THK

Annual Report 2007

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COMPANY PROFILE

THK pioneered the development of the world's first linear motion (LM) guide, a vital machinery component. Today, the LM guides made by THK command a leading share of the global market.

LM guides are a critical element in many types of machinery. By converting slippage into controlled rotary motion, they enable parts of machinery to move smoothly, easily and precisely in a straight line. Since their original adoption by the U.S. machine tool industry, LM guides have made a major contribution to industrial development by facilitating increased precision and acceleration while reducing the need for labor. They have been used in various different types of machinery, such as machine tools, industrial robots and semiconductor production equipment. In recent years the scope of practical applications for LM guides has widened further to include CT scanners, magnetic resonance imaging (MRI) machines and other high-tech medical equipment; automobiles, reflecting the increased demand for eco-friendly features and improved performance; rolling stock; and seismic isolation devices, which aim to protect life and property from the effects of earthquakes.

THK's business philosophy is "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society." This thinking has guided our drive to be a creative development-driven enterprise, enabling us to develop a stream of original products since our establishment in 1971. Our success in developing a new generation of LM guides with caged ball technology, realized in 1996, helped to promote the adoption of these products in various fields. LM guides based on caged ball technology not only provide customers with the benefit of long-term, maintenance-free use, but also have made a significant contribution to the development of high-speed, low-noise industrial machinery that generate less dust and have longer productive lives.

Today we remain focused on expanding our business into new domains based on the Fiscal 2010 Vision, a plan that we formulated in fiscal 2000 to prepare for our 30th anniversary. Our long-term management target is to grow based on the two main pillars of "Full-Scale Globalization" and "Development of New Business Areas." Our consolidated net sales target for fiscal 2010 is ¥300 billion. Under the pillar of "Full-Scale Globalization," we are working to optimize production by locating facilities closer to demand centers. To this end, we are strengthening our production capabilities in the four key geographic regions of Japan, the Americas, Europe and Asia. At the same time, we are reinforcing sales capabilities in each region while working to integrate sales and manufacturing functions more closely. Profitability continues to improve steadily as a result.

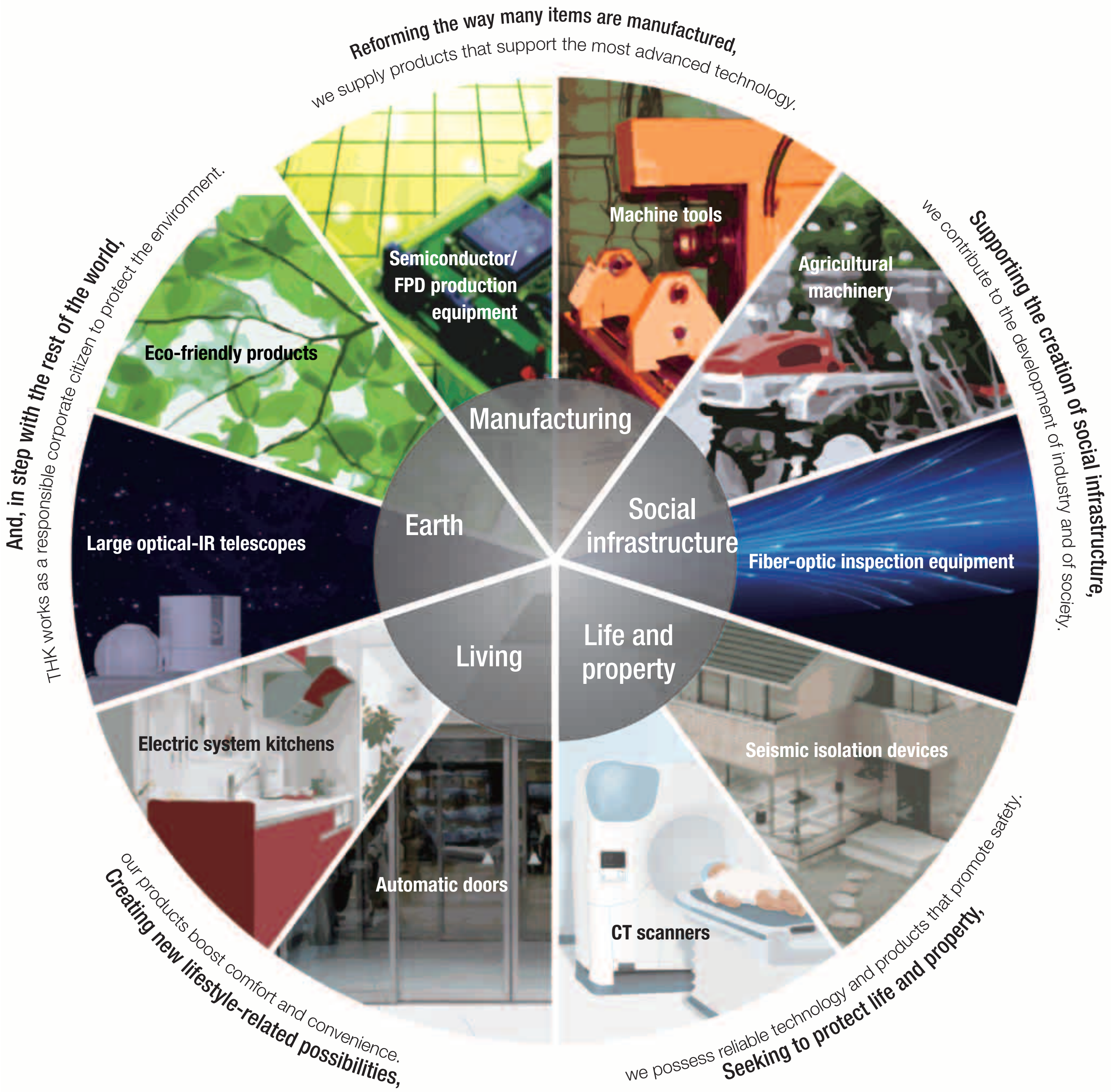
Within the pillar of "Development of New Business Areas," we aim to expand applications within consumer-related sectors. To this end, we have set up a number of specialist divisions. These include the FAI Division, which is working to increase business with automakers through the development of new components, and the ACE Division, which produces seismic isolation devices for protecting people and property from the effects of earthquakes.

THK is a creative development-driven enterprise dedicated to the creation of original concepts and innovative technology. As such, we continue to work toward the achievement of our Fiscal 2010 Vision so that we can make a broad contribution to the betterment of society.

Contents

THIS IS THK

You would probably not notice many THK products in your daily life.
But THK products such as LM guides, ball screws, ball splines and cross roller rings are a dynamic force in many fields, from the factory floor to residential environments.



Disclaimer concerning forward-looking statements
Management plans, performance forecasts, business strategies and other items in this annual report that rely on future projections reflect the judgment of THK management, based on the best information available at the time of the report's production. Actual performance and progress relative to strategic plans may differ from forecasts depending on various changes in the business environment and other factors.

CONSOLIDATED PERFORMANCE OVERVIEW

Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2006	**2007**	**2007**
Net Sales	¥ 94,600	¥ 119,254	¥ 147,158	¥ 158,413	**¥ 174,711**	**$ 1,479,473**
Japan	65,280	85,344	105,555	112,245	**119,513**	**1,012,052**
The Americas	10,775	10,436	12,888	14,108	**16,650**	**140,993**
Europe	10,780	12,739	15,340	16,199	**19,345**	**163,814**
Asia and other	7,765	10,735	13,375	15,861	**19,203**	**162,614**
Cost of Sales	66,647	77,932	93,551	100,491	**109,569**	**927,842**
Gross Profit	27,953	41,322	53,607	57,922	**65,142**	**551,631**
Selling, General and Administrative Expenses	23,060	25,090	27,633	30,842	**33,326**	**282,213**
Operating Income	4,893	16,232	25,974	27,080	**31,816**	**269,418**
Income before Income Taxes and Minority Interest	3,597	15,521	26,845	30,566	**34,524**	**292,355**
Income Taxes	1,773	6,926	9,442	11,636	**13,317**	**112,772**
Net Income	1,892	8,584	17,348	18,584	**21,038**	**178,155**

	Yen					U.S. dollars (Note 1)
Per Share Data:	2003	2004	2005	2006	**2007**	**2007**
Net Income — basic	¥ 15.65	¥ 72.27	¥ 145.31	¥ 148.42	**¥ 158.36**	**$ 1.341**
Net Income — diluted	15.12	63.69	130.05	137.97	**157.22**	**1.331**
Net Assets (Note 3)	860.80	923.35	1,067.42	1,266.39	**1,407.84**	**11.922**

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2006	**2007**	**2007**
Total Assets	¥ 193,197	¥ 191,105	¥ 220,008	¥ 244,385	**¥ 263,281**	**$ 2,229,492**
Net Assets (Note 3)	102,478	109,182	127,650	169,792	**189,040**	**1,600,807**
Capital Expenditures	4,611	6,307	12,425	9,719	**16,428**	**139,117**
Depreciation	5,529	5,005	5,343	5,856	**6,743**	**57,106**
R&D Expenses	2,104	2,520	2,686	2,684	**2,616**	**22,149**

	2003	2004	2005	2006	**2007**
Operating Margin (%)	5.2	13.6	17.7	17.1	**18.2**
Net Margin (%)	2.0	7.2	11.8	11.7	**12.0**
Return on Equity (%)	1.8	8.1	14.7	12.6	**11.8**
Return on Assets (%) (Note 2)	2.7	8.5	12.8	11.8	**12.8**
Equity Ratio (%)	53.0	57.1	58.0	68.9	**71.1**
Asset Turnover Ratio (times)	0.51	0.62	0.72	0.68	**0.69**

Note 1: Throughout this report, U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥118.09 = U.S.$1, the approximate rate of exchange prevailing in Tokyo on March 30, 2007.

Note 2: Return on assets is calculated by dividing the sum of operating income plus interest and dividend income by the average value of total assets over the fiscal year.

Note 3: With respect to the calculation of net assets, effective from the year ended March 31, 2007, THK began applying *"ASBJ No. 5 - Accounting Standard for Presentation of Net Assets in the Balance Sheet"*, and *"ASBJ Guidance No. 8 - Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet"*. As a result, minority interest account was reclassified to the net asset section of the Consolidated Balance Sheets.

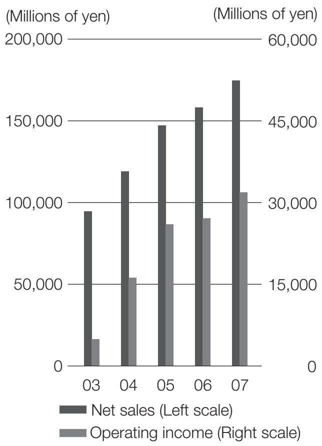
Financial highlights

- THK achieved record-high consolidated sales and profits for the third year running in fiscal 2006, the year ended March 31, 2007. Net sales amounted to ¥174.7 billion, generating operating income of ¥31.8 billion and net income of ¥21.0 billion.
- The operating margin was 18.2%, increasing by 1.1 percentage points compared with the previous year. Higher sales, which helped to boost capacity utilization and manufacturing productivity, effectively absorbed an increase in operating costs arising from front-loaded investments aimed at reinforcing sales and production capabilities.

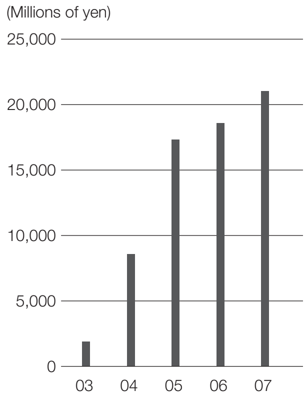
Business highlights

- In Japan, operations began at a third production facility at the Yamagata Plant as well as a third production site at THK NIIGATA CO., LTD. Moves to rationalize domestic market distribution made further progress with the opening of the Chubu Distribution Center.
- In the Americas, sales activities focused on expanding business with existing customers while also seeking to gain new customers. Business expanded in the machine tool, general machinery and electronics sectors.
- In Europe, business grew across a broad range of sectors. Besides general machinery, these included the machine tool, electronics and transport equipment sectors.
- In Asia, operations commenced at a second production facility at THK MANUFACTURING OF CHINA (WUXI) CO., LTD. and at THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. The supply infrastructure for the Asian market was strengthened, especially in China. Moreover, THK (CHINA) CO., LTD. initiated direct sales to local customers in August 2006. As part of building a sales structure to serve markets in ASEAN countries and other nations within the region, THK established THK LM SYSTEM Pte. Ltd. as a local sales subsidiary in Singapore.

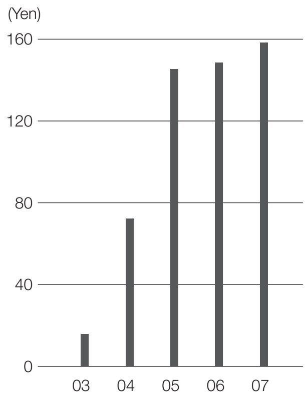
Net Sales/Operating Income



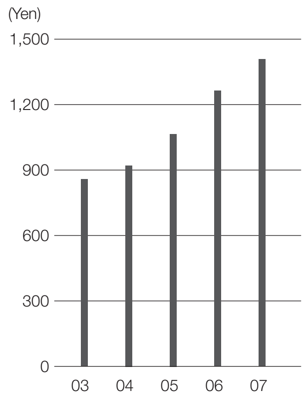
Net Income



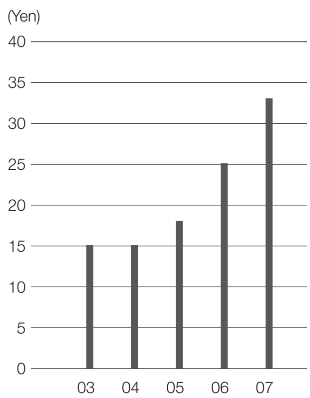
Net Income per Share



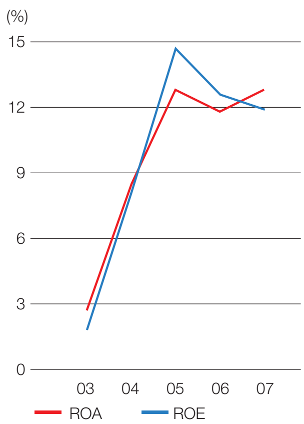
Total Assets per Share



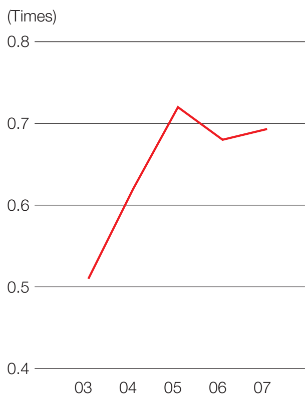
Cash Dividends per Share



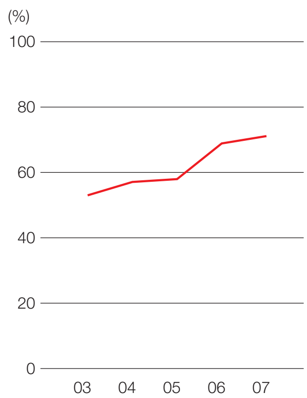
ROA/ROE



Asset Turnover Ratio



Equity Ratio



Years ended March 31

Back in fiscal 2000, when we were preparing to celebrate the 30th anniversary of THK's establishment, we formulated a long-term management target in the form of the Fiscal 2010 Vision.
We set an aggressive target of doubling our sales within ten years, to reach ¥300 billion at the consolidated level by fiscal 2010.
Since then we have harnessed all of our efforts to attaining this goal.
Now we have finally reached the stage where the goal is within reach.

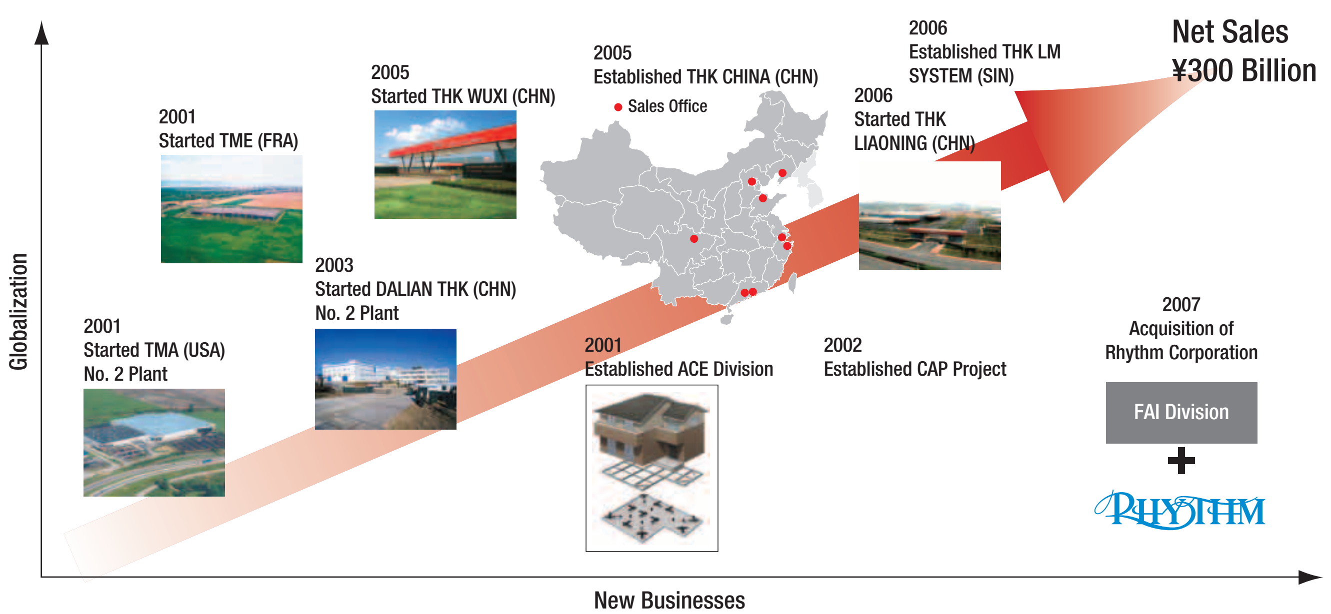
Five years of sales and profit growth and three straight years of record performance

In fiscal 2006, the year ended March 31, 2007, we posted consolidated net sales of ¥174.7 billion, a 10.3% increase over the previous year. Operating income rose 17.5% in year-on-year terms, to ¥31.8 billion, while net income increased 13.2% to ¥21.0 billion. These figures represented the fifth successive year of increased sales and profits. We also achieved record-high sales and profits for the third year running.

Since fiscal 2001, with the aim of raising consolidated net sales to ¥300 billion in line with the Fiscal 2010 Vision, we have made considerable progress in expanding our business into new domains through an aggressive combination of full-scale globalization and development of new business areas. Although we did benefit from generally favorable global economic conditions, I believe that our fiscal 2006 performance is the direct result of positive effects arising from the initiatives that we have undertaken over the past six years.

In fiscal 2006 we also strengthened our systems further with a view to attaining the goals in the Fiscal 2010 Vision. In China, where the economy continued to grow at a fast pace, we established four new sales branches and commenced operations at a second plant at THK MANUFACTURING OF CHINA (WUXI) CO., LTD. as well as at a new plant at THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. In doing so, we made further substantial progress in expanding our sales capabilities and production capacity in China. In December 2006, we established THK LM SYSTEM Pte. Ltd. as a sales subsidiary based in Singapore to strengthen our sales set-up targeting customers in ASEAN countries. We also made steady progress in developing new regional markets. In Europe, we built up our sales infrastructure to serve markets in Eastern Europe and Turkey, while in the Americas we continued to make steady progress in developing markets in Canada and Mexico.

Towards Achieving the Fiscal 2010 Vision



President and CEO Akihiro Teramachi

The Fiscal 2010 Vision

We formulated the Fiscal 2010 Vision in fiscal 2000 as part of preparations for the 30th anniversary of THK's establishment. We set an aggressive long-term management target of doubling consolidated net sales within ten years, to reach ¥300 billion in fiscal 2010. To achieve this goal, we adopted a two-pronged strategy of expanding our business domain along two axes: the adoption of THK products across more geographic regions, which we called "Full-Scale Globalization;" and the expansion of the range of THK product applications, a drive we referred to as "Development of New Business Areas."

Within "Full-Scale Globalization," our aim is to raise the proportion of overseas sales to 50% by fiscal 2010. We have divided the global market into the four core regions of Japan, the Americas, Europe and Asia. We are building up our production and sales systems in each of these core regions. Our overseas sales ratio in fiscal 2006 was around 30%. Even in our core business within the capital goods sector, it stands to reason that markets outside Japan must be larger than the Japanese market alone. I believe that the sales potential for LM guides and other THK products in these markets remains huge.

Within "Development of New Business Areas," our goal has been to build up our business in sectors more closely related to consumer goods. Currently, most of THK's business remains with manufacturers of capital goods such as machine tools, industrial robots and semiconductor production equipment. While we expect to generate fast growth going forward within these industrial sectors, the flipside of our concentration in these areas is that our business is highly influenced by capital investment trends. We are therefore devoting efforts to develop THK's business in consumer goods-related sectors so that we can achieve stable future growth in sales. Specifically, we are building up this side of the business through a number of separate operating units. These include the FAI Division, which is developing automotive parts to contribute to

enhanced vehicle safety and comfort, and the ACE Division, which is in charge of developing seismic isolation devices as products for protecting people, buildings and home fixtures from the effects of earthquakes.

Accelerating business development in new sectors

To accelerate the development of our business within new sectors, on May 31, 2007 we acquired all of the shares in Rhythm Corporation, a Japanese company involved in the development, design, manufacture and sale of steering parts, suspension parts and other automotive components. Rhythm is now a wholly owned subsidiary of THK. We see Rhythm as a complementary and mutually reinforcing fit with THK in many areas of technology and sales. For instance, while Rhythm's clients are based in Japan, THK has developed an international customer base. Together, we can focus on increasing sales volumes through our expanded sales network.

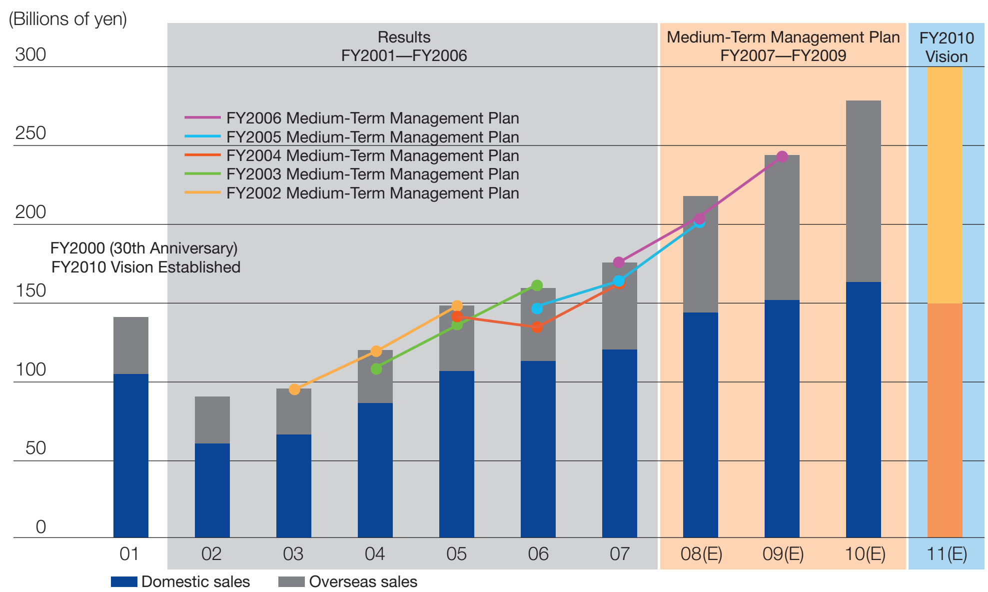
The fit is also excellent in technical terms. Rhythm possesses first-class forging technology for mass production of parts with extremely stable quality. THK possesses cutting-edge casting technology for aluminum die-cast production. By combining these two technologies, we can develop new, highly competitive products. Another benefit of this merger is that Rhythm's forging technology will also enable us to expand our existing business targeting manufacturers of capital goods.

