FINANCIAL SECTION

Analysis of Operating Results

Net sales

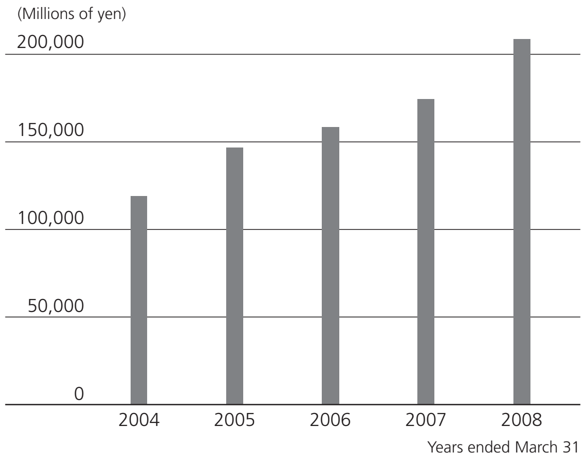
During fiscal 2007, the year ended March 31, 2008, the Japanese economy sustained moderate growth in general, supported by increases in exports and consumer spending. Toward the end of the year, however, uncertainty over the economy's future rapidly mounted due to sharp fluctuations in foreign exchange rates and further hikes in raw materials prices.

Overseas, economic growth in the United States slowed down, affected by turmoil in financial markets, while exports and capital investments played the major role in Europe's economic growth. Economic growth rates remained high in East Asia, most notably China.

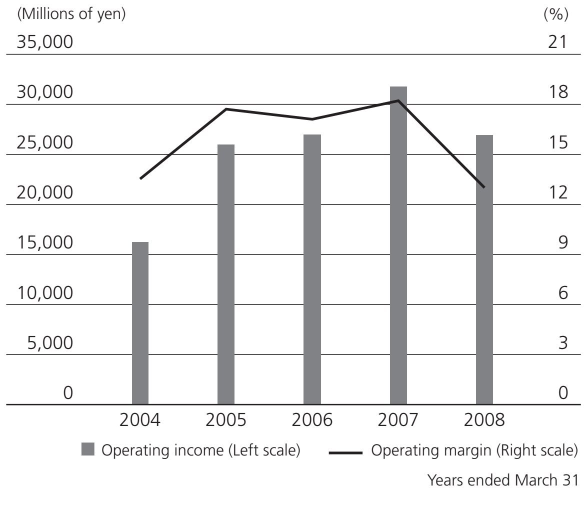
Against this backdrop, the THK Group made efforts to strengthen its structure to be able to steadily expand its business performance on a long-term basis. We also took steps to mitigate business risks such as external environmental changes by expanding our fields of operation in line with our stated policies of "Full-Scale Globalization" and "Development of New Business Areas." On the production front, we made aggressive capital investments to reinforce production capacity in response to increasing demand, mainly in emerging markets. In the marketing field, we speeded up the expansion of sales to existing customers as well as to new customers in each marketing region. We also took steps to expand our sales networks in both China and Europe. On May 31, 2007, we acquired a 100% equity stake in RHYTHM CORPORATION, an auto-parts manufacturer, making it a consolidated subsidiary with the aim of accelerating the cultivation of new business areas.

As a result, net sales for fiscal 2007 came to ¥208,709 million on a consolidated basis, an increase of ¥33,998 million, or 19.5%, over the previous year and topping the ¥200,000 million mark for the first time. Rhythm North America Corporation, a U.S. subsidiary of RHYTHM CORPORATION, changed its fiscal year-end from March 31 to December 31, resulting in a nine-month (April 1, 2007, through December 31, 2007) fiscal year for 2007. As a result, sales of that company, amounting to about ¥3,000 million, are excluded from the consolidated accounts for the fiscal year under review.

Net Sales



Operating Income and Operating Margin



Cost of sales

We made continuous efforts to raise the productivity of the THK Group by improving production yields and reducing production lead-times. The ratio of cost of sales to net sales, however, rose 4.7 percentage points, from 62.7% to 67.4%. This was due to an increase in the materials cost ratio caused by a surge in raw materials prices, higher depreciation and amortization due to the full-scale operation of new plants at home and abroad, an increase in the number of consolidated subsidiaries, and aggressive forward-looking investments.

Selling, general and administrative (SG&A) expenses

SG&A expenses rose ¥7,789 million, or 23.4%, over the previous year, to ¥41,115 million. Among principal factors behind this increase were amortization of goodwill amounting to approximately ¥2,700 million accompanying the inclusion of RHYTHM CORPORATION in the scope of consolidation, in addition to an increase in personnel expenses associated with the bolstering of our sales force, mainly in China. Sales and distribution related expenses rose owing to an increase in exports and higher freight charges. The ratio of SG&A expenses to net sales rose 0.6 percentage point, to 19.7%. Discounting the ¥2,700 million amortization of goodwill, equivalent to 1.3% of net sales, the ratio of SG&A expenses to net sales decreased 0.7 percentage point from the previous year.

Operating income

As a result, operating income decreased ¥4,878 million, or 15.3%, from the previous year, to ¥26,938 million, and the operating margin (ratio of operating income to net sales) was 12.9%.

Non-operating income and expenses

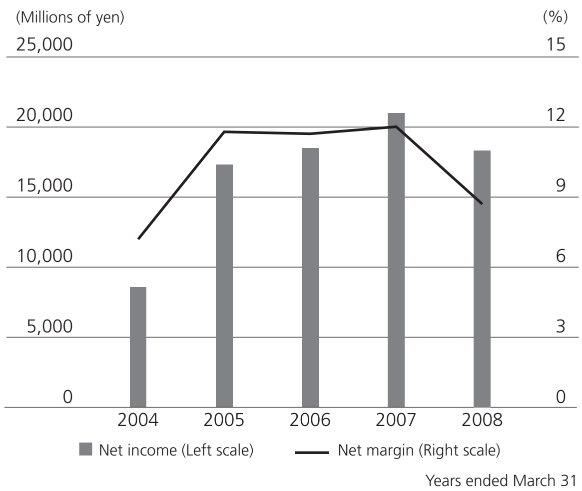
The Company recorded non-operating income of ¥2,889 million as a result of interest and dividend income, in addition to the amortization of negative goodwill. Conversely, foreign exchange losses were the main factor behind non-operating expenses of ¥3,126 million. As a result, net non-operating expenses of ¥237 million were recorded.

Net income

Net income decreased ¥2,715 million, or 12.9%, from the previous year, to ¥18,323 million. During the period under review, a consolidated subsidiary made dividend payments utilizing retained earnings provided by capital reduction, of which the Company has recognized a loss on transfer for taxation purposes. Consequently, income taxes decreased, leading to a relatively small decline in net income.

Operating Margin, by Geographic Segment

Net income and Net Margin



Business Segment Information

Industrial equipment-related business segment

Sales in Japan decreased from the previous year as the recovery in the electronics industry began later and was weaker than expected, although sales to the machine tool industry grew. Sales in the Americas increased both to the machine tool and general machinery industries, helped by growth in the share of sales to existing customers. The electronics industry, on the other hand, continued to see declining demand. Sales grew in Europe, mainly to the general machinery and machine tool industries, helped by rising demand for machinery. In East Asia, against the backdrop of growing demand for machinery in China, sales increased to machine tool and general machinery makers in China and Taiwan. As a result, net sales and operating income in this business segment for fiscal 2007 came to ¥168,287 million and ¥36,283 million, respectively.

