



ANNUAL REPORT
2004



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CORPORATE PROFILE

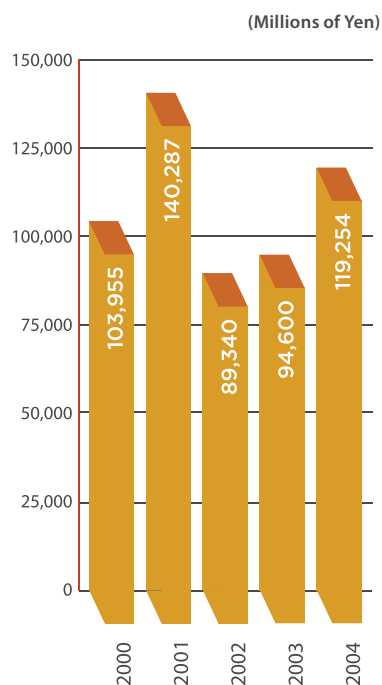
THK is highly regarded as a pioneer in the field of LM (linear motion) guide products which convert rotary to linear motion. Since establishment in 1971, THK has built on its unrivalled technical capability to maintain a dominant position in the LM guide industry, commanding approximately 70% of the domestic and 60% of the world market (company estimate). Within these markets, THK has been known for its inventiveness and creativity ever since it first commercialized the LM guide in 1972. The company's market position was further enhanced in 1996 when it succeeded in developing and commercializing the LM Guide with Caged Ball™ Technology, a breakthrough product which laid the foundation for future growth.

THK's high reputation can be attributed to its adherence to a fundamental principle which promotes the development of unique and creative products. The company's name itself is an acronym for "Toughness," "High Quality" and "Know-how." This clearly describes THK's basic attitude to the development of new products. Guided by these principles, THK develops products not only by reacting promptly to the changing needs of its customers but also by promoting new technologies geared to satisfying anticipated client needs five or ten years hence. As these efforts have borne fruit, our customer base has expanded from the machine tool industry and the semiconductor industry to the medical equipment industry, the auto-parts industry and the construction industry for use in earthquake-resistant/shake-control devices.

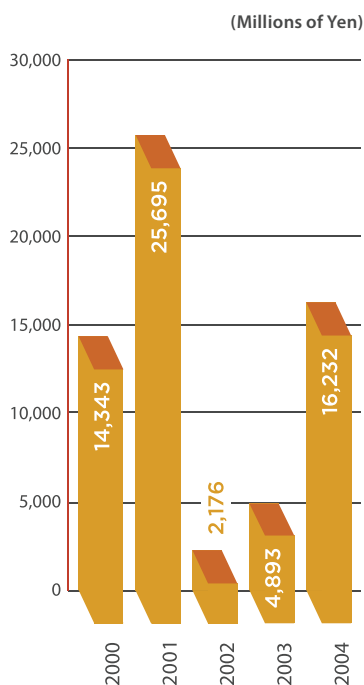
THK operates with an eye to world markets. Currently, the company is pursuing a business vision, dubbed "Global 10-21" of ranking among the ten largest manufacturers of machine parts in the world in the early 21st century. To achieve this goal, the company has already established production bases in Europe, North America and China and has developed an international marketing network.