From fiscal 2007, we plan to report the results achieved by the FAI Division and Rhythm in a new business segment called "transport equipment parts." Our business vision in this sector is to target first-tier supplier status by providing products that are regarded as global benchmarks and by offering our customers guarantees of unrivaled quality in terms of zero defects and delivery problems plus novel technological possibilities. Our target for fiscal 2010 is to achieve ¥70 billion in segment sales, which is roughly double the current figure.

Attainment of Fiscal 2010 Vision now within reach

We are formulating more specific medium-term management plans as we target the attainment of the long-term management target contained in the Fiscal 2010 Vision. We intend to use rolling three-year plans so that we can factor in

Medium-Term Management Plan Virtually Achieved by FY2006



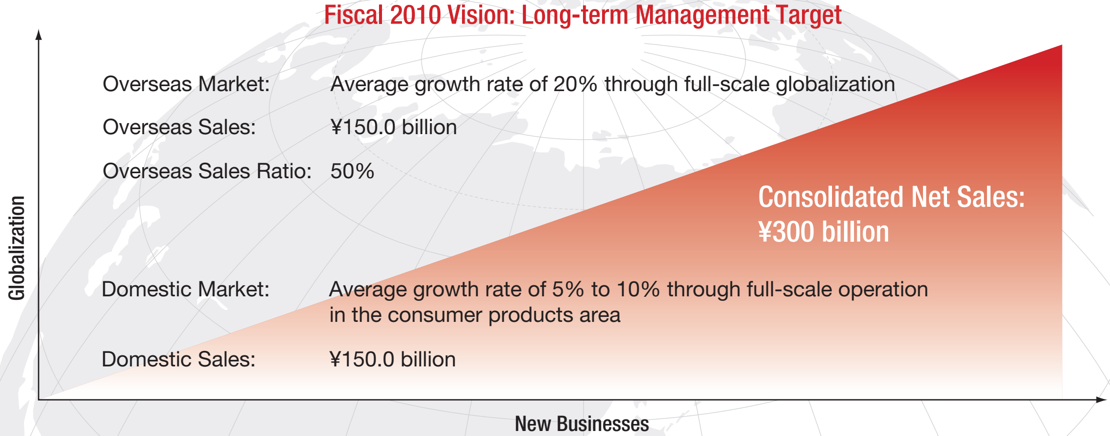
Years to March 31

Fiscal 2010 Vision

Outline of Fiscal 2010 Vision

The Fiscal 2010 Vision describes a long-term management target that THK announced in April 2001 to prepare for the Company's 30th anniversary. This vision mapped out the direction for THK over the next ten years. It named "Full-Scale Globalization" and "Development of New Business Areas" as the two targeted means of expanding THK products into new business domains to achieve stable growth in sales, irrespective of trends in particular geographic regions or industries. The consolidated net sales target for fiscal 2010 was set at ¥300 billion.

Fiscal 2010 Vision: Long-term Management Target



"Full-Scale Globalization"

THK is working to optimize production by locating facilities closer to demand centers. This involves reinforcing the integration of sales and manufacturing functions in the four key geographic regions of Japan, the Americas, Europe and Asia. THK aims to generate sales outside Japan of ¥150 billion by fiscal 2010 (for an overseas sales ratio of 50%), compared with a figure of ¥36.2 billion (25.8%) in fiscal 2000.

In fiscal 2006, THK recorded sales outside Japan of ¥55.2 billion, with an overseas sales ratio of 31.6%. However, THK also made steady progress in terms of strengthening the overseas set-up as the platform for faster growth going forward. Production bases in Europe and the United States are now in full-scale operation; production facilities in China are steadily progressing from recent start-ups; THK's sales reach within overseas markets has expanded considerably; and overseas management capabilities have been increased with the establishment of a local subsidiary to manage operations in China.

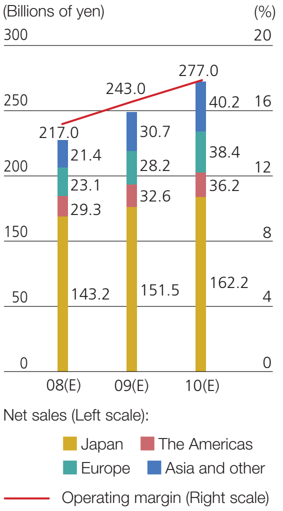
"Development of New Business Areas"

THK's aim is to broaden the business base into consumer goods and related sectors to balance the current focus on capital goods sectors such as machine tools, industrial robots and semiconductor production equipment. We have already established businesses in areas such as automotive components, seismic isolation devices and parts for consumer appliances.

Overview of New Business Development Divisions

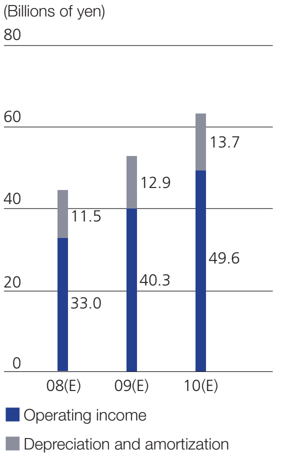
FAI Division	The THK Group manufactures and sells parts that contribute to higher automotive safety.
ACE Division	THK focuses on the manufacture and sale of seismic isolation devices that protect people and property from the threat of earthquakes.
CAP Project	THK is developing new markets for products with consumer-related applications.
MRC Center	THK is developing cutting-edge technology in areas such as surgical assistance robots.

Domestic and Overseas Net Sales



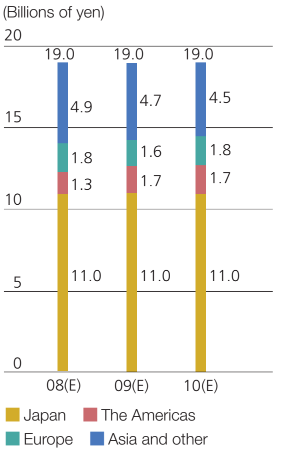
Years ending March 31

Operating Income/ Depreciation and Amortization



Years ending March 31

Capital Expenditures



Years ending March 31

the progress made in the previous fiscal year and any changes in the operating environment on an annual basis. In the past, we have tended to revise our medium-term management plans upward, and we have generally come close to achieving the upwardly revised targets. In this way we have made steady, incremental progress toward the achievement of the Fiscal 2010 Vision. In the three-year medium-term management plan that we announced in June 2007, we set a target of ¥277 billion for consolidated net sales in fiscal 2009, the plan's final year. I believe that the attainment of the Fiscal 2010 Vision is now finally within reach.

For fiscal 2007, the first year of the new plan, we are targeting consolidated net sales of ¥217.0 billion, a year-on-year increase of 24.2%, and a 3.7% gain in operating income to ¥33.0 billion. These figures would represent new record highs for the fourth successive year and enable us to make further steady progress toward achieving the Fiscal 2010 Vision. We are also planning to spend ¥19.0 billion on capital investments, another projected record. The dip in projected profit growth is due to the fact that we plan to amortize goodwill arising from the Rhythm acquisition over a five-year period starting in fiscal 2007. However, we expect to maintain a high level of profitability on a cash-flow basis.

Greater group-level awareness

In targeting further growth, I believe that we also cannot afford to ignore the qualitative changes in customer requirements across sectors. Our existing customers mainly look for high-precision machining, high rigidity and compact design from THK products. However, the THK product range is also evolving in new directions to cater to different customer needs, as demonstrated by the larger products in our range such as seismic isolation devices.

This demonstrates the point that perhaps our greatest risk is to be satisfied with the status quo or to stop trying to grow. Critically, therefore, we must do two things: first, respond to such changes in customer needs by developing, producing and selling appropriate products to meet new requirements; and, second, try to anticipate the future needs of our customers by overturning traditional concepts to create novel THK products that offer truly original value.

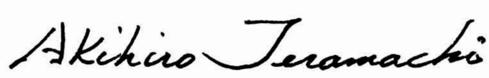
To this end, I believe that we must further deepen awareness across the THK Group of the need to develop business activities along multiple dimensions. For 2007, we have defined the three keywords for THK business activities as speed, flexibility and quality. We cannot afford to leave any one of these out. We must aim to realize all three simultaneously. By making progress along all three dimensions, THK can evolve to a higher level. And I believe that the view from that elevated point will be quite different from what we see today.

A commitment to constant reform and innovation

At THK, we do not operate our business in a market that is limited in scope. We continue to expand our business by focusing on full-scale globalization of our operations alongside the development of new business areas. To this end, we aim to meet the expectations of all THK shareholders by seeking to maximize the value of the Company through aggressive re-investment of earnings. At the same time, however, we plan to base business development on the assumption of making stable and sustained dividend payments. In this way, we aim to return profits to shareholders that are commensurate with the performance of the business. Based on this thinking, in fiscal 2006 we elected to pay cash dividends of ¥33 per share, an increase of ¥8 over cash dividends of ¥25 per share recorded in fiscal 2005.

Our business philosophy is "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society." We believe that building corporate value through constant reform and innovation is our best way to make a positive contribution to the development of society, thus enriching shareholders as well as other stakeholders.

I ask THK stakeholders to share our confidence in the future prosperous development of the Company.



Akihiro Teramachi
President & CEO
THK CO., LTD.

Fiscal 2010 Vision: Targeting the Goal

Achieving the goal of ¥300 billion in consolidated net sales specified in the Fiscal 2010 Vision involves honing THK's particular strengths.

Honing THK's particular strengths

The world's leading manufacturer of LM guides

One of the key strengths of THK is our leading position in the global market for LM guides, products that are vital parts of machinery by virtue of the way they introduce a rolling component to linear motion. Global leadership in this market translates not only into economies of scale, but also allows us to gain a greater share of customer feedback. This means that we operate on the frontline in terms of assessing the implications of evolving customer needs.

To date, THK has been highly proactive in developing and commercializing a stream of products that cater to a broad variety of such requirements. This has enabled us to develop strong trust with our customers, which in turn has helped us maintain our position as the world's top LM guide manufacturer.

Besides using the feedback from many customers internally, we also try to develop products that anticipate the requirements of customers five or even ten years ahead. Such efforts enable us to boost our competitiveness. Going forward, our aim is to continue to hone the value of the THK brand, which rests on our status as the world's leading manufacturer of LM guides.

First-mover advantage

Years of technical research are required to create products that must operate under harsh usage conditions with extremely high degrees of precision. The fact that we pioneered the development of LM guides proves that THK is a creative development-driven enterprise. And, as such, we have continued to refine our technical edge. The technical accomplishments gained over many years are arguably what make THK's products competitive today. This is why we continue to invest in our R&D programs, to ensure that we continue to exploit our technical superiority as a pioneer.

Besides being a critical part of our achieving the Fiscal 2010 Vision, the drive to develop new business areas will also translate into other future strengths for THK. Not only will we derive first-mover advantage by being the only company to exploit a particular market early on, but the fact that we can demonstrate leadership in the creation of new markets will also become a part of our corporate DNA—an intangible strength in itself.

Our practical skills on the ground

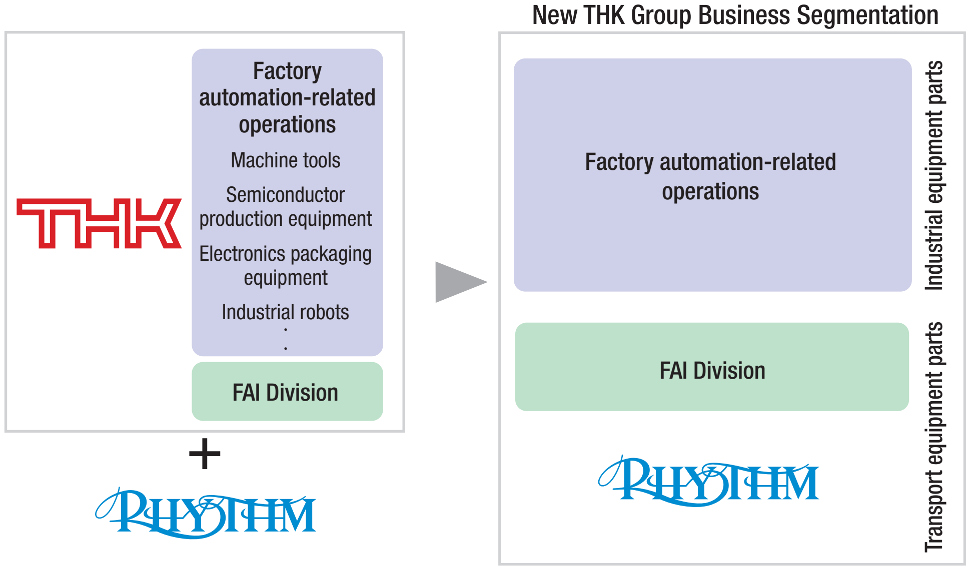
Our production system, which is fully integrated from early processes to final delivery, is also a major strength of THK on the production side. The unique production know-how that we have developed is an important determinant of the high-level performance and quality of our products. At the same time, we have continued to develop just-in-time production systems and to undertake fundamental reviews of our production processes. As we continue to build up the strengths inherent in integrating our production and sales systems, this will translate into further gains in profitability.

Summary

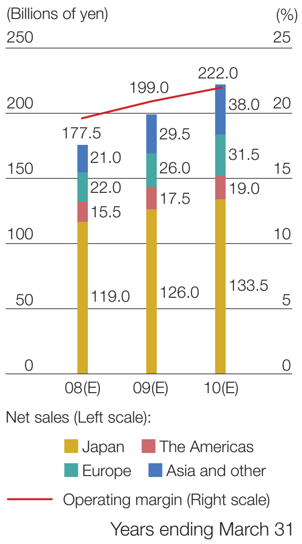
In addition to machine tools, semiconductor production equipment and other types of industrial machinery, the incorporation of Rhythm Corporation into the THK Group has greatly expanded the range of applications for THK products in the transport equipment sector, including automobiles and motorcycles.

To reflect this change, THK has decided to introduce a new business segment presentation for financial disclosure from fiscal 2007. The two new business segments are "industrial equipment parts," which includes the main capital goods-focused business developed to date plus various related new business development areas, and "transport equipment parts," which comprises the FAI Division and consolidated subsidiary Rhythm.

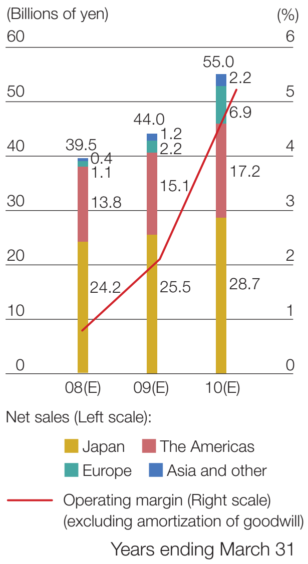
New THK Group Business Segmentation



Performance Targets for Industrial Equipment Parts Segment



Performance Targets for Transport Equipment Parts Segment



Business segment characteristics

The industrial equipment parts business is one that THK has constructed over the years by working to integrate manufacturing and sales systems. THK has developed production systems in this field that can respond dynamically to variable order levels. This translates into higher profits when sales rise. THK is reinforcing efforts to expand top-line sales within the four key regions of Japan, the Americas, Europe and Asia, while at the same time focusing on initiatives to raise profitability further.

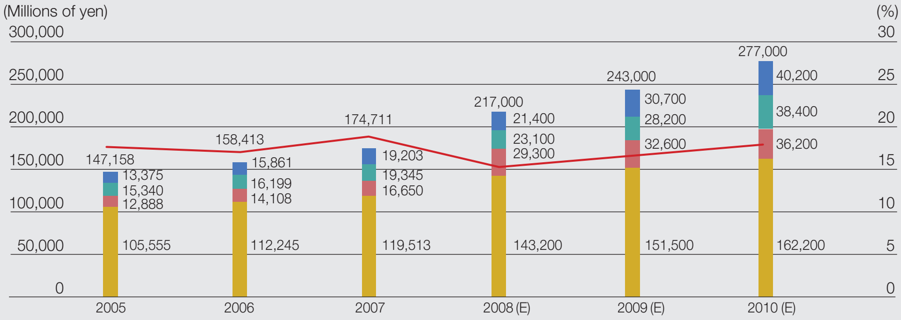
The transport equipment parts business is one where THK aims to expand the scale of operations while enhancing earnings potential. This involves the pursuit of synergies with Rhythm in all areas, including technical development, production and sales.

Unlike the industrial equipment sector, which has strong growth potential but where demand is influenced heavily by capital investment trends, the transport equipment business is one where prospective earnings tend to be more predictable. THK's vision in the transport equipment sector is to target first-tier supplier status by providing products that are regarded as global benchmarks and by offering customers guarantees of unrivaled quality in terms of zero defects and delivery issues alongside novel technological possibilities. In line with this vision, THK's fiscal 2010 performance targets for this business segment are sales of ¥70 billion, a return on assets and operating margin of 10%, and an asset turnover ratio of 1.0.

GEOGRAPHIC SEGMENT REVIEW

In fiscal 2010, the final year of the Fiscal 2010 Vision, THK is targeting consolidated net sales of ¥300 billion. THK also aims to generate sales outside Japan of ¥150 billion in the same year, for a target overseas sales ratio of 50%. Based on the idea that production in the same region as demand represents the optimal solution, THK is seeking to expand the scale of its operations by developing integrated production and sales systems centered on the four regions of Japan, the Americas, Europe and Asia.

Net Sales and Operating Margin



Years to March 31

Japan

Buoyed by strong corporate profits, capital investment levels remained high. Strong demand from China and other emerging economies also fueled growth in machinery orders. In the electronics sector, higher demand for information and communications equipment and digital appliances supported a continued upward trend in capital spending by manufacturers. Reflecting the positive business environment, which resulted in higher demand in the machine tool, general machinery and electronics sectors, THK posted generally favorable results. Sales in fiscal 2006 increased 6.5% compared with the previous year to ¥119,513 million.

The Americas

Regional capital investment posted favorable growth, supported by continued expansion in consumer spending. THK focused on expanding business with existing clients while also seeking to develop new sectors. Sales in fiscal 2006 rose 18.0% over the previous year to ¥16,650 million.

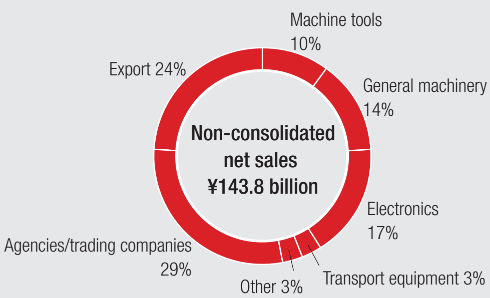
Europe

Amid a positive external environment characterized by increased machinery demand in Eastern Europe, THK intensified efforts to develop business based on an integrated production and sales system. Sales in fiscal 2006 increased 19.4% over the previous year to ¥19,345 million.

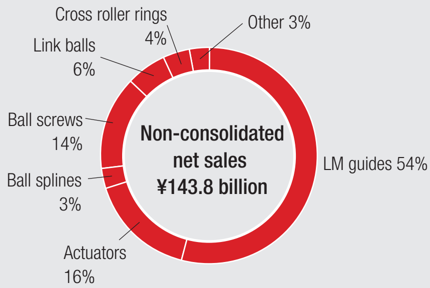
Asia and other

In China, the economy continued to grow at an impressive pace ahead of major events such as the 2008 Olympics, slated to be held in Beijing. Levels of capital investment expanded further, leading to favorable growth in sales to the machine tool and general machinery sectors. Sales growth in Taiwan was also driven by the same sectors, reflecting increased exports of machinery to the Chinese market. Regional sales in fiscal 2006 increased 21.1% compared with the previous year to ¥19,203 million.

Sales Breakdown, by Industry (FY2006)



Sales Breakdown, by Product (FY2006)



Japan

Record sales for third consecutive year

Sales in Japan increased 6.5% in year-on-year terms in fiscal 2006 to ¥119.5 billion, setting a new record for the third consecutive year. Levels of capital investment remained high, buoyed by healthy corporate profits. Strong demand from China and other emerging economies also fueled growth in machinery orders. In the electronics sector, higher demand for information and communications equipment and digital appliances supported a continued upward trend in capital spending by manufacturers. Against this favorable backdrop, THK strove to upgrade all aspects of operations, including higher production capacity as well as stronger sales and development capabilities. These efforts successfully translated into increased orders and sales.

On the production side, the third plants on each of the sites at Yamagata and THK NIIGATA commenced operations in February 2007 and December 2006, respectively, in line with original plans. Besides active investment in increased capacity, fiscal 2006 saw benefits materialize in terms of a stronger earnings structure from the moves undertaken a year earlier to reorganize product lines between THK's domestic production bases. Elsewhere, the Chubu Distribution Center located on the Gifu Plant site began full-scale operations in January 2007 as part of efforts to rationalize domestic distribution activities. Now that the Chubu Distribution Center has assumed the main nationwide logistics function, the roles played by the distribution centers in Tokyo and Osaka are being reduced accordingly.

On the sales side, the "TAP 1" in-house skills development initiative for sales personnel was extended and strengthened. This initiative has helped THK's sales force to steadily develop more effective skills in problem-solving and proposal-oriented sales activities, contributing to the realization of new projects with existing customers as well as development of business with new customers.

In terms of business development in new sectors, the FAI Division was able to expand the number of automakers using THK products, and also succeeded in getting THK products accepted as standard components for luxury models. These results demonstrated THK's all-round capabilities in terms of product performance, quality control and technical support services. Elsewhere, the ACE Division posted strong growth in the number of buildings installed with seismic isolation devices, and the CAP Project also expanded applications for THK products. These various efforts contributed to higher sales in Japan.

On the development side, THK invested greater efforts in responding to the ongoing qualitative changes in demand for electric-powered components and hybrid units. Notable fiscal 2006 achievements included the development of a new model of linear motor actuator and the development of specialized small-scale servo amplifiers for linear motors.

Continually striving for improvement on every level

In fiscal 2007, THK expects domestic order levels to remain strong within the machine tool sector, supported by buoyant external demand from Asia and other export markets. Capital spending levels are projected to recover in the general machinery and electronics sectors, reflecting a rebound in demand for production equipment in the chip-mounting and flat panel display fields after an adjustment in the second half of fiscal 2006. THK is targeting sales in Japan of ¥143.2 billion in fiscal 2007, an increase of 19.8% compared with the previous year. This figure takes into account the projected boost to consolidated sales due to the acquisition of all the shares in Rhythm on May 31, 2007.

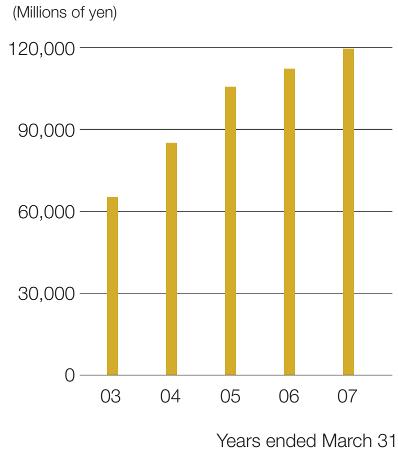
Sales offices:	49
Plants:	9
Distribution centers:	4

- THK CO., LTD.
- DAITO SEIKI CO., LTD.
- TALK SYSTEM CORPORATION
- Beldex Corporation
- THK NIIGATA CO., LTD.

