of operating earnings, unfortunately, is certainly not at a level we consider high. We will strive for further improvement in our profitability by continuing to work on cost efficiency and on expanding the sales of low-cost products produced in China.

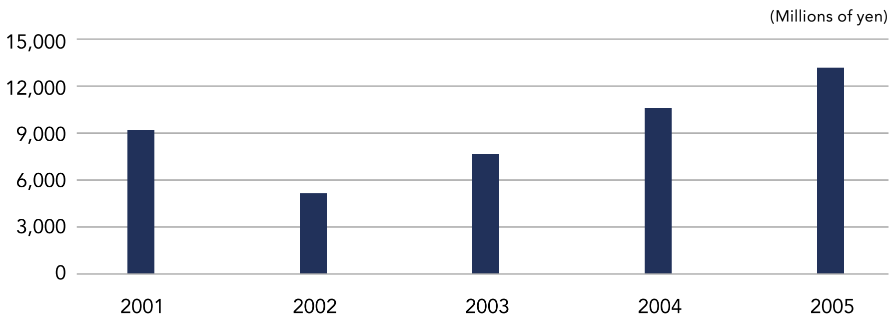
DALIAN THK CO., LTD. operates on a 24/7 basis, using three shifts of four crews. Since there was no room for improvement in terms of operating time, we expanded the facilities and personnel, and reviewed process flows in FY 2004. Subsequent improvements in these areas increased our monthly production capacity by 90 percent, raised per capita production by 77 percent, and pushed sales for FY 2004 53.3 percent above the previous year. Facility enhancements are currently being implemented to further increase production capacity by 50 percent by August 2005. Machine tools are at the core of the Chinese market, and to develop new customers we are proactively participating in exhibitions, which has resulted in the successful acquisition of 13 new customers. In future, we intend to enhance both productivity as well as quality. We will be also be exploring new areas of business, such as semiconductor manufacturing equipment, precision and measurement equipment, and medical equipment.

Operations at THK MANUFACTURING OF CHINA (WUXI) CO., LTD., our first production location for LM Guides in China, started in January 2004, and we began shipping products in February. We

Hiroshi Imano
President of
THK MANUFACTURING OF CHINA (WUXI) CO., LTD.

Trend in Sales

Years ended March 31



intend to quickly establish a production organization that works on a 24/7 basis, with three shifts made up of four crews. We also plan to more fully develop our material procurement sources within China. We believe it is important to train our employees to attain such targets. When the manufacturing plant was established, approximately fifty new recruits fresh out of school were sent to our Yamaguchi plant for training. Since these people are extremely young, they lack experience, but when it comes to youthfulness and energy they are second to none among manufacturing plants in the THK group of companies. In the future, the company and all of its employees will be making a vigorous push to become a production facility that will become a core supplier for the THK group.

THK (SHANGHAI) CO., LTD. worked hard to bring in new business by approaching a variety of prospective customers. They succeeded in acquiring several new users from the machine tools industry and other fields. We believe that demand for LM Guides will undergo a rapid increase in China in the future as production of machine tools increases and the NC conversion rate rises. We plan to establish twenty sales locations in China, and sales networks are being readied to respond to the increasing demand. LM Guides are manufactured at THK MANUFACTURING OF CHINA (WUXI) CO., LTD., while DALIAN THK CO., LTD. produces Ball Screws. Having these supply centers fully online will become a significant advantage for our sales activities in China. By capitalizing on the combined strength of our production and sales forces, we will do our best to acquire the top share in the Chinese market, where rapid growth is expected in the future.

Toshiyuki Sato
President of
THK (SHANGHAI) CO., LTD.

Global Network

Europe

THK Europe, B.V.
The holding company of THK group companies in Europe. Sells LM Guides, Ball Screws and Spherical Joints, etc.

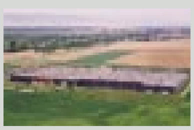
THK GmbH
Sells LM Guides, Ball Screws and Spherical Joints, etc.

THK Manufacturing of Europe S.A.S.
Manufactures LM Guides and Spherical Joints

PGM Ballscrews Ireland Ltd.
Manufactures and sells Ball Screws

THK France S.A.S.
Sells LM Guides, Ball Screws and Spherical Joints, etc.

THK Europe B.V. Head Office



THK Manufacturing of Europe S.A.S.

PGM Ballscrews Ireland Ltd.

Asia

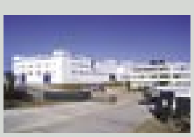
THK TAIWAN CO., LTD.
Sells LM Guides, Ball Screws and Spherical Joints, etc.

DALIAN THK CO., LTD.
Manufactures and sells Ball Screws

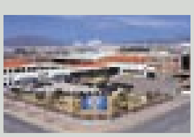
SAMICK LMS CO., LTD.
Manufactures and sells LM Guides

THK MANUFACTURING OF CHINA (WUXI) CO., LTD.
Manufactures LM Guides

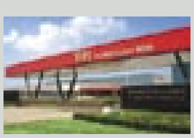
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.
Manufactures LM Guides



DALIAN THK CO., LTD.



SAMICK LMS CO., LTD.



THK MANUFACTURING OF CHINA (WUXI) CO., LTD.

THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.

Europe

Germany
Sales Office(s)...........3

England
Sales Office(s)...........1

Ireland
Sales Office(s)...........1
Plant(s) 1

Netherlands
Distribution Center(s).....1

Italy
Sales Office(s)...........2

Sweden
Sales Office(s)...........1

Austria
Sales Office(s)...........1

Spain
Sales Office(s)...........1

France
Sales Office(s)...........1
Plant(s) 1

South Africa
Sales Office(s)...........1

Asia

China
Sales Office(s)...........4
Plant(s) 3

Taiwan
Sales Office(s)...........3

Malaysia
Sales Office(s)...........1

India
Sales Office(s)...........1

THK Head Office

Japan
Sales Office(s).........48
Plant(s) 9
Distribution Center(s).....4

Korea
Sales Office(s)......... 12
Plant(s) 1

America

America (US)
Sales Office(s)...........9
Plant(s) 1

Canada
Sales Office(s)...........1

Brazil
Sales Office(s)...........1

Japan

THK Head Office
Manufactures and sells LM Guides, Ball Screws and Spherical Joints, etc.

THK NIIGATA CO., LTD.
Manufactures Ball Splines

TALK SYSTEM CORPORATION
Sells machinery parts and various machines

Beldex Corporation
Manufactures and sells parts for optical machines, medical instruments, and electronic devices

DAITO SEIKI CO., LTD.
Manufactures and sells parts and equipment for machinery

Kofu Plant

Yamaguchi Plant

Yamagata Plant

Gifu Plant

Mie Plant

THK NIGATA CO., LTD.

America

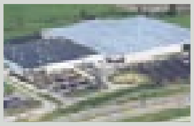
THK Holdings of America, L.L.C.
The holding company of THK Group companies in America

THK America, Inc.
Sells LM Guides, Ball Screws and Spherical Joints, etc.

THK Manufacturing of America, Inc.
Manufactures LM Guides and Spherical Joints

THK Neturen America, L.L.C.
Manufactures LM Guides

THK America, Inc.
Head Office



THK Manufacturing of America, Inc.

Development of New Business Areas

THK is aggressively venturing into new fields, working to achieve its Long-Term Management Target of 300,000 million yen in consolidated sales by fiscal 2010.

THK’s Long-Term Management Target is to achieve 300,000 million yen in consolidated sales. To achieve this goal, we intend to expand our business areas by pursuing the twin strategies of “Full-Scale Globalization” and “Development of New Business Areas.”

Here we will introduce our efforts in the “Development of New Business Areas.”

FAI Division

The FAI Division was created in 1999 for the purpose of expanding our business with the automobile sector. Currently, this division provides Link Balls to automobile manufacturers. It aims to establish a track record through the provision of Link Balls, while aiming to promote use of THK’s primary product, the LM Guide, in the future.

Our Link Balls are currently used by several major automobile manufacturers in Japan, Europe and America. With new orders being received from other manufacturers domestically and in Europe, the number of manufacturers ordering Link Balls and the range of models to which these components are fitted is increasing steadily. Use of the LM Guide as an automobile part is currently limited to a few

FAI Division

Manufacturing and sales of automobile parts that contribute to improved safety.

special cases, such as in lifts for wheelchair seats. However, our aim is to expand our business in this sector by building on the relationships created by the Link Ball, and emphasizing development of new products.

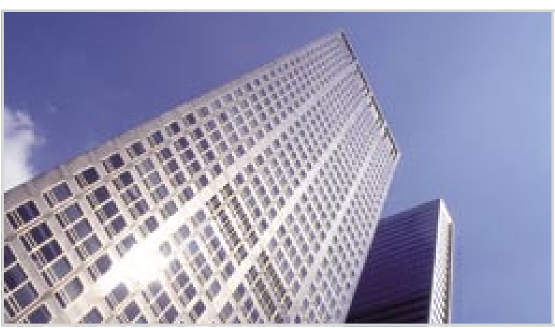
We are currently preparing our supply systems in Japan, Europe and America to respond to automobile manufacturers' requests for local production in major markets. Automobile manufacturers have strict requirements regarding design and delivery. We are aggressively building know-how for future business expansion by embracing their complicated requirements. One other characteristic of doing business with automobile manufacturers is that lead times are long. The time from the planning stage to mass-production is at least 2 years and can be as long as 5 or 6. Offsetting this is the fact that, once in mass-production, suppliers can expect steady returns for anywhere between 3 and 10 years.