Transportation equipment-related business segment

In Japan and Europe, THK Group companies other than newly consolidated RHYTHM CORPORATION and its consolidated subsidiaries initiated sales to new customers and smoothly expanded business with existing customers. In line with our projections, sales in the Americas struggled in an environment of declining motor vehicle production volume. As a result, net sales in this business segment for fiscal 2007 came to ¥40,422 million. Despite continuous efforts to reduce costs, the THK Group posted an operating loss in this segment of ¥2,220 million owing to increased depreciation and amortization resulting from capital investments in anticipation of future growth, as well as amortization of goodwill.

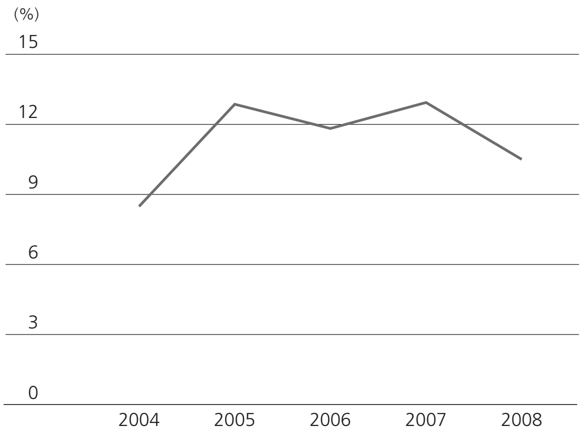
Geographic Segment Information

Japan

In Japan, sales to the machine tool industry increased while sales to the electronics industry declined. This was because the electronics industry's recovery began later and was weaker than expected. On the other hand, sales to the transportation equipment industry rose, helped by an increase in the number of consolidated subsidiaries. As a result, net sales in Japan for fiscal 2007 increased ¥15,393 million over the previous year, to ¥145,745 million.

Operating income declined ¥2,259 million year-on-year, to ¥27,910 million, mainly owing to three factors: Depreciation and amortization increased owing to higher forward-looking capital investments, the ratio of raw materials costs to net sales rose as a result of surging raw materials prices, and goodwill amortization was recognized following the acquisition of RHYTHM CORPORATION.

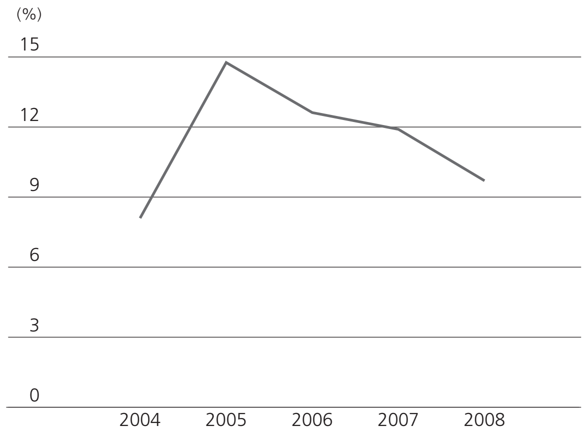
Return on Assets (ROA)



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

Years ended March 31

Return on Equity (ROE)



Years ended March 31

The Americas

In the Americas, against the backdrop of declining demand in electronics-related industries, we made efforts to integrate our marketing and production operations with the aim of cultivating new customers while expanding sales to existing customers. We succeeded in increasing sales to both the machine tool and general machinery industries in the region, and sales to the transportation equipment industry also rose significantly thanks to the increase in the number of consolidated subsidiaries. Consequently, net sales and operating income in the Americas increased ¥8,948 million and ¥1,067 million, respectively, to ¥25,473 million and ¥1,439 million.

Europe

In Europe, while demand for machinery remained strong in Eastern Europe, as in the Americas we made efforts to integrate our marketing and production operations and succeeded in increasing sales to both the machine tool and general machinery industries. Sales to the transportation equipment industry also rose, thanks to the commencement of sales to new customers and steady growth in sales to existing customers. As a result, net sales and operating income in Europe increased ¥5,911 million and ¥2,677 million, respectively, to ¥25,427 million and ¥3,492 million. Both of these figures were record highs.

Asia and other

In Asia and other, against the backdrop of continued economic growth and expanding capital investments in China, the THK Group pursued an aggressive marketing strategy, including the expansion of sales networks. As a result, sales to both the machine tool and general machinery industries rose. In Taiwan, too, we succeeded in boosting sales to the machine tool and general machinery industries, reflecting our efforts to increase sales to existing customers by taking advantage of an upward trend in exports of machinery to China. As a result, Asia and other posted net sales of ¥12,064 million, up ¥3,746 million over the previous year. THK MANUFACTURING OF CHINA (LIAONING) made aggressive capital investments, including the construction of a second plant in anticipation of further demand increases in the Chinese market. Operating income in Asia and other rose ¥426 million over the previous year, to ¥1,296 million.

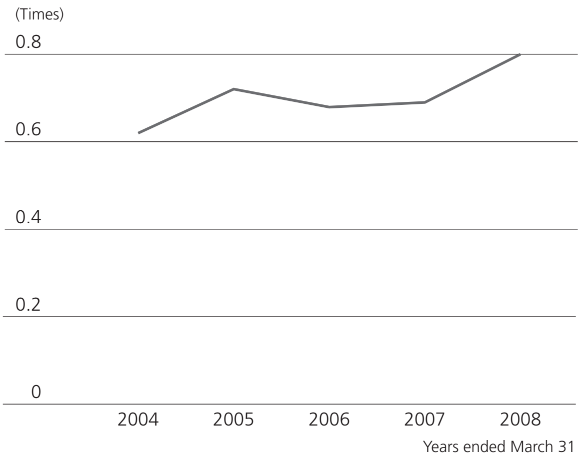
■ Financial Position

Assets, liabilities, and net assets

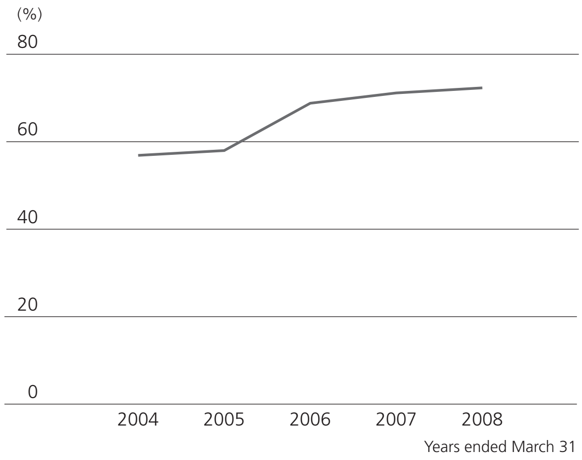
• Assets

Total assets at March 31, 2008, stood at ¥264,229 million, up just ¥948 million, or 0.4%, over the ¥263,281 million at the

Asset Turnover Ratio



Equity Ratio



previous fiscal year-end. Although largely unchanged from the previous year-end, total assets showed changes in composition between current assets and non-current assets*.

Current assets declined ¥31,429 million, or 17.1%, from the previous year-end, to ¥152,333 million. Accompanying the increase in the number of consolidated subsidiaries, accounts and notes receivable-trade increased ¥5,641 million and inventories rose ¥3,469 million. These positive factors were more than offset by expenditures for the acquisition of equity in a newly consolidated subsidiary, repayments of long-term debt, and expenditures for the acquisition of treasury stock, which together led to a ¥42,143 million decline in cash and cash equivalents.

