FINANCIAL SECTION

MANAGEMENT'S DISCUSSION & ANALYSIS

■ Analysis of Operating Results

Net sales

Fears of a global economic slowdown intensified from the start of fiscal 2008, the year ended March 31, 2009, due to the impact of financial uncertainty arising from the subprime mortgage crisis. The collapse of major financial institutions in the United States heightened uncertainty in the second half of the year, and the knock-on effects flowed through to the real economy. The Japanese economy entered a downturn amid rapid decreases in capital investment and exports, which had previously held up well. Outside Japan, besides the developed economies, the sudden downturn also exerted a negative impact on emerging markets such as China, reducing growth substantially.

Against this backdrop, THK continued to focus on reinforcing structures to realize stable long-term growth in performance, while also seeking to mitigate business risks such as changes in the operating environment based on expansion into new business domains, in line with THK's strategies of "Full-Scale Globalization" and "Development of New Business Areas." However, as the result of a fall in demand due to greater-than-expected external environmental changes, consolidated net sales decreased by ¥29,440 million, or 14.1% year-on-year, to ¥179,269 million.

Cost of sales

During the term under review, THK maintained a focus on cost containment through reduction in facility operating hours. We also endeavored to improve productivity; targeting increased production yields and shorter manufacturing lead-times. Nevertheless, the ratio of the cost of sales to sales increased by 5.6 percentage points over with the previous year, from 67.4% to 73.0%, reflecting the fall in sales caused by the sharp deterioration in operating conditions during the second half of the year, as well as the impact of higher material costs.

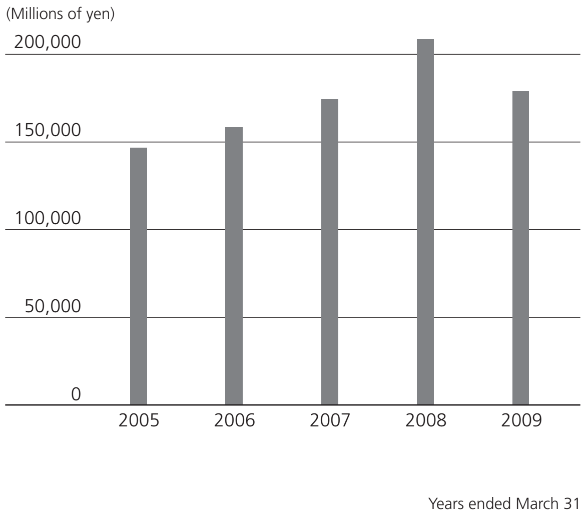
Selling, general and administrative (SG&A) expenses

SG&A expenses declined by ¥1,297 million year-on-year, due to lower personnel costs resulting from cuts in remuneration for directors and auditors, and a decline in total working hours, along with lower distribution costs in line with the decline in sales. Nonetheless, the ratio of SG&A expenses to sales increased by 2.5 percentage points to 22.2% due to a decline in sales.

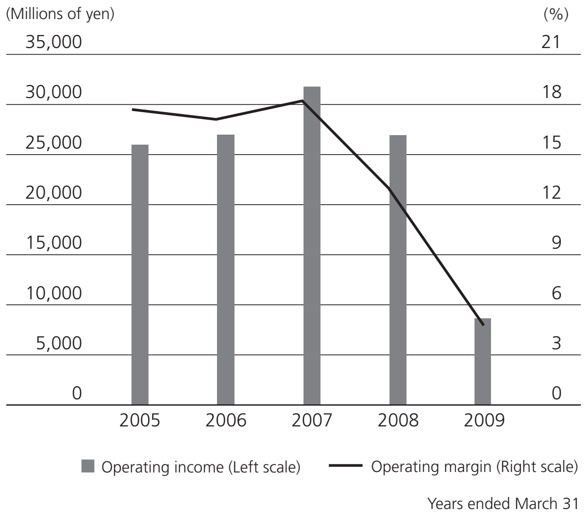
Operating income

Operating income fell by ¥18,415 million, or 68.4% year-on-year, to ¥8,523 million. The operating margin in fiscal 2008 was 4.8%, an 8.1-point deterioration from the previous year.

Net Sales



Operating Income and Operating Margin



Non-operating income and expenses

Non-operating income of ¥2,827 million is primarily attributable to interest and dividend income and the amortization of negative goodwill. Non-operating expenses totaled ¥5,066 million, which mainly consisted of foreign exchange losses, impairment losses on property, plant and equipment, and loss on write-down of long-term investments in securities. Overall, THK recorded net non-operating expenses of ¥2,239 million.

Net income

Net income declined by ¥17,119 million, or 93.4% year-on-year, to ¥1,204 million due to the factors outlined above. Other contributing factors primarily consisted of an increase in the deferred tax asset valuation allowance.

■ Business Segment Information

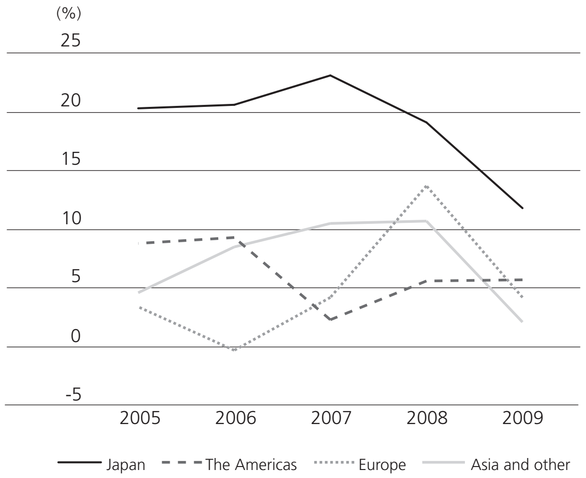
Industrial equipment-related business segment

In Japan, sales to general machinery and flat panel display manufacturers were strong during the first half of the year, against the backdrop of lower capital investment and declining production output. This result reflected our efforts to expand business with existing customers and develop business markets with new customers. In the second half, however, demand fell sharply across the board. Outside Japan, overall demand in the Americas was sluggish from the first half of fiscal 2008 onward, especially in the general machinery and electronics industries. In Europe, sales to machine tool and general machinery manufacturers were firm in the first half of the year, reflecting strong underlying demand for machinery. In Asia, sales grew in the first half, led by sales to machine tool manufacturers in China and Taiwan, as well as flat panel display makers in South Korea, but demand fell sharply across all overseas regions toward the end of fiscal 2008. As a result, segment sales and operating income fell by ¥23,951 million to ¥144,336 million and by ¥16,348 million to ¥19,935 million, respectively, compared with the previous year.

Transportation equipment-related business segment

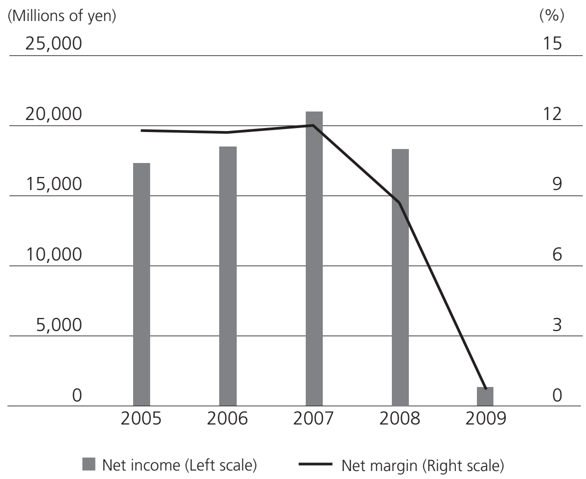
Vehicle production volumes were depressed during the first half of the year in the Americas, but remained firm in Japan and Europe. In the second half, however, output slumped across all regions. At THK Group, we responded to these challenging conditions by continuing efforts to expand business with existing customers and develop business with new customers. Nevertheless, segment sales fell by ¥5,489 million to ¥34,933 million year-on-year. Despite further spending-cut initiatives, the segment recorded an increased operating loss of ¥4,526 million, in line with the sharp downturn in demand. The loss grew by ¥2,306 million in year-on-year. Contributing factors included amortization of goodwill, among others.