As of March 31, 2007

Note: Please refer to p. 76 for details of the principal business activities of THK Group companies.

Sales in Japan



In terms of plans to achieve this target, on the sales side THK plans to extend the “TAP 1” skills training initiative to promote expansion through increased business with existing customers alongside new client development. In particular, THK aims to place a greater emphasis in sales activities on solving customer problems through the use of THK products, in addition to stressing the performance benefits of THK hardware. THK also plans to develop new customers by efficiently targeting potential opportunities. Hence, while striving to secure steady gains in orders from capital goods sectors, the mainstay of the current business, THK plans to accelerate business growth within new sectors through the targeted development of emerging opportunities.

On the production side, following the original implementation of the “TAP 2” initiative in 2001, THK has been able to establish flexible, efficient production systems that can respond to fluctuating order levels. In fiscal 2007, THK plans to reinforce such capabilities further. Specifically, THK intends to continue “TAP 2” activities with the aim of achieving further gains in terms of productivity and quality, thus ensuring that growth in sales translates into higher profits. Moreover, in anticipation of future growth in sales, THK intends to undertake further planning of future upgrading and expansion of production capacity. In addition, following the addition of wholly owned subsidiary Rhythm to the THK Group in May 2007, THK plans to undertake capital investment in Rhythm’s operations to increase profit margins by boosting productivity.

On the development side, fiscal 2007 is positioned to be a year of seeking to consolidate the gains previously made in fiscal 2005 from concentration of R&D functions into a newly established Techno Center, and in fiscal 2006 from an organizational rearrangement to strengthen R&D systems. Besides working to speed up development further, THK plans to increase the output of R&D functions in terms of numbers of new commercial products.

THK plans to continue working actively toward attainment of the Fiscal 2010 Vision by making further progress on the sales, production and development fronts.

The Americas

Organization and business overview

In this region, sales subsidiary THK America, Inc. and production subsidiary THK Manufacturing of America, Inc. (TMA) undertake integrated sales and production activities under the regional holding company THK Holdings of America, L.L.C. During fiscal 2006, THK Holdings of America, L.L.C. posted higher sales on a yen-denominated basis for the third consecutive year.

In the Americas, THK has been particularly successful on the sales side, with products successfully introduced into a wide range of sectors. Besides the machine tool, general machinery and electronics industries, which are THK's main customers, we also sell LM guides, link balls, ball screws and other products to various companies in the automotive and aerospace sectors.

As a production base for LM guides and link balls, TMA supplied products equivalent to 55% of local sales in fiscal 2006. TMA's capabilities in providing stable supplies of high-quality products with short delivery lead-times have helped THK to become more competitive in the region. In January 2006, TMA gained ISO9001-2000 certification for LM guides. In December 2006, TMA gained certification for production of link balls to the ISO/TS16949 standard, which is widely used in the automobile industry.

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

Sales: Continued efforts to increase business with existing customers while developing new markets and product applications

THK America, Inc. continued to focus on creating stable growth by securing higher market share with existing customers, while also seeking to accelerate sales expansion by boosting efforts to develop new product applications alongside new markets such as Canada and Mexico. During fiscal 2006 we began to see the benefits of ongoing training initiatives such as the THK Advantage Program (TAP 1), a unique in-house skills development program for sales personnel. In yen terms, sales increased for the third consecutive year. Specifically, sales in Mexico grew rapidly following our full-scale entry into the market in 2005. Elsewhere, we were able to generate fresh growth by developing applications for THK products such as mountain bikes, fitness machines and other types of health-oriented equipment.

We expect underlying U.S. economic growth to remain strong in fiscal 2007. Demand for modularized components continues to increase as companies seek to simplify design processes and achieve more compact product designs, most notably in the electronics industry. While placing emphasis on assessing customer needs, we plan to focus on upgrading sales consulting capabilities to propose relevant solutions based on products such as hybrid units.

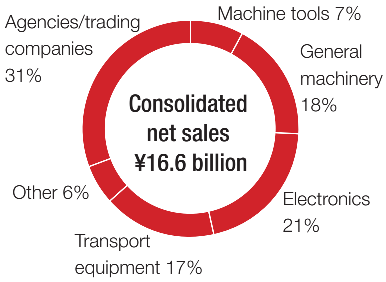
United States	Sales offices:	9
	Plants:	1
Canada	Sales offices:	1
Brazil	Sales offices:	1

- THK Holdings of America, L.L.C.
- THK America, Inc.
- THK Manufacturing of America, Inc.

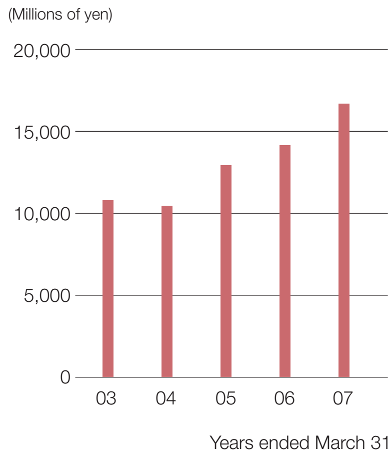
As of March 31, 2007

Note: Please refer to p. 76 for details of the principal business activities of THK Group companies.

Sales Breakdown, by Industry (FY2006)



Sales in the Americas



At the same time, our policy is to stress in our sales presentations the greater benefits that we can now provide customers through our U.S. production facility in terms of unrivaled product quality and quick delivery, backed up by our first-class quality assurance and upgraded technical support services. While working to entrench our position in existing sectors, we are also continuing to focus on the development of new product applications. Our goal in fiscal 2007 is to post a fourth straight year of increased sales in yen-based terms as we look to achieve the goals set out in THK's Fiscal 2010 Vision.

Nobuyuki Maki
President and Representative Director, THK Manufacturing of America, Inc.

Production: Underpinning competitiveness while raising profitability

At TMA we have been focusing on providing stable supplies of products in line with regional demand while working to shorten delivery lead-times through measures to improve production flow. We have also been expanding the number of product lines that we can supply. During fiscal 2006, with the aim of reducing lead-times, we undertook initiatives to boost levels of familiarization among operating personnel and to eliminate waste by making each operation more visible. We also began supervising individual production processes using target-based management methods. We successfully expanded the product lineup in fiscal 2006, initiating production of new LM guide models. Future plans call for further expansion as we begin the full-scale production of hybrid units and start die-cast production for link balls.

Alongside these various measures, we are also working to raise profitability. In fiscal 2006 we did our utmost to restrict growth in fixed costs, primarily by trying to expand production capacity through increased operational efficiency. During fiscal 2007, we plan to pursue further profitability gains by upgrading multitasking process training and by trying to build deeper awareness on the factory floor of cost and efficiency issues through the introduction of a system for proposing improvements. We will also work to upgrade operations further from a number of different angles, including measures to make production flow more efficient and to boost yields.

Europe

Organization and business overview

While achieving organizational gains in efficiency, THK also made further progress during fiscal 2006 in expanding the scale of regional business in European markets, led by THK Europe B.V. In yen-based terms, sales growth over the previous fiscal year was in double digits.

THK Europe B.V. owns and manages two sales subsidiaries, THK GmbH and THK France S.A.S. THK has established sales offices in eight European countries and, through agencies, has a sales network spanning the region that sells THK products to customers in every European country.

The two production subsidiaries in the regional group are THK Manufacturing of Europe S.A.S. (TME) and PGM Ballscrews Ireland Ltd. TME manufactures and supplies LM guides, ball screws, link balls and other products, and PGM is a production base for ball screws. Their operations enable THK to respond flexibly to the needs of European customers in terms of quality and delivery lead-times. During fiscal 2006, THK's production within the region was able to supply approximately 40% of orders by customers in Europe.

Sales: Flexibly playing to our unique strengths

In fiscal 2006 we focused on expanding sales across THK's sales subsidiaries in Europe based on clearly defined priority industries and regions. Combined with the effects of the "TAP 1" training initiative, we made distinct progress in building up our sales capabilities.

We successfully expanded THK's business in a number of sectors that we had established as priority sales targets, specifically the aerospace industry as well as consumer goods industries such as furniture and consumer appliances. In each case we have secured business with major players. Going forward, we plan to build each of these businesses while also seeking to develop sales ties with other firms in each sector. In priority growth markets such as Turkey, Russia and Eastern Europe, we scored successes after revising our agency policies and focusing on selling a narrower range of products. Going forward, we aim to generate further sales growth in these markets by upgrading our support for agency sales channels and providing increased sales training.

Amid an ongoing economic expansion in Europe, we expect a high level of orders in fiscal 2007, supported by rising machinery demand in Eastern European markets. Another trend is the increasingly advanced and diverse level of customer requirements. Our challenge is to translate increased demand into a solid stream of orders by reinforcing our sales efforts. Specifically, we plan to augment our capacity to deliver products quickly to meet diverse customer requirements by expanding the lineup of products that can be made at our production facilities in the region and by reviewing our distribution systems.

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

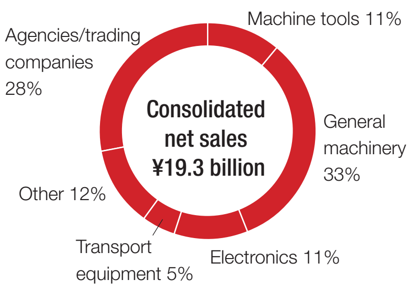
Germany	Sales offices:	3
United Kingdom	Sales offices:	1
Ireland	Plants:	1
Netherlands	Distribution centers:	1
Italy	Sales offices:	2
Sweden	Sales offices:	1
Austria	Sales offices:	1
Spain	Sales offices:	1
France	Sales offices: 1 Plants:	1
Turkey	Sales offices:	1

- THK Europe B.V.
- THK GmbH
- THK France S.A.S.
- THK Manufacturing of Europe S.A.S.
- PGM Ballscrews Ireland Ltd.

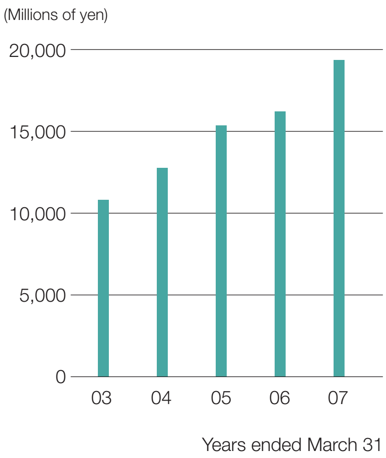
As of March 31, 2007

Note: Please refer to p. 76 for details of the principal business activities of THK Group companies.

Sales Breakdown, by Industry (FY2006)



Sales in Europe



Elsewhere, one major trend that we believe is accelerating is the move by global companies headquartered in Europe to shift production bases to Asia. In this situation, our goal is to emphasize THK's ability to supply high-quality products and support services on a global basis, which we believe will translate into a higher worldwide market share for the THK Group. At the same time, Europe presents us with an opportunity because it is such a dynamic center for the machinery industry and is thus the source of many cutting-edge technologies. As we focus on achieving the goals established in the Fiscal 2010 Vision, we see our role as one of absorbing such technical advances and communicating them to the rest of the THK Group worldwide.

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

Production: Targeting local production ratio of 50%

In fiscal 2006, TME completed the development of full-scale mass-production systems for products where local order volumes are high, such as ball screws and actuators, and we began shipping these products across Europe. We also made steady progress in constructing a mass-production system for link balls, which we are now supplying to several leading automakers.

As well as expanding the product lineup, during fiscal 2006 we also made further progress in upgrading our production set-up to facilitate more flexible supply of orders with shorter delivery lead-times. In fiscal 2006 we used recruitment and business skills-training programs to improve our competitiveness, while in early fiscal 2007 we completed production capacity upgrades. We also improved our management capabilities in terms of controlling capacity utilization. Overall, we made steady improvement in strengthening our production systems.

During fiscal 2007 we plan to continue upgrading and expanding our systems so that we can support larger orders from THK's sales companies in Europe. Specific objectives are to initiate production for those items where demand in Europe is particularly high and to add more value to LM guide production by starting at an earlier stage. Through such measures we aim to lower material costs and also reduce inventories, which will help us raise profitability while at the same time shortening delivery lead-times.

Going forward, TME's aim remains to provide stable supplies of THK products that offer high quality with short lead-times, while at the same time continuing to expand the range of products that can be manufactured in Europe. As orders in Europe continue to expand, our goal is to achieve a local production ratio of 50%.

Asia

Organization and business overview

THK's first move into the Asian region was the establishment of THK TAIWAN CO., LTD. in 1989. THK also entered the Chinese market during the same year, followed by South Korea in 1991.

THK (CHINA) CO., LTD. now manages all THK operations in China, a market with exceptionally high growth potential. THK (CHINA) CO., LTD. and THK (SHANGHAI) CO., LTD. together handle sales of THK products in China. On the production side, THK has three local subsidiaries: DALIAN THK CO., LTD., THK MANUFACTURING OF CHINA (WUXI) CO., LTD. and THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. THK continues to strengthen its organization in China in anticipation of growth in demand.

In December 2006, THK established THK LM SYSTEM Pte. Ltd. as a sales subsidiary based in Singapore. This company is focused on reinforcing THK's regional sales network covering ASEAN countries, together with markets in India and Oceania, and is working to develop customers in these various markets.

Sales: Responding to buoyant local demand

■THK (CHINA) CO., LTD.

Since its establishment in September 2005 as THK's leading subsidiary in China, THK (CHINA) CO., LTD. has worked to secure direct sales rights in China while converting THK Group companies in China into subsidiaries. As part of the development of the set-up in the country, various domestic sales functions have also been transferred from THK (SHANGHAI) CO., LTD. Full-scale business development within the Chinese market under the new structure began during fiscal 2006.

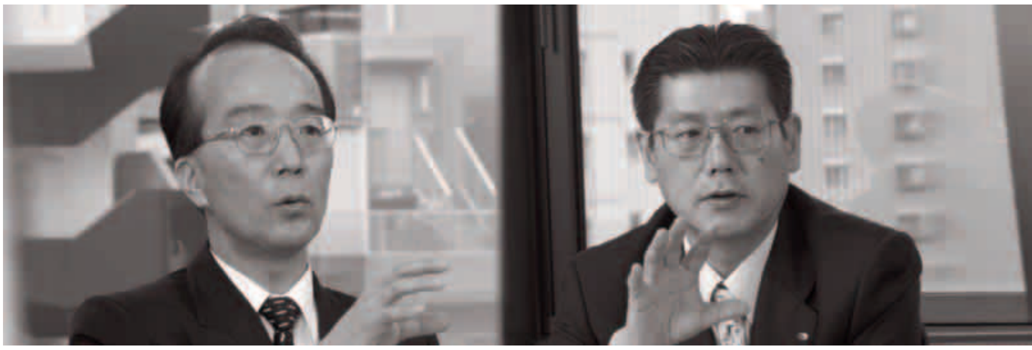
The machine tool sector accounts for a major part of demand in China. Local demand for THK products rose in fiscal 2006 due to an increase in production volumes in this sector along with a rising proportion of numeric control (NC) models. We have established four sales offices in China to cater to buoyant market demand. Our sales activities focus on making the most of our varied lineup of high-quality products and exploiting the advantages inherent in our integration of sales and production systems. We were able to increase our business with existing customers in fiscal 2006 based on this approach. We also succeeded in securing orders from new customers that included leading Chinese machine tool manufacturers. These achievements were significant in that they promise to help us in promoting further horizontal business development within the same industry going forward.

In fiscal 2007, we will continue aggressive sales development targeting new customers, with another nine sales offices due to open. We also plan to continue preparations to expand sales of hybrid units, an area where we expect demand to grow going forward. Besides reinforcing our sales set-up, we also plan to take maximum advantage of the benefits offered by THK's production bases in China to achieve further gains in sales.

■THK TAIWAN CO., LTD.

We posted higher sales in fiscal 2006 despite moves by makers based in Taiwan to accelerate the relocation of production facilities to China. This reflected the upfront emphasis on the THK Group's global capabilities in our sales activities, which stress the fact that we can provide technical support in China and around the world.

Our plans for fiscal 2007 focus on expanding sales of hybrid units; on gaining market share by supplying products tailored closely to customer requirements; on strengthening our agency sales capabilities; and on reinforcing our sales network in southern parts of the country. We also aim to enhance customer satisfaction by leveraging our broad product range and the strengths of our sales system in delivering both quality and volume so that we can achieve a sixth



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

Naoki Kinoshita
President, THK (SHANGHAI) CO., LTD.

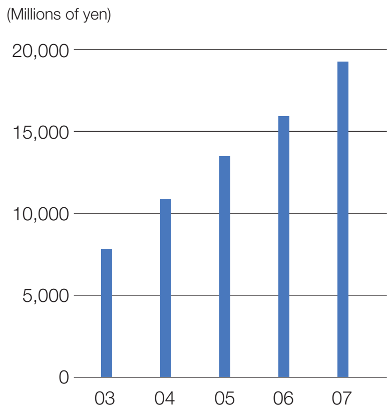
China	Sales offices:	6
	Plants:	3
Taiwan	Sales offices:	3
Singapore	Sales offices:	1
India	Sales offices:	1
South Korea	Sales offices:	13
	Plants:	1

- THK TAIWAN CO., LTD.
- THK (CHINA) CO., LTD.
- THK (SHANGHAI) CO., LTD.
- DALIAN THK CO., LTD.
- THK MANUFACTURING OF CHINA (WUXI) CO., LTD.
- THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.
- Beldex KOREA Corporation
- THK LM SYSTEM Pte. Ltd.
- SAMICK THK CO., LTD.

As of March 31, 2007

Note: Please refer to p. 76 for details of the principal business activities of THK Group companies.

Sales in Asia



Years ended March 31

consecutive year of higher sales in yen-based terms.

Production: Balanced expansion in scale of operations

■DALIAN THK CO., LTD.

The supply of precision components such as ball screws and actuators from this production facility is a core element of THK's integrated production and sales set-up within China. A rotating four-squad triple-shift system has been fully established, allowing the factory to operate around the clock for 350 days a year. This has helped the company to become profitable.

In fiscal 2006 we improved our production processes, retooled equipment to shorten manufacturing lead-times and reduced depreciation costs through greater local procurement of equipment and machinery. These moves enabled us to boost profitability. Production volumes also increased by approximately 40% over the previous year. Around 65% of our output is currently exported to Japan and the rest sold locally in China.

Local demand is extremely high, to the extent that we expect future orders to exceed production capacity. Our main focus is therefore on raising production volumes while maintaining high quality. During fiscal 2007 we plan to install inspection equipment to upgrade our final QC inspection processes. We expect this move to earn greater trust from our established customer base.

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

THK commenced production in January 2005 at this facility, which at that time was the first LM guide plant in China. During fiscal 2006 we completed work on expanding the plant to accommodate increased production and a broader range of products. We also invested in production systems to boost efficiency and undertook various activities aimed at all employees to deepen awareness of the importance of product quality and to help develop teamwork. Around 50% of our output in fiscal 2006 was sold locally in China and the other 50% was exported to Japan and Europe.

In fiscal 2007, plans call for expanding the product lineup further while trying to heighten cost-consciousness among all employees. We will also focus on strengthening systems to enable the plant to become a global supply base for competitively priced, high-quality THK products.

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

Established in 2005 amid expanding demand in China for machine tools, this facility supplies high-end LM guides to Chinese machine tool manufacturers based in the northeast of the country as well as Japanese-owned machine tool makers that have set up factories in this region. Shipments commenced on schedule in September 2006. With demand expected to continue rising, the main objective in fiscal 2007 is to marshal the power of the local workforce with a view to achieving full capacity through the development of a rotating four-squad triple-shift production system and securing ISO9001 certification.

Susumu Ogami
President, THK TAIWAN CO., LTD.

Kazushige Ohno
President, DALIAN THK CO., LTD.

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

NEW BUSINESS DEVELOPMENT

At present, THK's business is highly focused on capital goods sectors such as machine tools, industrial robots and semiconductor production equipment. Our various ongoing new business development initiatives aim to broaden this base into consumer goods and related sectors with the goal of expanding usage of THK products. We have already established businesses in areas such as automotive components, seismic isolation devices and parts for consumer appliances.

FAI Division

The THK Group manufactures and sells parts that contribute to higher automotive safety.

Expanding usage of THK products as automotive components

FAI stands for Future Automotive Industry. THK established the FAI Division in 1999 with the aim of expanding usage of the Company's products as automotive components. The business has grown steadily since then, posting sales of approximately ¥7.0 billion in fiscal 2006.

Link balls, which are the main product currently sold by the division, are used in automobile undercarriages as the joint sections connecting the stabilizers to the suspension, and in other related applications. Many leading automakers in Japan, the Americas and Europe use link balls. THK's advantage in this area is an integral molding process for the production of aluminum die-casts. This makes the link balls much lighter than conventional steel versions, as well as highly resistant to corrosion or wear caused by abrasion. Awareness is growing steadily among automakers of the benefits offered by THK's high-performance products. In fiscal 2006, the division secured the use of THK link balls as standard parts in luxury models made by several of the world's leading automakers. This success reflected not only superior performance, but also the high level of THK capabilities in areas such as quality control and technical support.

The FAI Division also sells LM guides for use in the driver's seats of special vehicles adapted for people with physical disabilities. LM guides have attracted praise from customers in these settings because they play a critical role in facilitating the seat movements to raise and rotate the driver. The division aims to leverage these successes and positive endorsements to generate further growth in sales.

Production, sales and other business management functions are now in place across THK to support FAI Division operations. Business development efforts are focused on each of the major regions of Japan, the Americas and Europe. Divisional operations are horizontally integrated across each region, affording central control of functions such as resource management, internal communications and human resource development.

Expanding the ranges of models and automakers supplied

In May 2007, Rhythm Corporation joined the THK Group. The new "transport equipment parts" business segment comprises the operations of Rhythm plus those of the FAI Division. The aim in fiscal 2007 is to expand this business further. To achieve this goal, the FAI Division is working together with Rhythm (as detailed on p. 21) while at the same time trying to expand the number of vehicle models and automakers using link balls supplied by THK. The division continues to build on past commercial successes by developing smaller and lighter components of higher quality.

As well as seeking to increase the number of models that use link balls supplied by THK, the division is also working to expand usage as automotive components of other products such as LM guides, ball screws and actuators.

As a trusted supplier to automakers, the FAI Division is focused on achieving balanced growth across all business activities, from sales and purchasing to production and quality control. The future aim is to continue introducing products while achieving consistently high quality throughout the world.

Pursuing synergies with Rhythm

—Targeting first-tier supplier status through distinctively world-class products offering unrivaled quality, zero-defect/delivery guarantees and novel technological possibilities

The complementary strengths of Rhythm and THK

Rhythm and THK both manufacture automotive parts that are mainly used in the undercarriage sections of vehicles. The two companies have numerous mutually complementary strengths in this field. Rhythm has developed forging technologies and superior quality control systems to facilitate the supply of components to extremely strict dimensional and strength tolerances. Many of Japan's automakers source critical safety components for vehicle undercarriages from Rhythm, and the company has a high share of the Japanese market for suspension joints and related products. Besides Japan, Rhythm also has a number of bases in overseas markets such as North America and China. In contrast, THK's strengths are in casting technology for aluminum die-cast production of lightweight automotive parts in complex shapes. THK has a global production and sales network, and has already established a track record with numerous automakers around the world.

Exploiting an advantageous position within a changing business environment

Amid major transformation of the automobile industry business environment, THK aims to respond rapidly and precisely to ongoing changes by fusing the strengths of both companies, thereby boosting the global presence of the THK Group as an automotive parts supplier.