COMPANY AT A GLANCE

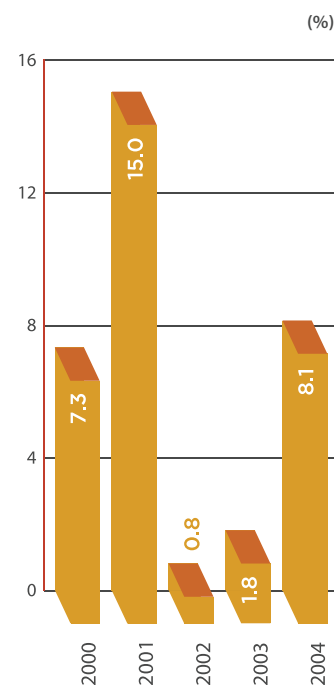
Net Sales



Operating Income



ROE

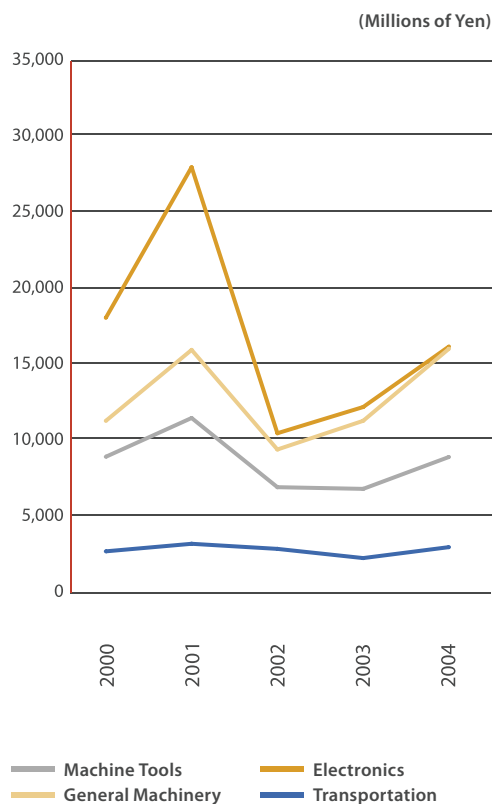


The year 2002 saw a major decline in sales due to the collapse of the IT bubble. THK has concentrated on diversifying its customer base and new product applications since 2003. As a result, sales sharply rebounded the following year with the help of a favorable external environment marked by a recovery in capital investment.

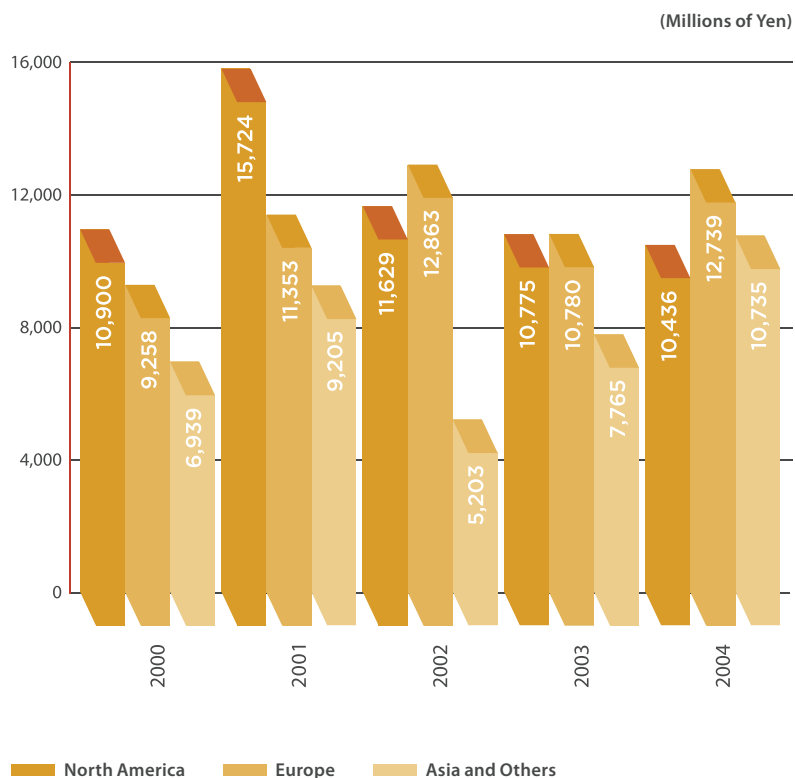
THK has been aggressively improving productivity through such efforts as shortening production lead times. As a result, we were successful in reducing the cost ratio from 70.5% for 2003 to 65.3% for 2004, which led to a significant increase in operating income.

THK regards efficient use of capital as a primary management goal. In the Mid-Term Management Plan, we target an improvement in ROE to 10%. For 2002 and 2003, ROE fell sharply. ROE for 2004 improved significantly to 8.1%, placing the target figure well within sight.