Non-current assets jumped ¥32,377 million, or 40.7%, over the previous fiscal year-end, to ¥111,896 million, mainly reflecting a rise of ¥21,332 million in property, plant and equipment and an increase of ¥10,786 million in goodwill.

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

• Liabilities

Current liabilities fell ¥1,950 million, or 3.1%, from the previous fiscal year-end, to ¥61,543 million, reflecting an increase in accounts and notes payable-trade of ¥1,609 million as a result of the inclusion of newly consolidated subsidiaries. The increase in accounts and notes payable-trade was more than offset by a decrease in income taxes payable of ¥6,510 million. Long-term liabilities decreased ¥1,015 million, or 9.4%, from the figure one year earlier, to ¥9,733 million, owing to the reclassification of straight bonds to current. As a result of the foregoing, total liabilities at March 31, 2008, were ¥71,276 million, down ¥2,965 million, or 4.0%, from the figure one year earlier.

• Net assets

Net assets increased ¥3,913 million, or 2.1%, over a year earlier, to ¥192,953 million, mainly owing to an increase in retained earnings, despite a decrease of ¥11,284 million due to the acquisition of treasury stock.

Cash flows

Net cash provided by operating activities amounted to ¥19,382 million, compared with ¥29,933 million for the previous fiscal year. This primarily reflects ¥26,701 million in income before income taxes and minority interest, ¥10,138 million in depreciation and amortization, and ¥14,196 million in income taxes paid.

Net cash used in investing activities came to ¥32,354 million, compared with ¥10,884 million for the previous fiscal year. This primarily reflects expenditures of ¥12,130 million for investment in a newly consolidated subsidiary and of ¥19,618 million for the acquisition of property, plant and equipment resulting from the construction of a new building at DAITO SEIKI's Sendai Plant and of the second plant for THK MANUFACTURING OF CHINA (LIAONING).

Net cash used in financing activities amounted to ¥29,976 million, compared with ¥13,840 million for the previous fiscal year. This primarily reflects expenditures of ¥13,142 million for the repayment of long-term debt, ¥11,279 million for the acquisition of treasury stock, and ¥5,055 million for cash dividends.

As a result, cash and cash equivalents at March 31, 2008, stood at ¥49,810 million, ¥42,143 million lower than at the previous fiscal year-end.

Consolidated Balance Sheets

as of March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2008	2008
ASSETS			
Current Assets:			
Cash and bank deposits (Note 16)	¥ 48,912	¥ 48,162	$ 480,663
Short-term investments in securities (Note 16)	43,041	1,648	16,450
Accounts and notes receivable–			
Trade	57,566	63,207	630,812
Unconsolidated subsidiaries and affiliates	2,046	2,160	21,560
Other	1,727	2,608	26,026
	61,339	67,975	678,398
Less allowance for bad debts	(236)	(247)	(2,468)
	61,103	67,728	675,930
Inventories (Note 6)	25,846	29,315	292,570
Short-term advances–			
Unconsolidated subsidiaries and affiliates	152	716	7,141
Other	1	13	126
Deferred tax assets (Note 15)	3,727	3,373	33,669
Other current assets (Note 11)	980	1,378	13,745
Total current assets	183,762	152,333	1,520,294
Investments and Other:			
Long-term investments in securities (Note 5)	3,096	2,763	27,578
Investments in unconsolidated subsidiaries and affiliates	2,733	2,655	26,499
Deferred tax assets (Note 15)	1,717	2,426	24,209
Other investments	4,291	4,021	40,132
Total investments and other	11,837	11,865	118,418
Property, Plant and Equipment (Notes 4 and 10):			
Buildings and structures	41,496	49,221	491,233
Machinery and equipment	93,643	127,678	1,274,229
	135,139	176,899	1,765,462
Less accumulated depreciation	(81,769)	(109,609)	(1,093,908)
	53,370	67,290	671,554
Land	9,880	13,144	131,176
Construction in progress	3,489	7,637	76,220
Total property, plant and equipment	66,739	88,071	878,950
Deferred Charges and Intangibles:			
Goodwill (Note 12)	209	10,995	109,727
Other	734	965	9,632
Total deferred charges and intangibles	943	11,960	119,359
Total assets	¥263,281	¥264,229	$2,637,021

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2008	2008
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 1,452	¥ 5,000	$ 49,900
Accounts and notes payable–			
Trade	34,301	35,910	358,381
Unconsolidated subsidiaries and affiliates	468	1,266	12,635
Other	6,376	4,672	46,625
	41,145	41,848	417,641
Income taxes payable (Note 15)	8,005	1,495	14,916
Accrued bonuses to employees	2,309	2,704	26,981
Accrued bonuses to directors and statutory auditors	131	100	998
Accrued expenses	8,835	8,596	85,793
Other current liabilities (Note 11)	1,616	1,800	17,971
Total current liabilities	63,493	61,543	614,200
Long-term Liabilities:			
Long-term debt (Note 7)	5,032	—	—
Reserve for employees' retirement benefits (Note 14)	2,574	3,995	39,871
Reserve for directors' and statutory auditors' retirement benefits	—	113	1,125
Reserve for product warranty	—	154	1,537
Negative goodwill	1,620	972	9,703
Deferred tax liabilities (Note 15)	467	3,450	34,432
Other liabilities	1,055	1,049	10,472
Total long-term liabilities	10,748	9,733	97,140
Net Assets:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 133,020,540 shares and 133,856,903 shares			
at March 31, 2007 and 2008, respectively	33,916	34,606	345,371
Additional paid-in capital	43,653	44,343	442,550
Retained earnings	104,276	117,579	1,173,443
Treasury stock, at cost: 34,512 shares and 5,249,554 shares			
at March 31, 2007 and 2008, respectively	(63)	(11,347)	(113,248)
Net unrealized gain on other securities (Note 5)	1,037	470	4,687
Foreign currency translation adjustments	4,404	5,302	52,920
Minority interest	1,817	2,000	19,958
Total net assets	189,040	192,953	1,925,681
Contingent Liabilities (Note 9)			
Total liabilities and net assets	¥263,281	¥264,229	$2,637,021