The first change involves rising vehicle demand coupled with an expansion in the number of major regions of production. While North America, Western Europe and Japan are still critical markets, recently vehicle demand has been growing rapidly in emerging regions such as South America, Eastern Europe and China. Production by leading automakers in these dynamic regions is expected to increase further going forward. Against this backdrop, THK plans to leverage its expanded global production and sales systems to develop proposal-based sales activities aggressively across world markets. By supplying highly competitive products, THK aims to expand both the number of automotive sector clients and the range of vehicle models in which THK products are used.

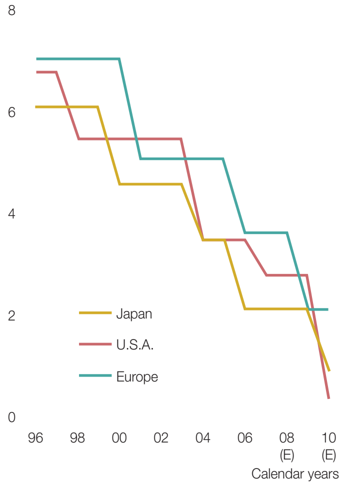
The second key change involves stricter environmental regulations and the increased interest of consumers in environment-friendly vehicle performance. These trends promise to stimulate efforts by automakers to reduce the weight of automobiles and to increase fuel efficiency. THK has developed link balls made using an integral aluminum die-cast process that are substantially lighter than conventional steel parts. THK products can therefore play a part in boosting fuel efficiency.

By collaborating with Rhythm, the future aim is to combine THK's aluminum die-casting technology with the forging technology of Rhythm to develop modularized products that will come to define the industry's benchmarks.

Automakers also expect ever-increasing levels of safety and reliability from parts suppliers as automotive components continue to reach new heights in terms of performance and multi-functionality. THK is working to upgrade its quality assurance systems worldwide in response to automakers' demands through mutual sharing of QC and technical support systems for critical safety components developed by Rhythm over many years with THK's comprehensive capabilities.

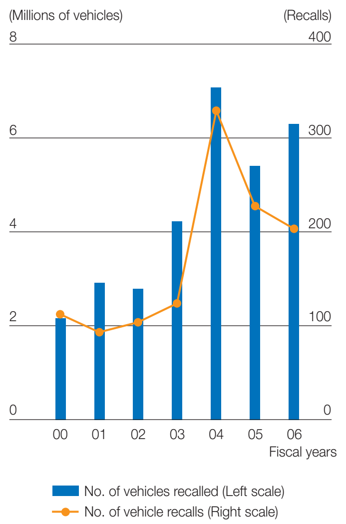
In the transport equipment parts business segment, THK is targeting first-tier supplier status through these kinds of initiatives. The major focus is on the development of products that provide the de facto standard within the industry based on guarantees of zero defects and zero delivery problems along with highly original benefits deriving from the innovative combination of advanced THK and Rhythm technologies.

Trends in automobile exhaust emission controls (NOx)



Vehicle recalls and recalled vehicle units (domestically produced models)

Source: Statistics published by the Japanese Ministry of Land, Infrastructure and Transport



ACE Division

THK focuses on the manufacture and sale of seismic isolation devices that protect people and property from the threat of earthquakes.

Rotary technology applied to dampen and absorb seismic vibration

ACE stands for Amenity Creation Engineering. The ACE Division was created in 2001 based on the concept of "developing technology to realize creative living spaces for greater comfort." Applying the original THK technology that lies at the heart of LM guides, the ACE Division markets seismic isolation devices that protect human life and property from the threat of earthquakes.

Seismic isolation devices can help structures dampen or absorb the vibrations and shaking caused by an earthquake. THK's products are unique in that they can be deployed in a wide range of structural types, from high-rise buildings to low-rise detached residences. Recently, alongside commercial buildings and residential housing, there has also been an increased use of such devices in historical structures such as temples and shrines.

Besides actively promoting sales of these devices to construction companies, homebuilders and architectural firms, the ACE Division also offers technical installation support, product development, design and other services. The division's annual sales are approximately ¥1.0 billion. The number of buildings with such devices installed continues to rise steadily.

Continuing and upgrading PR campaigns to encourage uptake

The sales target for fiscal 2007 is ¥2.0 billion. To achieve this figure, the ACE Division plans to continue using PR campaigns to promote the benefits of THK's seismic isolation devices to corporate clients such as construction companies, homebuilders and architectural firms. In addition, among other activities, the division aims to promote more widespread product uptake by holding seminars aimed at consumers to explain to people the importance of installing seismic isolation devices, along with the advantages offered by THK technology and products.

A related area where interest among Japanese companies has recently grown is in the development of business continuity plans. From fiscal 2007, the ACE Division plans to focus greater sales efforts on marketing products that are tailored to such needs. One specific objective is to generate sales of seismic isolation devices for protecting operating assets such as PCs and servers from damage caused by earthquakes. THK has applied expertise in this field to develop products that are ideally suited for this purpose. Compared to products currently on the market, THK's high-performance seismic isolation devices reduce the vibrations caused by an earthquake to a much greater extent.

Elsewhere, to promote increased uptake of seismic isolation devices, the ACE Division continues to review fabrication methods with the objective of lowering base production costs further.

CAP Project

THK is developing new markets for products with consumer-related applications.

Developing the core concept of "electric-powered living"

THK established the CAP (Consumer Application Products) Project in 2002 with the aim of developing applications for THK products in end-use consumer applications and of cultivating new markets. Based on the core concept of "electric-powered living," THK is working to create business opportunities in a wide range of fields, principally consumer lifestyle-related goods, robots and universal design equipment. Efforts are focused in part on developing new applications for THK products to meet electric-powered motion-related market needs with existing consumer appliances. Another core focus is the development of future-oriented products to stimulate the growth of entirely new markets for THK.

THK has developed numerous original products that are finding applications in aspects of daily life. Examples include lens-shift units for commercial LCD projectors; a special rod actuator (CRES type) enabling the vehicle rooftop cargo carrier with an electric opening and closing mechanism; self-closing rails designed to fit refrigerators and electric induction hobs; a self-raising flap for use with coin-operated parking meters to prevent vehicles from moving while parked; and parts for amusement machines. Sales were approximately ¥0.7 billion in fiscal 2006.

Development of various applications to expand sales

The business environment for the CAP Project harbors significant growth potential. THK sees considerable scope for using specialist linear motion technology in automation-related applications for consumer appliances and related areas. The growing market for robots also offers many opportunities. Based on this potential, the CAP Project sales target for fiscal 2007 is ¥1.2 billion. To achieve this figure, THK is developing the lineup of CAP Project products listed in its catalog and developing various applications to try to generate further sales of products that have already been a hit with customers.

Furthermore, the CAP Project is progressing with the development of groups of electronically controlled high-value-added products. At the same time, by upgrading the provision of engineering services from the planning to mass-production phases, THK is seeking to add value from the customer's point of view by, for example, helping to reduce the number of technical issues that must be addressed within product development programs. In addition, THK is devoting resources to develop products to meet specific regional needs in certain markets outside Japan.

MRC Center

Development of cutting-edge technology in areas such as surgical assistance robots

Creating future sources of profit

THK set up the MRC Center in 2000 with the aim of creating future pillars of earnings growth through the development of highly original products. As suggested by its name, the facility is engaged in creating new technology that spans the fields of mechatronics, robotics and computing. Currently the center is focused on development of surgical assistance robots and other advanced technology, including humanoid robots. The future market potential in these areas is large. The MRC Center is working to exploit the advantages provided by THK's technologies.

One product that has emerged from ongoing development programs is a software package called "Mister C Motion Designer." This product enables robots to move smoothly and precisely along gentle curves. In technical terms this involves simultaneously controlling the trajectory of movement based on clothoid curve modeling, along with acceleration and time. This success adds a new base technology for smooth, precise robot movement to the specialist technical expertise in linear motion solutions that THK has amassed.

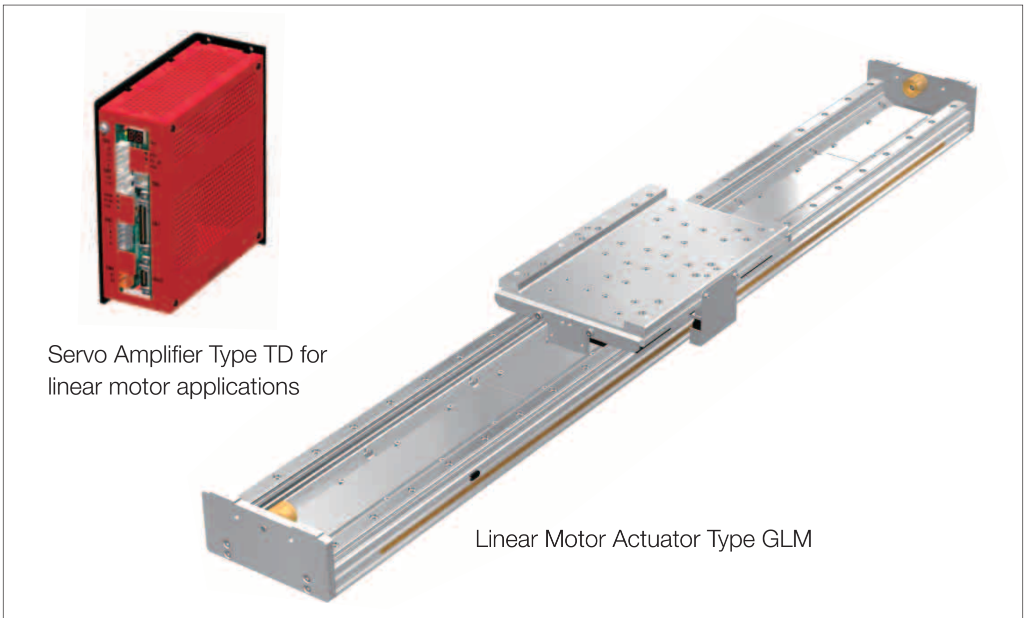
During fiscal 2006, as part of a joint research project with a university, the MRC Center made substantial progress in the commercialization of one type of surgical assistance robot. The mechatronics developed for this robot enable considerably more complex and precise movements than achieved previously. Elsewhere, the center is also involved in a collaborative project involving groups from industry, academia and the public sector to develop humanoid robots for applications in cell-based production methods.

A greater focus on commercialization

In medicine, the trend toward advanced technology and the need to control medical spending as society ages both point toward greater use of robots in the future. Increased introduction of robots is also widely expected in industry, reflecting demand for further efficiency gains within production systems. THK is focusing development efforts in both these areas.

Full-scale commercialization of surgical assistance robots is now under way. The major issues are ensuring conformity with the legal safety requirements in Japan, reduction in weight, and the development of materials that are compatible with the widespread use of X-rays and magnetic fields in medical settings. With humanoid robots, among other issues, efforts are now focusing on improving motive functions and on the development of more advanced adaptive control functions.

In fiscal 2007, by addressing these issues, THK aims to accelerate progress toward early commercialization. This not only means speeding up internal development processes, but also involves strengthening cooperative links with other groups, including companies and external research institutions.



Servo Amplifier Type TD for linear motor applications provides increased boost and also delivers superior performance in terms of positional control based on a proprietary control algorithm. A specialized design maximizes the advantages of the linear motor to deliver high speed and acceleration along with superior constant velocity capabilities.

A series of original products contributing to industrial development

THK's business philosophy is "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society." This thinking has guided our drive to be a creative development-driven enterprise, enabling us to develop a stream of original products since our establishment in 1971.

THK developed the world's first linear motion (LM) guide. For the first ten years after we started production and sale of these products in 1972, LM guides were primarily used in machine tools. During this period we developed a series of new products to fulfill our customers' needs for increased precision and lower cost. Other industries such as manufacturers of semiconductor production equipment and industrial robots then began to adopt our products. In turn we developed new products that were optimized for customer-specific applications and operating environments in these sectors. And in doing so we also made a contribution to industrial development.

In 1996, we pioneered the development of the world's first-ever LM guide with caged ball technology, an advance that enabled LM guides to operate without maintenance for much longer periods. At the time, although caged technology was already common in rotary bearings, the problem was that these bearings had to cope with both linear and circular movements. This made it extremely difficult to develop ball cages with sufficient durability to move along straight lines or curves. THK demonstrated superior technical prowess in overcoming this issue. LM guides based on caged ball technology not only provide the benefit of long-term maintenance-free use, but have also made a significant contribution to the development of high-speed, low-noise industrial machinery with longer productive lives, particularly in the machine tool and semiconductor production equipment sectors. Today, we continue to develop products that use cage-embedded technology. Besides LM guides, this range has expanded to include ball screws, ball splines and hybrid units combining LM guides with ball screws.

A highly developed R&D system

Around 150 people are engaged in the development of highly innovative products on a daily basis. In October 2006, we reorganized the R&D function to reinforce the links between the various departments. The Engineering Division organization chart is shown on the next page.

The departments Research and Development I and II play major roles in new product development, which is organized on a project basis to expedite the realization of commercial products. Research and Development I is the department responsible for developing LM guides, ball screws and other components. Its basic product technology development programs work on a five-year horizon. Other programs seek to make functional improvements to existing products, create completely new products, or develop custom-made products that are specific to a certain customer's requirements. Research and Development II develops hybrid units and electronics-related technology.

Fiscal 2006 major achievements

Major R&D achievements in fiscal 2006 included the development of a new model of linear motor actuator and of small-scale servo amplifiers. While the linear motor market is growing steadily, THK forecasts that it will expand in the future to around ten times its current size. Within this high-potential market we have already acquired a solid reputation for the breadth of our product lineup and for high-level product performance. The addition of a new actuator model will help to strengthen our competitive position in the market significantly.

Following the fiscal 2005 development of the servo amplifier type TD, in fiscal 2006 we successfully developed a new miniature servo amplifier specialized for use in linear motor applications. While demand for linear motor actuators expands, increasingly customers are also demanding products that satisfy requirements such as high speed, improved acceleration and low noise. These new types of servo amplifier are important developments because they promise to boost our sales of linear motor actuators.

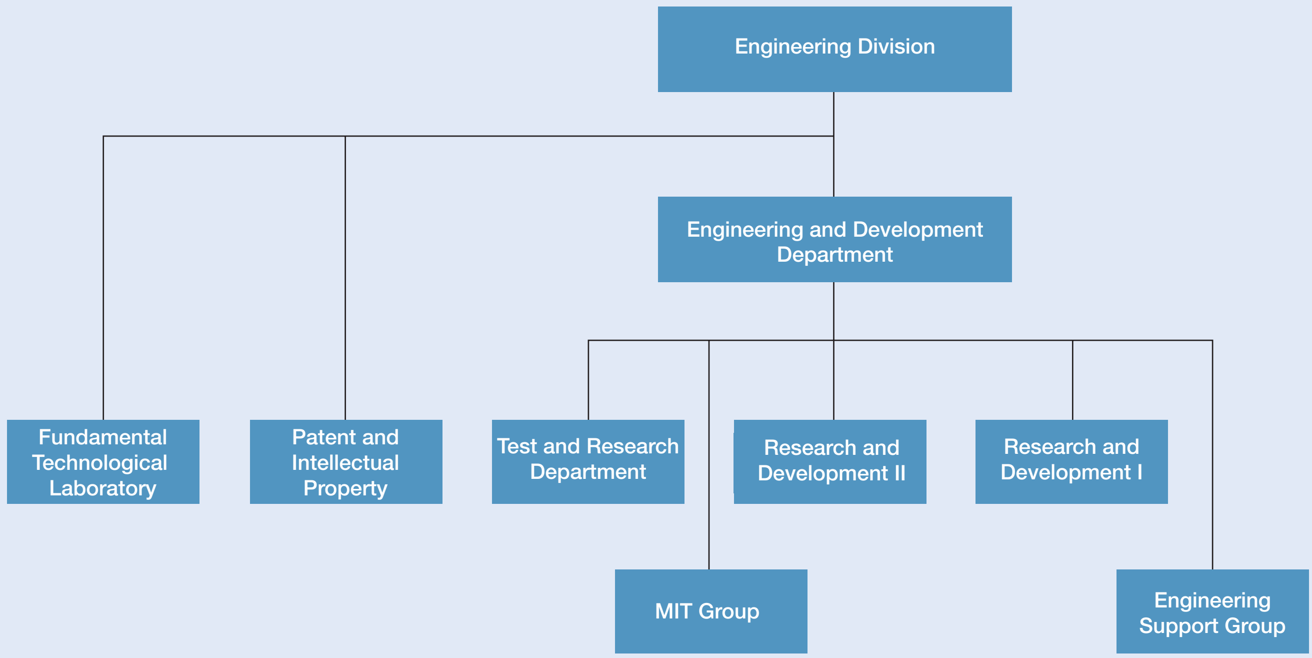
During fiscal 2006 we also increased our lineup of products and technologies to meet specific environment-related needs. In addition to further expanding the range of ceramic LM guides, we also broadened our offerings of medium-to-low vacuum lubrication systems and oil-free LM guides.

Fiscal 2007 goals and programs

In fiscal 2007, our goals are to accelerate the pace of development further and to increase the number of products in development. In addition, besides focusing on ongoing projects we also plan to invest more heavily in basic development programs to create the products needed in five years' time.

At the same time, we are continuing to build our development capabilities on a global scale. In fiscal 2006, we upgraded our testing and research facilities at our factory in Europe and created a system to enable us to respond to local testing requests more rapidly. We also completed certification procedures for LM guide-related technical standards in Germany. Going forward, as we continue to develop global production and sales systems we aim to optimize our development set-up across the four core operating regions of Japan, the Americas, Europe and Asia.

Diagram of Engineering Division (As of March 31, 2007)



Linear motion (LM) guides are so named because they help to guide the movement of equipment in a straight line. LM guides have become critical parts of machinery because they facilitate gentle, smooth and precise motion by converting a slipping action into controlled motion with a rolling component.

The motion of machinery parts can be divided into two types, linear and rotary. To illustrate using familiar office equipment, the backward and forward motion of the drawer in a desk is an example of linear motion, while the revolution of a swivel chair is a type of rotary motion.

In the early days of machines, all the moving parts—whether the motion was linear or rotary—would come into mutual contact on different surfaces that had to slip over one another. However, due to the considerable resistance caused by friction, such reliance on “slippage” left considerable room for improvement in terms of both the smoothness and speed of motion that could be achieved. The development of rotary bearings approximately a century ago provided a solution to this problem for rotating components by facilitating a rolling action. However, it was not until the 1960s, when the linear bushing was first developed in the United States, that a rolling action was developed to enable slippage-free linear motion for machine parts.

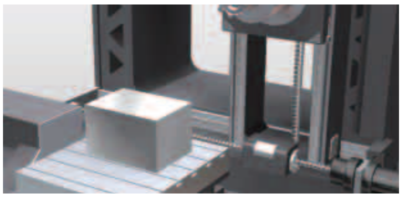
But the linear bushing was not widely adopted by machine tool manufacturers, reflecting its inadequate rigidity and low durability. In 1971, we developed the ball spline, a major improvement on the linear bushing since it overcame the latter’s shortcomings. This paved the way for creating a practical solution to introduce a rolling action for linear-motion components. The following year, we successfully adapted the ball spline structure to create the LM guide, which remains our mainstay product to this day.

After machine tool manufacturers in the United States first started using LM guides because of key characteristics such as high rigidity and long service life—both critical for moving parts in machinery—the rate of adoption within machine tools increased rapidly. Today, LM guides are essential components used in various types of capital goods, including machine tools, industrial robots and semiconductor production equipment. In recent years, the range of applications for LM guides has expanded to include consumer-related sectors. Examples include seismic isolation devices, which help to protect people, buildings and household goods from the threat of earthquake, and automotive components that play a vital role in improving vehicle safety and comfort.

The pioneer and leading manufacturer of LM guides, today we retain a leading share of the world market for these products. Our extensive lineup of LM guides is adapted to cater to varied customer requirements.

Linear Motion (LM) Guides

In 1996 THK became the first company in the world to successfully develop the next generation of LM guides featuring caged ball technology. Since then we have striven to expand the usage of these improved LM guides. The ball cages are plastic parts that keep the balls in place and guide them. This stops direct contact between the balls, eliminating noise and friction. Compared with first-generation LM guides, the use of caged ball technology reduces noise, extends service life and enables longer maintenance-free periods. LM guides based on caged ball technology are now vital components of many types of equipment. They have made a major contribution to the development of high-speed, low-noise industrial machinery with longer productive lives, notably in the machine tool and semiconductor production equipment sectors.



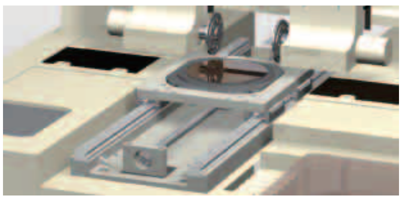
LM guide used in a machining center (a type of machine tool)

Application of LM guides and ball screws

LM guides with cage-embedded technology contain belt-shaped ball cages that hold the balls in place while preventing contact between them. This design translates into benefits such as extended service life, reduced noise and less generation of heat and dust, thus reducing overall costs for customers.

Ball Screws

Ball screws are machinery parts that function by causing a large number of balls to circulate between the screw shaft and the nuts. This mechanism of action efficiently converts rotary motion into linear motion. Primarily employed in various types of industrial machinery, ball screws are laborsaving devices that act as drive components in motors. THK has also developed ball screws featuring caged ball technology that have made a significant contribution to the development of high-speed, low-noise industrial machinery with extended service lives, especially in sectors such as machine tools, industrial robots and semiconductor production equipment. Other ball screws supplied by THK are designed to support high loads, making them ideally suited for replacing the hydraulic cylinders used in capital equipment such as injection molding machines, presses, die-cast machines, blow molding machines and extrusion molding machines.



Ball screw used in a dicing saw (for semiconductor production)

Application of ball screws and LM guides

Ball screws with cage-embedded technology employ ball cages to facilitate higher speeds, longer service life and lower noise levels—all features that are in high demand from customers.

Actuators

Actuators are hybrid products combining a guide component such as an LM guide with a ball screw, linear motor or other drive component. In industries such as electronics, there is an increasing need to shorten development and manufacturing lead-times. Modularization allows actuators to realize benefits such as simplified design and fewer assembly components, thus helping to meet such requirements.

THK supplies a varied lineup of actuators ranging from basic, low-priced units to high-end components designed to operate at high speed or perform to clean-room specifications. Such advanced actuators have become indispensable parts in equipment used in the manufacture or inspection of semiconductors and flat-panel displays.

Actuators are used in medical equipment such as CT scanners.

Application of actuators and LM guides

Integrating an LM guide and ball screw into a single component, LM guide actuators deliver high precision and rigidity within a compact space.

Ball Splines

Developed in 1971, the same year that the company was established, ball splines were the precursor to the LM guide. Balls roll along an R-shaped groove machined into the spline axle. This critical advance boosts the load that the device can tolerate and permits the transmission of torque, resulting in a revolutionary linear-motion system. Compared with conventional linear motion bearings, which do not contain such grooves, ball splines boost the tolerable load by a factor of 13 and service life by a factor of 2,200. Today, ball splines play a number of highly functionalized roles in a variety of machines. Usage examples include industrial robots, medical equipment and chip mounters.

Use in bathing assistance equipment

Application of ball splines

Ball splines are devices in which balls embedded in the spline nut are allowed to move smoothly along a precision-machined groove in the rolling surface of the spline axle. This design creates a linear-motion system that is capable of transmitting torque.