Operating Margin, by Geographic Segment



Years ended March 31

Net income and Net Margin



Years ended March 31

Geographic Segment Information

Japan

Reflecting our efforts to expand business with existing customers and develop business markets with new customers, sales to general machinery and flat panel display manufacturers were strong during the first half of the year, against the background of lower capital investment and declining production output. In the second half, however, overall demand fell sharply. Sales fell by ¥30,463 million year-on-year, to ¥115,282 million. As a result, operating income also fell, by ¥14,257 million to ¥13,653 million, despite our efforts to restrict costs through productivity improvements and a reduction in facility operating hours. The substantial decrease in operating income is primarily attributable to a decline in capacity utilization resulting from a decrease in sales, which led to a decrease in fixed costs recovered.

The Americas

We made efforts to integrate marketing and production functions with the aim of expanding business with existing customers and developing business markets with new customers. However, demand from electronics and auto-related manufacturers remained sluggish from the first half of the year, and overall demand dropped sharply in the second half. In addition, the yen strengthened toward the end of the year. Sales and operating income for the region declined by ¥1,551 million to ¥23,922 million and by ¥87 million to ¥1,352 million, respectively, compared with the previous year.

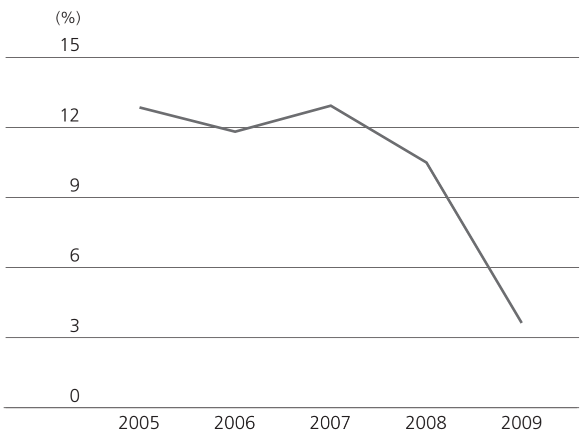
Europe

The integration of marketing and production functions enabled THK to expand sales to vehicle manufacturers. However, demand from machine tool, general machinery and electronic appliance manufacturers fell sharply toward the end of the year. The rapid appreciation of the yen during the second half of the year also had a negative effect. Sales in Europe fell by ¥539 million year-on-year, to ¥24,888 million, and operating income declined by ¥2,443 million to ¥1,049 million, reflecting the decrease in sales and the gain on refund of customs duties that had been recognized in the prior year.

Asia and other

Sales in this geographical region grew in the first half of the reporting period, led by sales to machine tool manufacturers in China and Taiwan and flat panel display manufacturers in South Korea. Although overall demand dropped sharply in the second half of the year, sales in this region increased by ¥3,113 million year-on-year, to ¥15,177 million. However, operating income fell by ¥975 million to ¥321 million, primarily as a result of an increase in fixed costs in China and the effects of the yen's appreciation on our business in Taiwan.

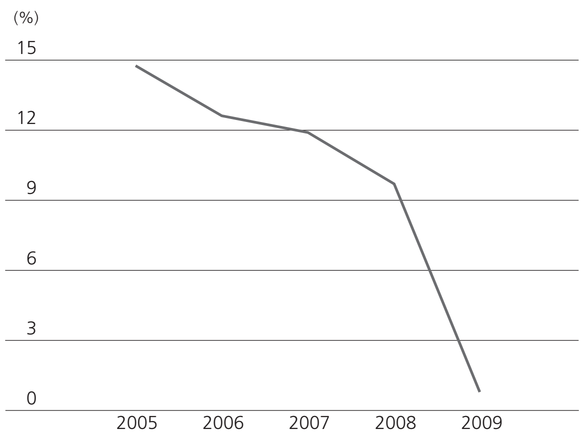
Return on Assets (ROA)



Note: Operating income plus interest and dividend income as a percentage of average total assets.

Years ended March 31

Return on Equity (ROE)



Years ended March 31

■ Financial Position

Assets, liabilities and net assets

• Assets

Current assets amounted to ¥135,369 million as of March 31, 2009, a decrease of ¥16,964 million, or 11.1%, compared with the previous year-end. Cash and bank deposits increased by ¥15,968 million, primarily due to proceeds from long-term borrowings, which more than offset cash outflow due to repayments of long-term debt. Accounts and notes receivable-trade decreased by ¥26,857 million, in line with a decline in sales.

Non-current assets* declined by ¥6,914 million, or 6.2% year-on-year, to ¥104,982 million at year-end. This was the combined result of capital investment of ¥15,295 million, depreciation expenses of ¥10,389 million, and impairment losses of ¥934 million, as well as a decline in the book value of property, plant and equipment in the amount of ¥3,070 million. Appreciation in the value of the yen through to the end of fiscal 2008 caused a decrease in the yen value of assets at overseas subsidiaries.

*Non-current assets include investments and other, property, plant and equipment, and deferred charges and intangibles.

Total assets at year-end amounted to ¥240,351 million, a year-on-year decrease of ¥23,878 million, or 9.0%.

• Liabilities

Current liabilities at year-end amounted to ¥33,841 million, declining by ¥27,702 million, or 45.0% year-on-year. The main factors were a decrease of ¥16,117 million in accounts and notes payable-trade as a result of a reduction in purchasing corresponding to lower sales, and the redemption of a ¥5,000 million corporate bond.

Reflecting an increase of ¥20,000 million in long-term bank loans, long-term liabilities increased by ¥19,064 million, or 195.9%, from the previous year-end, to ¥28,797 million.

Total liabilities at year-end amounted to ¥62,638 million, a year-on-year decrease of ¥8,638 million, or 12.1%.

• Net assets

Net assets at year-end amounted to ¥177,713 million, a year-on-year decline of ¥15,240 million. One of the primary factors was the yen's appreciation against the U.S. dollar and the euro, which resulted in a decline of ¥11,507 million in foreign currency translation adjustments.

Cash flows

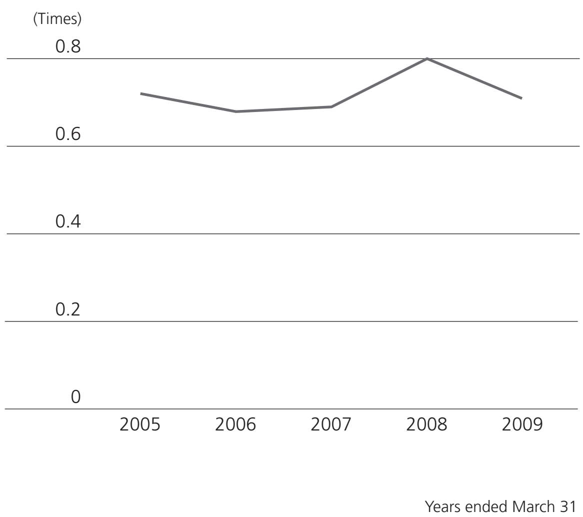
Net cash provided by operating activities amounted to ¥25,193 million, compared with ¥19,382 million in the previous year. This is attributable to income before income taxes and minority interests of ¥6,284 million, depreciation and amortization of ¥10,637 million, and a decrease in accounts and notes receivables of ¥26,170 million, which more than offset a decrease in accounts and notes payables of ¥13,389 million.

Cash used in investing activities amounted to ¥19,078 million, compared with ¥32,354 million in the previous year. Although THK made utmost efforts to derive efficiencies in capital spending amid the sudden changes in external operating conditions, expenditures reflected decisions to purchase property, plant and equipment that had mostly been finalized during the first half of fiscal 2008.

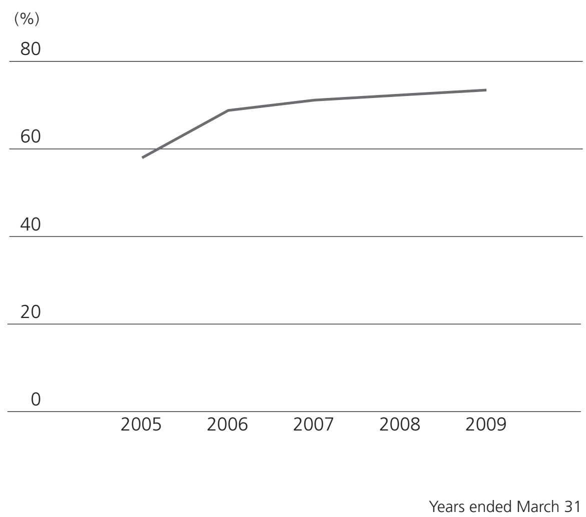
Net cash provided by financing activities amounted to ¥11,031 million, compared with a cash outflow of ¥29,976 million recorded in the previous year. This is attributable to proceeds from long-term bank loans (¥20,000 million), which more than offset redemption of bonds (¥5,000 million).