Consolidated Statements of Income

for the years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2007	2008	2008
Net Sales	¥158,413	¥174,711	**¥208,709**	**$2,082,920**
Cost of Sales (Note 13)	100,491	109,569	**140,656**	**1,403,752**
Gross profit	57,922	65,142	**68,053**	**679,168**
Selling, General and Administrative Expenses (Notes 12 and 13)	30,842	33,326	**41,115**	**410,330**
Operating income	27,080	31,816	**26,938**	**268,838**
Non-Operating Income/(Expenses):				
Interest and dividend income	308	579	**933**	**9,313**
Interest expenses	(168)	(128)	**(185)**	**(1,842)**
Foreign exchange gain/(loss), net	817	803	**(2,287)**	**(22,826)**
Gain on sales of long-term investments in securities, net	1,933	—	**—**	**—**
Equity earnings of affiliates	416	490	**197**	**1,967**
Rental income	196	202	**241**	**2,402**
Insurance premium refunded on cancellation	—	—	**62**	**620**
Amortization of negative goodwill	648	648	**648**	**6,469**
Commission expenses	(85)	(77)	**(66)**	**(662)**
Gain/(loss) on sales/disposal of property, plant and equipment, net	58	(326)	**(184)**	**(1,837)**
Loss on write-down of long-term investments in securities	(164)	—	**(10)**	**(102)**
Impairment loss on fixed assets (Note 4)	(1,152)	(71)	**(137)**	**(1,367)**
Debt repayment-related expenses	—	—	**(62)**	**(620)**
Prior-period adjustments	253	—	**—**	**—**
Other, net	426	588	**613**	**6,126**
	3,486	2,708	**(237)**	**(2,359)**
Income before income taxes and minority interest	30,566	34,524	**26,701**	**266,479**
Income Taxes (Note 15)	11,636	13,317	**8,189**	**81,722**
Income before minority interest	18,930	21,207	**18,512**	**184,757**
Minority interest in income of consolidated subsidiaries	346	169	**189**	**1,886**
Net income	¥ 18,584	¥ 21,038	**¥ 18,323**	**$ 182,871**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

for the years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2007	2008	2008
Common Stock				
At beginning of year	¥ 23,106	¥ 33,734	¥ 33,916	$ 338,485
Conversion of convertible bonds to common stock (Note 16)	10,628	182	690	6,886
At end of year	¥ 33,734	¥ 33,916	¥ 34,606	$ 345,371
Additional Paid-In Capital				
At beginning of year	¥ 32,652	¥ 43,471	¥ 43,653	$ 435,664
Conversion of convertible bonds to common stock (Note 16)	10,628	182	690	6,886
Gain from disposition of treasury stock	191	0	0	0
At end of year	¥ 43,471	¥ 43,653	¥ 44,343	$ 442,550
Retained Earnings				
At beginning of year	¥ 71,131	¥ 87,091	¥104,276	$1,040,675
Net income	18,584	21,038	18,323	182,871
Cash dividends	(2,514)	(3,718)	(5,020)	(50,103)
Directors' and statutory auditors' bonuses	(110)	(135)	—	—
At end of year	¥ 87,091	¥104,276	¥117,579	$1,173,443
Treasury Stock, at cost				
At beginning of year	¥ (607)	¥ (48)	¥ (63)	$ (637)
Purchase of treasury stock	(20)	(16)	(11,279)	(112,560)
Sales of treasury stock	1	1	1	7
Change in the year of treasury stock held by a consolidated subsidiary	578	—	—	—
Change in the year of treasury stock held by an affiliate	—	—	(6)	(58)
At end of year	¥ (48)	¥ (63)	¥ (11,347)	$ (113,248)
Net Unrealized Gain on Other Securities				
At beginning of year	¥ 1,041	¥ 1,357	¥ 1,037	$ 10,352
Change in the year	316	(320)	(567)	(5,665)
At end of year	¥ 1,357	¥ 1,037	¥ 470	$ 4,687
Foreign Currency Translation Adjustments				
At beginning of year	¥ 327	¥ 2,668	¥ 4,404	$ 43,951
Change in the year	2,341	1,736	898	8,969
At end of year	¥ 2,668	¥ 4,404	¥ 5,302	$ 52,920
Minority Interest				
At beginning of year	¥ 956	¥ 1,519	¥ 1,817	$ 18,129
Change in the year	563	298	183	1,829
At end of year	¥ 1,519	¥ 1,817	¥ 2,000	$ 19,958
Total Net Assets at End of Year	¥169,792	¥189,040	¥192,953	$1,925,681

In Japan, dividends, and directors' and statutory auditors' bonuses proposed by the Board of Directors are approved at the general shareholders' meeting in the following fiscal year, and in the Consolidated Statements of Changes in Net Assets, dividends, and directors' and statutory auditors' bonuses are shown as a reduction of retained earnings in the year they are approved and paid. Semiannual 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, 2008 were as follows:

At the general shareholders' meeting held on June 16, 2007, cash dividends on common stock of ¥2,660 million ($26,544 thousand), ¥20 per share ($0.20), were approved and commenced its payment on June 18, 2007.

At the board of directors' meeting held on November 15, 2007, cash dividends on common stock of ¥2,361 million ($23,559 thousand), ¥18 per share ($0.18), were approved and commenced its payment on December 10, 2007.

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, 2008 was approved at the shareholders' meeting held on June 21, 2008 and commenced its payment on June 23, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥18 per share (U.S.$0.18))	¥2,315	$23,104

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

for the years ended March 31, 2006, 2007 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2007	2008	2008
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 30,566	¥ 34,524	¥ 26,701	$ 266,479
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities:				
Depreciation and amortization	6,562	7,112	10,138	101,178
Amortization of goodwill and negative goodwill, net	(648)	(629)	2,107	21,026
Increase in provisions	156	551	606	6,048
(Gain)/loss on sales/disposal of property, plant and equipment, net	(58)	326	184	1,837
Interest and dividend income	(308)	(579)	(933)	(9,313)
Interest expenses	168	128	185	1,842
Foreign exchange (gain)/loss, net	(134)	136	(588)	(5,866)
Equity earnings of affiliates	(416)	(490)	(197)	(1,967)
Loss on write-down of long-term investments in securities	164	—	10	102
Gain on sales of long-term investments in securities, net	(1,933)	—	—	—
Impairment loss on fixed assets	1,152	71	137	1,367
Changes in assets and liabilities:				
(Increase)/decrease in accounts and notes receivable	(8,461)	(636)	486	4,850
Increase in inventories	(220)	(340)	(1,566)	(15,631)
Increase/(decrease) in accounts and notes payable	4,565	3,835	(2,403)	(23,982)
Other, net	643	(1,335)	(2,129)	(21,244)
Subtotal	31,798	42,674	32,738	326,726
Interest and dividend income received	399	710	1,028	10,262
Interest expenses paid	(171)	(167)	(188)	(1,881)
Income taxes paid	(11,820)	(13,284)	(14,196)	(141,680)
Net cash provided by operating activities	20,206	29,933	19,382	193,427
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	—	2,558	—	—
Increase in term deposits due over three months	(1,945)	(463)	—	—
Payments for purchase of property, plant and equipment, and intangibles	(12,520)	(12,848)	(19,618)	(195,792)
Proceeds from sales of property, plant and equipment	1,339	99	79	784
Payments for purchase of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	(13)	(516)	(637)	(6,361)
Proceeds from sales of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	3,850	25	19	190
Payments of advances	(67)	(85)	(106)	(1,058)
Collections of advances	12	58	77	773
Payments for purchase of investment in a consolidated subsidiary, net of cash acquired (Note 16)	—	—	(12,130)	(121,057)
Other, net	—	288	(38)	(376)
Net cash used in investing activities	(9,344)	(10,884)	(32,354)	(322,897)
Cash Flows from Financing Activities:				
Repayments of short-term debt	—	—	(500)	(4,990)
Repayments of long-term debt	(352)	(72)	(13,142)	(131,158)
Proceeds from sale of treasury stock	899	1	1	7
Redemption of bonds	—	(10,000)	—	—
Cash dividends	(2,524)	(3,752)	(5,055)	(50,448)
Payments for purchase of treasury stock	(20)	(16)	(11,279)	(112,560)
Proceeds from minority shareholders' payment	256	—	—	—
Other, net	—	(1)	(1)	(6)
Net cash used in financing activities	(1,741)	(13,840)	(29,976)	(299,155)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,199	437	805	8,042
Net Increase/(Decrease) in Cash and Cash Equivalents	10,320	5,646	(42,143)	(420,583)
Cash and Cash Equivalents at Beginning of Year	75,987	86,307	91,953	917,696
Cash and Cash Equivalents at End of Year (Note 16)	¥ 86,307	¥ 91,953	¥ 49,810	$ 497,113

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 subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

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

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

2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the readers outside Japan and are unaudited. These translations should not be construed as presentations that the yen amounts actually represent or have been or could be converted into, U.S. dollars. For this purpose the rate of ¥100.20=U.S.$1, the approximate rate of exchange prevailing in Tokyo on March 31, 2008, was used for the translation of the accompanying consolidated financial statements of the Company as of and for the year ended March 31, 2008.

