THK ANNUAL REPORT 2001

PROFILE

SERVING THE WORLD WITH TECHNOLOGY THK-THE MARK OF LINEAR MOTION

By 1972, THK overcame considerable technical difficulties to develop a method of linear motion (LM) with rolling contact, becoming the world's first company to commercialize LM guides.

Linear motion with rolling contact is considerably more efficient than sliding mechanisms, and has contributed to the rapid advancement of mechatronics equipment capabilities through more advanced functions, higher speeds and greater energy conservation. A wide range of industrial equipment requires linear motion, including machine tools, industrial robots and semiconductor production equipment. Compared with ball bearings, the market for LM guides is still young with high growth potential. With a well-established demand base and substantial market opportunities worldwide, the LM guide market is expanding steadily year by year.

THK is the leading manufacturer of LM guides and currently holds market shares of approximately 70% in Japan and more than 50% worldwide. THK is also a company focused on creation and development, holding 729 patents in Japan and 694 patents overseas (including patents pending).

THK has developed and introduced LM guides with Caged Ball Technology™ that are making considerable contributions to growth in value added for THK products.

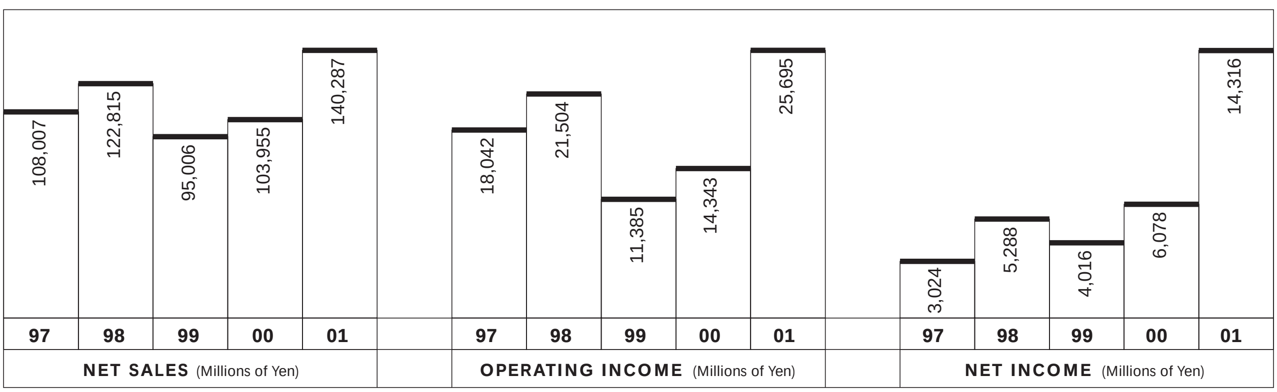
THK intends to continue corporate growth based on its management philosophy of "providing innovative products to the world and staying abreast of new trends to contribute to the creation of an affluent society."

CONTENTS

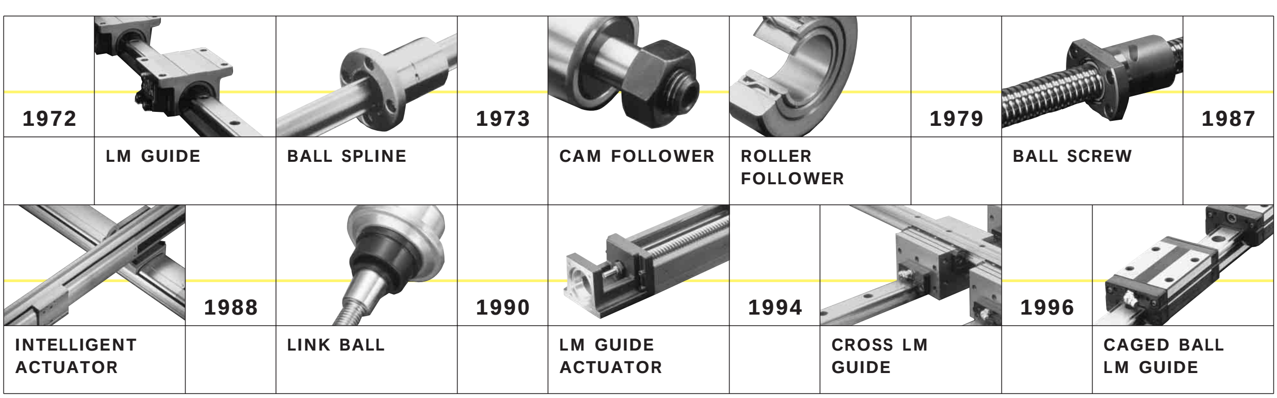
CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen			Thousands of U.S. Dollars
	1999	2000	2001	2001
Net Sales	¥ 95,006	¥103,955	¥140,287	$1,132,263
Operating Income	11,385	14,343	25,695	207,385
Net Income	4,016	6,078	14,316	115,546
Total Assets	194,385	195,750	198,130	1,599,109
Total Shareholders' Equity	78,242	88,061	102,612	828,183
		Yen		U.S. Dollars
Net Income per Share	¥ 34.51	¥ 52.31	¥ 120.20	$ 0.970

Note 1: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥123.90=US$1, the approximate rate of exchange prevailing on March 31, 2000.
Note 2: Prior-period results have been restated to conform to current presentation standards for financial statements in Japan, and figures disclosed in Japanese financial statements.



THK HISTORY AT A GLANCE



MESSAGE FROM THE CEO

BUILDING A GLOBAL PRESENCE BY CREATING VALUE-ADDED PRODUCTS

Operational Results

The pioneer in linear motion (LM) guides with rolling contact, THK Co., Ltd. was founded in 1971 and entered its 30th year of operations in April 2001. We continue to work toward constant innovation.

Fiscal 2000, ended March 31, 2001, was a record-breaking year for THK. Against a backdrop of robust capital investment from electronics-related companies especially, we recorded outstanding growth in consolidated net sales, operating income and net income. In addition, our shares were listed on the First Section of the Tokyo Stock Exchange in February 2001.

In the operating environment surrounding our business, demand rose rapidly among electronics-related companies in Japan—mainly in the semiconductor production equipment industry—against a backdrop of notable growth in IT-related areas such as PCs and mobile information devices. Robust IT-related demand spread to other industries, and we saw solid demand from the machine tool and industrial robot industries as well.

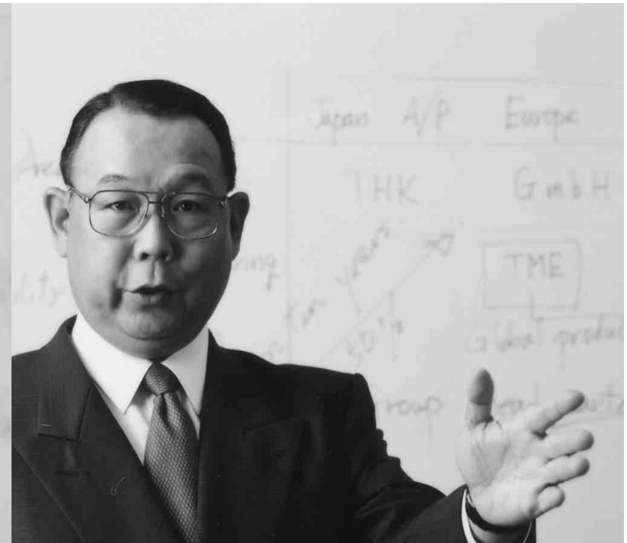
Overseas, demand among electronics-related manufacturers in the United States was strong, and medical-equipment and automobile-related industries also showed solid demand for our products. In Europe, demand was especially brisk among electronics-related manufacturers as well as in wood processing and automation-related industries, while in Asia, the region’s rapidly expanding economies supported solid demand among electronics-related industries.

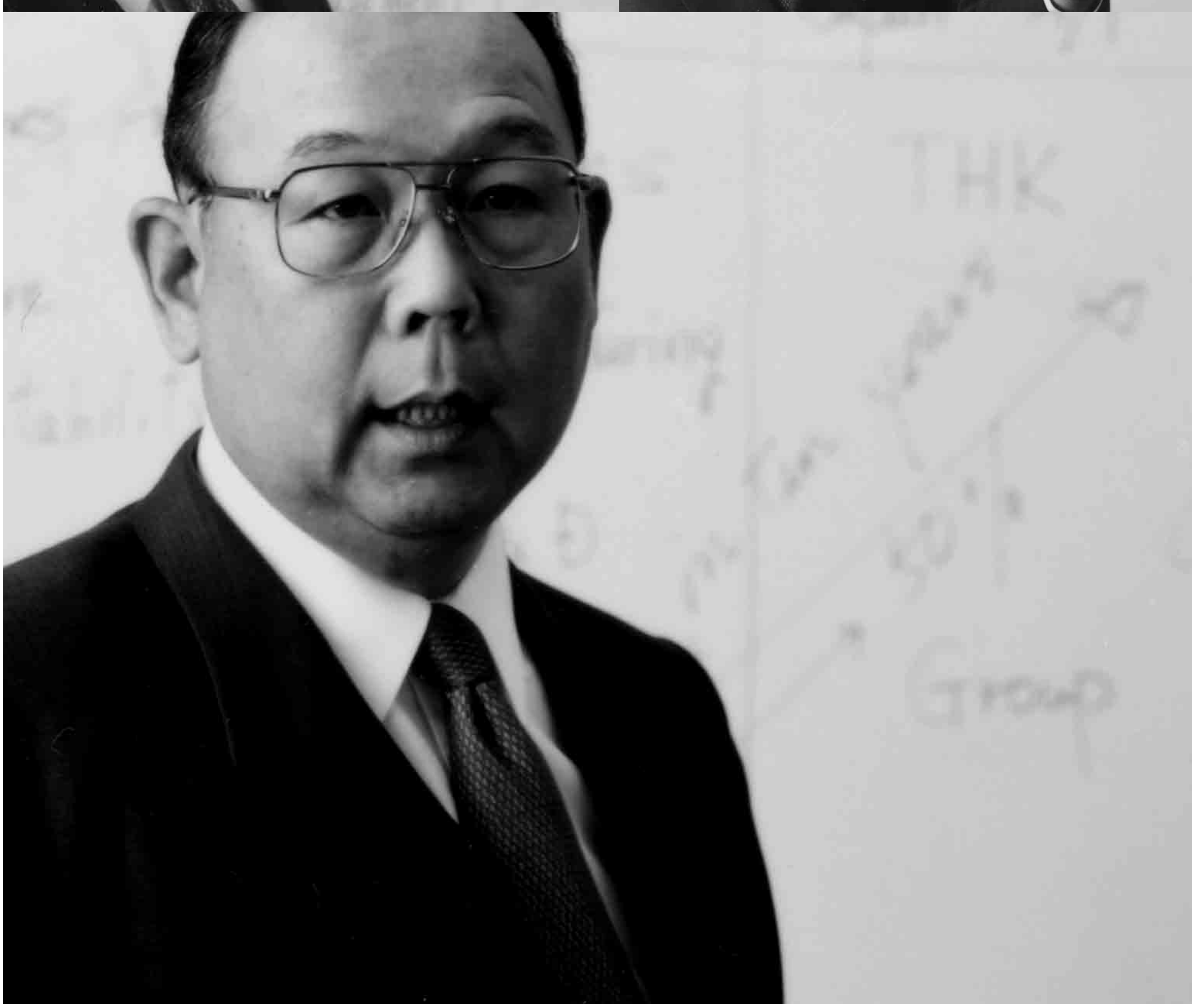
As a result, net sales rose 34.9% to ¥140,287 million (US$1,132 million) and operating income increased 79.1% to ¥25,695 million (US$207 million). Net income expanded 135.5% to ¥14,316 million (US$115 million).