The year-end balance of cash and cash equivalents amounted to ¥64,130 million, an increase of ¥14,320 million from a year earlier.

Asset Turnover Ratio



Equity Ratio



RISK FACTORS

Risk factors and uncertainties that could affect the THK Group's business results and financial position include, but are not limited to, the items outlined in the following discussion. Please note that information provided on this page was accurate as of June 22, 2009. Any items relating to the future are based on the best judgment of THK Group management as of this date.

Dependence on linear motion systems

The principal business of the THK Group is the manufacture and sale of linear motion (LM) systems, notably LM guides. LM systems account for the majority of sales and are expected to continue to do so for the foreseeable future. Any unexpected technical revolution that jeopardized the position of LM systems as a critical machinery component could have a negative impact on the business results and financial position of the THK Group.

Effect of changes in production trends within specific industries

The THK Group manufactures and sells LM guides, ball screws and other machinery components as well as link balls, suspension ball joints and other transportation equipment components. The principal users of these products are companies that make industrial machinery and equipment including machine tools, general machinery and semiconductor production equipment as well as manufacturers of transportation equipment. While the THK Group is striving through full-scale globalization and development of new business areas to realize expansions in the user base in both quantitative and qualitative terms, the performance of the THK Group is influenced by production trends within industrial sectors such as machine tool, general machinery, semiconductor production equipment, and other transportation equipment that form the core customer base.

The business results and financial position of the THK Group could be affected negatively in the future by a downturn in production levels in these specific industries.

Overseas business expansion

The THK Group has manufacturing and sales operations in the Americas, Europe, Asia and other regions. Economic downturns in countries where the THK Group manufactures or sells products that result in reduced demand for the Company's products could have a negative impact on the THK Group's business results and financial position. Any unexpected legal and regulatory changes in countries other than Japan could also have a similar effect.

Exchange rate fluctuations

Reflecting the fact that it conducts some business in foreign currencies, the THK Group attempts to hedge currency risk using forward contracts and other instruments. Nonetheless, any significant unexpected fluctuations in foreign exchange rates have the potential to exert a negative impact on the business results and financial position of the THK Group.

Reliance on specific sources of supply

The THK Group procures some raw materials and parts from external supply sources. In some cases the sources of such supply are specific to the point that unexpected natural disasters and other incidents could lead to shortages of such raw materials and parts due to limitations imposed on supply capacity or related problems. Any such eventuality could negatively affect THK Group production activities.

Incidence of defective products

THK Group products are widely used in industrial fields that involve advanced mechatronics where the equipment is required to operate with high precision and at high speed while at the same time saving labor. Such sectors include machine tools, industrial robots, equipment for LCD production lines and semiconductor production equipment. Applications for THK products have also expanded to include various areas related to consumer goods and lifestyles, including automobiles, seismic isolation devices for buildings, medical equipment, amusement equipment and the aircraft industry.

In view of this expanded usage, the THK Group is working to build quality assurance systems to ensure that high product quality is maintained across all product sectors. However, any incidence of defective products that arises in any of these markets could potentially result in substantial unexpected costs or a loss of trust among the general public, thereby exerting a negative impact on the business results and financial position of the THK Group.

Information security

The THK Group collects, maintains and manages personal information as well as trade secrets relating to its customers, business partners and other stakeholders in the ongoing conduct of its business activities. While every effort is made to ensure that this information is stored and managed in a secure and appropriate manner, the loss or leakage of a part or all of this information due to a computer virus, information system defect or other factors have the potential to exert a negative impact on the Group's reputation, credibility and standing. This in turn could result in a deterioration in the Group's business results and financial position.

Disasters, Acts of Terrorism, Infectious Disease and Other Maladies

The THK Group maintains and operates manufacturing facilities as well as sales and marketing offices in Japan, the Americas, Europe, Asia as well as other countries and regions. In the event that any of the Group's points of representation are affected by natural disasters including earthquakes and fire, political unrest due to acts of terrorism or war, or outbreak of an infectious disease, the potential exists for the THK Group's business results and financial standing to be negatively impacted.

Sharp Hikes in the Prices of Raw Materials

In the event of unanticipated sharp hikes in the prices of raw materials due to such factors as high crude oil prices, social conditions in raw material supplying countries and rising demand in newly emerging nations, the costs associated with the manufacture of the Company's products can be expected to increase. As a result, the potential exists for the THK Group's business results and financial standing to be negatively impacted.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

as of March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2009	2009
ASSETS			
Current Assets:			
Cash and bank deposits (Note 16)	¥ 48,162	¥ 64,130	$ 652,657
Short-term investments in securities (Notes 5 and 16)	1,648	—	—
Accounts and notes receivable–			
Trade	63,207	36,350	369,939
Unconsolidated subsidiaries and affiliates	2,160	462	4,698
Other	2,608	1,845	18,778
	67,975	38,657	393,415
Less allowance for bad debts	(247)	(233)	(2,373)
	67,728	38,424	391,042
Inventories (Note 6)	29,315	27,137	276,177
Short-term loans receivable–			
Unconsolidated subsidiaries and affiliates	716	2,047	20,836
Other	13	2	18
Deferred tax assets (Note 15)	3,373	2,739	27,872
Other current assets (Note 11)	1,378	890	9,052
Total current assets	152,333	135,369	1,377,654
Investments and Other:			
Long-term investments in securities (Note 5)	2,763	1,549	15,761
Investments in unconsolidated subsidiaries and affiliates	2,655	2,731	27,798
Deferred tax assets (Note 15)	2,426	1,636	16,649
Other investments	4,168	4,654	47,367
Total investments and other	12,012	10,570	107,575
Property, Plant and Equipment (Notes 4 and 10):			
Buildings and structures	49,221	51,032	519,353
Machinery and equipment	127,678	130,958	1,332,768
	176,899	181,990	1,852,121
Less accumulated depreciation	(109,609)	(113,925)	(1,159,419)
	67,290	68,065	692,702
Land	13,144	12,962	131,918
Construction in progress	7,637	3,974	40,445
Total property, plant and equipment	88,071	85,001	865,065
Intangibles:			
Goodwill (Note 12)	10,995	8,270	84,161
Other	818	1,141	11,612
Total intangibles	11,813	9,411	95,773
Total assets	¥264,229	¥240,351	$2,446,067

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	**2009**	**2009**
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 5,000	**¥ —**	**$ —**
Accounts and notes payable–			
Trade	35,910	**19,793**	**201,436**
Unconsolidated subsidiaries and affiliates	1,266	**630**	**6,415**
Other	4,672	**3,787**	**38,536**
	41,848	**24,210**	**246,387**
Income taxes payable (Note 15)	1,495	**364**	**3,704**
Accrued bonuses to employees	2,704	**1,716**	**17,466**
Accrued bonuses to directors and statutory auditors	100	**—**	**—**
Other accrued expenses	8,596	**6,245**	**63,555**
Lease obligations	—	**53**	**543**
Other current liabilities	1,800	**1,253**	**12,749**
Total current liabilities	61,543	**33,841**	**344,404**
Long-term Liabilities:			
Long-term debt (Note 7)	—	**20,000**	**203,542**
Reserve for employees' retirement benefits (Note 14)	3,995	**4,322**	**43,989**
Reserve for directors' and statutory auditors' retirement benefits	113	**126**	**1,278**
Reserve for product warranty	154	**118**	**1,201**
Negative goodwill	972	**324**	**3,298**
Long-term lease obligations	—	**116**	**1,179**
Deferred tax liabilities (Note 15)	3,450	**2,810**	**28,595**
Other liabilities	1,049	**981**	**9,982**
Total long-term liabilities	9,733	**28,797**	**293,064**
Net Assets:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 133,856,903 shares			
at March 31, 2008 and 2009	34,606	**34,606**	**352,191**
Additional paid-in capital	44,343	**44,343**	**451,279**
Retained earnings	117,579	**114,998**	**1,170,348**
Treasury stock, at cost: 5,249,554 shares and 5,252,712 shares			
at March 31, 2008 and 2009, respectively	(11,347)	**(11,352)**	**(115,528)**
Net unrealized gain on other securities	470	**144**	**1,468**
Foreign currency translation adjustments	5,302	**(6,205)**	**(63,159)**
Minority interests	2,000	**1,179**	**12,000**
Total net assets	192,953	**177,713**	**1,808,599**
Contingent Liabilities (Note 9)			
Total liabilities and net assets	¥264,229	**¥240,351**	**$2,446,067**

