What is THK?

THK

The Mark of Linear Motion.

Annual Report 2006

THK Annual Report 2006

Company Profile

THK, the pioneering developer of the world's first LM Guides (Linear Motion Guides), which convert the rotary motion of mechanical tools into linear motion, remains the world's leading manufacturer of such machinery parts. LM Guides are used in a variety of equipment, including machine tools, industrial robots, semiconductor production equipment, and medical instruments. Essential in achieving higher precision, faster speeds, and energy conservation, LM Guides have contributed greatly to the advancement of manufacturing industry.

THK is a creative, development-focused business which, since its foundation in 1971, has concentrated on the development of a variety of products predicated upon a management philosophy of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society." In 1996, THK succeeded in developing what may be called the next-generation LM Guide, the "LM Guide with Caged Ball Technology," which provides customers with advanced features, such as long-term, maintenance-free operation. Currently, Caged Ball Technology is finding application in the areas of Ball Screws and Ball Splines, with the result that THK is now able to provide the merits of these technologies to an even broader range of customers.

In FY 2000, the 30th anniversary of our company's establishment, THK created a Long-Term Management Target, the "Fiscal 2010 Vision." These long terms goals include an expansion of our business area, centering on the pillars of "Full-Scale Globalization" and "Development of New Business Areas," and achieving consolidated net sales of 300,000 million yen by FY 2010. Under the first pillar, "Full-Scale Globalization," we are attempting to place production closer to demand centers, and are therefore working to create production systems and improve our sales capabilities in four major geographic regions: Japan, North America, Europe and Asia. Additionally, we are aiming to merge production and sales into unified production-sales operations within each of these areas.

Under the other pillar, "Development of New Business Areas," THK has established, among others, the "FAI Division," which produces automobile products necessary to improve automobile safety and comfort, and the "ACE Division," which produces seismic isolation devices designed to protect human life, buildings and property from the threat of earthquakes. Through these and other measures, we are steadily expanding our business into consumer goods sectors to complement our previous focus on capital goods.

FY 2006 will be an extremely important turning point in the Fiscal 2010 Vision. We will aggressively promote our efforts at "Full-Scale Globalization" and "Development of New Business Areas" and undauntedly continue our efforts to achieve our Long-Term Management Target (the Fiscal 2010 Vision).

Table of Contents

Company Profile	0
History of THK	2
Performance Summary	4
President's Message	6
Segment Information	12
Corporate Governance	24
THK Products	28
R&D and New Product Development	34
Environmental Activities	36
Directors & Auditors	42
Consolidated Financial Statements	45
Corporate Data	72

Five year Consolidated Financial Summary

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2002	2003	2004	2005	2006	2006
Net Sales	¥ 89,340	¥ 94,600	¥ 119,254	¥ 147,158	¥ 158,413	$ 1,348,537
Japan	59,645	65,280	85,344	105,555	112,245	955,519
The Americas	11,629	10,775	10,436	12,888	14,108	120,096
Europe	12,863	10,780	12,739	15,340	16,199	137,898
Asia and other	5,203	7,765	10,735	13,375	15,861	135,024
Cost of Sales	63,294	66,647	77,932	93,551	100,491	855,461
Gross profit	26,046	27,953	41,322	53,607	57,922	493,076
Selling, General and Administrative Expenses	23,870	23,060	25,090	27,633	30,842	262,549
Operating income	2,176	4,893	16,232	25,974	27,080	230,527
Income before Income Taxes and Minority Interest	833	3,597	15,521	26,845	30,566	260,202
Income Taxes	15	1,773	6,926	9,442	11,636	99,059
Net Income	820	1,892	8,584	17,348	18,584	158,202

	Yen					U.S. dollars (Note 1)
Per Share Data:	2002	2003	2004	2005	2006	2006
Net Income - basic	¥ 6.88	¥ 15.65	¥ 72.27	¥ 145.31	¥ 148.42	$ 1.263
Net Income - diluted	—	15.12	63.69	130.05	137.97	1.175
Shareholders' Equity per Share (Yen)	869.20	860.80	923.35	1,067.42	1,266.39	10.781

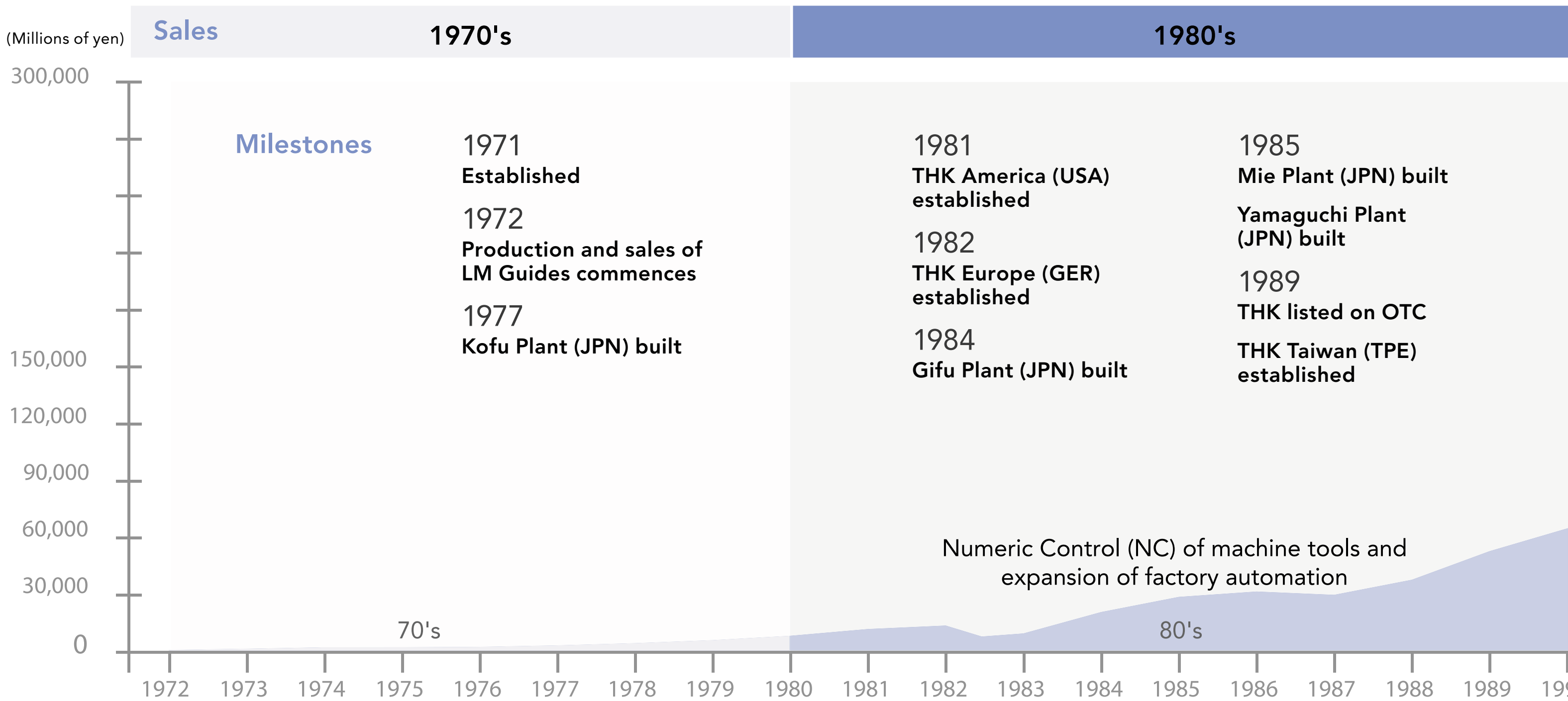
	Millions of yen					Thousands of U.S. dollars (Note 1)
	2002	2003	2004	2005	2006	2006
Total assets	¥ 179,705	¥ 193,197	¥ 191,105	¥ 220,008	¥ 244,385	$ 2,080,401
Total shereholders' equity	103,748	102,478	109,182	127,650	168,273	1,432,475
Capital Expenditures	6,476	4,611	6,307	12,425	9,719	82,739
Depreciation	5,503	5,529	5,005	5,343	5,856	49,847
R&D Expenses	1,932	2,104	2,520	2,686	2,684	22,846

	2002	2003	2004	2005	2006
Operating Margin (%)	2.4	5.2	13.6	17.7	17.1
Net Income Percentage of Net Sales (%)	0.9	2.0	7.2	11.8	11.7
Return on Equity (%)	0.8	1.8	8.1	14.7	12.6
Return on Assets (%) (Note 2)	1.3	2.7	8.5	12.8	11.8
Equity Ratio (%)	57.7	53.0	57.1	58.0	68.9
Turnover Ratio (Times)	0.47	0.51	0.62	0.72	0.68

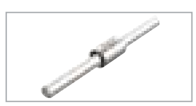
Note 1: Throughout this report, U.S. dollars amounts represent translation of Japanese yen, for convenience only, at the rate of ¥117.47=U.S.$1, the approximate rate of exchange prevailing in Tokyo on March 31, 2006.

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

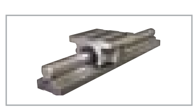
History of THK

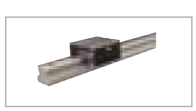


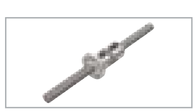
Product Timeline

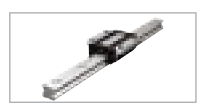

1971
Ball Spline
(LBS)

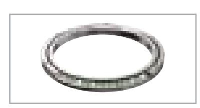

1971
Link Ball
(RBL)

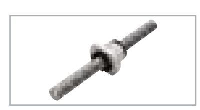

1972
LM Guide
(LSR)


1975
LM Guide
(NSR)


1979
Ball Screw
(BNFN)


1981
LM Guide
(HSR)


1982
Cross Roller Ring
(RB)


1983
Ball Screw
(BLK)


1988
Link Ball
(BL)

Years ended March 31

1990's	2000's

1991
Yamagata Plant (JPN) built

1996
Production and sales of LM Guides with Caged Ball Technology commences

Dalian THK (CHN) established

1997
TMA (USA) established

2000
TME (FRA) established

2001
Production and sales of Roller Guides with Caged Ball Technology commences

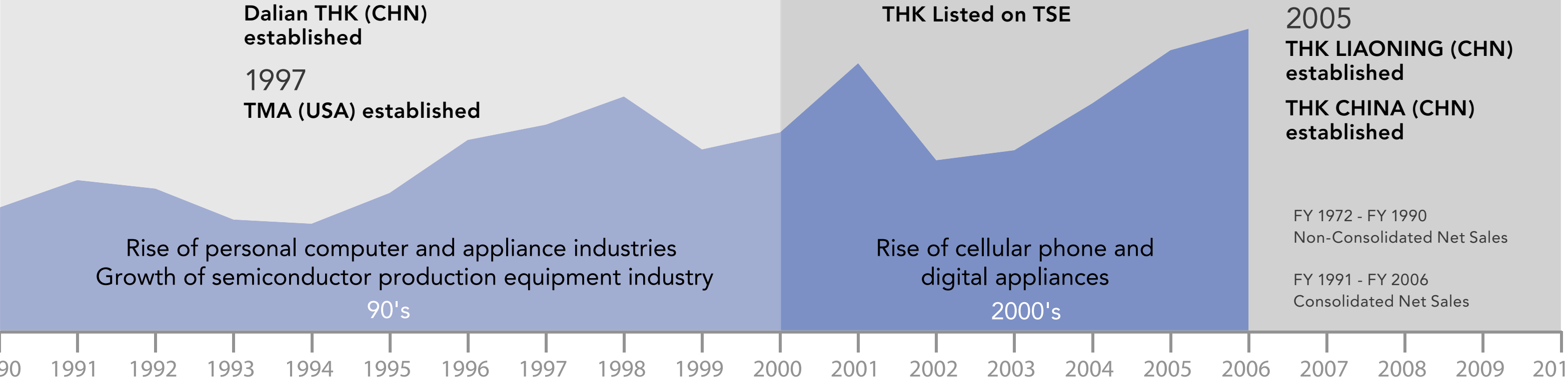
THK Listed on TSE

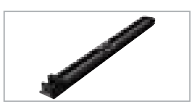
2003
THK SHANGHAI (CHN) established

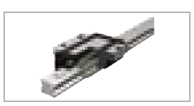
2004
THK WUXI (CHN) established

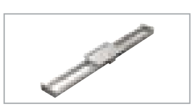
2005
THK LIAONING (CHN) established

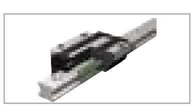
THK CHINA (CHN) established



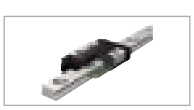

1990
LM Guide Actuator (KR)

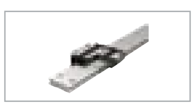

1996
LM Guide (SSR)

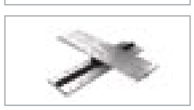

1997
Linear Motor Actuator (GLM)

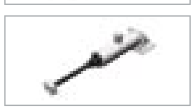

1998
LM Guide (SHS)

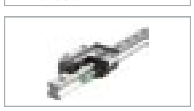

1998
LM Guide (SNR)

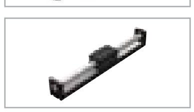

1999
LM Guide (SRS)

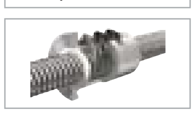

2000
LM Guide (SHW)


2001
Seismic Isolation Cross Liner Bearing (CLB)

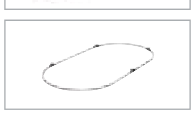

2001
Seismic Isolation Viscous Damper (RDT)


2001
Roller Guide (SRG)

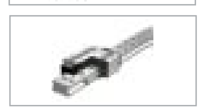

2002
Linear Motor Actuator (RDM)

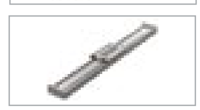

2002
Ball Screw (HBN)

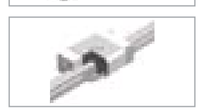

2002
Low Price Actuator (VLA)


2003
LM Guide (HMG)

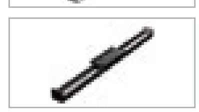

2003
LM Guide Actuator (SKR)


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)


2005
Limited Stroke LM Guide (EPF)

Performance Summary

In FY 2005, THK's consolidated sales amounted to 158,400 million yen while operating income came to 27,000 million yen. These two numbers marked all-time highs for the Company for the second year in succession.

These figures should be set into context. Looking back to FY 2001, in the wake of the bursting of the IT bubble, THK was affected by the shakeout in the electronics industry, with the result that the Company experienced an unprecedentedly sharp year-on-year drop in sales of 36.3 percent.

This experience left us exposed to an array of serious and threatening problems. Fortunately, we were able to identify the two key issues, and we have put in place measures to resolve them.

First, in order to not be overly dependent on a relatively narrow range of geographic regions and industries we would broaden our demand base. Second, we acted on the need to build up flexible production systems that could instantly respond to sudden fluctuations in demand in the short term. To resolve these issues, we adopted a two-pronged approach. On the sales front, we aggressively won over new customers and pioneered new applications on the domestic market. We exported the THK Advantage Program (TAP1), which was already a proven results-producer in Japan, to overseas locations, and we strove to enhance the skills of our sales teams. On the production front, we set about cutting production lead times with a view to further improving productivity at our domestic plants, and we embarked on an expansion of our production bases overseas.

These activities bore fruit in FY 2005. Integration of production and sales activities; full-blown operation of manufacturing subsidiaries in the United States and Europe; and intensification of our sales efforts both at home and abroad laid the groundwork for the record sales and profits we were able to enjoy. The business results were achieved in spite of a rising cost base related to prior investments such as increases in production cost due to the entry into operation of a new wing at the Gifu Plant, temporary expenses stemming from the reallocation of production items among our domestic plants, and a rise in personnel cost stemming from the increase in the number of consolidated subsidiaries.

Offsetting the above were improved productivity and the effect of improved operating rates accompanying increased production volumes at our domestic manufacturing subsidiaries; enhanced skill levels; and the effects of rising operating rates at our production subsidiaries in the United States were among the elements that absorbed these expenses related to prior investments and made it possible to set a new operating income record also for the second term in succession. We believe that these results amply demonstrate how well we have applied the lessons we learned in the past and the degree to which our business structure has been strengthened.

THK is firmly committed to increasing its corporate value by improving profitability and increasing capital efficiencies. We have set target management indexes of 20 percent for our operating profit margin and 10 percent for return on equity (ROE). In FY 2005, increases in expenses connected with prior investments held our operating profit margin to 17.1 percent which fell short of the target. However, ROE did reach 12.6 percent.

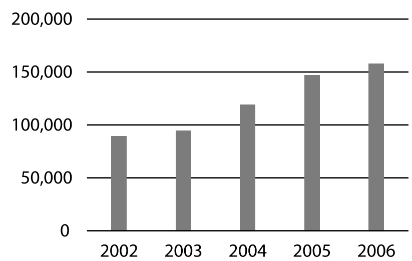
Our primary goal continues to be the pursuit of flexibility in management of the demand cycle, and the establishment, at an early date, of a corporate structure that will enable us to attain our target financial returns.

