# Annual Report 2010

THK

THE MARK OF LINEAR MOTION

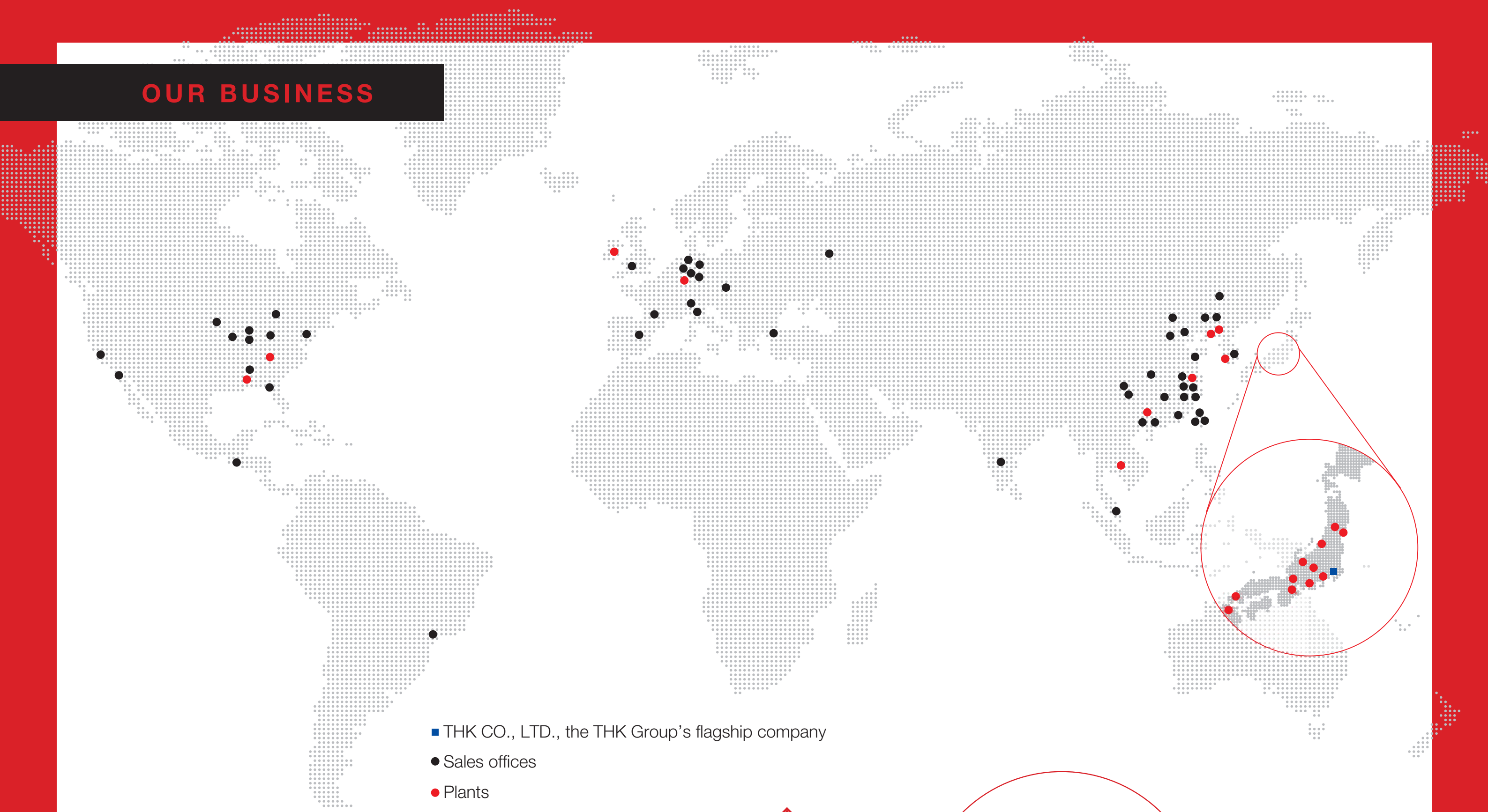
# THIS ANNUAL REPORT'S DESCRIPTION

## ABOUT US

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. The Company'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 provided us with the momentum to become a creative development-driven enterprise, enabling us to develop a stream of original products since our establishment in 1971.

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. LM guides have continued to make 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 and industrial robots. Looking ahead, we expect their use to extend to seismic isolation systems and expand into such consumer product areas as auto parts.

Through the use of the Company's products including LM guides, THK is contributing to the development of customers worldwide and the building of an abundant society. In adopting a two-pronged strategy that entails "Full-Scale Globalization" and the "Development of New Business Areas," we are working to expand our business domain both geographically and in terms of product applications.




## Full-Scale Globalization

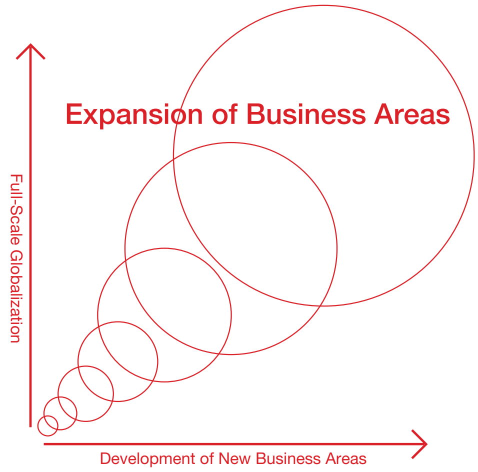
Recognizing that optimal production is best served by locating facilities closer to demand centers, THK pursues business development through integrated manufacturing and sales systems in the four key geographic regions of Japan, the Americas, Europe and Asia.

In Japan, the Company maintains a production network of 15 plants with the Yamaguchi Plant serving as a mother factory. Complementing THK's production activities the Company has positioned the Technology Center at the heart of its research and development (R&D) endeavors. In this manner, we are active in R&D and the creation of innovative high value-added products.

Under the umbrella of THK Holdings of America, L.L.C., business in the Americas is primarily conducted by a network of subsidiary companies including THK America, Inc., which serves as the sales and marketing arm, THK manufacturing of America, Inc., which is responsible for the production function, and THK RHYTHM NORTH AMERICA CO., LTD., which handles auto parts. In addition to the United States, THK is working diligently to cultivate new business in such markets as Canada and Mexico.

THK Europe B.V. serves as the regional operating company for our operations throughout Europe. Sales activities are for the most part divided between THK GmbH and THK France S.A.S., the Group's principal marketing subsidiaries in the region. Products are sold through sales bases established in 11 countries as well as a network of sales agents within each country. The production function is dividend between two manufacturing subsidiaries, THK Manufacturing of Europe S.A.S. (TME) and PGM Ballscrews Ireland Ltd.

In Asia, we have production facilities in China, Thailand and South Korea. We are also taking steps to upgrade and expand our sales network within the region. (Please refer to the Special Feature on pages 10 to 13 for details of developments in China).




## Development of New Business Areas

Within the context of new business development serving as another core pillar in efforts to expand the Group's business domain, THK's current principal customer base comprises manufacturers of such capital goods as machine tools and semiconductor production equipment. In order to expand use into consumer product areas, we have set up and bolstered the activities of specialist divisions including the Future Automotive Industry (FAI) Division, the Amenity Creation Engineering (ACE) Division and the Innovated Mechatronics Technology (IMT) Division.

In addition, THK included RHYTHM CORPORATION (currently THK RHYTHM CO., LTD.), an auto parts manufacturer, in its scope of consolidation as a consolidated subsidiary in 2007 and is working to expand its transportation equipment-related business.

## CONSOLIDATED PERFORMANCE OVERVIEW

Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2010 |
| Net Sales* | ¥158,413 | ¥174,711 | ¥208,709 | ¥179,269 | ¥ 115,330 | $1,239,577 |
| Japan | 112,245 | 119,513 | 136,322 | 109,566 | 70,296 | 755,544 |
| The Americas | 14,108 | 16,650 | 26,000 | 23,266 | 14,552 | 156,411 |
| Europe | 16,199 | 19,345 | 25,237 | 24,916 | 12,636 | 135,810 |
| Asia and Other | 15,861 | 19,203 | 21,150 | 21,521 | 17,846 | 191,812 |
| Gross Profit | 57,922 | 65,142 | 68,053 | 48,341 | 23,189 | 249,238 |
| Operating Income (Loss) | 27,080 | 31,816 | 26,938 | 8,523 | (9,509) | (102,201) |
| Income (Loss) before Income Taxes and Minority Interests | 30,566 | 34,524 | 26,701 | 6,284 | (14,511) | (155,960) |
| Net Income (Loss) | 18,584 | 21,038 | 18,323 | 1,204 | (14,301) | (153,708) |
| Total Assets | 244,385 | 263,281 | 264,229 | 240,351 | 236,375 | 2,540,572 |
| Net Assets (Note 2) | 169,792 | 189,040 | 192,953 | 177,713 | 162,259 | 1,743,968 |

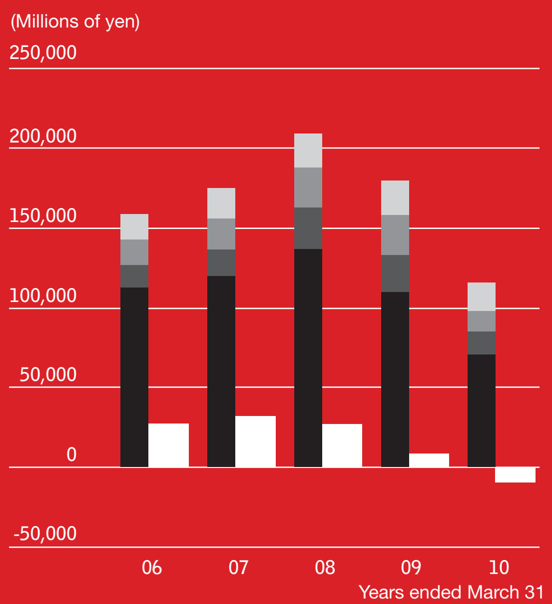
*Segments are based on where our customers are located.

| | Yen | | | | | U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2010 |
| Net Income per Share — basic | ¥ 148.42 | ¥ 158.36 | ¥ 139.53 | ¥ 9.36 | ¥ (111.20) | $(1.20) |
| Net Income per Share — diluted | 137.97 | 157.22 | 138.74 | - | - | - |
| Book Value per Share (Note 3) | 1,266.39 | 1,407.84 | 1,484.78 | 1,372.69 | 1,252.71 | 13.46 |

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Operating Margin (%) | 17.1 | 18.2 | 12.9 | 4.8 | (8.2) |
| Return on Equity (%) (Note 3) | 12.6 | 11.8 | 9.7 | 0.7 | (8.5) |
| Return on Assets (%) (Note 4) | 11.8 | 12.8 | 10.5 | 3.6 | (3.9) |
| Equity Ratio (%) (Note 3) | 68.9 | 71.1 | 72.3 | 73.4 | 68.2 |
| Asset Turnover Ratio (times) | 0.68 | 0.69 | 0.79 | 0.71 | 0.48 |

Notes: 1. U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥93.04 = U.S.$1, the approximate rate of exchange prevailing in Tokyo on March 31, 2010.
2. Prior period figures have been reclassified to conform to the current year. Minority Interests is included in Net Assets.
3. Calculated on the basis of Net Assets less Minority Interests.
4. Operating Income (loss) plus Interest and Dividend Income as a percentage of average Total Assets.

### Net Sales and Operating Income (Loss)



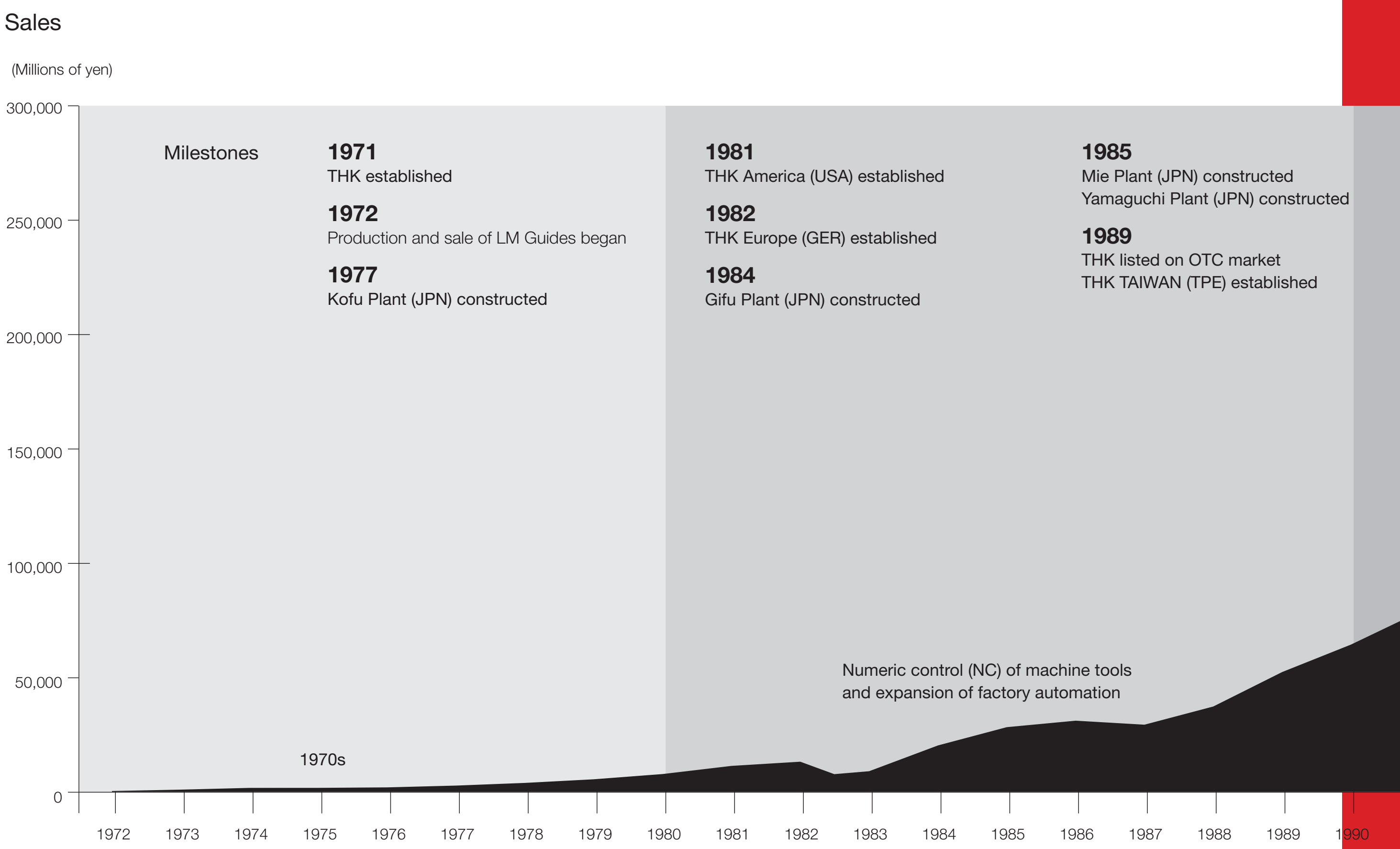

In fiscal 2009, the fiscal year ended March 31, 2010, net sales contracted 35.7% compared with the previous fiscal year to ¥115.3 billion.

On the domestic front, demand trended toward a recovery mainly in electronics-related areas over the second half resulting in a steady increase in sales. The depth and scale of decline during the first half, on the other hand, was so severe that overall sales dropped dramatically year on year.

Overseas, performance was supported by the second-half pickup in demand most in the Asia region including China and Taiwan. In similar fashion to Japan, however, these gains were more than offset by deterioration throughout the first half.

■Japan ■The Americas ■Europe ■Asia and Other
■Operating Income (Loss)

## OUR GROWTH




### The 1970s:
### Inauguration and Initial Period of Set Up

While rolling contact utilizing rotary bearings was a standard method for accomplishing rolling motion at this time, significant difficulties were encountered in introducing a rolling component to linear motion.

In 1971, THK developed the ball spline, which enabled a higher level of linear motion precision and performance. This ball spline was the predecessor to THK's current flagship linear motion (LM) guide, which was first introduced in 1972.

Later in 1978, the Company's products were adopted by a U.S.-based pioneer of the Machining Center and world-class leader of its day. With this breakthrough, the use of LM guides in machine tools grew from strength to strength.

### The 1980s:
### Significant Developments in Factory Automation (FA)

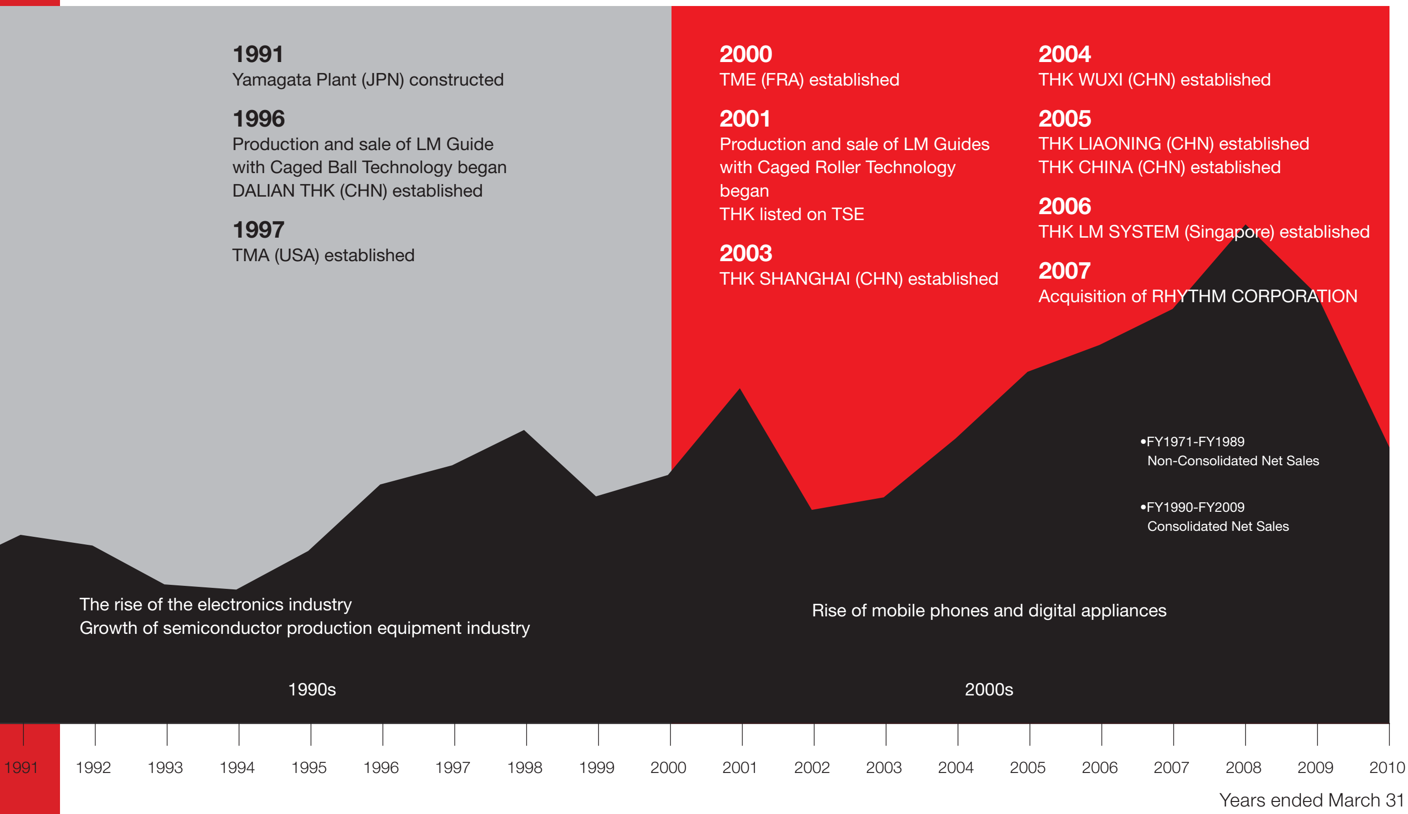
The Oil shock saw the demise of heavy industry, pushing the high-tech and light industries increasingly to the fore. Buoyed by depreciation in the value of the yen as well as the outstanding quality of products manufactured in Japan, export volumes to Europe and the United States climbed steadily. Under these circumstances, demand was high for the volume manufacture of quality products. With factory automation advancing across production frontlines, machine tool production volumes increased and the proportion of advanced numerical control (NC) machine tools saw steady growth. Against this backdrop, the application of LM guides enjoyed explosive growth.