Link Balls

Link balls are specialty bearings that are used primarily as automotive parts. THK has developed a proprietary process for link ball production in which a die-casting process is employed to fabricate holders for the high-precision steel ball bearings that form the spherical surfaces. The shank portions are then specially welded. We use an integral molding process for the aluminum die-cast, which makes the link balls highly resistant to corrosion and wear due to abrasion. They are also considerably lighter than the steel parts traditionally used. Link balls are used widely in automobile undercarriages, particularly in ground-clearance sensors and the joint sections connecting the stabilizers to the suspension. As such they provide an important role in improving safety and comfort on the road. Over the past few years we have begun supplying link balls for an increasing number of vehicle models to leading automakers in Japan, Europe and North America.

Usage in automotive parts

Application of link balls

Use of an integral molding process for the aluminum die-cast produces lightweight link balls that are highly resistant to corrosion and abrasion. These are used widely in vehicle undercarriages.

Cross Roller Rings

Cross roller rings are roller bearings that feature internal cylindrical rollers arranged orthogonally so as to facilitate load bearing 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 are highly rigid despite their compact structure. Cross roller rings are used in the rotating parts of many different types of industrial machinery, including the joint areas and swiveling parts of industrial robots, machining center swivel tables, the rotating parts of industrial manipulators and precision rotary tables. Other applications include medical equipment, measuring instruments and equipment for manufacturing integrated circuits.

Usage in industrial robots

Application of cross roller rings

Cross roller rings feature internal cylindrical rollers arranged orthogonally to facilitate load bearing in every direction.

Making a positive environmental contribution

In recent years the focus of environmental activities has shifted from cutting emissions of harmful chemical substances toward pursuing the development of a sustainable society by eliminating any detrimental effects to ecosystems, including humans. The THK Group recognized early on the importance of focusing on sustainable development as we try to preserve the global environment. We have established a basic environmental policy, and we aim to make our business activities compatible with environmental needs based on this policy. We have mainly focused our environmental preservation activities on four designated key areas (see chart). Environmental programs are underway in each of these areas across THK operations.

The relevant THK division leads the implementation of activities under each heading with cooperation from related divisions. Promotion of such activities extends across operating sites and organizational lines. At each operating site, one designated department has responsibility for all environmental activities undertaken at the site. Site-based environmental activities operate autonomously based on ISO14001-certified management systems.

THK's environmental regulatory compliance system is structured so that all THK Group companies are made aware of any new legislation or ordinances relating to the environment or energy, and of any new market requirements pertaining to THK products. This ensures that our response is not limited to a specific factory or operating site, but can also be prompt and coordinated at the group level. At the same time, we strive to be a company that cares about the environment by fostering stronger links with customers and suppliers and by seeking the cooperation of local communities.

Function-based programs

- R&D Division
- Material Procurement Division
- Design Division
- Manufacturing Technology Division
- Energy Management Division
- Distribution Division (distribution centers)
- Sales & Marketing Division
- Management Division (QA for harmful substances)

Site-based programs

- All THK production sites
- THK Group companies
- Administrative sections

THK Group environmental activities

Area	Objectives and goals	Main activities
Energy conservation	Cut greenhouse gas emissions Achieve 15% reduction in CO_2 emissions per unit of output relative to FY2005 levels by FY2010	(1) Energy diagnostics (2) Energy conservation (3) Use of clean energy
Material conservation, zero emissions	Reduce environmental impact; achieve zero emissions	(1) Input controls (materials, parts and by-products) to reduce usage and boost per-unit yields (2) Controls on emissions and final waste disposal (3) Material re-use/recycling
Harmful substance controls	Eliminate and control harmful substances in THK Group production/distribution activities	(1) Substitution of PRTR-designated substances (2) Green procurement and purchasing
Environment-friendly products and services	Develop products and supply services using LCA (Life Cycle Assessment) methods	(1) Cage-embedded product series development (2) Extension of service life and maintenance-free periods

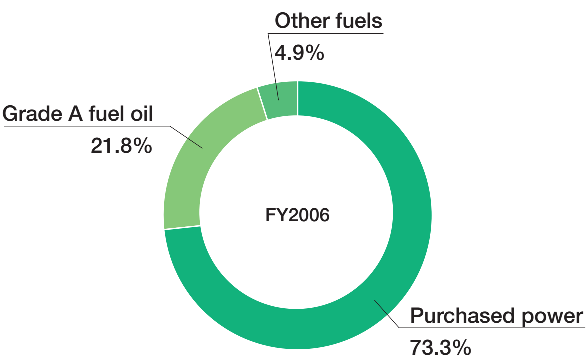
Environmental activities and targets

Employees take part in a site beautification program (Gifu Plant)

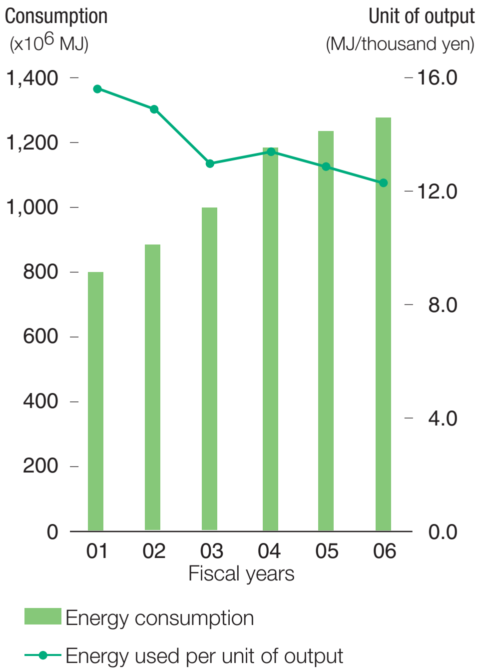
Energy management and CO_2 emissions reduction

THK Group operations consume considerable amounts of energy in manufacturing processes such as grinding and heat treatment and in air conditioning, lighting or compressed air systems. In terms of the energy sources, we buy power from electric utilities for about two-thirds of our needs and use Grade A fuel oil for a further 20%. We also make use of propane gas and other fossil fuels, as well as liquefied natural gas (LNG).

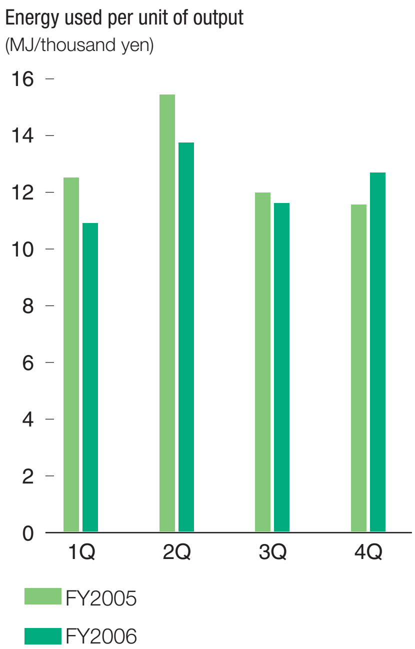
As part of efforts in Japan to meet commitments under the Kyoto Protocol, the THK Group has voluntarily established a carbon dioxide emissions reduction target covering the entire organization, including all administrative sections. Our goal is to reduce CO_2 emissions per unit of production output by fiscal 2010 to a level 15% below our actual emissions in fiscal 2005 on that basis. Besides making consumption more efficient through energy-saving measures, we are also working to improve the composition of energy inputs to emit less carbon dioxide. In fiscal 2006, we reduced total CO_2 emissions by 0.6% while raising production output by 9.1% over the previous year. Emissions per unit of output thus fell by 8.8%. Continuing the pattern seen in fiscal 2005, both of our plants at Yamaguchi and Yamagata made less use of onsite cogeneration systems during the year. These moves reduced the calorific ratio of Grade A fuel oil by 8.4%, which in turn cut overall group CO_2 emissions by 1.9%.



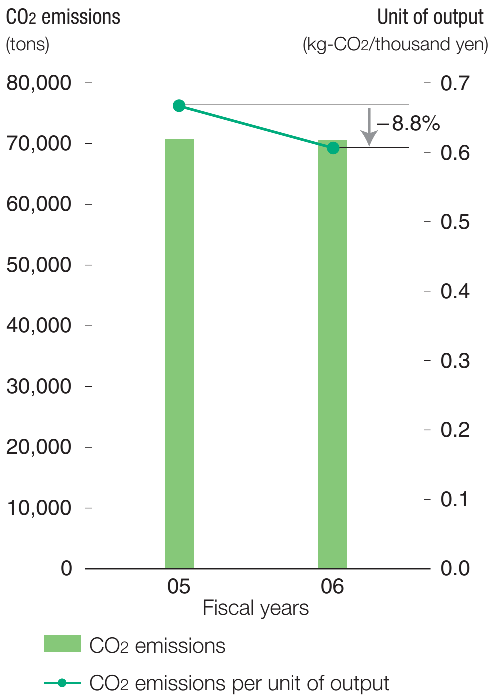
Breakdown of THK Group energy used



Energy consumption by fiscal year (THK production sites)



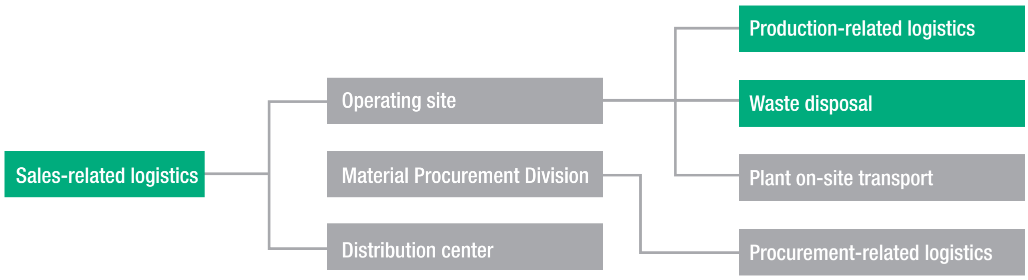
Energy consumption per unit of production output, by quarter (THK Group, FY2005–FY2006)



THK Group CO_2 emissions

Projects to expand and install new equipment at the Yamagata Plant, the Chubu Distribution Center and other facilities contributed to increased energy consumption during the second half of fiscal 2006. In each case we ensured that designs for buildings and facilities incorporated the latest energy conservation technology. The Yamagata plant now employs a hybrid heating system with multiple types of heat-generators to optimize power consumption depending on the system load. At the Chubu Distribution Center, we are now operating gas-fired heat pumps with high energy-efficiency as measured in terms of the COP (coefficient of performance). These pumps run on LNG, a relatively clean fuel that is shared with the nearby Gifu Plant to power the air-conditioning systems on both sites.

Our Manufacturing Division is not just installing new facilities or remodeling them. We are also taking appropriate measures to maintain facilities and to upgrade or replace obsolete equipment, based on energy audits conducted at existing facilities. Other efforts to fix small problems, such as sealing air leaks or



Scope of freight transport covered by law (areas shaded green)

Gas-fired heat pumps that run on LNG (Chubu Distribution Center) switching off lights during breaks, are also proving highly effective in helping to maintain and improve energy efficiency.

In April 2006, a new law came into force in Japan relating to energy-saving measures within the transport sector. In response to this, we began assessing the total quantities transported within operations and calculating related CO_2 emissions. This analysis considered the content of all freight loads transported as part of sales- and production-related logistics as well as waste disposal. On a non-consolidated basis, THK's freight transport volume exceeded 30 million ton-kilometers in fiscal 2006. In line with the new law, THK has received approval as a designated freight consignor from the Bureau of Economy, Trade and Industry with the relevant jurisdiction. Besides promoting modal shifts in distribution from road haulage to rail and improving transport methods through measures such as using low-emission vehicles, our policy is also to target CO_2 emissions reductions by trying to boost transport efficiency itself.

Type I production site (energy management)
(Annual usage > 3,000kl crude-oil equivalents)

Kofu plant
Yamaguchi plant
Yamagata plant
Gifu plant

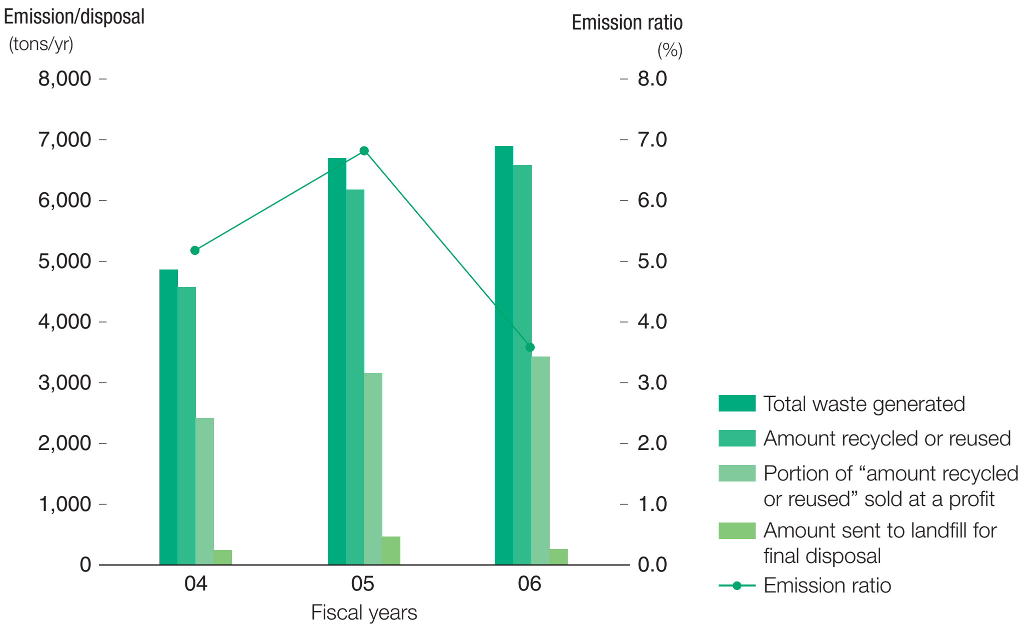
Type II production site (energy management)
(Annual usage > 1,500kl crude-oil equivalents)

Mie plant

Designated plants under revised energy conservation law

Material conservation, waste reduction and recycling

THK is working to conserve resources by trying to raise production yields per unit of input, both for raw materials that go directly into production processes (“direct materials”) and other materials used as part of the overall process (“indirect materials”). While more than 99% of the materials used in THK products are made out of steel or other metals, this still leaves scope for raising production yields on processes such as cutting LM guide rails or fabricating shafts or nuts for ball screws. The major indirect materials used during the production process are grinding wheels and coolants. With the former, we are making greater use of cubic boron nitride (CBN) grinding wheels to extend service life while at the same time making efforts to reduce the amount of wheel dressing involved. To reduce coolant usage, we are addressing various issues to enable the use of dry processes or technology for spraying coolant in mist form.



Waste emissions and recycling at THK Group production sites

We are also conducting “zero emission” activities to reduce the amounts of waste sent to landfill for disposal. This involves actively trying to reuse, or else convert into saleable materials, all general waste as well as any unavoidable onsite emissions of material wastes, either prior to or during the production process. Waste products generated in each section are separated and collected before being fed into a subsequent waste disposal or recycling step. Any wastes that require transport are temporarily stored onsite. Our projected waste emission rate for fiscal 2006 was 3.6% (see chart). We aim to reduce this rate toward zero by restricting emissions of general waste and by trying to convert waste items into valuable commodities for resale. For example, some THK plants are recovering iron from grinding sludge.

Japan has passed a law that mandates recycling of containers and packaging as part of efforts to promote a recycling-oriented society. As a designated enterprise under this law, the THK Group measures and records the amounts of any containers and packaging used in operations that are made from paper or plastic.

Waste sorting and collection (Yamagata Plant offices)

Management of harmful substances

Based on the provisions of Japan’s Pollutant Release and Transfer Register (PRTR) Law, THK’s Manufacturing Division has adopted special measures to manage certain chemical substances specified in the legislation (see chart). During fiscal 2006, efforts were made to introduce substitute chemicals in place of PRTR-designated substances in 13 types of material. Going forward, while monitoring amounts of PRTR-designated substances released into the environment or sent for disposal in waste, we plan to employ measures to handle such substances appropriately and to reduce usage.

	Fiscal years 2005	2006
Number of targeted substances	71	58
Amount handled (kg)	19,697	18,859

(aggregate figures for THK Group)

The THK Group Green Procurement Guidelines specify harmful substances that are regulated either according to the purchasing standards of certain customers or by laws and regulations, including the EU RoHS (Restriction of Hazardous Substances) directive and the Chemical Substances Control Law. We are working to eliminate or reduce the use of harmful substances in all parts and materials, both at the R&D stage and in procurement. For example, the specifications for the new TD-type servo amplifiers that were designed for the GLM 10/20 series of linear motor actuators are fully compliant with our guidelines for parts. We are also trying to eliminate or restrict the use of harmful substances in existing materials. Specific examples of harmful substances targeted by such measures include lead (contained in the additives used in some plastics), hexavalent chromium (present in surface coating films) and cadmium (contained in zinc alloys).

To promote green procurement, we have researched for database compilation purposes all potentially harmful substances that are contained in THK Group products and related components. Development of new products, or the adoption of a new material, requires either registration of the substance in the database or revision of data. This database allows us to respond quickly to any inquiries from customers about harmful substances.

The Chinese version of the EU RoHS directive came into force in March 2007. We have been sending our customers the necessary information relating to our products. The use of product safety data sheets (SDS) within supply chains has also become an important issue since the new EU directive REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) came into force in June 2007. We are preparing to revise and upgrade the contents of existing material safety data sheets (MSDS).

Including affiliates, six production sites within the THK Group have developed environmental management systems (EMS) that have been certified to the ISO14001 standard. Based on the EMS, each site sets autonomous policies and undertakes activities to meet its own environmental preservation targets. To provide customer assurances relating to green procurement, we are reinforcing environmental quality control systems that manage all chemical constituents based on a fully integrated ISO9001 methodology. In particular, we are seeking to establish comprehensive controls within our supply chain by seeking the full cooperation of upstream suppliers and other business partners, including subcontractors.

Emergency training drill (Kofu Plant: mopping up an oil spillage using an absorbent mat)

Development of eco-friendly products

THK products offer a fundamentally eco-friendly solution since they operate on the principle of reducing friction inherent in mechanical motion through a rolling action. This helps to reduce energy consumption. Another positive aspect from an environmental perspective is that the steel we use as the main material for our products is recyclable.

Our use of cage-embedded technology based on innovative new concepts and the development of related products has also been effective in improving operational conditions for many types of equipment. This technology has contributed to extended service life, reduced noise, longer maintenance-free periods and reduced incidence of dust pollution. In turn, these benefits translate into reduced usage of materials such as lubricating oil over the lifetime of equipment. Moreover, we remain focused on trying to raise the overall environmental performance of our products further through the development of lubricators (“QZ”) and optional dust-prevention fittings (“LaCS”).

1. Altered surface coating

Surface coating with Cr (VI)

(e.g.) Black chromate (Cr (VI))
Glossy chromate
Colored chromate

Change

Use of substitute process and materials

(e.g.) Trivalent chromate film
Stainless steel (no surface coating needed)
Ferrous-ferric oxide coating

2. Materials altered

Alterations to materials with lead/cadmium

(e.g.) Copper alloy
PVC
Grease

Change

New materials

(e.g.) Lead/cadmium-free copper alloy
Lead-free PVC
Lead-free grease

Examples of toxic substance removal/reduction

As a company, THK aims to maximize the generation of stable returns for shareholders over the long term. To this end, THK is working to strengthen corporate governance over time while upgrading compliance and other internal control systems.

Basic stance on corporate governance

THK's basic stance on corporate governance is that, from the perspective of maximizing shareholder returns, the company should boost the transparency of management to shareholders while at the same time aiming to achieve proper and efficient management.

The two basic management bodies are the Board of Directors and the Board of Auditors. THK has also established the Executive Council, a four-member body including the President & CEO and senior executive directors, to provide additional support in the form of strategic input to guide the decisions made by the Board of Directors.

The Executive Council gathers from relevant internal departments the information required by directors to facilitate informed discussion and debate. Where necessary, the Executive Council may seek the opinion of lawyers, accountants or other third-party professionals so that any points of contention can be debated and resolved.

Based on such deliberations, the Board of Directors provides the forum for further discussion of issues. The Board of Directors has final decision-making power over all key management issues. As of June 2007, it was composed of 16 directors, with no external appointments.

The Board of Auditors comprises four members, two of whom are external auditors. THK aims to strengthen management oversight by reinforcing the role played by the Board of Auditors.

Initiatives to boost management transparency and promote best decision-making practice

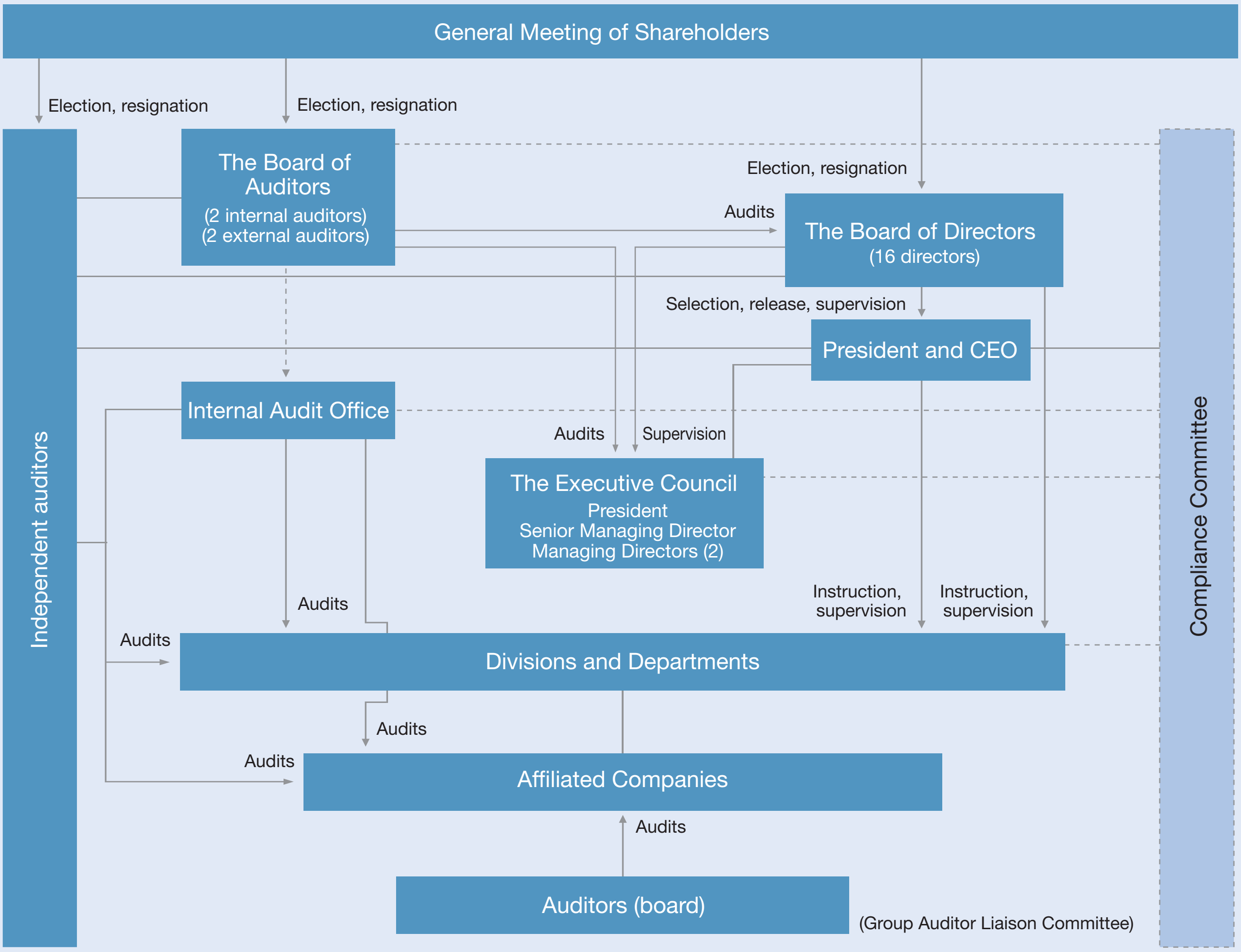
THK's business environment is characterized by fierce competition from other companies and increasingly advanced customer requirements. To develop and offer products and services that can satisfy customer demands within such an environment, THK believes that an important element of business execution is the cultivation of strong, mutually cooperative connections between directors who also serve in concurrent roles as senior managers with responsibility for functions such as production, sales and quality control. THK also believes that such directors should participate in important management decisions. For this reason, THK has not appointed any external directors to date. Director terms are set at one year to ensure clearly defined managerial responsibilities.