Performance Measurements

Years ended March 31

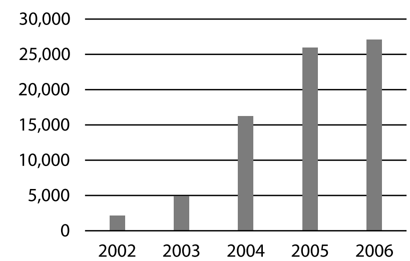
Net Sales

(Millions of yen)



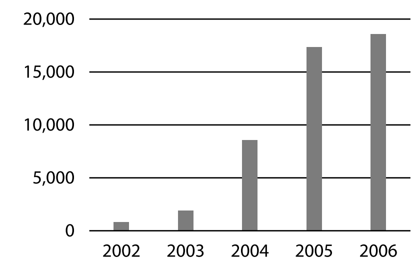
Operating Income

(Millions of yen)



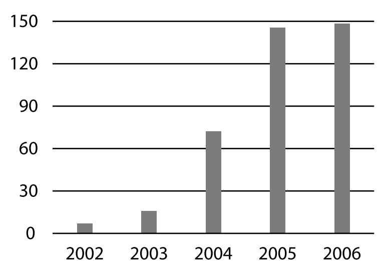
Net Income

(Millions of yen)



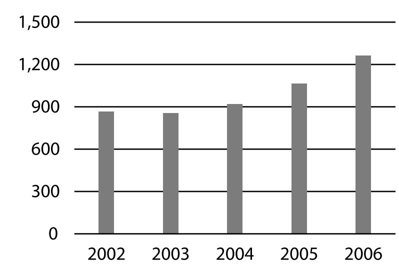
Earnings per Share

(Yen)



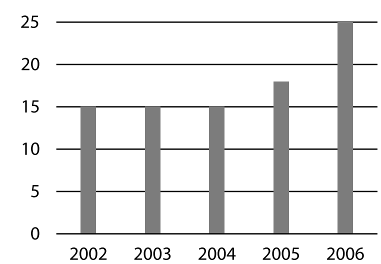
Book Value per Share

(Yen)



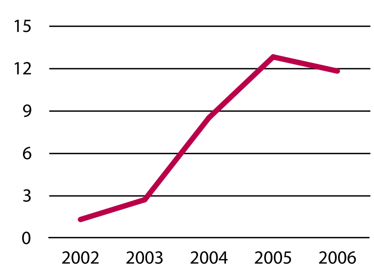
Dividend per Share

(Yen)



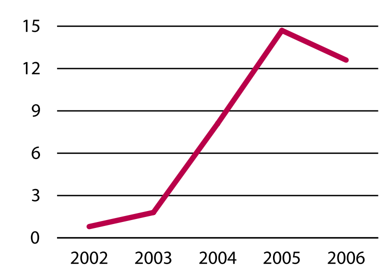
ROA

(%)



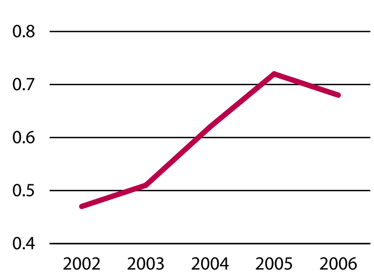
ROE

(%)



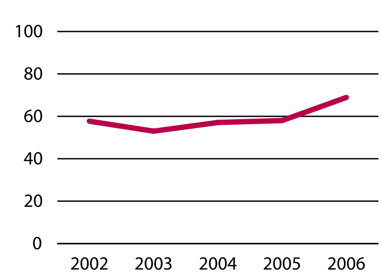
Turnover Ratio

(Times)



Equity Ratio

(%)



President's Message

> "FY 2005 represented a record high for the second consecutive period, and allowed us to turn the corner into the second half of the Fiscal 2010 Vision, providing momentum towards its achievement."

Question: Could you please comment on results for FY 2005?

In FY 2005, consolidated net sales were 158,400 million yen and operating income was 27,000 million yen, both marking record highs for the second consecutive period. Under the Medium-Term Management Plan that we announced in May 2004, THK had estimated net sales of 135,000 million yen for FY 2005. At the time, we were concerned about a slowdown in the world's major economies, America and China in particular. As such, we forecast that demand for our products would experience a correction starting sometime between the second half of FY 2004 and the first half of FY 2005, particularly in the electronics sector. We expected a recovery to begin in the second half of FY 2005 .

However, orders received, on a non-consolidated basis, began to recover in January 2005 and have steadily improved since then. Accordingly, we came to the conclusion that THK had entered a recovery phase earlier than initially expected, and revised our original May 2004 forecast for FY 2005 net sales of 135,000 million yen upward to 148,000 million yen in our Medium-Term Management Plan announced in May 2005. Subsequently, results for the first half of FY 2005 again exceeded expectations and in November 2005, we once again revised our estimates upward to forecast net sales of 155,000 million yen. Ultimately, actual net sales exceeded even this revision, rising to 158,400 million yen. This was completely different from our initial forecast of reduced income marking a record high for the second consecutive period.

Question: What do you believe were the main reasons for achieving such positive results in FY 2005?

Two reasons that can be given are the strengthening of our domestic and overseas sales abilities and improvements in productivity at our domestic manufacturing plants. However, we believe that the biggest factor was the introduction of unified production and sales systems in Europe and North America. Even prior to this unification, THK was working to establish production and sales systems in the four main areas of Japan, North America, Europe and Asia. We believe that the region with the highest demand is the perfect region for production and as such, we have long sought to establish overseas production facilities close to major areas of demand. With the unified production and sales system in Europe and North America, we were able to focus on increasing net sales in FY 2005. We also believe that a primary factor in achieving record levels of operating income was the improvement in profitability seen in our European and North American production bases due to the operational and learning curve effect of rising demand.

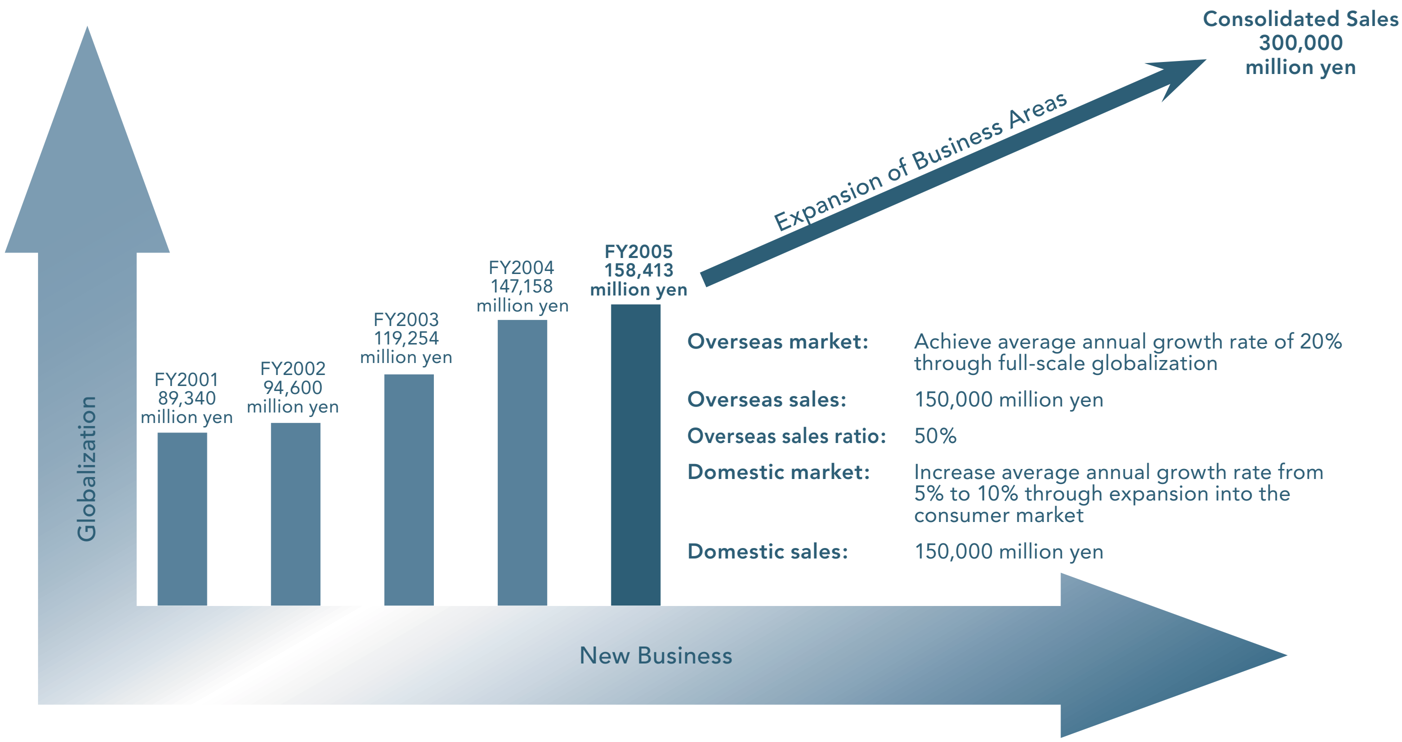
> "We will untiringly continue our reforms, based on our management philosophy of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society," and push forward the realization of our "Fiscal 2010 Vision.""

Question: In your Fiscal 2010 Vision, you have established a goal of 300,000 million yen in consolidated net sales by FY 2010. What progress have you made towards this goal?

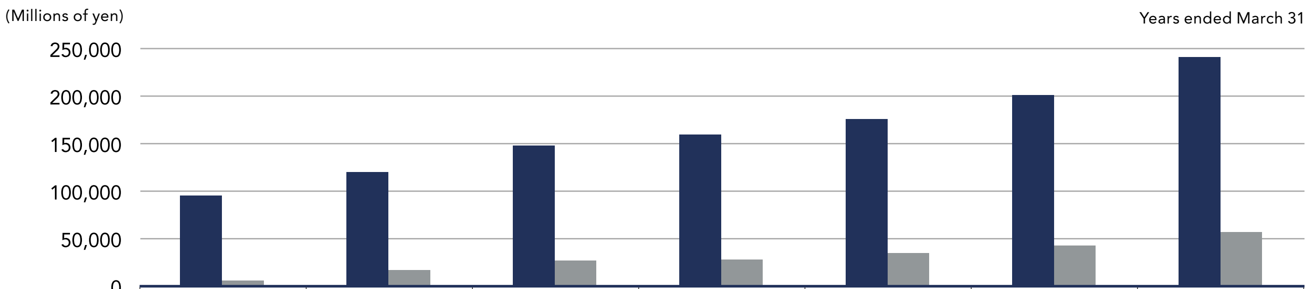
The end of FY 2005 marked the halfway point of our Fiscal 2010 Vision, a 10-year plan announced in April 2001, on the 30th anniversary of our foundation. In order to realize this vision, THK is working diligently to expand our business domain through "Full-Scale Globalization" and the "Development of New Business Areas."

In addition to the initiation of full-scale operations at our production bases in Europe and North America in FY 2005, we have also strengthened our presence in the promising Chinese market, as part of our "Full-Scale Globalization" efforts. Significantly, in September 2005 we established a management company THK (CHINA) CO., LTD. in order to strengthen sales and management, speed decision making and, at the same time, unify management of common functions among independent Group companies. Following the start of operations at China's first LM Guide production plant, THK WUXI, in January 2005, THK established China's second LM Guide production plant in March 2005, THK LIAONING. Through steps such as these, THK is steadily making headway in the preparation of production and sales systems on a global-scale in order to realize our Fiscal 2010 Vision.

The majority of THK products are currently used in capital goods such as machine tools, industrial robots, and semiconductor production equipment. However, we have created specialist divisions in order to broaden the use of THK products as part of our efforts in the "Development of New Business Areas," targeting consumer applications. The FAI Division, which undertakes the development of automobile-related products, is steadily expanding our business with automobile manufacturers in Japan, North America and Europe. The ACE Division, which makes building and residential-related products, conducts public relations activities concerning THK's seismic isolation technologies that protect both life and property from the threat of earthquakes. Additionally, the ACE Division has established a testing center and exclusive manufacturing plant for seismic isolation devices within the Gifu Plant, and is preparing for a future expansion in net sales. Furthermore, new uses for our products in home appliances such as refrigerators and cooking heaters have been created as a result of our CAP Project. Although contributions to net sales from each of these new divisions are not yet large, we are working diligently to expand their net sales in the future in order to meet our goal of more than 10 percent in net income from new fields by Fiscal 2010.



Fiscal 2010 Vision (Expansion of Business Areas)



	2003	2004	2005	2006	2007(E)	2008(E)	2009(E)
Net Sales	94,600	119,254	147,158	158,412	175,000	200,000	240,000
Operating Income	4,893	16,232	25,974	27,079	34,000	42,000	56,000

Income Estimate

Question: Please describe the salient points of your current Medium-Term Management Plan.

THK created a more specific Medium-Term Management Plan in order to achieve our Long-Term Management Target, the Fiscal 2010 Vision. Our Medium-Term Management Plans are created on a rolling basis. The Plans are created every year for three years and then updated each following year taking into consideration progress made and changes in the business environment during the previous fiscal year. In the Medium-Term Management Plan announced during May 2006, THK announced plans to achieve net sales of 240,000 million yen and operating income of 56,000 million yen in the final year of the plan, FY 2008. With increasing demand for car electronics, in addition to our expansion into foreign markets, THK will build on the successes of our previous efforts to further improve results, and no matter what changes in the external environment the future may present us with, we will strive to improve our results.

Question: What are your plans for FY 2006, the first year of your current Medium-Term Management Plan?

In the Medium-Term Management Plan announced in May of 2005, we planned net sales of 165,000 million yen and operating income of 31,000 million yen in FY 2006. However, in the new Medium-Term Management Plan announced in May of 2006, we have revised our forecasts upwards to 175,000 million yen in net sales, a 10.5 percent increase compared to the previous period, and 34,000 million yen in operating income, a 25.6 percent increase compared to the previous period. Additionally, we have planned for 20,000 million yen in capital investments in FY 2006, a record for THK, in order to realize our Medium-Term Management Plan. Approximately 6,000 million yen of these planned capital investments will go towards domestic construction of a third Yamagata Plant, a third THK Niigata Plant, and a Distribution Center within the Gifu Plant in order to increase distribution efficiency, and overseas construction such as the construction of the second THK WUXI Plant in China. An additional 14,000 million yen is planned for such activities as the introduction of machinery at THK WUXI, which began operating last year, and THK LIAONING, which is scheduled to begin operating in July.

Question: What are your thoughts on policies such as profit sharing with shareholders?

THK believes that there are many business opportunities available that can offer superior returns on invested capital, such as "Full-Scale Globalization" and "Development of New Business Areas." Accordingly, our aim is to create the greatest possible corporate value by aggressively reinvesting profits and responding to shareholders' expectations. However, we will also aggressively return profits in accordance with our results, with stable dividends as a given. For this reason, dividends of 18 yen per-share in FY 2004 were raised 7 yen to 25 yen per-share in FY 2005. We will continue our reforms, based on our management philosophy of providing innovative products to the world and generating new trends to contribute to the creation of an affluent society, in order to further contribute to shareholders, including stockholders, and vigorously push forward the realization of our "Fiscal 2010 Vision."

Akihiro Teramachi

Akihiro Teramachi
President and CEO
THK CO., LTD.

Segment Information

Japan

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

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

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

TALK SYSTEM CORPORATION
Sells machinery parts and various machines

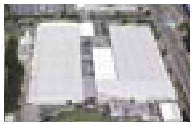
Beldex Corporation
Manufactures and sells parts for machines to process hard and brittle board materials, such as glass and optical machines, etc.

THK NIIGATA CO., LTD.
Manufactures Ball Splines

THK Head Office

Kofu Plant

THK NIIGATA CO., LTD.



Yamaguchi Plant

DAITO SEIKI CO., LTD.
Mishima Plant

Yamagata Plant

DAITO SEIKI CO., LTD.
Sendai Plant

Mie Plant

DAITO SEIKI CO., LTD.
Matsumoto Plant

Gifu Plant

America

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

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

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

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 America, Inc.
Head Office

THK Manufacturing of
America, Inc.

Global Network

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

THK Europe, B.V.
The holding company of THK group companies in Europe

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

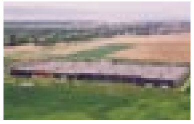
THK France S.A.S.
Sells LM Guides, Ball Screws and Spherical Joints, etc.

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

PGM Ballscrews Ireland Ltd.
Manufactures and sells Ball Screws


THK Europe Head Office


PGM Ballscrews Ireland Ltd.


THK Manufacturing of Europe S.A.S.

Asia

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

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

Singapore
Sales Office(s).............. 1

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

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

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

THK (CHINA) CO., LTD.
The lead company among independent Group companyies in China

THK (SHANGHAI) CO., LTD.
Sells LM Guides, Ball Screws and Spherical Joints, etc.

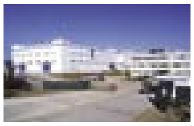
DALIAN THK CO., LTD.
Manufactures and sells Ball Screws

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

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

Beldex KOREA Corporation
Manufactures and sells parts for machines to process hard and brittle board materials, such as glass and optical machines, etc.

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


DALIAN THK CO., LTD.


SAMICK THK CO., LTD.


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


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

Japan

Net sales in Japan for FY 2005 rose by 6.3 percent compared to the previous year to 112,200 million yen, setting a new record. THK's forecast, as described in the Medium-Term Management Plan announced during May 2004, was for the electronics industry to enter an adjustment period from the end of 2004 and accordingly, we expected a reduction in demand for THK products and a reduction in revenues for FY 2005 compared to the previous year. However, strenuous sales efforts were made. As a result, the demand trend in general machinery and machine tools was satisfactory, supported by positive demand from the automotive industry. Meanwhile, the depth and duration of the electronics-related adjustment process turned out to be far milder than previously expected. As a result, in contradistinction to earlier estimates of a decline in sales, a new record was set.

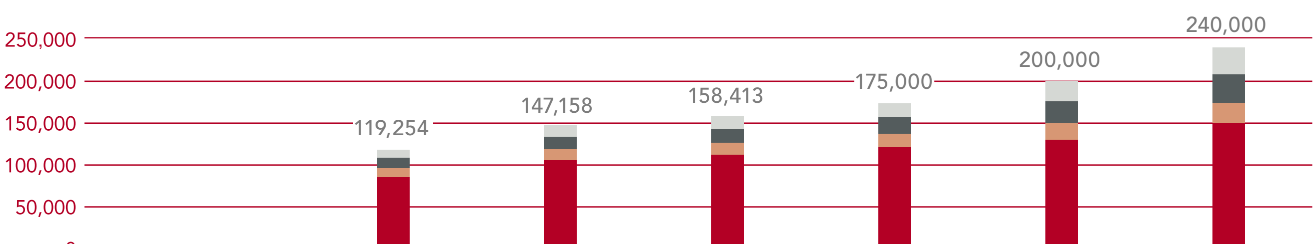
In terms of production, THK expected to have some reserve capacity at our manufacturing plants under the original forecast of reduced revenues. Accordingly, we conducted a reorganization of products produced at THK's five domestic plants in order to further improve productivity and product quality. As described above, the demand environment took a turn for the better, which in turn meant that the aforementioned reorganization actually took place against a background of rising production. Although there was some limited confusion as a result, THK was able to show steadily strengthening profitability while building a stronger business base for FY 2006 on.