Ball Spline

Developed in the same year that THK was established, ball splines are the precursor to the LM guide. This revolutionary product allows balls to roll along an R-shaped groove machined into the spline axle, which in turn boost the load that the device can tolerate and permits the transmission of torque.

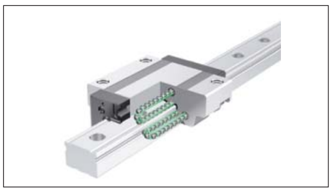
Linear Motion (LM) Guides

Developed utilizing the structure and mechanism of ball splines, LM guides today represent THK's flagship product range. Benefiting from the use of the Company's LM guides by a major U.S.-based machine tool manufacturer of its day, the application of THK'S products in machine tools has seen significant growth.




## The 1990s:
## The Rise of the Electronics Industry

During the 1990s, the number of LM guides used in semiconductor production equipment surged dramatically in line with the increase in semiconductor demand. Entering the new century, amid the proliferation of mobile devices and digital home electronic appliances as well as the upswing in demand for semiconductor production, flat panel display production and related production equipment, products that applied LM guides, focusing mainly on second-generation LM guides with caged ball technology, increased. In tune with the relentless advance of manufacturing globalization, THK will actively pursue business development overseas.



LM Guides with Caged Ball Technology

LM guides with caged ball technology were developed as the next generation in their line. In keeping the balls in place, the use of ball cage technology extends service life, reduces noise and enables longer maintenance-free periods compared with first-generation LM guides.

## Future Growth:
## Ongoing Development of Newly Emerging Countries as well as the Growing Shift Toward Electric-Powered Living

Looking at changes in the Company's external operating environment, THK is witnessing an increase in the number of industrial machinery produced as well as an upswing in the ratio of numerically controlled machine tools. This is largely attributable to the ongoing development of newly emerging countries. At the same time, the impetus provided by higher interest in environmental protection, is resulting in the move toward electric-powered living across a wide spectrum of areas.

In response, and as a part of THK's efforts toward "Full-Scale Globalization," the Company will further fortify its integrated manufacturing and sales systems in the four geographic regions of Japan, the Americas, Europe and Asia. Against this backdrop, the Company will accelerate the pace of sales network expansion with a greater sense of urgency throughout newly emerging countries, which are anticipated to drive increasingly toward factory automation. Complementing this endeavor, THK will also upgrade and expand local production capacity.

In its efforts to promote the "development of new business areas," the Company will bolster the activities of both the FAI and ACE divisions. At the same time, we will work to capture the forecast surge in demand, associated with the projected shift toward electric-powered living, through the IMT Division, which was established in 2009. THK recognizes that efforts to reduce $CO_2$ emissions will become an increasingly essential component of business. This in turn is expected to underpin the growing emphasis on electric-powered products as the market focuses increasingly on energy efficiency across wide-ranging areas. Under these circumstances, components that complement this shift toward electric-powered products will gain in importance. In its efforts to take full advantage of these favorable conditions, THK will aggressively bolster its sales and marketing activities with the aim of expanding sales.

Taking all of the aforementioned into consideration, THK plans to increasingly realize the vast potential of its products including LM guides. In this regard, we remain committed to achieving the key milestones of ¥300 billion in consolidated net sales, an operating margin of 20% and a return on assets (ROA) of 15%.

# TOP MESSAGE

## Looking back on fiscal 2009

### Initiatives with a view to the future

The global economy witnessed a substantial decline in the aftermath of the Lehman Brothers shock in autumn 2008. At that time, the world faced two distinct possibilities: one, a substantial downturn in the economic environment rivaling the Great Depression of 1929; two, and in stark contrast, a speedy recovery in overall business conditions, driven by wide-ranging economic pump-priming measures. Looking back, the swift action adopted by various nations to implement policy initiatives aimed at stimulating the economy did in fact produce a positive spillover effect prompting increased capital investment. After bottoming out in February 2009, THK has experienced a steady monthly upswing in orders on a non-consolidated basis.

Despite this positive trend, the Company continued to confront an extremely harsh operating environment. On a monthly basis, non-consolidated orders in February 2009, for example, fell to less than one-quarter of the levels recorded prior to the Lehman Brothers shock. Against this backdrop, THK has continued to pursue a growth strategy. While working diligently to further eliminate waste and inconsistency, we have increasingly focused on bolstering our business platform and the human, technological and financial capital capabilities that provide the wellspring for our growth potential.

Notwithstanding these endeavors, net sales in the fiscal year under review totaled ¥115.3 billion, a substantial year-on-year decline of 36%. Buffeted by the drop in net sales, THK incurred an operating loss of ¥9.5 billion. Taking into consideration the sharp recovery in orders throughout the second half of fiscal 2009, I am confident that the seeds we have continued to sow will prove a major strength in our ability to respond to the upswing in demand, bearing fruit from fiscal 2010 and beyond.

In addition to the aforementioned, the Company was

Akihiro Teramachi *President and CEO*

forced to make substantial adjustments to those earnings plans projected for RHYTHM at the time of integration. This was largely attributable to the deterioration in the external environment. As a result, THK undertook the lump-sum amortization of goodwill, which led to a net loss totaling ¥14.3 billion. On a brighter note, RHYTHM's performance is expected to improve, with forecasts indicating a return to the black in the current fiscal year. In addition to the positive turnaround in the external environment, this also reflects an increase in the use of the company's products in new vehicle models. As the THK Group and RHYTHM increasingly realize wide-ranging synergy benefits across each of the management, sales, production and technology functions, favorable expectations are held for future growth.

### Bolstering revenues and earnings

Recognizing that China would experience the strongest rebound, we took our business development endeavors to the next level throughout fiscal 2009. Initiatives that included the upgrade and expansion of our sales base network in China are currently producing a powerful effect with year-on-year sales projected to double in fiscal 2010. These initiatives are based on the clear understanding that the Lehman Brothers shock served to create a framework under which newly developing countries including China would play a leading role in driving growth. We now recognize that newly emerging markets are the source and power behind future growth. At the same time, it is abundantly clear that THK will in future face fierce competition from not only those industries with which it is directly linked but from Asian manufacturers from every conceivable market. Against this backdrop, it is imperative that we reassess the way in which we conduct our business within the context of a keen sense of impending crisis.

In addition, we launched the P25 Project in fiscal 2009 in an effort to further strengthen our business platform. The P25 Project is an initiative that extends beyond the traditional boundaries of development, production and sales. While straddling all related areas of activity, our goal is to conduct a thorough and comprehensive review of issues confronting the Group's principal operations. In identifying various improvement measures, our plans are to increase the marginal profit ratio, enhance fixed cost efficiency and lower the break-even sales point. The first step in fiscal 2009 was to again cast a keen eye on our current status and conditions. With an analysis in hand, our next step is to draw up specific initiatives. Taking into consideration the Group's capabilities, THK is then poised to implement these measures on a gradual basis. Thanks to the analysis undertaken throughout the fiscal year under review, THK has taken significant strides in "visualizing" the Group's current status and needs. This has in turn clarified specific measures that will allow the Group to most effectively achieve its established goals. In moving ahead, I am confident that the THK Group can look forward to success.

## The business environment and outlook in fiscal 2010

There are those who have written off any possibility of a double-dip recession in the months and year ahead. I am not so sure. The possibility exists that the global economy will encounter residual aftereffects from the massive shock of 2008. Among a host of concerns, anxieties remain over the financial standing and status of Europe as well as corrections to the Chinese economy following the conclusion of the Shanghai Expo. With these concerns surrounding adjustments within the Chinese economy and other factors, I do not believe that we can at this point in time make a definitive decision as to whether we will enter a full-fledged "revival stage" or slip into a double-dip recession and accordingly a "survival stage."

With this in mind, the THK Group will maximize the full potential of its existing management resources to make the most of every available opportunity and the current robust recovery in orders. While taking into account future downside risks, we will continue to place every emphasis on the reduction of expenses.

On this basis, fiscal 2010 net sales announced in May 2010 are projected to reach ¥176.0 billion, a year-on-year increase of 53%. From a profit perspective we plan to secure ¥16.0 billion in operating income. Compared with results in fiscal 2008 when the Group reported net sales and operating income of ¥179.2 billion and ¥8.5 billion, respectively, we expect to almost double our earnings on approximately the same level of net sales. Our ability to achieve the goals set for fiscal 2010 will in effect verify the efficacy of the P25 Project and related initiatives.

## Medium- to long-term strategy: Full-Scale Globalization

### Responding to each market

In such developed markets as Japan, the Americas and Europe, the THK Group will work diligently to expand ties with customers engaged in the development of leading-edge

machinery as well as in such new business areas as automobiles and aircrafts. While time will be required to fully develop opportunities in each field, we are confident that these new areas offer significant potential for future growth.

Taking full advantage of the Asia region including China is an issue that is not exclusive to the THK Group. Historically, developed nations where wages and salaries remain high have stood at the center of both growth markets and supply. Looking ahead, newly developing economies where on a comparative basis wages and salaries are low can be expected to take over these prominent roles. Manufacturers based in major industrialized countries are therefore projected to confront intense competition.

Under these circumstances, and recognizing the critical role that newly developing nations will play in driving future growth, it is not an exaggeration to say that the P25 Project will lay the foundation for the THK Group's ability to maintain its competitive advantage in the years ahead. Consequently, it is critical that we focus not only on short-term gains, but on building a business platform that will allow us to maintain a leading position and generate a consistent stream of profits.

In order to take full advantage of forecast improvements in activity, particularly amid the upswing in demand from newly developing countries, an adequate supply structure and system is considered essential. In this regard, THK already boasts production bases in eleven overseas regions. It is particularly strong in Asia where markets are anticipated to enjoy robust growth with a network of seven manufacturing facilities based mainly in China and Southeast Asia.

Not content to rest on our laurels, we are currently considering further expansion in such areas as India and Brazil. While we currently maintain sales bases in each country, signs of an increase in the demand for local supply are steadily emerging. Looking ahead, we will closely monitor the requirements of future markets and tailor our business development activities accordingly.

### Strategic expenditure and returns on investment

On the understanding that the Chinese market will continue to expand and in adopting the underlying concept of optimizing production by locating facilities closer to demand centers, the THK Group will continue to bolster its manufacturing capabilities in China. Simply boosting production facilities will not of itself immediately lead to an increase in sales. Integral to the Group's success is its ability to deliver relevant and optimal products and technologies to its customers. With this in mind, we will accelerate the expansion of our sales network with a greater sense of urgency. Plans call for the current level of 19 branches to rise to 30 at the earliest opportunity and to 60 in 2014.

Another option is naturally to place additional weight on bolstering indirect sales. As a leading manufacturer that recognizes its principal responsibility as providing detailed and tailor-made services to customers, this is not however a viable alternative. THK has always taken great pride in its direct ties with customers and communications that entail explanations of product use and the selection of the most appropriate item for a particular environment. Our efforts therefore revolve entirely around increasing sales bases that can deliver products and services directly to customers. We will continue to strengthen a sales structure that is underpinned by the overarching goal of increasing customer satisfaction. By maintaining direct customer contact, we are also confident in our ability to reduce the risks involved in collecting outstanding receivables.

Marking another milestone in the Group's business development in China, THK established a research and development division within THK (CHINA) CO., LTD. in Dalian City, Liaoning Province in April 2010. While the fruits of this endeavor may take a few years to harvest, our expectations remain high based on an enhanced ability to accurately identify and grasp the needs of customers.

## Medium- to long-term strategy: Development of New Business Areas

### Building new growth pillars for the next era

Hand-in-hand with Full-Scale Globalization, THK is committed to the development of new business areas as a part of its overall growth strategy. In this regard, we will also accelerate initiatives in new business development.

First, we will maintain our focus on existing auto-related areas. Auto-related activities are primarily undertaken by the FAI Division where business development revolves essentially around automobile undercarriage products. While continuing to pursue business with these products as our linchpin, we will ramp up activities that recognize the growing trend toward electric-powered products. In this regard, we will place every emphasis on promoting increased use of THK's linear motion systems. In fiscal 2009, we reorganized our development processes on an individual automobile structure basis. Looking ahead, we plan to actively promote proposals based on the wide-ranging ideas put forward by specialist areas.

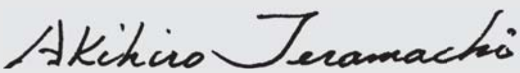
A second area of focus is the ACE Division which is responsible for the residential field. As awareness toward disaster countermeasures increases throughout the world, interest in seismic isolation systems is steadily rising. Against the backdrop of a projected increase in systems application, the THK Group will work in earnest to further verify cost benefits. In addition, steps are being taken to promote increased use of the division's products and technologies in home automation-related devices.

Third, is the IMT Division which was launched in 2009. Amid the growing trend toward electric-powered machinery and equipment, THK will develop and propose electric actuators that embody the Group's unique qualities and characteristics. In addition, demand for the electric-powered products handled by the IMT Division is forecast to extend into the automobile and living environments including household appliance applications. Recognizing that volumes in the consumer products field are overwhelmingly higher than the industrial sector, the THK Group will place equal emphasis on developing business in each area. Moreover, THK is currently active in the areas of robot and related product development. At some point in the future we believe that humankind will coexist with robots not only in industrial areas but also living environments. Our development activities are therefore premised on this forecast scenario.

### The potential of THK

Recognizing and harnessing the vast potential of its products, the THK Group will significantly expand its business domain by engaging in efforts that realize Full-Scale Globalization as well as the development of new business areas. Not only will this allow us to achieve our consolidated net sales target of ¥300 billion as a matter of course, but I am confident that it will also lay the platform for further long-term growth. While flexibly responding to short-term changes in our external environment, we will carry out our established growth strategies. By definition, our goals are to enhance corporate value and to fulfill the expectations of all stakeholders including shareholders. As we work toward achieving these objectives, we kindly request your continued support and understanding.

July 2010



Akihiro Teramachi
President and CEO
THK CO., LTD.

# Business Environment and Performance

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

## Q What is the overall trend in the China market?

A The collapse of Lehman Brothers in autumn 2008 had a far-reaching impact on the global economy not to mention worldwide financial markets. Spilling over into both developed and developing nations, the effects of financial turmoil were seen even in China. As a result, THK's China business witnessed a sharp and persistent drop in orders from the second half of 2008. More recently, however, the overall strength of the Chinese market has fueled an extremely fast-paced recovery in orders, particularly when compared with developed countries. Building on the Company's record high results in the October to December quarter of 2009, THK has enjoyed a persistent upswing in performance during the January to March and April to June quarters of 2010. In specific terms, results have been supported by extremely robust capital investment in each of the electronics- and automotive-related sectors.

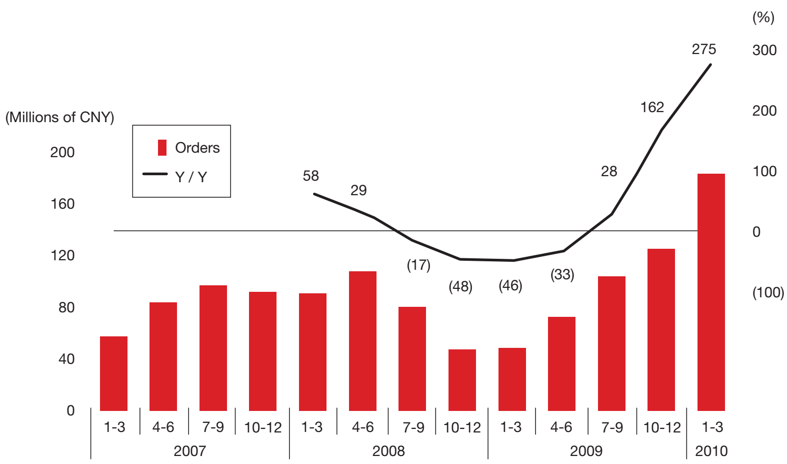
Extending its focus beyond traditional coastal regions, the Chinese government is implementing economic measures that encompass the northeast and inland areas. In its China business, THK is therefore experienced favorable conditions nationwide.

At more than four billion, Asia accounts for around 60% of the world's population with China the undisputed global leader at 1.3 billion. On this figure alone, China's potential spending power is enormous. On the other hand, with a shortage in the supply of labor at the production frontline, there is a growing sense that the trend toward automation is advancing. In the context of future business development in Asia including China, automation will undoubtedly provide an important key to growth.

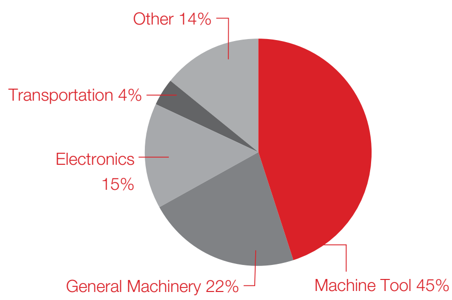
## Q How has the Company performed in China to date?

A THK first entered the China market in the 1990s. We are confident that business has progressed positively to date. Recognizing the vast potential that the market offers, the Company worked in earnest to build an integrated production and sales structure from 2003. In this regard, THK continues to optimize production and sales by locating facilities and operations closer to centers of demand. Within its industry, the Company was first to adopt this philosophy and remains the only foreign company of its kind to maintain a local production base. Complementing this initiative and in an effort to foster closer ties with its customers, THK has sought to

### Trends in THK CHINA's orders received




### User breakdown of THK CHINA's sales (FY2009)



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

expand its sales bases in China. As a result of these endeavors, the Company has successfully secured a high market share in China. By placing the utmost importance on close-knit ties and the constant exchange of opinions between manufacturing and sales, THK has benefited from an integrated system that continues to successfully expand in tune with China market growth.

## Q How do demand trends vary from industry to industry?

**A** Machine tools are currently driving the Company's growth in China, accounting for approximately 50% of total orders received. We have for some time delivered LM guides used in machine tools to major manufacturers in China. With application expanding both in new models and by new customers, product volumes are steadily increasing.

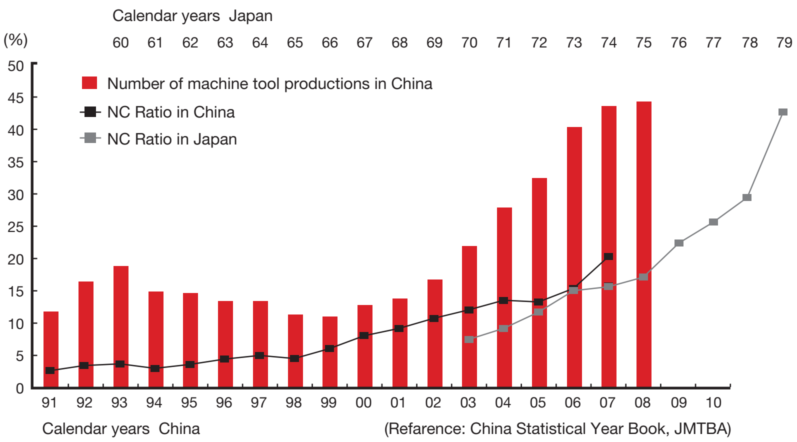
Positioned as a core national project, the Chinese government has in recent years identified the railway industry as a key area for development. On this basis, public authorities have announced plans to construct over 100 railway lines across 16 cities by 2020. Under these circumstances, demand for the Company's products, and particularly those for machine tools used in the processing of railway carriages and railway lines as well as the doors installed at station platforms, is expected to rise.

In addition, THK is projecting increased demand for its products used in the electronics field, which is forecast to enjoy the considerable support of the Chinese government at the national level.

## Q What are the prospects for NC machine tools?

**A** Of the machine tools currently being manufactured in China, the proportion offering advanced numerical control (NC) stands at slightly more than 20%. While the number of NC machine tools produced has increased over the past two to three years, the ratio to total machine tools itself is not considered to have registered much growth. Based on the assumption that China will steadily shift toward high-end models, the ratio of NC machine tools to total machine tools is forecast to climb sharply over the next five to six years. With this anticipated trend toward NC machine tools, significant potential exists for substantial growth in demand for the Company's LM guides and ball screws, recognized as essential NC machine tool components.

**Trends in machine tool unit production in China and the ratio of NC machine tools to total machine tools**



# Competitive Advantage

**Q** What is the Company's business structure-related competitive advantage?

**A** As mentioned previously, THK's competitive advantage in China stems from its integrated manufacturing and sales structure. In addition to an existing network of 19 sales bases, by providing direct to its customers a host of tailor-made services coupled with the manufacture of industrial equipment-related products from three production facilities located in China as well as transportation equipment-related products at THK RHYTHM GUANGZHOU CO., LTD., THK has built a structure that is capable of supplying a wide range of products in a timely fashion.