Sales by Industry (Non-Consolidated)



Overseas Sales by Region



After hitting a peak in 2001, THK's shipments to the electronics industry declined due to the collapse of the IT bubble. From 2002, shipments to the machine tool industry were the first to recover, followed by a recovery in shipments to the general machinery industry. Shipments to the electronics industry, which also declined significantly in 2002, began to show clear signs of recovery from the second half of 2003.

THK has been promoting global business development. The tetra-lateral global system in Japan, Europe, North America and Asia was established in order to strengthen the international sales and production system. THK aims to increase the overseas sales ratio to 50% by strengthening its production and marketing systems. Following significant growth in 2001, sales in North America have been stagnant for the last few years. On the other hand, sales in Europe for 2004 approached the previous peak figure recorded in 2002. In Asia, a sharp increase in sales was seen to a level matching that of North America. Previously, the Asian market was led mainly by growth in the Korean and Taiwanese markets, but THK believes that China will become the main engine of growth in future. In anticipation of further expansion in the Chinese market, THK decided to construct a new factory in 2004.

A professional portrait of Akihiro Teramachi, President and CEO. He is a middle-aged man with dark hair, wearing glasses, a dark suit jacket, a white shirt, and a patterned tie. He is looking directly at the camera with a neutral expression. The background is a plain, light-colored wall. The lighting is soft and even.

PRESIDENT'S MESSAGE

Akihiro Teramachi President and CEO

Supported mainly by a recovery in capital investment by domestic firms and an increase in demand for machinery in China, THK achieved consolidated net sales of 119.2 billion yen and operating income of 16.2 billion yen, an increase of 26.1% and 231.7%, respectively for FY 2003.

With the implementation of various improvements such as the THK Advantage Program, the company was able to strengthen the production/sales structure of its overseas group companies by further improving the abilities of local staff members, as well as promote the establishment of a "Global Structure."

Results for FY 2003 showed great progress in achieving the goals set by the long-term management plan to FY 2010 (including consolidated sales of 300 billion yen).

Striding Towards Our Goals

Following a prolonged period of economic stagnation lasting for more than ten years, clear signs of recovery are now discernible in Japan backed by a long-anticipated resurgence in capital expenditures by Japanese companies and a sharp upturn in exports. Against this background, THK recorded a steady improvement in new orders from major customers such as machine tool and industrial machinery companies, which are themselves benefiting from the resurgence in capital expenditure in the domestic automobile and electronics industries and demand from China. As a result, THK was able to exceed its initial financial projections to post consolidated operating income of 16.2 billion yen on sales of 119.2 billion yen versus initial forecasts of 9 billion yen and 104 billion yen, respectively.

Looking forward, we still face challenges in the year to come including uncertainty over the state of the international and domestic economies. In Japan, even though the deflationary environment seems to be coming to an end, an upturn in domestic consumer spending still seems some way off due to widespread concern over the state of the national pension program, deteriorating employment situation and concerns for future income. Globally, concerns abound concerning the sustainability of the Chinese economic expansion and the direction of interest rate policy in the United States as well as the hike in oil and other commodity prices. Nevertheless, in spite of these uncertainties, our continuing initiatives at the corporate level are bearing fruit, which makes us optimistic that we will be able to post another improvement in our financial results during the current year to March 2005.

We are in the process of implementing our Long-Term Management Target (LTMT) entitled "Fiscal 2010 Vision." One goal, as laid out in this plan, is to increase consolidated sales to 300 billion yen in the final year of the plan. We have revised our Medium-Term Management Plan (MTMP) covering the next three years to align it with the objectives set out in the LTMT.