Net sales for this division in FY 2004 reached 5,000 million yen. As sales of Link Balls expand and the use of LM Guides (THK's primary product) by automobile manufactures rises, we are targeting annual sales of 15,000 million yen 5 years hence.

ACE Division

The ACE Division dates from 2001 and operates under the rubric of "Technically developing creative living spaces for comfort." The division manufactures and sells seismic isolation devices to protect human life and valuable assets from earthquakes. THK's seismic isolation devices are currently used in a broad range of buildings, including high-rise buildings, apartment buildings, temples and ordinary houses. Although it has been approximately 20 years since seismic isolation devices were first introduced to Japan, they have only recently received widespread recognition for their potential. The current market for seismic isolation devices in Japan is estimated to be 15,000 million yen annually.

Currently, a plethora of systems are available because there is no de facto technological standard for such products. For this reason, construction companies, housing manufacturers, rubber manufacturers, hydraulic equipment manufacturers, and other, all compete for a share of this market. Given these conditions, THK's seismic isolation devices depend on the high load capabilities of THK's primary products, such as LM Guides and Ball Screws for competitive advantage, and are applicable to a wide range of structures, from high-rise buildings to low-rise housing, such as the average home. We are confident that THK is one-step ahead in the provision of seismic technologies for low-rise and lightweight structures, heretofore considered to be particularly difficult.



ACE Division

Manufacturing and sales of seismic isolation devices that protect people's lives and property from the threat of earthquakes.

CAP Project

Developing new markets for THK products as consumer goods.

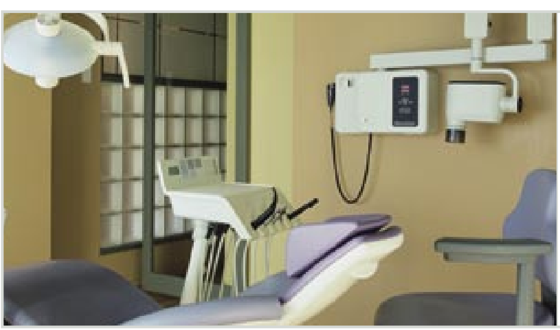
In 2004, we completed construction of a new manufacturing facility and a new testing facility within our Gifu Plant as part of our plan to reach annual net sales of 3,000 million yen for seismic isolation devices in 5 years. Along with aggressive PR to help construction companies, housing manufacturers and large design firms better understand our seismic technology, and giving opportunities to ordinary consumers to learn more about seismic isolation, we will also aggressively emphasize sales promotion activities, such as hosting seminars and demonstrations.

CAP Project

The CAP Project was established in 2002 with the goal of commercializing the use of THK products in consumer markets and of developing new markets. We currently have 8 technicians working to develop commercial versions of our products both in the short and long-term. Lens shift units in liquid crystal projectors and automatic opening/closing devices for automobile roof boxes are just two examples of products that we have already commercialized. Additionally, we are also involved in the development of amusement machines with many applications. There is a shortage of technicians capable of industrial design among some of our consumer appliance manufacturer customers. As such, the know-how among the CAP Project's design technicians has come to be highly regarded and we believe that we have gained the trust of our customers. Although as a recently-established operation we lack a strong track record, we are strengthening our development abilities in order to reach our goal of achieving annual sales of 5,000 million yen over the next 5 years.

MRC Center

The MRC Center was established in 2000 and is staffed by 10 technicians engaged in the development of leading-edge technology. This center is our base for cooperation with the academic world, as exemplified by our development of a surgical-assistance robot. We have built intimate relationships with university laboratories in Japan that are conducted leading-edge research. Furthermore, we are also constructing systems for cooperation with large-scale hospitals and major medical instrument manufacturers. Our surgical-assistance robot reduces damage to the human body and can improve both the precision and speed of surgery. We believe that the market for this robot is extremely large. Even as we continue to commercialize it, we are developing the next-generation systems that will succeed it.



MRC Center

Development of robots that assist in operations and other cutting edge technologies.

Research & Development

Product development at THK is based on our own technological roadmap, but as an industry leader we must also focus on satisfying the needs of users worldwide. Our flexible project development system makes full use of the practical knowledge our developers have accumulated over the years, allowing us to develop suitable products rapidly.

One of THK's hallmarks since our founding in 1971 has been the focused power of our research and development, and the ability to turn ideas into products with wide-ranging, real-world applications in accordance with our basic business philosophy, which is providing innovative products to the world and generating new trends to contribute to the creation of an affluent society.

We developed the world's first LM Guides in 1972. In the 80's American machine tool manufacturers put them to use, and this paved the way for rapid expansion of their use in machine tools. As industrial use of our products expands into semiconductor production equipment and industrial-use robots, etc., we continue to develop products with higher precision and lower cost which reflect consumers' needs.

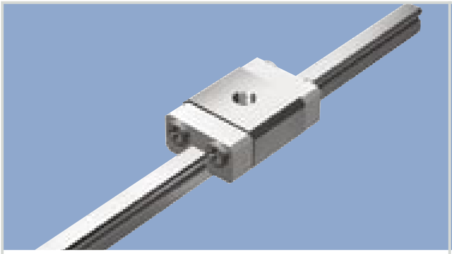
In 1996 we brought the second-generation LM Guides with Caged Ball Technology to market ahead of competing products. At the time, retainer technology was common in rotating bearings, but the development of a retainer that could withstand both linear and circular movements proved extremely difficult. The LM Guides with Caged Ball Technology were the world's first LM Guides that tackled the difficulties. They have become increasingly indispensable as industrial-use machinery—such as machine tools and semiconductor production equipment—gets faster, quieter and longer-lived. We are currently expanding the Caged Technology series beyond standalone LM Guides to include hybrid units such as Ball Screws with Ball Splines and LM Guides with Ball Screws.

Our Engineering Division, which handles R&D, currently maintains facilities in our headquarters, Kofu, Yamaguchi and Yamagata, and employs approximately 150 people in development. Research primarily takes place in the Engineering and Development Department, where we pursue projects from the proposal stage onward and work to speed up development. Development of products in new fields is also conducted on a special-project basis at the MRC Center and CAP Project facilities.

The Engineering Division's slogan for FY 2005 is "Creating products that inspire," and our developmental keywords are "supersize, microsize, and attenuate." We are engaged in vigorously designing next-generation products that will meet market needs 5 or even 10 years from now, even if our customers themselves have yet to realize what those needs will be. We realize that aligning our product lineup to meet current customer needs must always be a priority.

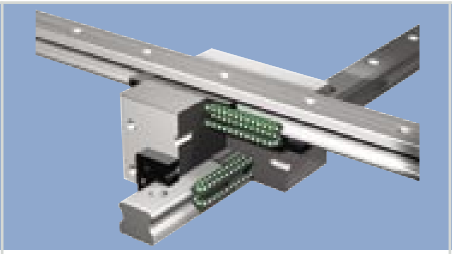
We foresee that the need for rapid development and shorter lead times for manufacturing will increase with the streamlining of the design process in the future, particularly in the electronics industry. We believe it is vital for our company to develop unit products that directly address these needs.

Until recently, THK primarily sought to develop a product lineup that would satisfy the demands of our domestic customers. As we adjust our production and sales systems to a global setting, however, we will choose the most appropriate areas in Japan, the U.S., Europe and Asia to locate development systems that more directly serve the needs of our customers around the globe.



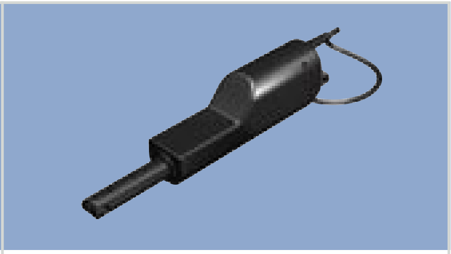
Micro LM Guide RSR1/RSR2

We developed the world's smallest LM Guide, with a rail width of just 1 mm, in response to the need for the ultra-miniaturization our customers will face in the future. We expect this product to be used in medical instruments, semiconductor production equipment, high-precision machinery, and all varieties of measuring equipment. The micro LM Guides are testaments to our company's R&D power and high level of processing technology.



Cross LM Guide with Caged Ball Technology SCR

The LM blocks of the LM Guide with Caged Ball Technology SHS were crossed at the back. This one-piece LM Guide actually consists of 2 LM rails. This product simplifies the structure of X-Y movements and is much more compact in design.



Rod Actuator CRES

We developed this Rod Actuator, manipulated through simple controls, to respond to an increase in demand for electrically powered consumer goods in the home and office. The Rod Actuator CRES is useful in a variety of situations, including the opening and closing of elevated windows and blinds.

Environmental Activities

THK engages in business activities in an environmentally responsible manner in order to preserve a healthy world for the next generation.

Basic Environment Policies

It is no exaggeration to say that environmental responsibility is a necessary precondition for the continued survival of human beings on Earth. This must be understood by every one of us that share this Earth, not only by those that work in industrial occupations.

We at the THK Group are aware that our business activities and personal lives are deeply connected with the Earth's environment. Therefore we are working to effectively reduce the burden we place on that environment.