Taking into consideration future trends in the market and in an effort to better develop products that address local needs, THK established a research and development division in China in April 2010. Through these means, we are building an unassailable structure and system in China.

**Q** What are the Company's competitive advantages in sales?

**A** As a pioneer in the development of business in China, we have had the opportunity and distinct advantage to recruit and nurture over many years local staff. Considerable time and effort is required when developing human resources. The fact that the Company was among the first to enter the market has been and remains a major benefit.

The very fact that these human resources are currently working as sales staff in each of our offices in China, providing tailor-made and detailed services, is a major reason for customers also positioning THK as the preferred supplier of choice in the China market. As calls from customers seeking to manufacture quality products increases with each passing year, we plan to reinforce our emphasis on THK's proposal capabilities moving forward. The purpose of our human resource development endeavors is therefore far removed from the simplistic aim of promoting sales. As we go about our daily education and training activities, our goal is to both address the needs of our customers and to provide marketing proposals unique to THK.

**Q** What are the Company's competitive advantages in production?

**A** In order to manufacture high-quality products, we are introducing to the China market high performance equipment. Every effort is being made to ensure that the THK brand remains synonymous with the highest global standards.

Currently, at this time of sharp order growth, we are reaping the benefits of volume production by unfailingly addressing this robust demand. Looking ahead, THK will expand its production capacity, while effectively applying its existing facilities. In this manner, we plan to further lift the efficiency of our investments.

## Production bases in China

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

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

DALIAN THK CO., LTD.

THK RHYTHM GUANGZHOU CO., LTD.

# Initiatives Moving Forward

**Q** What targets and measures have been identified for the medium-to-long term?

**A** As a Group, THK has set a consolidated net sales target of ¥300 billion. Our aim is to take full advantage of projected high rates of growth throughout Asia, which we recognize will play an important role in our achieving established targets. To this end, the Group is committed to bolstering its integrated manufacturing and sales structure in the Asia region focusing on China.

As an initial step, the THK Group will draw on its local production capabilities to deliver cost competitive products of the highest global standard. To achieve this objective, we will actively diversify material procurement channels while at the same time enhancing onsite production skills. Through these means, the THK Group will work toward increasing productivity.

From the sales and marketing perspectives, we will upgrade and expand our sales bases. Currently, the Group maintains a network of 19 bases. At the earliest possible opportunity we plan to raise increase our network to 30 bases and to again this figure to 60 bases by 2014. Complementing this initiative, we will strengthen relationships with leading sales agents in an effort to develop business deeply rooted in the region.

Through the Future Automotive Industry (FAI) Division, the THK Group is expanding its activities mainly in transportation-use machinery and equipment-related businesses. Looking ahead, we will coordinate with the FAI Division to actively pursue business in the automobile industry throughout the Asia region.

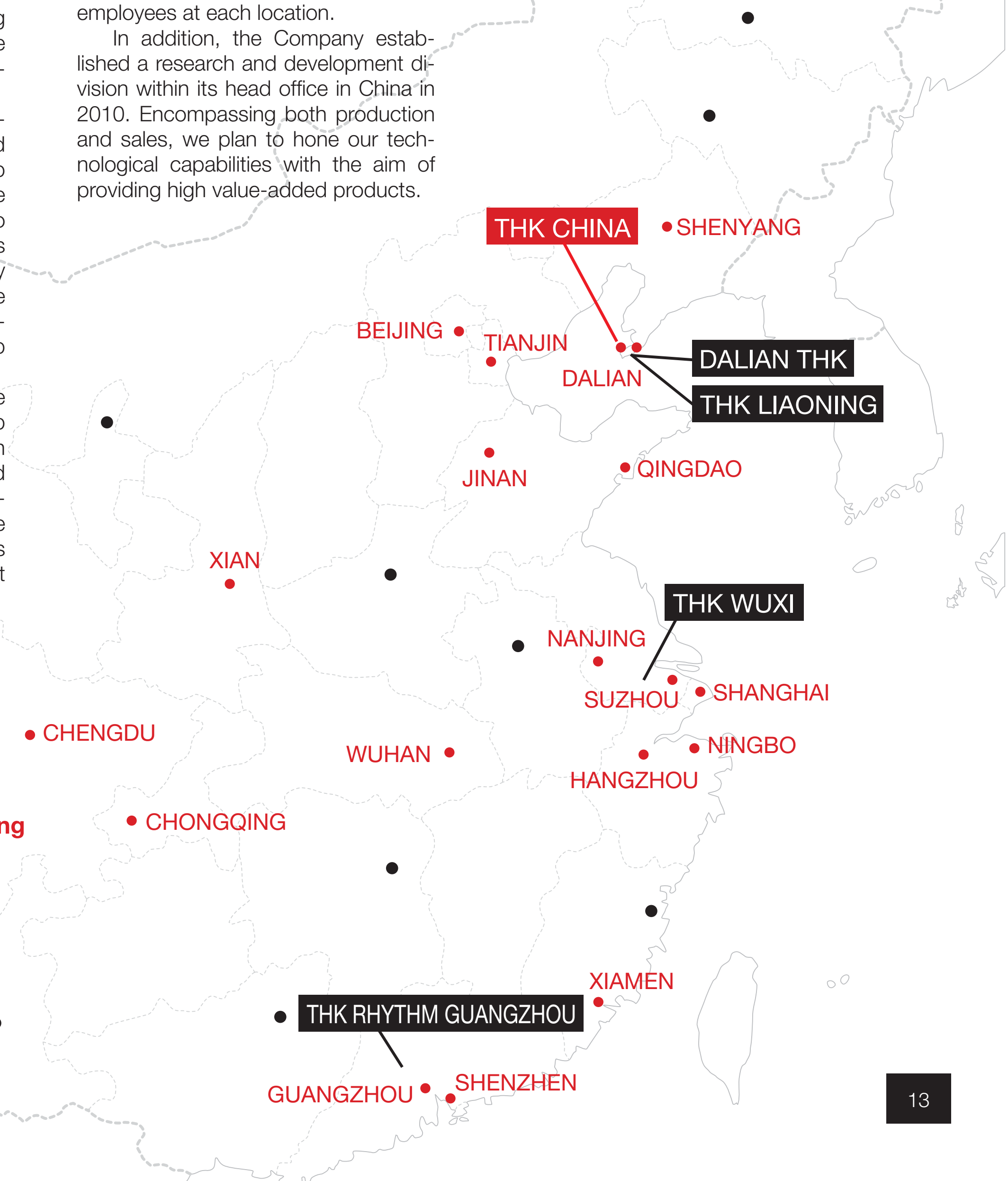
**Q** What are your initiatives for fiscal 2010?

**A** Based on the Group's medium- to long-term strategies, THK will take concrete steps to implement its established measures during fiscal 2010. Key features of these measures include efforts to upgrade and expand our sales network and to boost our endeavors in human resource education and training. In specific terms, we plan to establish approximately 10 new sales bases over the next year. From a human resource development perspective, sales and marketing staff have been dispatched from Japan to make joint marketing calls with local sales personnel. In this manner, we are placing considerable emphasis on raising the skills of onsite employees at each location.

In addition, the Company established a research and development division within its head office in China in 2010. Encompassing both production and sales, we plan to hone our technological capabilities with the aim of providing high value-added products.

Buffeted by the slump in the global economy, the THK Group experienced a period of harsh operating conditions throughout 2009. Despite these difficulties, our determined efforts are now clearly bearing fruit. China is today undergoing change at a dizzying pace. Clothing trends are evolving rapidly and the number and quality of public facilities is gathering considerable momentum. Staff dispatched from Japan are experiencing firsthand the remarkable and significant growth potential of Asia and particularly China. The local working populace clearly recognizes this outstanding potential and continues to carry out their duties with immense pride. Working in unison, all THK Group employees in China will move resolutely forward to achieve established targets.

**Strengthening the manufacturing and sales structure in China**




● Sales office
● Sales office scheduled for establishment

(Established by May 2010)

## GEOGRAPHIC BUSINESS REVIEW

# JAPAN

### Operating Conditions and Performance Overview

- Sales in Japan decreased 36% in year-on-year terms to ¥70.3 billion.
- During the first half of the fiscal year, capital investment remained weak due largely to the persistent slump in the real global economy. As a result, demand fell substantially.
- Despite a pickup in demand in the second half, particularly for electronics and related products, full fiscal year sales in Japan decreased year on year reflecting the aforementioned scope and scale of decline during the first half.

## FY09
(Results)

### Operating Activities

**— Sales —**

- Amid the drop in demand toward mainstay capital goods manufacturers, THK placed considerable emphasis on cultivating such new business sectors as automotive parts and seismic isolation devices.
- THK continued to implement the "TAP 1" skills development program for sales personnel as part of broader efforts to deepen relationships with existing customers and develop new customers. In concrete terms, while showcasing the unique characteristics of each product, steps were also taken to actively promote sales proposals inviting customers to apply THK products as an answer to specific issues.

**— Production —**

- Despite the decline in operating hours in the first half, THK initiated worksite programs used to upgrade workforce skills and increase productivity in anticipation of a recovery in demand.
- In connection with the second half of fiscal 2009, the Company was able to smoothly increase production amid the positive turnaround in demand. THK was also successful in linking these favorable conditions to steady improvements in sales.

**— General Overview —**

- Against the backdrop of a harsh operating environment, THK continues to redouble its efforts to curtail expenses. At the same time, and in an effort to take full advantage of the "revival stage" that will inevitably follow, the Company launched the P25 Project, a cross-functional initiative in April 2009, whose objective is to increase profitability by lowering THK's break-even sales point. Under this Project, the Company worked thoroughly to examine each principal function to determine whether there is any further waste or inconsistency that needs to be eliminated and strove to bolster its business platform.

## FY10
(Plan)

### Operating Activities

**— Sales —**

- Recognizing the positive prospects of increased overseas production by capital goods manufacturers, THK will harness its proposal capabilities fostered over many years in Japan to focus on expanding transactions in new areas.
- Buoyed by the growing trend toward electric-powered equipment across all product areas, THK will promote increased application of its actuators.

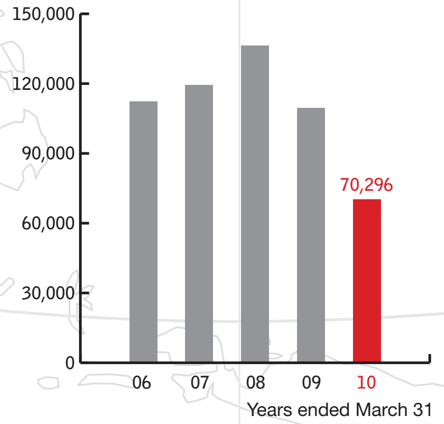
**— Production —**

- Marshalling the fruits of initiatives aimed at enhancing productivity, implemented throughout fiscal 2009, the Company will make every effort to ensure that the upswing in demand translates steadily into increased sales.

**— General Outlook —**

- THK will continue to promote the P 25 Project as a part of efforts to increase profitability. In this manner, the Company remains committed to strengthening its business platform.

### Sales in Japan
(Millions of yen)




### Bases

| | | |
|---|---|---|
| Japan | Sales offices | 49 |
| | Plants | 15 |
| | Distribution centers | 3 |

### Group companies
As of March 31, 2010

- THK CO., LTD.
- THK INTECHS CO., LTD.
- TALK SYSTEM CORPORATION
- Beldex Corporation
- THK NIIGATA CO., LTD.
- RHYTHM CORPORATION
- Rhythm Kyushu Co., Ltd.
- Rhythm L Co., Ltd.
- L Tool Co., Ltd.
- L Trading Co., Ltd.
- L Engineering Co., Ltd.

Note: RHYTHM CORPORATION and Rhythm Kyushu Co., Ltd. changed their corporate names to THK RHYTHM CO., LTD. and THK RHYTHM KYUSHU CO., LTD., respectively, in June 2010.

# THE AMERICAS

## FY09 (Results)

### Operating Conditions and Performance Overview

- Regional sales fell 38% in year-on-year terms to ¥14.6 billion.
- Impacted by deterioration in the economic environment since autumn 2008, demand throughout the first half of the fiscal year ended March 31, 2010 declined. Against this backdrop, THK worked tirelessly to cultivate new business sectors and customers.
- Around the middle of the fiscal year under review, the transportation equipment sector entered a period of recovery. The electronics sector also experienced a positive upswing in the second half. Impacted, however, by the inordinately severe drop in first half as well as persistent appreciation in the value of the yen, full fiscal year sales in the region declined.

### Operating Activities

— Sales —

- With the steady decline in demand from existing customers, THK continued to develop and secure business in new areas and markets while concentrating resources on expanding sales of hybrid units (products that employ a combination of LM guides with ball screws or linear motors).
- Steps were taken to promote TAP 1 activities in an effort to upgrade the skills of sales personnel. At the same time, THK bolstered its sales and marketing capabilities by organizing joint sales visits with engineering staff.
- As part of constructing a more efficient sales set-up, THK completed a review of its sales management structure within the U.S. Midwest region.

— Production —

- In the fiscal year under review, the Company strove to make existing production lines more efficient while expanding the range of product items. Confronted by harsh operating conditions, THK worked to reduce manufacturing expenses by adopting a strict and comprehensive approach toward cost management.

## FY10 (Plan)

### Operating Activities

— Sales —

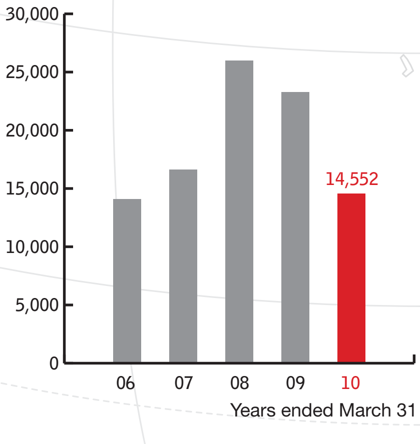
- THK will more effectively utilize its regional sales agent network to further lift sales efficacy. In this regard, the Company will take steps to rebuild its sales and marketing structure. In order to develop and maintain a business structure that is not overly affected by shifts in economic conditions and customer trends, THK will redouble it promotion efforts in new business fields beginning with initiatives aimed at expanding transactions in transportation machinery and equipment.
- With demand tending to shift from supplying individual components toward hybrid units, THK will focus on expanding sales of hybrid units.

— Production —

- At the time orders increase, the Company will push forward measures aimed at maintaining the stable supply of LM guides. At the same time, THK will increase production volumes of hybrid units.
- Taking into consideration appreciation in the value of the yen as well as transportation costs, THK will actively promote local procurement activities and initiatives that facilitate in-house operations. Through these means, the Company will pursue further reductions in material costs while bolstering the cost competitiveness of its products.

### Sales in the Americas

(Millions of yen)




### Bases

| | | |
|---|---|---|
| United States | Sales offices | 10 |
| | Plants | 2 |
| Canada | Sales office | 1 |
| Mexico | Sales office | 1 |
| Brazil | Sales office | 1 |

### Group companies

As of March 31, 2010

- THK Holdings of America, L.L.C.
- THK America, Inc.
- THK Manufacturing of America, Inc.
- Rhythm North America Corporation

Note: Rhythm North America Corporation changed its corporate name to THK RHYTHM NORTH AMERICA CO., LTD. in June 2010.

# EUROPE

## FY09 (Results)

### Operating Conditions and Performance Overview

- Regional sales fell 49% in year-on-year terms to ¥12.6 billion.
- Demand throughout the first half of the fiscal year under review declined due largely to continued deterioration in the economic environment since autumn 2008. Under these circumstances, THK took steps to develop new business sectors and customers.
- Around the middle of the fiscal term, the automotive sector trended toward a recovery. Signs of a rally in the general machinery and electronic sectors also began to emerge in the second half. Taking into consideration the substantial slump in the first half, however, as well as further appreciation in the value of the yen, overall sales were lower than in the previous fiscal year.

### Operating Activities

— Sales —

- Amid an ongoing downward correction in demand among existing customers, THK focused on creating revenue-generating opportunities through the development of new areas and aggressive expansion of its regional sales agent network.
- In new areas, THK approached the aerospace-, railway-, automotive-, energy- and other-related industries.

— Production —

- With demand falling across the region, THK continued to develop its production management set-up in order to realize a consistent supply of high-quality products with short delivery lead-times. Ongoing efforts were also made to broaden the range of products manufactured locally and to maintain capacity utilization through a higher local production ratio.

## FY10 (Plan)

### Operating Activities

— Sales —

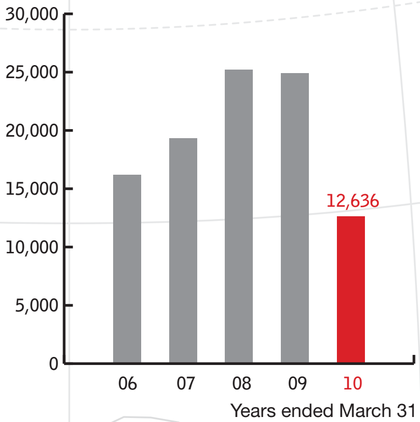
- While pursuing efforts to deepen relationships with existing customers and cultivating new customers in the mainstay general machinery and other sectors, THK plans to focus on developing such new areas as aerospace, where demand for the Company's products can be expected to grow, as well as the railway- and other-related industries.
- THK will upgrade, expand and increase sales of its lineup of Deutsche Industrie Normen (DIN) code compliant balls screws.

— Production —

- THK will endeavor to further increase productivity by upgrading the skills of worksite staff and rigorously managing capacity utilization.
- THK will work to diversify material suppliers while at the same time curtailing variable expenses by lowering purchase unit costs and reducing material inventories.

### Sales in Europe

(Millions of yen)




### Bases

| | | |
|---|---|---|
| Germany | Sales offices | 4 |
| United Kingdom | Sales office | 1 |
| Ireland | Plant | 1 |
| Italy | Sales offices | 2 |
| Sweden | Sales office | 1 |
| Austria | Sales office | 1 |
| Spain | Sales office | 1 |
| France | Sales office | 1 |
| | Plant | 1 |
| Turkey | Sales office | 1 |
| Czech Republic | Sales office | 1 |
| Netherlands | Sales office | 1 |
| Russia | Sales office | 1 |

### Group companies

As of March 31, 2010

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

# ASIA

## FY09 (Results)

### Operating Conditions and Performance Overview

- Sales in Asia decreased 17% in year-on-year terms to ¥17.8 billion.
- In similar fashion to developed countries, economic conditions throughout Asia deteriorated from autumn 2008. As a result, demand decreased during the first half of the fiscal year ended March 31, 2010.
- Although sales to the machine tool industries of China and Taiwan and the flat panel display industry in South Korea showed a dramatic recovery in the latter half of the fiscal year, sales for the full fiscal year declined year on year due largely to the scale and scope of decline in the first half.

### Operating Activities

— Sales —

- In addition to further developing its sales network in China, THK took steps to tap latent demand among existing customers while at the same time aggressively developing new customers outside the mainstay machine tool sector.
- In Taiwan, amid the ongoing downward correction in demand among existing customers in the machine tool sector, which remains the Company's principal business within the area, THK worked diligently to promote new applications in energy-related areas.

— Production —

- At each of its plants, THK continued to prepare for the anticipated recovery in demand by developing flexible response capabilities while also seeking to raise productivity and cultivate workforce skills.

## FY10 (Plan)

### Operating Activities

— Sales —

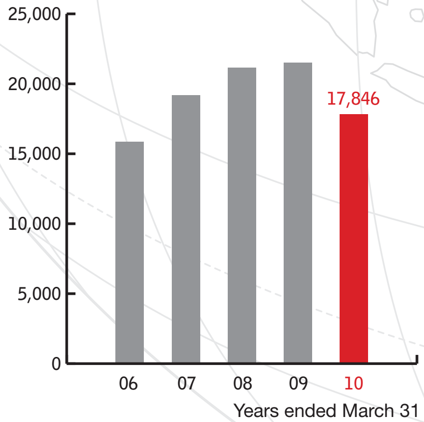
- In China, where there is considerable untapped demand, THK will continue to accelerate efforts aimed at upgrading and expanding its sales network.
- The Company will also pursue ongoing measures designed to cultivate new customers outside the mainstay machine tool sector.
- THK will focus on expanding sales of those products that can be expected to attract significant demand including cross roller rings, seismic isolation platforms, ball screws and hybrid units in Taiwan. In addition to promoting such initiatives as the implementation of technical seminars aimed at increasing sales, the Company will take steps to approach photovoltaic power generation- and LED production equipment-related areas.
- In other parts of Asia, THK will work to deepen its foothold in existing markets including Thailand, India and Singapore. At the same time, the Company will enter such untapped markets as Indonesia, Vietnam and the Philippines.