In the MTMP we define targets designed to further strengthen our future sales and earnings potential. These targets can be summarized as follows:

- (1) Building a foundation for global businesses
- (2) Setting new sales records
- (3) Sweeping review and change of production
- (4) Ongoing development and introduction of new products
- (5) Reinforcement of individual potential

The LTMT is firmly rooted in the perception that manufacturing is changing across the world. Geographically, the locus of manufacturing activity is shifting to China and Eastern Europe. This trend is expected to accelerate further. Our main customers including semiconductor manufacturing equipment makers and machine tool companies are in the midst of transferring production overseas which, in turn, has implications for the pattern of

demand for our products at the global level. The LTMT rests on two major foundations of “Full-scale Globalization” and “Development of New Business Areas.” Numerical measures of success which have been adopted in respect of these goals are as follows: to achieve consolidated sales of 300 billion yen, to increase our consolidated overseas sales ratio from 30% to 50% and to increase our overseas production ratio from 10% to 40%. These targets are based on the understanding that exploiting the substantial growth opportunities available overseas is essential to the long-term growth of THK.

During FY 2003 we took aggressive steps to promote global development. We have strengthened our production system in China in anticipation of the day when that country represents the largest market in Asia. I believe that these steps will inevitably bear fruit in the years after FY 2004. Complementing our moves to strengthen overseas production, we have taken steps to streamline our overseas sales system. To date, our emphasis has been on increasing the number of sales offices and sales staffs we have worldwide. Recently, we began to shift our emphasis to sales staff quality. For this purpose, we introduced a program dubbed TAP (THK Advantage Program) Activities in the American and European regions. This follows the successful introduction of a similar program in Japan. TAP Activities improves the efficacy of all staff members in providing timely and accurate customer service by adopting a paradigm of PDCA (Plan, Do, Check, Action). I have personally taken an active part in sales meetings with senior managers of customers in every region. As a result, it is my belief that the results of our actions were already apparent during FY 2003.

Another major target of the LTMT, the “Development of New Business Areas,” is also steadily yielding results. In the past we were overwhelmingly dependent on certain industries which were themselves highly dependent on demand related to capital expenditure. As a result, demand for our products was dependent on cyclical and unpredictable factors which were easily influenced by fluctuations in the business environment. In order to stabilize the pattern of demand, we are attempting to cultivate customers in industries such as consumer products which are less directly affected by business cycles.



The Long-Term Management Target aims to increase the ratio of overseas sales to total sales to 50%, and the ratio of overseas production to total production to 40% by 2010.

We are planning to increase ROE to 10% or more and achieve an operating margin of 20%.



Efforts to cultivate new markets have progressed through the establishment of new divisions such as the FAI Division, which is dedicated to soliciting demand from automotive-related customers; and the ACE Division, which focuses on housing-related demand, particularly in the area of aseismatic structures for buildings.

It is my belief that there are still many profitable opportunities available to us. Therefore, we are trying to maximize our corporate value by aggressively reinvesting profits in plants and equipment. On the other hand, I also recognize that it is important to maintain a stable dividend policy and to distribute profits to shareholders in line with our financial performance.

At THK, we aim for long-term growth and the provision of superior long-term returns to investors. In this context, I believe that the most appropriate management policy geared to the maximization of corporate value must embrace both aggressive reinvestment of profits and the distribution of profits to shareholders.

As I have already mentioned, our numerical targets embrace measures of performance for the company as a whole including achieving a return on equity of 10% or more and an operating margin of 20%. I believe that the day when we can announce the achievement of these goals to shareholders is not far away.

Akihiro Teramachi
President and CEO

A handwritten signature in black ink that reads "Akihiro Teramachi". The signature is written in a cursive, flowing style.

STRATEGIC DIRECTION



The final target of the Long-Term Management Target is to achieve consolidated sales of 300 billion yen and an overseas sales ratio of 50% by the end of FY 2010. In order to achieve this target, the company has adopted the following strategies: "Full-scale Globalization" and "Development of New Business Areas."

Through full-scale globalization, the company expects overseas sales to grow at an average of 20%, while domestic sales are expected to grow at an average rate of 10% through development of new business areas.