In terms of sales, THK was also able to strengthen its ability to provide problem-solving, proposal-type sales by continuously promoting our TAP1 (THK Advantage Program) activities, a skills-building program for salespeople. The FAI Division strengthened its business relationships with domestic, large automobile manufacturers – a new business area for THK – and as a result was able to increase the number of vehicle types that employ THK products and expand net sales. The ACE Division, responsible for seismic isolation devices, conducted aggressive public relations activities paving the way to expanded future sales. This was also a memorable year for research and development, marking our adoption of electronics-related technology, exemplified by the

Sales by Geographical Region

(Millions of yen)

Years ended March 31



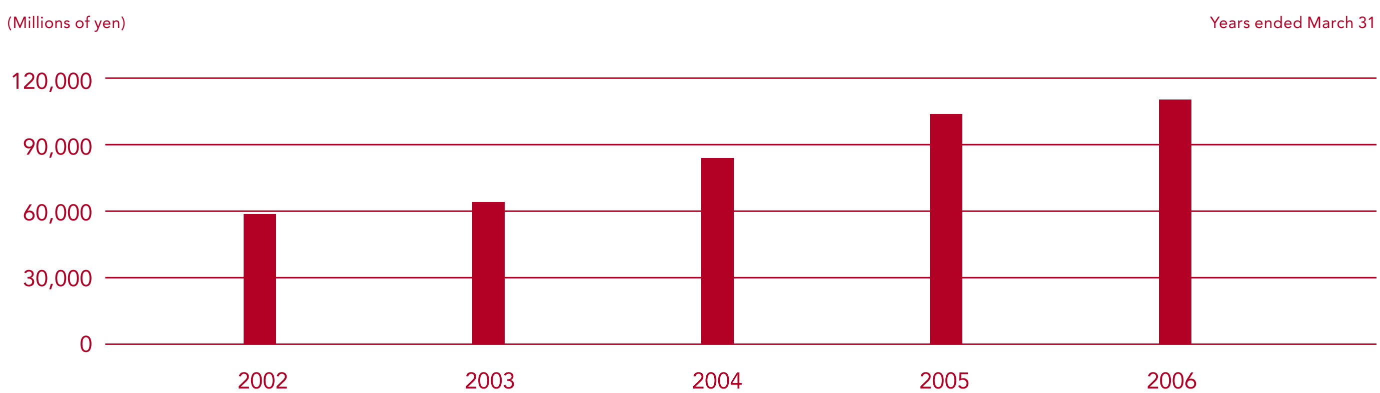
	2004	2005	2006	2007(E)	2008(E)	2009(E)
Asia and Other	10,735	13,375	15,861	17,500	24,000	32,000
Europe	12,739	15,340	16,199	20,500	26,000	34,000
The Americas	10,436	12,888	14,108	16,000	20,000	24,000
Japan	85,344	105,555	112,245	121,000	130,000	150,000

development of THK's first electronically controlled unit product, the Servo Amplifier type TD. In July of 2005, THK concentrated its technological departments and created the Techno Center as a core research and development facility with the goal of improving development times. Additionally, research time has been shortened and designing improved through the introduction of 3D CAD in this new facility.

THK's plans call for domestic net sales of 121,000 million yen in FY 2006, a 7.8 percent increase over the previous year. In order to achieve this plan, we will continue to push our TAP1 activities to strengthen our sales abilities. In addition to creating the third facility at the Yamagata Plant, scheduled to go online in December 2006, we are also expanding the facilities at THK NIIGATA, which are scheduled to go online in February 2007, in response to increasing order inflow. Current plans also call for a Distribution Center to be established in the Gifu Plant and to consolidate the functions of the centers now located in Tokyo and Osaka. We are aggressively tackling the development of electronics technology, to expand the range of needs to which THK is capable of responding. We are working to expand our developing cage embedded product series, including component parts such as the LM Guides and Ball Screws, and at the same time, focus on development of special-use and highly functional products.

We cannot dismiss macro-economic concerns, such as the effect that the slowing of the American economy will have on the Japanese economy. However, on a per-industry basis, Japan's automobile manufacturers continue to make high levels of capital investment and we expect demand from the machine tools sector to remain firm. Additionally, trends in demand from the electronics sector have also been largely bullish after the end of the first quarter of this fiscal year, despite some opacity after the second half of the previous fiscal year. THK will continue to promote aggressive operations in all fields, including sales, production and development, in order to achieve the domestic net sales goal of 150,000 million yen in FY 2010 that we established in our Fiscal 2010 Vision.

Trend in Sales



North America

(From left to right)

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

Nobuyuki Maki — President of THK Manufacturing of America, Inc.

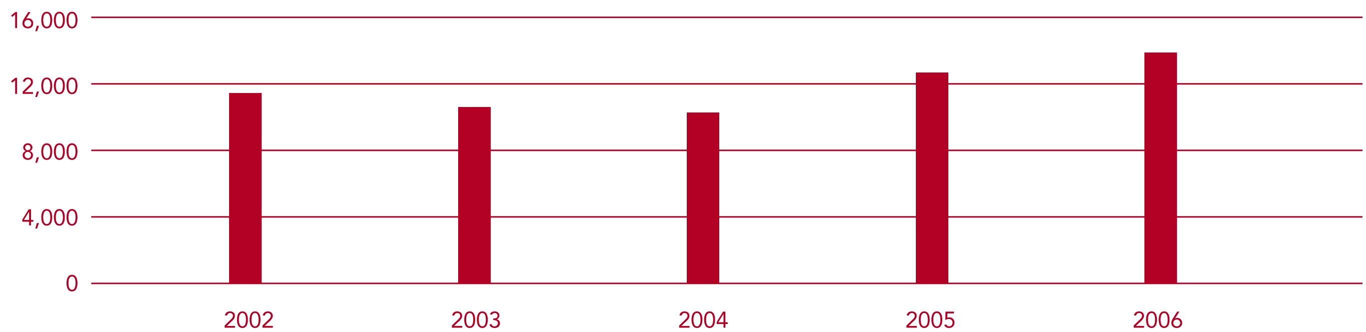
THK Holdings of America, L.L.C. is a holding company that supervises sales and production companies within North America. Net sales in FY 2005 rose by 7.3 percent compared to the previous year (local currency base) marking a continuous improvement in revenues from the previous period. One external reason for the increase in net sales was the positive tone of the American economy. However, we believe that the increase was primarily due to the unification of production and sales activities between our production subsidiary, THK Manufacturing of America, Inc. (TMA), and our sales subsidiary, THK America, Inc. Together, they have developed systems and methodologies allowing us to satisfy customers with the products they need at the time they need them. This ability has yielded us a significant competitive edge and increased orders won. Additionally, the operational effect of increased demand on TMA has resulted in a favorable cycle in which product costs have fallen, a synergistic effect of the unification of production and sales. As a result, increases in operating income were also achieved for the second consecutive period. FY 2005 was an important year, bringing to an end the first half of the Fiscal 2010 Vision. It was during this important year that we were able to secure a unified production and sales system in North America in preparation for future growth.

THK America, Inc. is THK's sales subsidiary company in the North American market. Their net sales in FY 2005 increased for the

Trend in Sales

(Millions of yen)

Years ended March 31



second year in a row. One of the primary causes of the increase in net sales was the expansion of business with existing customers. Specifically, we were able to increase our market share among large machine tools manufacturers. Additionally, we were also able to increase the number of automobiles employing our products. Two reasons can be given for these increases. One reason is the improvement in the skills of salespeople through the promotion of THK's unique employee education program, THK Advantage Program. Our salespeople conduct proposal-type sales. They do not simply sell products, but discover the problems that customers are confronted by and after suggesting a plan to solve these problems, have the customers employ our products as a component of the plan. The other reason is the arrangement of a system to supply the products that customers need, when they need it, through improved proficiency in skills at TMA, our production subsidiary, and using this advantage in sales more effectively than other companies. Efforts were also made to cultivate new markets in Canada, Mexico, etc., in preparation for future growth. A sales base has already been established in Canada, sales activities begun and the Canadian market is steadily being developed. Salespeople were deployed to Mexico in 2005 and have begun full-scale cultivation of the Mexican market.

The sales target in North America for FY 2006 is 145 million dollars. Fears of an overall slowdown in the local economy cannot be discounted. However, despite the external environment, THK intends to expand business with current customers and cultivate new markets, and ensure that our targets are achieved.

TMA is the manufacturing arm for LM Guides and Link Balls in North America. In FY 2005, they worked to improve their proficiency in production skills and at the same time, carried out an overall review of their factory layout. As a result, idle time between processes shrunk, production capabilities improved by 20 percent and the factory is now capable of handling increased orders. At the end of 2005, nearly all production equipment was in operation. Based on these conditions, they will further strengthen their efforts to improve productivity in FY 2006. Additionally, they are also planning to strengthen their production capabilities by installing a new LM Guide grinding machine. The local target value for their production ratio continues to be 50 percent. TMA will work to expand their production lineup while striving to improve productivity in the future in order to fulfill their supply responsibilities as the sole manufacturing arm in North America.

Europe

(From right to left)

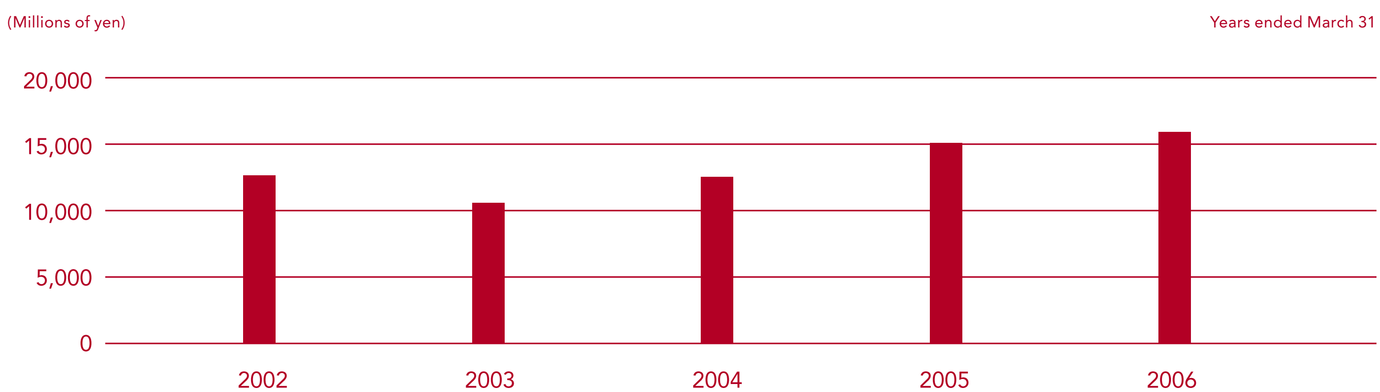
Tetsuya Hayashida **Director**
President and Representative Director of THK Europe B.V.
President and Representative Director of THK GmbH
President and Representative Director of THK France S.A.S.
President and Representative Director of PGM Ballscrews Ireland Ltd.

Hiroshi Saito President and Representative Director of THK Manufacturing of Europe S.A.S.

Net sales in FY 2005 for THK Europe B.V., the holding company that manages THK sales and production companies in Europe, rose by 3.9 percent compared to the previous year (local currency base), setting a new net record high for net sales. Although net sales were supported by external factors such as a gentle recovery in the European economy, we believe the rise in net sales is primarily the result of our work to unify production and sales, as in the case of North America. In FY 2005, we were able to further consolidate the unified production and sales system in Europe as well.

Net sales in FY 2005 for THK sales companies in Europe, increased for the third consecutive period, exceeding the previous record high set in FY 2000. In FY 2005, they worked to expand their businesses with existing customers, as in North America, amid the gentle economic recovery in Europe. As a result of their efforts, they achieved an increase in our products' share among machine tools and general machinery manufacturers, the primary customers. In addition to these reasons, another factor for the rise in net sales was an increase in the number of large automobile manufacturers employing our products. We also aggressively cultivated new

Trend in Sales



customers in emerging markets, through such measures as organizing an agency network within Russia and strengthening sales support to agencies in the Czech Republic, Poland, and Turkey in preparation for future growth. In November, we received TÜV certification, the technical standard in Germany. As a result, the barriers for local customers employing our products have been reduced, leading to a boost in sales effectiveness. Additionally, we have worked to increase profitability by streamlining distribution and increasing the effectiveness of operations. Net sales in FY 2006 are expected to increase by 20 percent over the previous period to 146 million euros. At the same time, we are also emphasizing the cultivation of new customers in emerging markets, as well as the expansion of business with existing customers, such as large automobile manufacturers to prepare for this planned increase in net sales. We are strengthening sales of unit products manufactured by THK Manufacturing of Europe S.A.S. (TME), a production subsidiary. We are making all efforts to insert our presence into the European market, a region with a long history of machinery production, while respecting local traditions and cultures, and ensuring that we achieve our goals.

In order to achieve increased productivity, factory improvement efforts have been continued from the previous year into FY 2005 at TME, including multitasking processes, enabling equipment to deal with a variety of products, and optimizing inter-process logistics. As a result, profitability was achieved for the second consecutive year, even after absorbing fixed costs such as increases in employee numbers. As of FY 2005, the local production ratio had risen to approximately 40 percent in Europe. We aim to meet 50 percent of local demand from local production in future and are working to establish systems that meet even the most intricate needs of European customers.

Asia

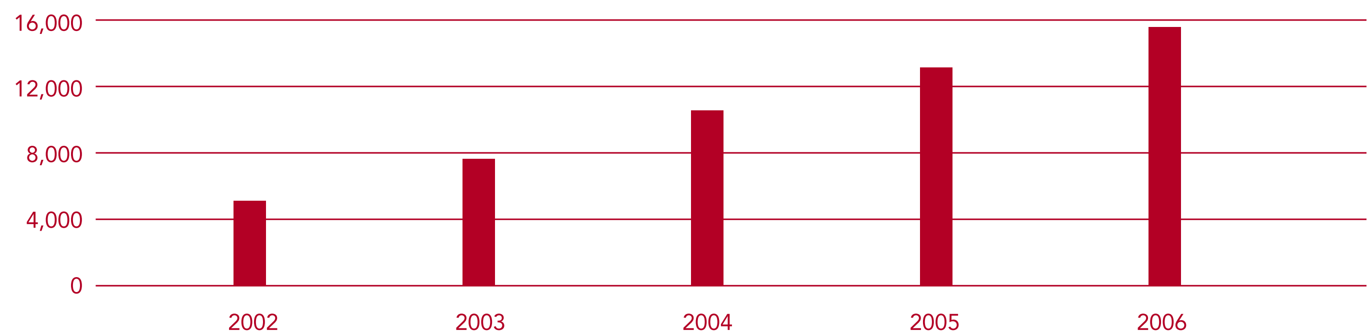
(From left to right)

Takashi Okubo	**Director**
	President of THK (CHINA) CO., LTD President of THK MANUFACTURING OF CHINA (LIAONING) CO., LTD
Toshiyuki Sato	President of THK (SHANGHAI) CO., LTD
Hiroshi Imano	President of THK MANUFACTURING OF CHINA (WUXI) CO., LTD
Susumu Oogami	President of THK TAIWAN CO., LTD.
Kazushige Ohno	President of DALIAN THK CO., LTD.

In Asia, we are working to expand our sales and production systems in China, where we have grown rapidly in recent years, as well as continuing the earlier momentum established in Taiwan and South Korea. In 1989, we established THK TAIWAN CO., LTD. as a sales base in Taiwan and in 1991 made an equity participation in, and technological tie-up with, South Korea's SAMICK THK CO., LTD. In 1996, we established DALIAN THK CO., LTD. in Dalian City, China, and began the production and sales of precision Ball Screws and Actuators. In 2003, we established THK (SHANGHAI) CO., LTD. in Shanghai City. In the next year, 2004, we established THK MANUFACTURING OF CHINA (WUXI) CO., LTD., the first LM Guide manufacturing plant in China, and began shipments in February 2005. Additionally, we established THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. in Dalian City in March 2005, and shipments are scheduled to begin in August 2006. In September 2005, we established THK (CHINA) CO., LTD. as the lead company in China with the goal of strengthening our domestic Chinese sales capabilities and management, increasing the speed at which decisions are made and conducting unified management of common Group functions. As a result, we were able to engage in direct sales in China. We nominated FY 2005 as the period for preparation of a unified production and sales system and at long last, have reached a stage where we can deploy a unified production and sales presence in Asia.

Trend in Sales

(Millions of yen) Years ended March 31



Net sales for THK TAIWAN CO., LTD. in FY 2005 were approximately the same as the previous year on a local currency basis. A major cause of this is the stagnation of orders from machine tools and general machinery manufacturers due to the effect of China's investment control strategy. Under these circumstances, THK increased its efforts in cultivating new customers and product uses both through direct channels by strengthening tie-ups with agencies and by being proactive in regards to calling on new customers. Regarding new product uses, THK's seismic isolation equipment was evaluated highly by local experts in Taiwan, another earthquake prone nation, opening up a new area for future sales expansion. On the other hand, in spite of stagnant sales, operating income increased to approximately twice that of the previous year, setting a new record. We believe that there is still room for further improvement in the profit margin which may be achieved by rationalizing sales cost while at the same time, expanding sales of low-cost products produced in China.

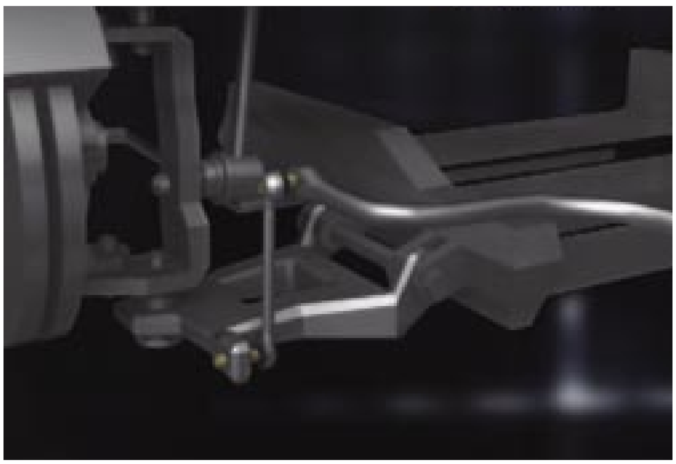
DALIAN THK CO., LTD. operates a 24 hours per day, 350 days per year production system (four teams working three shifts a day, one team per shift). In FY 2005, the Company invested in new equipment and reviewed their manufacturing process flow. As a result, monthly production capacity increased by roughly 50 percent, and net sales increased by over 30 percent compared to the previous year. Currently, 40 percent of production is for local consumption while 60 percent is exported to Japan. Local demand is excellent and orders are expected to rise to exceed production. DALIAN THK will continue to direct its efforts towards further production improvements as China's Ball Screw production base.

China's first LM Guide production base, THK MANUFACTURING OF CHINA (WUXI) CO., LTD., began product shipments in February 2005. A 24 –hours per day (with three teams on duty) production system was established in FY 2005, within one year of the start of production and with the aim of establishing a four team rotation system on Saturdays and Sundays in FY 2006. At the same time, efforts have also been made to increase product quality in order to screen out substandard products before shipment. The factory is currently operating at approximately 50 percent capacity. However, in anticipation of increased demand in FY 2006, various improvements are being undertaken at the centers of production, such as having local employees submit at least one idea for improvement each month per group. Improvements are also being made in both product quality and productivity. Additionally, a second factory is being constructed to meet increasing demand in China with an estimated production start date of November 2006. THK MANUFACTURING OF CHINA (WUXI) CO., LTD. will continue to function, with the collective efforts of its employees, as the core of the production base in China and the THK Group.