— Production —

- Amid growing demand, THK will continue to leverage its rotating four-squad triple-shift production system employed at each plant to expand production capacity.
- In addition to increasing the number of production items at each plant, THK will work to lower costs through improved processes and the local procurement of components and materials in an effort to create more cost competitive products.
- Furthermore, endeavoring to develop products more in tune with local needs, the Company set up the Group's first overseas R&D division within THK (CHINA) CO., LTD.

### Sales in Asia and other

(Millions of yen)




### Bases

| | | |
|---|---|---|
| China | Sales offices | 19 |
| | Plant | 4 |
| Taiwan | Sales offices | 3 |
| Singapore | Sales office | 1 |
| India | Sales office | 1 |
| Thailand | Plant | 1 |
| Korea | Sales offices | 14 |
| | Plants | 2 |

### Group companies

As of March 31, 2010

- 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.
- RHYTHM GUANGZHOU CORPOATION
- THK RHYTHM (THAILAND) CO., LTD.
- SAMICK THK CO., LTD.

Note: RHYTHM GUANGZHOU CORPORATION changed its corporate name to THK RHYTHM GUANGZHOU CO., LTD. in June 2010.

# ACE Division

## Broad possibilities for THK's seismic isolation technology

ACE stands for Amenity Creation Engineering. Guided by the concept of "developing technology to realize creative living spaces for greater comfort," the ACE Division has sought to apply THK's original linear motion technology since its establishment in 2001. The division develops and markets seismic isolation devices that protect human life and property from the threat of earthquakes. In addition, steps are being taken to promote increased use of the division's products and technologies in home automation-related devices.

Seismic isolation devices help buildings to dampen or absorb the vibrations and shaking caused by an earthquake. THK supplies a broad lineup of such devices, which apply basic technology such as LM guides and ball screws. These products are unique in that they can give adequate earthquake protection to a wide range of structural types, from high-rise buildings and low-rise residences to historical structures such as temples and shrines.

A related area where interest among Japanese companies has grown recently is in the development of business continuity plans (BCPs). Applying THK's original expertise in seismic isolation technology, the division is selling seismic isolation platforms for protecting operating assets such as PCs and servers from damage caused by earthquakes. Compared with rival products on the market, THK's high-performance seismic isolation platforms ensure greater stability when an earthquake hits by preventing any damaging twisting or vertical motion.

In fiscal 2009, the ACE Division continued actively conducting a nationwide PR campaign with the aim of further expanding the installed base of seismic isolation devices. This included the use of earthquake simulation vehicles at housing exhibitions. Elsewhere, the division engaged in PR activities targeting the corporate sector to emphasize the superiority of THK seismic isolation platforms in server protection applications.

These PR campaigns helped to raise awareness of seismic isolation systems based on THK's original linear motion technology and resulted in a steady increase in the uptake of divisional products.

## Upgrading promotional campaigns and sales activities amid growing demand for BCP-related products

Amid increasing general awareness of the need to implement disaster-related contingency measures, THK expects demand for seismic isolation devices to continue growing over the long term.

To stimulate demand, the ACE Division plans to continue using PR campaigns to promote the benefits of THK's seismic isolation devices to architectural firms and homebuilders. The division also aims to promote more widespread product uptake by continuing to organize seminars for consumers to help explain to people the importance of installing seismic isolation devices, along with the advantages offered by THK technology and products. The division also plans to make more effective use of earthquake simulation vehicles in marketing activities. In addition, in an environment where corporate demand for BCP-related products continues to increase, the division is focusing on expanding sales of seismic isolation platforms to protect specific pieces of equipment such as servers.

# FAI Division

## Targeting higher earnings from the transportation equipment-related business segment

FAI stands for Future Automotive Industry. THK set up the FAI Division in 1999 to expand usage of the Company's products as automotive parts. THK's link balls, which are the division's mainstay product, employ an integral molding process for the production of aluminum die-casts making each link ball much lighter than their conventional steel equivalent. At the same time, the Company's link balls are highly resistant to corrosion and abrasion. This product is attracting keen interest from major automobile manufacturers both in Japan and overseas as the demand for fuel efficient vehicles continues to rise.

In 2007, RHYTHM CORPORATION, a company that boasts superior forging technologies, was included in THK's scope of consolidation as a subsidiary company. Currently the operations of the FAI Division complement the strengths of RHYTHM. THK is working to develop the transportation equipment-related business as an integrated whole. The THK Group is targeting a global presence as an automotive parts supplier through the pursuit of synergies with RHYTHM to enhance the Group's ability to respond rapidly and precisely to changes in the global automotive market.

## Pursuing synergies with RHYTHM

Projected major developments in the transportation equipment-related sector over the medium-to-long term include significant growth in vehicle demand within emerging markets and in the number of major vehicle production regions. Another key change is an ongoing trend to make vehicles lighter and more energy efficient, reflecting greater global interest in environmental protection and hybrid and electric vehicles are expected to gain in popularity in the future. Against this backdrop, THK continues to further develop those synergy effects to accrue from its relationship with RHYTHM. In this manner, the Company is working to expand the use of its products across a wider spectrum of vehicle models.

Among a host of specific benefits to accrue to date, THK has witnessed increased efficiency in the handling of

orders. From a management perspective, a fewer number of people are attending to a larger volume of orders. This has been achieved by consolidating the corporate function at RHYTHM's head office, and has further helped in building a structure that increases the speed of product use. From the standpoint of sales, proposals with respect to RHYTHM's products were implemented using THK's sales channels as well as its established trading relationships with domestic and overseas manufacturers of finished vehicles. These efforts have resulted in an upswing in inquiries laying the foundation for future order growth. Moreover, steps have been taken to consolidate overseas branches and to bolster collaboration among staff. Turning to production, the manufacture of THK's link balls began at RHYTHM's head office factory in Hamamatsu and China factory in Guangzhou. By leveraging THK's outstanding production technologies accumulated as a leading manufacturer of LM guides together with the production management techniques of RHYTHM, a manufacturer of auto parts, successful efforts have been made to secure highly cost competitive production. On the technology front, subcommittees were established to better promote the interaction and exchange of the technological expertise of both RHYTHM and THK. As one example, RHYTHM's forging technologies are being applied to the manufacture of LM guides, a core THK product. On this basis, the Group is implementing activities aimed at expanding use in consumer product areas and enhancing the cost competitiveness of LM guides.

In this manner, the Group is working diligently to draw out synergies between RHYTHM and THK at each of the management, sales, production and technology levels. In an effort to complement the aforementioned initiatives and to further boost collaboration, RHYTHM changes in its corporate name to THK RHYTHM CO., LTD. in June 2010. Looking ahead, by accelerating initiatives aimed at identifying and developing synergies, the Group plans to increase profitability in the transportation equipment sector while at the same time expanding the use of LM guides.

# IMT Division

## Advancing boldly into the components business

The Innovation Mechatronics Technology (IMT) Division was established in June 2009 with the aim of expanding the Group's unit products and electric actuator businesses, areas which are projected to experience future market growth. Based at the Company's Technology Center located in Ota Ward, Tokyo, the heart of THK's technology development activities, the IMT Division has actively commenced the collation and consolidation of data encompassing product planning, sales and marketing support, technology service, design as well as other related information.

In recent years, calls for a higher degree of precision and shorter delivery times with respect to such industrial machinery as semiconductor and LCD production equipment have steadily increased. As a result, the market is witnessing a shift from the supply of individual components toward hybrid units particularly in the area of vital machinery components. At the same time, extending beyond industrial machinery, momentum is projected to gather toward electric-powered production lines across all areas.

## Toward increased application of electric actuators and hybrid units

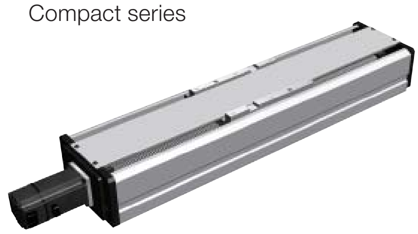
Against the backdrop of this operating environment, the IMT Division is leveraging THK's original concepts and innovative technologies to cultivate existing and new markets. As an initial step, the Division will work to expand the application of electric actuators and hybrid units in industrial machinery. Furthermore, steps will be taken to aggressively boost sales of electric actuators, which facilitate outstanding improvements in energy efficiency as well as greater control flexibility across production lines. Turning to community and general living environment areas, THK is confident that latent demand exists throughout a variety of areas including fitness and nursing care. Looking ahead, the IMT Division will increasingly bring this demand to the surface in efforts to contribute directly toward earnings growth. In this context, the Division will proactively develop electric actuators that address varied and diverse applications while at the same time nurturing the market.

Moreover, THK will adopt a long-term perspective as it strives to build another robust pillar of future earnings growth. Over the next five to 10 years, the Company will accordingly pursue development activities in such fields as humanoid robotics.

### Electric Actuators Series


Economy series


Compact series


Universal series

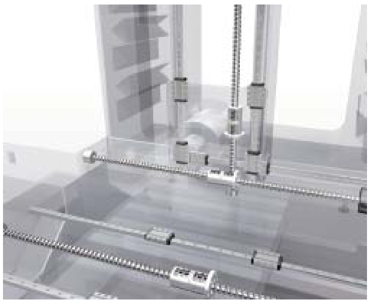

Super FA series

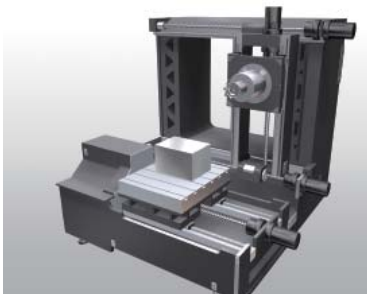

Clean series


Linear motor series

**THK has been a global pioneer in the development of the linear motion (LM) guide, which is based on an original concept and innovative technology. Within the mechatronics sector, LM guides are a vital component of machinery and have varied industrial applications. THK also develops, produces and supplies to the world a range of other vital machinery components, including ball splines and ball screws.**

## Linear Motion (LM) Guides





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

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. In 1996 THK became the first company in the world to successfully develop the next generation of LM guides featuring caged ball technology. Later, in 2001, the Company introduced to the market LM guides with caged rollers. 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 or rollers, 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.

## 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 labor-saving 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.

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

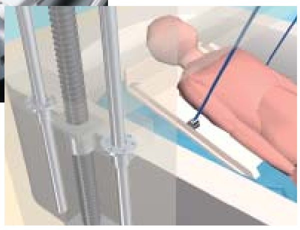
## Actuators

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

## 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 the existing configuration, which does 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

## 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

## Link Balls

Link balls are spherical joints 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 play 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

## THK RHYTHM Products

RHYTHM CORPORATION (current THK RHYTHM CO., LTD.), which became a consolidated subsidiary in 2007, offers a product range that includes automotive parts used in steering, suspension, and braking systems as well as engines and transmissions. In addition to cold-rolled steel forged ball joints, RHYTHM is currently expanding into ball joints that are integrated with aluminum suspension links. As critical automotive safety components, RHYTHM's products must meet the highest standards of quality and performance. In striving to meet market demands by offering guarantees of zero defects and zero delivery problems, RHYTHM seeks to contribute to the production of safer and more comfortable vehicles.

## THK product development as a contributor to industrial development

THK's business philosophy is based on the idea of "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 varied stream of products since our establishment in 1971. Besides contributing to industrial development, these efforts have also resulted in THK steadily accumulating technical expertise that has been a primary source of growth.

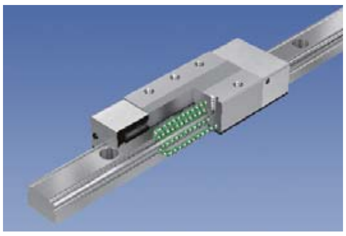
THK developed the world's first linear motion (LM) guide. For the first ten years after we started production and sale of these products in 1972, LM guides were primarily used in machine tools. During this period we developed a series of new products to fulfill our customers' needs for increased precision and lower cost. In the 1990s, other industries such as manufacturers of semiconductor production equipment and industrial robots began to adopt THK products. We responded by developing various new products that were optimized for customer-specific applications and operating environments in these sectors.

In 1996, we pioneered the development of the world's first-ever LM guide using caged ball technology, an advance that enabled LM guides to operate without maintenance for much longer periods. Although such technology was already common in rotary bearings at the time, the problem was the need 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 successfully took steps to overcome 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. The advance also paved the way for the development of LM guides for additional applications. Today, we continue to develop products that use caged ball technology. Besides LM guides, this range has expanded to include ball screws, ball splines and hybrid units.

## Product development in fiscal 2009: realizing the "cubic E" concept

Leveraging creative ideas and its proprietary technologies, the main these of THK's current R&D activities is the "cubic E" concept, which embraces the three keywords Ecological, Economical and Endless. Based on this theme, we continued

## MAJOR NEW PRODUCTS DEVELOPED IN FISCAL 2009

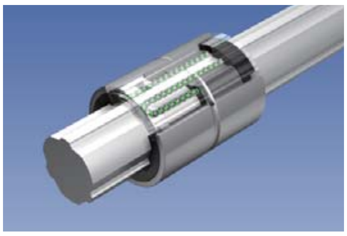


### Ultra-Heavy Load/High Rigidity LM Guides: SVR/SVS

Extending THK's range of LM guides based on caged ball technology, we developed the ultra-heavy load/high strength SVR/SVS-type guide models. In addition to the benefits of an ultra-heavy load and high strength, the mounting of a newly developed protector helps to improve dust resistance capabilities therefore boosting the long-term performance of LM guides.

### Miniature Ball Splines: LT-X

With the same dimensions as the conventional linear bush, this product significantly simplifies the replacement process. Distinguished by their single shaft characteristics, ball splines contribute to substantial equipment space savings (80% cubic capacity of conventional products) as well as a long operating life. Furthermore, in utilizing highly corrosion-resistant stainless steel, this product is suitable for use in clean environments.



### Caged Ball Splines: SLS/SLF

THK has developed the world's first ball splines that incorporate caged ball technologies. In addition to further enhancing smooth linear motion, these models help to extend operating life, reduce noise and realize longer maintenance free periods.

throughout fiscal 2009 to speed up development with the aim of extending the range of applications for our technologies while at the same time seeking to develop highly original and attractive products for launch five or ten years in the future.

Major achievements in fiscal 2009 included the development of products for a number of original applications.

## Building an R&D system for the next generation

Organization changes were implemented within the Engineering Division in June 2009 to boost development efficiency and further promote development of new applications for THK technology. A new unit, the Business Development Department, was established to target the development of new business areas. This department works alongside the Engineering and Development Department, which has traditionally overseen all development related to vital machinery components and hybrid units. With a particular focus on auto parts, by separating the Company's development structure on an individual automobile structre and mechanism basis, THK has established a framework that enables efficient development. In a separate move, the Application Engineering Development Department was also added to the Engineering Division to provide timely technical support in line with the needs of customers.

The Technology Center, the Tokyo-based facility that oversees all of THK's R&D activities, currently employs approximately 200 staff (including the IMT Division, which was newly established to expand the hybrid unit business).

## Fiscal 2010 policies and programs

Based on the revamped R&D system, we plan to focus our efforts in fiscal 2010 on the efficient development of new products with the aim of expanding applications for THK technology further. Specifically, we will pursue themes such as customer convenience while promoting designs that incorporate the potential for enhanced productivity and quality. Moreover, by conducting basic and applied development programs in parallel, we will focus on developing products that can quickly generate commercial returns. Complementing these endeavors, and while strengthening our global development capabilities, we set up the Group's first overseas R&D division within THK (CHINA) CO., LTD. As we move forward, we will actively develop new products that address local customer needs.

**High Load/High Speed Caged Ball Screws: SBKH**

The SBKH ball screw is a high-load model that offers approximately twice the dynamic load rating of conventional products. In enabling application at speeds as high as 92 meters per minute, this ball screw is suitable as a replacement for oil hydraulic cylinders. As an alternative to hydraulically powered products, the SBKH model, including ball screws that use electric power, is both environmentally friendly and energy efficient.

**Actuators for Clean Room: CTH**

The CTH model is an actuator that realizes superior motion performance while facilitating extended maintenance-free periods. In utilizing a tool mechanism developed by the Company together with full cover, this actuator has achieved ISO 14644-1 call 4 cleanliness during high-speed drive of two meters per second. Looking ahead, plans are in place to increase use in semiconductor production equipment as well as other applications including rechargeable battery production lines, where substantial market expansion is expected.

**Linear Motor Actuators: KLM12**

With a height of only 13.5 millimeters, the KLM12 model is a highly compact actuator. Despite its compact size, when used with linear motors the KLM12 model offers a maximum stroke of 300 millimeters. Enabling loads of up to one kilogram, expectation are high for wide ranging applications including assembly and transportation equipment.

**THK's aim as an enterprise is to maximize the generation of stable returns for shareholders over the long term. To this end, THK is working to strengthen corporate governance while upgrading compliance, risk management and other internal control systems.**

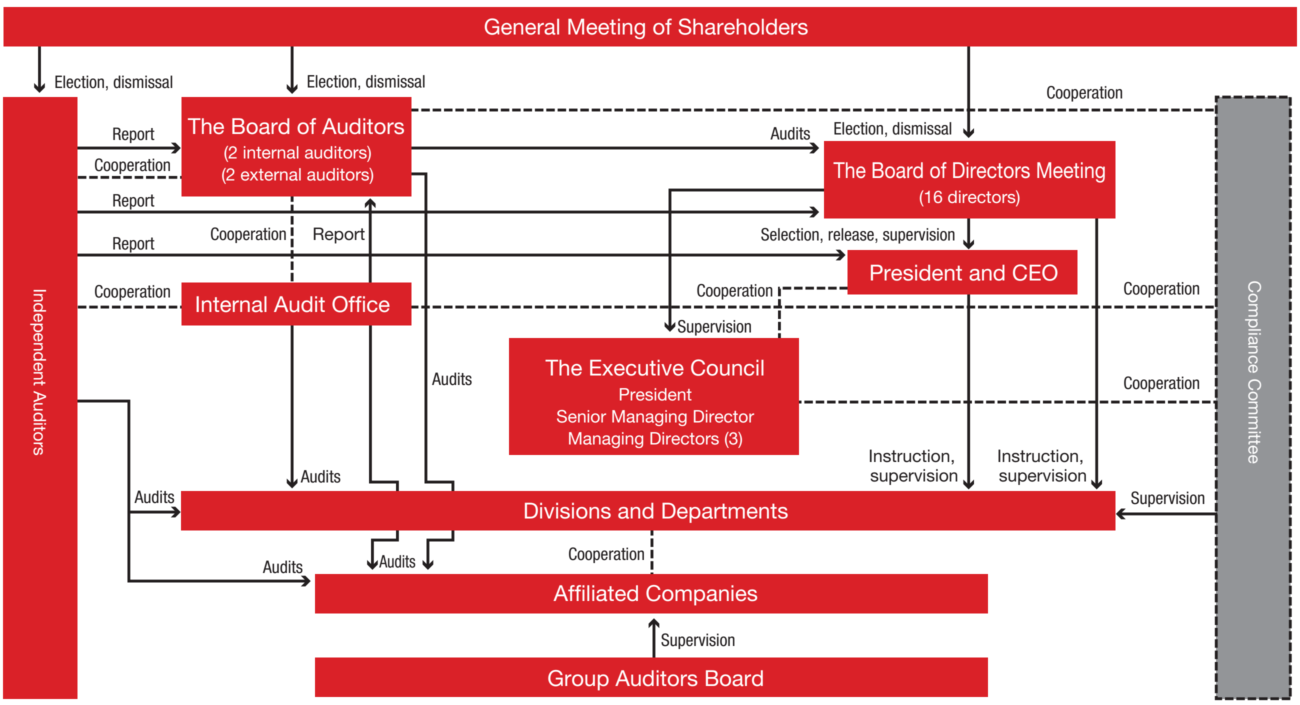
## Basic stance on corporate governance

THK's basic stance on corporate governance is that, from the perspective of maximizing shareholder returns, the Company aims to boost the transparency of management to shareholders while at the same time striving 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 to provide additional support in the form of strategic input. In this fashion, every effort is made to ensure that decisions by the Board of Directors are made in a timely and appropriate manner. 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. The Board of Auditors comprises four members, two of whom are external auditors. THK is working to strengthen management oversight by reinforcing the role played by the Board of Auditors.