Strategic Focus

Over the medium to long term, our efforts continue to be guided by the management slogan “Global 10 21,” which refers to our objective of becoming one of the world’s top ten manufacturers of essential machinery components during the opening decades of the 21st century. During the fiscal year under review, we worked aggressively to implement programs based on this slogan.

Within markets for machinery-related industries, we believe there is greater underlying potential in overseas markets than in Japan. While we plan to continue working to boost our share of the domestic market, which is already at 70%, we also see possibilities for considerable growth in our market share overseas. We believe that, in addition to strengthening our overseas marketing system, building a global production network based on optimal production locations that is able to respond timely to local demand is essential to overseas growth.


Japan A/P Europe
THK GmbH
TME


THK
Group

As part of these efforts, THK worked to expand facilities at THK Manufacturing of America Inc. (TMA) and construct new production facilities at THK Manufacturing of Europe S.A.S. (TME), which are our key production bases for responding to demand in the United States and Europe. Facilities are scheduled to begin operations at both TME and TMA in July 2001. We believe this will strengthen our global production base as we work to boost efficiency on the production side of our business.

On the product development front, we worked to launch new and further value-added products using the technologies we have accumulated as a company focused on creation and development. These included new additions to our lineup for LM guides with Caged Ball Technology™. These products boast significant merits in such areas as high durability, quiet operation and smooth, maintenance-free operations, as well as low dust waste. We plan to use these benefits to continue responding to the needs of our customers and contributing to their efforts at total cost reductions as we work to raise the value added of THK products.

On the financial front, we worked to improve our financial base by such means as reducing inventory assets and interest-bearing debt.

Outlook

In the outlook for the current fiscal year, we see signs of weakening in capital investment in Japan, which had previously been driven by IT-related industry demand. In addition, exports are likely to remain sluggish in the wake of a sudden slowdown in the U.S. economy that began toward the end of 2000. For these reasons, we expect that our customers' operating environment will remain harsh overall.

Given these conditions, THK and its Group companies plan to strengthen marketing through aggressive product launchings of next-generation products for our series of LM guides with Caged Ball Technology™. At the same time, we will work to cultivate demand in new business areas, continue strengthening our global production system and bolstering our marketing system overseas.

As we commemorate our 30th anniversary, we are committed to working to increase corporate value beyond our past success. We would like to thank our shareholders and ask for their continued understanding and support.

Akihiro Teramachi

AKIHIRO TERAMACHI
President and CEO

REVIEW OF OPERATIONS

—Segment Information by Region—

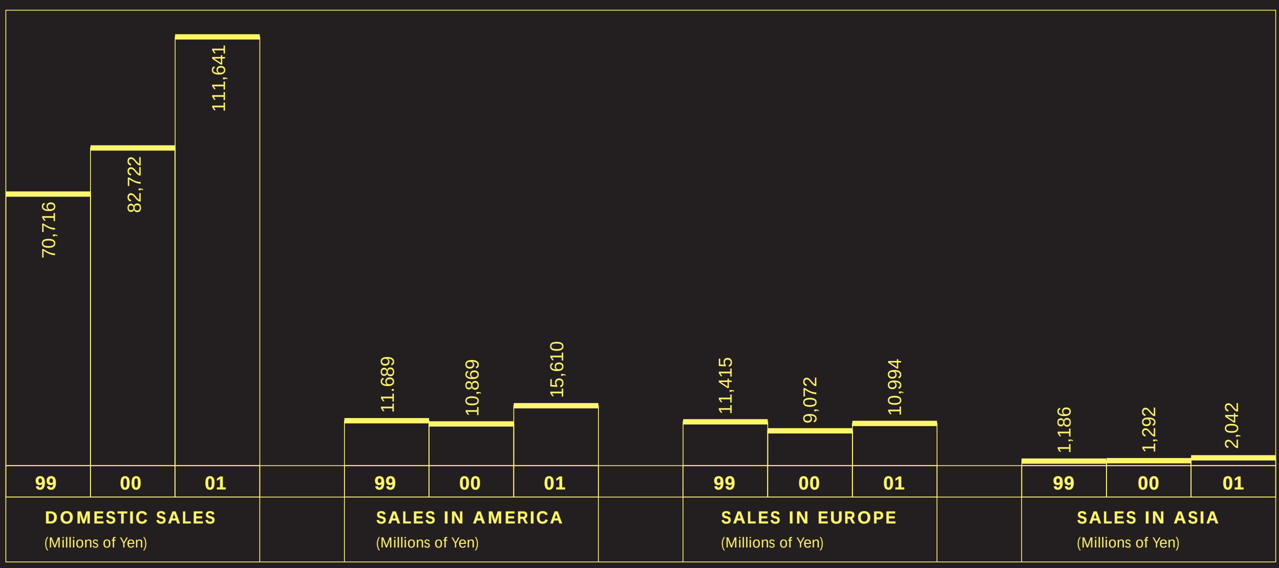
STRENGTHENING REGIONAL PRODUCTION AND THE SALES NETWORK

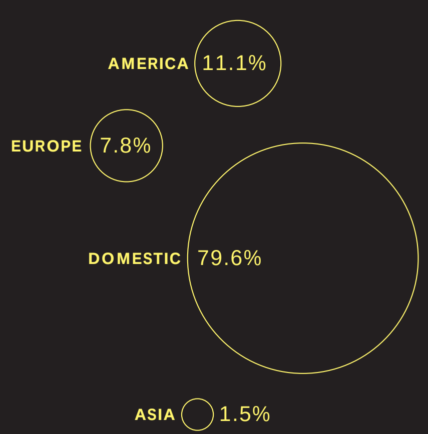
Domestic

In Japan, demand surged rapidly in the fiscal year under review from electronics-related fields centered on the semiconductor production equipment industry to boost sales 35.0% to ¥111,641 million (US$901 million). Operating income climbed 87.2% to ¥22,855 million (US$184 million) from aggressive efforts in cost reduction.

America

In America, sales expanded 43.6% to ¥15,610 million (US$126 million) as a result of brisk performance for the semiconductor production equipment, medical equipment and precision equipment markets driven by capital investment centered on IT-related fields. Operating income jumped 254.2% to ¥1,870 million (US$15 million).





Europe

In Europe, sales grew 21.2% to ¥10,994 million (US$89 million) on account of bolstered performance predominately in the automobile and machine tool industries, as well as from satisfactory performance in semiconductor-related fields, albeit on a small scale. Operating income declined 15.0% to ¥664 million (US$5 million) on the back of costs from such factors as increased marketing personnel and expanding marketing bases.

Asia and Other

In Asia and other regions, sales increased 58.0% to ¥2,042 million (US$16 million) as a result of brisk demand from electronics-related fields following rapid economic expansion. However, increasing price competition with our competitors contributed to a 97.1% fall in operating income to ¥3 million (US$0 million).

SPECIAL FEATURE

—Strategic Focus—

PROVIDING VALUE-ADDED PRODUCTS

THK's Perspective on Products

THK was the first company to develop a method of linear motion (LM) with rolling contact. Our LM guides have enabled greater precision and higher speeds for machine tools, industrial robots, semiconductor production equipment and other types of machinery, and have dramatically improved performance for these items.

Unwilling to rest on its successes, THK aims to continue providing high-value added products to its users that employ unprecedented new mechanisms using innovation in tandem with our proprietary technology. To achieve this goal, we have manufactured products based on a commitment to meeting customer needs, raising performance of the machinery and equipment that incorporate its products and contributing to customers' total cost reduction. THK's commitment to manufacturing is propelled by the strong support of our customers.

Pursuing Greater Value: LM Guides Series with Caged Ball Technology™

A major component of THK's efforts since its foundation has been to continuously integrate the most advanced technologies into its products. With THK's traditional LM guides, friction between balls sometimes produces noise due to interference. However, LM guides with Caged Ball Technology™ are equipped with cages on the ball arrangements, which eliminate friction between the balls through contact with a lubricating membrane. As a result, no interference noises are produced, allowing relatively quiet operation of machinery. In addition, the lack of friction enables high durability at every stage compared with before, and the LM guides can run longer without maintenance compared with earlier LM guide models.