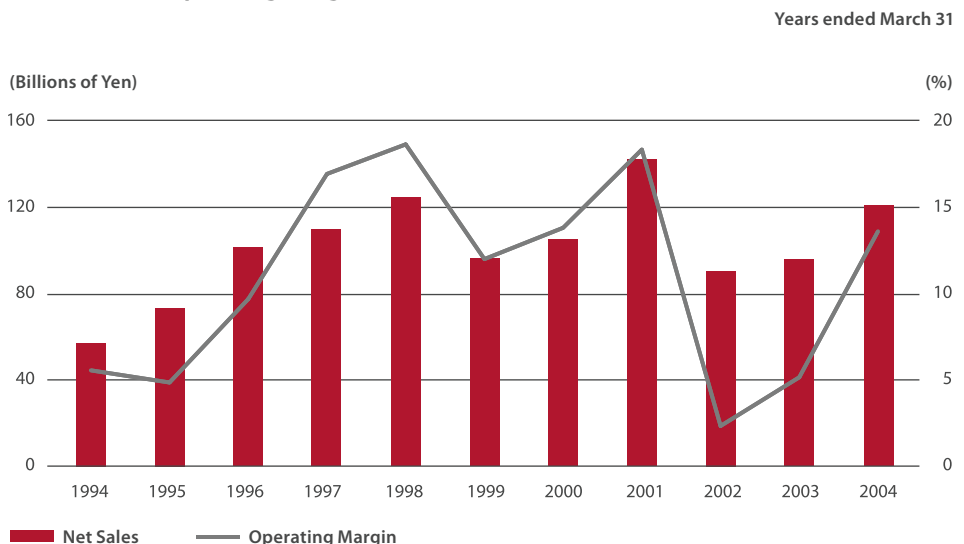
In pursuit of local production, THK considers raising the overseas production ratio from 10% to 40% in 2010 as one of its most important business goals. The expansion of production in Europe and Asia is central to this goal.

Maintaining a 60% World Market Share

During the 1970s, from the time it developed the first LM guide in 1971, THK was the world's sole manufacturer of these products. The 1980s saw the market for LM guide products take off driven by demand first from the American machine tool industry and then from Japanese and other machine tool makers. This expansion encouraged many Japanese companies to enter the market. During the 1990s, use of LM guide products spread to other industries, particularly the semiconductor industry, which again triggered an increase in the number of American and European competitors entering the market. For almost thirty years, from its establishment until now, THK has been constantly engaged in fierce competition with market neophytes. In spite of this competition, THK nevertheless remains the market leader boasting a global market share of 60% (company estimate). In the current decade, Asian manufacturers including Korean, Taiwanese and Chinese companies are likely to provide another wave of competition. As a result, we expect that competitive pressures will continue to intensify. This notwithstanding, we are determined to maintain our current 60% world market share. Under the Long-Term Management Target, one of the major tasks set is to maintain the lion's share of the world market.

We think THK's core competency lies in the application of our accumulated technologies, which only a specialized manufacturer can achieve, to development of state-of-the-art LM guide products. Another core competency is to be found in our close contact with customers, who are mainly manufacturers ranked at the top of their respective industries. As our major customers are the top makers in each industry, we enjoy a unique position of advantage in gathering useful information through close contact and frequent transactions. This insight can then be reflected in the development of new products. In this respect, THK continues to enjoy an advantageous position compared with its competitors. We have also established

Net Sales and Operating Margin



unique production technologies to complement our technical and marketing capabilities. The collective strength stemming from the combination of technical capability, marketing capability and production technology is the foundation of our competitive advantage.

Long-Term Management Target “Fiscal 2010 Vision”

In order to take full advantage of the competitive edge described above and to further strengthen our position as market leader, THK announced a Long-Term Management Target, dubbed “Fiscal 2010 Vision.” The plan was announced in 2001 when we celebrated the 30th anniversary of our establishment and was developed to map out the direction in which THK should evolve over the next ten years, as well as to provide the appropriate philosophical and cultural underpinnings to support the goals.