THK (SHANGHAI) CO., LTD. has carefully identified potential new customers, and as a result, has been able to increase market share in the machine tools sector, leading to increased net sales. Currently, while China is overwhelmingly the world leader of machine tools in terms of consumption value, they still rank only fourth in terms of production value. The local NC ratio has not yet reached 10 percent and we believe that demand for LM Guides will rapidly rise as the production of machine tools in China and the NC ratio increase. Preparations are being made to establish 20 branch offices under THK (CHINA) CO., LTD., established in September 2005, in order to respond to this increasing demand. The plan is to use these branch offices to construct a wide-ranging agency network that will cover the entire country and at the same time, cultivate new customers. Rapid growth is expected in the Chinese market and we will do our best to make use of the strengths of our unified production and sales system to emerge as the leading factor in this area.

New Businesses

FAI Division



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

The FAI Division was launched in 1999 for the purpose of expanding our business with the automobile sector. Currently, the FAI Division supplies Link Balls, primarily used in automobile undercarriages, to automobile manufacturers in Japan, North America and Europe. The number of manufacturers using our products and the types of automobiles using our products have steadily increased. We are establishing a business record with automobile manufacturers using Link Balls as a strategic product while aiming for a future increase in the use of THK's main product, LM Guides, in automobiles. Use of LM Guides as an automobile part is still limited. However, examples of use are slowly increasing. One example is in vehicles designed for the handicapped. Net sales of these vehicles in 2006 are expected to double compared with those of the previous year. These parts are a way to directly contribute to the welfare of society and we are aggressively working to increase their future usage. Net sales for the Division in FY 2005 were approximately 6,000 million yen. By increasing the number of automobile types in which Link Balls are employed and the number of LM Guides and other THK products used, we are aiming for a 20 percent increase in current period net sales compared to the previous period.

ACE Division

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

ACE Division was launched in 2001 under the basic concept of "technically developing creative living spaces for comfort." The Division manufactures and sells seismic isolation devices that protect life and property from the threat of earthquakes. Net sales for the Division in FY 2005 were approximately 1,000 million yen. Seismic isolation devices are superior to anti-earthquake devices as an earthquake countermeasure. However, no de facto standard technology exists. Accordingly, many different seismic isolation systems exist and construction companies, housing manufacturers, rubber manufacturers, hydraulic equipment manufacturers, etc. are all involved in the market. THK's seismic isolation devices make use of the specific qualities, such as high load capabilities, of our LM Guides and Ball Screws and can be adapted to a variety of buildings, from high-rise residential buildings to single residential homes. We at THK are confident that we are a step ahead in seismic isolation technology for low-rise and light buildings, heretofore considered to be particularly difficult. In the future we will carry out an aggressive public relations campaign to assist construction companies, housing manufacturers and large design firms in understanding THK's seismic isolation technology and at the same time, pour our efforts into sales promotions, such as actively holding seminars and exhibitions, in order to deepen understanding of seismic isolation technology among general consumers.

CAP Project

Developing new markets for THK products as consumer goods.

The CAP Project was launched in 2002 in order to cultivate new markets by commercializing the use of THK products in consumer markets. Although THK's main customers are companies, the CAP Project's aim is to develop its own products that will lead to new opportunities for THK in the future, primarily new products aimed at consumers. In our product development, we make a clear distinction between advanced product development and development that will lead to business opportunities in the near future and promote the rapid transformation of development ideas into actual products. We have already created unique products such as lens shift units in liquid crystal projectors, automobile roof boxes, and refrigerators and slide rails for IH cooking heaters. The markets that we are targeting are the households goods market; the lifestyle goods market, primarily amusement machines; the high-growth robotics market; and the human support automation market where automation is undertaken by electrically-powered equipment, etc. While the 850 million yen in planned net sales for FY 2006 is still on a rather small scale, we are aiming for a 40 percent to 50 percent annual increase in sales through new product development and further promotion of proposal activities.

MRC Center

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

The MRC Center was established in 2000 in order to assist in development of leading-edge technology. Currently there are 10 full-time technicians in the Center working on developments in fields at the leading edge of technology, such as surgical-assistance robots. Through this development, the Center has established close relationships with research institutes at Japan's leading universities, with whom we are now conducting joint-research. Through the Center's activities, THK has been able to foster collaboration between industry and academia. Additionally, we are steadily making progress in the application of surgical-assistance robots through the strengthening of cooperative relationships with large hospitals and medical instrument manufacturers. Surgical-assistance robots will reduce the burden on human bodies and at the same time, allow for precise surgery in a short time frame. There are great market possibilities for such robots. The Center is speeding the process of making these robots practical while at the same time, pouring effort into developing the next-generation products to succeed it.

Corporate Governance

> The basic imperative mandated by THK's system of corporate governance is to ensure the maximization of profit for its shareholders. To achieve this imperative, we have established an organic management organization as described below and put in place a management structure which places the utmost priority on fulfilling the visions embodied in our management philosophy.

The basic imperative mandated by THK's system of corporate governance is to ensure the maximization of profit for its shareholders. To achieve this imperative, we have established an organic management organization as described below and put in place a management structure which places the utmost priority on fulfilling the visions embodied in our management philosophy.

Basic Management Structure

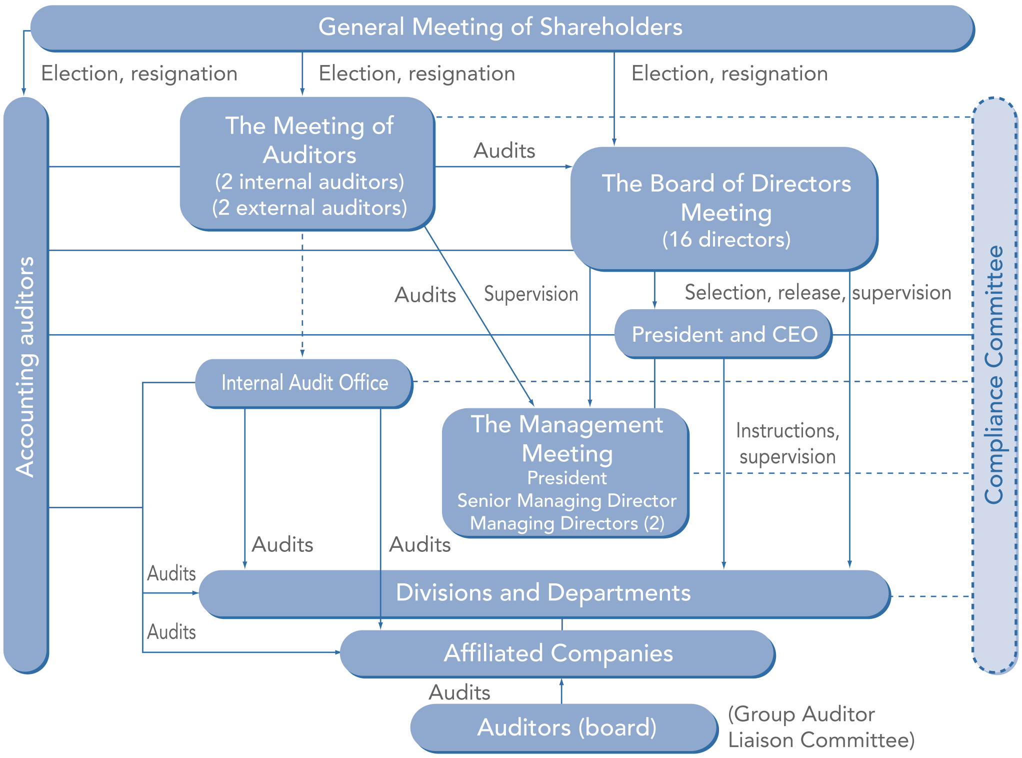
The THK Board of Directors consists of a total of 16 directors. While there are currently no external directors on the Board, in order to clearly define the managerial responsibilities of the members, each director serves for a period of one year. In addition, in order to separate the management oversight function from the day-to-day execution of the Company's business, the executive directors are not involved in the conduct of business operations. A Management Meeting composed of the official directors has been established in order to ensure that the Board of Directors fulfils its responsibilities. The Management Meeting is responsible for making decisions on basic management-related matters from a strategic standpoint, and gathers the information required for the discussions that take place at the Board of Directors. It's deliberations are informed by the views of lawyers, certified public accountants and other third parties if the input of such individuals is required in addition to the internal resources of the Group. Based on the information so gathered, the issues are further explored by the Board of Directors, with the goal of informed policy implementation.

The Meeting of Auditors consists of four auditors (two of whom are external auditors). Acting in concert with the accounting auditors, the auditors receive reports on the progress made and the findings of the audits from the accounting auditors, and they gain a thorough understanding of the audit implementation process and the results yielded. The Company has also established an Internal Audit Office which, based on the internal audit regulations, conducts regular internal audits with a view to evaluating the faithfulness, soundness and reasonableness with which the Company's operations are being executed and to assessing overall management efficiency. The job of the auditors is to identify matters that need to be audited to the personnel in the Internal Audit Office and implement appropriate auditing procedures together with the Office.

A liaison meeting is held regularly and attended by the auditors of THK's entire group of companies in Japan including THK itself. These meetings serve as a forum where information regarding auditing practices is exchanged.

Overview of Corporate Governance

Management format	Company with standing corporate auditors
Board of Directors chairperson	President
Number of directors	16
External directors appointed/not appointed	Not appointed
Number of auditors	4
External auditors appointed/not appointed	Appointed
Number of external auditors	2
Incentives granted to directors	None
Disclosure of director remuneration	Periodic securities reports
Internal audits	Establishment of Compliance Committee, Internal Audit Office



Organizational Chart of Corporate Governance

In another move, THK has established a Compliance Committee. This body ensures that the Company is duly observing all the various laws, rules and regulations which are applicable, and it creates corporate rules that reflect reality and a code of conduct that takes the conditions prevailing in society into account. In order to prove completely worthy of the trust that our shareholders, investors and other stakeholders have placed in us, the Committee serves as a linchpin in our ongoing efforts to bolster our internal systems and ensure that we are fully accountable to the above constituencies.

Strategic Planning and Transparency

THK's basic philosophy on corporate governance is maximization of shareholder profit. We consider our management 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 management 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 the "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 management 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 Medium-Term Management Plan is used as a bridge between the Long-Term Management Target and the business strategies implemented by the individual divisions. The most significant feature is that the plan represents 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 2006-08, in May 2006. 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.

Medium-Term Management Plan and Key Measures for Fiscal 2006

Medium-Term Management Plan

- Build globally-oriented organizations
- Set new sales records
- Continually push fundamental review of production systems
- Continually develop and introduce new products
- Reinforce individual potential

Change of business environment and influence of THK group

Possibility of continued favorable global economy
An end to rising crude oil and raw materials price
Pace of change in business activities is accelerating

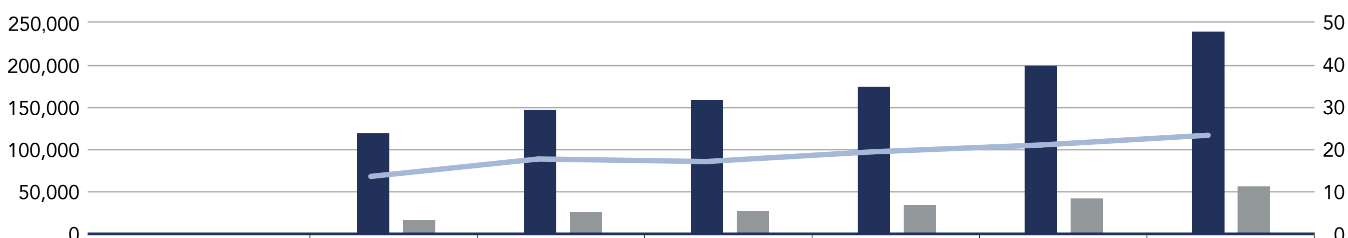
Core Measures for Fiscal 2006

1. Implement global strategies
2. Continue expansion in new and developing markets
3. Drive reform of business activities

Years ended March 31

Forecasts

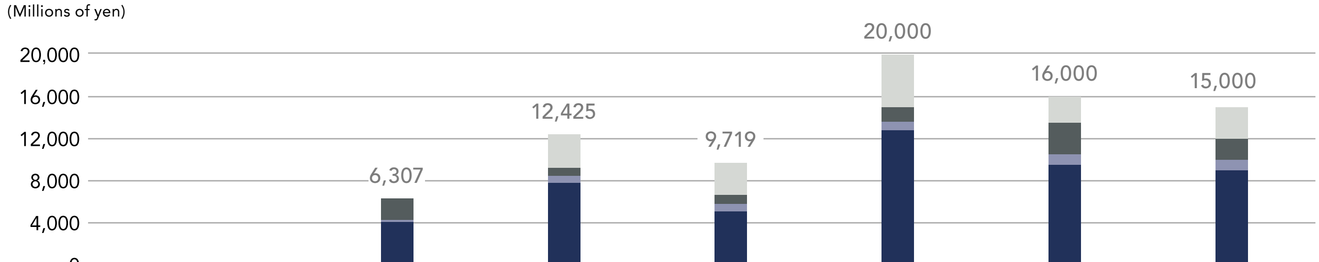
(Millions of yen)



	2004	2005	2006	2007(E)	2008(E)	2009(E)
Sales	119,254	147,158	158,413	175,000	200,000	240,000
Operating Income	16,232	25,974	27,080	34,000	42,000	56,000
Operating Margin (%)	13.6	17.7	17.1	19.4	21.0	23.3

Capital Expenditure

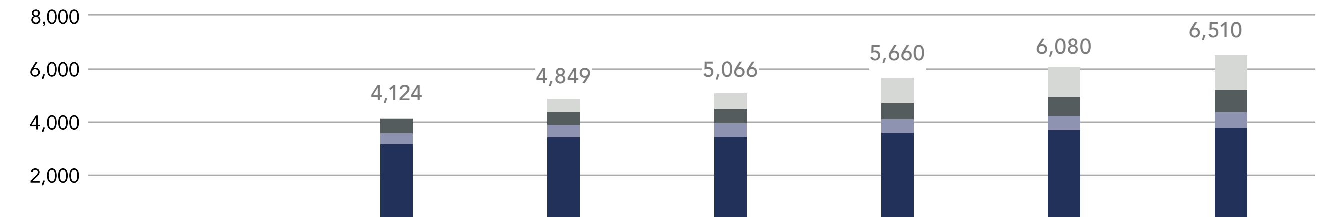
(Millions of yen)



	2004	2005	2006	2007(E)	2008(E)	2009(E)
Asia and Other	5	3,226	3,080	5,000	2,500	3,000
Europe	2,038	732	861	1,400	3,000	2,000
The Americas	173	683	680	800	1,000	1,000
Japan	4,089	7,783	5,096	12,800	9,500	9,000

Employees

(Individuals)



	2004	2005	2006	2007(E)	2008(E)	2009(E)
Asia and Other	26	480	586	970	1,140	1,320
Europe	563	509	566	610	720	840
The Americas	421	481	502	530	570	600
Japan	3,114	3,379	3,412	3,550	3,650	3,750

THK Products

> The letters "LM" in our LM Guides stand for linear motion. LM Guides are important components of machines used for facilitating gentle and accurate sliding action.

The letters "LM" in our LM Guides stand for linear motion. LM Guides are important components of machines used for facilitating gentle and accurate sliding action.

Machine movements can be classified into linear motion and rotary motion. If we use the familiar office environment to give an example of each type of motion, we can say that the backward and forward motion of a desk drawer represents linear motion, and that the turning of a swivel chair in place represents rotary motion.

In the very early days, when machines were made both linear motion parts and rotary motion parts involved the sliding of surfaces in mutual contact (that is to say, surfaces where moving parts came into contact with one another). However, sliding generated a great deal of abrasive resistance leaving much room for improvement in terms of both smoothness and speed. Then, roughly a century ago, rotary bearings were developed, making it possible to introduce a rotary action, which resolves the problems inherent to sliding, into rotary motion parts. The development of linear bushings in the United States in the 1960s marked the introduction of this rolling action into linear motion parts. However, since these bushings featured poor rigidity and durability, their use in machine tools and other kinds of machines was limited. In 1971, THK developed Ball Splines, which eliminated the shortcomings of the linear bushing. These new parts made it possible to exploit the advantages of rotary action in linear motion parts. The following year, in 1972, the Company moved beyond the structure of the Ball Splines to successfully develop LM Guides, products which has become the Company's mainstay.

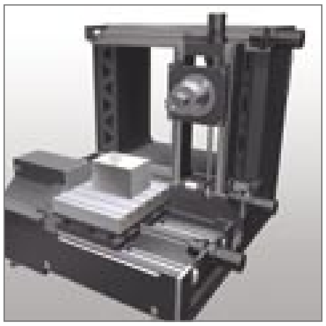
Featuring characteristics that serve to improve the rigidity and extend the service life of linear motion parts, LM Guides rapidly achieved high usage rates in machine tools—a trend that was triggered when machine tool manufacturers in the United States started to incorporate them. Today, LM Guides are important components of a wide range of capital goods such as machine tools, industrial robots and semiconductor production equipment, while application has extended into fields closer to the lives of consumers: as evidenced by their use in seismic isolation devices to protect not only our lives but also the buildings around us and our household effects from the threat posed by earthquakes, and by their use in automotive parts necessary for improving the safety and comfort of our automobiles.

LM Guides with Caged Ball Technology, each ball is held in place by a belt-shaped ball cage to prevent contact between the balls—something which translates into an extended service life, lower noise levels, together with reduced heat and dust generation. These LM Guides contribute to overall cost reductions for our customers.

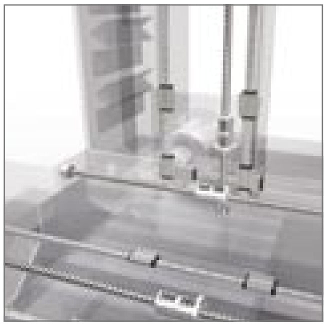
As the pioneering force behind LM Guides and also as the world's leading manufacturer of LM Guides with the top share of the global market, THK offers a broad spectrum of products designed to meet the many and varied needs of its customers.

LM Guides

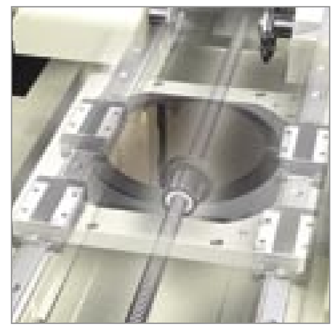
In 1996, THK became the first company in the world to come up with LM Guides dubbed LM Guides with Caged Ball Technology. These Guides represent the next-generation LM Guides, and the Company is now working to increase the number of these LM Guides in use. The ball cages are resin parts that keep the balls in place and guide them. Since vibration and friction between the balls are eliminated through the use of the ball cages, these LM Guides feature lower noise levels and a longer service life and they ensure maintenance-free operation for longer periods of time compared with earlier LM Guides. In short, LM Guides with Caged Ball Technology are key element parts, which have now become indispensable for achieving higher speeds, lower noise levels and a longer service life in today's machine tools as well as in semiconductor production equipment and other machines, which are deployed, in many different industries.