Caged Ball Technology™ has expanded the benefits of LM guides and enhanced their performance, making considerable contributions to growth in value added for THK's products.

New additions to THK's lineup of LM guides with Caged Ball Technology™ include the SSR series for general industrial use, the SNR/SNS series for extra-rigid machinery, the global standard SHS series, the SRS compact series, the SHW series for a wide range of low-center-of-gravity structures, the SBN series of high-speed ball screws with Caged Ball Technology™, and the SRG series of roller guides with Caged Ball Technology™, which use roller properties to realize extra rigidity and durability.

THK plans to continue aggressively introducing new additions to its strategic product line of LM guide series employing Caged Ball Technology™. The goal of this strategy will be to cultivate demand from new business areas and to enhance the customer satisfaction of existing users.


TOUGHNESS
THK
HIGH QUALITY
THK
KNOW-HOW
THK

EXPANDING CAPACITY TO BOLSTER THE MARKET

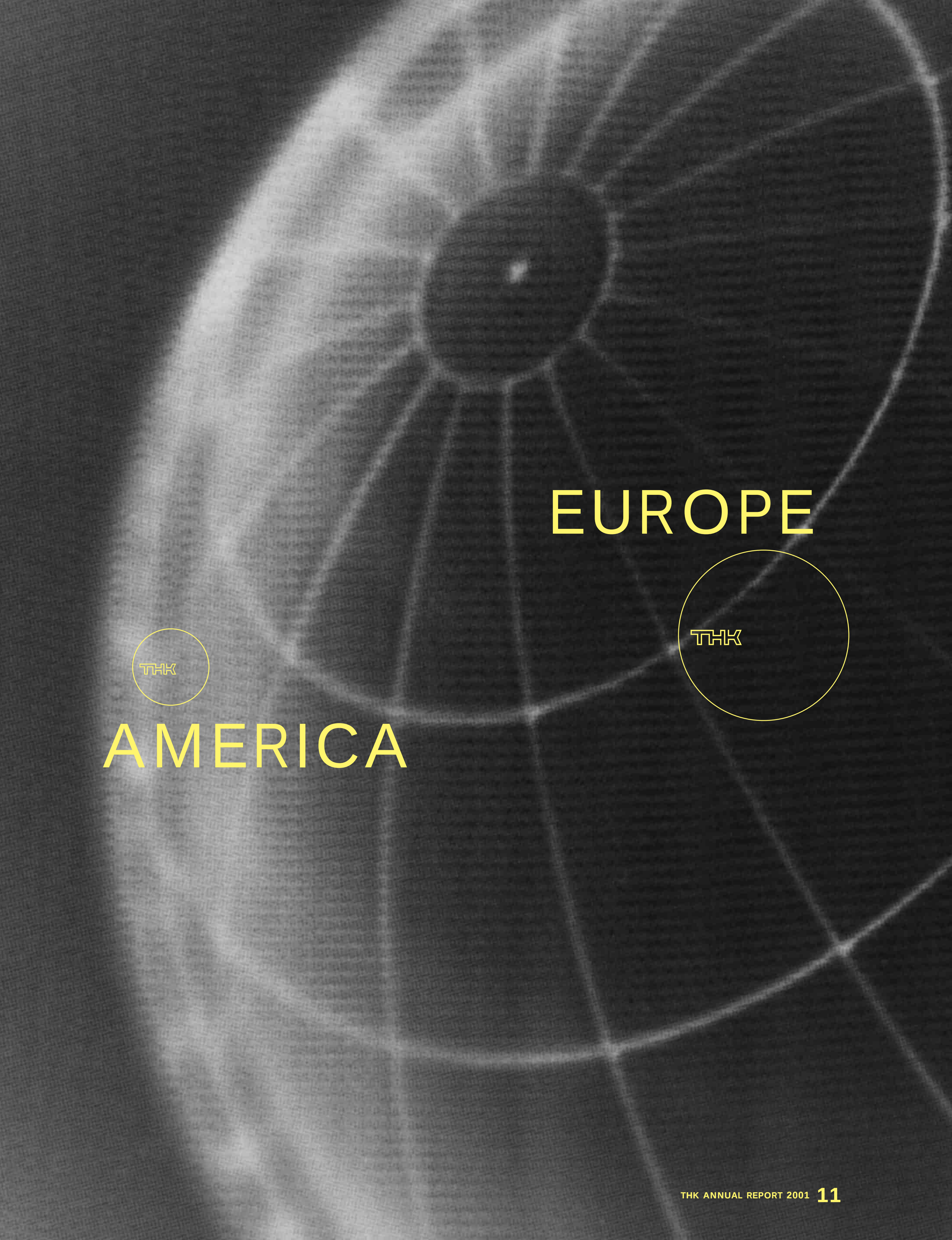
THK supplies high-value-added products by providing unprecedented new mechanisms through innovation and proprietary technology.

Brand recognition is strong in Japan, and THK exerts a formidable brand presence by maintaining a dominant share of the domestic market. However, penetration of THK LM guides overseas has been far less than in Japan, and management believes there is considerable latent demand in overseas markets.

THK plans to aggressively cultivate demand in overseas markets on the strengths of its high-value-added products. Management's ultimate goal is to raise overseas sales as a percentage of net sales from 25% at present to 70% in the future. To this end, THK is strengthening its local production capabilities with the goal of building a global production network. As part of these efforts, THK has worked for a number of years to expand production capacity at TMA and TME, which together cover markets in the United States and Europe. Construction to expand facilities at TMA has already entered the final stages, and the new facilities went online in July 2001. Bringing total floor space at the plant to 37,000 square meters, the new additions will serve to strengthen TMA's capabilities as a core production base. In addition, the new plant will be equipped with integrated production lines for LM guides and will allow TMA to use local production activities to respond to upcoming demand from semiconductor production equipment, medical equipment and precision machinery industries.

Construction of new plant facilities at TME has also entered the final stages, and the new production plant began production in July 2001. The new plant will feature 16,500 square meters of factory floor space and will be used as the main production site for LM guides. THK plans to continue efforts at strengthening its production capabilities at the new plant as an important European base for meeting demand from automobile-related and machine tool industries, as well as from the semiconductor production equipment industry, where growth has been notable in recent years despite the continuing small scale of operations in this area.

In the previous fiscal year, THK bolstered the production systems in place at its Yamaguchi and Yamagata Plants and at production subsidiary THK Yasuda Co., Ltd., with a view toward augmenting orders. The end result was an increase in consolidated sales. THK is strengthening its marketing base to expand overseas demand in line with the full-scale operation of renovated production facilities.


EUROPE
AMERICA

OTHER MEASURES—STEPS TOWARD A STRONGER COMPANY

R&D

THK will continue to provide unprecedented new mechanisms and aggressively pursue product development that can respond to customer needs.

Cost Reduction

THK will carry out responsible cost management through promotion of such cost reduction measures as curbing external order processing and expenses.

Environmental Measures

Based on an awareness of our corporate responsibility to society to pass down our environmental heritage in a healthy state to coming generations, THK is pursuing activities to continually reduce environmental impact while conserving and renewing the natural environment.

Other

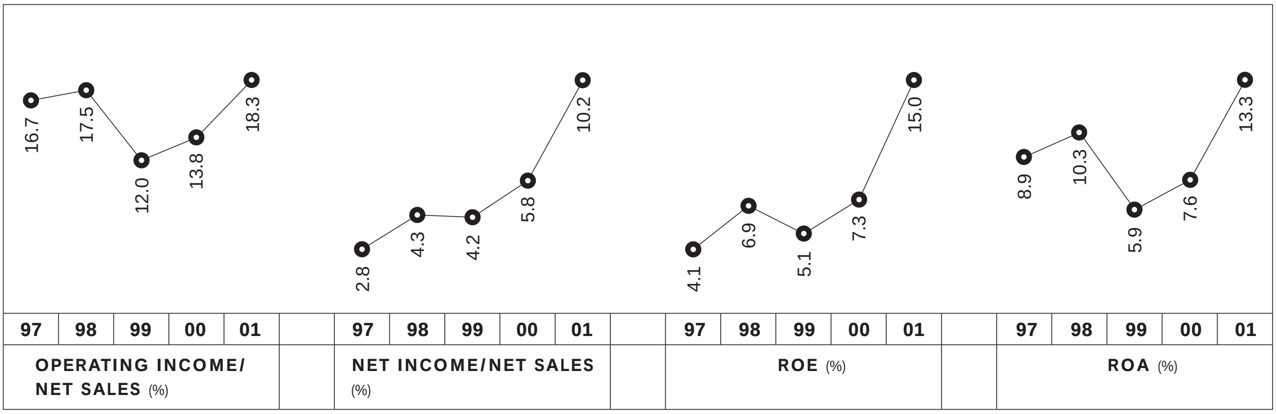
In the other segment, THK is implementing measures designed to strengthen the Company. From production to completion, the Company aims to reduce production lead time by half.