## Implementation of corporate governance measures

THK's business environment is characterized by fierce competition from other companies and increasingly advanced customer requirements. To develop and offer products and services to satisfy customer demands within such an environment, THK believes that an important element of business execution is the cultivation of 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. While 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 independent supervisory management functions. Mutual monitoring by those directors with concurrent senior management roles and auditing of management by the external and standing auditors enhance 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 the Internal Audit Office 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.

## 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.

THK holds the General Meeting of Shareholders on a Saturday in mid-June. This policy deliberately avoids the period in late June when many shareholder meetings are clustered, thus making it easier for shareholders to attend.

## Construction and reinforcement of a system of internal controls

In compliance with Japanese legislation, THK is implementing initiatives to reinforce internal controls as a part of efforts to strengthen its management platform. In addition to setting up an internal controls project team in fiscal 2006, THK has established an internal framework to ensure the reliability of financial reporting as required by the Financial Instruments and Exchange Law. Through these means, the Company is endeavoring to promote an internal controls framework and system that covers the entire THK Group including subsidiaries and affiliates. Tests undertaken on the system of internal controls during fiscal 2009 did not detect any flaws or serious outstanding issues. The conclusions from these tests have been openly disclosed and submitted in a statutory filing on internal controls to the Prime Minister of Japan (the Kanto Local Finance Bureau) in June 2010. Working to further bolster internal controls, an Internal Control Audit Department has been established within the Internal Audit Office to evaluate the operational status and performance of internal control systems. Based on this evaluation, initiatives are implemented within the Internal Control Department, set up as a part of the Risk Management Department, to further improve operations and performance.

## Framework for the promotion of compliance

THK established the Compliance Committee in 2005 as a permanent body chaired by the President & CEO. As well as discussing and approving all compliance-related policies, rules and regulations, education plans as well as programs aimed at enhancing compliance awareness, this Committee considers and manages the response to any instances where employees are in breach of statutory or internal regulatory requirements as well as cases of reported compliance violations. In order to ensure the legality and efficacy of each response, steps are taken to coordinate with designated legal counsel in its capacity as observer to the Committee.

In addition, THK's operating divisions have all established compliance working groups reporting to the Compliance Committee. Working group members are selected from each site and region and are charged with the responsibilities of promoting compliance while fulfilling an advisory function.

The Company has established the THK Help Line to provide employees with an internal channel for reporting suspected compliance violations. The aim is to prevent executive officers and employees from committing violations and to help ensure that swift corrective measures can be taken in the event of any serious compliance-related problems arising. Reports can be channeled by telephone or electronic mail. Contact can also be made with external legal counsel. Complementing these initiatives, THK has created compliance-related e-learning modules as a tool for raising internal awareness of compliance issues within everyday business activities.

## Comprehensive risk management

THK has set up the Risk Management Department to monitor risks and to coordinate Group-wide efforts to address such risks. Within this department, separate sections are responsible for formulating guidelines and organizing educational and training programs relating to risks such as compliance, the environment, disasters, information security, export controls, and new forms of influenza.

**As a pioneering global manufacturer of vital machinery components, the THK Group has made a contribution to industrial society via the development of linear motion systems such as LM guides. At the same time, we recognize our corporate social responsibility in terms of contributing to global environmental preservation efforts so that future generations can inherit a healthy planet. To this end, we are engaged in various activities particularly through our manufacturing endeavors aimed at continuously reducing the impact on the environment as well as trying to maintain and improve the natural environment.**

## The THK Group's Basic Policy Regarding the Environment

1. Conservation of the environment is considered a major management concern, and we are striving to accurately grasp the impact on the environment produced by the Group's business activities, products, and services. Every division participates by setting relevant environmental goals.
2. In addition to following environmental laws, we set self-imposed standards for Group companies and regularly review them to improve the efficiency and effectiveness of our environmental management.
3. We will continually promote the development of products that help reduce environmental burdens.
4. We will continually promote conservation and recycling of resources, with particular attention to reducing and recycling waste from our manufacturing divisions.
5. To promote greater unity in our environmental activities, we will provide guidance and support to our affiliates and business partners, and strive to work in cooperation and harmony with local communities.
6. This basic policy regarding the environment shall be disseminated to all divisions in the Group through education, training, and activities designed to improve awareness. We will disclose information concerning the environment to parties within and outside the Group in a timely manner.

### Environmental Activities and Targets

| Area | Objectives and goals | Main activities |
|---|---|---|
| Energy conservation | Cut greenhouse gas emissions | (1) Energy diagnostics<br>(2) Energy conservation<br>(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<br>(2) Controls on emissions and final waste disposal<br>(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<br>(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<br>(2) Extension of service life and maintenance-free periods |

## Environmental Management System

The THK Group is actively working to acquire environmental management system ISO 14001 certification at all of its production sites in Japan and overseas. In fiscal 2009, THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. was certified. Under the umbrella of THK RHYTHM CO., LTD., Group companies THK RHYTHM GUANGZHOU CO., LTD. and THK RHYTHM (THAILAND) CO., LTD. are taking preparatory steps during fiscal 2010 to obtain ISO 14001 certification.

| Business Location | Date of Certification |
|---|---|
| YAMAGATA Plant | Sept. 10, 1999 |
| KOFU Plant | Dec. 28, 2000 |
| YAMAGUCHI Plant | Feb. 2, 2001 |
| THK RHYTHM NORTH AMERICA CO., LTD. (America) | Jun. 13, 2001 |
| THK RHYTHM CO., LTD. Headquarters/GOKYU Plant | Dec. 20, 2001 |
| MIE Plant | Sept. 6, 2002 |
| THK RHYTHM KYUSHU CO., LTD. | Dec. 20, 2002 |
| THK Manufacturing of America, Inc. (America) | Jul. 14, 2003 |
| THK Manufacturing of Europe S.A.S. (Europe) | Feb. 3, 2004 |
| GIFU Plant | Dec. 24, 2004 |
| THK NIIGATA CO., LTD. | Oct. 21, 2005 |
| THK RHYTHM CO., LTD. INASA Plant | Dec. 20, 2006 |
| THK MANUFACTURING OF CHINA (WUXI) CO., LTD. | Jan. 7, 2008 |
| DALIAN THK CO., LTD. | Dec. 18, 2008 |
| THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. | Jan. 12, 2010 |

## Activities Aimed at Preventing Global Warming at Production Facilities

The THK Group places every emphasis on energy conservation and efficiency. This is a major consideration particularly when renewing and upgrading production plants, facilities, air conditioning and lighting.

In fiscal 2009, the Group shifted to the use of ceramic metal halide lamps at its Yamaguchi Plant, the Group largest production facility in Japan. This entailed the replacement of approximately 600 lighting fixtures. Selecting from the most energy efficient products currently on the market, THK also replaced its existing three high-voltage transformers with the superior top runner model. Based on these initiatives, the THK Group projects its will secure energy savings of around 19% and a reduction in annual $CO_2$ emissions of approximately 172 tons. At its newly established technical engineering facilities, the Company has employed inverter turbo refrigeration machinery to its air conditioning systems. Compared with previous facilities, THK anticipates energy savings of approximately 9% and a cutback in annual $CO_2$ emissions of around 15 tons.

At its Kofu Plant, the Company replaced 118 fluorescent lamps with LED lighting. This in turn is expected to realize an approximate 41% reduction in energy consumption and lower annual $CO_2$ emissions of around 3.2 tons.

## Environmental Activities at Administrative Divisions

While environmental activities are conducted across all of the Group administrative divisions, measures are particularly robust at THK's Headquarters and Technology Center (Engineering and Development Department). An Environmental Measures Team comprising members from various divisions was established to promote a variety of initiatives including the reduction of power consumption, waste and water usage.

In specific terms, the Group has launched a "cool business" campaign under which air conditioning temperatures are set at 28°C. Complementing these measures, steps have been taken to remove unnecessary fluorescent lighting, switch off lights in unused areas during lunch breaks, ensure that office equipment automatically switch to energy-saving mode or switch off after a predetermined idle period, switch off vending machine lights and attach water-saving devices to faucets. Currently these initiatives are being conducted across all of the Group's nationwide sales bases as well as at affiliated companies.

## Regional Communication

Each and every THK Group office works actively to contribute to local communities. Each year in June, for example, staff at THK's Yamagata Plant participate in cleanup activities along the Cherry Marathon course held by Higashine City. In addition, the Plant produces and exhibits a crane game similar to those found in game arcades at the Youngsters' Science Festival held in Yamagata.

At its Komaki branch, employees participate for a second time in volunteer activities in support of sports recreation activities for children with disabilities organized by Komaki City.

Coordinating with the Group's nationwide plants, members of the Application Engineering Development Department conducted onsite lectures at the request of various senior high schools. In close proximity to the Group's plants, classes were organized for mainly first and second year high school students. Students were provided with insight into the use of many of the Group's products as well as occupational knowledge and skills. In fiscal 2009, THK held classes at three industrial high schools in Mie and Yamagata prefectures.

Inverter turbo refrigeration machinery

Top-runner transformer

Ceramic metal halide lamps

Cleanup activities along the marathon course

# BOARD OF DIRECTORS AND AUDITORS

(As of June 19, 2010)

## Akihiro Teramachi

President and CEO

## Masamichi Ishii

Senior Managing Director

## Takeki Shirai

Managing Director

## Toshihiro Teramachi

Managing Director

## Hiroshi Imano

Managing Director

## Takashi Okubo

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

## 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.
President and Representative Director of THK Manufacturing of Europe S.A.S.

## Hideyuki Kiuchi

Director
General Manager of Corporate Strategy Division

## Junichi Kuwabara

Director
General Manager of FAI Division

## Junichi Sakai

Director
General Manager of Quality Assurance Division
General Manager of the Advanced Technology Information Center

## Hirokazu Ishikawa

Director
General Manager of Sales Support Division

## Junji Shimomaki

Director
General Manager of Sales Division

### Takanobu Hoshino

Director
General Manager of IMT Division

### Kaoru Hoshide

Director
General Manager of Engineering Division

### Nobuyuki Maki

Director
General Manager of Production Division

### Akihiko Kambe

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

### Yoshimi Sato

Member, Board of Auditors

### Kazunori Igarashi

Member, Board of Auditors

### Shizuo Watanabe

Member, Board of Auditors
(Outside Auditor)

### Masatake Yone

Member, Board of Auditors
(Outside Auditor)

# FINANCIAL SECTION

## ■ Analysis of Operating Results

### Net sales

In fiscal 2009, the fiscal year ended March 31, 2010, economic conditions were mixed. The first half was impacted by the prolonged slump in the global real economy, which was for the most part triggered by the collapse of major U.S.-based financial institutions in 2008. Toward the middle of the fiscal year, signs of an upswing in personal consumption began to appear on the back of economic pump-priming measures initiated by various nations. Throughout the second half, capital investment trended toward a recovery with the pickup fueled largely by newly emerging countries including China and extending to developed nations with a particular focus on electronics-related industries.

Under these circumstances, THK has positioned efforts to expand its business domain as the Group's basic underlying strategy. On this basis, every effort is being made to pursue "Full-Scale Globalization" and the "Development of New Business Areas." Guided by this basic strategy, and against the backdrop of a mixed operating environment, the THK Group redoubled its efforts to develop into new business areas and to strengthen its sales and marketing structure in newly developing nations such as China, which continues to enjoy remarkable growth.

Despite these endeavors, the Group's operating results were impacted by such factors as the substantial drop in existing customer first half demand. Taking into consideration downturns in performance both in Japan and overseas, net sales fell from ¥179,269 million in fiscal 2008 to ¥115,330 million in fiscal 2009.

### Cost of sales

Throughout fiscal 2009, THK maintained its focus on cost containment. Every effort was made to improve productivity by boosting material yields and shortening manufacturing lead-times. At the same time, steps were taken to overhaul facility operating hours and curtail capital investment. Despite these endeavors, the cost of sales to sales ratio climbed by 6.9 percentage points compared with the previous fiscal year to 79.9% largely reflecting the substantial fall in sales.

### Selling, general and administrative (SG&A) expenses

SG&A expenses declined by ¥7,120 million year on year due mainly to lower personnel costs resulting from cuts in remuneration for directors and corporate auditors and adjustments to total working hours as well as reductions in other expenses. Taking into account the large drop in sales, however, the ratio of SG&A expenses to sales increased by 6.2 percentage points to 28.4% for fiscal 2009.

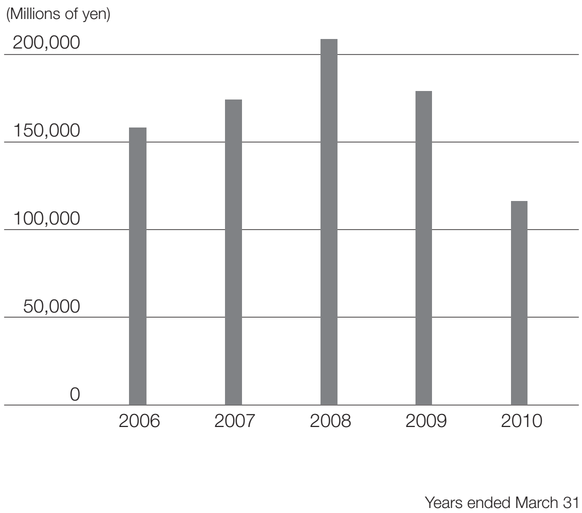
### Operating income (loss)

As a result, the THK Group recorded an operating loss of ¥9,509 million compared with operating income totaling ¥8,523 million in fiscal 2008. Buoyed by the increase in sales throughout the second half, which were complemented by the Group's strict adherence to cost-cutting initiatives, THK reported a return to profitability in the fourth quarter for the first time in the five consecutive quarters.

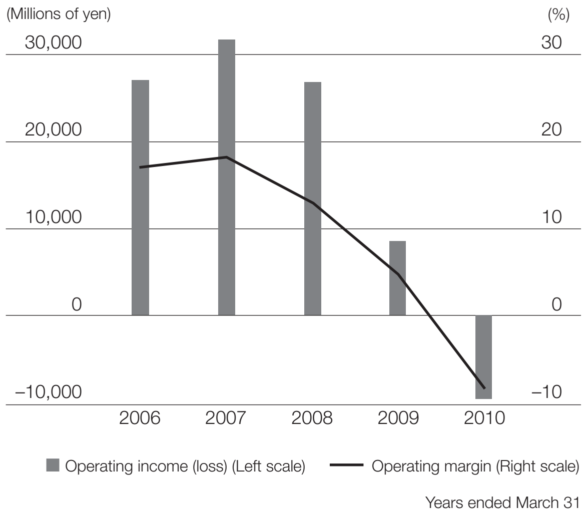
### Non-operating income and expenses

Non-operating income amounted to ¥2,039 million in fiscal 2009. This was mainly attributable to the amortization of negative goodwill and equity earnings of an affiliate. Taking

### Net Sales




### Operating Income (Loss) and Operating Margin



into account the lump-sum amortization of goodwill totaling ¥5,404 million and other factors, non-operating expenses came to ¥7,041 million. As a result, the Company reported net non-operating expenses of ¥5,002 million in fiscal 2009.

### Net income (loss)

Based on all of the aforementioned and other factors, THK recorded a net loss of ¥14,301 million in fiscal 2009. This was in comparison with net income of ¥1,204 million in fiscal 2008.

## ■ Business Segment Information

### Industrial equipment-related business segment

In the first half of fiscal 2009, the global real economy continued to stall. Coupled with weak capital investments both in Japan and abroad, demand fell by a wide margin. In contrast, capital investments rallied during the second half both in newly developing countries such as China and developed nations focusing mainly on electronics-related industries. Taking into consideration the inordinately large drop in the first half, however, segment sales fell by ¥59,610 million compared with the previous fiscal year to ¥84,726 million. From a profit perspective, operating income decreased by ¥19,453 million year on year to ¥482 million. Despite the substantial decline in sales, THK successfully secured a profit for the full fiscal year due to comprehensive cost-cutting measures.

### Transportation equipment-related business segment

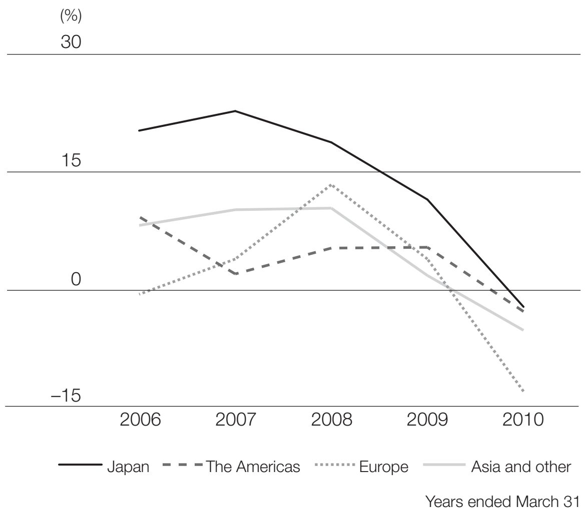
Amid a slump in vehicle production volumes throughout the first half of fiscal 2009, the THK Group responded to the challenge by continuing efforts to expand business with existing customers and developing business with new customers. From the middle of the fiscal year onward, signs of a recovery in vehicle production volumes began to emerge underpinned by incentive schemes introduced in various nations aimed at boosting automobile sales. Given the depth and scale of decline throughout the first half, however, segment sales contracted by ¥4,329 million compared with the previous fiscal year to ¥30,604 million. While every effort was made to continue the focus on cost reduction, the Group was unable to offset the decline in sales. Accounting for the amortization of goodwill and other factors, an operating loss of ¥4,310 million was recorded in the transportation equipment-related business segment in fiscal 2009.

## ■ Geographic Segment Information

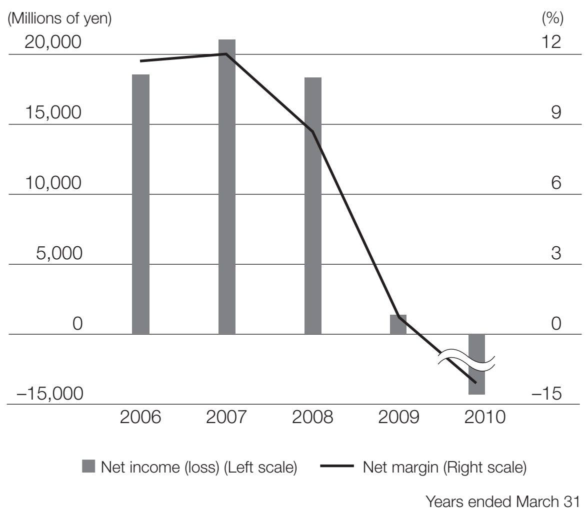
### Japan

Amid the slump in capital investments, THK placed a priority on cultivating new customers during the first half of fiscal 2009. Although sales increased steadily as demand, particularly in electronics-related areas, headed toward a recovery after entering the second half, sales in Japan fell by ¥37,616 million year on year to ¥77,666 million largely reflecting the substantial decline in the first half. In addition to the efforts expended on improving productivity, the THK Group worked diligently to contain costs by implementing various initiatives including a review of operating hours. Despite these endeavors, the Group recorded an operating loss of ¥1,476 million in Japan compared with operating income totaling ¥13,653 million in fiscal 2008. On a more positive note, the THK Group reported a return to profitability at the operating income level in the third quarter of

**Operating Margin by Geographic Segment**




**Net Income (Loss) and Net Margin**



fiscal 2009 and has improved on this position through to the end of the full fiscal year.

### The Americas

In the first half of fiscal 2009, amid a drop in demand, steps were taken to develop new customers in the Americas. Entering the middle of the fiscal term, sales to the automobile industry trended toward a recovery with indications of a pickup in the electronics sector throughout the second half. Regional sales, on the other hand, declined by ¥9,512 million compared with the previous fiscal year to ¥14,410 million due mainly to the large drop in sales during the first half. On the earnings front, THK reported an operating loss of ¥365 million in the Americas, down from the operating income of ¥1,352 million in fiscal 2008. Buoyed by sales growth throughout the second half of fiscal 2009, THK saw a return to profit in the fourth quarter after an absence of four quarters.

### Europe

In similar fashion to the Americas, demand declined in Europe during the first half of fiscal 2009. Under these circumstances, the THK Group worked hard to cultivate new customers. Again, as in the Americas, sales to the automobile industry recovered with indications of a positive turnaround throughout the second half toward the general machinery and electronics manufacturers. In addition to the significant drop in first-half sales, appreciation in the value of the yen compared with the previous fiscal year placed a considerable downward pressure on regional sales. As a result, sales in Europe contracted by ¥12,458 million year on year to ¥12,430 million. Compared with operating income of ¥1,049 million in fiscal 2008, the THK Group recorded an operating loss of ¥1,576 million in Europe in fiscal 2009.