(1) We are devising appropriate plans to protect the environment based on an analysis and understanding of how it is affected by our products and services.

(2) In addition to a strict observance of environmental laws, we also observe voluntarily established environmental standards. We periodically reevaluate those standards and work to improve their effectiveness.

(3) We strive to selectively reduce and recycle industrial waste, while conserving natural resources and energy.

(4) As members of the THK Group, we support and instruct both affiliated companies and subsidiary companies on environmental issues. Additionally, we enthusiastically cooperate with local communities.

(5) We educate all of our group employees about the environment, aiming to improve their awareness of our Basic Environmental Policies. At the same time, we publicize information about the THK group's environmental conservation activities.

In accordance with the above Basic Environmental Policies, we established the Environmental Management Department in our headquarters in April, 2004 and tasked it with the promotion of our overall environmental conservation activities.

Environmental Conservation Activities at Our Plants

In addition to the above mentioned group-level activities, our plants have independently undertaken their own environmental conservation activities for many years. All of THK's five domestic plants have obtained environmental certification under the International Organization for Standardization's ISO 14001. It is important to expend resources such as energy, raw materials and water, so that the output of products and services can be maximized. We actively promote the efficient use of energy and other natural resources at all of our plants.

A cogeneration system is in operation at the Yamaguchi and Yamagata Plants. This enables efficient overall energy consumption, while recovering waste heat. Additionally, each plant optimizes its use of air compressors and has improved building insulation. Last year the following measures were taken.

- Among the 17 air compressors at the Yamagata Plant, 4 are operated continuously on an automatic mode while the remaining 13 are operated manually, as demand dictates.

- The new building at the Gifu Plant, as well as its auxiliary facilities, are featured with advanced energy saving technologies. Specifically, the following measures are being taken there.
  - Using high standard insulation in the roof and walls.
  - Employing the latest version of high-efficiency motors for fans and compressors.

Reduced and Cleaner Energy Consumption

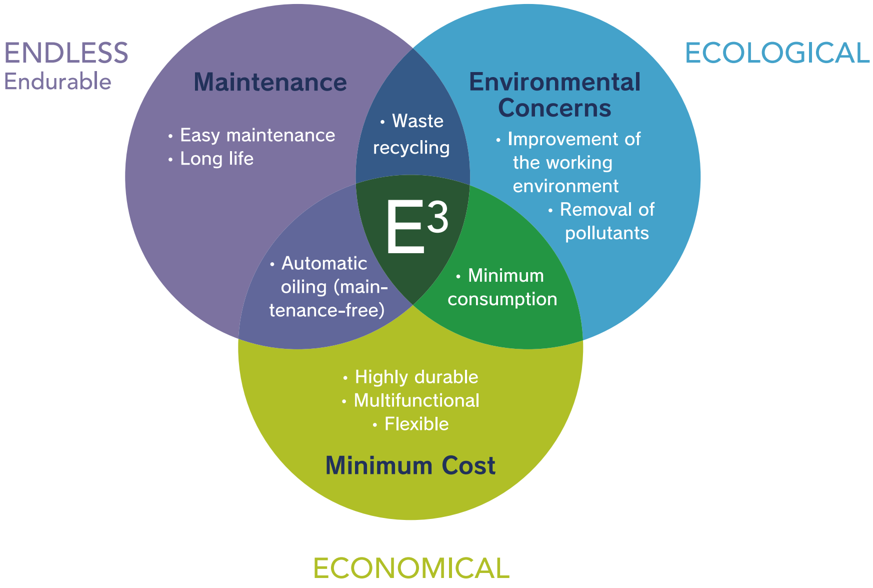
Reduced-electricity type of lighting fixtures (left)

Liquified natural gas (LNG) used for air-conditioning

- Employing energy saving lighting fixtures.
- Using liquified natural gas (LNG) for air-conditioning.

Among all of our "Save Resources" activities, we believe that the Zero Emission program, in place at all of our plants, has a special value. Our production processes create waste materials such as abrasives, coolant oils, metalworking chips and powder, and plastics. The Zero Emission program is aimed to reduce such waste materials as close to zero as possible through recycling and modification for the purpose of other industrial applications. Additionally, with the cooperation of major customers, each plant is trying to use recyclable cardboard for packaging products to be shipped. Currently, all plants have exceeded 90% in recycling rate. In fact, as a result of the following activities, the Yamaguchi Plant has realized 100% recycling rate and received a Eco-Plant Certification from the Yamaguchi Prefectural Government.

- Converting ferrous wastes into raw materials for the iron and steel industry.
- Converting sludge, including ferrous metals, into raw materials for the cement industry.
- Converting waste oil into a fuel.
- Using waste plastic and oil as reducing agents in iron making.



Environmental Risk Management System

THK is establishing an Environmental Risk Management System that will sustain its business expansion, that is, consolidated sales of 300,000 million yen by FY 2010. As previously mentioned, each department is working to avert environmental risks at all levels. It is also important to enhance transparency and harmonization of corporate systems. In this respect, it is crucial to strengthen information sharing capabilities within the Group. Presently, as the ISO14001 activities spread out to cover the whole organization, overall goals have been reevaluated. Also a method for evaluating activities, i.e., environmental performance evaluation, is being introduced. We are reinforcing the information infrastructure in order to realize a new industrial model that combines environmental management and business growth.

Green Procurement

THK takes a holistic approach to the environment, encompassing disparate stages such as supply of raw materials, production and sales, product life and disposal. In the past, we evaluated suppliers based on the traditional criteria of (Q)uality, (C)ost and (D)elivery. Today we add (E)nvironment to those items and evaluate supplying com-

Contingency Training

People are trained periodically to deal with contingencies. The pictures show a fallen oil container and an oil spill.

panies based upon their QCDE scores. If the vendor is a trading company, we also consider the performance of original manufacturers.

Chemical substances that can affect the environment are registered as "Environmentally Hazardous Substances." Suppliers are required to report whether their parts and materials sold contain such chemical substances, and if so, the concentration per each, as well. Part of the "Environmentally Hazardous Substances" are defined as "Prohibited Substances". They include those banned in the EU under the ELV and RoHS directive, those specified under the Chemical Substances Control Law and those under the Industrial Safety and Health Law. In particular, we are in the process of completely eliminating 6 substances listed in the RoHS directive - cadmium, lead, hexavalent chromium, mercury, PBB and PBDE – and are switching to the use of non-harmful substances in our products. All THK Group companies are working together to implement a new procurement system. Delivering green products to the customers and contributing to the conservation of the environment is called "Green Procurement"

Environmentally Conscious Products

The core of THK's product development philosophy is the Cubic E, i.e. a concept consisting of the following three ideas:

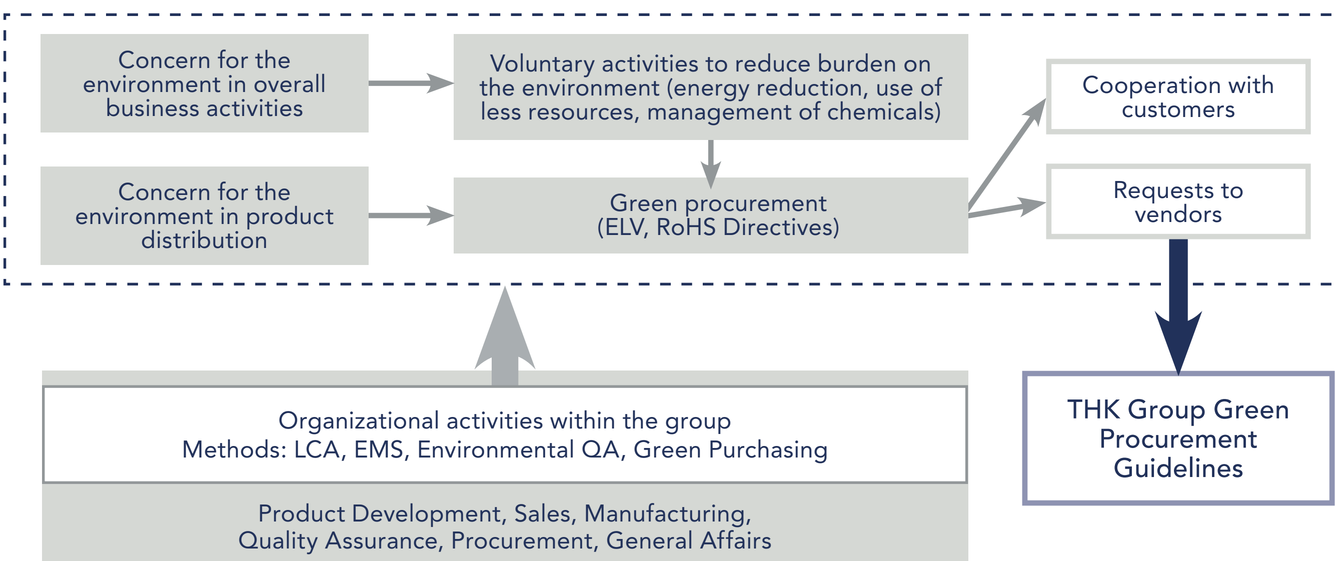
(1) Better maintainability, higher reliability and longer life.

(2) Providing an environmental solutions to users' manufacturing sites where better work conditions, less pollution and less waste are always a matter of importance.

(3) Minimizing users' production costs through the multi-functionality and durability of our products.