FINANCIAL SECTION

FIVE YEAR CONSOLIDATED FINANCIAL SUMMARY

	Millions of Yen					Thousands of U.S. Dollars
	1997	1998	1999	2000	2001	2001
Net Sales	¥108,007	¥122,815	¥ 95,006	¥103,955	¥140,287	$1,132,263
Cost of Sales	73,584	81,207	64,443	69,817	91,447	738,076
Gross Profit	34,423	41,607	30,563	34,138	48,840	394,187
Selling, General and Administrative Expenses	16,380	20,103	19,178	19,795	23,145	186,802
Operating Income	18,042	21,504	11,385	14,343	25,695	207,385
Income before Income Taxes	4,754	12,141	7,463	11,415	24,330	196,368
Income Taxes	1,844	6,903	3,376	5,297	9,889	79,815
Net Income	3,024	5,288	4,016	6,078	14,316	115,546
	Yen					U.S. Dollars
Per Share of Common Stock:						
Net income —basic	¥ 25.70	¥ 44.93	¥ 34.51	¥ 52.31	¥ 120.20	$ 0.970
Net income —diluted	25.21	43.06	33.20	49.99	115.44	0.932
	Millions of Yen					Thousands of U.S. Dollars
Total Assets	¥221,481	¥222,258	¥194,385	¥195,750	$198,130	1,599,109
Total Shareholders' Equity	73,962	79,367	78,242	88,061	102,612	828,183
Capital Expenditures	7,561	4,131	4,680	3,573	13,841	111,717
Depreciation	5,281	5,480	5,450	5,272	5,191	41,899
R&D Expenses	520	1,096	954	1,415	1,426	11,508
Operating Income Percentage of Net Sales (%)	16.7	17.5	12.0	13.8	18.3	
Net Income Percentage of Net Sales (%)	2.8	4.3	4.2	5.8	10.2	
Return on Equity (%)	4.1	6.9	5.1	7.3	15.0	
Return on Assets (%)	8.9	10.3	5.9	7.6	13.3	
Equity Ratio (%)	33.4	35.7	40.2	45.0	51.8	
Book Value per Share (Yen)	628.43	674.36	676.98	746.67	859.82	
Debt Equity Ratio (Times)	1.5	1.3	1.1	0.8	0.5	
Interest Coverage Ratio (Times)	4.8	6.2	4.5	7.2	21.1	

Notes 1: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥123.90=US$1, the approximate rate of exchange prevailing on March 31, 2001.
2: Prior-period results have been restated to conform to current presentation standards for financial statements in Japan, and figures disclosed in Japanese financial statements.
3: Return on assets is the percentage of operating income and interest and dividend income to average total assets.



OPERATING RESULTS

Net sales for the fiscal year ended March 31, 2001, jumped 34.9% to ¥140,287 million (US$1,132.3 million). Sales in Japan (excluding export sales) climbed 35.3% to ¥104,003 million (US$839.4 million). Overseas sales (including exports plus sales by overseas consolidated subsidiaries) also increased 33.9% to ¥36,284 million (US$292.8 million). These results reflect generally favorable conditions in Japan and abroad, especially for the electronics sector, and a recovery in sales for machine tool and robot manufacturers.

The Company continues to increase the weight of overseas sales as part of its Global 10 21 strategy for growth as a global corporation, with measures under way to raise production capacity in the United States and Europe.

Overseas sales as a percentage of net sales declined 0.2 percentage point to 25.9%.

Gross profit increased 43.1% to ¥48,840 million (US$394.2 million), reflecting higher net sales and cost-cutting measures that reduced the ratio of cost of sales to net sales by 2.0 percentage points to 65.2%. Although selling, general and administrative (SG&A) expenses rose 16.9% to ¥23,145 million (US$186.8 million), SG&A expenses as a percentage of net sales declined 2.5 percentage points to 16.5%. As a result, operating income advanced 79.1% to ¥25,695 million (US$207.4 million), and the operating income margin improved 4.5 percentage points to 18.3%.

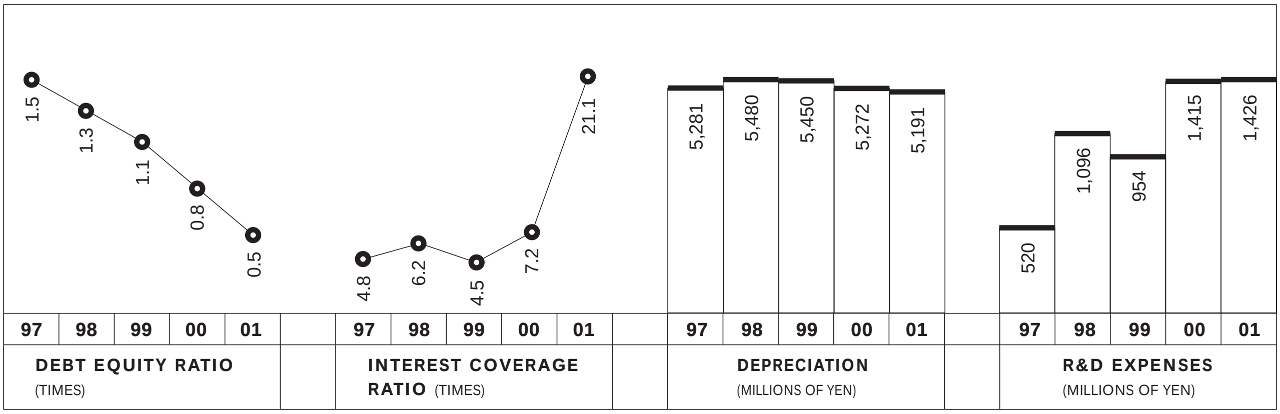
Net non-operating losses declined ¥1,563 million, or 53.4%, to ¥1,365 million (US$11.0 million). Factors behind this improvement included the absence of special charges for retirement and severance payments to directors and a write-down of other investments. Interest expenses declined ¥918 million to ¥1,139 million (US$9.2 million), and interest expenses net of interest and dividend income declined ¥1,006 million to ¥589 million (US$4.8 million). In addition, the Company did not record a loss on disposal of inventories, reflecting efforts to streamline and improve the soundness of its asset base.

These factors supported a 113.1% rise in income before income taxes and minority interest to ¥24,330 million (US$196.4 million). As a result, net income increased 135.5% to ¥14,316 million (US$115.5 million) and net income per share—diluted rose 130.9% to ¥115.44 (US$0.932).

LIQUIDITY AND FINANCIAL RESOURCES

Net cash provided by operating activities was ¥23,003 million (US$185.7 million). In addition to income before income tax and minority interests of ¥24,330 million (US$196.4 million), main sources of cash included depreciation and amortization of ¥5,813 million (US$46.9 million) and increase in provisions of ¥2,352 million (US$19.0 million). As part of efforts to raise operating efficiency, a decrease in inventories provided cash of ¥5,557 million (US$44.8 million), compared with ¥3,291 million in the previous fiscal year.

Net cash used in investing activities was ¥7,322 million (US$59.1 million), mainly due to purchase of property, plant and equipment of ¥11,076 million (US$89.4 million). Proceeds from sales of short-term investment in securities were ¥4,287 million



(US$34.6 million), compared with ¥17,860 million in the previous fiscal year, which was partly offset by payments for purchase of short-term investment in securities of ¥1,549 million (US$12.5 million), down from ¥9,693 million in the previous fiscal year.

Net cash used in financing activities was ¥23,384 million (US$188.7 million). The largest use of cash in the category was a ¥14,855 million (US$119.9 million) expenditure from redemption of bonds. In addition, the Company recorded ¥2,705 million (US$21.8 million) in the exercise of stock warrants, provided borrowings of long-term debt of ¥900 million (US$7.3 million), compared with ¥4,081 million and ¥3,219 million in the previous fiscal year, respectively.

In aggregate, cash and cash equivalents at end of year totaled ¥52,048 million (US$420.1 million), a decrease of ¥6,818 million (US$55.0 million) compared with the beginning of the year.

Total current assets decreased ¥2,920 million, or 2.1%, to ¥134,148 million (US$1,082.7 million), reflecting a decrease in cash and cash equivalents.

Investments and other increased ¥1,328 million to ¥17,052 million (US$137.6 million), due to a ¥1,031 million increase of deferred tax assets. Property, plant and equipment also increased ¥7,444 million to ¥43,662 million (US$352.4 million).

Total assets edged up ¥2,380 million, or 1.2%, to ¥198,130 million (US$1,599.1 million).

Total current liabilities decreased ¥4,385 million, or 6.9%, to ¥59,321 million (US$478.8 million). The main reasons for this decrease were decreases of ¥5,024 million in short-term bank loans to ¥7,616 million (US$61.5 million) and ¥9,228 million in the current portion of long-term debt to ¥5,914 million (US$47.7 million). Although net working capital decreased ¥1,465 million to ¥74,827 million (US$603.9 million), the current ratio rose from 2.15 to 2.26.

Long-term debt decreased ¥9,836 million to ¥32,706 million (US$264.0 million).

Total shareholders' equity increased ¥14,551 million, or 16.5%, to ¥102,612 million (US$828.2 million) as a result of higher retained earnings due to higher net income for the period, as well as increases in common stock and additional paid-in capital, primarily due to the exercise of warrants totaling ¥2,987 million (US$24.1 million) and the conversion of convertible bonds totaling ¥68 million (US$0.5 million).