### Asia and other

Sales in Asia and other regions were impacted by a drop in demand throughout the first half mirroring conditions in developed countries. In the second half, however, the region enjoyed a sharp and dramatic recovery with a pickup in sales to the machine tool industries of China and Taiwan. As with all other regions, the substantial drop in first-half sales caused sales for the full fiscal year to deteriorate. In fiscal 2009, sales in Asia and other regions dropped by ¥4,353 million compared with the previous fiscal year to ¥10,824 million. Over and above the decline in sales, earnings were buffeted by the year-on-year appreciation in the value of the yen. As a result, the THK Group recorded an operating loss of ¥532 million in fiscal 2009 compared with operating income of ¥321 million in fiscal 2008. However, after returning to the black at an operating income level in the third quarter of fiscal 2009, the THK Group witnessed further profit gains in the fourth quarter.

## ■ Financial Position

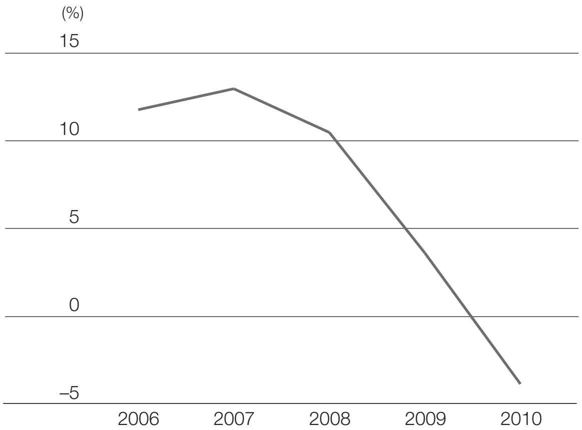
### Assets, liabilities, and net assets

**• Assets**

Current assets stood at ¥143,460 million as of March 31, 2010, an increase of ¥8,091million yen compared with the previous fiscal year-end. Major components included cash and cash equivalents, which climbed by ¥5,137 million, trade accounts and notes receivable from customers, which rose by ¥1,204 million due mainly to the recovery in sales, and inventories, which decreased by ¥2,375 million year on year.

Non-current assets contracted by ¥12,067 million compared with the end of the previous fiscal year to ¥92,915 million. Despite undertaking capital investments of ¥4,207

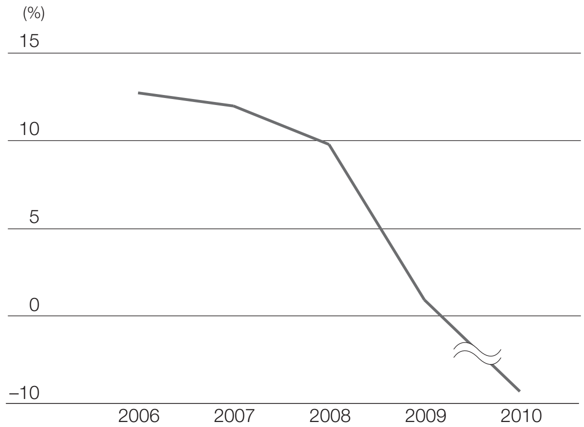
**Return on Assets (ROA)**




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

Years ended March 31

**Return on Equity (ROE)**




Years ended March 31

million, depreciation expenses amounted to ¥9,508 million. As a result, total property, plant and equipment declined by ¥5,159 million. Intangibles contracted by ¥8,147 million owing largely to the lump-sum amortization of goodwill.

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

Taking the aforementioned factors into consideration, total assets as of March 31, 2010 stood at ¥236,375 million, a decrease of ¥3,976 million compared with the previous fiscal year-end.

**• Liabilities**

Current liabilities at the end of fiscal 2009 amounted to ¥34,375 million, increasing by ¥534 million year on year. Trade accounts and notes payable from customers rose by ¥3,849 million largely reflecting the recovery in sales. Other payables, on the other hand, decreased by ¥2,424 million due mainly to the payment of capital investments undertaken in the previous fiscal year.

Reflecting the issuance of ¥10,000 million of bonds during fiscal 2009, long-term liabilities stood at ¥39,741 million, ¥10,944 million higher than the end of the previous fiscal year.

As a result, total liabilities amounted to ¥74,116 million, an increase of ¥11,478 million year on year.

**• Net assets**

Net assets as of March 31, 2010 stood at ¥162,259 million, ¥15,454 million lower than the end of the previous fiscal year. The principal factor was the net loss for the period of ¥14,301 million.

## Cash flows

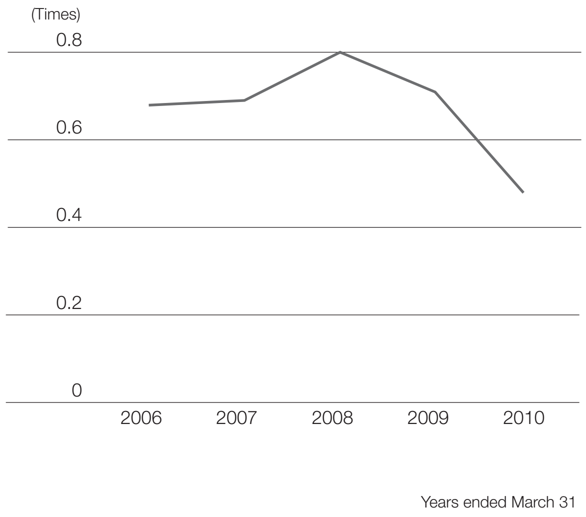
Net cash provided by operating activities amounted to ¥4,402 million compared with ¥25,193 million in the previous fiscal year. The major components were as follows: (1) loss before income taxes and minority interests totaling ¥14,511 million, (2) increase in accounts and notes receivable amounting to ¥3,490 million, (3) depreciation and amortization of ¥9,737 million, (4) amortization of goodwill and negative goodwill, net of ¥2,401 million, (5) lump-sum amortization of goodwill of ¥5,404 million, (6) decrease in inventories of ¥2,700 million, and (7) increase in accounts and notes payable of ¥3,543 million.

Net cash used in investing activities was ¥7,323 million compared with ¥19,078 million in the previous fiscal year. This largely reflected payments relating to the purchase of property, plant and equipment in the second half of the previous fiscal year through to the fiscal year under review.

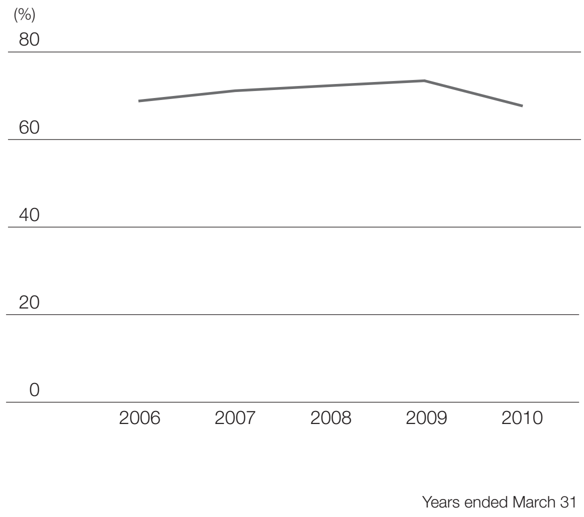
Net cash provided by financing activities totaled ¥7,932 million compared with ¥11,031 million in the previous fiscal year. The principal cash inflow was proceeds from long-term debt of ¥10,000 million owing to the issuance of bonds. The major cash outflow was cash dividends, which amounted to ¥1,990 million.

Taking the aforementioned activities into consideration, cash and cash equivalents as of March 31, 2010 stood at ¥69,267 million, an increase of ¥5,137 million compared with the end of the previous fiscal year.

**Asset Turnover Ratio**




**Equity Ratio**



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 21, 2010. Any items relating to the future are based on the best judgment of THK Group management as of this date.

### Dependence on linear motion systems

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

### Effect of changes in production trends within specific industries

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

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

### Overseas business expansion

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

### Exchange rate fluctuations

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

### Reliance on specific sources of supply

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

### Incidence of defective products

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

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

### Information security

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

### Disasters, acts of terrorism, infectious disease and other maladies

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

### Sharp hikes in the prices of raw materials

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

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

## Consolidated Balance Sheets

as of March 31, 2009 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| **ASSETS** | | | |
| **Current Assets:** | | | |
| Cash and cash equivalents (Note 5) | ¥ 64,130 | ¥ 69,267 | $ 744,484 |
| Receivables (Note 5): | | | |
| Trade accounts and notes receivable | 36,350 | 37,554 | 403,632 |
| —Unconsolidated subsidiaries and affiliates | 458 | 2,912 | 31,301 |
| Other receivables | 1,845 | 2,443 | 26,257 |
| —Unconsolidated subsidiaries and affiliates | 4 | 187 | 2,011 |
| | 38,657 | 43,096 | 463,201 |
| Less allowance for doubtful receivables | (233) | (243) | (2,609) |
| | 38,424 | 42,853 | 460,592 |
| Inventories (Note 8) | 27,137 | 24,762 | 266,140 |
| Short-term loans receivable– | | | |
| Unconsolidated subsidiaries and affiliates | 2,047 | 2,000 | 21,496 |
| Other | 2 | 1 | 9 |
| Deferred tax assets (Note 16) | 2,739 | 3,507 | 37,696 |
| Other current assets | 890 | 1,070 | 11,502 |
| Total current assets | 135,369 | 143,460 | 1,541,919 |
| **Investments and Other:** | | | |
| Long-term investments in securities (Notes 5 and 6) | 1,549 | 2,027 | 21,786 |
| Investments in unconsolidated subsidiaries and affiliates | 2,731 | 3,199 | 34,383 |
| Deferred tax assets (Note 16) | 1,636 | 1,721 | 18,493 |
| Other investments | 4,654 | 4,862 | 52,264 |
| Total investments and other | 10,570 | 11,809 | 126,926 |
| **Property, Plant and Equipment (Notes 4 and 12):** | | | |
| Buildings and structures | 51,032 | 51,904 | 557,866 |
| Machinery and equipment | 130,958 | 135,128 | 1,452,362 |
| | 181,990 | 187,032 | 2,010,228 |
| Less accumulated depreciation | (113,925) | (122,028) | (1,311,569) |
| | 68,065 | 65,004 | 698,659 |
| Land | 12,962 | 12,978 | 139,492 |
| Construction in progress | 3,974 | 1,860 | 19,992 |
| Total property, plant and equipment | 85,001 | 79,842 | 858,143 |
| **Intangibles:** | | | |
| Goodwill | 8,270 | 140 | 1,508 |
| Other | 1,141 | 1,124 | 12,076 |
| Total intangibles | 9,411 | 1,264 | 13,584 |
| Total assets | ¥240,351 | ¥236,375 | $2,540,572 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| **LIABILITIES AND NET ASSETS** | | | |
| **Current Liabilities:** | | | |
| Payables (Note 5): | | | |
| Trade accounts and notes payable | ¥ 19,793 | **¥ 23,642** | **$ 254,104** |
| —Unconsolidated subsidiaries and affiliates | 630 | **585** | **6,288** |
| Other payables | 3,787 | **1,363** | **14,649** |
| —Unconsolidated subsidiaries and affiliates | 0 | **0** | **4** |
| | 24,210 | **25,590** | **275,045** |
| Income taxes payable | 364 | **291** | **3,127** |
| Accrued bonuses to employees | 1,716 | **1,836** | **19,730** |
| Other accrued expenses | 6,245 | **5,905** | **63,469** |
| Lease obligations | 53 | **49** | **524** |
| Other current liabilities | 1,253 | **704** | **7,566** |
| Total current liabilities | 33,841 | **34,375** | **369,461** |
| **Long-term Liabilities:** | | | |
| Long-term debt (Notes 5 and 9) | 20,000 | **30,000** | **322,442** |
| Reserve for employees' retirement benefits (Note 15) | 4,322 | **4,796** | **51,550** |
| Reserve for directors' and statutory auditors' retirement benefits | 126 | **141** | **1,519** |
| Reserve for product warranty | 118 | **95** | **1,021** |
| Negative goodwill | 324 | **—** | **—** |
| Long-term lease obligations | 116 | **81** | **870** |
| Deferred tax liabilities (Note 16) | 2,810 | **3,690** | **39,664** |
| Other liabilities | 981 | **938** | **10,077** |
| Total long-term liabilities | 28,797 | **39,741** | **427,143** |
| **Net Assets:** | | | |
| Common stock | | | |
| Authorized: 465,877,700 shares; | | | |
| Issued: 133,856,903 shares | | | |
| as of March 31, 2009 and 2010 | 34,606 | **34,606** | **371,950** |
| Additional paid-in capital | 44,343 | **44,343** | **476,598** |
| Retained earnings | 114,998 | **98,704** | **1,060,877** |
| Treasury stock, at cost: 5,252,712 shares and 5,255,442 shares | | | |
| as of March 31, 2009 and 2010, respectively | (11,352) | **(11,356)** | **(122,057)** |
| Net unrealized gain on other securities | 144 | **543** | **5,832** |
| Foreign currency translation adjustments | (6,205) | **(5,739)** | **(61,681)** |
| Minority interests | 1,179 | **1,158** | **12,449** |
| Total net assets | 177,713 | **162,259** | **1,743,968** |
| **Contingent Liabilities (Note 11)** | | | |
| Total liabilities and net assets | ¥240,351 | **¥236,375** | **$2,540,572** |

# Consolidated Statements of Operations

for the years ended March 31, 2008, 2009, and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| **Net Sales** | ¥208,709 | ¥179,269 | **¥115,330** | **$1,239,577** |
| **Cost of Sales (Note 14)** | 140,656 | 130,928 | **92,141** | **990,339** |
| Gross profit | 68,053 | 48,341 | **23,189** | **249,238** |
| **Selling, General and Administrative Expenses (Notes 13 and 14)** | 41,115 | 39,818 | **32,698** | **351,439** |
| Operating income (loss) | 26,938 | 8,523 | **(9,509)** | **(102,201)** |
| **Non-Operating Income (Expenses):** | | | | |
| Interest and dividend income | 933 | 559 | **220** | **2,361** |
| Interest expenses | (185) | (119) | **(489)** | **(5,256)** |
| Foreign exchange gain (loss), net | (2,287) | (2,432) | **3** | **28** |
| Gain (loss) on sales of long-term investments in securities, net | — | (21) | **1** | **12** |
| Equity earnings (losses) of an affiliate | 197 | (46) | **221** | **2,380** |
| Rental income | 241 | 254 | **275** | **2,955** |
| Insurance premium refunded on cancellation | 62 | — | **—** | **—** |
| Amortization of negative goodwill | 648 | 1,063 | **324** | **3,483** |
| Commission expenses | (66) | (41) | **—** | **—** |
| Loss on sales and disposal of property, plant and equipment, net | (184) | (165) | **(152)** | **(1,639)** |
| Loss on write-down of long-term investments in securities | (10) | (758) | **(203)** | **(2,185)** |
| Impairment losses (Note 4) | (137) | (934) | **—** | **—** |
| Subsidies for employment adjustment | — | — | **422** | **4,532** |
| Lump-sum amortization of goodwill (Note 3.(f)) | — | — | **(5,404)** | **(58,087)** |
| Lay-off costs | — | — | **(371)** | **(3,991)** |
| Other, net | 551 | 401 | **151** | **1,648** |
| | (237) | (2,239) | **(5,002)** | **(53,759)** |
| Income (loss) before income taxes and minority interests | 26,701 | 6,284 | **(14,511)** | **(155,960)** |
| **Income Taxes (Note 16)** | | | | |
| Current | 7,637 | 3,805 | **360** | **3,870** |
| Refunded | — | — | **(380)** | **(4,087)** |
| Deferred | 552 | 1,123 | **(153)** | **(1,637)** |
| Total income taxes | 8,189 | 4,928 | **(173)** | **(1,854)** |
| **Minority Interests in Net Income (Loss)** | 189 | 152 | **(37)** | **(398)** |
| Net income (loss) | ¥ 18,323 | ¥ 1,204 | **¥ (14,301)** | **$ (153,708)** |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

for the years ended March 31, 2008, 2009, and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| **Common Stock** | | | | |
| At beginning of year | ¥ 33,916 | ¥ 34,606 | **¥ 34,606** | **$ 371,950** |
| Conversion of convertible bonds to common stock (Note 17) | 690 | — | **—** | **—** |
| At end of year | ¥ 34,606 | ¥ 34,606 | **¥ 34,606** | **$ 371,950** |
| **Additional Paid-In Capital** | | | | |
| At beginning of year | ¥ 43,653 | ¥ 44,343 | **¥ 44,343** | **$ 476,598** |
| Conversion of convertible bonds to common stock (Note 17) | 690 | — | **—** | **—** |
| Gain (loss) from sale of treasury stock | 0 | (0) | **—** | **—** |
| At end of year | ¥ 44,343 | ¥ 44,343 | **¥ 44,343** | **$ 476,598** |
| **Retained Earnings** | | | | |
| At beginning of year | ¥104,276 | ¥117,579 | **¥114,998** | **$1,236,010** |
| Adjustment due to accounting change in consolidation of foreign subsidiaries (Note 3 (a)) | — | 73 | **—** | **—** |
| Net income (loss) | 18,323 | 1,204 | **(14,301)** | **(153,708)** |
| Cash dividends | (5,020) | (3,858) | **(1,993)** | **(21,425)** |
| At end of year | ¥117,579 | ¥114,998 | **¥ 98,704** | **$1,060,877** |
| **Treasury Stock, at cost** | | | | |
| At beginning of year | ¥ (63) | ¥ (11,347) | **¥ (11,352)** | **$ (122,010)** |
| Purchase of treasury stock | (11,279) | (7) | **(4)** | **(47)** |
| Sale of treasury stock | 1 | 2 | **—** | **—** |
| Net change in treasury stock held by an affiliate | (6) | — | **—** | **—** |
| At end of year | ¥ (11,347) | ¥ (11,352) | **¥ (11,356)** | **$ (122,057)** |
| **Net Unrealized Gain on Other Securities** | | | | |
| At beginning of year | ¥ 1,037 | ¥ 470 | **¥ 144** | **$ 1,550** |
| Net change in the year | (567) | (326) | **399** | **4,282** |
| At end of year | ¥ 470 | ¥ 144 | **¥ 543** | **$ 5,832** |
| **Foreign Currency Translation Adjustments** | | | | |
| At beginning of year | ¥ 4,404 | ¥ 5,302 | **¥ (6,205)** | **$ (66,702)** |
| Net change in the year | 898 | (11,507) | **466** | **5,021** |
| At end of year | ¥ 5,302 | ¥ (6,205) | **¥ (5,739)** | **$ (61,681)** |
| **Minority Interests** | | | | |
| At beginning of year | ¥ 1,817 | ¥ 2,000 | **¥ 1,179** | **$ 12,674** |
| Net change in the year | 183 | (821) | **(21)** | **(225)** |
| At end of year | ¥ 2,000 | ¥ 1,179 | **¥ 1,158** | **$ 12,449** |
| **Total Net Assets at End of Year** | ¥192,953 | ¥177,713 | **¥162,259** | **$1,743,968** |

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

Cash dividends in the year ended March 31, 2010 were as follows:

At the general shareholders' meeting held on June 20, 2009, cash dividends to shareholders of common stock in the aggregate amount of ¥1,029 million ($11,058 thousand), or ¥8 ($0.09) per share, were approved and commenced its payment on June 22, 2009.

At the board of directors' meeting held on November 12, 2009, cash dividends to shareholders of common stock in the aggregate amount of ¥965 million ($10,367 thousand), or ¥7.5 ($0.08) per share, were approved and commenced its payment on December 7, 2009.