To achieve a clear separation of management oversight from operational execution functions, senior executive directors (the members of the Executive Council) do not hold any line management position. This rule is designed to promote an independent supervisory management function. Mutual monitoring by directors with concurrent senior management roles and auditing of management by the external and standing auditors provide additional oversight at the senior level.

In cooperation with the independent auditors, the members of the Board of Auditors work to assess the status and results of financial accounting audits, based on reports requested from the independent auditors concerning the process and content of such audits.

Separately, THK has also established the Internal Audit Office. Based on internal audit regulations, this section conducts ongoing internal audits to help evaluate whether operational execution is done on a faithful, sound and rational basis and to assess overall management efficiency. The role of the external and standing auditors is to identify any matters requiring audit by Internal Audit Office personnel and to work with this section to implement appropriate auditing procedures. A separate liaison committee consisting of auditors working for the parent company and THK Group companies based in Japan also meets regularly to exchange information on auditing practices.

Corporate Governance Framework



Active disclosure of corporate information

THK has consistently regarded active communication with all stakeholders as an important part of management. THK is actively committed to maintaining fair and proper disclosure of information.

In particular, in light of the basic stance on corporate governance to maximize shareholder returns, THK continues to devote efforts to upgrade and expand the disclosure of information to shareholders and investors. According prime importance to its business philosophy, THK releases long-term management targets, medium-term management plans and annual forecasts on a regular basis, along with reports on the progress status of activities to achieve the goals outlined within this structure. THK also holds the General Meeting of Shareholders on a Saturday in mid-June. This policy deliberately avoids the period at the end of June when many shareholder meetings are clustered, thus making it easier for shareholders to attend.

THK strives to maintain high standards of reliability in financial disclosure. Accounts are compiled in accordance with generally accepted accounting standards. In addition, monitoring by the external and standing auditors along with the financial accounting audit undertaken by the independent auditors serve to enhance reliability.

Internal Control System: Ensuring Operational Soundness

In April 2006, THK established its basic policy on internal controls with the goal of ensuring operational soundness.

THK's Basic Policy on Internal Controls

Based on the Company Law of Japan and the regulations pertaining to its enforcement, the Company hereby institutes the following systems to ensure the soundness of operations (hereinafter referred to as "internal controls").

1. Controls to ensure that the execution of duties by directors and employees is in compliance with laws, regulations and the Articles of Incorporation

THK has instituted basic policies to ensure that directors and employees observe laws, regulations and the Articles of Incorporation and execute their duties in a sound manner in accordance with accepted social norms. The repeated communication of this attitudinal stance by the President & CEO to all directors and employees shall help to entrench full legal and regulatory compliance as the underlying premise of corporate activities. Moreover, to promote compliance, the Company shall establish the Compliance Committee (a body chaired by the President & CEO) and, underneath this committee, a compliance working group with members representing each THK operating division. Drawing on specialist outside expertise, members of the Compliance Committee shall strive to develop a compliance system that functions across the entire Company and to identify any related problems. The Company shall also establish and operate the "THK Help Line" as a means for employees to provide information directly to outside specialists on an anonymous basis regarding any actions that seem questionable from a compliance standpoint.

2. Storage and management of information relating to execution of duties by directors

In accordance with the Company's management regulations, information relating to the execution of duties by directors shall be recorded and stored in documented form or using electromagnetic media (hereinafter collectively referred to as "documentation"). In accordance with these same regulations, directors and auditors shall have full access to such documentation.

3. Regulations and other controls relating to management of loss-related risks

Each internal department shall bear responsibility for overseeing institution of rules and guidelines relating to risks such as compliance, the environment, disasters, quality, information security and export controls, and for organizing educational and training programs as well as the production and distribution of risk manuals. The Risk Management Office shall monitor the status of every part of the Company's organization and shall coordinate company-wide efforts to address such risks. In the event that any new risk emerges, the Board of Directors shall confer responsibility for addressing such risk to a designated director.

4. Controls to ensure efficient execution of duties by directors

The Board of Directors shall set consolidated performance targets shared by directors and employees and shall work to ensure that such targets are widely understood within the organization. Based on these targets, the Board of Directors shall also formulate medium-term management plans covering periods of three fiscal years. Directors with responsibility for each operating division shall determine division-specific policies to achieve the designated performance targets and shall develop efficient frameworks for operational execution covering issues such as delegation of authority. Making suitable use of information technology, the Board of Directors shall review progress status against performance targets on a monthly and quarterly basis and, by promoting any necessary improvements, shall oversee the construction of systems across the THK Group to facilitate efficient operations.

5. Controls to ensure sound operations across the entire THK Group

With the aim of constructing internal controls for the parent company and all THK Group companies, the Company shall establish a section responsible for the internal controls relating to THK Group companies and shall also construct systems to promote efficient consultation, cooperation, sharing of information and communication of instructions and requests between the parent company and THK Group companies relating to such internal controls. The authority and responsibility for establishing and operating internal controls to ensure the sound operations of each business division shall rest with the directors of the Company and with the presidents of each THK Group company. The Internal Audit Office shall conduct internal audits of the Company and all THK Group companies and shall report the results both to the Board of Directors and to the relevant internal controls sections established inside the parent company and THK Group companies. Based on the internal audit results, the internal controls sections shall provide any necessary guidance, advice or assistance to THK Group companies in facilitating the implementation of any measures required to improve internal controls.

6. Controls applicable to employees declared designated subordinates by the Board of Auditors and independence of such employees from directorial chain of command

Members of the Board of Auditors shall be able to issue orders to employees attached to the Internal Audit Office relating to matters deemed necessary to auditing operations. In such cases, directors or the head of the Internal Audit Office shall not be able to issue countermanding orders to such employees.

7. Controls governing reporting by directors and employees to the Board of Auditors and related systems

The Company shall establish a system to facilitate prompt reporting by any director or employee to the Board of Auditors of legal matters, of information relating to any matters with a serious bearing on the Company and the THK Group, of internal audit-related matters, or of information relating to actual or suspected compliance violations reported through the THK Help Line. While the reporting parties, recipients, timing, method and other aspects of such reporting shall normally be determined through consultation and discussion between the Board of Directors and Board of Auditors, employees shall be able to report directly to members of the Board of Auditors in cases where there is a threat of grave damage to the Company, or in relation to matters involving the discovery of serious legal or regulatory compliance breaches or grave violations of the Articles of Incorporation.

8. Other controls to ensure effective auditing by the Board of Auditors

The Board of Auditors shall convene regular meetings to facilitate exchanges of opinions between auditors and various members of the Executive Council.

DIRECTORS & AUDITORS

As of June 16, 2007

Akihiro Teramachi
President and CEO

Masamichi Ishii
Senior Managing Director

Takeki Shirai
Managing Director

Toshihiro Teramachi
Managing Director

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

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

Hirohisa Murase
Director
General Manager of Sales Division

Kotaro Yoshihara
Director
General Manager of Sales Support Division

Isamu Hatanaka
Director
General Manager of Production Division

Hiroshi Funahashi
Director
General Manager of Engineering Division

Hideyuki Kiuchi
Director
General Manager of Corporate Strategy Department

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

Hidekazu Michioka
Director
Deputy General Manager of Sales Division

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.

Shigeru Wako
Director
President and Representative Director of TALK SYSTEM CORPORATION

Yoshito Nagafuchi
Standing Auditor

Kazunori Igarashi
Standing Auditor

Shizuo Watanabe
Auditor

Masatake Yone
Auditor

FINANCIAL SECTION

Analysis of Operating Results

Net sales

The THK Group benefited from favorable business conditions in Japan during fiscal 2006, the year ended March 31, 2007. Strong corporate performance overall supported higher capital investment levels, while employment conditions continued to improve. Extending further since its start in February 2002, the continuous Japanese economic expansion surpassed the previous post-WWII record of 57 months, referred to as the "Izanagi boom" of the late 1960s. In overseas markets, the United States continued to record stable growth, although signs of a slowdown appeared in the second half of fiscal 2006. Europe recorded its first year of vigorous economic growth in six years, while Asian economies continued to grow strongly, led by China and India.

Against this backdrop, the THK Group responded to higher demand across all regions on the production side by investing in increased capacity in each of the four main operating regions of Japan, the Americas, Europe and Asia. On the sales side, THK Group efforts focused on developing sales networks in each regional market, notably China, and on upgrading sales force skills training programs. In Japan, THK further developed distribution systems while actively pushing forward on the production and sales fronts. Sales rose in each of the four operating regions. Consolidated net sales increased by ¥16,298 million, or 10.3%, to ¥174,711 million. This represented a record high for the third consecutive year.

Net sales* by region

— Japan —

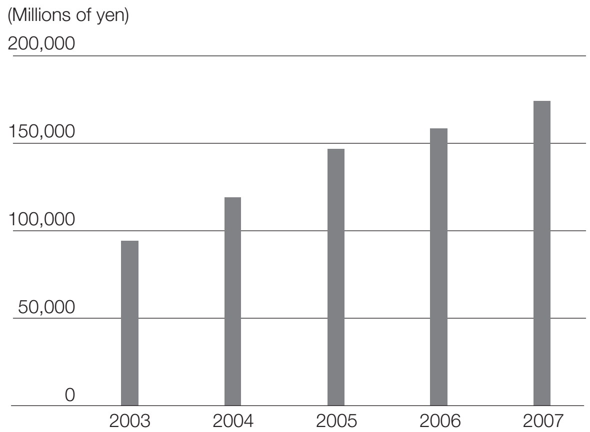
Sales in Japan increased by ¥7,268 million, or 6.5%, to ¥119,513 million. High capital investment levels due to rising corporate profits combined with strong demand from China and other emerging economies to stimulate growth in machinery orders. Sales performance in each of the three leading industry segments was good. Sales in the machine tool sector grew 7.6% compared with the previous year and sales in the general machinery sector rose 4.2%. In the electronics sector, higher demand for information and communications equipment and digital appliances also supported higher capital spending by manufacturers, with sales increasing 11.5% in year-on-year terms.

— The Americas —

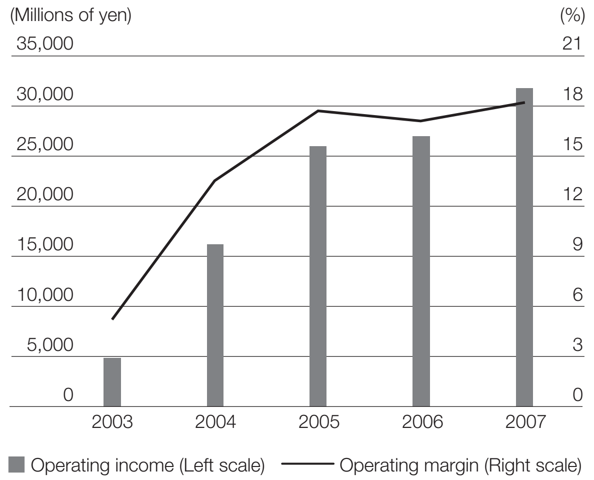
Sales in the Americas grew by ¥2,542 million, or 18.0%, to ¥16,650 million. Capital investment posted favorable growth, supported by continued expansion in consumer spending. THK focused on expanding business with existing clients while also seeking to develop new customers. Sales increased significantly over the previous year in all three of the major industry segments, rising by 17.2% in the machine tool sector, by 15.6% in the general machinery sector and by 38.8% in the electronics sector. Sales of products for transport equipment rose 6.3% in year-on-year terms, despite production slowdowns at automakers in the second half.

* Sales accounted for by customers in each particular region

Net Sales



Operating Income and Operating Margin



Years ended March 31

— Europe —

Sales in Europe rose by ¥3,146 million, or 19.4%, to ¥19,345 million. Amid a positive external environment characterized by increased machinery demand in Eastern Europe, THK intensified efforts to develop business based on an integrated production and sales system. Sales grew significantly compared with the previous year in all three of the major industry segments, rising by 25.8% in the general machinery sector, by 23.2% in the machine tool sector and by 27.2% in the electronics sector. THK also secured more business with leading automakers, helping to boost regional sales of transport equipment by 24.7%. As in the Americas, overall growth in sales was solid.

— Asia and other —

Sales in Asia and other regions expanded by ¥3,342 million, or 21.1%, to ¥19,203 million. In China, the economy continued to grow at an impressive pace ahead of major events such as the 2008 Olympics, slated to be held in Beijing. Levels of capital investment expanded further, leading to favorable growth in sales to the machine tool and general machinery sectors. Sales growth in Taiwan was also driven by the same sectors, reflecting increased exports of machinery to the Chinese market.

Cost of sales and gross profit

The ratio of cost of goods sold (CoGS) to sales fell from 63.4% to 62.7%, an improvement of 0.7 percentage point from the previous year. Gross profit increased by ¥7,220 million, or 12.5%, to ¥65,142 million.

The 0.7-percentage-point improvement in the ratio of cost of sales to net sales reflected higher productivity and capacity utilization stemming from increased production levels at manufacturing facilities in Japan. Higher capacity utilization stemming from increased production levels, in addition to improvement in employee skill levels, yielded similar benefits at THK's production subsidiary in the United States.

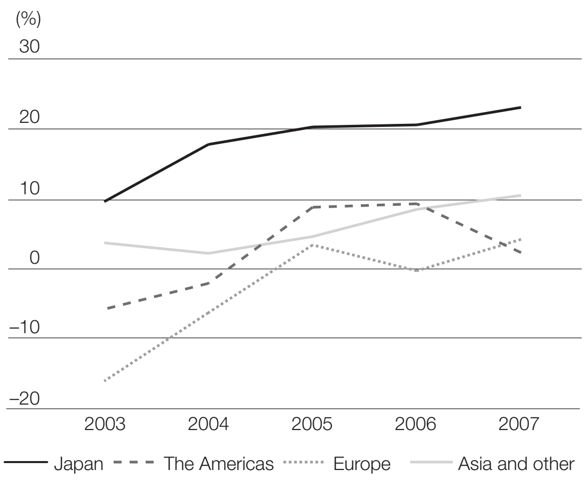
Selling, general and administrative (SG&A) expenses

SG&A expenses increased by ¥2,485 million, or 8.1%, to ¥33,326 million. Personnel costs were up in year-on-year terms by ¥1,772 million, or 13.7%, in part due to a recruitment drive in China to boost THK's sales capabilities and production capacity within the Chinese market. Sales and distribution-related expenses, such as packing and shipment costs, increased due to the growth in sales. Advertising and promotional costs also increased, reflecting efforts to promote sales of seismic isolation devices. The ratio of SG&A expenses to net sales fell from 19.5% to 19.1%, marking a 0.4-percentage-point improvement over the previous year.

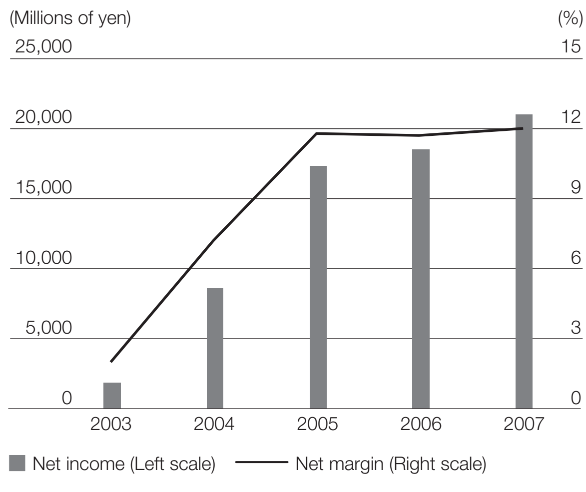
Operating income

Operating income set a new record for the third consecutive year, rising by ¥4,736 million, or 17.5%, to ¥31,816 million. By geographic segment, operating income increased by ¥4,892 million, or 19.4%, to ¥30,169 million in Japan, but declined by ¥933 million, or 71.5%, to ¥372 million in the Americas. This mainly reflected an agreement on transfer pricing reached between the Japanese and U.S. tax authorities, which resulted in a downward adjustment to regional profits that

Operating Margin, by Geographic Segment



Net Income and Net Margin



Years ended March 31

offset the increased sales posted by local subsidiaries and the improved profitability of THK Group manufacturing operations in the region. In Europe, following the ¥55 million operating loss recorded in fiscal 2005 due to an adjustment in retroactively imposed customs duties, the region posted operating income of ¥815 million in fiscal 2006. This reflected increased profits due to the higher sales posted by local sales subsidiaries along with higher capacity utilization at local manufacturing subsidiaries. The Asia and other segment recorded a year-on-year increase in operating income of ¥390 million, or 81.2%, to ¥870 million.

Non-operating income and expenses

Net loss on sales/disposal of property and equipment, among other factors, resulted in non-operating expenses of ¥739 million. Offsetting this, non-operating income totaled ¥3,447 million. Major items included a foreign exchange gain of ¥803 million due to yen depreciation, amortization of negative goodwill of ¥648 million, interest and dividend income of ¥579 million and equity earnings of affiliates totaling ¥490 million. Overall, net non-operating income amounted to ¥2,708 million.

Net income

Net income set a record high for the third successive year, increasing by ¥2,454 million, or 13.2%, to ¥21,038 million.

Financial Position

Assets, Liabilities and Net Assets

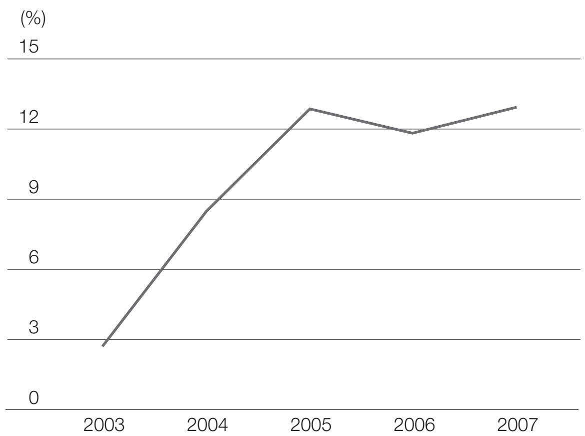
— Assets —

Current assets amounted to ¥183,762 million at March 31, 2007, an increase of ¥7,482 million, or 4.2%, compared with the previous year-end. Even after the redemption of a ¥10 billion straight bond issue, free cash flow totaled ¥19,049 million, which was reflected in higher cash and bank deposits. An increase of ¥1,113 million in accounts and notes receivable due to the higher sales was another major factor behind growth in current assets. Property, plant and equipment after depreciation increased by ¥11,454 million to ¥53,370 million, or by 27.3% compared with the previous year-end. This reflected an increase in capital expenditures to expand production capacity in Japan and China. Total assets equaled ¥263,281 million at March 31, 2007, an increase of ¥18,896 million, or 7.7%, from a year earlier.

— Liabilities —

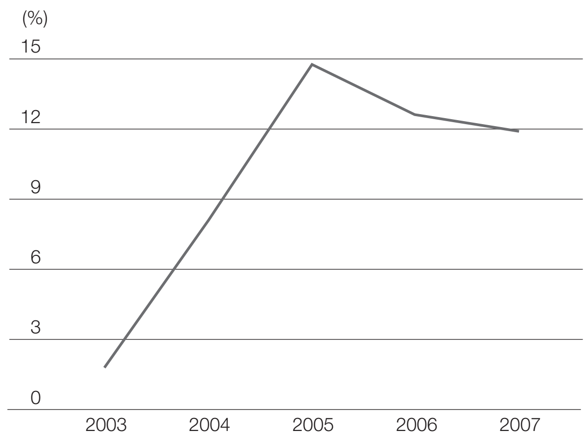
Current liabilities amounted to ¥63,493 million at March 31, 2007, an increase of ¥1,835 million, or 3.0%, compared with the previous year-end. Major causative factors included an increase of ¥4,445 million in accounts and notes payable associated with higher production; increases of ¥4,021 million in payables associated with capital expenditures and of

Return on Assets (ROA)



Note: ROA is calculated by dividing the sum of operating income plus interest and dividend income by the average value of total assets over the fiscal year.

Return on Equity (ROE)



Years ended March 31

¥1,050 million in other accrued expenses; and a decrease in the current portion of long-term debt due to the redemption of a ¥10 billion straight bond issue. Long-term liabilities fell by ¥2,187 million, or 16.9%, compared with the previous year-end. This mainly reflected factors such as the reclassification of convertible bonds to current assets and conversion of convertible bonds. Total liabilities amounted to ¥74,241 million at March 31, 2007, a decrease of ¥352 million, or 0.5%, from a year earlier.

— Net assets —

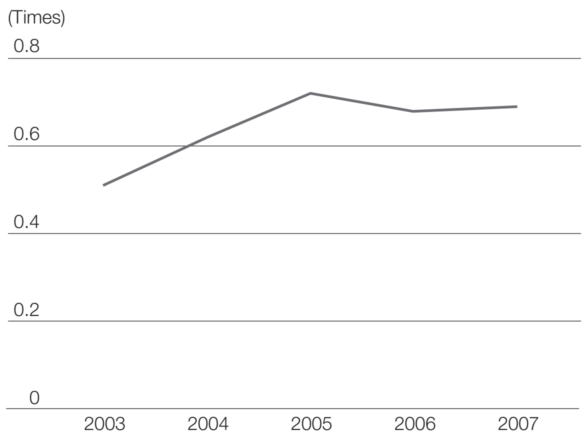
Mainly due to higher retained earnings resulting from net income for the year of ¥21,038 million, net assets totaled ¥189,040 million at March 31, 2007.

Cash Flows

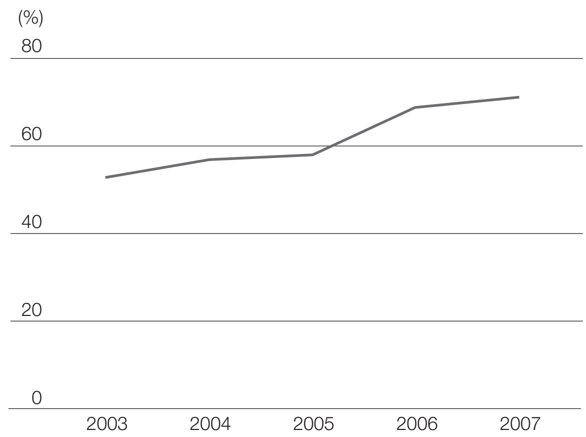
Net cash provided by operating activities equaled ¥29,933 million. Major items included net income of ¥21,038 million and depreciation and amortization of ¥7,131 million. Net cash used in investing activities amounted to ¥10,884 million, primarily reflecting payments for purchase of property, plant and equipment relating to production capacity expansion in Japan and overseas. Free cash flow totaled ¥19,049 million. Net cash used in financing activities amounted to ¥13,840 million, reflecting items such as bond redemptions (¥10 billion) and cash dividends (¥3,752 million).