The equity ratio increased 6.8 percentage points to 51.8%. Return on average assets (operating income and interest and dividend income basis) was 13.3%, compared with 7.6% in the previous fiscal year, with a return on average equity (net income basis) of 15.0%, compared with 7.3% in the previous fiscal year.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	2000	2001	2001
ASSETS			
Current Assets:			
Cash	¥ 39,766	¥ 27,859	$ 224,851
Time deposits	7,531	12,901	104,126
Short-term investments in securities (Note 4)	9,118	8,287	66,888
Accounts and notes receivable—			
Trade	34,795	44,784	361,456
Unconsolidated subsidiaries and affiliates	1,460	1,882	15,189
Other	480	334	2,693
	36,735	47,000	379,338
Less: allowance for bad debts	(280)	(388)	(3,130)
	36,455	46,612	376,208
Inventories (Note 5)	34,830	29,958	241,794
Short-term loans			
Unconsolidated subsidiaries and affiliates	428	664	5,356
Other	6,502	4,016	32,416
Deferred tax assets (Note 12)	2,036	3,007	24,271
Other current assets	402	844	6,805
Total current assets	137,068	134,148	1,082,715
Investments and Other:			
Long-term investments in securities (Note 4)	5,770	6,084	49,106
Investments in unconsolidated subsidiaries and affiliates (Note 4)	4,495	4,854	39,177
Deferred tax assets (Note 12)	451	1,482	11,958
Other investments	5,008	4,632	37,385
	15,724	17,052	137,626
Property, Plant and Equipment: (Notes 6 and 8)			
Buildings and structures	19,893	23,435	189,146
Machinery and equipment	62,728	62,319	502,983
	82,621	85,754	692,129
Less: accumulated depreciation	(57,267)	(57,512)	(464,182)
	25,354	28,242	227,947
Land	9,815	10,091	81,442
Construction in progress	1,049	5,329	43,010
	36,218	43,662	352,399
Deferred Charges and Intangibles	4,170	3,268	26,369
Adjustments Resulting from Foreign Currency Statement Translation	2,570	—	—
Total assets	¥195,750	¥198,130	$1,599,109

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	2000	2001	2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 12,640	¥ 7,616	$ 61,465
Current portion of long-term debt (Note 6)	15,142	5,914	47,729
Accounts and notes payable—			
Trade	23,277	24,382	196,791
Unconsolidated subsidiaries and affiliates	2,691	3,122	25,197
Other	345	1,005	8,112
	26,313	28,509	230,100
Income taxes payable	3,934	8,835	71,305
Accrued expenses	3,898	4,116	33,222
Other current liabilities	1,779	4,331	34,961
Total current liabilities	63,706	59,321	478,782
Long-Term Liabilities:			
Long-term debt (Note 6)	42,542	32,706	263,968
Reserve for employees' retirement benefits (Note 11)	1,219	1,333	10,762
Reserve for directors' and statutory auditors' retirement benefits	—	1,424	11,494
Other liabilities	41	430	3,470
Total long-term liabilities	43,802	35,893	289,694
Minority Interest	181	304	2,450
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 465,877,700 shares and 465,877,700 shares for 2000 and 2001, respectively			
Issued: 117,939,535 shares and 119,340,568 shares for 2000 and 2001, respectively	21,733	23,076	186,245
Additional paid-in capital	29,220	30,932	249,650
Retained earnings	37,109	49,614	400,445
Net unrealized gain on other securities	—	268	2,162
Foreign currency translation adjustments	—	(1,278)	(10,318)
Treasury stock	(1)	(0)	(1)
Total shareholders' equity	88,061	102,612	828,183
Contingent Liabilities (Note 7)			
Total liabilities and shareholders' equity	¥195,750	¥198,130	$1,599,109

The accompanying notes are an integral part of these statements.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

for the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the year ended March 31,		For the year ended March 31,
	2000	2001	2001
Net Sales	¥103,955	¥140,287	$1,132,263
Cost of Sales	69,817	91,447	738,076
Gross profit	34,138	48,840	394,187
Selling, General and Administrative Expenses (Note 10)	19,795	23,145	186,802
Operating income	14,343	25,695	207,385
Non-Operating Income/(Losses):			
Interest and dividend income	462	550	4,442
Interest expenses	(2,057)	(1,139)	(9,196)
Gain/(loss) on sales of long-term investments in securities	169	(219)	(1,765)
Amortization of bond discount	(374)	(114)	(917)
Loss on sales/disposal of property and equipment	(899)	(471)	(3,802)
Foreign exchange gain, net	823	1,741	14,050
Equity earnings of unconsolidated subsidiaries and affiliates	156	330	2,663
Loss on disposal of inventories	(1,289)	—	—
One-time provision for directors' and statutory auditors' retirement benefits for the period prior to April 1, 2000	—	(1,309)	(10,563)
Write-down of other investments	—	(389)	(3,136)
Other, net	81	(345)	(2,793)
	(2,928)	(1,365)	(11,017)
Income before income taxes and minority interest	11,415	24,330	196,368
Income Taxes (Note 12)	5,297	9,889	79,815
Income before minority interest	6,118	14,441	116,553
Minority interest in loss of consolidated subsidiaries	(40)	(125)	(1,007)
Net income	¥ 6,078	¥ 14,316	$ 115,546
	Yen		U.S. dollars (Note 1)
Per Share Data:			
Net income—basic	¥ 52.31	¥ 120.20	$ 0.970
—diluted	¥ 49.99	¥ 115.44	$ 0.932
Weighted average number of shares of common stock (in thousands)	116,202	119,104	

The accompanying notes are an integral part of these statements.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

for the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the year ended March 31,		For the year ended March 31,
	2000	2001	2001
Common Stock			
At beginning of the year	¥ 19,394	¥ 21,733	$ 175,410
Conversion of convertible bonds to common stock	299	34	271
Exercise of stock warrants to common stock	2,040	1,309	10,564
At end of the year	¥ 21,733	¥ 23,076	$ 186,245
Additional Paid-In Capital			
At beginning of the year	¥ 26,306	¥ 29,220	$ 235,840
Conversion of convertible bonds to common stock	299	34	270
Exercise of stock warrants to common stock	2,615	1,678	13,540
At end of the year	¥ 29,220	¥ 30,932	$ 249,650
Retained Earnings			
At beginning of the year	¥ 32,542	¥ 37,109	$ 299,511
Cumulative effect of adopting new accounting standards for income taxes	226	—	—
Net income	6,078	14,316	115,546
Cash dividends	(1,737)	(1,781)	(14,370)
Directors' bonuses	—	(30)	(242)
At end of the year	¥ 37,109	¥ 49,614	$ 400,445
Unrealized Gains on Other Securities	¥ —	¥ 268	$ 2,162
Adjustment Resulting from Foreign Currency Translation	¥ —	¥ (1,278)	$ (10,318)
Treasury Stock			
At beginning of the year	¥ (1)	¥ (1)	$ (15)
Purchases of treasury stock	(87)	(49)	(397)
Sales of treasury stock	87	50	411
At end of the year	¥ (1)	¥ (0)	$ (1)
Total Shareholders' Equity	¥ 88,061	¥102,612	$ 828,183

The accompanying notes are an integral part of these statements.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended March 31, 2000 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the year ended March 31,		For the year ended March 31,
	2000	2001	2001
Cash Flows from Operating Activities:			
Income before income taxes and minority interest	¥ 11,415	¥ 24,330	$ 196,368
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	6,257	5,813	46,914
Increase/(decrease) in provisions	(458)	2,352	18,986
Loss on sale/disposal of property and equipment	898	471	3,802
Interest and dividend income	(462)	(550)	(4,442)
Interest expenses	2,057	1,139	9,196
Foreign exchange loss/(gain), net	123	(380)	(3,066)
Equity earnings of unconsolidated subsidiaries and affiliates	(156)	(330)	(2,663)
Changes in assets and liabilities:			
Increase in accounts and notes receivable	(9,825)	(9,831)	(79,348)
Decrease in inventories	3,291	5,557	44,848
Increase in accounts and notes payables	10,360	1,649	13,311
Other, net	76	398	3,213
Subtotal	23,576	30,618	247,119
Interest and dividend income received	813	586	4,732
Interest expenses paid	(2,172)	(1,261)	(10,176)
Income taxes paid	(1,849)	(6,940)	(56,013)
Net cash provided by operating activities	20,368	23,003	185,662
Cash Flows from Investing Activities:			
Payments for purchase of short-term investments in securities	(9,693)	(1,549)	(12,501)
Proceeds from sales of short-term investments in securities	17,860	4,287	34,599
Payments for purchase of property, plant and equipment	(4,858)	(11,076)	(89,396)
Proceeds from sales of property and equipment	111	1,286	10,382
Payments for purchase of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	(92)	(250)	(2,017)
Proceeds from sales of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	1,551	132	1,063
Increase in short-term loans	(496)	(689)	(5,558)
Collections of short-term loans receivable	4,639	537	4,334
Net cash provided by/(used in) investing activities	9,022	(7,322)	(59,094)
Cash Flows from Financing Activities:			
Decrease in short-term bank loans	(8,184)	(5,178)	(41,795)
Borrowings of long-term debt	3,219	900	7,264
Repayments of long-term debt	(5,237)	(5,173)	(41,750)
Proceeds from issuance of bonds	2,938	—	—
Redemption of bonds	(10,000)	(14,855)	(119,899)
Exercise of stock warrants to common stock	4,081	2,705	21,831
Cash dividends	(1,708)	(1,784)	(14,398)
Other, net	0	1	14
Net cash used in financing activities	(14,891)	(23,384)	(188,733)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(885)	885	7,135
Net Increase/(Decrease) in Cash and Cash Equivalents	13,614	(6,818)	(55,030)
Cash and Cash Equivalents at Beginning of Year (Note 13)	45,252	58,866	475,110
Cash and Cash Equivalents at End of Year (Note 13)	¥ 58,866	¥ 52,048	$ 420,080

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 . BASIS OF CONSOLIDATED FINANCIAL STATMENTS

The accompanying consolidated financial statements have been prepared based on the accounts maintained by THK CO., LTD. (the "Company") and its subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Financial Bureau in Japan have been reclassified in these financial statements for the convenience of readers outside Japan.

The accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90=U.S.$1, the rate of exchange on March 30, 2001 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

2 . BASIS OF CONSOLIDATION

(a) Scope of Consolidation

The Company had 22 subsidiaries ("controlling companies"—companies whose decision making is controlled) as at March 31, 2001 (20 as at March 31, 2000). The consolidated financial statements include the accounts of the Company and its 13 (12 for 2000) subsidiaries. The 13 major subsidiaries, which have been consolidated with the Company, are listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal Year Ended
THK Holdings of America, L.L.C. (USA)	100%	Dec. 31, 2000
THK America, Inc. (USA)	100	Dec. 31, 2000
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2000
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2000
THK G.m.b.H. (Germany)	100	Dec. 31, 2000
PGM Ballscrews Ltd. (UK)	100	Dec. 31, 2000
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2000
THK International Finance (UK) Ltd. (UK)	100	Dec. 31, 2000
THK Manufacturing of Europe, S.A.S. (France)*	100	Dec. 31, 2000
THK TAIWAN Co., Ltd. (Taiwan)	94.99	Dec. 31, 2000
THK Yasuda Co., Ltd. (Japan)	70	Mar. 31, 2001
Talk System Co., Ltd. (Japan)	98.90	Mar. 31, 2001
Beldex Corporation (Japan)	94.73	Mar. 31, 2001

*THK Manufacturing of Europe, S.A.S. was newly established as of February, 2000.