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, 2010, was approved at the shareholders' meeting held on June 19, 2010 and commenced its payment on June 21, 2010:

| | Millions of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|
| Cash dividends, ¥7.5 ($0.08) per share | ¥965 | $10,367 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

for the years ended March 31, 2008, 2009, and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| **Cash Flows from Operating Activities:** | | | | |
| Income (loss) before income taxes and minority interests | ¥ 26,701 | ¥ 6,284 | **¥ (14,511)** | **$(155,960)** |
| Adjustments: | | | | |
| Depreciation and amortization | 10,138 | 10,637 | **9,737** | **104,654** |
| Amortization of goodwill and negative goodwill, net | 2,107 | 1,665 | **2,401** | **25,805** |
| Interest and dividend income | (933) | (559) | **(220)** | **(2,361)** |
| Interest expenses | 185 | 119 | **489** | **5,256** |
| Foreign exchange (gain) loss, net | (588) | (391) | **10** | **103** |
| Equity (earnings) losses of an affiliate | (197) | 46 | **(221)** | **(2,380)** |
| Loss on sales and disposal of property, plant and equipment, net | 184 | 165 | **152** | **1,639** |
| Loss on write-down of long-term investments in securities | 10 | 758 | **203** | **2,185** |
| (Gain) loss on sales of long-term investments in securities, net | — | 21 | **(1)** | **(12)** |
| Impairment losses | 137 | 934 | **—** | **—** |
| Lump-sum amortization of goodwill | — | — | **5,404** | **58,087** |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in accounts and notes receivable | 486 | 26,170 | **(3,490)** | **(37,513)** |
| (Increase) decrease in inventories | (1,566) | (836) | **2,700** | **29,016** |
| Increase (decrease) in accounts and notes payable | (2,403) | (13,389) | **3,543** | **38,076** |
| Increase (decrease) in provisions | 606 | (610) | **559** | **6,003** |
| Other, net | (2,129) | (2,153) | **(1,292)** | **(13,893)** |
| Subtotal | 32,738 | 28,861 | **5,463** | **58,705** |
| Interest and dividend received | 1,028 | 594 | **258** | **2,777** |
| Interest paid | (188) | (136) | **(467)** | **(5,014)** |
| Income taxes paid | (14,196) | (4,126) | **(852)** | **(9,156)** |
| Net cash provided by operating activities | 19,382 | 25,193 | **4,402** | **47,312** |
| **Cash Flows from Investing Activities:** | | | | |
| Purchase of property, plant and equipment, and intangibles | (19,618) | (16,505) | **(7,230)** | **(77,709)** |
| Proceeds from sales of property, plant and equipment | 79 | 91 | **9** | **100** |
| Increase in investments in securities, unconsolidated subsidiaries and affiliates | (637) | (1,077) | **(156)** | **(1,680)** |
| Proceeds from sales of investments in securities, unconsolidated subsidiaries and affiliates | 19 | 27 | **2** | **16** |
| Increase in loans receivable | (106) | (2,007) | **(6)** | **(68)** |
| Collections on loans receivable | 77 | 682 | **77** | **830** |
| Acquisition of a newly consolidated subsidiary, net of cash acquired (Note 17) | (12,130) | — | **—** | **—** |
| Other, net | (38) | (289) | **(19)** | **(196)** |
| Net cash used in investing activities | (32,354) | (19,078) | **(7,323)** | **(78,707)** |
| **Cash Flows from Financing Activities:** | | | | |
| Repayments of short-term debt | (500) | — | **—** | **—** |
| Repayments of long-term debt | (13,142) | (5,000) | **—** | **—** |
| Proceeds from long-term debt | — | 20,000 | **10,000** | **107,481** |
| Cash dividends | (5,014) | (3,857) | **(1,990)** | **(21,386)** |
| Cash dividends to minority shareholders | (41) | (31) | **(29)** | **(308)** |
| Purchase of treasury stock | (11,279) | (7) | **(4)** | **(47)** |
| Proceeds from sale of treasury stock | 1 | 2 | **—** | **—** |
| Repayments of lease obligations | — | (76) | **(45)** | **(485)** |
| Other, net | (1) | — | **—** | **—** |
| Net cash provided by (used in) financing activities | (29,976) | 11,031 | **7,932** | **85,255** |
| **Foreign Currency Translation Adjustments on Cash and Cash Equivalents** | 805 | (2,826) | **126** | **1,350** |
| **Net Increase (decrease) in Cash and Cash Equivalents** | (42,143) | 14,320 | **5,137** | **55,210** |
| **Cash and Cash Equivalents at Beginning of Year** | 91,953 | 49,810 | **64,130** | **689,274** |
| **Cash and Cash Equivalents at End of Year (Note 17)** | ¥ 49,810 | ¥ 64,130 | **¥ 69,267** | **$ 744,484** |

The accompanying notes are an integral part of these statements.

## 1. Basis of Presenting Consolidated Financial Statements

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

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

## 2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements are included solely for the convenience of the readers. These translations should not be construed as presentations that the yen amounts actually represent or could be converted into U.S. dollars at that or any other rate. For this purpose, the rate of ¥93.04 to U.S.$ 1, the approximate rate of exchange prevailing in Tokyo on March 31, 2010, have been used for the translation of the accompanying consolidated financial statements as of and for the year ended March 31, 2010.

## 3. Summary of Significant Accounting Policies

### (a) Consolidation

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

The Company had 35 (34 in 2009) subsidiaries as of March 31, 2010. The consolidated financial statements for the year ended March 31, 2010 include the accounts of the Company and 29 (29 for 2009) of its consolidated subsidiaries (collectively, “the Group”). The consolidated subsidiaries as of March 31, 2010 are listed below:

| Name of consolidated subsidiary | Holding ratio of the Company (directly and indirectly) | Fiscal year end |
|---|---|---|
| THK Holdings of America, L.L.C. (USA) | 100% | Dec. 31, 2009 |
| THK America, Inc. (USA) | 100 | Dec. 31, 2009 |
| THK Manufacturing of America, Inc. (USA) | 100 | Dec. 31, 2009 |
| Rhythm North America Corporation (USA) | 100 | Dec. 31, 2009 |
| THK Europe B.V. (the Netherlands) | 100 | Dec. 31, 2009 |
| THK GmbH (Germany) | 100 | Dec. 31, 2009 |
| THK France S.A.S. (France) | 100 | Dec. 31, 2009 |
| PGM Ballscrews Ireland Ltd. (Ireland) | 98.97 | Dec. 31, 2009 |
| THK Manufacturing of Europe S.A.S. (France) | 100 | Dec. 31, 2009 |
| THK TAIWAN CO., LTD. (Taiwan) | 100 | Dec. 31, 2009 |
| Beldex KOREA Corporation (Korea) | 100 | Dec. 31, 2009 |
| THK (CHINA) CO., LTD. (China) | 100 | Dec. 31, 2009 |
| THK (SHANGHAI) CO., LTD. (China) | 100 | Dec. 31, 2009 |
| DALIAN THK CO., LTD. (China) | 70.00 | Dec. 31, 2009 |
| THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China) | 100 | Dec. 31, 2009 |
| THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China) | 100 | Dec. 31, 2009 |
| THK LM SYSTEM Pte. Ltd. (Singapore) | 100 | Dec. 31, 2009 |
| RHYTHM GUANGZHOU CORPORATION (China) | 100 | Dec. 31, 2009 |
| THK RHYTHM (THAILAND) CO., LTD. (Thailand) | 100 | Dec. 31, 2009 |
| THK INTECHS CO., LTD. (formerly DAITO SEIKI CO., LTD.) (Japan) | 100 | Mar. 31, 2010 |
| THK NIIGATA CO., LTD. (Japan) | 100 | Mar. 31, 2010 |
| TALK SYSTEM Co., Ltd. (Japan) | 99.00 | Mar. 31, 2010 |
| Beldex Corporation (Japan) | 100 | Mar. 31, 2010 |
| RHYTHM CORPORATION (Japan) | 100 | Mar. 31, 2010 |
| Rhythm Kyusyu Co., Ltd. (Japan) | 100 | Mar. 31, 2010 |
| Rhythm L Co., Ltd. (Japan) | 100 | Mar. 31, 2010 |
| L Tool Co., Ltd. (Japan) | 100 | Mar. 31, 2010 |
| L Trading Co., Ltd. (Japan) | 100 | Mar. 31, 2010 |
| L Engineering Co., Ltd. (Japan) | 100 | Mar. 31, 2010 |

There were no changes in the scope of consolidation for the year ended March 31, 2010.

The Company had three (three in 2009) affiliates and six (five in 2009) unconsolidated subsidiaries as of March 31, 2010. Under the control concept, companies over which the Company directly or indirectly has the ability to exercise significant influence are accounted for using the equity method. For the years ended March 31, 2009 and 2010, the Company has applied the equity method to investment in SAMICK THK CO., LTD. Investments in the remaining affiliates and unconsolidated subsidiaries are stated at cost. If the equity method had been applied to the investments in those companies, the effect on the consolidated financial statements would not have been significant.

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

PITF No.18 is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company adopted the new accounting standard effective April 1, 2008.

## (b) Translation of Foreign Currency Financial Statements

Assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Net assets except for minority interest account at beginning of year are translated into Japanese yen at historical rates. Profit and loss accounts are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from use of different rates are presented as foreign currency translation adjustments in net assets section.

## (c) Inventories

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

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

The Company adopted the new accounting standard for measurement of inventories as of April 1, 2008.

## (d) Financial Instruments

***Securities***

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

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

***Derivatives***

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

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

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

## (e) Property, Plant and Equipment

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

Prior to the year ended March 31, 2009, the useful lives of machineries were mainly 10 years. During the year ended March 31, 2010, the Group completed reviewing useful lives of machineries and updating accounting system. As a result, the useful lives on machineries have been changed to a range from nine years to 12 years. The effect of changing the useful lives of machineries was to increase operating loss and loss before income taxes and minority interests for the year ended March 31, 2010 by ¥481 million ($5,170 thousand).

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

## (f) Amortization

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

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

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

Lump-sum amortization of goodwill in non-operating expenses is recognized in accordance with Article 32 in statement No. 7, “Guideline for Consolidation Procedures”, issued by the Accounting System Committee at the Japanese Institute of Certified

Public Accountants. The Company recognized ¥5,404 million ($58,087 thousand) as lump-sum amortization of goodwill for the year ended March 31, 2010 in relation to the goodwill of RHYTHM CORPORATION, a consolidated subsidiary.

## (g) Allowance for Doubtful Receivables

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

## (h) Accrued Bonuses to Employees

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

## (i) Accrued Bonuses to Directors and Statutory Auditors

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

## (j) Reserve for Employees' Retirement Benefits

Reserve for employees' retirement benefits represents the estimated present value of projected benefit obligations in excess of fair value of plan assets. Amortization of unrecognized actuarial differences is initiated from the following fiscal year on a straight-line basis over a period from five to 18 years.

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

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

## (l) Reserve for Product Warranty

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

## (m) Lease

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

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

The Company adopted this revised accounting standard as of April 1, 2008, applying the permission discussed above to leases which existed at the transition date and did not transfer ownership of the leased property to the lessee.

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

### (n) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Gains and losses from translation are recognized in the statement of operations to the extent that they are not hedged by forward foreign currency exchange contracts.

### (o) Consumption Tax

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

### (p) Income Taxes

Japanese income taxes consist of corporate income taxes, local inhabitants’ taxes and enterprise taxes.

Provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are determined by applying currently enacted tax laws to the temporary differences.

### (q) Cash and Cash Equivalents

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

### (r) Per Share Information

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

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

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

## 4. Impairment Losses

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

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

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

| Year ended March 31 | Location | Assets | Amount |
|---|---|---|---|
| 2008 | Shizuoka and Miyagi, Japan | Land, buildings and other | ¥137 million |
| 2009 | Jiangsu, China | Buildings, machinery and other | ¥934 million |

No impairment loss was recognized for the year ended March 31, 2010.

## 5. Financial Instruments and Related Disclosures

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted.  The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Policy for financial instruments
The Group's use of its surplus funds is limited to short-term deposits and other low-risk financial assets. As to raising funds, the Group finances by issuing bonds and bank loans in accordance with business plans. The Group does not hold or issue derivative financial instruments for speculative purposes.

(2) Nature and risks of financial instruments
Notes and accounts receivable are subject to credit risks of customers. Receivables denominated in foreign currencies arising from the Group's global business are subject to foreign currency exchange risks. The Group controls these risks by utilizing forward foreign currency exchange contracts applicable to net amounts of receivables and payables denominated in foreign currencies.

Most investment securities consist of equity securities and are subject to market value volatility risks.

Most of notes and accounts payable are due within a year. Bonds and bank loans are financed for working capital or capital investment use for which the maximum redemption/repayment period is four years and four months. The Group controls interest rate risks by utilizing interest rate swap contracts.

The Group utilizes forward foreign currency exchange contracts and interest rate swap contracts to manage foreign exchange risks and interest rate risks. Use of derivatives is limited to operating purposes.

(3) Risk management
(a) Credit risks—The Group controls customers' credit risks in accordance with internal rules for controlling receivables. Appropriate departments of the Group monitor major customers' financial conditions to promptly obtain information about possible bad debts. Because the counterparties of derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

(b) Market risks—The Group utilizes forward foreign currency exchange contracts and interest rate swap contracts to manage foreign exchange risks of each currency and interest rate risks in relation to bank loans. As to investments in securities, fair value and financial condition of investees are periodically reviewed. Derivative transactions are executed and controlled by the Corporate Strategy Division. General manager of Corporate Strategy Division reports results and conditions of derivative transactions at the Board of Director's meetings on a monthly basis.

(c) Liquidity risks—Each company of the Group prepares and updates cash-flow plans and maintains appropriate amounts of ready liquidity.

(4) Other information

Fair values of financial instruments are based on quoted prices in active markets. If quoted price is not available, other rational valuation techniques are used instead. Because such valuation techniques include certain assumptions, results may differ if different assumptions are used in the valuation. The contract amounts for derivatives listed in Note 7 do not represent volume of underlying market risks of the derivative transactions.

Financial instruments whose fair value is readily determinable as of March 31, 2010 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| Assets: | | | |
| (1) Cash and cash equivalents | ¥ 69,267 | ¥ 69,267 | ¥ — |
| (2) Trade accounts and notes receivable | 40,466 | 40,466 | — |
| (3) Long-term investments in securities | 1,812 | 1,812 | — |
| Total | ¥111,545 | ¥111,545 | ¥ — |
| Liabilities: | | | |
| (4) Trade accounts and notes payable | ¥ 24,227 | ¥ 24,227 | ¥ — |
| (5) Long-term debt—Bonds | 10,000 | 10,121 | 121 |
| (6) Long-term debt—Bank loans | 20,000 | 20,000 | — |
| Total | ¥ 54,227 | ¥ 54,348 | ¥121 |
| (7) Derivatives | ¥ — | ¥ — | ¥ — |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Carrying amount | Fair value | Difference |
| Assets: | | | |
| (1) Cash and cash equivalents | $ 744,484 | $ 744,484 | $ — |
| (2) Trade accounts and notes receivable | 434,933 | 434,933 | — |
| (3) Long-term investments in securities | 19,479 | 19,479 | — |
| Total | $1,198,896 | $1,198,896 | $ — |
| Liabilities: | | | |
| (4) Trade accounts and notes payable | $ 260,392 | $ 260,392 | $ — |
| (5) Long-term debt—Bonds | 107,481 | 108,781 | 1,300 |
| (6) Long-term debt—Bank loans | 214,961 | 214,961 | — |
| Total | $ 582,834 | $ 584,134 | $1,300 |
| (7) Derivatives | $ — | $ — | $ — |

Notes: (1), (2), and (4) — As these items are settled within a year and have fair values approximately equal to their carrying amounts, they are stated at the carrying amounts.

(3) — Fair value of equity securities is stated at quoted market price. Fair value information categorized by holding purposes of investment securities is discussed in Note 6.

(5) — Fair value of bonds is stated at present value of a total amount of its principal and interest discounted by a rate determined considering its remaining periods and credit risks.

(6) — Bank loans are payable with variable interest rates. Fair value of bank loans is stated at carrying amount because fair value of such bank loans is considered approximately equal to its carrying amount based on the following assumptions; (a) variable interest rates reflect the current market rate, and (b) the Company's credit status has not significantly changed after the issuance.

(7) — Details and information are discussed in Note 7.

Financial instruments which do not have quoted market prices and whose fair value is not reliably determinable are not included in the table above. Such financial instruments as of March 31, 2010 are as follows:

| | Millions of yen | Thousands of U.S. Dollars |
|---|---|---|
| Long-term investments in securities | ¥ 215 | $ 2,307 |

Detailed information about investments in securities is discussed in Note 6.

Maturity analysis for financial assets as of March 31, 2010 is as follows:

| | Millions of yen | |
|---|---|---|
| | Due within one year | Due after year |
| (1) Cash and cash equivalents | ¥ 69,267 | ¥ — |
| (2) Trade accounts and notes receivable | 40,466 | — |
| Total | ¥ 109,733 | ¥ — |

| | Thousands of U.S. dollars | |
|---|---|---|
| | Due within one year | Due after year |
| (1) Cash and cash equivalents | $ 744,484 | $ — |
| (2) Trade accounts and notes receivable | 434,933 | — |
| Total | $1,179,417 | $ — |

Maturities of long-term debts as of March 31, 2010 are discussed in Note 9.

## 6. Investments in Securities

As of March 31, 2009 and 2010, other securities with available fair value were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Cost | Fair value | Net unrealized gain (loss) |
| Fair value exceeds acquisition cost: | | | |
| Equity securities | ¥455 | ¥ 719 | ¥264 |
| Other | 1 | 1 | 0 |
| Subtotal | 456 | 720 | 264 |
| Fair value does not exceed acquisition cost: | | | |
| Equity securities | 489 | 450 | (39) |
| Other | — | — | — |
| Subtotal | 489 | 450 | (39) |
| Total | ¥945 | ¥1,170 | ¥225 |

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Cost | Fair value | Net unrealized gain (loss) |
| Fair value exceeds acquisition cost: | | | |
| Equity securities | **¥843** | **¥1,718** | **¥875** |
| Fair value does not exceed acquisition cost: | | | |
| Equity securities | **111** | **94** | **(17)** |
| Total | **¥954** | **¥1,812** | **¥858** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Cost | Fair value | Net unrealized gain (loss) |
| Fair value exceeds acquisition cost: | | | |
| Equity securities | **$ 9,066** | **$18,468** | **$9,402** |
| Fair value does not exceed acquisition cost: | | | |
| Equity securities | **1,195** | **1,011** | **(184)** |
| Total | **$10,261** | **$19,479** | **$9,218** |

As of March 31, 2009 and 2010, other securities whose fair value is not reliably determinable were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Other securities | | | |
| Unlisted equity securities | ¥379 | **¥215** | **$2,307** |

## 7. Derivatives and Hedging Activities

The Group utilizes interest rate swap agreements to hedge interest rate risks associated with its bank loans. The Group's interest rate swaps qualify for hedge accounting and meet specific matching criteria under Japanese GAAP and are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income. Fair value information of such derivatives as of March 31, 2010 is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Contract Amount | | Fair value of derivative instruments |
| | Within one year | Over one year | |
| Interest rate swaps (fixed rate payment, floating rate receipt) | **¥—** | **¥20,000** | **¥(508)** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Contract Amount | | Fair value of derivative instruments |
| | Within one year | Over one year | |
| Interest rate swaps (fixed rate payment, floating rate receipt) | **$—** | **$214,961** | **$(5,457)** |

Fair value of derivative instruments in the table above is stated at amount obtained from financial institutions, the counter parties of the contracts. No balance of other derivative instruments accounted for under hedge accounting remained as of March 31, 2010.

Prior to April 1, 2009, fair value information of derivative financial instruments which qualify for the requirement of hedge accounting under Japanese GAAP is not required to be disclosed.
Since all of the derivative financial instruments as of March 31, 2009 qualify the requirement, such information as of March 31, 2009 is not presented.

## 8. Inventories

Inventories as of March 31, 2009 and 2010 comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Merchandise and finished goods | ¥12,511 | **¥ 9,674** | **$103,971** |
| Work in process | 4,422 | **5,475** | **58,850** |
| Raw materials and supplies | 10,204 | **9,613** | **103,319** |
| Total | ¥27,137 | **¥24,762** | **$266,140** |

## 9. Long-term Debt

Long-term debt as of March 31, 2009 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| 1.94% Unsecured syndicated loan payable to banks, due in 2014 | ¥20,000 | **¥20,000** | **$214,961** |
| 1.35% Unsecured straight bonds due in 2014 | — | **10,000** | **107,481** |
| | 20,000 | **30,000** | **322,442** |
| Less current portion | — | **—** | **—** |
| | ¥20,000 | **¥30,000** | **$322,442** |

## 10. Committed Line of Credit

As of March 31, 2010, the Group had committed lines of credit amounting to ¥15,000 million ($161,221 thousand). None of the committed lines of credit were used.

## 11. Contingent Liabilities

The Company guarantees trade accounts payable of NIPPON SLIDE CO., LTD., an unconsolidated subsidiary of the Company. The amount of guaranty as of March 31, 2010 was ¥81 million ($867 thousand).

## 12. Lease

The Group leases certain machinery, equipment, software, and other assets.