3. Summary of Significant Accounting Policies

(a) Scope of Consolidation

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

The Company had 33 subsidiaries ("controlled companies"—companies whose decision making is controlled) as of March 31, 2008 (24 as of March 31, 2007). The consolidated financial statements for the year ended March 31, 2008 include the accounts of the Company and 29 (20 for 2007) of its subsidiaries. The 29 subsidiaries, which have been consolidated with the Company, are listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal year ended
THK Holdings of America, L.L.C. (USA)	100%	Dec. 31, 2007
THK America, Inc. (USA)	100	Dec. 31, 2007
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2007
Rhythm North America Corporation (USA)	100	Dec. 31, 2007
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2007
THK GmbH (Germany)	100	Dec. 31, 2007
THK France S.A.S. (France)	100	Dec. 31, 2007
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2007
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2007
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec. 31, 2007
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2007
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2007
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2007
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2007
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2007
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2007
THK LM SYSTEM Pte. Ltd. (Singapore)	100	Dec. 31, 2007
RHYTHM GUANGZHOU CORPORATION (China)	100	Dec. 31, 2007
THK RHYTHM (THAILAND) CO., LTD. (Thailand)	100	Dec. 31, 2007
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2008
THK NIIGATA CO., LTD. (Japan)	70	Mar. 31, 2008
TALK SYSTEM Co., Ltd. (Japan)	99	Mar. 31, 2008
Beldex Corporation (Japan)	100	Mar. 31, 2008
RHYTHM CORPORATION (Japan)	100	Mar. 31, 2008
Rhythm Kyusyu Co., Ltd. (Japan)	100	Mar. 31, 2008
Rhythm L Co., Ltd. (Japan)	100	Mar. 31, 2008
L Tool Co., Ltd. (Japan)	100	Mar. 31, 2008
L Trading Co., Ltd. (Japan)	100	Mar. 31, 2008
L Engineering Co., Ltd. (Japan)	100	Mar. 31, 2008

The accounts for the year ended March 31, 2008 of the remaining 4 (4 for 2007) subsidiaries are insignificant, meaning that these accounts have not been consolidated with the Company since combined assets, net sales, net income and retained earnings of these companies, in the aggregate, are not significant in relation to those of the Companies.

The changes of the scope of consolidation for the year ended March 31, 2008 are as follows:

RHYTHM CORPORATION and its subsidiaries have been included in the consolidation scope of the Company from the beginning of this year since the Company acquired 100% shares in RHYTHM CORPORATION on May 31, 2007.

In July 2007, RHYTHM CORPORATION established a wholly owned subsidiary THK RHYTHM (THAILAND) CO., LTD. This company was included in the consolidation scope from this year.

Beginning with the year ended March 31, 2008, Rhythm North America Corporation changed its fiscal year end from March 31 to December 31, resulting in a nine-month (April 2007 through December 2007) fiscal year for 2007.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company has 3 (3 for 2007) affiliates ("influenced companies"—companies whose financial and operating or business decision making can be influenced by the Companies in a material degree, and are not subsidiaries) at March 31, 2008. The equity method is applied to the investment in SAMICK THK CO., LTD. The investments in the unconsolidated subsidiaries and the remaining affiliates do not have a material effect on consolidated net income and retained earnings in the consolidated financial statements, had they been accounted for using the equity method. Thus the investments in the unconsolidated subsidiaries and affiliates are carried at cost or less any impairment loss.

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

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

(d) Inventories

Inventories held by the Company, TALK SYSTEM Co., Ltd., THK NIIGATA CO., LTD., THK Manufacturing of Europe S.A.S. and RHYTHM CORPORATION are mainly valued at cost, cost being determined using the average cost method. Inventories held by THK America, Inc., THK Manufacturing of America, Inc., PGM Ballscrews Ireland Ltd., THK (SHANGHAI) CO., LTD., THK TAIWAN CO.,LTD., THK (CHINA) CO., LTD. and Rhythm North America Corporation are valued at the lower of cost or market value, cost being determined using the first-in, first-out method. Inventories held by THK Europe B.V., THK GmbH, THK France S.A.S., DALIAN THK CO., LTD., THK MANUFACTURING OF CHINA (WUXI) CO., LTD. and THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. are valued at the lower of cost or market value, cost being determined using the moving-average method. Inventories held by DAITO SEIKI CO., LTD., Beldex Corporation and Beldex KOREA Corporation are mainly valued at cost, cost being determined using specific identification method. Inventories held by Rhythm Kyushu Co., Ltd. are mainly valued at cost, cost being determined using the moving-average method.

(e) Financial Instruments

Securities

Securities held by the Company and its subsidiaries are classified into the following categories:

Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of applying of the equity method would be immaterial.

Other securities, for which market quotations are available, are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the net assets at a net-of-tax amount.

Other securities, for which market quotations are not available, are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates, or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

Derivative

Derivative financial instruments are utilized by the Company principally to reduce interest rate and foreign exchange rate risks. The Company has established a control environment, which includes policies and procedures for risk assessments and for the approval, and reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

For forward foreign exchange contracts and currency swap contracts that meet the required condition under the related Japanese accounting standards, the Company and its subsidiaries translate hedged foreign currency assets and liabilities at the rate of these contracts. For forward foreign exchange contracts accounted for under accounting standards other than the above are measured at fair value. (See Note 11. Derivative and Hedging Activities)

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

(f) Property, Plant and Equipment

For the Company and its domestic subsidiaries, depreciation is mainly computed using the declining-balance method at the rates based on the estimated useful lives of assets. For its overseas subsidiaries, depreciation is mainly computed using the straight-line and accelerated methods in accordance with their local accounting standards and regulations. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 12 years for machinery and equipment.

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

(g) Amortization

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

Software costs for internal use are amortized over their estimated useful lives (less than 5 years) on a straight-line basis.

"Goodwill" on the Consolidated Balance Sheets consists of 1) differences between the cost and the fair value of the underlying net equity in subsidiaries which are consolidated and 2) purchased goodwill. These are amortized on a straight-line basis over a period from 5 to 10 years.

"Negative Goodwill" on the Consolidated Balance Sheets and differences between the cost and the fair value of the underlying net equity in affiliates which are accounted for by the equity method are amortized on a straight-line basis over a period of 5 years.

(h) Allowance for Bad Debts

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

(i) Accrued Bonuses to Employees

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

(j) Accrued Bonuses to Directors and Statutory Auditors

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

(k) Reserve for Employees' Retirement Benefits

The reserve for employees' retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except for the unrecognized actuarial differences which are amortized on a straight-line basis over the period, from 5 to 18 years, from the next year in which they arise.