The balance of cash and cash equivalents at March 31, 2007 amounted to ¥91,953 million, an increase of ¥5,646 million compared with a year earlier.

Asset Turnover Ratio



Equity Ratio



Years ended March 31

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 18, 2007. 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. The principal users of these products are companies that make industrial machinery and equipment, particularly in categories such as general machinery and semiconductor production equipment. While the THK Group is striving through overseas development and cultivation 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 general machinery and semiconductor production 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. However, production trends within these industries currently do not tend to move in tandem at the global level; management believes that national macroeconomic conditions remain a more important driver of demand.

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 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 in order to save 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 tall buildings, medical equipment, amusement equipment and the aircraft industry.

In view of this expanded usage, the THK Group is working to develop 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.

Consolidated Balance Sheets

as of March 31, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
ASSETS			
Current Assets:			
Cash and bank deposits (Note 15)	¥ 87,911	¥ 91,857	$ 777,857
Short-term investments in securities (Note 15)	341	96	813
Accounts and notes receivable (Note 8) —			
Trade	56,395	57,566	487,480
Unconsolidated subsidiaries and affiliates	2,100	2,046	17,324
Other	628	1,727	14,628
	59,123	61,339	519,432
Less: allowance for bad debts	(234)	(236)	(2,002)
	58,889	61,103	517,430
Inventories (Note 6)	24,950	25,846	218,864
Short-term advances —			
Unconsolidated subsidiaries and affiliates	112	152	1,287
Other	2	1	10
Deferred tax assets (Note 14)	3,303	3,727	31,560
Other current assets	772	980	8,297
Total current assets	176,280	183,762	1,556,118
Investments and Other:			
Long-term investments in securities (Note 5)	3,340	3,096	26,218
Investments in unconsolidated subsidiaries and affiliates	2,249	2,733	23,140
Deferred tax assets (Note 14)	1,224	1,717	14,541
Other investments	3,955	4,291	36,339
	10,768	11,837	100,238
Property, Plant and Equipment (Note 10):			
Buildings and structures	35,347	41,496	351,390
Machinery and equipment	83,855	93,643	792,977
	119,202	135,139	1,144,367
Less: accumulated depreciation	(77,286)	(81,769)	(692,427)
	41,916	53,370	451,940
Land	9,887	9,880	83,661
Construction in progress	4,599	3,489	29,549
	56,402	66,739	565,150
Deferred Charges and Intangibles (Note 10)	935	943	7,986
Total assets	¥244,385	¥263,281	$2,229,492

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2007	2007
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 10,072	¥ 1,452	$ 12,296
Accounts and notes payable (Note 8) —			
Trade	29,735	34,301	290,469
Unconsolidated subsidiaries and affiliates	589	468	3,961
Other	2,355	6,376	53,994
	32,679	41,145	348,424
Income taxes payable	7,202	8,005	67,789
Accrued bonuses to employees	2,096	2,309	19,552
Accrued bonuses to directors and statutory auditors	—	131	1,109
Accrued expenses	7,785	8,835	74,819
Other current liabilities (Note 8)	1,824	1,616	13,679
Total current liabilities	61,658	63,493	537,668
Long-term Liabilities:			
Long-term debt (Note 7)	6,849	5,032	42,612
Reserve for employees’ retirement benefits (Note 13)	2,316	2,574	21,799
Negative goodwill	2,269	1,620	13,722
Other liabilities (Note 14)	1,501	1,522	12,884
Total long-term liabilities	12,935	10,748	91,017
Net Assets:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 132,799,331 shares and 133,020,540 shares at March 31, 2006 and 2007, respectively	33,734	33,916	287,207
Additional paid-in capital	43,471	43,653	369,663
Retained earnings	87,091	104,276	883,019
Treasury stock, at cost: 29,741 shares and 34,512 shares for 2006 and 2007, respectively	(48)	(63)	(541)
Net unrealized gain on other securities (Note 5)	1,357	1,037	8,784
Foreign currency translation adjustments	2,668	4,404	37,292
Minority interest	1,519	1,817	15,383
Total net assets	169,792	189,040	1,600,807
Contingent Liabilities (Note 9)			
Total liabilities and net assets	¥244,385	¥263,281	$2,229,492

Consolidated Statements of Income

for the years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2007
Net Sales	¥147,158	¥158,413	¥174,711	$1,479,473
Cost of Sales	93,551	100,491	109,569	927,842
Gross profit	53,607	57,922	65,142	551,631
Selling, General and Administrative Expenses (Note 12)	27,633	30,842	33,326	282,213
Operating income	25,974	27,080	31,816	269,418
Non-Operating Income/(Expenses):				
Interest and dividend income	282	308	579	4,903
Interest expenses	(163)	(168)	(128)	(1,084)
Foreign exchange gain, net	362	817	803	6,799
Gain on sales of long-term investments in securities, net	—	1,933	—	—
Equity earnings of affiliates	433	416	490	4,151
Rental income	169	196	202	1,709
Amortization of negative goodwill	324	648	648	5,489
Commission expenses	(88)	(85)	(77)	(649)
Liquidation loss of a consolidated subsidiary	(650)	—	—	—
Gain/(loss) on sales/disposal of property and equipment, net	(201)	58	(326)	(2,761)
Loss on write-down of long-term investments in securities	—	(164)	—	—
Gain on reversal of reserve for directors' and statutory auditors' retirement allowances	48	—	—	—
Impairment loss on fixed assets (Note 4)	—	(1,152)	(71)	(598)
Prior-period adjustments	—	253	—	—
Other, net	355	426	588	4,978
	871	3,486	2,708	22,937
Income before income taxes and minority interest	26,845	30,566	34,524	292,355
Income Taxes (Note 14)	9,442	11,636	13,317	112,772
Income before minority interest	17,403	18,930	21,207	179,583
Minority interest in income of consolidated subsidiaries	(55)	(346)	(169)	(1,428)
Net income	¥ 17,348	¥ 18,584	¥ 21,038	$ 178,155

The accompanying notes are an integral part of these statements.

Consolidated Statements of Change in Net Assets

for the years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2007
Common Stock				
At beginning of year	¥ 23,106	¥ 23,106	¥ 33,734	$ 285,661
Conversion of convertible bonds to common stock	—	10,628	182	1,546
At end of year	¥ 23,106	¥ 33,734	¥ 33,916	$ 287,207
Additional Paid-In Capital				
At beginning of year	¥ 30,962	¥ 32,652	¥ 43,471	$ 368,113
Conversion of convertible bonds to common stock	—	10,628	182	1,543
Gain from disposition of treasury stock under stock-swap	689	—	—	—
Stock issued under stock-swap	1,001	—	—	—
Gain from disposition of treasury stock	—	191	0	7
At end of year	¥ 32,652	¥ 43,471	¥ 43,653	$ 369,663
Retained Earnings				
At beginning of year	¥ 55,837	¥ 71,131	¥ 87,091	$ 737,495
Net income	17,348	18,584	21,038	178,155
Decrease resulting from inclusion of consolidated subsidiaries	(232)	—	—	—
Cash dividends	(1,772)	(2,514)	(3,718)	(31,488)
Directors' and statutory auditors' bonuses	(50)	(110)	(135)	(1,143)
At end of year	¥ 71,131	¥ 87,091	¥104,276	$ 883,019
Treasury Stock, at cost				
At beginning of year	¥ (1,325)	¥ (607)	¥ (48)	$ (411)
Purchase of treasury stock	(14)	(20)	(16)	(136)
Sales of treasury stock	1	1	1	6
Disposition under stock-swap	1,116	—	—	—
Change in the year of treasury stock held by a consolidated subsidiary	(385)	578	—	—
At end of year	¥ (607)	¥ (48)	¥ (63)	$ (541)
Net Unrealized Gain on Other Securities				
At beginning of year	¥ 722	¥ 1,041	¥ 1,357	$ 11,499
Change in the year	319	316	(320)	(2,715)
At end of year	¥ 1,041	¥ 1,357	¥ 1,037	$ 8,784
Foreign Currency Translation Adjustments				
At beginning of year	¥ (120)	¥ 327	¥ 2,668	$ 22,596
Change in the year	447	2,341	1,736	14,696
At end of year	¥ 327	¥ 2,668	¥ 4,404	$ 37,292
Minority Interest				
At beginning of year	¥ 357	¥ 956	¥ 1,519	$ 12,859
Change in year	599	563	298	2,524
At end of year	¥ 956	¥ 1,519	¥ 1,817	$ 15,383
Total net assets at end of year	¥128,606	¥169,792	¥189,040	$1,600,807

In Japan, dividends, and directors' and statutory auditors' bonuses proposed by the Board of Directors are approved at the general shareholders' meeting in the following fiscal year, and in the Consolidated Statements of Change in Net Assets, dividends, and directors' and statutory auditors' bonuses are shown as a reduction of retained earnings in the year they are approved and paid. See also 3. Summary of Significant Accounting Policies (q) Change in Accounting Policy (4) and (5).

Cash dividends in the year ended March 31, 2007 were as follows:

At the general shareholders' meeting held on June 17, 2006, cash dividends on common stock of ¥1,991 million ($16,865 thousand), ¥15 per share ($0.13), were approved and commenced its payment on June 19, 2006.

At the board of directors' meeting held on November 16, 2006, cash dividends on common stock of ¥1,727 million ($14,623 thousand), ¥13 per share ($0.11), were approved and commenced its payment on December 4, 2006.

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, 2007 was approved at the shareholders' meeting held on June 16, 2007 and commenced its payment on June 18, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20 per share (U.S.$ 0.17))	2,660	22,523

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended March 31, 2005, 2006 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2007
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥26,845	¥ 30,566	¥ 34,524	$ 292,355
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,657	6,562	7,131	60,382
Amortization of negative goodwill	(324)	(648)	(648)	(5,489)
Increase/(decrease) in provisions	(717)	156	551	4,670
(Gain)/loss on sale/disposal of property and equipment, net	201	(58)	326	2,761
Interest and dividend income	(282)	(308)	(579)	(4,903)
Interest expenses	163	168	128	1,084
Foreign exchange (gain)/loss, net	(167)	(134)	136	1,151
Equity earnings of affiliates	(433)	(416)	(490)	(4,151)
Loss on write-down of long-term investments in securities	—	164	—	—
Gain on sale of long-term investments in securities, net	—	(1,933)	—	—
Liquidation loss of a consolidated subsidiary	650	—	—	—
Impairment loss on fixed assets	—	1,152	71	598
Changes in assets and liabilities:				
Increase in accounts and notes receivable	(3,203)	(8,461)	(636)	(5,387)
(Increase)/decrease in inventories	14	(220)	(340)	(2,875)
Increase in accounts and notes payable	3,098	4,565	3,835	32,476
Other, net	228	643	(1,335)	(11,306)
Subtotal	31,730	31,798	42,674	361,366
Interest and dividend income received	339	399	710	6,011
Interest expenses paid	(192)	(171)	(167)	(1,411)
Income taxes paid	(9,499)	(11,820)	(13,284)	(112,487)
Net cash provided by operating activities	22,378	20,206	29,933	253,479
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	30	—	2,558	21,663
Increase in term deposits due over three months	—	(1,945)	(463)	(3,925)
Payments for purchase of property, plant and equipment	(6,963)	(12,520)	(12,848)	(108,800)
Proceeds from sales of property, plant and equipment	215	1,339	99	838
Payments for purchase of long-term investments in securities	(475)	(13)	(516)	(4,367)
Proceeds from sales of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	3	3,850	25	209
Payments of advances	(400)	(67)	(85)	(716)
Collections of advances	418	12	58	495
Other, net	—	—	288	2,434
Net cash used in investing activities	(7,172)	(9,344)	(10,884)	(92,169)
Cash Flows from Financing Activities:				
Repayments of long-term debt	(36)	(352)	(72)	(610)
Proceeds from sale of treasury stock	0	899	1	10
Redemption of bonds	—	—	(10,000)	(84,681)
Cash dividends	(1,772)	(2,524)	(3,752)	(31,774)
Payments for purchase of treasury stock	(14)	(20)	(16)	(136)
Proceeds from minority shareholders' payment	—	256	—	—
Other, net	0	—	(1)	(6)
Net cash used in financing activities	(1,822)	(1,741)	(13,840)	(117,197)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(41)	1,199	437	3,699
Net Increase in Cash and Cash Equivalents	13,343	10,320	5,646	47,812
Cash and Cash Equivalents at Beginning of Year	57,037	75,987	86,307	730,858
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)	¥75,987	¥ 86,307	¥ 91,953	$ 778,670

The accompanying notes are an integral part of these statements.

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 ¥118.09=U.S. 1, the approximate rate of exchange prevailing in Tokyo on March 30, 2007, was used for the translation of the accompanying consolidated financial statements of the Company as of and for the year ended March 31, 2007.

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 24 subsidiaries ("controlled" companies — companies whose decision making is controlled) as of March 31, 2007 (25 as of March 31, 2006). The consolidated financial statements for the year ended March 31, 2007 include the accounts of the Company and 20 (20 for 2006) 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, 2006
THK America, Inc. (USA)	100	Dec. 31, 2006
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2006
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2006
THK GmbH (Germany)	100	Dec. 31, 2006
THK France S.A.S. (France)	100	Dec. 31, 2006
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2006
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2006
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec. 31, 2006
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2006
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2006
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2006
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2006
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2006
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2006
THK LM SYSTEM Pte. Ltd. (Singapore)	100	Dec. 31, 2006
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2007
THK NIIGATA CO., LTD. (Japan)	70	Mar. 31, 2007
TALK SYSTEM CORPORATION (Japan)	99	Mar. 31, 2007
Beldex Corporation (Japan)	94.73	Mar. 31, 2007

The accounts for the year ended March 31, 2007 of the remaining 4 (5 for 2006) 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, 2007 are as follows:

Due to new establishment in December 2006, THK LM SYSTEM Pte. Ltd. was included in the consolidation scope. Due to completion of liquidation in September 2006, THK Neturen America, L.L.C. was excluded from the consolidation scope. Statement of income and statement of cash flows up to the date of liquidation were included in the consolidated financial statements.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company has 3 (3 for 2006) 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, 2007. The equity method is applied to the investment in SAMICK THK 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 net assets except for minority interest account 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 net assets section.

(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., PGM Ballscrews Ireland Ltd., THK (SHANGHAI) CO., LTD.,THK TAIWAN CO.,LTD. and THK (CHINA) 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., THK MANUFACTURING OF CHINA (WUXI) CO., LTD. and THK MANUFACTURING OF CHINA (LIAONING) 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., Beldex Corporation and Beldex KOREA 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 net assets 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.

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 forward foreign exchange contracts accounted for under accounting standards other than the above are measured at fair value. (See Note 11. Derivative and Hedging Activities)

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 (“Negative goodwill”).

Goodwill, included in “Deferred Charges and Intangibles” on the Consolidated Balance Sheets, is amortized on a straight-line basis over a period of 10 years.

(h) Allowance for Bad Debts

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

(i) Accrued Bonuses to Employees

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) Accrued Bonuses to Directors and Statutory Auditors

Accrued bonuses to directors and statutory auditors are provided for the portion relevant to the current year of the amount estimated for payment of bonuses in the future.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(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, 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 the year ended March 31, 2006, 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.

(3) Effective from the year ended March 31, 2007, in accordance with change in Taiwan GAAP, THK Taiwan Co., Ltd. has adopted the accounting standard which requires that derivative instruments be recognized in the financial statements and measured at fair value. The effect on this change on income and loss on the consolidated financial statements for the current period was immaterial.

(4) Effective from the year ended March 31, 2007, the Company adopted accounting standard for directors' and statutory auditors' bonuses (*"ASBJ Statement No. 4 — Accounting Standard for Directors' Bonus"* issued by the Accounting Standards Board of Japan (ASBJ) on November 29, 2005) that requires directors' and statutory auditors' bonuses be accounted for as an expense of a period in which such bonuses are accrued in stead of deduction of the retained earnings account. As a result, operating income and income before income taxes and minority interest decreased by ¥131 million ($1,109 thousand), compared with what would have been reported if the new accounting standard had not been adopted.

(5) Effective from the year ended March 31, 2007, the Company adopted accounting standards for presentation of net asset in the balance sheet (*"ASBJ No. 5 — Accounting Standard for Presentation of Net Assets in the Balance Sheet"* and *"ASBJ*

Guidance No. 8 — Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" issued by the Accounting Standards Board of Japan (ASBJ) on December 9, 2005). As a result, minority interest account was reclassified to the net assets section on the Consolidate Balance Sheets.

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 ¥71 million ($598 thousand), which is comprised of the following.

			Millions of yen	Thousands of U.S. dollars
Use	Category	Location	Impairment loss	Impairment loss
Idle	Land and buildings	Taketoyo, Aichi	34	283
Idle	Land and buildings	Agano, Niigata	37	315
Total			71	598

5. Long-term investments in securities

At March 31, 2006 and 2007, "other securities" with available market value were as follows:

	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

	Millions of yen		
	2007		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥890	¥2,598	¥1,708
Other	1	1	0
Subtotal	891	2,599	1,708
Carrying amounts not in excess of acquisition cost:			
Equity securities	4	3	(1)
Other	—	—	—
Subtotal	4	3	(1)
Total	¥895	¥2,602	¥1,707

	Thousands of U.S. dollars		
	2007		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$7,535	$22,000	$14,465
Other	5	8	3
Subtotal	7,540	22,008	14,468
Carrying amounts not in excess of acquisition cost:			
Equity securities	37	25	(12)
Other	—	—	—
Subtotal	37	25	(12)
Total	$7,577	$22,033	$14,456

During the year ended March 31, 2006, proceeds and net realized gain from the sales of “other securities” were ¥3,850 million and ¥1,933 million respectively.

During the year ended March 31, 2007, proceeds from sales of “other securities” were ¥25 million ($209 thousand).

6. Inventories

Inventories at March 31, 2006 and 2007 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Finished goods	¥12,814	¥13,506	$114,370
Work in process	4,764	4,617	39,097
Raw materials and supplies	7,372	7,723	65,397
Total	¥24,950	¥25,846	$218,864

7. Long-term Debt

The annual average interest rate applicable to long-term debt at March 31, 2007 was 1.10%.

Long-term debt at March 31, 2006 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
0.91% Straight bonds 2006	¥10,000	¥ —	$ —
1.37% Straight bonds 2008	5,000	5,000	42,341
Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 ($14)	1,745	1,380	11,686
Loans from banks (2.75%):			
Collateralized	176	—	—
Non-collateralized	—	104	881
	16,921	6,484	54,908
Less — current portion	10,072	1,452	12,296
	¥ 6,849	¥5,032	$42,612

At March 31, 2007, the Company and some of its subsidiaries had committed lines of credit amounting to ¥13,000 million ($110,086 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, 2007, were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2007	2007
2009	¥5,032	$42,612
2010	—	—
2011	—	—
2012 and after	—	—
	¥5,032	$42,612

Assets pledged as collateral for secured debt at March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Pledged assets	2006	2007	2007
Buildings and structures	¥ 987	¥—	$—
Machinery and equipment	168	—	—
Land	240	—	—
Total	¥1,395	¥—	$—

Secured debt	Millions of yen 2006	Millions of yen 2007	Thousands of U.S. dollars 2007
Long-term debt	¥176	¥—	$—

8. Notes receivable/payable (post dated checks) balance recorded as if they were cleared on the balance sheet date

As of the balance sheet date, March 31, 2007, falls on a bank holiday, the notes receivable/payable at maturity on that date were deducted, as if they were cleared on that date, from the respective lines on the Consolidated Balance Sheets as follows:

	Millions of yen 2007	Thousands of U.S. dollars 2007
Notes receivable	¥2,030	$17,188
Notes payable	¥ 963	$ 8,158
Other current liabilities*	¥ 19	$ 163

*Notes payable balance resulting from purchases of Property, Plant and Equipment

9. Contingent Liabilities

Contingent liabilities for guarantees of liabilities (accounts payable) held by NIPPON SLIDE CO., LTD. as of March 31, 2007 was ¥119 million ($1,005 thousand).

10. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥677 million, ¥658 million, and ¥673 million ($5,703 thousand) for the years ended March 31, 2005, 2006 and 2007, 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, 2006 and 2007 were as follows:

	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

	Millions of yen		
	2007		
	Machinery and equipment	Other	Total
Acquisition costs	¥3,032	¥13	¥3,045
Accumulated depreciation	1,499	3	1,502
Net leased property	¥1,533	¥10	¥1,543

	Thousands of U.S. dollars		
	2007		
	Machinery and equipment	Other	Total
Acquisition costs	$25,671	$110	$25,781
Accumulated depreciation	12,693	22	12,715
Net leased property	$12,978	$ 88	$13,066

Future minimum lease payments under finance leases as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥ 652	¥ 614	$ 5,201
Due after one year	1,406	929	7,865
Total	¥2,058	¥1,543	$13,066

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 ¥677 million, ¥658 million and ¥673 million ($5,703 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

Obligations under non-cancelable operating leases as of March 31, 2006 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year	¥ 647	¥ 569	$ 4,818
Due after one year	1,534	1,405	11,899
Total	¥2,181	¥1,974	$16,717

11. Derivative and Hedging Activities

For the years ended March 31, 2006 and 2007, the Company and its subsidiaries utilized certain interest rate swap, currency swap agreements and forward exchange contracts. Market value information for such derivatives by the Company and its subsidiaries at March 31, 2006 has been omitted as such derivatives qualified the conditions for hedge accounting under related Japanese accounting standards.

Fair value information as of March 31, 2007 was summarized as follows:

	Millions of yen (Thousands of U.S. dollars)		
	Contact cost	Fair value	Unrealized loss
Foreign currency forward contact:			
Japanese yen-buying	¥ 1,410	¥ 1,371	¥ (39)
	$11,940	$11,613	$(327)

12. Research and Development

Research and development expenses for the years ended March 31, 2005, 2006 and 2007 were ¥2,686 million, ¥2,684 million and ¥2,616 million ($22,149 thousand), respectively, and were included in "Selling, General and Administrative expenses" in the Consolidated Statements of Income.

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, 2006 and 2007 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Projected benefit obligations	¥ 6,676	¥ 7,153	$ 60,572
Plan assets	(3,617)	(4,056)	(34,349)
	3,059	3,097	26,223
Unrecognized actuarial differences	(743)	(529)	(4,481)
Prepaid pension expense	—	6	57
Reserve for employees' retirement benefit	¥ 2,316	¥ 2,574	$ 21,799

Net periodic pension and severance costs for the years ended March, 2005, 2006 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2006	2007	2007
Service cost	¥376	¥499	¥606	$5,133
Interest cost	113	136	128	1,084
Expected return on plan assets	(12)	(13)	(17)	(150)
Recognized actuarial differences	74	109	110	932
Net periodic pension and severance costs	¥551	¥731	¥827	$6,999

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

	2005	2006	2007
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.5%	2.0%	2.0%
Expected rate of return on plan assets	0.5%	0.5%	0.5%
Amortization of unrecognized actuarial differences	Between 5 and 10 years	Between 5 and 10 years	Between 5 and 10 years

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, 2005 , 2006 and 2007 was 40.7%.