Each THK product has been developed following this Cubic E concept. We will continue to provide society with better products and thereby contribute to reducing the environmental load.

Care for the Environment through the Entire Organization



Directors & Auditors

Akihiro Teramachi
President and CEO

Masamichi Ishii
Senior Managing Director

Takeki Shirai
Managing Director

Kotaro Yoshihara
Director
General Manager of
Corporate Strategy Department

Toshihiro Teramachi
Director
President and Representative Director of
THK Europe B.V.
President and Representative Director of
THK GmbH

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

As of March 31, 2005

Hirohisa Murase
Director
General Manager of Sales Division

Junichi Sakai
Director
General Manager of Quality Assurance Division and Chief of the Advanced Technology Information Center

Isamu Hatanaka
Director
General Manager of Production Division

Hidekazu Michioka
Director
General Manger of Engineering Division

Kazunori Igarashi
Director
General Manager of Sales Support Division

Hiroshi Funahashi
Director
Deputy General Manager of Production Division

Shigeru Wako
Director
President and Representative Director of TALK SYSTEM CORPORATION

Takashi Okubo
Director
President of DALIAN THK CO., LTD.

Masato Sawada
Director
General Manager of FAI Division

Yoshito Nagafuchi
Standing Auditor

Akira Sugi
Standing Auditor

Shigeharu Mabuchi
Auditor

Shoji Namiki
Auditor

Consolidated Financial Statements

Sales

Overview

In Japan, we stepped up efforts to enhance our sales capability and productivity to take advantage of the favorable domestic business environment. Based on our belief that production in regions of high demand is the optimal method for growing the business, our production bases in North America and Europe were brought fully online, with the production and sales teams working together to achieve maximum sales growth. As a result, consolidated sales for the current financial year increased by ¥27,904 million (23.4 percent) to a record-breaking ¥147,158 million.

Domestic and Overseas Sales

-Japan-

Domestic sales surged by ¥20,211 million (23.7 percent) to ¥105,555 million. Demand for semiconductor and liquid crystal panel manufacturing equipment rose as the digital appliance market grew during the first half of the fiscal year. Although orders fell during the second half, overall demand for the year was positive. Demand for machine tools and industrial robots remained strong throughout the year, bolstered by increases in orders for facilities and equipment in China and the automobile industry. In this favorable environment, THK bolstered its sales capability and productivity, and that led to increased sales in all three major areas—machine tools, general machinery, and electronics.

-Americas-

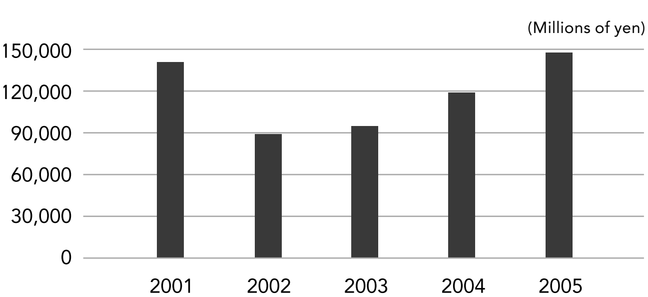
Sales in Americas reached ¥12,888 million, up by ¥2,452 million (23.5 percent). With the U.S. economy remaining steady and TMA operating at full production capacity, THK was able to focus on increasing sales in the region. As a result, sales to the industrial machinery, electronics, and automobile industries remained strong, and led to growth despite the yen's appreciation against the dollar.

-Europe-

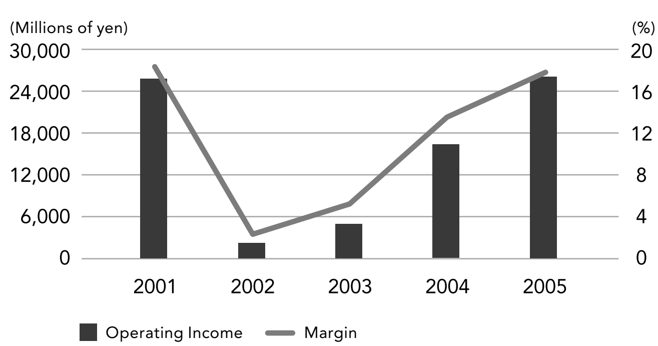
In Europe, sales increased by ¥2,601 million (20.4 percent) over the previous year to ¥15,340 million. We concentrated our efforts on winning new clients and expanding business with existing clients, taking advantage of TME running at full capacity and favorable conditions such as the gradual recovery of the European economy and the yen's depreciation against the euro. As a result, sales to the machine tool and electronics industries grew, as did sales to our main customer, the industrial machinery industry.

Years ended March 31

Net Sales



Operating Income Margin



-Asia and Other-

Our sales in Asia and other regions grew by ¥2,640 million (24.6 percent) to ¥13,375 million. Demand for machine tools in China is rising sharply, and THK continued its efforts to upgrade production capabilities and establish a stable supply system to meet that demand. We also developed a new client base and strengthened ties with local agents, allowing us to boost sales significantly.

Cost of Sales and Gross Profit

Our cost of goods sold ratio improved 1.8 points from 65.4 percent to 63.6 percent, while gross profit on sales rose ¥12,285 million (29.7 percent) above the previous term to ¥53,607 million. We pursued various initiatives to improve productivity at production sites in Japan, including TAP-2 activities, which are designed to shorten manufacturing lead times and increase productivity. As a result, the ratio of variable costs to sales increased only slightly when compared with last year, while fixed costs were minimal despite an increase in material prices. As previously noted, both TMA in North America and TME in Europe commenced full-scale operations to meet rising local demand. Enhanced production skills and a better operating ratio led to higher production levels and a substantial improvement in profitability.

SG&A Expenses

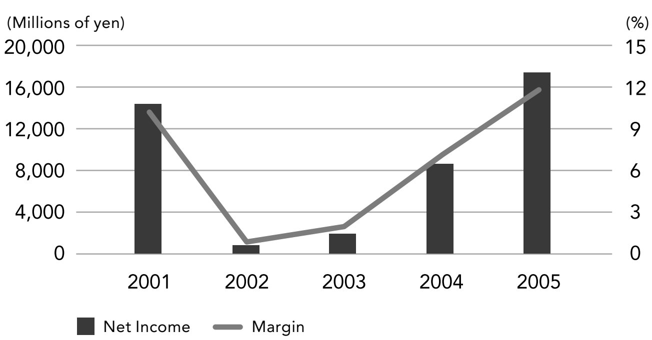
Selling, general and administrative (SG&A) expenses rose by ¥2,543 million (10.1 percent) over last year's figure to ¥27,633 million. Higher personnel costs overseas associated with an increase in staff and packaging/transportation costs arising from an increase in sales constituted the primary drivers. However, because we were able to control the rise in costs that accompanied the rise in sales, the ratio of SG&A expenses to sales actually declined 2.3 points, from 21.0 to 18.7 percent.

Operating Income

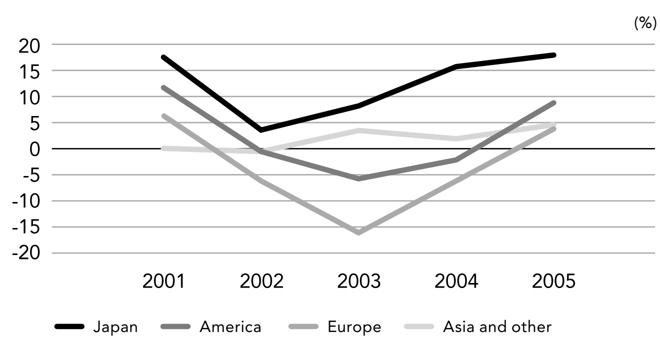
THK's operating income reached its highest level ever, jumping by ¥9,742 million (60.0 percent) from the previous year to ¥25,974 million. The operating margin rose 4.1 points to 17.7 percent thanks to a 1.8-point improvement in the cost of sales ratio and a 2.3-point rise in the ratio of SG&A expenses to sales.

Years ended March 31

Net Income Margin



Operating Income Margin by Geographical Segment



Non-Operating Income and Non-Operating Expenses

THK incurred non-operating expenses of ¥1,410 million. This mainly resulted from a loss on liquidation of a consolidated subsidiary of ¥650 million due to commencement of liquidation of PGM Ballscrews Ltd., a manufacturing subsidiary of Ball Screws in the UK, loss on sales/disposal of property and equipment of ¥201 million, and interest expenses of ¥163 million. On the other hand, our non-operating income was ¥2,281 million. This resulted from equity earnings of an affiliate of ¥433 million, a foreign exchange gain of ¥362 million due to the yen's depreciation mainly against the euro, and interest and dividend income of ¥282 million. We increased our shareholding in our subsidiary, DAITO SEIKI CO., LTD., leading to the creation of a negative goodwill. The consequent gain on amortization of negative goodwill for the period to March, 2005 came to ¥324 million. As a result, our non-operating income/expenses amounted to ¥871 million. THK incurred foreign exchange losses of ¥580 million during the previous year, leading to non-operating losses of ¥711 million.

Income Before Taxes and Minority Interest

An increase in operating income and an improved non-operating income/expenses balance raised income before taxes and minority interest by ¥11,324 million (73.0 percent) to ¥26,845 million.