• Machine tool (machining center)



• Application of LM Guides and Ball Screws



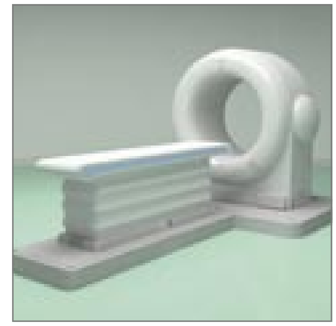
Shown in photos above

- Semiconductor production equipment (dicing saw)
- Application of LM Guides and Ball Screws

■ By inserting ball cages between the balls, Ball Screws with Caged Ball Technology achieve higher speeds, a longer service life and lower noise levels—all features which are very much in demand from customers.

Ball Screws

Ball Screws are machine element parts, which efficiently convert rotary motion into linear motion by causing a large number of balls to circulate between the screw shaft and the nuts. They are principally used as the drive components in the linear motion parts of machines, which are employed in many different industries. Developed by incorporating ball cages into the conventional ball screws, Ball Screws with Caged Ball Technology have paved the way toward making a significant contribution to increasing the speeds, reducing the noise levels and prolonging the service life of machine tools, industrial robots and semiconductor production equipment. THK offers Ball Screws which support high loads and are ideally suited to replacing the hydraulic cylinders in injection molding machines, presses, die-cast machines, blow molding machines and extrusion molding machines, among others.



Shown in photos above

- Medical instruments (CT scanner)
- Application of Actuators and LM Guides

■ Shown here is a series of Actuators which are configured by combining LM Guides, Ball Screws and Linear Motors. By forging these elements into an integrated structure, these Actuators feature high rigidity and high accuracy while remaining compact in size.

Actuators

Actuators are products which are made by combining LM Guides, which are guide parts, with Ball Screws, Linear Motors or other drive parts. By creating this kind of integrated structure, it has become possible to achieve compact dimensions and high levels of rigidity and accuracy at the same time. There is an ever-rising demand from the customers in many industries, particularly the electronics industry, for the kind of modularization aimed at shortening development timeframes and reducing production lead times, and it is to meet these demands that THK is bolstering its lineup of Actuators. To this end, THK adopts a two-pronged approach: it not only provides discrete products but it also offers modularized products to fit the individual needs of its customers.

Shown in photos above

- Automobile
- Application of Link Balls

■ The integral molding process incorporated for the aluminum die-cast of these Link Balls yields high levels of corrosion resistance and abrasion resistance. Large numbers of these Link Balls are now being used in such applications as the suspension systems of automobiles.

Link Balls

Link Balls are special bearings, which are mainly used as automotive parts. They are created by an innovative production method unique to THK: highly accurate bearing steel balls are employed for the spherical areas, and after the holders have been formed by die-cast, the shank areas are specially welded. The incorporation of an integral molding process for the aluminum die-cast has made it possible to imbue the Link Balls with a high corrosion and wear resistance and make them considerably lighter than conventional steel products. Large numbers of these Link Balls are being used in the suspension systems of automobiles, such as in the joints, which connect the stabilizers and suspension, and in vehicle height sensors where they make a valuable contribution to improving automobile safety and comfort. In recent times, they are being used in more and more automobile models mainly by the big automakers of Japan, Europe and North America.

Shown in photos above

- Industrial-use robot
- Application of Cross Roller Rings

■ Cross Roller Rings are roller bearings which have orthogonally arranged cylindrical rollers inside them so that they are capable of bearing loads in every direction.

Cross Roller Rings

Cross Roller Rings are roller bearings featuring cylindrical rollers which are arranged orthogonally inside to enable them to bear loads in every direction. The incorporation of the spacer cages between these orthogonally arranged rollers prevents roller skew and reciprocal abrasion between the rollers. These Rings feature a high rigidity in spite of their compact structure, and they are used in the joint areas and swiveling parts of industrial robots, the swivel tables of machining centers and other rotating parts of machines which are used in a wide variety of industries.

R&D and New Product Development

"THK—a creative, development-intensive business—undertakes original product development drawing on a management philosophy of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society.""

Since its foundation in 1971, THK—a creative, development-intensive business—has undertaken product development drawing on a management philosophy of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society."

For a period of more than 10 years following the start of production and sales of the LM Guide in 1972, THK's products were primarily used in machine tools. THK's products, with their low-cost and high level of precision, contributed to the expansion of the industry during that period and thereafter. This remains true to this day with applications spreading to areas such as semiconductor production equipment and industrial robots.

In 1996, THK beat all competitors to market with the revolutionary second-generation LM Guide with Caged Ball Technology. At the time, caged technology was common in rotary bearings. Unfortunately, developing ball cages for linear bearings that would remain durable during circular movements and linear movements proved to be extremely difficult. The LM Guides with Caged Ball Technology were the world's first LM Guides to offer long-term, maintenance-free use and have since become a vital component for a variety of high-speed, low-noise and long-lived industrial machinery, including machine tools and semiconductor production equipment. Currently, THK is expanding its cage embedded product series beyond LM Guides to include hybrid units such as Ball Screws, Ball Splines, and LM Guides with Ball Screws.

Under the supervision of the Engineering and Development Department, our Engineering Division includes approximately 150 staff working in five sub-departments: the first and second Research and Development Departments, which are in charge of products from conceptualization to trial mass-production; the Test and Research Department, which conducts testing of new products; the Patent and Intellectual Property Department, which handles industrial property rights-related patents; and the Fundamental Technological Laboratory, which handles materials development. The first and second Research and Development Departments are primarily responsible for the development of new products and strive for quick, early development by transforming development proposals into actual projects. Additionally, they are engaged in the "To Be Project," a project aimed at promoting efficient research and development activities. By using the To Be Project's development processes and methods, a system for developing products in a short time frame has been established. Product development for new fields is conducted on a per-project basis, such as the MRC Center and the CAP Project.

In July of 2005, we established the Techno Center in Tokyo's Ota Ward in order to increase efficiency in research and development. Additionally, technology-related departments such as the Engineering

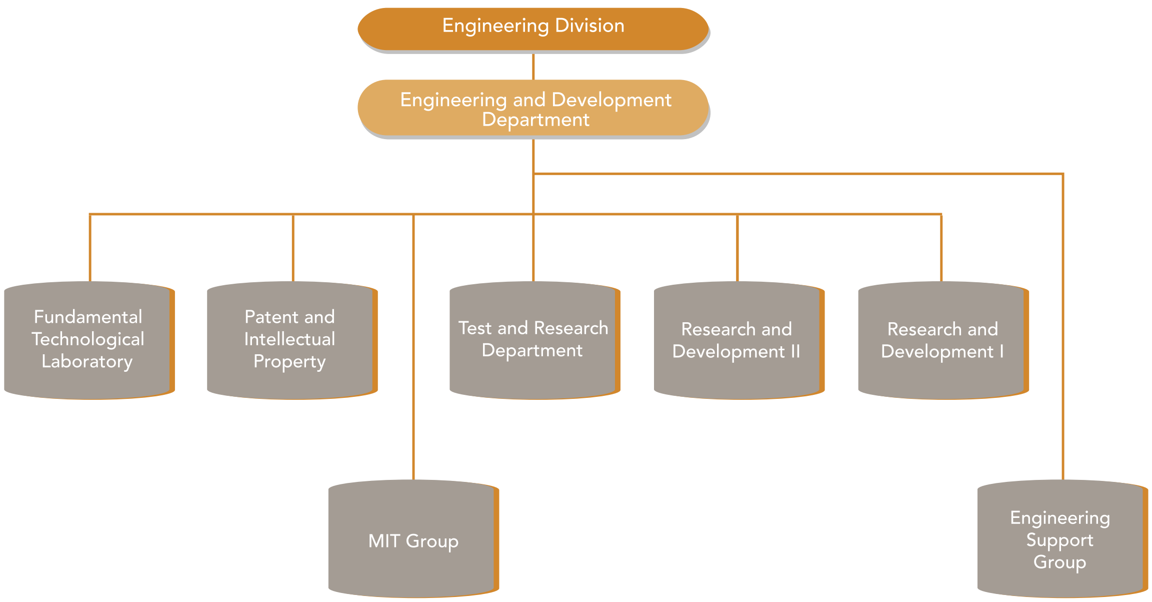
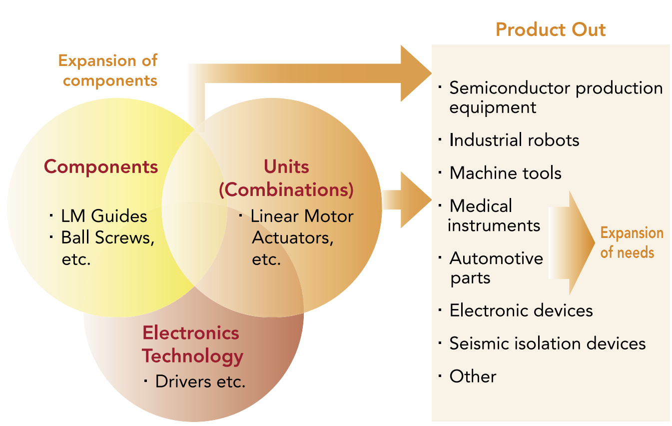


Diagram of Engineering Division (as of March 31, 2006)

and Development Department, the Sales Engineering Division and the various Departments in charge of new fields were also concentrated in the new facility. Inside the Center, we have secured a space for creative development, called the C-ZONE, and have installed a complete development infrastructure including 3D CAD, CAM, processing equipment, measurement equipment, etc.

We believe that in order to simplify design work and realize compact designs, modularization needs will increase in the future, primarily in the electronics industry. The Engineering and Development Department is diligently working on the support technology of electronics engineering development in order to further increase the range of needs to which we will be capable of responding. In 2005, THK developed its first electronically controlled unit product, the Servo Amplifier type TD, capping the “First Year of Development” in which THK began the development of electronics-related technologies in earnest. At the same time, we are expanding the cage embedded product series for THK’s core technologies: the LM Guide, Ball Screws, and other component products, and we are putting our efforts into the development of special-purpose and highly-functional products. Specific results produced in FY 2005 included an expansion of the ceramic guide lineup, the development of an oil-free guide, and the development of a mid to low vacuum lubrication system. Additionally, we have set a goal of 300,000 million yen in consolidated sales by FY 2010 and are also putting our product development power into new areas such as the automobile and residential fields.

To date, THK has primarily focused its product development and expanded its product lineup to respond to the needs of its Japanese customers. However, we are now constructing global production and sales systems in order to precisely respond to customer needs in all areas of the world and are creating development systems in optimal locations, including the four main regions of Japan, North America, Europe and Asia.



Direction of Development for the Research and Development Department

Environmental Activities

"The THK Group goes to great lengths to ensure that it pays due attention not only to its business activities but also to the environmental impact of its operations."

Basic Environment Policies

The THK Group goes to great lengths to ensure that it pays due attention not only to its business activities but also to the environmental impact of its operations. The Company recognizes the importance of playing its part in conserving the global environment—going beyond simply acting in accordance with relevant environmental laws and ordinances—and intends to be known as a company that is actively engaged in attempts at environmental conservation by following the four basic principles outlined below.

(1) In addition to its aim of efficient energy use, the Company aims to optimize the use of utility power and self-generated power together with adopting clean energy sources such as natural gas in order to reduce emissions of greenhouse gases.

(2) As well as trying to limit the amount of material used in the manufacturing process and controlling the amount of generated waste product, the Company promotes the use of reusable and recycled products with the ultimate goal of minimizing the overall amount of generated waste product.

(3) The Company controls the use of substances with a high environmental risk and the potential to have a harmful effect on people's health or the ecosystem. This means not just reducing the amount of harmful substances used in the Company's products but also controlling their use in the actual production process and taking measures to ultimately prohibit their use.

(4) THK constantly strives to provide customers with products and services that can contribute to promoting environmental conservation.

In order to fully implement the goals outlined above, the Company aims to disseminate all information relating to the THK Group's involvement in environmental conservation activities, as well as actively promoting bilateral dialogue with environmental groups. Some of the specific measures we are currently planning in this area include the following:

- Increasing employee environmental awareness and knowledge through education and training related to environmental issues.
- Providing guidance and support to both affiliated and subsidiary companies on environmental issues in order to develop good environmental practices. This is in addition to enthusiastically cooperating with local communities.
- Ensuring that all of our key stakeholders, including shareholders, customers, suppliers, and the general public, are kept aware of our group's Basic Environmental Conservation Policies and current conditions.

Issue tackled	Objectives and goals	Main activities implemented
Conservation of energy	To reduce the emission of gases which contribute to global warming. To achieve a 15% reduction from 2005 in CO_2 emissions (in terms of the specific consumption) by FY 2010.	(1) Energy diagnosis (2) Energy conservation (3) Utilization of clean sources of energy
Conservation of materials, zero emissions	To reduce the impact on the global environment. To achieve zero emissions.	(1) Control over the input of materials, parts and subsidiary materials (reductions in specific consumption of input, improvement of yields) (2) Control over the amount of emissions and final waste products (3) Re-use and recycling
Control of hazardous substances	To eliminate and control harmful substances used in the production activities of the THK Group and in the distribution of goods.	(1) Introduction of alternatives for substances specified in the PRTR Law (2) Green procurements, purchasing
Environmentally-friendly products and services	To develop products and provide services based on life cycle assessments (calculation of their environmental impact).	Developing cage embedded product series

Environmental Conservation Activities

Self-generated power

In addition to the regular supply of electricity from utility companies, each plant is also capable of generating its own power (the image shows the exterior of the Yamaguchi plant's cogeneration building). All of our plants strive to make the most efficient use of energy, while at the same time considering the current energy situation and minimizing carbon dioxide emissions.

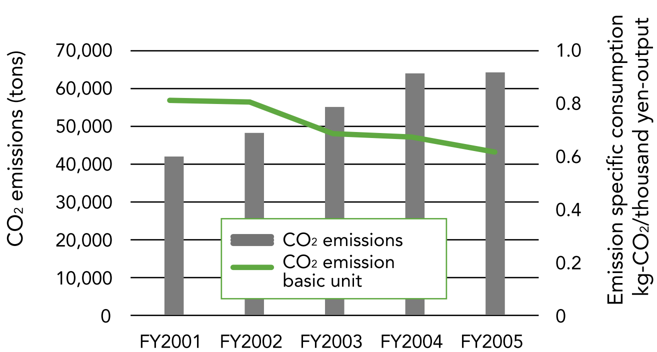
Reduction of Greenhouse Gas Emissions

The Group's Manufacturing Division has long been actively involved in efforts to save energy, but following the April 2005 decision by the Cabinet to adopt proposed goals to meet the conditions of the Kyoto Protocol, reduction targets for carbon dioxide emissions were introduced at the group-wide level—including all administrative sections. Specifically, this means that by FY 2010 the Group plans to reduce specific consumption (kg-CO_2/thousand yen-output) by 15 percent compared to the corresponding figures for FY 2005.

A cogeneration system is in place at both the Yamaguchi and the Yamagata plants, allowing these plants to meet their energy needs by self-generating power through the burning of fuel oil—resulting in reduced demand for utility power. In FY 2005, however, the substantial increase in the price of fuel oil led to increased use of utility power, which emits less CO_2 emission than self-generated power, and therefore measures were taken by the Company to curb the amount of self-generated power. The Group plans to make every effort to implement a flexible response to meet any changes to the current situation in the future. As part of this response, the Company's Gifu plant decided to move away from using fuel oil as a heat source in its new buildings and replaced this with liquid natural gas (LNG), which has lower CO_2 emissions. Both the Yamaguchi and Yamagata plants also optimized their use of air compressors so that the compressed air supply can be varied in accordance with the production load, resulting in considerable power savings. All of these measures, taken together, resulted in, a 6.6 percent fall in CO_2 emissions compared to FY 2004 (refer to accompanying graph).

The Group is currently carrying out energy diagnostics at each of its plants and looking at the most appropriate measures to ensure the Group meets its energy conservation goals by FY 2010. Plants that carry out machine work make extensive use of air-conditioning systems that consume a significant amount of energy in maintaining a constant room temperature, meaning building insulation is a critical issue when addressing the Group's energy reduction measures. Plans for the current term involve the construction of a third facility at the Yamagata plant, and based on the experience of recent construction at the Gifu plant this will include staggered alignment of rooms, and the planned use of autoclaved lightweight concrete (ALC) panels. As all of the Company's plants have high ceilings compared to their overall dimensions, the effect of insulating the roof is considerable, and we plan to carry out this insulation process in both new and existing plants in the future.

As part of our overall environmental policy all of our Distribution Centers are actively involved in the use of "green transportation." These Centers have already undertaken a modal shift from road to rail for long-distance shipping and this has resulted in an anticipated reduction in CO_2 emission of 0.32kg per kilometer for every ton of goods shipped over a distance of 700km.