While the Long-Term Management Target sets our long-term targets and aspirations, the Medium-Term Management Plan is made with a three year time horizon and is revised each year to take into account progress made during the previous year and changes in the business environment. Its role is to provide a practical framework for the implementation of policy by providing consistency between the goals of the Long-Term Management Target and the annual business plans of the divisions. This procedure promotes consistency of the Long-Term Management Target, which is decided by a “top-down” method, and the annual targets of each of the business divisions, which are decided by a “bottom-up” method. In this way, we are able to balance our strategic and tactical objectives.

The Long-Term Management Target is described in the business vision, “Global 10-21,” which encapsulates our belief that THK should be ranked among the top ten machine parts makers in the early 21st century. In order to achieve this target, THK pursues two strategies: one is dubbed “Full-scale Globalization” and the other “Development of New Business Areas.”

Expansion of Business Areas

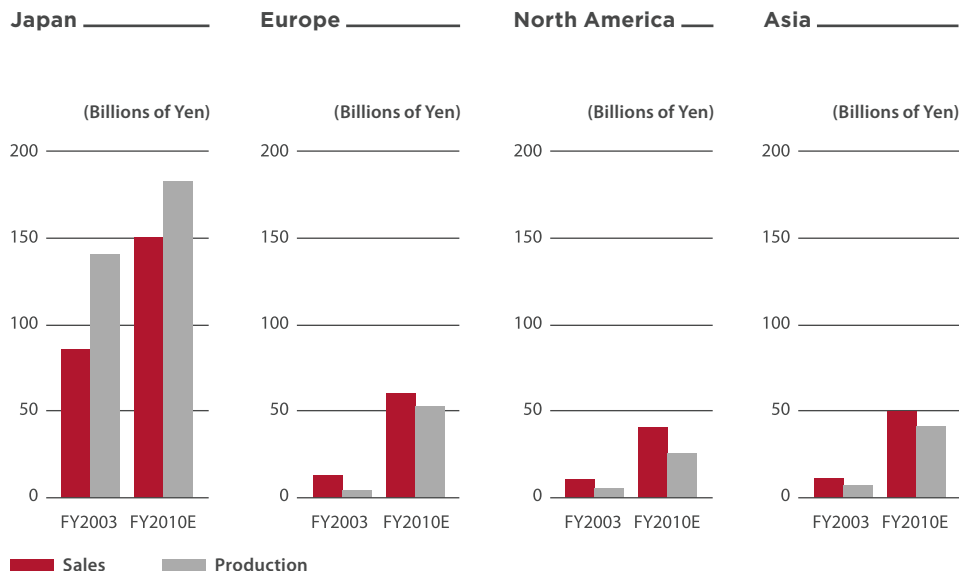


For this purpose, THK intends to establish its own “New Business Model,” by which we will strengthen our ability to develop new products and innovative production technology, as well as implement a drastic overhaul of our marketing system.

The First Pillar of the Long-Term Management Target: Global Development

The most important numerical target of the Long-Term Management Target is to increase consolidated sales to 300 billion yen for FY 2010. This target is premised on the assumption that we can increase overseas sales at an annual average rate of 20% over the remaining period of the plan until FY 2010, while domestic sales are expected to grow at an annual average rate of 10% by exploiting new demand for LM guide products in the consumer-related markets. On this basis, consolidated sales of 300 billion yen is expected to be divided evenly between overseas and domestic sales. At the time that this target is realized, the overseas sales ratio will have risen to 50%, while we forecast a regional breakdown of overseas sales of 60 billion yen in Europe, 40 billion yen in North America and 50 billion yen in Asia-Pacific.

In order to establish a global management system, THK has been working to analyze our regional marketing system and to adapt the regional technical support system to regional needs. We are consolidating our international logistic system based on a tetra-lateral production system in Japan, Europe, North America and the Asia-Pacific regions. We are also considering the introduction of international standards for packaging and barcode systems to make international transportation more effective and flexible. To facilitate these global strategies, we consider enhancement of our brand identity a major enabling factor. Further, we intend to establish an international administrative system including financing and to educate staff to be fully engaged in international business operations.