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

Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases on an “as if capitalized” basis as of March 31, 2009 and 2010 were as follows:

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

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Machinery and equipment | Other | Total |
| Acquisition costs | ¥1,167 | ¥74 | ¥1,241 |
| Accumulated depreciation | 982 | 51 | 1,033 |
| Net leased property | ¥ 185 | ¥23 | ¥ 208 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Machinery and equipment | Other | Total |
| Acquisition costs | $12,548 | $790 | $13,338 |
| Accumulated depreciation | 10,557 | 550 | 11,107 |
| Net leased property | $ 1,991 | $240 | $ 2,231 |

Future minimum lease payments under finance leases as of March 31, 2009 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Due within one year | ¥431 | ¥105 | $1,122 |
| Due after one year | 211 | 103 | 1,109 |
| Total | ¥642 | ¥208 | $2,231 |

Total lease payments under these leases were ¥731 million, ¥673 million, and ¥216 million ($2,320 thousand) for the years ended March 31, 2008, 2009, and 2010, respectively.

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense. Depreciation expenses, which are not reflected in the accompanying consolidated statements of operations, computed using the straight-line method, were ¥731 million, ¥673 million, and ¥216 million ($2,320 thousand) for the years ended March 31, 2008, 2009, and 2010, respectively.

Obligations under non-cancelable operating leases as of March 31, 2009 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Due within one year | ¥ 535 | ¥ 465 | $ 4,990 |
| Due after one year | 1,099 | 891 | 9,580 |
| Total | ¥1,634 | ¥1,356 | $14,570 |

## 13. Amortization of Goodwill

Amortization of goodwill included in selling, general and administrative expenses for the years ended March 31, 2008, 2009, and 2010 were ¥2,755 million, ¥2,728 million, and ¥2,725 million ($29,288 thousand), respectively.

## 14. Research and Development

Research and development expenses included in cost of sales or selling, general and administrative expenses for the years ended March 31, 2008, 2009, and 2010 were ¥3,550 million, ¥3,643 million, and ¥3,940 million ($42,344 thousand), respectively.

## 15. Reserve for Employees' Retirement Benefits

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

Reserve for employees' retirement benefits as of March 31, 2009 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Projected benefit obligations | ¥ 9,690 | **¥10,492** | **$112,772** |
| Fair value of plan assets | (3,649) | **(4,395)** | **(47,243)** |
| | 6,041 | **6,097** | **65,529** |
| Unrecognized actuarial differences | (1,719) | **(1,301)** | **(13,979)** |
| Reserve for employees' retirement benefits | ¥ 4,322 | **¥ 4,796** | **$ 51,550** |

Net periodic pension and severance costs for the years ended March, 2008, 2009, and 2010 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| Service cost | ¥ 821 | ¥ 889 | **¥ 809** | **$ 8,690** |
| Interest cost | 156 | 168 | **182** | **1,955** |
| Expected return on plan assets | (59) | (57) | **(51)** | **(550)** |
| Recognized prior service cost | — | — | **17** | **181** |
| Recognized actuarial differences | 96 | 154 | **247** | **2,660** |
| Net periodic pension and severance costs | ¥1,014 | ¥1,154 | **¥1,204** | **$12,936** |

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

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| Discount rate | 2.0% | 2.0% | **2.0%** |
| Expected rate of return on plan assets | 1.0%–1.5% | 1.5% | **1.5%** |
| Amortization of unrecognized actuarial differences | 5–18 years | 5–18 years | **5–18 years** |

Prior service cost is recognized as incurred. Allocation of the projected benefits to service periods is based on the straight-line method.

## 16. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2008, 2009, and 2010.

As of March 31, 2009 and 2010, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2009 | 2010 | 2010 |
| Deferred tax assets: | | | |
| Reserve for employees' retirement benefits | ¥ 1,696 | **¥ 1,860** | **$ 19,988** |
| Loss on devaluation of inventories | 1,247 | **1,038** | **11,159** |
| Tax loss carried forward | 1,034 | **3,928** | **42,218** |
| Valuation loss of investments in subsidiaries | 954 | **6,342** | **68,159** |
| Accrued bonuses to employees | 689 | **735** | **7,900** |
| Unrealized gain on intercompany sales of property, plant and equipment | 476 | **401** | **4,307** |
| Retirement benefits payable to directors and statutory auditors | 418 | **408** | **4,381** |
| Impairment losses | 368 | **357** | **3,833** |
| Other | 2,007 | **1,536** | **16,521** |
| Total | 8,889 | **16,605** | **178,466** |
| Less: valuation allowance | (2,447) | **(9,781)** | **(105,123)** |
| Total deferred tax assets | 6,442 | **6,824** | **73,343** |
| Deferred tax liabilities: | | | |
| Unrealized gains of marketable equity securities | (2,022) | **(2,270)** | **(24,400)** |
| Unrealized gains on land revaluation | (1,422) | **(1,422)** | **(15,285)** |
| Depreciation | — | **(725)** | **(7,791)** |
| Insurance premium | (518) | **(587)** | **(6,310)** |
| Special depreciation reserve for tax purpose | (193) | **(157)** | **(1,688)** |
| Other | (722) | **(126)** | **(1,354)** |
| Total deferred tax liabilities | (4,877) | **(5,287)** | **(56,828)** |
| Net deferred tax assets | ¥ 1,565 | **¥ 1,537** | **$ 16,515** |

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

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

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 2010 is not presented because of the Group's net loss position.

## 17. Supplemental Cash Flow Information

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| Cash and bank deposits | ¥48,162 | ¥64,130 | **¥69,267** | **$744,484** |
| Short-term investments in securities | 1,648 | — | **—** | **—** |
| Cash and cash equivalents | ¥49,810 | ¥64,130 | **¥69,267** | **$744,484** |

### 2) Significant acquisition

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

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

No significant acquisition occurred in the years ended March 31, 2009 and 2010.

## 3) Significant non-cash transactions

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

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

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

# 18. Per Share Information

Per share information for the years and as of ended March 31, 2008, 2009, and 2010 are as follows:

| | Yen | | | U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 |
| Net income (loss) – basic | ¥ 139.53 | ¥ 9.36 | **¥ (111.20)** | **$ (1.20)** |
| – diluted | ¥ 138.74 | ¥ — | **¥ —** | **$ —** |
| Net assets | ¥1,484.78 | ¥1,372.69 | **¥1,252.71** | **$13.46** |

Diluted net income (loss) per share for the years ended March 31, 2009 and 2010 is not presented since the Company did not have any kind of securities with potential dilutive effect in 2009 and 2010.

# 19. Segment Information

## 1) Business Segment Information

The Group classifies its business into two segments, namely, (1) Industrial Equipment-Related Business and (2) Transportation Equipment-Related Business.

Major products in each business segment are as follows:

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

Business segment information for the years ended March 31, 2008, 2009, and 2010 is summarized as follows:

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

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

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2010 | | | | |
| | Industrial Equipment-Related Business | Transportation Equipment-Related Business | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income (loss)– | | | | | |
| Net sales: | | | | | |
| Customers | ¥ 84,726 | ¥ 30,604 | ¥ 115,330 | ¥ — | ¥ 115,330 |
| Inter-segment | — | — | — | — | — |
| Total | 84,726 | 30,604 | 115,330 | — | 115,330 |
| Operating expenses | 84,244 | 34,914 | 119,158 | 5,681 | 124,839 |
| Operating income (loss) | ¥ 482 | ¥ (4,310) | ¥ (3,828) | ¥ (5,681) | ¥ (9,509) |
| II. Assets, depreciation and amortization, impairment losses and capital expenditure– | | | | | |
| Assets | ¥ 139,703 | ¥ 26,478 | ¥ 166,181 | ¥ 70,194 | ¥ 236,375 |
| Depreciation and amortization | ¥ 7,345 | ¥ 2,328 | ¥ 9,673 | ¥ 64 | ¥ 9,737 |
| Capital expenditure | ¥ 3,437 | ¥ 949 | ¥ 4,386 | ¥ 61 | ¥ 4,447 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2010 | | | | |
| | Industrial Equipment-Related Business | Transportation Equipment-Related Business | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income (loss)– | | | | | |
| Net sales: | | | | | |
| Customers | $ 910,642 | $ 328,935 | $1,239,577 | $ — | $1,239,577 |
| Inter-segment | — | — | — | — | — |
| Total | 910,642 | 328,935 | 1,239,577 | — | 1,239,577 |
| Operating expenses | 905,464 | 375,256 | 1,280,720 | 61,058 | 1,341,778 |
| Operating income (loss) | $ 5,178 | $ (46,321) | $ (41,143) | $ (61,058) | $ (102,201) |
| II. Assets, depreciation and amortization, impairment losses and capital expenditure– | | | | | |
| Assets | $1,501,539 | $ 284,585 | $1,786,124 | $754,448 | $2,540,572 |
| Depreciation and amortization | $ 78,945 | $ 25,023 | $ 103,968 | $ 686 | $ 104,654 |
| Capital expenditure | $ 36,946 | $ 10,199 | $ 47,145 | $ 652 | $ 47,797 |

Operating expenses incurred mainly in administrative departments are included in “Eliminations and corporate” since they cannot be allocated into specific segments. The aggregate amounts of such operating expenses for the years ended March 31, 2008, 2009, and 2010 were ¥7,125 million, ¥6,886 million, and ¥5,681 million ($61,059 thousand), respectively.

Corporate assets which cannot be allocated into specific segments are included in “Eliminations and corporate”. Such corporate assets primarily consist of term deposits, investment securities, deferred tax assets and land. As of March 31, 2008, 2009, and 2010, the aggregate amounts of such assets were ¥44,522 million, ¥63,334 million, and ¥70,194 million ($754,448 thousand), respectively.

The effect of changing the useful lives of machineries as discussed in Note 3 (e) was to increase operating income in Industrial Equipment-Related Business by ¥495 million ($5,317 thousand) and operating loss in Transportation Equipment-Related Business by ¥14 million ($147 thousand), respectively.

## 2) Geographical Segment Information

Principal countries and jurisdictions in each segment are as follows:

"The Americas" mainly includes the United States.
"Europe" mainly includes Germany, the United Kingdom and the Netherlands.
"Asia and other" mainly includes China, Korea and Taiwan.

Geographical segment information for the years ended March 31, 2008, 2009, and 2010 is summarized as follows:

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

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

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | |
| | Japan | The Americas | Europe | Asia and other | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income (loss)– | | | | | | | |
| Net sales: | | | | | | | |
| Customers | ¥ 77,666 | ¥14,410 | ¥12,430 | ¥10,824 | ¥115,330 | ¥ — | ¥115,330 |
| Inter-segment | 19,518 | 46 | 21 | 1,584 | 21,169 | (21,169) | — |
| Total | 97,184 | 14,456 | 12,451 | 12,408 | 136,499 | (21,169) | 115,330 |
| Operating expenses | 98,660 | 14,821 | 14,027 | 12,940 | 140,448 | (15,609) | 124,839 |
| Operating income (loss) | ¥ (1,476) | ¥ (365) | ¥(1,576) | ¥ (532) | ¥ (3,949) | ¥ (5,560) | ¥ (9,509) |
| II. Assets | ¥170,607 | ¥10,437 | ¥12,131 | ¥27,263 | ¥220,438 | ¥15,937 | ¥236,375 |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2010 | | | | | | |
| | Japan | The Americas | Europe | Asia and other | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income (loss)– | | | | | | | |
| Net sales: | | | | | | | |
| Customers | $ 834,761 | $154,886 | $133,594 | $116,336 | $1,239,577 | $ — | $1,239,577 |
| Inter-segment | 209,781 | 493 | 222 | 17,025 | 227,521 | (227,521) | — |
| Total | 1,044,542 | 155,379 | 133,816 | 133,361 | 1,467,098 | (227,521) | 1,239,577 |
| Operating expenses | 1,060,409 | 159,302 | 150,758 | 139,077 | 1,509,546 | (167,768) | 1,341,778 |
| Operating income (loss) | $ (15,867) | $ (3,923) | $(16,942) | $ (5,716) | $ (42,448) | $ (59,753) | $ (102,201) |
| II. Assets | $1,833,694 | $112,180 | $130,387 | $293,021 | $2,369,282 | $171,290 | $2,540,572 |

Prior to April 1, 2007, all of operating expenses incurred in the Company have been included in the Japan segment. Effective April 1, 2007, expenses incurred in the administrative departments of the Company have been reclassified into “Eliminations and corporate” in order to reflect actual operating performances of each segment more accurately. This change was made because the Company’s control functions over its subsidiaries were strengthened by reorganizing its group-level administrative systems through developing its internal controls. The aggregate amounts of such operating expenses for the years ended March 31, 2008, 2009, and 2010 were ¥7,125 million, ¥6,886 million, and ¥5,681 million ($61,059 thousand), respectively.

Corporate assets which cannot be allocated into specific segments are included in “Eliminations and corporate”. Such corporate assets primarily consist of term deposits, investment securities, deferred tax assets and land. As of March 31, 2008, 2009, and 2010, the aggregate amounts of such assets were ¥44,522 million, ¥63,334 million, and ¥70,194 million ($754,448 thousand), respectively.

The effect of changing the useful lives of machineries as discussed in Note 3 (e) was to decrease operating loss in Japan segment by ¥481 million ($5,170 thousand) for the year ended March 31, 2010.

## 3) Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2008, 2009, and 2010 were summarized as follows:

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

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | The Americas | Europe | Asia and other | Total |
| Sales to foreign customers | ¥23,266 | ¥24,916 | ¥21,521 | ¥ 69,703 |
| Consolidated net sales | | | | ¥179,269 |
| Ratio to consolidated net sales | 13.0% | 13.9% | 12.0% | 38.9% |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | The Americas | Europe | Asia and other | Total |
| Sales to foreign customers | **¥14,552** | **¥12,636** | **¥17,846** | **¥ 45,034** |
| Consolidated net sales | | | | **¥115,330** |
| Ratio to consolidated net sales | **12.6%** | **11.0%** | **15.5%** | **39.0%** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | The Americas | Europe | Asia and other | Total |
| Sales to foreign customers | **$156,411** | **$135,810** | **$191,812** | **$ 484,033** |
| Consolidated net sales | | | | **$1,239,577** |

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## Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of THK Co., Ltd. and its subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2010, 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, 2009 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

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

Grant Thornton Taiyo ASG

Tokyo, Japan
June 21, 2010

# SUBSIDIARIES & AFFILIATE

As of March 31, 2010

| Subsidiaries | Main operations | Head office | Percentage owned by the Company, directly or indirectly (%) |
|---|---|---|---|
| THK INTECHS CO., LTD. | Manufacture and sale of vital machinery components and machinery | Tokyo, Japan | 100.00 |
| TALK SYSTEM CORPORATION | Sale of machinery parts and various types of equipment | Tokyo, Japan | 99.00 |
| Beldex Corporation | Industrial equipment-related business | Tokyo, Japan | 100.00 |
| THK NIIGATA CO., LTD. | Manufacture of ball splines | Niigata, Japan | 100.00 |
| RHYTHM CORPORATION | Transportation equipment-related business | Shizuoka, Japan | 100.00 |
| Rhythm Kyushu Co., Ltd. | Transportation equipment-related business | Oita, Japan | 100.00 |
| Rhythm L Co., Ltd. | Transportation equipment-related business | Shizuoka, Japan | 100.00 |
| L Tool Co., Ltd. | Transportation equipment-related business | Shizuoka, Japan | 100.00 |
| L Trading Co., Ltd. | Transportation equipment-related business | Shizuoka, Japan | 100.00 |
| L Engineering Co., Ltd. | Transportation equipment-related business | Shizuoka, Japan | 100.00 |
| 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 |
| Rhythm North America Corporation | Transportation equipment-related business | Tennessee, 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 | Champagne Au Mont d'or, 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 | 100.00 |
| 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, spherical joints | Singapore | 100.00 |
| RHYTHM GUANGZHOU CORPORATION | Transportation equipment-related business | Guangzhou, China | 100.00 |
| THK RHYTHM (THAILAND) CO., LTD. | Transportation equipment-related business | Rayong, Thailand | 100.00 |

| Affiliate | | | |
|---|---|---|---|
| SAMICK THK CO., LTD. | Manufacture and sale of LM guides | Daegu, South Korea | 33.82 |

RHYTHM CORPORATION, Rhythm Kyushu Co., Ltd., Rhythm North America Corporation and RHYTHM GUANGZHOU CORPORATION changed their corporate names to THK RHYTHM CO., LTD., THK RHYTHM KYUSHU CO., LTD., THK RHYTHM NORTH AMERICA CO., LTD. and THK RHYTHM GUANGZHOU CO., LTD., respectively, in June 2010.

# CORPORATE DATA

As of March 31, 2010

## 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 | 7,559 (consolidated); 3,336 (parent company) |
| Month of Ordinary General Meeting of Shareholders | June |
| Web Site URL | http://www.thk.com/ |
| Independent Auditors | Grant Thornton Taiyo ASG |

## Stock Information

| | |
|---|---|
| Common Stock: | |
| Authorized | 465,877,700 shares |
| Issued | 133,856,903 shares |
| Stock Exchange Listing | Tokyo Stock Exchange |
| Stock Transfer Agent | Mitsubishi UFJ Trust and Banking Corporation |
| Number of Shareholders | 23,724 |

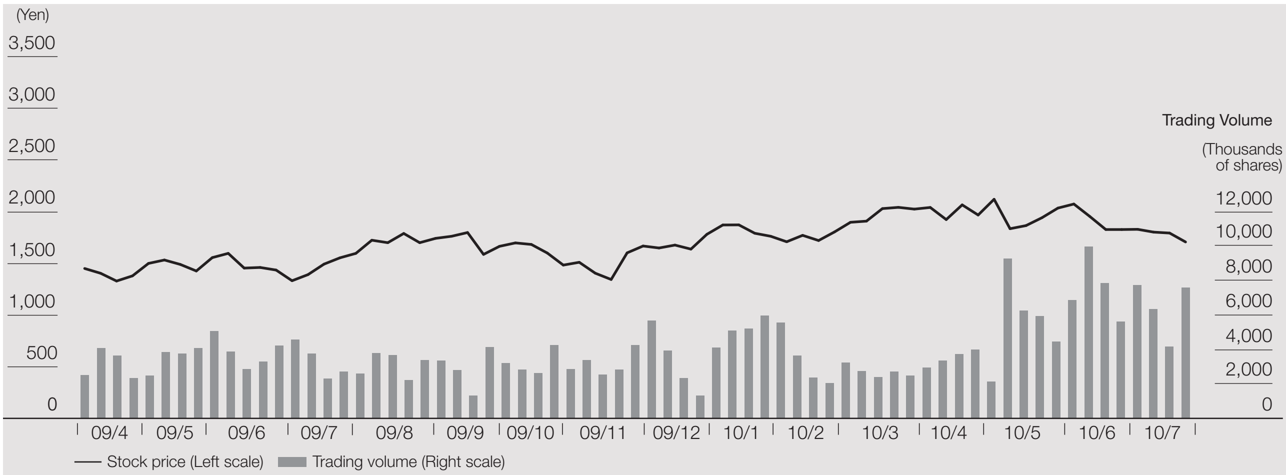
### ■ Major Shareholders

| | Number of Issued Shares Held | Shareholding Ratio (%) |
|---|---|---|
| State Street Bank and Trust Company | 9,589,144 | 7.16 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 6,842,700 | 5.11 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 6,834,000 | 5.10 |
| The Chase Manhattan Bank NA London SL Omnibus Account | 6,596,414 | 4.92 |
| Akihiro Teramachi | 5,843,300 | 4.36 |
| The Chase Manhattan Bank 385036 | 5,290,500 | 3.95 |
| THK CO., LTD. | 5,252,060 | 3.92 |
| State Street Bank and Trust Company 505225 | 3,230,045 | 2.41 |
| State Street Bank and Trust Company 505224 | 3,205,000 | 2.39 |
| FTC CO., LTD. | 2,074,000 | 1.54 |

### ■ Shareholder Composition

| Shareholder Type | Number of Shareholders | Number of Issued Shares Held | Shareholding Ratio (%) |
|---|---|---|---|
| Government and Municipalities | 1 | 14,000 | 0.01 |
| Financial Institutions | 70 | 31,659,130 | 23.65 |
| Securities Companies | 30 | 558,630 | 0.42 |
| Other Corporations | 319 | 4,454,069 | 3.33 |
| Overseas Institutions | 346 | 67,670,497 | 50.55 |
| Individuals and Others | 22,957 | 24,248,517 | 18.12 |
| Treasury Stock | 1 | 5,252,060 | 3.92 |

### ■ Stock Price and Trading Volume



THK CO., LTD.

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