Consolidated Statements of Income

for the years ended March 31, 2007, 2008, and 2009

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2008	2009	2009
Net Sales	¥174,711	¥208,709	**¥179,269**	**$1,824,435**
Cost of Sales (Note 13)	109,569	140,656	**130,928**	**1,332,465**
Gross profit	65,142	68,053	**48,341**	**491,970**
Selling, General and Administrative Expenses (Notes 12 and 13)	33,326	41,115	**39,818**	**405,228**
Operating income	31,816	26,938	**8,523**	**86,742**
Non-Operating Income (Expenses):				
Interest and dividend income	579	933	**559**	**5,687**
Interest expenses	(128)	(185)	**(119)**	**(1,211)**
Foreign exchange gain (loss), net	803	(2,287)	**(2,432)**	**(24,747)**
Loss on sales of long-term investments in securities, net	—	—	**(21)**	**(218)**
Equity earnings (losses) of an affiliate	490	197	**(46)**	**(468)**
Rental income	202	241	**254**	**2,587**
Insurance premium refunded on cancellation	—	62	**—**	**—**
Amortization of negative goodwill	648	648	**1,063**	**10,820**
Commission expenses	(77)	(66)	**(41)**	**(420)**
Loss on sales and disposal of property, plant and equipment, net	(326)	(184)	**(165)**	**(1,678)**
Loss on write-down of long-term investments in securities	—	(10)	**(758)**	**(7,711)**
Impairment losses (Note 4)	(71)	(137)	**(934)**	**(9,503)**
Other, net	588	551	**401**	**4,074**
	2,708	(237)	**(2,239)**	**(22,788)**
Income before income taxes and minority interests	34,524	26,701	**6,284**	**63,954**
Income Taxes (Note 15)				
Current	14,072	7,637	**3,805**	**38,725**
Deferred	(755)	552	**1,123**	**11,431**
Total income taxes	13,317	8,189	**4,928**	**50,156**
Minority interests in Net Income	169	189	**152**	**1,541**
Net income	¥ 21,038	¥ 18,323	**¥ 1,204**	**$ 12,257**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

for the years ended March 31, 2007, 2008, and 2009

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2008	2009	2009
Common Stock				
At beginning of year	¥ 33,734	¥ 33,916	¥ 34,606	$ 352,191
Conversion of convertible bonds to common stock (Note 16)	182	690	—	—
At end of year	¥ 33,916	¥ 34,606	¥ 34,606	$ 352,191
Additional Paid-In Capital				
At beginning of year	¥ 43,471	¥ 43,653	¥ 44,343	$ 451,288
Conversion of convertible bonds to common stock (Note 16)	182	690	—	—
Gain (loss) from sale of treasury stock	0	0	(0)	(9)
At end of year	¥ 43,653	¥ 44,343	¥ 44,343	$ 451,279
Retained Earnings				
At beginning of year	¥ 87,091	¥104,276	¥117,579	$1,196,611
Adjustment due to accounting change in consolidation of foreign subsidiaries (Note 3 (a))	—	—	73	747
Net income	21,038	18,323	1,204	12,257
Cash dividends	(3,718)	(5,020)	(3,858)	(39,267)
Other	(135)	—	—	—
At end of year	¥104,276	¥117,579	¥114,998	$1,170,348
Treasury Stock, at cost				
At beginning of year	¥ (48)	¥ (63)	¥ (11,347)	$ (115,485)
Purchase of treasury stock	(16)	(11,279)	(7)	(67)
Sale of treasury stock	1	1	2	24
Net change in treasury stock held by an affiliate	—	(6)	—	—
At end of year	¥ (63)	¥ (11,347)	¥ (11,352)	$ (115,528)
Net Unrealized Gain on Other Securities				
At beginning of year	¥ 1,357	¥ 1,037	¥ 470	$ 4,779
Net change in the year	(320)	(567)	(326)	(3,311)
At end of year	¥ 1,037	¥ 470	¥ 144	$ 1,468
Foreign Currency Translation Adjustments				
At beginning of year	¥ 2,668	¥ 4,404	¥ 5,302	$ 53,965
Net change in the year	1,736	898	(11,507)	(117,124)
At end of year	¥ 4,404	¥ 5,302	¥ (6,205)	$ (63,159)
Minority Interests				
At beginning of year	¥ 1,519	¥ 1,817	¥ 2,000	$ 20,352
Net change in the year	298	183	(821)	(8,352)
At end of year	¥ 1,817	¥ 2,000	¥ 1,179	$ 12,000
Total Net Assets at End of Year	¥189,040	¥192,953	¥177,713	$1,808,599

Under the Companies Act of Japan, dividends proposed by a Board of Directors are subject to approval at the general shareholders' meeting in the following fiscal year and are shown as a reduction of retained earnings in consolidated statements of changes in net assets for the year they are approved and paid. Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

Cash dividends in the year ended March 31, 2009 were as follows:

At the general shareholders' meeting held on June 21, 2008, cash dividends to shareholders of common stock in the aggregate amount of ¥2,315 million ($23,560 thousand), ¥18 ($0.18) per share, were approved and commenced its payment on June 23, 2008.

At the board of directors' meeting held on November 12, 2008, cash dividends to shareholders of common stock in the aggregate amount of ¥1,543 million ($15,706 thousand), ¥12 ($0.12) per share, were approved and commenced its payment on December 8, 2008.

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, was approved at the shareholders' meeting held on June 20, 2009 and commenced its payment on June 22, 2009:

	Millions of yen	Thousands of U.S. dollars (Note 2)
Cash dividends, ¥8 ($0.08) per share	¥1,029	$10,471

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended March 31, 2007, 2008, and 2009

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2008	**2009**	**2009**
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 34,524	¥ 26,701	**¥ 6,284**	**$ 63,954**
Adjustments:				
Depreciation and amortization	7,112	10,138	**10,637**	**108,251**
Amortization of goodwill and negative goodwill, net	(629)	2,107	**1,665**	**16,943**
Interest and dividend income	(579)	(933)	**(559)**	**(5,687)**
Interest expenses	128	185	**119**	**1,211**
Foreign exchange (gain) loss, net	136	(588)	**(391)**	**(3,975)**
Equity (earnings) losses of an affiliate	(490)	(197)	**46**	**468**
Loss on sales and disposal of property, plant and equipment, net	326	184	**165**	**1,678**
Loss on write-down of long-term investments in securities	—	10	**758**	**7,711**
Loss on sales of long-term investments in securities, net	—	—	**21**	**218**
Impairment losses	71	137	**934**	**9,503**
Changes in assets and liabilities:				
(Increase) decrease in accounts and notes receivable	(636)	486	**26,170**	**266,331**
Increase in inventories	(340)	(1,566)	**(836)**	**(8,513)**
Increase (decrease) in accounts and notes payable	3,835	(2,403)	**(13,389)**	**(136,256)**
Increase (decrease) in provision	551	606	**(610)**	**(6,210)**
Other, net	(1,335)	(2,129)	**(2,153)**	**(21,908)**
Subtotal	42,674	32,738	**28,861**	**293,719**
Interest and dividend received	710	1,028	**594**	**6,050**
Interest paid	(167)	(188)	**(136)**	**(1,381)**
Income taxes paid	(13,284)	(14,196)	**(4,126)**	**(41,999)**
Net cash provided by operating activities	29,933	19,382	**25,193**	**256,389**
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	2,558	—	**—**	**—**
Increase in term deposits due over three months	(463)	—	**—**	**—**
Purchase of property, plant and equipment, and intangibles	(12,848)	(19,618)	**(16,505)**	**(167,971)**
Proceeds from sales of property, plant and equipment	99	79	**91**	**924**
Increase in investments in securities, unconsolidated subsidiaries and affiliates	(516)	(637)	**(1,077)**	**(10,963)**
Proceeds from sales of investments in securities, unconsolidated subsidiaries and affiliates	25	19	**27**	**276**
Increase in loans receivable	(85)	(106)	**(2,007)**	**(20,430)**
Collections on loans receivable	58	77	**682**	**6,944**
Acquisition of a newly consolidated subsidiary, net of cash acquired (Note 16)	—	(12,130)	**—**	**—**
Other, net	288	(38)	**(289)**	**(2,943)**
Net cash used in investing activities	(10,884)	(32,354)	**(19,078)**	**(194,163)**
Cash Flows from Financing Activities:				
Repayments of short-term debt	—	(500)	**—**	**—**
Repayments of long-term debt	(10,072)	(13,142)	**(5,000)**	**(50,885)**
Proceeds from long-term debt	—	—	**20,000**	**203,542**
Cash dividends	(3,714)	(5,014)	**(3,857)**	**(39,253)**
Cash dividends to minority shareholders	(38)	(41)	**(31)**	**(311)**
Purchase of treasury stock	(16)	(11,279)	**(7)**	**(67)**
Proceeds from sale of treasury stock	1	1	**2**	**15**
Repayments of lease obligations	—	—	**(76)**	**(780)**
Other, net	(1)	(1)	**—**	**—**
Net cash provided by (used in) financing activities	(13,840)	(29,976)	**11,031**	**112,261**
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	437	805	**(2,826)**	**(28,757)**
Net Increase (decrease) in Cash and Cash Equivalents	5,646	(42,143)	**14,320**	**145,730**
Cash and Cash Equivalents at Beginning of Year	86,307	91,953	**49,810**	**506,927**
Cash and Cash Equivalents at End of Year (Note 16)	¥ 91,953	¥ 49,810	**¥ 64,130**	**$ 652,657**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of THK CO., LTD. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards as to application and disclosure requirements.