Net Income

The factors mentioned above brought an ¥8,764 million (102.1 percent) rise in net income to ¥17,348 million compared with the previous term, making this THK's best year ever.

Financial Position

Assets

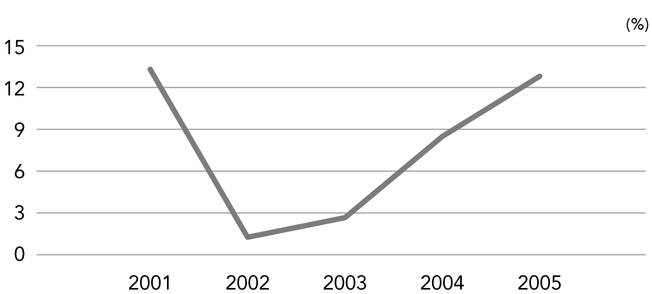
THK's total assets reached ¥220,008 million in FY 2004, up ¥28,903 million from the previous year. A rise in sales was one factor, bringing in notes and accounts receivable. We also took in cash, cash equivalents and fixed assets as a result of acquiring DAITO SEIKI CO., LTD. and consolidating our four subsidiaries in China.

Liabilities

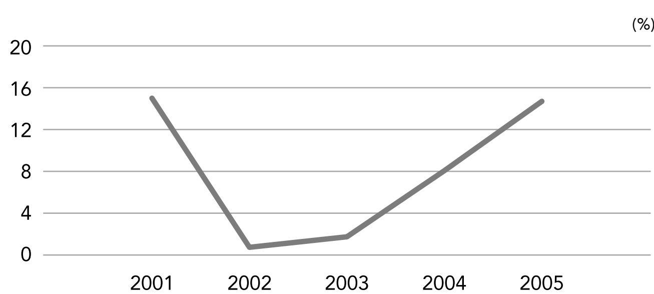
Total liabilities went up by ¥9,836 million to ¥91,402 million. The main contributing factors were purchase-related liabilities—a result of higher sales—and increases in negative goodwill and notes payable related to new subsidiaries.

Years ended March 31

ROA



ROE



Shareholder Equity

Total shareholder equity improved ¥18,468 million to ¥127,650 million. The main driver was an addition of ¥1,690 million in our additional paid-in capital related to the conversion of DAITO SEIKI CO., LTD. into a subsidiary through a stock swap. We also enjoyed a substantial increase in net income.

Cash Flows

From Operations

Cash flows from operating activities increased by ¥6,643 million over the previous year to ¥22,378 million. Gains came from a ¥11,324 million rise in income before taxes and minority interest and an increase of ¥7,053 million in income taxes, while the abolition of the directors' and statutory auditors' retirement allowances caused a ¥1,316 million decrease in the reserve for directors' and statutory auditors' retirement allowances.

From Investments

Funds derived from investing activities fell by ¥3,490 million, resulting in a cash outflow of ¥7,172 million. We spent ¥6,963 million to acquire fixed assets for the construction of factories at our Gifu plant in Japan and THK MANUFACTURING OF CHINA (WUXI) CO., LTD., an increase of ¥1,857 million over the previous year. On the other hand, cash inflows from sales of investments in securities decreased by ¥1,791 million to ¥3 million.

From Financing

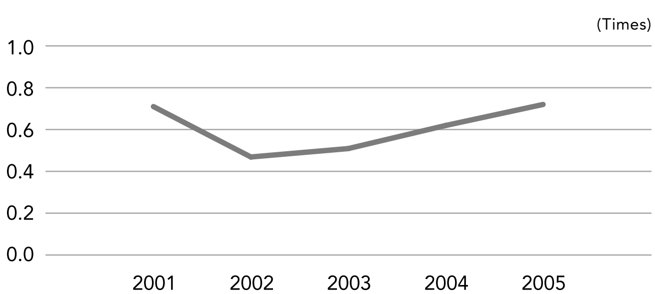
Cash flows from financing activities increased by ¥25,310 million, resulting in a cash outflow of ¥1,822 million. The primary reason is that our dividend per share rose by ¥3 to ¥18, leading to a dividend payout of ¥1,772 million. Net outflow of cash from financing activities for the previous year was ¥27,132 million, as we used cash on hand for debt repayments and redemption of bonds.

Cash and Cash Equivalents

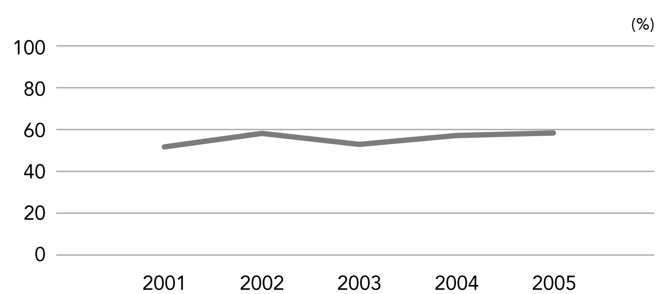
Because of the factors mentioned above, our outstanding balance of cash and cash equivalents at the end of the year increased by ¥18,950 million to ¥75,987 million.

Years ended March 31

Turnover Ratio



Equity Ratio



CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

as of March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
ASSETS			
Current Assets:			
Cash and bank deposits (Note 13)	¥ 56,551	**¥ 75,842**	**$ 706,103**
Short-term investments in securities (Note 13)	516	**145**	**1,347**
Accounts and notes receivable-			
Trade	43,791	**48,340**	**450,051**
Unconsolidated subsidiaries and affiliates	2,773	**1,290**	**12,007**
Other	1,029	**814**	**7,580**
	47,593	**50,444**	**469,638**
Less: allowance for bad debts	(318)	**(254)**	**(2,363)**
	47,275	**50,190**	**467,275**
Inventories (Note 5)	23,108	**24,208**	**225,383**
Short-term advances -			
Unconsolidated subsidiaries and affiliates	130	**100**	**931**
Other	44	**3**	**26**
Deferred tax assets (Note 12)	2,668	**3,041**	**28,311**
Other current assets	415	**656**	**6,108**
Total current assets	130,707	**154,185**	**1,435,484**
Investments and Other:			
Long-term investments in securities (Note 4)	3,729	**4,413**	**41,081**
Investments in unconsolidated subsidiaries and affiliates	4,405	**2,256**	**21,005**
Deferred tax assets (Note 12)	1,474	**1,096**	**10,204**
Other investments	6,235	**3,240**	**30,168**
	15,843	**11,005**	**102,458**
Property, Plant and Equipment (Note 8):			
Buildings and structures	29,161	**35,548**	**330,953**
Machinery and equipment	70,789	**77,888**	**725,150**
	99,950	**113,436**	**1,056,103**
Less: accumulated depreciation	(67,863)	**(74,687)**	**(695,350)**
	32,087	**38,749**	**360,753**
Land	10,168	**11,447**	**106,571**
Construction in progress	727	**3,299**	**30,718**
	42,982	**53,495**	**498,042**
Deferred Charges and Intangibles (Note 8)	1,573	**1,323**	**12,314**
Total assets	¥ 191,105	**¥ 220,008**	**$ 2,048,298**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt (Note 6)	¥ —	**¥ 186**	**¥ 1,735**
Accounts and notes payable-			
Trade	21,929	**25,082**	**233,511**
Unconsolidated subsidiaries and affiliates	2,516	**310**	**2,889**
Other	1,052	**2,274**	**21,171**
	25,497	**27,666**	**257,571**
Income taxes payable	6,483	**6,685**	**62,240**
Accrued expenses	6,283	**8,014**	**74,611**
Other current liabilities	2,055	**3,806**	**35,431**
Total current liabilities	40,318	**46,357**	**431,588**
Long-term Liabilities:			
Long-term debt (Note 6)	38,000	**38,350**	**357,048**
Reserve for employees' retirement benefits (Note 11)	1,632	**2,107**	**19,614**
Reserve for directors' and statutory auditors' retirement allowances	1,316	**—**	**—**
Negative goodwill	—	**2,917**	**27,155**
Other liabilities (Note 12)	300	**1,671**	**15,560**
Total long-term liabilities	41,248	**45,045**	**419,377**
Minority Interest	357	**956**	**8,898**
Shareholders' Equity:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 119,363,018 shares and 119,917,526 shares at March 31, 2004 and 2005, respectively	23,106	**23,106**	**215,122**
Additional paid-in capital	30,962	**32,652**	**303,991**
Retained earnings	55,837	**71,131**	**662,235**
Net unrealized gain on other securities (Note 4)	722	**1,041**	**9,696**
Foreign currency translation adjustments	(120)	**327**	**3,045**
Treasury stock, at cost: 1,149,721 shares and 22,975 shares for 2004 and 2005, respectively	(1,325)	**(607)**	**(5,654)**
Total shareholders' equity	109,182	**127,650**	**1,188,435**
Contingent Liabilities (Note 7)			
Total liabilities and shareholders' equity	¥ 191,105	**¥ 220,008**	**$ 2,048,298**