The accounts of the remaining 9 (8 for 2000) unconsolidated 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.

(b) Elimination and Combination

For the purposes of preparing the consolidated financial statements of the Companies, all significant inter-company transactions, account balances and unrealized profits among the Companies have been entirely eliminated.

In elimination, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability and amortized over a period of five years on a straight-line basis. However, those differences have been charged to income in their entirety in the year they arose in cases where such differences were deemed immaterial.

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 4 (5 for 2000) affiliates ("influencing companies"—companies whose financial and operating or business decision making can be influenced by the Company in material degree, and those are not subsidiaries) at March 31, 2001. The equity method is applied only to the investments in Daito Seiki Co., Ltd., since the investments in the unconsolidated subsidiaries and the remaining affiliates would not have material effects 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.

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

Until the year ended March 31, 2000, the translations of foreign currency financial statements of overseas subsidiaries into yen for consolidation purposes were performed by applying the current exchange rate method. Under this method, all assets, liabilities, revenues, costs and expenses are translated into yen at exchange rates prevailing at the end of each fiscal year, and that the common stock and additional paid-in capital accounts are translated at historical rates.

In this connection, certain adjusting accounts must be set up in the balance sheets, to enable balancing of debit and credit totals as well as the reconciliation of the beginning balance with the ending balance of retained earnings. Such adjusting balances are shown as "Adjustments resulting from foreign currency statement translation" in the appropriate parts of the accompanying consolidated financial statements.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Inventories

Inventories held by the Company, THK Yasuda Co., Ltd. and Talk System Co., Ltd. are valued using the annual average cost method. Inventories held by THK America, Inc., PGM Ballscrews Ltd. and PGM Ballscrews Ireland Ltd. are valued at the lower of cost or market value, cost being determined using the first-in first-out method. Inventories held by THK Europe B.V., THK G.m.b.H. and THK TAIWAN Co., Ltd. are valued at the lower of cost or market value, cost being determined using the moving-average method. Inventories held by Beldex Corporation are valued using identified cost method.

(b) Financial Instruments

Until the year ended March 31, 2000, short-term investments in securities (current portfolio) and long-term investments in securities (non-current portfolio) listed on stock exchanges were valued at the lower of cost or market value, cost being determined using the moving average method.

Appropriate write-downs were recorded for unlisted securities that experience substantial decline in value and where such impairments of value are considered not to be temporary.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adoption of the new standard, income before income taxes and minority interest for the year ended March 31, 2001 has decreased by ¥1,189 million, compared to the amount, which would have been reported if the previous standard had been applied consistently.

(i) Derivatives

Under the new standard adopted in the year ended March 31, 2001, all derivatives are stated at fair value, with changes in fair values included in net profit or loss for the period in which they arise.

(ii) Securities

Securities held by the Company and its subsidiaries are, under the new standard adopted in the year ended March 31, 2001, classified into the following four categories:

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

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

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

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

Under the new standard, "other securities" such as bonds that mature within one year or less and those categorized as cash equivalents in the cash flow statements are presented as "current" and the other securities excluding the above are presented as "non-current." The securities held by the Company and its subsidiaries have been reclassified as of April 1, 2000 (the beginning of year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥399 million and the securities in the non-current portfolio have increased by the same amount.

(c) Property, Plant and Equipment

Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of assets. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 10 years for machinery and equipment.

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

(d) Amortization

Amortization of intangible assets (included in "Deferred Charges and Intangibles" account) is computed using the straight-line method over 8 to 15 years.

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

Research and development costs and debt security issue costs are charged to income as incurred. Premiums or discounts on debt securities are amortized over the period that bonds remain outstanding.

(e) Allowance for bad debts

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

(f) Reserve for employees' retirement benefits

Until the year ended March 31, 2000, the Company recorded a reserve for employees' retirement benefits based on tax regulations. The balance of the liability at March 31, 2000 was the amount which would be required to be paid if all employees voluntarily terminated their employment at those dates.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the reserve for employees' retirement benefits as of March 31, 2001 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 of 10 years from the next year in which they arise. As permitted under the new standard, the transition liability arising from adopting the new standards at April 1, 2000 was charged to income.

As a result of adopting the new standard, the effect of this change in accounting method is not material.

(g) Reserve for directors' and statutory auditors' retirement benefits

Reserve for retirement benefits to directors and statutory auditors are provided for in full amount, which the Company would have to pay, if all eligible directors and statutory auditors voluntarily resigned at the balance sheet date.

Until the year ended March 31, 2000, the Company had recognized the retirement benefits for directors and statutory auditors on a cash basis.

Effective from the year ended March 31, 2001, the Company has changed its accounting policy to record a reserve for directors' and statutory auditors' retirement benefits equivalent to the liability the Company would have to pay if all eligible directors and statutory auditors voluntarily resigned at the balance sheet date.

The change was made in line with the revision of the internal regulations for directors' and statutory auditors' retirement benefits and the general prevalence of such accounting practices in Japan.

The change was made for the purpose of appropriate matching of revenue and related costs by allocating the cost of reserve for directors' and statutory auditors' retirement benefits to each term in office, considering the practice for the reserve for directors' and statutory auditors' retirement benefits.

As a result of the change, selling, general and administrative expenses and non-operating losses increased by ¥115 million and ¥1,309 million, respectively, and income before income taxes and minority interest decreased by ¥1,424 million ($11,494 thousand), compared with the previous basis. Also, the effect of the change to segment information has been described in Note 14.

(h) Lease

Finance leases other than those, which are deemed to transfer the ownership of the leased assets to lessees, are accounted for using the method similar to that applicable to ordinary operating leases.

(i) Foreign Currency Translation

Until the year ended March 31, 2000, revenue and expense items arising from the Company's transactions denominated in foreign currencies were translated into Japanese yen at approximate exchange rates when such transactions occur. Receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates prevailing at the respective balance sheet dates. Resulting translation gains or losses were included in the determination of net income for the year.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, 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. The adoption of the new method had no impact on the accompanying consolidated financial statements.

(j) Accounting for the Consumption Tax

Consumption tax is levied at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld upon sale is not included in the amount of "net sales" in the accompanying consolidated statements of income but is recorded as a liability. The consumption tax paid by the Company 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.

(k) Income Taxes

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

In the year ended March 31, 2000, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. 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 financial statements. The cumulative effect of adopting deferred tax accounting at April 1, 1999, was directly charged to retained earnings.

In the year ended March 31, 1999, income taxes of the Company and its domestic subsidiaries were provided for at an amount currently payable based on the tax returns filed with tax authorities and adjusted for the tax effects of temporary differences arising from elimination entries reflected in the consolidation process, such as the elimination of unrealized intercompany profits and allowances for bad debts provided against intercompany accounts receivable. Also, certain consolidated overseas subsidiaries accounted for income taxes on the basis of interperiod allocation whereby tax effects on temporary differences between tax and financial reporting were recognized.

As a result of the adoption of deferred tax accounting, net income for the year ended March 31, 2000, increased by ¥767 million ($7,230 thousand) and retained earnings at March 31, 2000, increased by ¥923 million ($9,367 thousand), respectively.

(l) 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 represent a minor risk of fluctuations in value.

(m) Net income per share

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year, and adjusted for dilution (assuming conversion of convertible notes and exercise of stock warrants of the Company).

4 . SHORT-TERM INVESTMENTS IN SECURITIES, LONG-TERM INVESTMENTS IN SECURITIES AND INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

At March 31, 2000, short-term investments in securities, long-term investments in securities and investments in unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		
	2000		
	Carrying amounts	Market value	Net unrealized gain (loss)
Short-term investments in securities:			
Market value available:			
Equity securities	¥ 44	¥ 134	¥ 90
Other securities	312	312	—
	356	¥ 446	¥ 90
Market value not available	8,762		
Total	¥9,118		
Long-term investments in securities:			
Market value available:			
Equity securities	¥3,781	¥4,383	¥ 602
Other securities	253	312	59
	4,034	¥4,695	¥ 661
Market value not available	1,736		
Total	¥5,770		
Investments in unconsolidated subsidiaries and affiliates:			
Market value available:			
Equity securities	¥3,789	¥1,933	¥(1,856)
Market value not available	706		
Total	¥4,495		

At March 31, 2001, market value available in other investment securities were as follows:

	Millions of yen		
	2001		
	Acquisition cost	Carrying amount	Net unrealized gain (loss)
Carrying amount summing up to exceed acquisition cost:			
Equity securities	¥ 344	¥ 761	¥ 417
Other securities	636	674	38
Subtotal	¥ 980	¥1,435	¥ 455
Carrying amount summing up does not exceed acquisition cost:			
Equity securities	¥3,564	¥3,013	¥(551)
Total	¥4,544	¥4,448	¥ (96)

	Thousands of U.S. dollars (Note 1)		
	2001		
	Acquisition cost	Carrying amount	Net unrealized gain (loss)
Carrying amount summing up to exceed acquisition cost:			
Equity securities	$ 2,776	$ 6,140	$ 3,364
Other securities	5,138	5,446	308
Subtotal	$ 7,914	$11,586	$ 3,672
Carrying amount summing up does not exceed acquisition cost:			
Equity securities	$28,768	$24,318	$(4,450)
Total	$36,682	$35,904	$ (778)

Proceeds and net realized gain (loss) from the sales of other securities for the year ended March 31, 2001 were immaterial.