The accompanying consolidated financial statements include certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers. Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications have been made solely for comparability of the consolidated financial statements, and do not affect net income or net assets. In addition, the notes to the consolidated financial statements include information that is not required under Japanese GAAP, but which is provided herein as additional information.

2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements are included solely for the convenience of the readers. These translations should not be construed as presentations that the yen amounts actually represent or could be converted into U.S. dollars at that or any other rate. For this purpose, the rate of ¥98.26 to U.S.$ 1, the approximate rate of exchange prevailing in Tokyo on March 31, 2009, have been used for the translation of the accompanying consolidated financial statements as of and for the year ended March 31, 2009.

3. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries that are controlled by the Company. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, those companies over which the Company is able to directly or indirectly exercise control are to be consolidated even if the holding ratio equals 50% or less. All significant inter-company transaction accounts and unrealized inter-company profits are eliminated upon consolidation. For consolidated subsidiaries or affiliates whose closing dates are different from that of the Company, certain adjustments necessary for consolidation have been made.

The Company had 34 (33 in 2008) subsidiaries as of March 31, 2009. The consolidated financial statements for the year ended March 31, 2009 include the accounts of the Company and 29 (29 for 2008) of its consolidated subsidiaries (collectively, "the Companies"). The consolidated subsidiaries as of March 31, 2009 are listed below:

Name of consolidated subsidiary	Holding ratio of the Company (directly and indirectly)	Fiscal year end
THK Holdings of America, L.L.C. (USA)	100%	Dec. 31, 2008
THK America, Inc. (USA)	100	Dec. 31, 2008
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2008
Rhythm North America Corporation (USA)	100	Dec. 31, 2008
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2008
THK GmbH (Germany)	100	Dec. 31, 2008
THK France S.A.S. (France)	100	Dec. 31, 2008
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2008
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2008
THK TAIWAN CO., LTD. (Taiwan)	100	Dec. 31, 2008
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2008
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2008
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2008
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2008
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2008
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2008
THK LM SYSTEM Pte. Ltd. (Singapore)	100	Dec. 31, 2008
RHYTHM GUANGZHOU CORPORATION (China)	100	Dec. 31, 2008
THK RHYTHM (THAILAND) CO., LTD. (Thailand)	100	Dec. 31, 2008
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2009
THK NIIGATA CO., LTD. (Japan)	100	Mar. 31, 2009
TALK SYSTEM Co., Ltd. (Japan)	99.00	Mar. 31, 2009
Beldex Corporation (Japan)	100	Mar. 31, 2009
RHYTHM CORPORATION (Japan)	100	Mar. 31, 2009
Rhythm Kyusyu Co., Ltd. (Japan)	100	Mar. 31, 2009
Rhythm L Co., Ltd. (Japan)	100	Mar. 31, 2009
L Tool Co., Ltd. (Japan)	100	Mar. 31, 2009
L Trading Co., Ltd. (Japan)	100	Mar. 31, 2009
L Engineering Co., Ltd. (Japan)	100	Mar. 31, 2009

There were no changes in the scope of consolidation for the year ended March 31, 2009.

The Company has three (three in 2008) affiliates and five (four in 2008) unconsolidated subsidiaries at March 31, 2009. Under the control concept, companies over which the Company directly or indirectly has the ability to exercise significant influence are accounted for using the equity method. For the years ended March 31, 2008 and 2009, the Company has applied the equity method to investment in SAMICK THK CO., LTD. Investments in the remaining affiliates and unconsolidated subsidiaries are stated at cost. If the equity method had been applied to the investments in those companies, the effect on the consolidated financial statements would not have been significant.

Prior to April 1, 2008, under Japanese GAAP, a company could use the financial statements of its foreign subsidiaries which had been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they were clearly unreasonable. On May 17, 2006, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are immaterial; 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in net assets; 3) expensing capitalized development costs of research and development; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

PITF No.18 is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company adopted the new accounting standard effective April 1, 2008. The accounting change did not have a material effect on the accompanying consolidated statements of income. However, the beginning balance of retained earnings as of April 1, 2008 was adjusted by ¥73 million ($747 thousand) as if this accounting standard had been retroactively applied.

(b) Translation of Foreign Currency Financial Statements

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The net assets except for minority interest account at beginning of the year are 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 net assets section.

(c) Inventories

Inventories are stated at cost determined principally by the gross average method. If acquisition cost of an inventory exceeds its net selling value, the carrying amount of such inventory would be written down to its net selling value and the difference would be charged to income.

Prior to April 1, 2008, inventories had been stated at cost or the lower of cost or market, determined principally by the average method. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses.

The Company adopted the new accounting standard for measurement of inventories as of April 1, 2008. The effect of adopting this accounting standard was to decrease gross profit, operating income, and income before income taxes and minority interests for the year ended March 31, 2009 by ¥699 million ($7,114 thousand).

(d) Financial Instruments

Securities

Investments in securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) other securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of net assets. If the fair value of other securities is not readily determinable, such investments are stated at cost.

For other than temporary declines in fair value, investments in securities are written down to the net realizable value and the difference is charged to income.

Derivative

The Companies use a variety of derivative financial instruments, including forward foreign currency exchange contracts, foreign currency swap contracts, and interest rate swap contracts to manage foreign exchange risks and interest rate fluctuation risks. The Company has established a control environment, which includes policies and procedures for risk assessments and approval, and reporting and monitoring of transactions involving derivative financial instruments. The Companies do not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are stated at fair value and changes in fair value are recognized as gains or losses. If forward foreign currency exchange contracts and foreign currency swap contracts qualify the required condition under the related Japanese accounting standards, the hedged foreign currency assets and liabilities are translated at the contract rates and no gains or losses are recognized.

For interest rate swap contracts which qualify the required condition under the related Japanese accounting standards, the differential paid or received under the swap contracts are recognized and included in the interest income or expenses.

(e) Property, Plant and Equipment

Property, plant and equipment of the Company and its domestic subsidiaries are depreciated mainly using the declining-balance method, whereas the straight-line method or accelerated methods are mainly applied to those of foreign subsidiaries. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 12 years for machinery and equipment.

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

(f) Amortization

Amortization of intangible assets is computed using the straight-line method.

Software for internal use is amortized on a straight-line basis over a period of no more than five years, the estimated useful life of the software.

Goodwill represents the excess of the costs of an acquisition over the fair value of the underlying net equity of a business or a subsidiary and is being amortized by the straight-line method over an estimated period from 5 to 10 years. If the fair value of such acquisition exceeds the acquisition cost, such differences are recognized as negative goodwill and amortized using the straight-line method over five years.

(g) Allowance for Bad Debts

Allowance for bad debts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

(h) Accrued Bonuses to Employees

Accrued bonuses to employees are stated at an estimated amount to be paid in the following year based on the employees' compensation in the current year.

(i) Accrued Bonuses to Directors and Statutory Auditors

Bonuses to directors and statutory auditors are accrued at the year end and to be paid in the following year when such bonuses are attributable.

(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. Amortization of unrecognized actuarial differences is initiated from the following fiscal year on a straight-line basis over a period from 5 to 18 years.

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

Reserve for directors' and statutory auditors' retirement benefits represents the liability at amount that would be required if all eligible directors and statutory auditors retired at each balance sheet date.