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

for the years ended March 31, 2003, 2004 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2005
Net Sales	¥ 94,600	¥ 119,254	**¥ 147,158**	**$ 1,370,062**
Cost of Sales	66,647	77,932	**93,551**	**870,975**
Gross profit	27,953	41,322	**53,607**	**499,087**
Selling, General and Administrative Expenses (Note 10)	23,060	25,090	**27,633**	**257,265**
Operating income	4,893	16,232	**25,974**	**241,822**
Non-Operating Income/(Expenses):				
Interest and dividend income	219	148	**282**	**2,622**
Interest expenses	(888)	(493)	**(163)**	**(1,514)**
Foreign exchange gain/(loss), net	352	(580)	**362**	**3,373**
Gain on sales of long-term investments in securities, net	—	33	**—**	**—**
Equity earnings/(losses) of affiliates	(12)	301	**433**	**4,035**
Rental income	149	159	**169**	**1,573**
Amortization of negative goodwill	—	—	**324**	**3,017**
Commission expenses	(34)	(61)	**(88)**	**(820)**
Liquidation loss of unconsolidated subsidiaries	—	(100)	**—**	**—**
Liquidation loss of a consolidated subsidiary	—	—	**(650)**	**(6,050)**
Loss on change in interest in an affiliated company	(318)	—	**—**	**—**
Loss on sales/disposal of property and equipment, net	(403)	(288)	**(201)**	**(1,868)**
Loss on write-down of long-term investments in securities	(510)	—	**—**	**—**
Gain on reversal of reserve for directors' and statutory auditors' retirement allowances	—	—	**48**	**446**
Other, net	149	170	**355**	**3,297**
	(1,296)	(711)	**871**	**8,111**
Income before income taxes and minority interest	3,597	15,521	**26,845**	**249,933**
Income Taxes (Note 12)	1,773	6,926	**9,442**	**87,913**
Income before minority interest	1,824	8,595	**17,403**	**162,020**
Minority interest in (income)/loss of consolidated subsidiaries	68	(11)	**(55)**	**(507)**
Net income	¥ 1,892	¥ 8,584	**¥ 17,348**	**$ 161,513**

	Yen			U.S. dollars (Note 1)
Per Share Data:				
Net income - basic	¥ 15.65	¥ 72.27	**¥ 145.31**	**$ 1.353**
Net income - diluted	¥ 15.12	¥ 63.69	**¥ 130.05**	**$ 1.211**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

for the years ended March 31, 2003, 2004 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2005
Common Stock				
At beginning of year	¥ 23,106	¥ 23,106	**¥ 23,106**	**$ 215,122**
At end of year	¥ 23,106	¥ 23,106	**¥ 23,106**	**$ 215,122**
Additional Paid-In Capital				
At beginning of year	¥ 30,962	¥ 30,962	**¥ 30,962**	**$ 288,261**
Gain from disposition of treasury stock under stock-swap	—	—	**689**	**6,411**
Stock issued under stock-swap	—	—	**1,001**	**9,319**
At end of year	¥ 30,962	¥ 30,962	**¥ 32,652**	**$ 303,991**
Retained Earnings				
At beginning of year	¥ 48,585	¥ 48,687	**¥ 55,837**	**$ 519,848**
Net income	1,892	8,584	**17,348**	**161,513**
Increase from investment in an affiliate newly accounted for by the equity method	—	379	**—**	**—**
Decrease resulting from inclusion of consolidated subsidiaries	—	—	**(232)**	**(2,161)**
Cash dividends	(1,790)	(1,783)	**(1,772)**	**(16,499)**
Directors' and statutory auditors' bonuses	—	(30)	**(50)**	**(466)**
At end of year	¥ 48,687	¥ 55,837	**¥ 71,131**	**$ 662,235**
Net Unrealized Gain/(Loss) on Other Securities				
At beginning of year	¥ 45	¥ (355)	**¥ 722**	**$ 6,719**
Change in year	(400)	1,077	**319**	**2,977**
At end of year	¥ (355)	¥ 722	**¥ 1,041**	**$ 9,696**
Foreign Currency Translation Adjustments				
At beginning of year	¥ 1,053	¥ 481	**¥ (120)**	**$ (1,124)**
Change in year	(572)	(601)	**447**	**4,169**
At end of year	¥ 481	¥ (120)	**¥ 327**	**$ 3,045**
Treasury Stock, at cost				
At beginning of year	¥ (3)	¥ (403)	**¥ (1,325)**	**$ (12,332)**
Purchase of treasury stock	(17)	(1,112)	**(14)**	**(128)**
Sales of treasury stock	—	1	**1**	**4**
Disposition under stock-swap	—	—	**1,116**	**10,394**
Change in year of treasury stock held by a consolidated subsidiary	—	—	**(385)**	**(3,592)**
Change in year of treasury stock held by an affiliated company	(383)	189	**—**	**—**
At end of year	¥ (403)	¥ (1,325)	**¥ (607)**	**$ (5,654)**
Total Shareholders' Equity at end of year	¥ 102,478	¥ 109,182	**¥ 127,650**	**$ 1,188,435**

The accompanying notes are an integral part of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

for the years ended March 31, 2003, 2004 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2005
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 3,597	¥ 15,521	**¥ 26,845**	**$249,933**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	6,164	5,566	**5,657**	**52,668**
Amortization of negative goodwill	—	—	**(324)**	**(3,017)**
Increase/(decrease) in provisions	(390)	338	**(717)**	**(6,671)**
Loss on sale/disposal of property and equipment, net	403	288	**201**	**1,868**
Interest and dividend income	(219)	(148)	**(282)**	**(2,622)**
Interest expenses	888	493	**163**	**1,514**
Foreign exchange/(gain) loss, net	(141)	109	**(167)**	**(1,559)**
Equity earnings/(losses) of affiliates	12	(301)	**(433)**	**(4,035)**
Loss on write-down of long-term investments in securities	510	—	—	—
Gain on sale of long-term investments in securities, net	—	(33)	—	—
Liquidation loss of unconsolidated subsidiaries	—	100	—	—
Liquidation loss of a consolidated subsidiary	—	—	**650**	**6,050**
Loss on change in interest in an affiliated company	318	—	—	—
Changes in assets and liabilities:				
Increase in accounts and notes receivable	(10,254)	(11,293)	**(3,203)**	**(29,819)**
Decrease in inventories	2,502	396	**14**	**132**
Increase in accounts and notes payable	5,221	7,337	**3,098**	**28,847**
Other, net	2,560	110	**228**	**2,119**
Subtotal	11,171	18,483	**31,730**	**295,408**
Interest and dividend income received	220	193	**339**	**3,161**
Interest expenses paid	(903)	(495)	**(192)**	**(1,784)**
Income taxes (paid)/refunded	5,524	(2,446)	**(9,499)**	**(88,441)**
Net cash provided by operating activities	16,012	15,735	**22,378**	**208,344**
Cash Flows from Investing Activities:				
Decrease in time deposits due over three months	468	—	**30**	**279**
Payments for purchase of short-term investments in securities	(1,199)	—	—	—
Proceeds from sales of short-term investments in securities	1,328	907	—	—
Payments for purchase of property, plant and equipment	(4,760)	(5,106)	**(6,963)**	**(64,831)**
Proceeds from sales of property, plant and equipment	149	81	**215**	**2,006**
Payments for purchase of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	(10)	(310)	**(475)**	**(4,426)**
Proceeds from sales of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	104	1,794	**3**	**31**
Payments of advances	(335)	(1,184)	**(400)**	**(3,724)**
Collections of advances	345	136	**418**	**3,895**
Net cash used in investing activities	(3,910)	(3,682)	**(7,172)**	**(66,770)**
Cash Flows from Financing Activities:				
Decrease in short-term bank loans	(2,887)	(3,304)	—	—
Repayments of long-term debt	(4,787)	(3,599)	**(36)**	**(335)**
Proceeds from issuance of bonds	22,905	—	—	—
Redemption of bonds	(8,000)	(17,334)	—	—
Cash dividends	(1,790)	(1,784)	**(1,772)**	**(16,495)**
Payments for purchase of treasury stock	(17)	(1,112)	**(14)**	**(133)**
Other, net	—	1	**0**	**4**
Net cash provided by/(used in) for financing activities	5,424	(27,132)	**(1,822)**	**(16,959)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1	(418)	**(41)**	**(382)**
Net Increase/(Decrease) in Cash and Cash Equivalents	17,527	(15,497)	**13,343**	**124,233**
Cash and Cash Equivalents at Beginning of Year	55,007	72,534	**57,037**	**531,022**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	—	—	**5,622**	**52,344**
Decrease in cash and cash equivalents resulting from exclusion of a consolidated subsidiary	—	—	**(15)**	**(149)**
Cash and Cash Equivalents at End of Year (Note 13)	¥ 72,534	¥ 57,037	**¥ 75,987**	**$ 707,450**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of THK CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.41 = U.S.$1, the rate of exchange prevailing in Tokyo on March 31, 2005 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts 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 23 subsidiaries ("controlled" companies—companies whose decision making is controlled) as of March 31, 2005 (22 as of March 31, 2004). The consolidated financial statements for the year ended March 31, 2005 include the accounts of the Company and 18 (14 for 2004) of its subsidiaries. The 18 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, 2004
THK America, Inc. (USA)	100	Dec.31, 2004
THK Manufacturing of America, Inc. (USA)	100	Dec.31, 2004
THK Neturen America, L.L.C. (USA)	50	Dec.31, 2004
THK Europe B.V. (the Netherlands)	100	Dec.31, 2004
THK GmbH (Germany)	100	Dec.31, 2004
THK France S.A.S. (France)	100	Dec.31, 2004
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec.31, 2004
THK Manufacturing of Europe S.A.S. (France)	100	Dec.31, 2004
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec.31, 2004
THK (SHANGHAI) CO., LTD. (China)	100	Dec.31, 2004
DALIAN THK CO., LTD. (China)	70	Dec.31, 2004
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec.31, 2004
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec.31, 2004
DAITO SEIKI CO., LTD. (Japan)	100	Mar.31, 2005
THK NIIGATA CO., LTD. (Japan)*	70	Mar.31, 2005
TALK SYSTEM CORPORATION (Japan)	98.90	Mar.31, 2005
Beldex Corporation (Japan)	94.73	Mar.31, 2005

The accounts for the year ended March 31, 2005 of the remaining 5 (8 for 2004) 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.