At March 31, 2006 and 2007, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Loss on devaluation of inventories	¥ 1,098	¥ 1,194	$ 10,112
Software	400	455	3,850
Elimination of inter-company profit (inventories)	430	680	5,760
Accrual of directors' retirement benefits	399	393	3,325
Allowance for bad debts	194	148	1,255
Reserve for employees' retirement benefits	784	886	7,505
Net operating loss carried forward	263	249	2,108
Accrued bonuses to employees	903	939	7,950
Enterprise tax payable	583	537	4,547
Impairment losses	346	372	3,150
Liquidation loss of affiliates	—	241	2,042
Other	1,127	1,203	10,191
Gross deferred tax assets	6,527	7,297	61,795
Less: valuation allowance	(466)	(423)	(3,584)
Total deferred tax assets	6,061	6,874	58,211
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(922)	(700)	(5,932)
Insurance premium	(271)	(396)	(3,354)
Special depreciation reserve	(226)	(220)	(1,858)
Unrealized gains on land	(418)	(418)	(3,542)
Other	(205)	(163)	(1,381)
Total deferred tax liabilities	(2,042)	(1,897)	(16,067)
Net deferred tax assets	¥ 4,019	¥ 4,977	$ 42,144

Net deferred tax assets are included in the Consolidated Balance Sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Current Assets — Deferred tax assets	¥3,303	¥3,727	$31,560
Investments and Other — Deferred tax assets	1,224	1,717	14,541
Long-term Liabilities — Other liabilities	(508)	(467)	(3,957)
Net deferred tax assets	¥4,019	¥4,977	$42,144

For the years ended March 31, 2006 and 2007, the reconciliation of the statutory tax rate to the effective tax rate was follows:

	2006	2007
Statutory tax rate	40.7%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	0.2	0.1
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	0.6	0.6
Amortization of negative goodwill	(0.9)	(0.8)
Equity earnings from unconsolidated subsidiaries and affiliates	(0.6)	(0.6)
Equalization inhabitant taxes	0.2	0.2
Tax rate differences between domestic and overseas	(1.0)	(1.2)
Tax credit for research and development expenses	(0.9)	(0.6)
Refunded tax payment	(0.1)	(1.0)
Other	(0.1)	1.1
Effective income tax rate	38.1%	38.5%

15. Reconciliation of Cash and Cash Equivalents per Consolidated Statements of Cash Flows with Account Balances on Consolidated Balance Sheets

1) Cash and cash equivalents at March 31, 2006 and 2007 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Cash and bank deposits	¥87,911	¥91,857	$777,857
Short-term investments in securities	341	96	813
	88,252	91,953	778,670
Less:			
Term deposits due over three months	(1,945)	—	—
	¥86,307	¥91,953	$778,670

2) Significant non-cash transactions

In the year ended March 31, 2006 and 2007, 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 net assets.

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Increase resulting from conversion of convertible bonds (Paid-in capital)	¥10,628	¥182	$1,546
Increase resulting from conversion of convertible bonds (Additional paid-in capital)	10,628	182	1,543
Decrease resulting from conversion of convertible bonds outstanding	¥21,256	¥364	$3,089

16. Amounts per Share

Amounts per share at March 31, 2005, 2006 and 2007 for the years ended were as follows:

	Yen			U.S. dollars
	2005	2006	2007	2007
Net assets	¥1,067.42	¥1,266.39	¥1,407.84	$11.922
Net income — basic	¥ 145.31	¥ 148.42	¥ 158.36	$ 1.341
— diluted	¥ 130.05	¥ 137.97	¥ 157.22	$ 1.331

Net assets per share is computed based on the net assets and the number of common stock outstanding at the year end net of the number of treasury stocks.

Net income per share is calculated by dividing net income, as adjusted for appropriation of retained earnings for directors' and statutory auditors' bonuses, 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.

For the year ended March 31, 2007, as described in (q) Change in Accounting Policies (4), directors' and auditors' bonuses are no longer accounted for under the appropriation of retained earnings. Accordingly, the adjustment for appropriation items, as described in the above paragraph was not made.

17. 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, 2005, 2006 and 2007 classified by geographic segments were summarized as follows:

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	¥ 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/(loss)	¥ 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

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 —							
Assets	¥195,603	¥17,681	¥21,252	¥23,012	¥257,548	¥ 5,733	¥263,281

	Thousands of U.S. dollars						
	2007						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income —							
Net sales:							
Customers	$1,103,835	$139,938	$165,262	$ 70,438	$1,479,473	$ —	$1,479,473
Inter-segment	213,454	504	829	16,496	231,283	(231,283)	—
Total	1,317,289	140,442	166,091	86,934	1,710,756	(231,283)	1,479,473
Operating expenses	1,061,814	137,291	159,195	79,564	1,437,864	(227,809)	1,210,055
Operating income	$ 255,475	$ 3,151	$ 6,896	$ 7,370	$ 272,892	$ (3,474)	$ 269,418
II. Assets —							
Assets	$1,656,385	$149,726	$179,966	$194,870	$2,180,947	$ 48,545	$2,229,492

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 ¥12,905 million, ¥54,029 million, and ¥55,003 million ($465,775 thousand), as of March 31, 2005, 2006 and 2007, respectively.

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

(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, 2005, 2006 and 2007 were summarized as follows:

	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			
	2006			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥14,108	¥16,199	¥15,861	¥ 46,168
Consolidated net sales				¥158,413
Overseas sales as a percentage of consolidated net sales	8.9%	10.2%	10.0%	29.1%

	Millions of yen (Thousands of U.S. dollars)			
	2007			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥ 16,650	¥ 19,345	¥ 19,203	¥ 55,198
	($140,993)	($163,814)	($162,614)	($ 467,421)
Consolidated net sales				¥ 174,711
				($1,479,473)
Overseas sales as a percentage of consolidated net sales	9.5%	11.1%	11.0%	31.6%

18. Related Party Information

Material transactions of the Company with its related parties for the year ended March 31, 2007 were as follows:

Millions of yen (Thousands of U.S. dollars)

	Name of party	Address	Paid-in capital	Principle business	Description of the Company's transactions	Equity ownership by the Company	Transactions made in the year ended March 31, 2007	Resulting account balances as of March 31, 2007	
								Account	
The business entity in which officer of the Company and his/her relatives hold more than one half of voting rights	R H K Kabushiki Kaisha	Kumamoto-shi, Kumamoto	¥ 20 ($169)	Manufacture and sale of machinery and equipment	Sale of the Company's products and merchandise	—	¥ 7 ($57)	Accounts receivable	¥1 ($7)

Mr. Tetsuya Hayashida, Director of the Company, and his relatives hold 97.5% of voting rights in the above mentioned party. None of the directors of the Company is the board member of RHK Kabushiki Kaisha. The terms and conditions applicable to the above transactions have been determined on the basis of arm's length and reference to normal market price levels.

19. Subsequent Events

Rhythm Corporation Acquisition

On April 23, 2007, the Company resolved at its board of directors meeting that the Company will acquire 100% of shares (including stock rights) in Rhythm Corporation (Headquarters: Hamamatsu-shi, Shizuoka, Japan; President and CEO: Mr. Katsuo Kitamura; "Rhythm") from The Carlyle Group (Headquarters: Washington D.C., USA; "Carlyle") and other parties (minority interest holders) and make Rhythm a subsidiary of the Company. On the same date, the Company entered into an agreement on transfer of shares with Carlyle and other parties.

On May 31, 2007, the Company completed the acquisition of shares in Rhythm for ¥12,590 million ($106,614 thousand).

Purpose of the Acquisition

To increase the corporate value of both companies by improving operational efficiency with cooperation between the Company and Rhythm which has a rich history of high achievement as an automotive parts manufacture, and by expanding new business areas through expansion of new applications and innovations.

Overview of Rhythm

— Name of company: Rhythm Corporation

— Headquarters: 283-3 Gokyu-cho, Minami-ku, Hamamatsu-shi, Shizuoka 430-0831 Japan

— Representative: Katsuo Kitamura
President and CEO

Summarized financials (consolidation basis) for the year ended March 31, 2007

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Net sales	¥30,667	$259,693
Net income	493	4,172
Total assets	26,241	222,215

— Major business
Development, designing, manufacturing and sale of steering parts, brake parts and engine and transmission related parts.

Number of shares acquired, acquisition price and ownership percentage are summarized as follows:

— The number of shares owned before the acquisition
0 shares (ownership percentage: 0%)

— The number of shares acquired
128,549 shares (acquisition price: ¥12,590 million ($106,614 thousand))

— The number of shares owned after acquisition
128,549 shares (ownership percentage: 100%)

The number of shares includes potential shares (5,052 shares) arising in connection with stock rights. The company acquired shares (8,749 shares including potential shares arising in connection with stock rights) held by parties other than the Carlyle Group (minority interest holders) as well.

The acquisition was financed with cash and bank deposits held by the Company.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of THK Co., Ltd. and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two 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 audit 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 audit provides 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, 2006, and the consolidated results of their operations and their cash flows for each of the two 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 Asstes" 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 accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
(formerly ChuoAoyama PricewaterhouseCoopers)
Tokyo, Japan

June 16, 2006

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of THK Co., Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, 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, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 19, on April 23, 2007, the Company resolved at its board of directors meeting that the Company will acquire 100% of shares (including stock rights) in Rhythm Corporation from The Carlyle Group and other parties (minority interest holders) and make Rhythm a subsidiary of the Company. On the same date, the Company entered into an agreement on transfer of shares with Carlyle and other parties.

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.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan

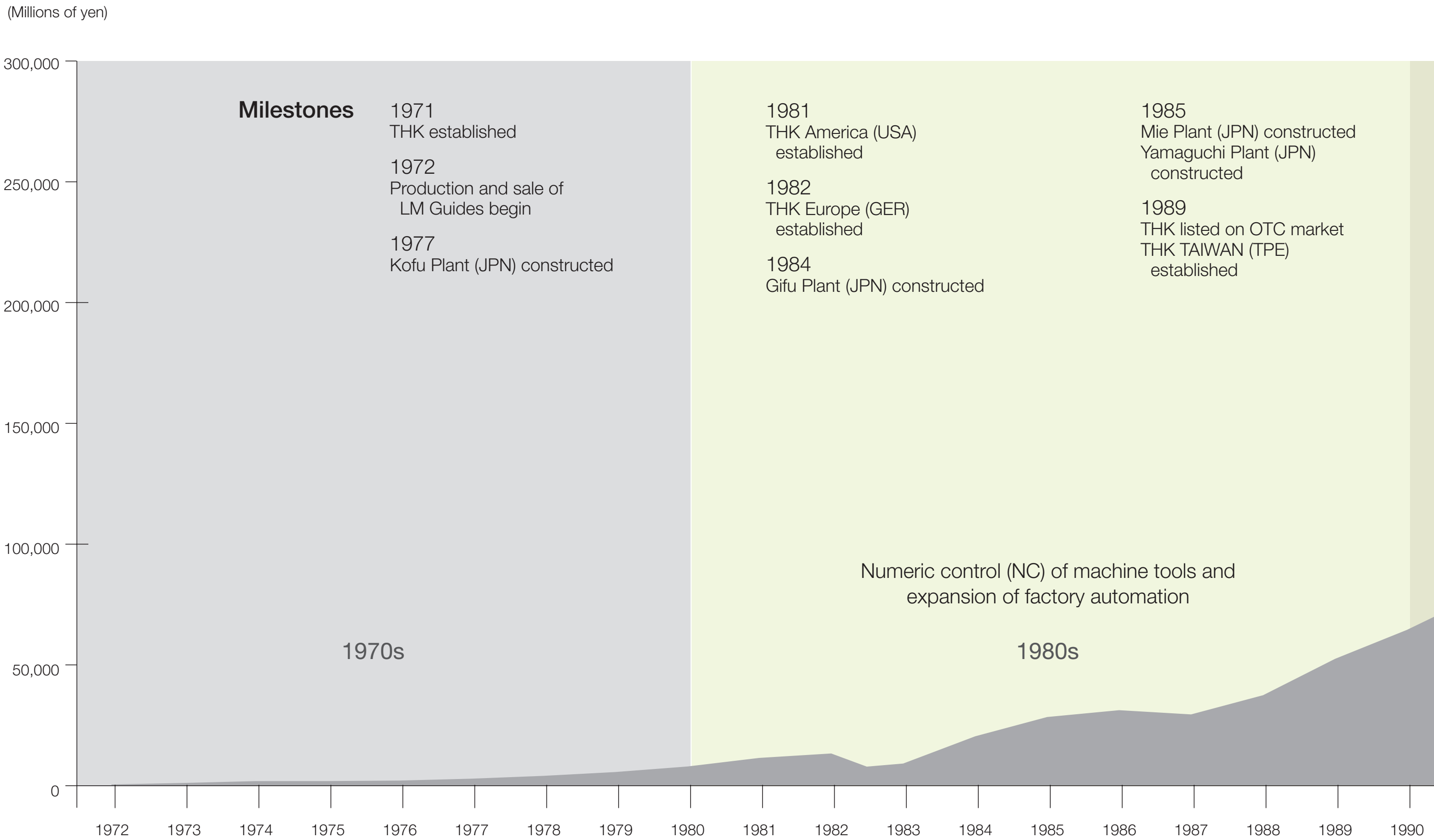
Grant Thornton Taiyo ASG

Grant Thornton Taiyo ASG
Tokyo, Japan

June 16, 2007

HISTORY OF THK

Sales

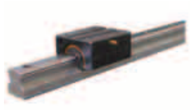


Product Timeline

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
Rolled Ball Screw
(BLK)

1988
Link Ball
(BL)

1991
Yamagata Plant (JPN) constructed

1996
Production and sale of LM Guide with Caged Ball Technology begin
DALIAN THK (CHN) established

1997
TMA (USA) established

2000
TME (FRA) established

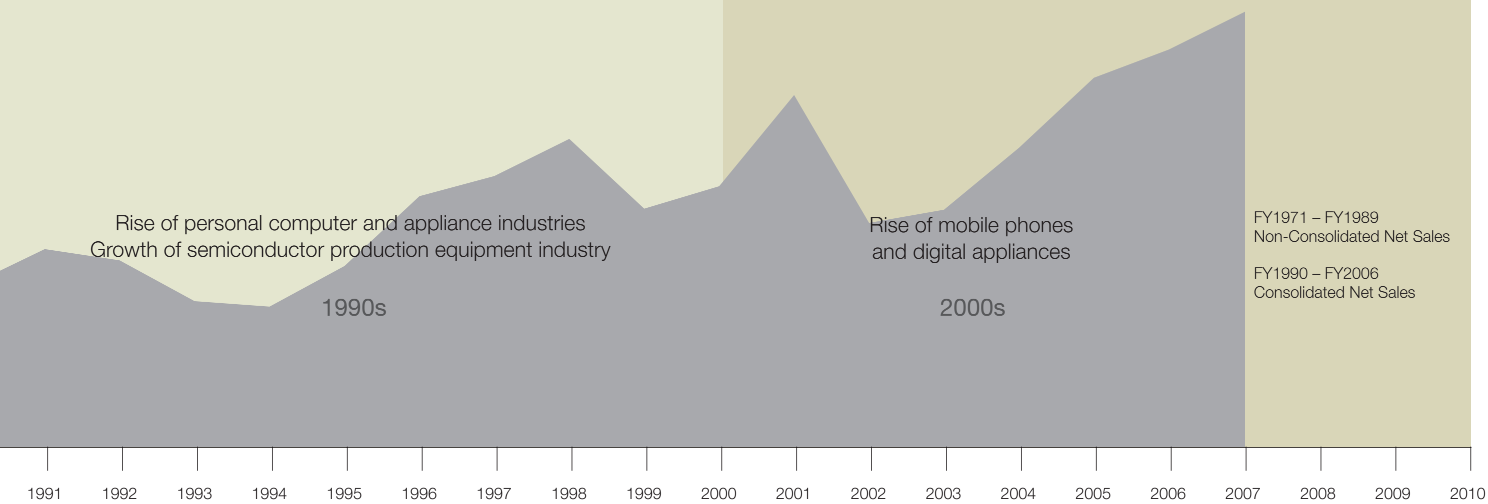
2001
Production and sale of LM Guide with Caged Roller Technology begin
THK listed on TSE

2003
THK SHANGHAI (CHN) established

2004
THK WUXI (CHN) established

2005
THK LIAONING (CHN) established
THK CHINA (CHN) established

2006
THK LM SYSTEM (Singapore) established




1990
LM Guide Actuator (KR)


1992
R Guide (HCR)


1996
LM Guide with Caged Ball (SSR)


1997
Linear Motor Actuator (GLM)


1998
LM Guide with Caged Ball (SHS)


1998
LM Guide with Caged Ball (SNR)


1999
Alignment Stage (CMX)


2000
LM Guide with Caged Ball (SHW)


2001
Seismic Isolation Cross Liner Bearing (CLB)


2001
Seismic Isolation Viscous Damper (RDT)


2001
LM Guide with Caged Roller (SRG)


2002
Linear Motor Actuator (RDM)


2002
Ball Screw with Caged Ball (HBN)


2002
Low Price Actuator (VLA)


2003
LM Guide (HMG)


2003
LM Guide Actuator with Caged Ball (SKR)

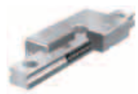

2003
LM Guide with Caged Roller (SRW)


2004
Micro LM Guide (RSR 1.2)


2004
Cross LM Guide with Caged Ball (SCR)


2004
Linear Motor Actuator (KLM)


2004
Rod Actuator (CRES)


2005
Limited Stroke LM Guide (EPF)


2006
LM Actuator (GL-N)

SUBSIDIARIES & AFFILIATE

As of March 31, 2007

Subsidiaries	Main operations	Head office	Percentage owned by the Company, directly or indirectly (%)
DAITO SEIKI CO., LTD.	Manufacture of parts and equipment for machinery	Tokyo, Japan	100.00
TALK SYSTEM CORPORATION	Sale of machinery parts and various types of equipment	Tokyo, Japan	99.00
Beldex Corporation	Manufacture and sale of glass-type substrate-processing equipment (used in FPD production processes) and optical machinery	Tokyo, Japan	94.73
THK NIIGATA CO., LTD.	Manufacture of ball splines	Niigata, Japan	70.00
THK Holdings of America, L.L.C.	Holding company for THK Group operations in the Americas	Illinois, U.S.A.	100.00
THK America, Inc.	Sale of LM guides, ball screws, spherical joints	Illinois, U.S.A.	100.00
THK Manufacturing of America, Inc.	Manufacture of LM guides, spherical joints	Ohio, U.S.A.	100.00
THK Europe B.V.	Holding company for THK Group operations in Europe	Amsterdam, Netherlands	100.00
THK GmbH	Sale of LM guides, ball screws, spherical joints	Ratingen, Germany	100.00
THK France S.A.S.	Sale of LM guides, ball screws, spherical joints	Dardilly, France	100.00
THK Manufacturing of Europe S.A.S.	Manufacture of LM guides, ball screws, spherical joints	Ensisheim, France	100.00
PGM Ballscrews Ireland Ltd.	Manufacture and sale of ball screws	Dublin, Ireland	98.97
THK TAIWAN CO., LTD.	Sale of LM guides, ball screws, spherical joints	Taipei, Taiwan	94.99
THK (CHINA) CO., LTD.	Management of THK Group operations in China	Dalian, China	100.00
THK (SHANGHAI) CO., LTD.	Sale of LM guides, ball screws, spherical joints	Shanghai, China	100.00
DALIAN THK CO., LTD.	Manufacture and sale of ball screws, actuators	Dalian, China	70.00
THK MANUFACTURING OF CHINA (WUXI) CO., LTD.	Manufacture of LM guides	Wuxi, China	100.00
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.	Manufacture of LM guides	Dalian, China	100.00
Beldex Korea Corporation	Manufacture and sale of glass-type substrate-processing equipment (used in FPD production processes) and optical machinery	Seoul, South Korea	100.00
THK LM SYSTEM Pte. Ltd.	Sale of LM guides, ball screws and spherical joints in ASEAN countries, India and Oceania	Singapore	100.00

Affiliate			
SAMICK THK CO., LTD.	Manufacture and sale of LM guides	Daegu, South Korea	33.34

Note: THK acquired 100% of the shares of Rhythm Corporation on May 31, 2007. Rhythm became a consolidated subsidiary from that date.

CORPORATE DATA

As of March 31, 2007

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	5,563 (consolidated); 2,961 (parent company)
Month of Ordinary General Meeting of Shareholders	June
Web Site URL	http://www.thk.com/
Independent Auditors	Misuzu Audit Corporation Grant Thornton Taiyo ASG

Stock Information

Common Stock:	
Authorized	465,877,700 shares
Issued	133,020,540 shares
Stock Exchange Listing	Tokyo Stock Exchange
Stock Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation
Number of Shareholders	27,091 (Unit shareholders: 25,552)

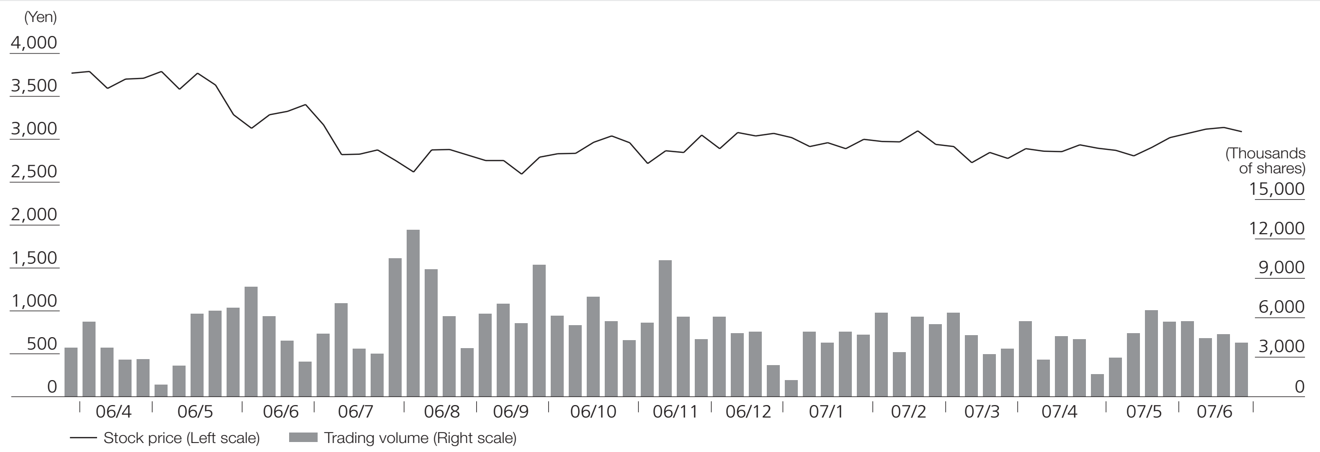
Major Shareholders

	Number of Issued Shares Held	Percentage of Voting Rights (%)
Japan Trustee Trust Bank of Japan, Limited (Trust Account)	12,683,100	9.53
The Master Trust Bank of Japan, Limited (Trust Account)	8,818,700	6.62
Akihiro Teramachi	5,840,900	4.39
The Chase Manhattan Bank, N.A., London SL Omnibus Account	4,259,100	3.20
State Street Bank & Trust Co. 505103	3,483,354	2.61
Japan Trustee Trust Bank of Japan, Limited (Trust Account 4)	2,324,100	1.74
State Street Bank & Trust Co.	2,265,362	1.70
Mizuho Corporate Bank, Limited	2,123,800	1.59
UBS AG London Account IPB Segregated Client Account	2,088,800	1.57
FTC Company, Limited	2,074,000	1.55

Shareholder Composition

Shareholder Type	Number of Shareholders	Number of Issued Shares Held	Shareholding Ratio (%)
Financial Institutions	113	43,463,420	32.67
Securities Companies	45	1,254,267	0.94
Other Corporations	417	4,445,782	3.34
Overseas Institutions	372	58,046,727	43.64
Individuals and Others	26,144	25,810,344	19.41
Total	27,091	133,020,540	100.00

Stock Price and Trading Volume



THK CO., LTD.

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Printed in Japan