(l) Reserve for Product Warranty

Reserve for product warranty is stated at amount based on the Companies' experience in order to cover possible warranty liabilities.

(m) Lease

In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions”, which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

Under the previous accounting standard, finance leases that deemed to transfer ownership of the leased property to the lessee were to be capitalized, however, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company adopted this revised accounting standard as of April 1, 2008, applying the permission discussed above to leases which existed at the transition date and do not transfer ownership of the leased property to the lessee. This accounting change did not have a material effect on the accompanying consolidated statements of income.

The Companies lease certain computers, equipment, software, and other assets. Lease assets of which leasing period initiate on or after April 1, 2008 are included in machinery and equipment or other assets in the consolidated balance sheets. Depreciation of lease assets is computed using the straight-line method over the leasing period with no residual value.

(n) 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. Gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward foreign currency exchange contracts.

(o) Consumption Tax

Japanese 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 by the Company and domestic subsidiaries upon sale is excluded from net sales but is recorded as a liability. The consumption tax paid by the Company and domestic subsidiaries on purchases of goods and services is excluded from costs or expenses but is recorded as an asset. The net balance of liability after offsetting against assets is included in “Other current liabilities” in the consolidated balance sheets.

(p) 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. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are determined by applying currently enacted tax laws to the temporary differences.

(q) Cash and Cash Equivalents

Cash and cash equivalents 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.

(r) Per Share Information

Net assets per share is computed by dividing net assets except minority interests at the year end by the number of common stock outstanding at the year end.

Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

4. Impairment Losses

In assessing whether there is an impairment of long-lived assets, assets are grouped basically based on the production facility units, managerial accounting and investment decision-making purposes. Idle assets and rental real estate are grouped at each unit level. Long-lived assets without identifiable cash flows, such as those held in corporate headquarters and sales branch facilities, are grouped as corporate level assets.

For assets whose operating profitability has substantially worsened due to ongoing decline in their fair market value, the carrying amount of such assets are written down to the net realizable value and the differences are recorded as the impairment losses.

The impairment losses for the years ended March 31, 2007, 2008, and 2009 are summarized below:

Year ended March 31	Location	Assets	Amount
2007	Aichi and Niigata, Japan	Land and buildings	¥71 million
2008	Shizuoka and Miyagi, Japan	Land, buildings and other	¥137 million
2009	Jiangsu, China	Buildings, machinery and other	¥934 million ($9,503 thousand)

5. Investments in Securities

At March 31, 2008 and 2009, other securities with available fair value were as follows:

	Millions of yen		
	2008		
	Cost	Fair value	Net unrealized gain (loss)
Fair value exceeds acquisition cost:			
Equity securities	¥ 554	¥1,574	¥1,020
Other	1	1	0
Subtotal	555	1,575	1,020
Fair value does not exceed acquisition cost:			
Equity securities	968	713	(255)
Other	—	—	—
Subtotal	968	713	(255)
Total	¥1,523	¥2,288	¥ 765

	Millions of yen		
	2009		
	Cost	Fair value	Net unrealized gain (loss)
Fair value exceeds acquisition cost:			
Equity securities	¥455	¥ 719	¥264
Other	1	1	0
Subtotal	456	720	264
Fair value does not exceed acquisition cost:			
Equity securities	489	450	(39)
Other	—	—	—
Subtotal	489	450	(39)
Total	¥945	¥1,170	¥255

	Thousands of U.S. dollars		
	2009		
	Cost	Fair value	Net unrealized gain (loss)
Fair value exceeds acquisition cost:			
Equity securities	$ 4,629	$ 7,313	$2,684
Other	6	8	2
Subtotal	4,635	7,321	2,686
Fair value does not exceed acquisition cost:			
Equity securities	4,974	4,584	(390)
Other	—	—	—
Subtotal	4,974	4,584	(390)
Total	$9,609	$11,905	$2,296

At March 31, 2008 and 2009, other securities whose fair value is not readily determinable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Other securities			
Unlisted equity securities	¥ 424	¥379	$3,856
Unlisted foreign mutual funds	248	—	—
Certificate of deposits	¥1,400	¥ —	$ —

In addition to the balances shown on the above tables, the Companies held investments in funds. At March 31, 2008, carrying amounts of the investments in fund was ¥51 million, with ¥2 million of unrealized gain which was included in the net unrealized gain on other securities. No investments in funds remained at March 31, 2009.

6. Inventories

Inventories at March 31, 2008 and 2009 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Merchandise and finished goods	¥13,310	¥12,511	$127,322
Work in process	5,842	4,422	44,999
Raw materials and supplies	10,163	10,204	103,856
Total	¥29,315	¥27,137	$276,177

7. Long-term Debt

Long-term debt at March 31, 2008 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
1.94% Unsecured syndicated loan payable to banks, due 2014	¥ —	¥20,000	$203,542
1.37% Unsecured straight bonds due 2008	5,000	—	—
	5,000	20,000	203,542
Less current portion	5,000	—	—
	¥ —	¥20,000	$203,542

8. Committed Line of Credit

At March 31, 2009, the Companies had committed lines of credit amounting to ¥15,000 million ($152,656 thousand). None of the committed lines of credit were used.

9. Contingent Liabilities

The Company guarantees trade accounts payable of NIPPON SLIDE CO., LTD., an unconsolidated subsidiary of the Company. The amount of guaranty as of March 31, 2009 was ¥70 million ($708 thousand).

10. Lease

The Companies lease certain machinery, equipment, software, and other assets.

The following information summarizes finance lease contracts that do not transfer ownership of the leased property to the lessee and that were entered into prior to April 1, 2008.

Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases on an "as if capitalized" basis as of March 31, 2008 and 2009 were as follows:

	Millions of yen		
	2008		
	Machinery and equipment	Other	Total
Acquisition costs	¥3,843	¥105	¥3,948
Accumulated depreciation	2,570	44	2,614
Net leased property	¥1,273	¥ 61	¥1,334

	Millions of yen		
	2009		
	Machinery and equipment	Other	Total
Acquisition costs	**¥3,794**	**¥105**	**¥3,899**
Accumulated depreciation	**3,190**	**67**	**3,257**
Net leased property	**¥ 604**	**¥ 38**	**¥ 642**

	Thousands of U.S. dollars		
	2009		
	Machinery and equipment	Other	Total
Acquisition costs	**$38,608**	**$1,069**	**$39,677**
Accumulated depreciation	**32,465**	**679**	**33,144**
Net leased property	**$ 6,143**	**$ 390**	**$ 6,533**

Future minimum lease payments under finance leases as of March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Due within one year	¥ 678	**¥431**	**$4,391**
Due after one year	656	**211**	**2,142**
Total	¥1,334	**¥642**	**$6,533**

Total lease payments under these leases were ¥673 million, ¥731 million, and ¥673 million ($6,854 thousand) for the years ended March 31, 2007, 2008, and 2009, respectively.

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense. Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed using the straight-line method, were ¥673 million, ¥731 million, and ¥673million ($6,854 thousand) for the years ended March 31, 2007, 2008, and 2009, respectively.

Obligations under non-cancelable operating leases as of March 31, 2008 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Due within one year	¥ 654	**¥ 535**	**$ 5,445**
Due after one year	1,521	**1,099**	**11,188**
Total	¥2,175	**¥1,634**	**$16,633**

11. Derivative and Hedging Activities

For the years ended March 31, 2007, 2008, and 2009, the Companies utilized certain interest rate swap, foreign currency swap agreements, and forward foreign currency exchange contracts. Fair value information of such derivative financial instruments as of March 31, 2008 is summarized as follows:

	Millions of yen
Foreign currency forward contract: Purchased-Japanese yen	2008
Contract cost	¥1,491
Fair value	1,509
Unrealized gain	¥ 18

Derivative financial instruments which qualify for the requirement of hedge accounting under Japanese GAAP are excluded from disclosure of fair value information. Since all of the derivative financial instruments qualify the requirement, such information as of March 31, 2009 is not presented.

12. Amortization of Goodwill

Amortization of goodwill included in selling, general and administrative expenses for the years ended March 31, 2007, 2008, and 2009 were ¥19 million, ¥2,755 million, and ¥2,728 million ($27,763 thousand), respectively.

13. Research and Development

Research and development expenses included in cost of sales or selling, general and administrative expenses for the years ended March 31, 2007, 2008, and 2009 were ¥2,616 million, ¥3,550 million, and ¥3,643 million ($37,078 thousand), respectively.