The changes of the scope of consolidation for the year ended March 31, 2005 are as follows:

Due to becoming a wholly owned subsidiary of the Company by stock-swap, DAITO SEIKI CO., LTD., formerly of which investment was accounted for by the equity method, has been included in the consolidation scope from the beginning of the latter half year.

Due to increase in materiality, THK (SHANGHAI) CO., LTD., DALIAN THK CO., LTD., and THK MANUFACTURING OF CHINA (WUXI) CO., LTD. were included in the consolidation scope as of the end of the year.

Due to new establishment, THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. was included in the consolidation scope as of the end of the year.

Due to the commencement of the liquidation process and having no effective control, the subsidiary PGM Ballscrews Ltd. (UK) was excluded from the consolidation scope from the beginning of the latter half year.

*Formerly known as "THK Yasuda Co., Ltd."; its registered business name was changed to THK NIIGATA CO., LTD. as of July 1, 2004.

(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

The Company has 3 (3 for 2004) affiliates ("influenced companies"— companies whose financial and operating or business decision making can be influenced by the Companies in a material degree, and are not subsidiaries) at March 31, 2005. The equity method is applied to the investment in SAMICK LMS CO., LTD. The investment in SAMICK LMS CO., LTD. has been accounted for by the equity method since the beginning of the year ended March 31, 2004. The investments in the unconsolidated subsidiaries and the remaining affiliates do not have a material effect 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.

Reclassified as a consolidated subsidiary due to becoming a wholly owned subsidiary of the Company by stock-swap, DAITO SEIKI CO., LTD. was excluded from the scope of application of the equity method from the beginning of the latter half year ended March 31, 2005.

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

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.

3. Summary of Significant Accounting Policies

(a) Inventories

Inventories held by the Company, TALK SYSTEM CORPORATION, THK NIIGATA 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., THK Neturen America, L.L.C., PGM Ballscrews Ireland Ltd. and THK (SHANGHAI) CO., 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, THK France S.A.S., THK TAIWAN CO., LTD., DALIAN THK CO., LTD., THK MANUFACTURING OF CHINA (WUXI) CO., LTD. are valued at the lower of cost or market value, cost being determined using the moving-average method. Inventories held by DAITO SEIKI CO., LTD. and Beldex Corporation are valued at cost, cost being determined using specific identification method.

(b) Financial Instruments

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 of 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.

(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.

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.

Differences between the cost and the fair value of the underlying net equity in subsidiaries and affiliates which are consolidated or accounted for by the equity method are amortized on a straight-line basis over a period of 5 years.

(e) Allowance for Bad Debts

An allowance for bad debts is recorded, in amounts considered 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

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, from 5 to 10 years, from the next year in which they arise.

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

The Company had recorded a reserve for directors' and statutory auditors' retirement allowances equivalent to the liability the Company would have to pay if all eligible directors and statutory auditors resigned at the balance sheet date.

Upon resolution at the 34th general shareholders' meeting on June 26, 2004, the Company decided to abolish the directors' and statutory auditors' retirement allowances. As of the end of June 2004, the reserved balance over granted retirement allowances to the retiring directors and statutory auditors in the amount of ¥48 million ($446 thousand) was recorded as a "gain on reversal of reserve for directors' and statutory auditors' retirement allowances" in the consolidated statements of income. As of the year-ended, a ¥982 million ($9,142 thousand) of the granted retirement allowance balance was recorded as an "other liabilities" in the consolidated balance sheets.

(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 generally accepted in Japan.

(i) Foreign Currency Translation

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.

(j) Accounting for the 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 consolidated 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 carry 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.

(n) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

For the year ended March 31, 2005, the Company and its subsidiaries have not yet applied this new standard. However, the management believes that an application of the new standard would not have significant impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

4. Long-term Investments in Securities

At March 31, 2004 and 2005, "other securities" with available market value were as follows:

	Millions of yen		
	2004		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 2,356	¥ 3,539	¥ 1,183
Other	10	11	1
Subtotal	2,366	3,550	1,184
Carrying amounts not in excess of acquisition cost:			
Equity securities	4	4	(0)
Other	—	—	—
Subtotal	4	4	(0)
Total	¥ 2,370	¥ 3,554	¥ 1,184

	Millions of yen		
	2005		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 2,392	¥ 4,123	¥ 1,731
Other	7	8	1
Subtotal	2,399	4,131	1,732
Carrying amounts not in excess of acquisition cost:			
Equity securities	1	1	(0)
Other	—	—	—
Subtotal	1	1	(0)
Total	¥ 2,400	¥ 4,132	¥ 1,732

	Thousands of U.S. dollars		
	2005		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$ 22,275	$ 38,387	$ 16,112
Other	66	76	10
Subtotal	22,341	38,463	16,122
Carrying amounts not in excess of acquisition cost:			
Equity securities	8	8	(0)
Other	—	—	—
Subtotal	8	8	(0)
Total	$ 22,349	$ 38,471	$ 16,122

Proceeds and net realized gain (loss) from the sales of "other securities" for the years ended March 31, 2004 and 2005 were immaterial.

5. Inventories

Inventories at March 31, 2004 and 2005 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Finished goods	¥ 12,871	¥ 13,261	$ 123,457
Work in process	4,184	4,082	38,005
Raw materials and supplies	6,053	6,865	63,921
Total	¥ 23,108	¥ 24,208	$ 225,383

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

The annual average interest rate applicable to current portion of long-term debt at March 31, 2005 was 1.14%.

Long-term debt at March 31, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
0.91% Straight bonds 2006	¥ 10,000	¥ 10,000	$ 93,101
1.37% Straight bonds 2008	5,000	5,000	46,551
Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 ($15)	23,000	23,000	214,133
Loans from banks (1.14%) :			
Collateralized	—	248	2,309
Non-collateralized	—	288	2,689
	38,000	38,536	358,783
Less - current portion	—	186	1,735
	¥ 38,000	¥ 38,350	$ 357,048

At March 31, 2005, the Company and some of its subsidiaries had committed lines of credit amounting to ¥14,000 million ($130,342 thousand). None of the committed lines of credit were used.

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2005, were as follows

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2005	2005
2007	¥ 10,188	$ 94,848
2008	23,130	215,351
2009	5,032	46,849
2010 and after	—	—
	¥ 38,350	$ 357,048

7. Contingent Liabilities

There were no contingent liabilities at March 31, 2005 with respect to loans guaranteed.

8. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥666 million, ¥622 million, and ¥677 million ($6,305 thousand) for the years ended March 31, 2003, 2004 and 2005, 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, 2004 and 2005 were as follows:

	Millions of yen		
	2004		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 2,885	¥ 72	¥ 2,957
Accumulated depreciation	1,375	48	1,423
Net leased property	¥ 1,510	¥ 24	¥ 1,534

	Millions of yen		
	2005		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 3,110	¥ 143	¥ 3,253
Accumulated depreciation	810	119	929
Net leased property	¥ 2,300	¥ 24	¥ 2,324

	Thousands of U.S. dollars		
	2005		
	Machinery and equipment	Other	Total
Acquisition costs	$ 28,951	$ 1,333	$ 30,284
Accumulated depreciation	7,540	1,112	8,652
Net leased property	$ 21,411	$ 221	$ 21,632

Future minimum lease payments under finance leases as of March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥ 551	¥ 649	$ 6,043
Due after one year	983	1,675	15,589
Total	¥ 1,534	¥ 2,324	$ 21,632

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 ¥666 million, ¥622 million and ¥677 million ($6,305 thousand) for the years ended March 31, 2003, 2004 and 2005, respectively.

Obligations under non-cancelable operating leases as of March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Due within one year	¥ 619	¥ 602	$ 5,601
Due after one year	1,694	1,455	13,552
Total	¥ 2,313	¥ 2,057	$ 19,153

9. Derivative 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, 2004 and 2005, the Company utilized certain interest rate swap, currency swap agreements and forward exchange contracts. Market value information for such derivatives held by the Company at March 31, 2004 and 2005 has been omitted as such derivatives qualified the conditions for hedge accounting under the related Japanese accounting standards.

10. Research and Development

Research and development expenses for the years ended March 31, 2003, 2004 and 2005 were ¥2,104 million, ¥2,520 million and ¥2,686 million ($25,007 thousand), respectively, and were included in "selling, general and administrative expenses" in the consolidated statements of income.