Changes in carbon dioxide emissions and specific consumption (overall figures for Manufacturing Division)

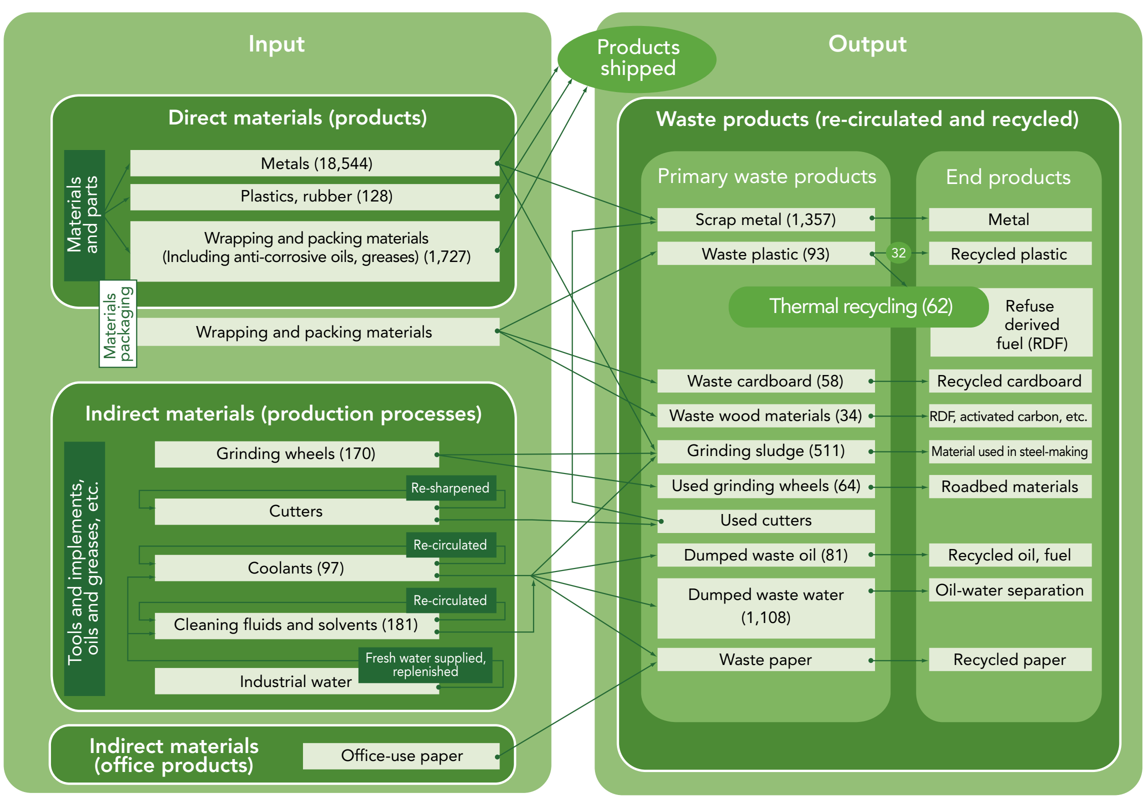
Grinding sludge solidification system

Recycling using a grinding sludge solidification system (at the Yamagata plant)
The sludge is first dewatered, then loaded into the recycling system in containers, and finally solidified into cylindrical forms.
These cylinders are re-used as items of value and employed as materials for steel-making.

Using Less Resources / Reducing Emissions / Recycling

Beginning with the Yamagata plant in 1999 a total of six plants within the Production Division now conform to Environmental Management Standard ISO14001. This environmental management system has had the effect of not only reducing environmental burden caused by both the Group's production and business aspects, but from a broader perspective this has also resulted in the Group's systematic involvement in activities aimed at reducing the environmental risk and burden that affects the overall global environment.

At THK we actively encourage the reuse of both industrial and non-industrial waste and are developing a Zero Emission program that will ultimately reduce the amount of final waste emission at all of the Group's plants. Already we have seen the emission rate fall by 2 percent, and by realizing the amount of different types of direct and indirect materials used in the manufacturing process, and through a reduction in the absolute amount of materials used and a subsequent drop in the amount of waste product generated, we have started a movement to improve specific consumption and yield.



Figures in parentheses indicate the corresponding amounts in FY 2005.
All amounts are given in units of tons except for the cleaning fluids and solvents in the Input section for which the kiloliter is used as the unit.

Flow chart of input materials, waste products, and recycling (using the example of the Yamaguchi plant)

Separation of waste products

All waste products generated at the company's plants are separated and stored at designated storage areas. The image shows a container for holding waste products at the Yamaguchi plant.

The major production processes at THK involve grinding which creates waste by-products such as abrasives and coolant oils. Following on from the Yamaguchi plant, the Yamagata plant has now introduced the use of a sludge solidification unit, resulting in the recycling of sludge into raw materials for use in the iron and steel industry rather than the conventional use of abrasive sludge as landfill.

Compressor surveillance monitor screen

An example of cutting back on electricity use through the optimized use of air compressors, currently being carried out at the Yamagata plant. This image shows a display capable of monitoring the operating conditions of multiple units.

Control of Environmentally Hazardous Substances

Environmentally hazardous substances include chemicals with the potential to have an adverse effect on living organisms or the ecosystem. Within the Manufacturing Division, improvements are planned to the control of specified chemical substances stipulated by the Pollutant Release and Transfer Registers (PRTR) system, in line with ISO14001. This will result in a correct and thorough understanding of the amount of waste material produced, as well as the emission of specified chemical substances produced as part of the production process, and ensure that these are handled appropriately. At the same time we are also making every effort to minimize the use of such substances. So far we have been successful in making the switch to 13 products or materials that do not include any of these specified chemical substances.

When planning and procuring the relevant components for use in the Company's products at the time of development, a number of products and materials have been classified as "Prohibited Substances" or efforts have been taken to reduce their use in accordance with the "THK Group Green Procurement Guidelines." Based on these guidelines, the Group began operating a green procurement policy, as of April 2005, which doesn't include harmful substances, and our standard specification products have already been subject to a 100 percent environmentally friendly overhaul. This has resulted in strict control and prohibition of the use of harmful substances, such as added lead in some plastics, hexavalent chromium used in surface finishing coating, and cadmium found in zinc alloy.

In order to comply with the introduction on July 1, 2006 of the RoHS Directive (the Restriction of the use of certain Hazardous Substances in electrical and electronic equipment), which is the European Union's Directive regarding restrictions on hazardous chemical substances, the Group plans to gradually expand the scope of application of its Green Procurement Guidelines.

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

Anti-scatter measures for asbestos

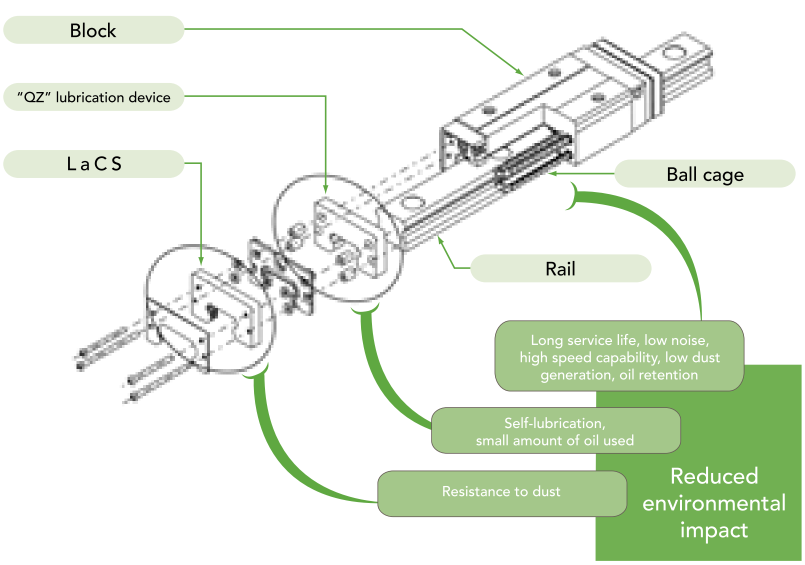
The image shows the dismantling of the former Gifu plant buildings. From the planning stage it was realized that removing the roof slates called for anti-scatter treatment for asbestos; all possible measures were taken to ensure that this treatment was carried out.

evaluate supplying companies based on their "QCDE" scores. If the vendor is a trading company we also consider the performance of original manufacturers.

Environmentally Responsive Products

THK's products are produced based on the invariable principle that energy can be saved by minimizing operating friction. More specifically this involves the use of the key concept of Cubic E (E3) in the development of our new products. Cubic E consists of the following three ideas: "Endless" that aims for a much longer operating life by improving our products maintainability and safety; "Ecological" that is intended to improve the plants' working environment as well as to reduce emissions of pollutants and waste products; and "Economical" that aims to improve cost-performance through the multi-functional and durable nature of our products.

Products made under this product development policy include the "Cage embedded S-series." This product's series is based on our company's new and original idea of an embedded cage together with the development of these products from an environmental perspective with technology enabling the recycling of components used in the product and the elimination of waste oil through the product's auto lubrication system. THK is determined to continue development of such environmentally responsive products in the future by continuing to consider the environmental aspect of all of our business activities. By developing environmentally aware products we believe we will also succeed in increasing business opportunities and new customers.



Environmentally responsive product technology

Directors & Auditors

Akihiro Teramachi
President and CEO

Masamichi Ishii
Senior Managing Director

Takeki Shirai
Managing Director

Toshihiro Teramachi
Managing Director

Kotaro Yoshihara
Director
General Manager of Corporate Strategy Department

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 the end of FY 2005
As of March 31, 2006

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

As of the end of FY 2005
As of March 31, 2006

Shigeru Wako
Director
President and Representative Director of
TALK SYSTEM CORPORATION

Takashi Okubo
Director
President of THK (CHINA) CO., LTD.
President of THK MANUFACTURING (LIAONING) CO., LTD.

Masato Sawada
Director
General Manager of FAI Division

Tetsuya Hayashida
Director
President and Representative Director of THK Europe B.V.
President and Representative Director of THK GmbH
President and Representative Director of THK France S.A.S.
President and Representative Director of PGM Ballscrews Ireland Ltd.

Yoshito Nagafuchi
Standing Auditor

Akira Sugi
Standing Auditor

Shizuo Watanabe
Auditor

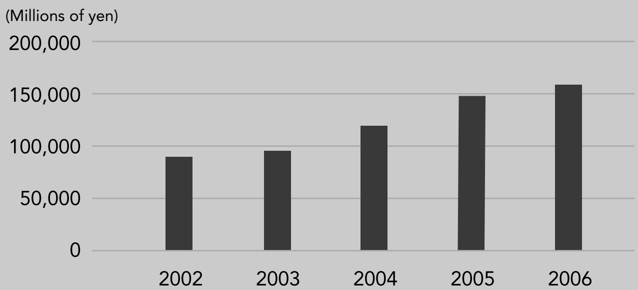
Shoji Namiki
Auditor

Consolidated Financial Statements

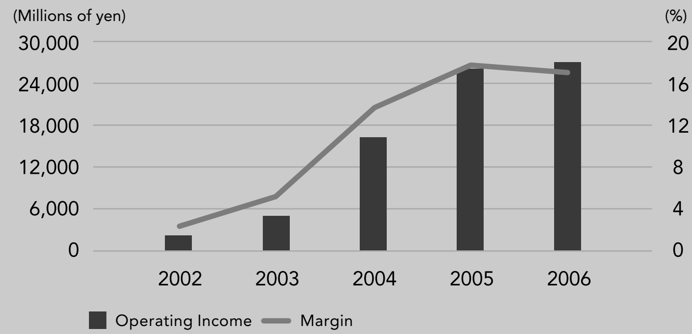
Management's Discussion & Analysis	46
Consolidated Financial Statements	50
Notes to Consolidated Financial Statements	56
Report of Independent Auditors	71

Years ended March 31

Net Sales



Operating Income Margin



MANAGEMENT'S DISCUSSION & ANALYSIS

(The fiscal year ended March 31, 2006 relative to the fiscal year ended March 31, 2005)

(1) Net Sales

Overview

In Japan, the current fiscal year saw THK continuing to enhance our sales capability and productivity at our network of domestic plants. 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 on line, with the production and sales teams working together to achieve an increase in sales. As a result, consolidated net sales for the current fiscal year came to ¥158,413 million, with operating income running at ¥27,080 million; both net sales and operating income reached record highs for the Company for two consecutive fiscal years.

Domestic and Overseas Net Sales

-Japan-

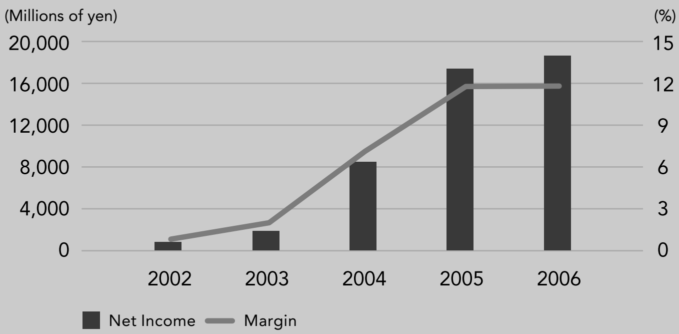
This fiscal year saw domestic net sales increase by ¥6,690 million over the previous fiscal year (6.3 percent) to ¥112,245 million. Examining the breakdown for each industry segment in more detail, in the machine tools industry, continued demand for equipment in the Chinese market, combined with a substantial drive in capital investment by the Japanese automobile industry sustained the healthy trend for machine tools sales, resulting in an across-the-board increase of 12.8 percent over the previous fiscal year. In the general equipment industry, there was steady growth in industrial robots and other equipment often used within the automobile industry. The second half of the fiscal year saw increasing demand for products for the electronics industry, such as chip mounters, with net sales of general machinery increasing 7.8 percent over the previous fiscal year. There was also an increase in demand for semiconductor and liquid crystal panel manufacturing equipment following an adjustment phase during the second half of the previous fiscal year. This recovery was not enough, however, to prevent a small drop in the rate of growth (0.2 percent) compared to the previous fiscal year.

-The Americas-

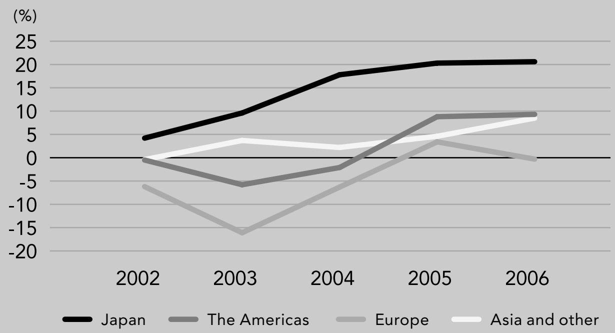
Net sales in our North American market (the United States, Canada, and Mexico) reached ¥14,108 million, up by ¥1,220 million over the previous fiscal year — an increase of 9.5 percent. With the US economy remaining steady and our manufacturing subsidiary in the US operated at full production capacity, both production and sales teams worked together in developing new customers, as well as further expanding business with existing customers. These efforts saw substantial growth in net sales to both the industrial machinery (68.3 percent) and transport equipment (25.4 percent) sectors. Further growth was also witnessed in net sales in the general machinery sector, especially in the core businesses of specialized industrial machinery and woodworking machinery, with an across-the-board increase of 11.4 percent compared to the previous fiscal year. Despite experiencing a recovery towards the end of the period, net sales in the electronics sector decreased by 4.6 percent from the previous fiscal year.

Years ended March 31

Net Income Margin



Operating Income Margin by Geographical Segment



-Europe-

Net sales increased in Europe, rising by ¥859 million (5.6 percent) to ¥16,199 million in the current fiscal year. Just as in the North American market, both production and sales teams worked together in developing new customers, as well as working to increase business with existing customers. With the recovery in the European economy, sales to our three major areas—machine tools, general machinery, and electronics—also increased. This was particularly true for the machine tools sector, which saw double-digit growth of 13.5 percent. On top of this, the Company was able to achieve a substantial increase of 41.6 percent in revenue from sales to the transportation equipment sector based on extensive capital investment in the automobile industry.

-Asia and other-

Asia and other regions also saw net sales surge by ¥2,486 million (18.6 percent) to ¥15,861 million. Net sales in South Korea, in particular, increased significantly (32.7 percent) over the previous fiscal year as a result of increased investment among leading liquid crystal manufacturers and increased use of our products. Robust demand for capital investment continued in the Chinese market, with THK continuing to expand its dealings with local manufacturers, resulting in an increase in net sales of 19.0 percent over the previous fiscal year. Although Taiwan continued along a road to recovery that began in FY 2005, after the adjustments in the second half of FY 2004, net sales for the current fiscal year increased by only 2.8 percent over the previous fiscal year.

(2) Cost of Sales and Gross Profit

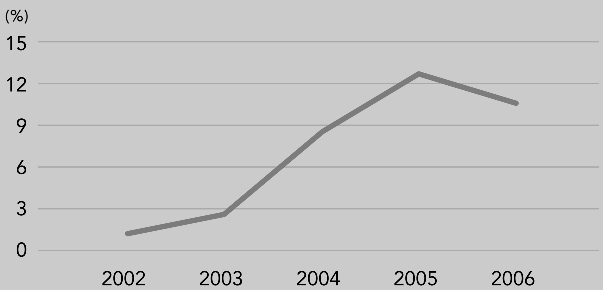
Our Cost of Goods Sold (COGS) ratio improved 0.2 points - from 63.6 percent to 63.4 percent - while gross profit rose by ¥4,315 million (8.0 percent) above the previous fiscal year to ¥57,922 million. On a non-consolidated basis, we felt the impact of a rise in steel prices and an increase in production costs accompanying the operation of additionally constructed facilities at the Gifu plant. This was combined with one-off expenses relating to the realignment of production items at all of the Company's domestic plants, which resulted in a deterioration in the COGS ratio from 66.4 percent to 67.0 percent, a deterioration of 0.6 points. Our domestic subsidiaries, however, experienced an improved operating ratio based on enhanced productivity and higher production levels; while our North American subsidiary also saw enhanced production levels and a better operating ratio leading to the consolidated COGS ratio improving by 0.2 percent from the previous fiscal year to 63.4 percent.

(3) Selling, General and Administrative Expenses

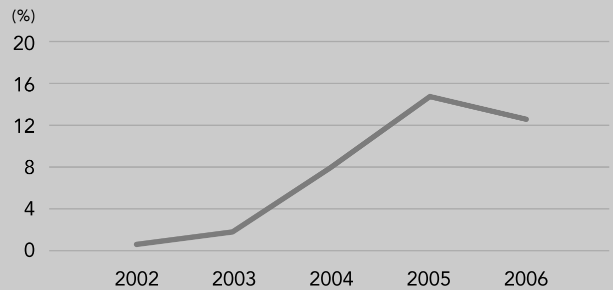
Selling, general and administrative (SG&A) expenses rose by ¥3,209 million (11.6 percent) over last year's figure to ¥30,842 million. The primary reasons underlying this increase were increased personnel related costs, amounting to ¥782 million, arising from the change in status of DAITO SEIKI CO., LTD. to a wholly owned subsidiary, and the consolidation of our Chinese subsidiaries. Increased net sales were also accompanied by increased distribution costs such as packing/shipment costs, which rose by ¥413 million over the previous fiscal year. Expenses also rose due to improvements made on the THK Group's information network, and increased rental costs from the establishment of a Techno Center aimed at improving the Group's

Years ended March 31

ROA



ROE



research and development activities. As a result of these increases in expenditures, the Group recorded a 0.8-point rise — from 18.7 percent to 19.5 percent — in the ratio of SG&A expenses to net sales.