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

Reserve for directors' and statutory auditors' retirement benefits represents the liability which RHYTHM CORPORATION, a subsidiary of the company, would have to pay if all eligible directors and auditors resigned at the balance sheet date.

(m) Reserve for Product Warranty

Reserve for product warranty is recorded in amounts based on experience of the past years in order to cover possible warranty costs at RHYTHM CORPORATION.

(n) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles generally accepted in Japan.

(o) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

(p) Accounting for the Consumption Tax

Consumption tax is levied at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld by the Company and domestic subsidiaries upon sale is not included in the amount of "Net sales" in the accompanying Consolidated Statements of Income but is recorded as a liability. The consumption tax paid by the Company and domestic subsidiaries on the purchases of goods and services is not included either in the amounts of costs or expenses in the Consolidated Statements of Income, but is recorded as an asset and the net balance of liability less asset is included in "Other current liabilities" in the Consolidated Balance Sheets.

(q) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.

Provisions for income taxes are computed based on reported pretax income included in the Consolidated Statements of Income. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements, and operating loss and tax credit carryforwards.

(r) Change in Accounting Policies

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

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

(3) Beginning with the year ended March 31, 2007, the Company adopted accounting standards for presentation of net asset in the balance sheet ("*ASBJ No. 5–Accounting Standard for Presentation of Net Assets in the Balance Sheet*" and "*ASBJ Guidance No. 8–Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet*" issued by the Accounting Standards Board of Japan (ASBJ) on December 9, 2005). As a result, minority interest account was reclassified to the net assets section on the Consolidated Balance Sheets.

(s) Cash and Cash Equivalents

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

(t) Reclassifications

Certain amounts previously reported may have been reclassified to conform to the current year financial statement presentation. Such reclassifications did not affect net income or net assets.

4. Impairment Losses

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

For idle assets whose operating profitability has worsened substantially due to such factors as ongoing decline in fair market value of assets, the Companies decided to mark the assets down to the net realizable value and recorded the impairment loss. The Companies recorded impairment losses of ¥71 million related to land and buildings in Taketoyo, Aichi and Agano, Niigata, and ¥137 million ($1,367 thousand) related to land, buildings and others in Hamamatsu, Shizuoka and machinery and equipment in Shimizu, Shizuoka and Ohira, Miyagi, for the years ended March 31, 2007 and 2008, respectively.

5. Long-term Investments in Securities

At March 31, 2007 and 2008, "other securities" with available market value were as follows:

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

	Millions of yen		
	2008		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 554	¥1,574	¥1,020
Other	1	1	0
Subtotal	555	1,575	1,020
Carrying amounts not in excess of acquisition cost:			
Equity securities	968	713	(255)
Other	—	—	—
Subtotal	968	713	(255)
Total	¥1,523	¥2,288	¥ 765

	Thousands of U.S. dollars		
	2008		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$ 5,534	$15,710	$10,176
Other	6	8	2
Subtotal	5,540	15,718	10,178
Carrying amounts not in excess of acquisition cost:			
Equity securities	9,662	7,116	(2,546)
Other	—	—	—
Subtotal	9,662	7,116	(2,546)
Total	$15,202	$22,834	$ 7,632

At March 31, 2007 and 2008, "other securities" without available market value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Other securities			
Unlisted equity securities	¥ 416	¥ 424	$ 4,234
Unlisted foreign mutual funds	96	248	2,475
Certificate of deposits	¥42,945	¥1,400	$13,975

In addition to the aggregated balances shown on the above tables, the Company holds investment funds in the form of *Toshi-Jigyo-Kumiai*, an entity similar to an investment partnership.

At March 31, 2007 and 2008, carrying amounts for the above investments were ¥79 million and ¥51 million ($510 thousand), respectively. The gains resulting from the valuation of the investments were ¥14 million and ¥2 million ($22 thousand) at March 31, 2007 and 2008, respectively. They were reported as a separate item in the net assets, "Net unrealized gain on other securities," at net-of-tax amounts.

6. Inventories

Inventories at March 31, 2007 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Finished goods	¥13,506	¥13,310	$132,840
Work in process	4,617	5,842	58,304
Raw materials and supplies	7,723	10,163	101,426
Total	¥25,846	¥29,315	$292,570

7. Long-term Debt

The annual average interest rate applicable to long-term debt at March 31, 2008 was 1.37%.

Long-term debt at March 31, 2007 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
1.37% Straight bonds 2008	¥5,000	¥5,000	$49,900
Zero Coupon Convertible bonds 2008, convertible at ¥1,650 ($16)	1,380	—	—
Loans from banks (2.75%):			
Non-collateralized	104	—	—
	6,484	5,000	49,900
Less current portion	1,452	5,000	49,900
	¥5,032	¥ —	$ —

8. Committed Line of Credit

At March 31, 2008, the Companies had committed lines of credit amounting to ¥12,750 million ($127,246 thousand). None of the committed lines of credit were used.

9. Contingent Liabilities

Contingent liabilities for guarantees of liabilities (accounts payable- trade) held by NIPPON SLIDE CO., LTD. as of March 31, 2008 was ¥107 million ($1,070 thousand).

10. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥658 million, ¥673 million, and ¥731 million ($7,294 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively. Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2007 and 2008 were as follows:

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

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

	Thousands of U.S. dollars		
	2008		
	Machinery and equipment	Other	Total
Acquisition costs	$38,355	$1,049	$39,404
Accumulated depreciation	25,649	444	26,093
Net leased property	$12,706	$ 605	$13,311

Future minimum lease payments under finance leases as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 614	¥ 678	$ 6,762
Due after one year	929	656	6,549
Total	¥1,543	¥1,334	$13,311

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Depreciation of the leased property, which is not reflected in the accompanying Consolidated Statements of Income, computed by using the straight-line method, would be ¥658 million, ¥673 million and ¥731million ($7,294 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

Obligations under non-cancelable operating leases as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 569	¥ 654	$ 6,532
Due after one year	1,405	1,521	15,179
Total	¥1,974	¥2,175	$21,711

11. Derivative and Hedging Activities

For the years ended March 31, 2007 and 2008, the Company and its subsidiaries utilized certain interest rate swap, currency swap agreements and forward exchange contracts. Market value information for such derivatives, qualified the conditions for hedge accounting under related Japanese accounting standards, by the Company and its subsidiaries at March 31, 2007 has been omitted.

Fair value information as of March 31, 2007 and 2008 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Foreign currency forward contract: Purchased-Japanese yen	2007	2008	2008
Contract cost	¥1,410	¥1,491	$14,883
Fair value	1,371	1,509	15,060
Unrealized gain/(loss)	¥ (39)	¥ 18	$ 177

12. Amortization of Goodwill

Amortization expenses for goodwill (including purchased goodwill) for the years ended March 31, 2007 and 2008 were ¥19 million and ¥2,755 million ($27,495 thousand), and were included in "Selling, General and Administrative Expenses."

13. Research and Development

Research and development expenses for the years ended March 31, 2006, 2007 and 2008 were ¥2,684 million, ¥2,616 million and ¥3,550 million ($35,429 thousand), respectively, and were included in "Selling, General and Administrative Expenses" and "Cost of Sales" in the Consolidated Statements of Income.