14. Reserve for Employees' Retirement Benefits

The Company and certain subsidiaries have lump-sum retirement payment programs and defined benefit pension plans. When certain qualified employees retire, additional retirement benefits will be paid. Other subsidiaries have mainly defined contribution plans.

The reserve for employees' retirement benefits as of March 31, 2008, and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Projected benefit obligations	¥ 9,035	**¥ 9,690**	**$ 98,613**
Fair value of plan assets	(4,072)	**(3,649)**	**(37,135)**
	4,963	**6,041**	**61,478**
Unrecognized actuarial differences	(968)	**(1,719)**	**(17,489)**
Reserve for employees' retirement benefits	¥ 3,995	**¥ 4,322**	**$ 43,989**

Net periodic pension and severance costs for the years ended March, 2007, 2008, and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2008	2009	2009
Service cost	¥606	¥ 821	**¥ 889**	**$ 9,043**
Interest cost	128	156	**168**	**1,706**
Expected return on plan assets	(17)	(59)	**(57)**	**(576)**
Recognized actuarial differences	110	96	**154**	**1,572**
Net periodic pension and severance costs	¥827	¥1,014	**¥1,154**	**$11,745**

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

	2007	2008	2009
Discount rate	2.0%	2.0%	**2.0%**
Expected rate of return on plan assets	0.5%	1.0%–1.5%	**1.5%**
Amortization of unrecognized actuarial differences	5–10 years	5–18 years	**5–18 years**

Allocation of the projected benefits to service periods is based on the straight-line method.

15. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2007, 2008, and 2009.

At March 31, 2008 and 2009, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2009**	**2009**
Deferred tax assets:			
Reserve for employees' retirement benefits	¥ 1,561	**¥ 1,696**	**$ 17,256**
Loss on devaluation of inventories	1,205	**1,247**	**12,692**
Tax loss carried forward	520	**1,034**	**10,522**
Valuation loss of investments in subsidiaries	954	**954**	**9,707**
Accrued bonuses to employees	1,098	**689**	**7,011**
Unrealized gain on intercompany sales of property, plant and equipment	635	**476**	**4,842**
Retirement benefits payable to directors and statutory auditors	420	**418**	**4,251**
Impairment losses	368	**368**	**3,742**
Software	372	**297**	**3,022**
Allowance for bad debts	146	**186**	**1,895**
Unrealized gain on intercompany sales of inventories	576	**177**	**1,191**
Enterprise tax payable	55	**79**	**804**
Other	924	**1,328**	**13,533**
Total	8,834	**8,889**	**90,468**
Less: valuation allowance	(1,325)	**(2,447)**	**(24,904)**
Total deferred tax assets	7,509	**6,442**	**65,564**
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(2,255)	**(2,022)**	**(20,577)**
Unrealized gains on land revaluation	(1,422)	**(1,422)**	**(14,473)**
Insurance premium	(456)	**(518)**	**(5,271)**
Special depreciation reserve for tax purpose	(202)	**(193)**	**(1,962)**
Other	(825)	**(722)**	**(7,355)**
Total deferred tax liabilities	(5,160)	**(4,877)**	**(49,638)**
Net deferred tax assets	¥ 2,349	**¥ 1,565**	**$ 15,926**

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2007, 2008, and 2009 was as follows:

	2007	2008	**2009**
Normal effective statutory tax rate	40.7%	40.7%	**40.7%**
Permanent differences	0.1	(3.1)	**0.8**
Net operating losses of consolidated subsidiaries	0.6	0.9	**18.3**
Amortization of goodwill	—	4.2	**17.5**
Amortization of negative goodwill	(0.8)	(1.0)	**(6.9)**
Lower tax rates applicable to foreign subsidiaries	(1.2)	(1.6)	**(7.7)**
Exemption for research and development	(0.6)	(0.9)	**(3.8)**
Valuation allowance	—	(0.4)	**(17.8)**
Changes in tax consequences on devaluation of investments in consolidated subsidiaries	—	(6.1)	**0.7**
Other	(0.3)	(2.0)	**1.0**
Actual Effective tax rate	38.5%	30.7%	**78.4%**

16. Supplemental Cash Flow Information

1) Cash and cash equivalents on the consolidated statements of cash flows consisted of:

	Millions of yen			Thousands of U.S. dollars
	2007	2008	**2009**	**2009**
Cash and bank deposits	¥48,912	¥48,162	**¥64,130**	**$652,657**
Short-term investments in securities	43,041	1,648	**—**	**—**
Cash and cash equivalents	¥91,953	¥49,810	**¥64,130**	**$652,657**

2) Significant acquisition

The following table summarizes the acquisition of Rhythm Corporation in 2008:

	Millions of yen
Current assets	¥ (9,707)
Non-current assets	(14,028)
Goodwill	(13,511)
Current liabilities	7,455
Long-term liabilities	16,708
Acquisition cost	(13,083)
Cash and cash equivalents held by Rhythm Corporation and their seven subsidiaries	953
Acquisition of a newly consolidated subsidiary, net of cash acquired	¥(12,130)

No significant acquisition occurred in the year ended March 31, 2007 and 2009.

3) Significant non-cash transactions

In the years ended March 31, 2007 and 2008, a portion of convertible bonds were converted into the Company's common stock, resulting in increases in the Company's common stock and additional paid-in capital. The following table summarizes the effect of the conversion:

	Millions of yen	
	2007	2008
Common stock increased	¥182	¥ 690
Additional paid-in capital increased	182	690
Convertible bonds decreased	¥364	¥1,380

All of the convertible bonds had been redeemed as of March 31, 2008 and no balance remained.

17. Per Share Information

Per share information for the years ended March 31, 2007, 2008, and 2009, and as of March 31, 2008 and 2009 are as follows:

	Yen			U.S. dollars
	2007	2008	**2009**	**2009**
Net income–basic	¥ 158.36	¥ 139.53	**¥ 9.36**	**$ 0.10**
Net income–diluted	¥ 157.22	¥ 138.74	**¥ —**	**$ —**
Net assets	¥1,407.84	¥1,484.78	**¥1,372.69**	**$13.97**

Diluted net income per share for the year ended March 31, 2009 is not presented since the Company did not have any kind of securities with potential dilutive effect.

18. Segment Information

1) Business Segment Information

Prior to April 1, 2007, the Companies had engaged mainly in one segment, namely, production and sales of linear motion systems. Since the other businesses had been insignificant, the business segment information had not been presented for or before the year ended March 31, 2007. Effective April 1, 2007, the Companies' business segmentation was reorganized into following two business segments, namely, (1) Industrial Equipment-Related Business and (2) Transportation Equipment-Related Business, due to acquisition of RHYTHM CORPORATION.

Major products in each business segment are as follows:

Industrial Equipment-Related Business — LM SYSTEM and other

Transportation Equipment-Related Business — Link Ball and Suspension Ball Joint and other

Business segment information for the years ended March 31, 2008 and 2009 is summarized as follows:

	Millions of yen				
	2008				
	Industrial Equipment-Related Business	Transportation Equipment-Related Business	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–					
Net sales:					
Customers	¥168,287	¥40,422	¥208,709	¥ —	¥208,709
Inter-segment	—	—	—	—	—
Total	168,287	40,422	208,709	—	208,709
Operating expenses	132,004	42,642	174,646	7,125	181,771
Operating income (loss)	¥ 36,283	¥ (2,220)	¥ 34,063	¥ (7,125)	¥ 26,938
II. Assets, depreciation and amortization, impairment losses and capital expenditure–					
Assets	¥177,478	¥42,229	¥219,707	¥44,522	¥264,229
Depreciation and amortization	¥ 7,805	¥ 2,272	¥ 10,077	¥ 61	¥ 10,138
Impairment losses	¥ 1	¥ 136	¥ 137	¥ —	¥ 137
Capital expenditure	¥ 14,511	¥ 3,363	¥ 17,874	¥ 127	¥ 18,001