(4) Operating Income

THK's operating income reached its highest level ever, rising by ¥1,106 million (4.3 percent) from the previous fiscal year to ¥27,080 million. In the Japanese market, operating income increased ¥1,768 million (7.5 percent) over the previous fiscal year to ¥25,277 million. In the North American market, increased net sales at our sales subsidiary led to increased profits, and together with improved revenue at our production subsidiary this led to an increase in operating income of ¥177 million (15.6 percent) from the previous fiscal year to ¥1,305 million. However, the European segment recorded losses of ¥55 million. This was due to a dispute with local customs authorities regarding the classification of manufactured imports, the result of which was that we accepted the custom authorities' claims, which led to an adjustment and payment of retroactive import duties. Within the Asian market outside of Japan, increased net sales in Taiwan and consolidation of our Chinese subsidiaries resulted in increased operating income of ¥480 million — a substantial increase from the previous fiscal year's figure of ¥150 million.

(5) Non-Operating Income/Expenses

The Company incurred ¥2,127 million in non-operating expenses due to factors such as ¥1,152 million in impairment losses resulting from the adoption of the impairment accounting standard for fixed assets from the beginning of the year. On the other hand, earnings from non-operating activities totaled ¥5,613 million due to factors such as ¥817 million in foreign exchange gains, which was primarily due to the yen's depreciation against other currencies, primarily the dollar, the amortization of negative goodwill of ¥648 million as a result of making DAITO SEIKI CO., LTD. a fully-owned subsidiary, and equity earnings of an affiliate of ¥416 million. Additionally, gains on sales of long-term investments in securities totaled ¥1,933 million. As a result, non-operating income for this period totaled ¥3,486 million, a large increase over the ¥871 million in non-operating income in the previous fiscal year.

(6) Income before Income Taxes and Minority Interest

Improvements in operating income and non-operating income lifted income before income taxes and minority interest by ¥3,721 million over the previous fiscal year (13.9 percent) to ¥30,566 million.

(7) Net Income

The factors mentioned above yielded a ¥1,236 million (7.1 percent) rise in net income to ¥18,584 million over the previous fiscal year. However, the Company's effective tax rate increased by 2.9 points due to the receipt of a tax refund in the previous fiscal year.

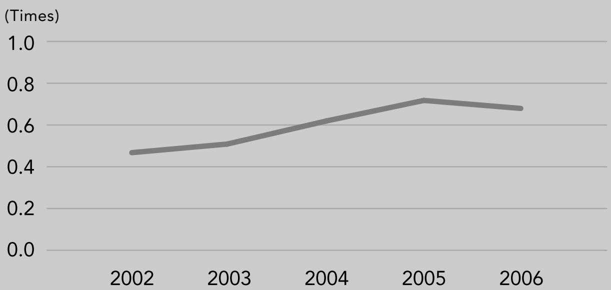
Financial Position

(1) Assets

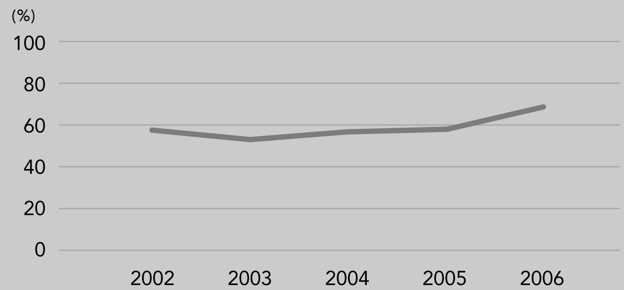
The Company's total assets reached ¥244,385 million, up ¥24,377 million from the end of the previous fiscal year. The main drivers behind this increase included ¥10,863 million in free cash flow generated due to increased profit, an increase in cash and bank

Years ended March 31

Turnover Ratio



Equity Ratio



deposits of ¥12,069 million, and an increase in accounts and notes receivable of ¥8,878 million accompanying the increase in net sales.

(2) Liabilities

Total liabilities decreased from the end of the previous fiscal year by ¥16,809 million to ¥74,593 million. The main reason behind this fall was a conversion of convertible bonds to common stock of ¥21,255 million, which offset an increase of ¥4,932 million in accounts and notes receivable attributed to the proportional increase in raw materials and operational need resulting from increased production.

(3) Shareholders' Equity

Total shareholders' equity increased from the end of the previous fiscal year by ¥40,623 million to ¥168,273 million. A portion of convertible bonds was converted into THK common stock and the resulting increase in paid-in capital and additional paid-in capital totaled ¥21,255 million. Additionally, retained earnings increased by ¥15,960 million compared to the previous fiscal year-end: factors included in this increase were net income of ¥18,584 million and deductions recorded as cash dividends and statutory auditors' bonuses of ¥2,624 million.

Cash Flows

(The fiscal year ended March 31, 2006 relative to the fiscal year ended March 31, 2005)

(1) From Operating Activities

Cash flow from operating activities decreased by ¥2,172 million from the previous fiscal year to ¥20,206 million. The primary causes of this decrease was the ¥2,320 million increase in income taxes payable due to the ¥3,721 million increase in income before income taxes and minority interest and an increase of ¥5,258 million in cash outflow due to an increase in accounts and notes receivable.

(2) From Investing Activities

Cash flow from investing activities increased by ¥2,172 million from the previous fiscal year, resulting in a cash outflow of ¥9,344 million. While cash inflows from the sale of long-term investments in securities increased by ¥3,846 million, this was offset by increased capital expenditures of ¥5,557 million compared to the previous fiscal year such as the procurement of property, plant and equipment at the Gifu Plant in Japan, THK MANUFACTURING OF CHINA (WUXI) CO., LTD., and DALIAN THK CO., LTD., as well as construction of a plant at THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.

(3) From Financing Activities

Cash flow from financing activities decreased by ¥80 million from the previous fiscal year, resulting in a cash outflow of ¥1,741 million. The primary reason behind this decrease was increased per-share dividends resulting in a ¥741 million increase in the total dividend payment, which was accompanied by proceeds of ¥899 million resulting from the sale of treasury stock held by a consolidated subsidiary.

(4) 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 ¥10,320 million from the previous fiscal year to ¥86,307 million.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

as of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
ASSETS			
Current Assets:			
Cash and bank deposits (Note 15)	¥ 75,842	**¥ 87,911**	**$ 748,370**
Short-term investments in securities (Note 15)	145	**341**	**2,899**
Accounts and notes receivable-			
Trade	48,340	**56,395**	**480,076**
Unconsolidated subsidiaries and affiliates	1,290	**2,100**	**17,874**
Other	814	**628**	**5,347**
	50,444	**59,123**	**503,297**
Less: allowance for bad debts	(254)	**(234)**	**(1,989)**
	50,190	**58,889**	**501,308**
Inventories (Note 6)	24,208	**24,950**	**212,393**
Short-term advances -			
Unconsolidated subsidiaries and affiliates	100	**112**	**953**
Other	3	**2**	**16**
Deferred tax assets (Note 14)	3,041	**3,303**	**28,120**
Other current assets	656	**772**	**6,583**
Total current assets	154,185	**176,280**	**1,500,642**
Investments and Other:			
Long-term investments in securities (Note 5)	4,413	**3,340**	**28,435**
Investments in unconsolidated subsidiaries and affiliates	2,256	**2,249**	**19,144**
Deferred tax assets (Note 14)	1,096	**1,224**	**10,420**
Other investments	3,240	**3,955**	**33,669**
	11,005	**10,768**	**91,668**
Property, Plant and Equipment (Note 9):			
Buildings and structures	35,548	**35,347**	**300,904**
Machinery and equipment	77,888	**83,855**	**713,843**
	113,436	**119,202**	**1,014,747**
Less: accumulated depreciation	(74,687)	**(77,286)**	**(657,917)**
	38,749	**41,916**	**356,830**
Land	11,447	**9,887**	**84,166**
Construction in progress	3,299	**4,599**	**39,147**
	53,495	**56,402**	**480,143**
Deferred Charges and Intangibles (Note 9)	1,323	**935**	**7,948**
Total assets	¥ 220,008	**¥ 244,385**	**$ 2,080,401**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 186	**¥ 10,072**	**$ 85,741**
Accounts and notes payable-			
Trade	25,082	**29,735**	**253,129**
Unconsolidated subsidiaries and affiliates	310	**589**	**5,013**
Other	2,274	**2,355**	**20,045**
	27,666	**32,679**	**278,187**
Income taxes payable	6,685	**7,202**	**61,306**
Accrued expenses	5,920	**7,785**	**66,270**
Accrued bonuses	2,094	**2,096**	**17,846**
Other current liabilities	3,806	**1,824**	**15,533**
Total current liabilities	46,357	**61,658**	**524,883**
Long-term Liabilities:			
Long-term debt (Note 7)	38,350	**6,849**	**58,304**
Reserve for employees' retirement benefits (Note 13)	2,107	**2,316**	**19,717**
Negative goodwill	2,917	**2,269**	**19,312**
Other liabilities	1,671	**1,501**	**12,783**
Total long-term liabilities	45,045	**12,935**	**110,116**
Minority Interest	956	**1,519**	**12,927**
Shareholders' Equity:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 119,917,526 shares and 132,799,331 shares at March 31, 2005 and 2006, respectively	23,106	**33,734**	**287,169**
Additional paid-in capital	32,652	**43,471**	**370,056**
Retained earnings	71,131	**87,091**	**741,387**
Net unrealized gain on other securities (Note 5)	1,041	**1,357**	**11,561**
Foreign currency translation adjustments	327	**2,668**	**22,715**
Treasury stock, at cost: 423,801 shares and 29,741 shares for 2005 and 2006, respectively	(607)	**(48)**	**(413)**
Total shareholders' equity	127,650	**168,273**	**1,432,475**
Contingent Liabilities (Note 8)			
Total liabilities and shareholders' equity	¥ 220,008	**¥ 244,385**	**$ 2,080,401**

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

for the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Net Sales	¥ 119,254	¥ 147,158	**¥ 158,413**	**$ 1,348,537**
Cost of Sales	77,932	93,551	**100,491**	**855,461**
Gross profit	41,322	53,607	**57,922**	**493,076**
Selling, General and Administrative Expenses (Note 11)	25,090	27,633	**30,842**	**262,549**
Operating income	16,232	25,974	**27,080**	**230,527**
Non-Operating Income/(Expenses):				
Interest and dividend income	148	282	**308**	**2,625**
Interest expenses	(493)	(163)	**(168)**	**(1,433)**
Foreign exchange gain/(loss), net	(580)	362	**817**	**6,958**
Gain on sales of long-term investments in securities, net	33	—	**1,933**	**16,458**
Equity earnings of affiliates	301	433	**416**	**3,539**
Rental income	159	169	**196**	**1,666**
Amortization of negative goodwill	—	324	**648**	**5,518**
Commission expenses	(61)	(88)	**(85)**	**(721)**
Liquidation loss of unconsolidated subsidiaries	(100)	—	**—**	**—**
Liquidation loss of a consolidated subsidiary	—	(650)	**—**	**—**
Gain/(loss) on sales/disposal of property and equipment, net	(288)	(201)	**58**	**496**
Loss on write-down of long-term investments in securities	—	—	**(164)**	**(1,399)**
Gain on reversal of reserve for directors' and statutory auditors' retirement allowances	—	48	**—**	**—**
Impairment loss on fixed assets	—	—	**(1,152)**	**(9,808)**
Prior-period adjustments (Note 12)	—	—	**253**	**2,152**
Other, net	170	355	**426**	**3,624**
	(711)	871	**3,486**	**29,675**
Income before income taxes and minority interest	15,521	26,845	**30,566**	**260,202**
Income Taxes (Note 14)	6,926	9,442	**11,636**	**99,059**
Income before minority interest	8,595	17,403	**18,930**	**161,143**
Minority interest in income of consolidated subsidiaries	(11)	(55)	**(346)**	**(2,941)**
Net income	¥ 8,584	¥ 17,348	**¥ 18,584**	**$ 158,202**

	Yen			U.S. dollars (Note 2)
Per Share Data:				
Net income - basic	¥ 72.27	¥ 145.31	**¥ 148.42**	**$ 1.263**
Net income - diluted	¥ 63.69	¥ 130.05	**¥ 137.97**	**$ 1.175**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

for the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Common Stock				
At beginning of year	¥ 23,106	¥ 23,106	**¥ 23,106**	**$ 196,699**
Conversion of convertible bonds to common stock	—	—	**10,628**	**90,470**
At end of year	¥ 23,106	¥ 23,106	**¥ 33,734**	**$ 287,169**
Additional Paid-In Capital				
At beginning of year	¥ 30,962	¥ 30,962	**¥ 32,652**	**$ 277,957**
Conversion of convertible bonds to common stock	—	—	**10,628**	**90,470**
Gain from disposition of treasury stock under stock-swap	—	689	—	—
Stock issued under stock-swap	—	1,001	—	—
Gain from disposition of treasury stock	—	—	**191**	**1,629**
At end of year	¥ 30,962	¥ 32,652	**¥ 43,471**	**$ 370,056**
Retained Earnings				
At beginning of year	¥ 48,687	¥ 55,837	**¥ 71,131**	**$ 605,522**
Net income	8,584	17,348	**18,584**	**158,202**
Increase from investment in an affiliate newly accounted for by the equity method	379	—	—	—
Decrease resulting from inclusion of consolidated subsidiaries	—	(232)	—	—
Cash dividends	(1,783)	(1,772)	**(2,514)**	**(21,401)**
Directors' and statutory auditors' bonuses	(30)	(50)	**(110)**	**(936)**
At end of year	¥ 55,837	¥ 71,131	**¥ 87,091**	**$ 741,387**
Net Unrealized Gain on Other Securities				
At beginning of year	¥ (355)	¥ 722	**¥ 1,041**	**$ 8,866**
Change in the year	1,077	319	**316**	**2,695**
At end of year	¥ 722	¥ 1,041	**¥ 1,357**	**$ 11,561**
Foreign Currency Translation Adjustments				
At beginning of year	¥ 481	¥ (120)	**¥ 327**	**$ 2,784**
Change in the year	(601)	447	**2,341**	**19,931**
At end of year	¥ (120)	¥ 327	**¥ 2,668**	**$ 22,715**
Treasury Stock, at cost				
At beginning of year	¥ (403)	¥ (1,325)	**¥ (607)**	**$ (5,170)**
Purchase of treasury stock	(1,112)	(14)	**(20)**	**(168)**
Sales of treasury stock	1	1	**1**	**3**
Disposition under stock-swap	—	1,116	—	—
Change in the year of treasury stock held by a consolidated subsidiary	—	(385)	**578**	**4,922**
Change in the year of treasury stock held by an affiliated company	189	—	—	—
At end of year	¥ (1,325)	¥ (607)	**¥ (48)**	**$ (413)**
Total Shareholders' Equity at end of year	**¥ 109,182**	**¥ 127,650**	**¥ 168,273**	**$ 1,432,475**

In Japan, dividends, and directors' and statutory auditors' bonuses proposed by the Board of Directors out of retained earnings as of the end of a fiscal year are approved at the general shareholders' meeting in the following fiscal year. In the Consolidated Statements of Shareholders' Equity, dividends, and directors' and statutory auditors' bonuses are shown as a reduction of retained earnings in the year approved and paid.

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, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 15,521	¥ 26,845	**¥ 30,566**	**$ 260,202**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,566	5,657	**6,562**	**55,863**
Amortization of negative goodwill	—	(324)	**(648)**	**(5,518)**
Increase/(decrease) in provisions	338	(717)	**156**	**1,328**
(Gain)/loss on sale/disposal of property and equipment, net	288	201	**(58)**	**(496)**
Interest and dividend income	(148)	(282)	**(308)**	**(2,625)**
Interest expenses	493	163	**168**	**1,433**
Foreign exchange (gain)/loss, net	109	(167)	**(134)**	**(1,144)**
Equity earnings of affiliates	(301)	(433)	**(416)**	**(3,539)**
Loss on write-down of long-term investments in securities	—	—	**164**	**1,399**
Gain on sale of long-term investments in securities, net	(33)	—	**(1,933)**	**(16,458)**
Liquidation loss of unconsolidated subsidiaries	100	—	—	—
Liquidation loss of a consolidated subsidiary	—	650	—	—
Impairment loss on fixed assets	—	—	**1,152**	**9,808**
Changes in assets and liabilities:				
Increase in accounts and notes receivable	(11,293)	(3,203)	**(8,461)**	**(72,029)**
(Increase)/decrease in inventories	396	14	**(220)**	**(1,873)**
Increase in accounts and notes payable	7,337	3,098	**4,565**	**38,861**
Other, net	110	228	**643**	**5,476**
Subtotal	18,483	31,730	**31,798**	**270,688**
Interest and dividend income received	193	339	**399**	**3,394**
Interest expenses paid	(495)	(192)	**(171)**	**(1,453)**
Income taxes paid	(2,446)	(9,499)	**(11,820)**	**(100,617)**
Net cash provided by operating activities	15,735	22,378	**20,206**	**172,012**
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	—	30	—	—
Increase in term deposits due over three months	—	—	**(1,945)**	**(16,553)**
Proceeds from sales of short-term investments in securities	907	—	—	—
Payments for purchase of property, plant and equipment	(5,106)	(6,963)	**(12,520)**	**(106,584)**
Proceeds from sales of property, plant and equipment	81	215	**1,339**	**11,398**
Payments for purchase of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	(310)	(475)	**(13)**	**(108)**
Proceeds from sales of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	1,794	3	**3,850**	**32,773**
Payments of advances	(1,184)	(400)	**(67)**	**(569)**
Collections of advances	136	418	**12**	**103**
Net cash used in investing activities	(3,682)	(7,172)	**(9,344)**	**(79,540)**
Cash Flows from Financing Activities:				
Decrease in short-term bank loans	(3,304)	—	—	—
Repayments of long-term debt	(3,599)	(36)	**(352)**	**(3,000)**
Proceeds from sale of treasury stock	0	0	**899**	**7,650**
Redemption of bonds	(17,334)	—	—	—
Cash dividends	(1,784)	(1,772)	**(2,524)**	**(21,483)**
Payments for purchase of treasury stock	(1,112)	(14)	**(20)**	**(168)**
Proceeds from minority shareholders' payment	—	—	**256**	**2,178**
Other, net	1	0	—	—
Net cash used in financing activities	(27,132)	(1,822)	**(1,741)**	**(14,823)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(418)	(41)	**1,199**	**10,202**
Net Increase/(Decrease) in Cash and Cash Equivalents	(15,497)	13,343	**10,320**	**87,851**
Cash and Cash Equivalents at Beginning of Year	72,534	57,037	**75,987**	**646,865**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	—	5,622	—	—
Decrease in cash and cash equivalents resulting from exclusion of a consolidated subsidiary	—	(15)	—	—
Cash and Cash Equivalents at End of Year (Note 15)	¥ 57,037	¥ 75,987	**¥ 86,307**	**$ 734,716**

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presenting Consolidated Financial Statements

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective countries of domicile.

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.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under accounting principles generally accepted in Japan, but which is provided herein as additional information.