14. Reserve for Employees' Retirement Benefits

The Company, its certain domestic subsidiaries and overseas subsidiaries have both retirement lump-sum payment programs and defined benefit pension plans. Occasionally, when certain qualified employees retire, additional retirement benefits will be paid. Except for the above subsidiaries, other subsidiaries have mainly defined contribution plans.

The reserve for employees' retirement benefits as of March 31, 2007 and 2008 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligations	¥ 7,153	¥ 9,035	$ 90,170
Plan assets	(4,056)	(4,072)	(40,635)
	3,097	4,963	49,535
Unrecognized actuarial differences	(529)	(968)	(9,664)
Prepaid pension expense	6	—	—
Reserve for employees' retirement benefit	¥ 2,574	¥ 3,995	$ 39,871

Net periodic pension and severance costs for the years ended March, 2006, 2007 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Service cost	¥499	¥606	¥ 821	$ 8,196
Interest cost	136	128	156	1,562
Expected return on plan assets	(13)	(17)	(59)	(588)
Recognized actuarial differences	109	110	96	953
Net periodic pension and severance costs	¥731	¥827	¥1,014	$10,123

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

	2006	2007	2008
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.0%	2.0%	2.0%
Expected rate of return on plan assets	0.5%	0.5%	Between 1.0 and 1.5%
Amortization of unrecognized actuarial differences	Between 5 and 10 years	Between 5 and 10 years	Between 5 and 18 years

15. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the Company and its subsidiaries for the years ended March 31, 2006 , 2007 and 2008 was 40.7%.

At March 31, 2007 and 2008, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets:			
Reserve for employees' retirement benefits	¥ 886	¥ 1,561	$ 15,574
Loss on devaluation of inventories	1,194	1,205	12,027
Accrued bonuses to employees	939	1,098	10,954
Valuation loss of investments in subsidiaries	—	954	9,522
Elimination of inter-company profit (property, plant and equipment)	388	635	6,338
Elimination of inter-company profit (inventories)	680	576	5,750
Net operating loss carried forward	249	520	5,186
Accrual of directors' and statutory auditors' retirement benefits	393	420	4,195
Software	455	372	3,714
Impairment loss on fixed assets	372	368	3,671
Allowance for bad debts	148	146	1,461
Enterprise tax payable	537	55	548
Liquidation loss of affiliates	241	—	—
Other	815	924	9,230
Gross deferred tax assets	7,297	8,834	88,170
Less valuation allowance	(423)	(1,325)	(13,228)
Total deferred tax assets	6,874	7,509	74,942
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(700)	(2,255)	(22,505)
Unrealized gains on land	(418)	(1,422)	(14,193)
Insurance premium	(396)	(456)	(4,547)
Special depreciation reserve	(220)	(202)	(2,020)
Other	(163)	(825)	(8,231)
Total deferred tax liabilities	(1,897)	(5,160)	(51,496)
Net deferred tax assets	¥ 4,977	¥ 2,349	$ 23,446

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

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Current Assets–Deferred tax assets	¥3,727	¥ 3,373	$ 33,669
Investments and Other–Deferred tax assets	1,717	2,426	24,209
Long-term Liabilities–Deferred tax liabilities	(467)	(3,450)	(34,432)
Net deferred tax assets	¥4,977	¥ 2,349	$ 23,446

For the years ended March 31, 2007 and 2008, the reconciliation of the statutory tax rate to the effective tax rate was as follows:

	2007	2008
Statutory tax rate	40.7%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	0.1	(3.1)
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	0.6	0.9
Amortization of goodwill	—	4.2
Amortization of negative goodwill	(0.8)	(1.0)
Equity earnings from unconsolidated subsidiaries and affiliates	(0.6)	(0.3)
Equalization inhabitant taxes	0.2	0.2
Tax rate differences between domestic and overseas	(1.2)	(1.6)
Tax rate differences	(0.4)	(0.4)
Tax credit for research and development expenses	(0.6)	(0.9)
Refunded tax payment	(1.0)	(0.4)
Changes in tax consequences related to devaluation of investments in consolidated subsidiaries	—	(6.1)
Other	1.5	(1.5)
Effective income tax rate	38.5%	30.7%

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

1) Cash and cash equivalents at March 31, 2007 and 2008 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash and bank deposits	¥48,912	¥48,162	$480,663
Short-term investments in securities	43,041	1,648	16,450
	¥91,953	¥49,810	$497,113

2) Significant acquisition

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of the commencement of consolidation and reconciliation between acquisition cost and cash paid for purchase of the investment in Rhythm Corporation.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 9,707	$ 96,877
Non-current assets*	14,028	139,998
Goodwill	13,511	134,841
Current liabilities	(7,455)	(74,401)
Long-term liabilities	(16,708)	(166,749)
Acquisition cost	13,083	130,566
Cash and cash equivalents held by Rhythm Corporation and their 7 subsidiaries	(953)	(9,509)
Payment for purchase of investment in Rhythm Corporation, net of cash acquired	¥ 12,130	$ 121,057

*Non-current assets include Investments and other, Property, Plant and Equipment, and Deferred Charges and Intangibles.

3) Significant non-cash transactions

In the years ended March 31, 2007 and 2008, a portion of convertible bonds were converted into THK's common stock, resulting in an increase in the Company's paid-in capital and additional paid-in capital. The following summarizes the change in paid-in capital and additional paid-in capital accounts included in the net assets.

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
Increase resulting from conversion of convertible bonds (Paid-in capital)	¥10,628	¥182	¥ 690	$ 6,886
Increase resulting from conversion of convertible bonds (Additional paid-in capital)	10,628	182	690	6,886
Decrease resulting from conversion of convertible bonds outstanding	¥21,256	¥364	¥1,380	$13,772

17. Amounts per Share

Amounts per share at March 31, 2006, 2007 and 2008 for the years ended were as follows:

	Yen			U.S. dollars
	2006	2007	2008	2008
Net assets	¥1,266.39	¥1,407.84	¥1,484.78	$14.818
Net income–basic	¥ 148.42	¥ 158.36	¥ 139.53	$ 1.393
Net income–diluted	¥ 137.97	¥ 157.22	¥ 138.74	$ 1.385

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

Net income per share is calculated by dividing net income, as adjusted for appropriation of retained earnings for directors' and statutory auditors' bonuses, by the weighted average number of shares outstanding during the reported period. The calculation of diluted net income per share is similar to the calculation of net income per share, except that the weighted average number of shares outstanding includes the additional dilution from assumed conversion of convertible bonds of the Company.

For the years ended March 31, 2007 and 2008, directors' and statutory auditors' bonuses are no longer accounted for under the appropriation of retained earnings. Accordingly, the adjustment for appropriation items, as described in the above paragraph was not made.

18. Segment Information

1) Business Segment Information

For the years ended March 31, 2006 and 2007, as the net sales, operating income and assets of the machinery parts segment were over 90% of the total sales, total operating income and total assets of the Company and consolidated subsidiaries, business segment information was not required to be disclosed. The Company and consolidated subsidiaries were operating in one business segment: production and sales of linear motion systems.