5 . INVENTORIES

Inventories at March 31, 2000 and 2001 comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Finished goods	¥19,662	¥17,163	$138,525
Work in progress	8,494	6,464	52,173
Raw materials and supplies	6,674	6,331	51,096
Total	¥34,830	¥29,958	$241,794

6 . SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The annual average interest rates applicable to short-term bank loans at March 31, 2000 and 2001 are 2.67% and 2.26%, respectively.

Long-term debt at March 31, 2000 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
0.3%. Convertible bonds 2003, currently convertible at ¥2,717 ($22)	¥14,033	¥13,966	$112,720
0.875%. Swiss franc bond with detachable warrant 2000	9,770	—	—
1.95%. Straight bonds 2003	1,000	1,000	8,071
1.95%. Straight bonds 2003	1,000	1,000	8,071
2.25%. Straight bonds 2003	1,000	1,000	8,071
2.28%. Euro yen straight bonds 2001	5,000	—	—
2.6%. Straight bonds 2003	5,000	5,000	40,355
0.52%. Euro yen straight bonds 2003	3,000	3,000	24,213
6.15%. Industrial development revenue bonds 2011	379	—	—
6.20%. Industrial development revenue bonds 2011	—	425	3,428
Loans from banks:			
Collateralized	14,247	10,579	85,380
Non-collateralized	3,255	2,650	21,388
Less—current portion	15,142	5,914	47,729
	¥42,542	¥32,706	$263,968

At March 31, 2001, the following assets were pledged for collateralized long-term loans.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2001	2001
Short-term investments in securities	¥ 999	$ 8,066
Long-term investments in securities	2,157	17,411
Property, plant and equipment	3,409	27,515
Industrial factory foundation	13,020	105,086

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2001, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ended March 31, 2001	2001	2001
2003	¥11,913	$ 96,152
2004	19,634	158,465
2005	684	5,519
2006 and thereafter	475	3,832
	¥32,706	$263,968

7 . CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2001 with respect to notes discounted and endorsed in the ordinary course of business and loans guaranteed (for non-consolidated subsidiaries and affiliates), including letter of awareness of ¥370 million ($2,986 thousand), amounted to ¥2,581 million ($20,834 thousand) and ¥781 million ($6,302 thousand), respectively.

The Company also has a contingent liability for a debt assumption agreement at 2.28%. Straight bonds 2001 amounted to ¥5,114 million ($41,275 thousand) as of March 31, 2001.

8 . LEASES

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥718 million and ¥637 million ($5,144 thousand) for the years ended March 31, 2000 and 2001, 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 for the years ended March 31, 2000 and 2001 was as follows:

	Millions of yen		
	2000		
	Machinery and equipment	Other	Total
Acquisition costs	¥3,185	¥131	¥3,316
Accumulated depreciation	1,553	113	1,666
Net leased property	¥1,632	¥ 18	¥1,650

	Millions of yen		
	2001		
	Machinery and equipment	Other	Total
Acquisition costs	¥3,093	¥40	¥3,133
Accumulated depreciation	1,042	5	1,047
Net leased property	¥2,051	¥35	¥2,086

	Thousands of U.S. dollars (Note 1)		
	2001		
	Machinery and equipment	Other	Total
Acquisition costs	$24,961	$323	$25,284
Accumulated depreciation	8,408	39	8,447
Net leased property	$16,553	$284	$16,837

Future minimum lease payments under finance leases as of March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Due within one year	¥ 486	¥ 653	$ 5,271
Due after one year	1,164	1,433	11,566
Total	¥1,650	¥2,086	$16,837

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Depreciation, which is not reflected in the accompanying consolidated statements of income, computed by using the straight-line method, were ¥718 million and ¥637 million ($5,144 thousand) for the years ended March 31, 2000 and 2001, respectively.

Obligations under non-cancelable operating leases as of March 31, 2000 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Due within one year	¥ 305	¥ 416	$ 3,360
Due after one year	1,103	1,778	14,346
Total	¥1,408	¥2,194	$17,706

9 . DERIVATIVES AND HEDGING ACTIVITIES

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, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

At March 31, 2000, the forward exchange contracts outstanding were as follows:

	Millions of yen		
	2000		
	Contract amount	Market value	Unrealized loss
Swiss franc forward exchange contracts to buy Swiss franc	¥97	¥76	¥(21)

The above amounts exclude contracts in order to pay interest on Swiss franc bonds with detachable warrants 2000 which have been reflected at the corresponding contracted rates in the accompanying consolidated balance sheets at March 31, 2000.

At March 31, 2001, the currency swap agreements outstanding were as follows:

	Millions of yen	
	2001	
	Contract amount	Unrealized loss
Currency swap agreements:		
Payment by U.S dollars receipt by yen	¥2,219	¥(125)

	Thousands of dollars (Note 1)	
	2001	
	Contract amount	Unrealized loss
Currency swap agreements:		
Payment by U.S dollars receipt by yen	$17,913	$(1,005)

The above amounts of currency swap agreements act to hedge the related interest and principal on outstanding inter-company loans payable which are denominated in foreign currencies.

At March 31, 2000 and 2001, the interest rate swap agreements outstanding were as follows:

	Millions of yen	
	2000	
	Contract amount	Unrealized loss
Interest-rate swap agreements:		
Variable-rate into fixed-rate obligation	¥10,000	¥(320)

	Millions of yen	
	2001	
	Contract amount	Unrealized loss
Interest-rate swap agreements:		
Variable-rate into fixed-rate obligation	¥10,000	¥(132)

	Thousands of dollars (Note 1)	
	2001	
	Contract amount	Unrealized loss
Interest-rate swap agreements:		
Variable-rate into fixed-rate obligation	$80,710	$(1,064)

The above amounts excluded swap agreements in order to hedge the related interest on outstanding debt denominated in foreign currencies, which have been translated and reflected at the corresponding swap rates in the accompanying consolidated balance sheets at March 31, 2000 and 2001.

10 . RESEARCH AND DEVELOPMENT

Research and development expenses for the years ended March 31, 2000 and 2001 were ¥1,415 million and ¥1,426 million ($11,508 thousand), respectively and were included in "Selling, General and Administrative Expenses."

Effective for the year ended March 31, 2000, the Companies adopted new Japanese accounting standard for research and development costs, which had no impact on the Companies' financial position, results of operations or cash flows.

11 . RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

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

The reserve for employees' retirement benefits as of March 31, 2001 is analyzed as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	March 31, 2001	March 31, 2001
Projected benefit obligations	¥3,262	$26,329
Plan assets	1,677	13,534
	1,585	12,795
Unrecognized actuarial differences	252	2,033
Reserve for employees' retirement benefits	¥1,333	$10,762

Net periodic pension and severance costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	March 31, 2001	March 31, 2001
Service cost	¥262	$2,114
Interest cost	81	655
Expected return on plan assets	(48)	(387)
Amortization of transition amount	82	660
Net periodic pension and severance costs	¥377	$3,042

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

	For the year ended March 31, 2001
Method of attributing the projected benefits to periods of services	Straight line basis
Discount rate	3.0%
Expected rate of return on plan assets	3.0%
Amortization of unrecognized actuarial differences	10 years
Amortization of transition liability	1 year

12 . 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, 2000 and 2001 was 42.05%.

At March 31, 2000 and 2001, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Deferred tax assets:			
Elimination of intercompany profit (inventories)	¥1,136	¥1,133	$ 9,143
Loss on devaluation of inventories	369	845	6,817
Enterprise tax payable	341	765	6,173
Reserve for directors' and statutory auditors' retirement benefits	—	559	4,833
Allowance for bad debts	42	437	3,526
Reserve for employees' retirement benefits	319	381	3,075
Software	73	284	2,292
Accrued bonuses to employees	144	234	1,889
Net operating loss carried forward	287	223	1,803
Other	451	703	5,682
Total gross deferred tax assets	¥3,162	¥5,604	$45,233
Less valuation allowance	(287)	(549)	(4,435)
Net deferred tax assets	¥2,875	¥5,055	$40,798
Deferred tax liabilities:			
Special depreciation reserve	(244)	(379)	(3,059)
Other	(144)	(187)	(1,510)
Total gross deferred tax liabilities	¥ (388)	¥ (566)	$ (4,569)
Net deferred tax assets	¥2,487	¥4,489	$36,229

For the year ended March 31, 2000, the reconciliation of the statutory tax rate to the effective tax rate was as follows:

Statutory tax rate	42.05%
Expenses not deductible for income tax purpose such as entertainment expense	0.50
Valuation allowance recognized on current losses of subsidiaries	0.81
Local inhabitants taxes	0.50
Other	2.57
Effective tax rate	46.43%

For the year ended March 31, 2001, the difference between the statutory tax rate and the effective tax rate was insignificant.

13 . RECONCILIATION OF CASH AND CASH EQUIVALENTS PER CONSOLIDATED CASH FLOW STATEMENTS WITH ACCOUNT BALANCES ON CONSOLIDATED BALANCE SHEETS

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	2001	2001
Cash and bank deposits	¥47,297	¥40,760	$328,977
Short-term investments in securities	9,118	8,287	66,888
Short-term loans	6,930	4,680	37,772
Short-term investments in securities excluding M.M.F. and others	(3,749)	(999)	(8,066)
Short-term loans excluding repurchase agreement	(730)	(680)	(5,491)
	¥58,866	¥52,048	$420,080

14 . SEGMENT INFORMATION

(1) Industry Segment Information

As the sales, operating income and assets of the machinery parts segment are over 90% of total sales, total operating income and total assets of the Company and consolidated subsidiaries, industry segment information is not required to be disclosed. The Company and consolidated subsidiaries are operating in one industry segment: production and sales of linear motion systems.