2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the readers outside Japan and are unaudited. These translations should not be construed as presentations that the yen amounts actually represent or have been or could be converted into, U.S. dollars. For this purpose the rate of ¥117.47=U.S. 1, the approximate rate of exchange prevailing in Tokyo on March 31, 2006, was used for the translation of the accompanying consolidated financial of the Company as of and for the year ended March 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

3. Summary of Significant Accounting Policies

(a) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and those of its subsidiaries that are controlled by THK CO., LTD. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation.

The Company had 25 subsidiaries ("controlled" companies—companies whose decision making is controlled) as of March 31, 2006 (23 as of March 31, 2005). The consolidated financial statements for the year ended March 31, 2006 include the accounts of the Company and 20 (18 for 2005) of its subsidiaries. The 20 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, 2005
THK America, Inc. (USA)	100	Dec. 31, 2005
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2005
THK Neturen America, L.L.C. (USA)	50	Dec. 31, 2005
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2005
THK GmbH (Germany)	100	Dec. 31, 2005
THK France S.A.S. (France)	100	Dec. 31, 2005
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2005
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2005
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec. 31, 2005
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2005
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2005
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2005
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2005
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2005
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2005
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2006
THK NIIGATA CO., LTD. (Japan)	70	Mar. 31, 2006
TALK SYSTEM CORPORATION (Japan)	99	Mar. 31, 2006
Beldex Corporation (Japan)	94.73	Mar. 31, 2006

The accounts for the year ended March 31, 2006 of the remaining 5 (5 for 2005) 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, 2006 are as follows:

Due to new establishments, Beldex KOREA Corporation and THK (CHINA) CO., LTD. were included in the consolidation scope as of the end of the first half year.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company has 3 (3 for 2005) 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, 2006. The equity method is applied to the investment in SAMICK LMS CO., LTD. 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 any impairment loss.

(c) 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.

(d) 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 average cost method. Inventories held by THK America, Inc., THK Manufacturing of America, Inc., THK Neturen America, L.L.C., PGM Ballscrews Ireland Ltd., THK(SHANGHAI) CO., LTD. and THK TAIWAN 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., DALIAN THK CO., Ltd. and 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.

(e) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Derivative

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 forward foreign exchange contracts and currency swap contracts that meet the required condition under the related Japanese accounting standards, the Company and its subsidiaries translate hedged foreign currency assets and liabilities at the rate of these contracts.

For interest rate swap contracts that meet the required condition under the related Japanese accounting standards, the related interest differentials paid or received under the contracts are included in the interest income/expenses of the hedged financial assets and liabilities.

(f) 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.

(g) 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.

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.

(h) Allowance for Doubtful Accounts

An allowance for doubtful accounts 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.

(i) Accrued Bonuses

Accrued bonuses to employees are provided for the portion relevant to the current year of the amount estimated for payment of bonuses in the future.

(j) 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.

(k) Accounting for Leases

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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q)Change in Accounting Policies

(1) Effective from the year ended March 31, 2006, the Company adopted the accounting standard for impairment of fixed assets ("*Accounting Standards for Impairment of Fixed Assets*" issued by the Business Accounting Council on August 9, 2002) and "*Guidance on Accounting Standards for Impairment of Fixed Assets*" (ASB Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).
The Company recognized impairment loss on fixed assets such as idle assets at the amount measured as the excess of the carrying amount over the recoverable amount of the assets. The recoverable amount is determined by the net realizable value measured by certified real estate appraisers.
As a result, income before income taxes and minority interest decreased by ¥1,152 million ($9,808 thousand), compared with what would have been reported if the new accounting standard had not been adopted.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

(2) Effective from current year, THK TAIWAN CO., LTD. has changed its inventory valuation method from using the moving average method to the first-in, first-out method in order to figure out the net income/loss of the period properly by introducing the new sales/distribution and accounting systems as a part of implementing a program to achieve effective and efficient operations. The effect of this change on income and loss on the consolidated financial statements for the year ended March 31, 2006 was immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

4. Impairment Losses

The assessment of whether there is an impairment of fixed assets is made for each group of assets, which is determined as individual assets for idle assets and rental real estates, and based on the grouping of managerial accounting and investment decision-making purposes (production facilities) for other operating assets. For fixed assets which do not have identifiable cash flows, such as corporate headquarters and sales branch facilities, are grouped in other operating assets.

For idle assets whose operating profitability has worsened substantially due to such factors as ongoing decline in fair market value of assets, the Company decided to mark the assets down to the net realizable value and recorded the impairment loss of ¥1,152 million ($9,808 thousand), which is comprised of the following.

			Millions of yen	Thousands of U.S. dollars
Use	Category	Location	Impairment loss	Impairment loss
Idle	Land	Ikoma, Nara	590	5,023
Idle	Land, leasehold	Shinagawa, Tokyo	245	2,089
Idle	Land	Sanyo-onoda, Yamaguchi	97	822
Idle	Land, buildings and structures, other	Other	220	1,874
Total			1,152	9,808

5. Long-term investments in securities

At March 31, 2005 and 2006, "other securities" with available market value were as follows:

	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

	Millions of yen		
	2006		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 579	¥ 2,833	¥ 2,254
Other	3	4	1
Subtotal	582	2,837	2,255
Carrying amounts not in excess of acquisition cost:			
Equity securities	2	2	(0)
Other	—	—	—
Subtotal	2	2	(0)
Total	¥ 584	¥ 2,839	¥ 2,255

	Thousands of U.S. dollars		
	2006		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$ 4,929	$ 24,117	$ 19,188
Other	28	41	13
Subtotal	4,957	24,158	19,201
Carrying amounts not in excess of acquisition cost:			
Equity securities	18	17	(1)
Other	—	—	—
Subtotal	18	17	(1)
Total	$ 4,975	$ 24,175	$ 19,200

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

During the year ended march 31, 2006, proceeds and net realized gain from the sales of "other securities" were ¥3,850 ($32,773) and ¥1,933 ($16,458) respectively.

6. Inventories

Inventories at March 31, 2005 and 2006 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished goods	¥ 13,261	¥ 12,814	$ 109,079
Work in process	4,082	4,764	40,559
Raw materials and supplies	6,865	7,372	62,755
Total	¥ 24,208	¥ 24,950	$ 212,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

7. Long-term Debt

The annual average interest rate applicable to long-term debt at March 31, 2006 was 0.97%.

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
0.91% Straight bonds 2006	¥10,000	¥10,000	$ 85,128
1.37% Straight bonds 2008	5,000	5,000	42,564
Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 ($14)	23,000	1,745	14,855
Loans from banks(2.75%):			
Collateralized	248	176	1,498
Non-collateralized	288	—	—
	38,536	16,921	144,045
Less - current portion	186	10,072	85,741
	¥38,350	¥ 6,849	$ 58,304

At March 31, 2006, the Company and some of its subsidiaries had committed lines of credit amounting to ¥14,000 million ($119,179 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, 2006, were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2006	2006
2008	¥ 1,817	$ 15,468
2009	5,032	42,836
2010	—	—
2011 and after	—	—
	¥ 6,849	$ 58,304

Assets pledged as collateral for secured debt at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
Pledged assets	2005	2006	2006
Buildings and structures	¥ 1,016	¥ 987	$ 8,402
Machinery and equipment	182	168	1,432
Land	240	240	2,044
Total	¥ 1,438	¥ 1,395	$ 11,878

	Millions of yen		Thousands of U.S. dollars
Secured debt	2005	2006	2006
Long-term debt	¥ 248	¥ 176	$ 1,498

8. Contingent Liabilities

Contingent liabilities for guarantees of liabilities (accounts payable) held by NIPPON SLIDE CO., LTD. as of March 31, 2006 was ¥27 ($230 thousand).

9. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥622 million, ¥677 million, and ¥658 million ($5,601 thousand) for the years ended March 31, 2004, 2005 and 2006, 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, 2005 and 2006 were as follows:

	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

	Millions of yen		
	2006		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 2,959	¥ —	¥ 2,959
Accumulated depreciation	901	—	901
Net leased property	¥ 2,058	¥ —	¥ 2,058

	Thousands of U.S. dollars		
	2006		
	Machinery and equipment	Other	Total
Acquisition costs	$ 25,188	$ —	$ 25,188
Accumulated depreciation	7,673	—	7,673
Net leased property	$ 17,515	$ —	$ 17,515

Future minimum lease payments under finance leases as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 649	¥ 652	$ 5,546
Due after one year	1,675	1,406	11,969
Total	¥ 2,324	¥ 2,058	$ 17,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

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 ¥622 million, ¥677 million and ¥658 million ($5,601 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

Obligations under non-cancelable operating leases as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 602	¥ 647	$ 5,503
Due after one year	1,455	1,534	13,061
Total	¥ 2,057	¥ 2,181	$ 18,564

10. Derivative and Hedging Activities

For the years ended March 31, 2005 and 2006, 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, 2005and 2006 has been omitted as such derivatives qualified the conditions for hedge accounting under the related Japanese accounting standards.

11. Research and Development

Research and development expenses for the years ended March 31, 2004, 2005 and 2006 were ¥2,520 million, ¥2,686 million and ¥2,684million ($22,846 thousand), respectively, and were included in “selling, general and administrative expenses" in the Consolidated Statements of Income.

12. Prior-period Adjustments

In accordance with the applicable CNC (“Conseil National de la Comptabilité”: French National Accounting Committee) statements and the CRC (“Comité de la Réglementation Comptable”: a regulatory authority dealing with accounting rules) regulations, THK Manufacturing of Europe S.A.S. (“TME”) implemented the component approach method for depreciating certain real property assets. This new approach requires the reclassification of real property assets as well as change in useful lives of assets along with respective economic useful lives of each component or element of assets (instead of single grouping of a lump sum real property purchase). TME made the change in useful lives for major component of assets. This change of useful lives resulted in recording a gain amount of ¥253 million ($2,152 thousand), in Prior-period adjustments on the Consolidated Statements of Income.

(This was originally presented as an increase amount in the retained earnings; however this has been reclassified to, in accordance with Japan GAAP requirement, a line in the consolidated income statements.)

13. 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, 2005 and 2006 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligations	¥ 5,696	¥ 6,676	$ 56,836
Plan assets	(2,858)	(3,617)	(30,794)
	2,838	3,059	26,042
Unrecognized actuarial differences	(731)	(743)	(6,325)
Reserve for employees' retirement benefit	¥ 2,107	¥ 2,316	$ 19,717

Net periodic pension and severance costs for the years ended March, 2004, 2005 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Service cost	¥ 338	¥ 376	¥ 499	$ 4,248
Interest cost	97	113	136	1,161
Expected return on plan assets	(9)	(12)	(13)	(119)
Recognized actuarial differences	86	74	109	930
Net periodic pension and severance costs	¥ 512	¥ 551	¥ 731	$ 6,220

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

	2004	2005	2006
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%	2.0%
Expected rate of return on plan assets	0.5%	0.5%	0.5%
Amortization of unrecognized actuarial differences	10 years	Between 5 and 10 years	Between 5 and 10 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

14. 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, 2004 was 42.1%, and 2005 and 2006 was 40.7%.

At March 31, 2005 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Loss on devaluation of inventories	¥ 1,071	¥ 1,098	$ 9,344
Software	541	400	3,401
Elimination of inter-company profit (inventories)	407	430	3,661
Accrual of directors' retirement benefits	399	399	3,393
Allowance for bad debts	250	194	1,655
Reserve for employees' retirement benefits	785	784	6,676
Net operating loss carried forward	269	263	2,238
Accrued bonuses to employees	888	903	7,688
Enterprise tax payable	465	583	4,959
Impairment losses	—	346	2,946
Other	1,192	1,127	9,605
Gross deferred tax assets	6,267	6,527	55,566
Less: valuation allowance	(851)	(466)	(3,971)
Total deferred tax assets	5,416	6,061	51,595
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(712)	(922)	(7,850)
Insurance premium	(280)	(271)	(2,306)
Special depreciation reserve	(214)	(226)	(1,926)
Unrealized gains on land	(418)	(418)	(3,561)
Other	(188)	(205)	(1,738)
Total deferred tax liabilities	(1,812)	(2,042)	(17,381)
Net deferred tax assets	¥ 3,604	¥ 4,019	$ 34,214

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current assets - Deferred tax assets	¥ 3,041	¥ 3,303	$ 28,120
Investments and other - Deferred tax assets	1,096	1,224	10,420
Long-term liabilities - Other liabilities	(533)	(508)	(4,326)
Net deferred tax assets	¥ 3,604	¥ 4,019	$ 34,214

For the years ended March 31, 2005 and 2006, the reconciliation of the statutory tax rate to the effective tax rate was follows:

	2005	2006
Statutory tax rate	40.7%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	0.2	0.2
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	(0.6)	0.6
Amortization of negative goodwill	(0.5)	(0.9)
Equity earnings from unconsolidated subsidiaries and affiliates	(0.7)	(0.6)
Equalization inhabitant taxes	0.3	0.2
Tax rate differences between domestic and overseas	(0.2)	(1.0)
Tax credit for research and development expenses	(1.1)	(0.9)
Refunded tax payment	(1.5)	(0.1)
Other	(1.4)	(0.1)
Effective income tax rate	35.2%	38.1%

15. 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, 2005 and 2006 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and bank deposits	¥ 75,842	¥ 87,911	$ 748,370
Short-term investments in securities	145	341	2,899
	75,987	88,252	751,269
Less:			
Time deposit due over three months	—	(1,945)	(16,553)
	¥ 75,987	¥ 86,307	$ 734,716

2) Significant non-cash transactions

In the year ended March 31, 2006, a portion of convertible bonds were converted into THK's common stock: resulting in an increase in the Company's paid-in capital and additional paid-in capital. The following summarizes change in paid-in capital and additional paid-in capital accounts included in the shareholders' equity.

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Increase resulting from conversion of convertible bonds (Paid-in capital)	¥ 10,628	$ 90,470
Increase resulting from conversion of convertible bonds (Additional paid-in capital)	10,628	90,470
Decrease resulting from conversion of convertible bonds outstanding	¥ 21,256	$ 180,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

16. 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 are attributed to geographies based on the country location of the parent company or the subsidiaries that transacted the sale with the external customers.

Principal countries and jurisdictions in each geographic segment are as follows:

"The Americas" mainly includes the United States.

"Europe" mainly includes Germany, the United Kingdom and the Netherlands.

"Asia and other" mainly includes China, Korea and Taiwan.

Net sales of the Companies for the years ended March 31, 2004, 2005 and 2006 classified by geographic segments were summarized as follows:

	Millions of yen						
	2004						
	Japan	The Americas	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	The Americas	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/(loss)	¥ 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

	Millions of yen						
	2006						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	¥ 122,457	¥ 14,009	¥ 16,310	¥ 5,637	¥ 158,413	¥ —	¥ 158,413
Inter-segment	19,362	33	88	1,391	20,874	(20,874)	—
Total	141,819	14,042	16,398	7,028	179,287	(20,874)	158,413
Operating expenses	116,542	12,737	16,453	6,548	152,280	(20,947)	131,333
Operating income	¥ 25,277	¥ 1,305	¥ (55)	¥ 480	¥ 27,007	¥ 73	¥ 27,080
II. Assets-							
Assets	¥ 182,494	¥ 15,279	¥ 17,870	¥ 16,010	¥ 231,653	¥ 12,732	¥ 244,385

	Thousands of U.S. dollars						
	2006						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	$ 1,042,452	$ 119,253	$ 138,842	$ 47,990	$ 1,348,537	$ —	$ 1,348,537
Inter-segment	164,828	284	746	11,841	177,699	(177,699)	—
Total	1,207,280	119,537	139,588	59,831	1,526,236	(177,699)	1,348,537
Operating expenses	992,101	108,432	140,057	55,743	1,296,333	(178,323)	1,118,010
Operating income	$ 215,179	$ 11,105	$ (469)	$ 4,088	$ 229,903	$ 624	$ 230,527
II. Assets-							
Assets	$ 1,553,538	$ 130,070	$ 152,126	$ 136,287	$ 1,972,021	$ 108,380	$ 2,080,401

The amounts of assets held for corporate purpose include in “Eliminations and corporate“, which primarily consist of term deposits and investment securities held by the parent company. Such corporate assets were 8,292 million, 12,905 million, and 54,029 million ($459,942 thousand), as of March 31, 2004, 2005 and 2006, respectively.

An aggregated asset amount of 8,796 million yen for companies newly included in the consolidation scope as of March 31, 2005 was included in “Eliminations and corporate”.

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, 2004, 2005 and 2006 were summarized as follows:

	Millions of yen			
	2004			
	The Americas	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			
	2005			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥ 12,888	¥ 15,340	¥ 13,375	¥ 41,603
Consolidated net sales				¥ 147,158
Overseas sales as a percentage of consolidated net sales	8.8%	10.4%	9.1%	28.3%

	Millions of yen/ (Thousands of U.S. dollars)			
	2006			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥ 14,108	¥ 16,199	¥ 15,861	¥ 46,168
	($ 120,096)	($ 137,898)	($ 135,024)	($ 393,018)
Consolidated net sales				¥ 158,413
				($ 1,348,537)
Overseas sales as a percentage of consolidated net sales	8.9%	10.2%	10.0%	29.1%

ChuoAoyama PricewaterhouseCoopers

PricewaterhouseCoopers

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

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, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THK Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

As described in Note 3, effective for the year ended March 31, 2006, THK Co., Ltd. and its subsidiaries adopted the accounting standard for impairment of fixed assets ("Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and "Guidance on Accounting Standards for Impairment of fixed Assets" (ASB Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

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 2 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 23, 2006

Corporate Data

Company Profile

Head Office	3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503 JAPAN
Telephone	+81-3-5434-0351
Established	April 1971
Number of Employees	2,844
Month of Ordinary General Meeting of Shareholders	June
Website Address	http://www.thk.com/

Stock Information

Common Stock:	
Authorized	465,877,700
Issued	132,799,331
Stock Exchange Listings	Tokyo Stock Exchange
Number of Shareholders	25,310 (Unit shareholders: 23,775)
Auditing Corporation	ChuoAoyama PricewaterhouseCoopers

Type of Shareholders	Number of Shareholders	Number of Shares Issued	Shareholding Ratio(%)
Government and Municipalities	0	0	0.00
Financial Institutions	96	52,679,000	39.67
Securities Companies	31	838,298	0.63
Other Corporations	384	4,335,021	3.26
Overseas Institutions	361	49,065,232	36.95
Individuals and Others	24,438	25,881,780	19.49
Total	25,310	132,799,331	100.00

As of March 31, 2006

THK CO., LTD.

3-11-6 Nishi Gotanda
Shinagawa-ku
Tokyo 141-8503, Japan

TEL +81-3-5434-0351
FAX +81-3-5434-0353
Web www.thk.com