Net sales, operating income and assets of the Companies for the year ended March 31, 2008 classified by business segments were 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 loss 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 loss	¥ 1	¥ 136	¥ 137	¥ —	¥ 137
Capital expenditure	¥ 14,511	¥ 3,363	¥ 17,874	¥ 127	¥ 18,001

	Thousands of U.S. dollars				
	2008				
	Industrial Equipment-Related Business	Transportation Equipment-Related Business	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–					
Net sales:					
Customers	$1,679,506	$403,414	$2,082,920	$ —	$2,082,920
Inter-segment	—	—	—	—	—
Total	1,679,506	403,414	2,082,920	—	2,082,920
Operating expenses	1,317,400	425,575	1,742,975	71,107	1,814,082
Operating income/(loss)	$ 362,106	$ (22,161)	$ 339,945	$ (71,107)	$ 268,838
II. Assets, depreciation and amortization, impairment loss and capital expenditure–					
Assets	$1,771,240	$421,450	$2,192,690	$444,331	$2,637,021
Depreciation and amortization	$ 77,893	$ 22,672	$ 100,565	$ 613	$ 101,178
Impairment loss	$ 11	$ 1,356	$ 1,367	$ —	$ 1,367
Capital expenditure	$ 144,821	$ 33,566	$ 178,387	$ 1,262	$ 179,649

The business segment is based on the features of products and similarities of sales market.

Major products in each business segment are as follows:

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

Of all operating expenses, unallocatable expenses in the amount of ¥7,125 million ($71,107 thousand) included in “Eliminations and corporate” are mainly comprised of expenses incurred in the administrative section in headquarters of the Company.
The corporate assets included in “Eliminations and corporate” primarily consist of term deposits, investment securities, deferred tax assets and land held by the Company and its subsidiaries which have no direct relevance to each business activity. Such corporate assets were ¥44,522 million ($444,331 thousand) as of March 31, 2008.
In connection with the inclusion of RHYTHM CORPORATION (and its subsidiaries) into the Company’s consolidation scope, beginning with the year ended March 31, 2008, we realigned our business segments: Industrial Equipment-Related Business and Transportation Equipment-Related Business. For the year ended March 31, 2007 and prior periods, business segment information was not required to be disclosed as the net sales, operating income and assets of the machinery parts segment contained over 90% of the total net sales, total operating income and total assets.

2) Geographical Segment Information

Net sales, operating income and assets of the Companies for the years ended March 31, 2006, 2007 and 2008 classified by geographic segments were summarized as follows:

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

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

	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–							
Assets	¥211,029	¥21,044	¥19,314	¥31,378	¥282,765	¥(18,536)	¥264,229

	Thousands of U.S. dollars						
	2008						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income–							
Net sales:							
Customers	$1,454,541	$254,215	$253,766	$120,398	$2,082,920	$ —	$2,082,920
Inter-segment	345,083	591	970	24,888	371,532	(371,532)	—
Total	1,799,624	254,806	254,736	145,286	2,454,452	(371,532)	2,082,920
Operating expenses	1,521,086	240,444	219,883	132,349	2,113,762	(299,680)	1,814,082
Operating income	$ 278,538	$ 14,362	$ 34,853	$ 12,937	$ 340,690	$ (71,852)	$ 268,838
II. Assets–							
Assets	$2,106,080	$210,021	$192,756	$313,153	$2,822,010	$(184,989)	$2,637,021

Net sales are attributed to geographies based on the country (jurisdiction) location of the Company or the subsidiaries.

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

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

Beginning with the year ended March 31, 2008, the Company decided to include some operating expenses under "Eliminations and corporate." Formerly, all the operating expenses of the Company were included in the Japan segment.

This change was made in line with the Company's strengthened "Control Functions as a holding company" by reviewing the internal administrative systems including ones possessed by its subsidiaries associated with the evaluation of internal control systems and other factors. In this connection, to represent the substance of each segment operation properly, the Company reports expenses (¥7,125 million or $71,107 thousand) incurred in the administrative section in headquarters of the Company as "Corporate level" expenses and presented under "Eliminations and corporate" on the segment information reporting.

As a result, the operating income in the Japan segment increased by ¥7,125 million ($71,107 thousand) while operating income in "Eliminations and corporate" decreased by ¥7,125 million, compared with the methodology used in the previous periods. Prior period amounts have not been restated.

The corporate assets included in "Eliminations and corporate" primarily consist of term deposits, investment securities, deferred tax assets and land held by the Company and its subsidiaries which have no direct relevance to each business activity. Such corporate assets were ¥44,522 million ($444,331 thousand) as of March 31, 2008.

For the year ended March 31, 2007 and prior periods, assets except for term deposits and investment securities held by the Company were allocated directly to each geographical segment based on the location of the Company and its subsidiaries.

Beginning with the year ended March 31, 2008, in connection with the commencement of "Business Segment Information" presentation, the Company changed the scope of corporate assets and the methodology of allocating assets on segment information reporting: allocating assets by methodology focusing the use of assets and their relevance to business activities instead of methodology focusing on nominal location of assets.

As a result, assets in segments "Japan," "the Americas," and "Europe," decreased by ¥24,532 million ($244,829 thousand), ¥5,191 million ($51,810 thousand) and ¥6,137million ($61,248 thousand), respectively while assets in "Elimination and corporate" increased by ¥35,860 million ($357,887 thousand) compared with the methodology used in the previous periods. Prior period amounts have not been restated.

3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company and its consolidated subsidiaries in Japan plus the sales by the overseas consolidated subsidiaries) for the years ended March 31, 2006, 2007 and 2008 were summarized as follows:

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

	Millions of yen			
	2007			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥16,650	¥19,345	¥19,203	¥ 55,198
Consolidated net sales				¥174,711
Overseas sales as a percentage of consolidated net sales	9.5%	11.1%	11.0%	31.6%

	Millions of yen (Thousands of U.S. dollars)			
	2008			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥26,000	¥25,237	¥21,150	¥ 72,387
	($259,487)	($251,863)	($211,079)	($ 722,429)
Consolidated net sales				¥208,709
				($2,082,920)
Overseas sales as a percentage of consolidated net sales	12.5%	12.1%	10.1%	34.7%

19. Related Party Information

The Company has certain transactions with RHK Kabushiki Kaisha ("RHK"), Kumamoto, Japan, of which 97.5% voting rights are held by Mr. Tetsuya Hayashida, Director of the Company, and his relatives. The terms and conditions applicable to the above transactions have been determined on the basis of arm's length and reference to normal market price levels.
The following table summarizes the detailed information about RHK at March 31, 2007 and 2008.

	Millions of yen (Thousand of U.S. dollars)
	2007 and 2008
Related party category	The business entity in which officer of the Company and his/her relatives hold more than one half of voting rights
Trade name	RHK Kabushiki Kaisha
Address	Kumamoto-shi, Kumamoto, Japan
Paid-in capital	¥20 ($200)
Principal business	Manufacture and sale of machinery and equipment
Description of the Company's transaction with RHK	Sale of the Company's products and merchandise
Equity ownership by the Company	None

At March 31, 2007 and 2008, respectively, balances with RHK were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Accounts receivable from RHK	¥1	¥0	$3

For the years ended March 31, 2007 and 2008, sales made to RHK were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Sales to RHK	¥7	¥6	$62

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, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THK Co., Ltd. and its subsidiaries as of March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

As described in Note 18, Segment Information (2) Geographical Segment Information, beginning with the year ended March 31, 2008, the Company changed the methodology of allocating operating expenses to each of the segments.

As described in Note 18, Segment Information (2) Geographical Segment Information, beginning with the year ended March 31, 2008, in connection with commencement of "Business Segment Information" presentation, the Company changed the scope of corporate assets and the methodology of allocating assets to each of the segments.

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 16, 2008