(2) Geographical Segment Information

Net sales of the Companies for the years ended March 31, 2000 and 2001, classified by geographic segments are summarized as follows:

	Millions of yen						
	Year ended March 31, 2000						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income—							
Net sales:							
Customers	¥ 82,722	¥10,869	¥ 9,072	¥1,292	¥103,955	¥ —	¥103,955
Inter-segment	14,009	22	85	—	14,116	(14,116)	—
Total	96,731	10,891	9,157	1,292	118,071	(14,116)	103,955
Operating expenses	84,523	10,363	8,376	1,189	104,451	(14,839)	89,612
Operating income	¥ 12,208	¥ 528	¥ 781	¥ 103	¥ 13,620	¥ 723	¥ 14,343
II. Assets—							
Assets	¥163,641	¥10,322	¥ 7,073	¥1,313	¥182,349	¥ 13,401	¥195,750

	Millions of yen						
	Year ended March 31, 2001						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income—							
Net sales:							
Customers	¥111,641	¥15,610	¥10,994	¥2,042	¥140,287	¥ —	¥140,287
Inter-segment	18,985	404	129	—	19,518	(19,518)	—
Total	130,626	16,014	11,123	2,042	159,804	(19,518)	140,287
Operating expenses	107,771	14,144	10,459	2,039	134,413	(19,821)	114,592
Operating income	¥ 22,855	¥ 1,870	¥ 664	¥ 3	¥ 25,392	¥ 303	¥ 25,695
II. Assets—							
Assets	¥167,859	¥19,575	¥12,157	¥1,867	¥201,458	¥ (3,328)	¥198,130

As discussed in Note 3(g), the Company, during the year ended March 31 2001, changed its accounting policy to record a reserve for directors' and statutory auditors' retirement benefits, in an amount equal to the liability the Company would have to pay if all eligible directors and statutory auditors voluntarily resigned at the balance sheet date.

As a result of the change, operating expenses increased by ¥115 million ($930 thousand) and operating income decreased by the same amount compared with the previous basis.

As described in Note 3(b), effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000.

As a result of adoption of the new standard, operating expense for the year ended March 31, 2001 has increased by ¥438 million ($3,539 thousand) and operating income has decreased by the same amounts as compared with the amount which would have been reported if the previous standard had been applied consistently.

	Thousands of U.S. dollars (Note 1)						
	Year ended March 31, 2001						
	Japan	America	Europe	Asia and other	Total	Eliminations and corporate assets	Consolidated
I. Net sales and operating income—							
Net sales:							
Customers	$ 901,057	$125,992	$88,736	$16,478	$1,132,263	$ —	$1,132,263
Inter-segment	153,232	3,258	1,035	—	157,525	(157,525)	—
Total	1,054,289	129,250	89,771	16,478	1,289,788	(157,525)	1,132,263
Operating expenses	869,825	114,162	84,409	16,454	1,084,850	(159,972)	924,878
Operating income	$ 184,464	$ 15,088	$ 5,362	$ 24	$ 204,938	$ 2,447	$ 207,385
II. Assets—							
Assets	$1,354,793	$157,989	$98,117	$15,076	$1,625,975	$ (26,866)	$1,599,109

(3) Export sales and sales by overseas subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company plus the sales by overseas consolidated subsidiaries) for the years ended March 31, 2000 and 2001 are summarized as follows:

	Millions of yen			
	2000			
	America	Europe	Asia and other	Total
Overseas sales	¥10,900	¥9,258	¥6,939	¥27,097
Consolidated net sales				¥103,955
Overseas sales as a percentage of consolidated net sales	10.5%	8.9%	6.7%	26.1%

	Millions of yen /Thousands of U.S. dollars (Note 1)			
	2001			
	America	Europe	Asia and other	Total
Overseas sales	¥15,725 ($126,914)	¥11,354 ($91,638)	¥9,205 ($74,296)	¥36,284 ($292,848)
Consolidated net sales				¥140,287 ($1,132,263)
Overseas sales as a percentage of consolidated net sales	11.2%	8.1%	6.6%	25.9%

15 . RELATED PARTY INFORMATION

Material transactions of the Company with its related companies and individuals for the years ended March 31, 2000 and 2001, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, were as follows:

Directors and major shareholders

At March 31, 2001					Millions of yen /Thousands of U.S. dollars (Note 1)				
Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the Company	Description of the Company's transactions	Transactions for the year ended March 31, 2000	Transactions for the year ended March 31, 2001	Account	Account balances at March 31, 2000	Account balances at March 31, 2001
Shoji Namiki	—	The Company's auditor and the president and representative director of Namiki Precision Jewel Co., Ltd.	—	Processing of the Company's product	¥—	¥84 ($674)	Accounts and notes receivable	¥—	¥53 ($429)

Subsidiaries and affiliates

At March 31, 2001					Millions of yen /Thousands of U.S. dollars (Notes 1)				
					Transactions for the year ended March 31,			Account balances at March 31,	
Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the Company	Description of the Company's transactions	2000	2001	Account	2000	2001
Daito Seiki Co., Ltd.	¥4,255 million	Manufacture and sales of industrial machines	38.75%	Sales of industrial parts	¥2,375	¥3,565 ($28,777)	Accounts and notes receivable	¥1,078	¥1,410 ($11,382)
				Manufacturing of the Company's product	¥3,637	¥4,979 ($40,187)	Accounts and notes payable	¥ 420	¥2,422 ($19,711)
							Other current liabilities	¥ 32	¥ 66 ($534)
				Guarantee of Loans	¥ 830	¥ 370 ($2,986)			
SAMIC INDUSTRIAL Co., Ltd.	W10 thousand	Manufacture and sales of industrial machines	17.97%	Sales of the Company's product	¥ —	¥2,789 ($22,507)	Accounts and notes receivable	¥ —	¥ 59 ($479)

The terms and conditions applicable to the above mentioned transactions have been determined on the basis of arm's length and by reference to normal market price level.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
THK CO., LTD.

We have audited the accompanying consolidated balance sheets of THK CO., LTD. and its subsidiaries as of March 31, 2000 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of THK CO., LTD. and its subsidiaries as of March 31, 2000 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, in the method of accounting for the reserve for directors' and statutory auditors' retirement benefits as discussed in Note 3.

As discussed in Notes 3 and 10, THK CO., LTD. and its subsidiaries adopted the new Japanese accounting standards for consolidation, research and development costs and income taxes in the year ended March 31, 2000. As discussed in Notes 2, 3, 4, 9 and 11, THK CO., LTD. and its subsidiaries have adopted the new Japanese accounting standards for financial instruments, employees' retirement benefits and foreign currency translation effective from the year ended March 31, 2001.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 23, 2001

CORPORATE DATA

THK CO., LTD. (As of March 31, 2001)

Head Office:	3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503, Japan
Tel.:	+81-3-5434-0300
Established:	April 1971
Number of Employees:	2,803
Common Stock:	Authorized 465,877,700 Issued 119,340,568
Number of Shareholders:	33,962
Transfer Agent:	The Mitsubishi Trust & Banking Corporation
Stock Exchange Listings:	Tokyo Stock Exchange

MAJOR SUBSIDIARIES AND AFFILIATES

OVERSEAS

(As of March 31, 2001)

Company	Capital (Local Currency in Thousands)	Employees	Operations
THK Holdings of America, L.L.C.	US$45,976	—	Holding company for THK Group marketing and manufacturing companies in America
THK America, Inc.	US$20,100	231	Import and sale of LM guides in North America
THK Manufacturing of America, Inc.	US$24,000	106	Manufacture of LM guides
THK Europe B.V.	f.84,080	240	Import of LM guides, distribution center and holding company for THK Group European marketing companies
THK G.m.b.H.	DM200	153	Import and sale of LM guides for the German and U.K. markets
PGM Ballscrews Ltd.	£5,233	88	Manufacture of precision ball screws for Europe and the United States
PGM Ballscrews Ireland Ltd.	IR£975	24	Manufacture of rolled ball screws for Europe and the United States
THK International Finance (U.K.) Ltd.	£1,500	—	Finance subsidiary
THK Manufacturing of Europe S.A.S.	Eur8,840	10	Manufacture of LM guides
THK TAIWAN Co., Ltd.	NT$62,000	23	Import and sale of LM guides for the Taiwanese market

DOMESTIC

(As of March 31, 2001)

Company	Capital (Millions of Yen)	Employees	Operations
THK Yasuda Co., Ltd.	100	118	Manufacture of splines for THK
Talk System Corporation	400	109	Bearings, electric conductive devices, and other (computer-aided design [CAD]); also computer-aided manufacturing (CAM) and Internet provider
Beldex Corporation	195	56	Manufacture of three-dimensional measurement instruments, sale of glass-cutting machines
Daito Seiki Co., Ltd.	4,255	259	Manufacture of sock-knitting and production machinery; purchase and sale of LM guides

BOARD OF DIRECTORS (As of March 31, 2001)

PRESIDENT AND CEO
Akihiro Teramachi

SENIOR MANAGING DIRECTOR
Mikio Hayashi

MANAGING DIRECTOR
Katsuhito Imai

MANAGING DIRECTOR
Yoshimi Sato

DIRECTOR
Shigeharu Mabuchi

DIRECTOR
Takeki Shirai

DIRECTOR
Mikio Matsui

DIRECTOR
Masamichi Ishii

DIRECTOR
Katsuyoshi Muto

DIRECTOR
Toshio Tonegawa

DIRECTOR
Toshihiro Teramachi

DIRECTOR
Hiroshi Funahashi

DIRECTOR
Shigeru Wako

STANDING AUDITOR
Akira Sugi

STANDING AUDITOR
Yoshito Nagafuchi

AUDITOR
Kihachiro Yucho

AUDITOR
Shoji Namiki

THK
The Mark of Linear Motion

Printed in Japan