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, 2004 and 2005 was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Projected benefit obligations	¥ 4,525	¥ 5,696	$ 53,027
Plan assets	(2,397)	(2,858)	(26,608)
	2,128	2,838	26,419
Unrecognized actuarial differences	(496)	(731)	(6,805)
Reserve for employees' retirement benefit	¥ 1,632	¥ 2,107	$ 19,614

Net periodic pension and severance costs for the years ended March, 2003, 2004 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Service cost	¥ 336	¥ 338	¥ 376	$ 3,506
Interest cost	89	97	113	1,050
Expected return on plan assets	(9)	(9)	(12)	(112)
Recognized actuarial differences	68	86	74	685
Net periodic pension and severance costs	¥ 484	¥ 512	¥ 551	$ 5,129

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

	2003	2004	2005
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.5%	2.5%	2.5%
Expected rate of return on plan assets	0.5%	0.5%	0.5%
Amortization of unrecognized actuarial differences	10 years	10 years	5~10 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, 2003 and 2004 was 42.1% and 2005 was 40.7%.

At March 31, 2004 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets:			
Loss on devaluation of inventories	¥ 1,039	¥ 1,071	$ 9,967
Software	686	541	5,040
Elimination of inter-company profit (inventories)	484	407	3,791
Reserve for directors' retirement benefits	535	399	3,720
Allowance for bad debts	408	250	2,330
Reserve for employees' retirement benefits	576	785	7,304
Net operating loss carried forward	219	269	2,501
Accrued bonuses to employees	570	888	8,263
Enterprise tax payable	558	465	4,327
Other	942	1,192	11,104
Gross deferred tax assets	6,017	6,267	58,347
Less: valuation allowance	(885)	(851)	(7,925)
Total deferred tax assets	5,132	5,416	50,422
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(493)	(712)	(6,633)
Insurance premium	(219)	(280)	(2,608)
Special depreciation reserve	(188)	(214)	(1,991)
Unrealized gains on land	—	(418)	(3,894)
Other	(184)	(188)	(1,744)
Total deferred tax liabilities	(1,084)	(1,812)	(16,870)
Net deferred tax assets	¥ 4,048	¥ 3,604	$ 33,552

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current assets - Deferred tax assets	¥ 2,668	¥ 3,041	$ 28,311
Investments and other - Deferred tax assets	1,474	1,096	10,204
Long-term liabilities - Other liabilities	(94)	(533)	(4,963)
Net deferred tax assets	¥ 4,048	¥ 3,604	$ 33,552

For the years ended March 31, 2004 and 2005, the reconciliation of the statutory tax rate to the effective tax rate was follows:

	2004	2005
Statutory tax rate	42.1%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	0.3	0.2
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	2.6	(0.6)
Amortization of negative goodwill	(0.0)	(0.5)
Equity earnings from unconsolidated subsidiaries and affiliates	(0.8)	(0.7)
Equalization inhabitant taxes	0.4	0.3
Tax rate differences between domestic and overseas	0.6	(0.2)
Tax credit for research and development expenses	—	(1.1)
Refunded tax payment	(0.1)	(1.5)
Other	(0.5)	(1.4)
Effective income tax rate	44.6%	35.2%

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

1) Cash and cash equivalents at March 31, 2004 and 2005 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Cash and bank deposits	¥ 56,551	¥ 75,842	$ 706,103
Short-term investments in securities	516	145	1,347
	57,067	75,987	707,450
Less:			
Time deposit due over three months	(30)	—	—
	¥ 57,037	¥ 75,987	$ 707,450

2) Assets and liabilities of the newly consolidated subsidiary by stock-swap

On November 1, 2004, the Company executed a stock-swap agreement to acquire DAITO SEIKI CO., LTD. This acquisition creates a wholly owned subsidiary. The following summarizes the related assets and liabilities of DAITO SEIKI CO., LTD., newly included in consolidation by stock-swap at the inception of the consolidation, and acquiring costs of the investment.

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Current assets	¥ 10,416	$ 96,973
Non-current assets	2,387	22,227
Current liabilities	(2,999)	(27,919)
Non-current liabilities	(631)	(5,879)
Adjustments in connection with consolidation*	(3,126)	(29,105)
Negative goodwill	(3,241)	(30,173)
Acquiring costs of the investment in DAITO SEIKI under stock-swap	2,806	26,124
Newly issued stock amount under stock swap	(1,001)	(9,319)
Fair market value of treasury stock used for stock-swap	(1,805)	(16,805)
Net	—	—

*Primary adjustments include differences between net asset and investments in DAITO SEIKI which was accounted for under the equity method and adjustments for revaluating the DAITO SEIKI's assets and liabilities to fair value.

3) Significant non-cash transactions

In the year ended March 31, 2005, the Company acquired DAITO SEIKI CO., LTD. in exchange for 554,508 newly issued shares of the Company and 1,000,000 shares of treasury stocks held by the Company. The following summarizes changes in additional paid-in capital and treasury stock accounts included in the shareholders' equity.

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Increase resulting from stock issuance (additional paid-in capital)	¥ 1,001	$ 9,319
Increase resulting from allotting treasury stock (Gain from disposition of treasury stock – additional paid-in capital)	689	6,411
Decrease resulting from disposition of treasury stock (treasury stock)	1,116	10,394

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

14. Segment Information

(1) Industry Segment Information

As the sales, operating income and assets of the machinery parts segment are over 90% of the 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, 2003, 2004 and 2005 classified by geographic segments were summarized as follows:

	Millions of yen						
	2003						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate	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

	Millions of yen						
	2004						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	¥ 93,771	¥ 10,341	¥ 12,743	¥ 2,399	¥ 119,254	¥ —	¥ 119,254
Inter-segment	12,654	53	118	—	12,825	(12,825)	—
Total	106,425	10,394	12,861	2,399	132,079	(12,825)	119,254
Operating expenses	89,727	10,608	13,666	2,348	116,349	(13,327)	103,022
Operating income/(loss)	¥ 16,698	¥ (214)	¥ (805)	¥ 51	¥ 15,730	¥ 502	¥ 16,232
II. Assets-							
Assets	¥ 180,711	¥ 13,316	¥ 17,769	¥ 1,735	¥ 213,531	¥ (22,426)	¥ 191,105

	Millions of yen						
	2005						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	¥ 115,701	¥ 12,818	¥ 15,371	¥ 3,268	¥ 147,158	¥ —	¥ 147,158
Inter-segment	15,680	35	133	—	15,848	(15,848)	—
Total	131,381	12,853	15,504	3,268	163,006	(15,848)	147,158
Operating expenses	107,872	11,725	14,977	3,118	137,692	(16,508)	121,184
Operating income	¥ 23,509	¥ 1,128	¥ 527	¥ 150	¥ 25,314	¥ 660	¥ 25,974
II. Assets-							
Assets	¥ 200,778	¥ 15,148	¥ 18,730	¥ 2,454	¥ 237,110	¥ (17,102)	¥ 220,008

	Thousands of U.S. dollars						
	2005						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	$ 1,077,187	$ 119,342	$ 143,102	$ 30,431	$ 1,370,062	$ —	$ 1,370,062
Inter-segment	145,985	321	1,241	—	147,547	(147,547)	—
Total	1,223,172	119,663	144,343	30,431	1,517,609	(147,547)	1,370,062
Operating expenses	1,004,301	109,160	139,441	29,031	1,281,933	(153,693)	1,128,240
Operating income	$ 218,871	$ 10,503	$ 4,902	$ 1,400	$ 235,676	$ 6,146	$ 241,822
II. Assets-							
Assets	$ 1,869,270	$ 141,028	$ 174,379	$ 22,845	$ 2,207,522	$ (159,224)	$ 2,048,298

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

(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, 2003, 2004 and 2005 were summarized as follows:

	Millions of yen			
	2003			
	America	Europe	Asia and other	Total
Overseas sales	¥ 10,775	¥ 10,780	¥ 7,765	¥ 29,320
Consolidated net sales				¥ 94,600
Overseas sales as a percentage of consolidated net sales	11.4%	11.4%	8.2%	31.0%

	Millions of yen			
	2004			
	America	Europe	Asia and other	Total
Overseas sales	¥ 10,436	¥ 12,739	¥ 10,735	¥ 33,910
Consolidated net sales				¥ 119,254
Overseas sales as a percentage of consolidated net sales	8.7%	10.7%	9.0%	28.4%

	Millions of yen/(Thousands of U.S. dollars)			
	2005			
	America	Europe	Asia and other	Total
Overseas sales	¥ 12,888	¥ 15,340	¥ 13,375	¥ 41,603
	($ 119,992)	($ 142,820)	($ 124,521)	($ 387,333)
Consolidated net sales				¥ 147,158
				($ 1,370,062)
Overseas sales as a percentage of consolidated net sales	8.8%	10.4%	9.1%	28.3%

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of THK CO., LTD. and its subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005, 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 generally accepted in Japan. These 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 subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005 in conformity with accounting principles generally accepted in Japan.

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 PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

June 18, 2005

Corporate Data

Company Profile

Head Office	3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503 JAPAN
Telephone	+81-3-5434-0300
Established	April 1971
Number of Employees	2,795
Month of Ordinary General Meeting of Shareholders	June
Website Address	http://www.thk.com/

Stock Information

Common Stock:	
Authorized	465,877,700
Issued	119,917,526
Stock Exchange Listings	Tokyo Stock Exchange
Number of Shareholders	30,300 (Unit shareholders: 28,777)
Auditing Corporation	ChuoAoyama PricewaterhouseCoopers

As of March 31, 2005

http://www.thk.com/

THK Annual Report 2003