	Millions of yen				
	2009				
	Industrial Equipment-Related Business	Transportation Equipment-Related Business	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–					
Net sales:					
Customers	**¥144,336**	**¥34,933**	**¥179,269**	**¥ —**	**¥179,269**
Inter-segment	**—**	**—**	**—**	**—**	**—**
Total	**144,336**	**34,933**	**179,269**	**—**	**179,269**
Operating expenses	**124,401**	**39,459**	**163,860**	**6,886**	**170,746**
Operating income (loss)	**¥ 19,935**	**¥ (4,526)**	**¥ 15,409**	**¥ (6,886)**	**¥ 8,523**
II. Assets, depreciation and amortization, impairment losses and capital expenditure–					
Assets	**¥145,418**	**¥31,599**	**¥177,017**	**¥ 63,334**	**¥240,351**
Depreciation and amortization	**¥ 8,152**	**¥ 2,415**	**¥ 10,567**	**¥ 70**	**¥ 10,637**
Impairment losses	**¥ 934**	**¥ —**	**¥ 934**	**¥ —**	**¥ 934**
Capital expenditure	**¥ 12,321**	**¥ 3,561**	**¥ 15,882**	**¥ 98**	**¥ 15,980**

	Thousands of U.S. dollars				
	2009				
	Industrial Equipment-Related Business	Transportation Equipment-Related Business	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–					
Net sales:					
Customers	$1,468,922	$ 355,513	$1,824,435	$ —	$1,824,435
Inter-segment	—	—	—	—	—
Total	1,468,922	355,513	1,824,435	—	1,824,435
Operating expenses	1,266,045	401,576	1,667,621	70,072	1,737,693
Operating income (loss)	$ 202,877	$ (46,063)	$ 156,814	$ (70,072)	$ 86,742
II. Assets, depreciation and amortization, impairment losses and capital expenditure–					
Assets	$1,479,931	$ 321,589	$1,801,520	$644,547	$2,446,067
Depreciation and amortization	$ 82,961	$ 24,580	$ 107,541	$ 710	$ 108,251
Impairment losses	$ 9,503	$ —	$ 9,503	$ —	$ 9,503
Capital expenditure	$ 125,389	$ 36,245	$ 161,634	$ 998	$ 162,632

Operating expenses incurred mainly in administrative departments are included in "Eliminations and corporate" since they cannot be allocated into specific segments. The aggregate amounts of such operating expenses for the years ended March 31, 2008 and 2009 were 7,125 million and ¥6,886 million ($70,072 thousand), respectively.

Corporate assets which cannot be allocated into specific segments are included in "Eliminations and corporate". Such corporate assets primarily consist of term deposits, investment securities, deferred tax assets and land. At March 31, 2008 and 2009, the aggregate amounts of such assets were ¥44,522 million and ¥63,334 million ($644,547 thousand), respectively.

The effect of adopting the new accounting standard for measurement of inventories as discussed in Note 3 (c) was to decrease operating income in Industrial Equipment-Related Business by ¥568 million ($5,780 thousand) and operating income in Transportation Equipment-Related Business by ¥131 million ($1,334 thousand), respectively.

2) Geographical Segment Information

Principal countries and jurisdictions in each 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.

Geographical segment information for the years ended March 31, 2007, 2008, and 2009 is summarized as follows:

	Millions of yen						
	2007						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–							
Net sales:							
Customers	¥130,352	¥16,525	¥19,516	¥ 8,318	¥174,711	¥ —	¥174,711
Inter-segment	25,207	60	97	1,948	27,312	(27,312)	—
Total	155,559	16,585	19,613	10,266	202,023	(27,312)	174,711
Operating expenses	125,390	16,213	18,798	9,396	169,797	(26,902)	142,895
Operating income	¥ 30,169	¥ 372	¥ 815	¥ 870	¥ 32,226	¥ (410)	¥ 31,816
II. Assets	¥195,603	¥17,681	¥21,252	¥23,012	¥257,548	¥ 5,733	¥263,281

	Millions of yen						
	2008						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–							
Net sales:							
Customers	¥145,745	¥25,473	¥25,427	¥12,064	¥208,709	¥ —	¥208,709
Inter-segment	34,577	59	97	2,494	37,227	(37,227)	—
Total	180,322	25,532	25,524	14,558	245,936	(37,227)	208,709
Operating expenses	152,412	24,093	22,032	13,262	211,799	(30,028)	181,771
Operating income	¥ 27,910	¥ 1,439	¥ 3,492	¥ 1,296	¥ 34,137	¥ (7,199)	¥ 26,938
II. Assets	¥211,029	¥21,044	¥19,314	¥31,378	¥282,765	¥(18,536)	¥264,229

	Millions of yen						
	2009						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–							
Net sales:							
Customers	**¥115,282**	**¥23,922**	**¥24,888**	**¥15,177**	**¥179,269**	**¥ —**	**¥179,269**
Inter-segment	**45,946**	**55**	**74**	**5,178**	**51,253**	**(51,253)**	**—**
Total	**161,228**	**23,977**	**24,962**	**20,355**	**230,522**	**(51,253)**	**179,269**
Operating expenses	**147,575**	**22,625**	**23,913**	**20,034**	**214,147**	**(43,401)**	**170,746**
Operating income	**¥ 13,653**	**¥ 1,352**	**¥ 1,049**	**¥ 321**	**¥ 16,375**	**¥ (7,852)**	**¥ 8,523**
II. Assets	**¥117,888**	**¥11,568**	**¥11,462**	**¥25,410**	**¥166,328**	**¥74,023**	**¥240,351**

	Thousands of U.S. dollars						
	2009						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–							
Net sales:							
Customers	$1,173,231	$243,459	$253,283	$154,462	$1,824,435	$ —	$1,824,435
Inter-segment	467,593	561	760	52,693	521,607	(521,607)	—
Total	1,640,824	244,020	254,043	207,155	2,346,042	(521,607)	1,824,435
Operating expenses	1,501,880	230,256	243,369	203,887	2,179,392	(441,699)	1,737,693
Operating income	$ 138,944	$ 13,764	$ 10,674	$ 3,268	$ 166,650	$ (79,908)	$ 86,742
II. Assets	$1,199,759	$117,733	$116,652	$258,593	$1,692,737	$ 753,330	$2,446,067

Prior to April 1, 2007, all of operating expenses incurred in the Company have been included in the Japan segment. Effective April 1, 2007, expenses incurred in the administrative departments of the Company have been reclassified into “Eliminations and corporate” in order to reflect actual operating performances of each segment more accurately. This change was made because the Company’s control functions over its subsidiaries were strengthened by reorganizing its group-level administrative systems through developing its internal controls. The aggregate amounts of such operating expenses for the years ended March 31, 2008 and 2009 were 7,125 million and of ¥6,886 million ($70,072 thousand), respectively. The segment information for the year ended March 31, 2007 is presented in accordance with the previous accounting treatment since such accounting change does not require a retroactive adjustment to the prior year financial statements under Japanese GAAP.

Corporate assets which cannot be allocated into specific segments are included in “Eliminations and corporate”. Such corporate assets primarily consist of term deposits, investment securities, deferred tax assets and land. At March 31, 2008 and 2009, the aggregate amounts of such assets were ¥44,522 million and ¥63,334 million ($644,547 thousand), respectively.

The effect of adopting the new accounting standard for measurement of inventories as discussed in Note 3 (c) was to decrease operating income in Japan segment by ¥699 million ($7,114 thousand) for the year ended March 31, 2009.

3) Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2007, 2008, and 2009 were summarized as follows:

	Millions of yen			
	2007			
	The Americas	Europe	Asia and other	Total
Sales to foreign customers	¥16,650	¥19,345	¥19,203	¥ 55,198
Consolidated net sales				¥174,711
Ratio to consolidated net sales	9.5%	11.1%	11.0%	31.6%

	Millions of yen			
	2008			
	The Americas	Europe	Asia and other	Total
Sales to foreign customers	¥26,000	¥25,237	¥21,150	¥ 72,387
Consolidated net sales				¥208,709
Ratio to consolidated net sales	12.5%	12.1%	10.1%	34.7%

	Millions of yen (Thousands of U.S. dollars)			
	2009			
	The Americas	Europe	Asia and other	Total
Sales to foreign customers	**¥23,266**	**¥24,916**	**¥21,521**	**¥ 69,703**
	($236,785)	**($253,571)**	**($219,016)**	**($ 709,372)**
Consolidated net sales				**¥179,269**
				($1,824,435)
Ratio to consolidated net sales	**13.0%**	**13.9%**	**12.0%**	**38.9%**

Grant Thornton

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Report of Independent Auditors

To the Board of Directors and Shareholders of THK Co., Ltd.

We have audited the accompanying consolidated balance sheets of THK Co., Ltd. and its subsidiaries as of March 31, 2008 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2009, 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, 2008 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

As described in Note 3(e), effective April 1, 2008, the Company adopted a new accounting standard for measurement of inventories.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of readers, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

Grant Thronton Taiyo ASG

Tokyo, Japan
June 22, 2009