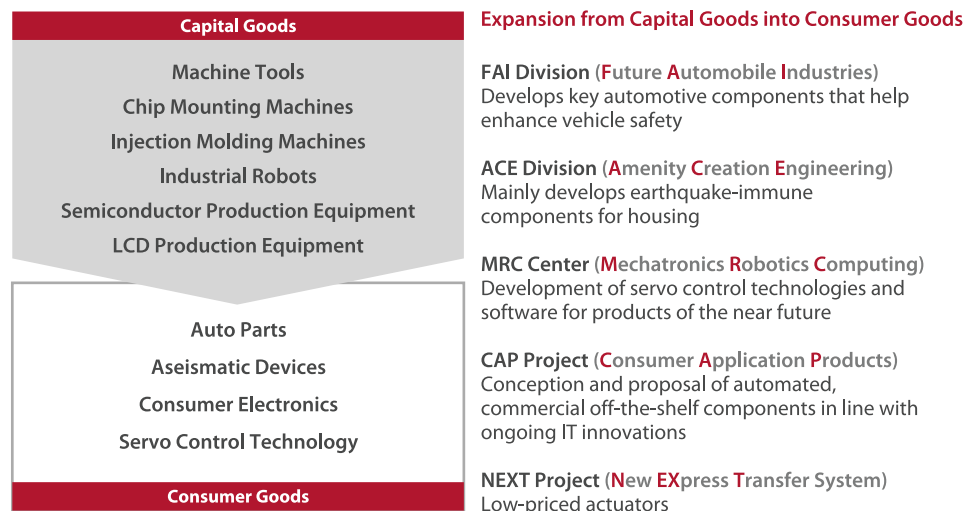
In order to optimize our local production activities, THK aims to increase the overseas production ratio from the current 10% to 40% in FY 2010. We believe that the overseas markets have significantly more growth potential than the domestic market, primarily because of a lower rate of adoption of LM guide products. The basic premise on which our international production system is founded is that production should be conducted as near as possible to the market of final demand. As a consequence, we believe that it is necessary to promote local production in the Asian region, centering on China, which is expected to exhibit high rates of growth.

THK currently has a factory in Dalian, China, which produces ball screws. We announced in March 2004 plans for the construction of a new factory in Wuxi, Jiangusu Province, China, which will be the first LM guide production facility in Asia outside of Japan. The products manufactured at the Chinese factories will be exported to the overseas market for the time being because domestic demand in China is still small. However, in future, as domestic demand from Chinese companies for our products increases, these factories will supply the local market.

The Second Pillar of the Plan: Development of New Business Areas

The other major target of the Long-Term Management Target is that of “Development of New Business Areas.” The main users of our LM guide products are mostly capital investment-oriented industries, including machine tool companies, semiconductor manufacturing equipment companies and industrial robot companies. Unfortunately, these industries are highly sensitive to cyclical factors and to general business conditions meaning that demand for our products is erratic. Excessive dependence on such cyclical demand tends to increase

New Businesses



our business risk. In order to cope with this problem, we think that it is essential to make inroads into new business areas such as consumer durable products, which are less affected by the business cycle. Promotion of business in these areas is regarded as an essential component of a sound business model. Specifically we place emphasis on such areas as automotive parts, medical equipment and aseismatic structures for buildings among others. Many new projects devoted to expansion into new markets have already been launched by the FAI Division, which focuses on auto-parts; and the ACE Division, which deals with business related to aseismatic structures. We are confident that these efforts will bear fruit, which will in turn contribute to stabilizing our revenue stream and reducing the level of business risk we bear.

The Targets of the Medium-Term Management Plan

THK revised its Medium-Term Management Plan covering the period from FY 2004 to FY 2006 in May 2004 taking into consideration recent changes in the business environment. This reflects the rapid change in the economic situation that has occurred since the previous revision of the Plan was published one year ago. During the interim, sluggish Japanese and world economies have started to grow again. In particular, China's strong economic growth has a major effect on the machine parts industry. On the other hand, customer needs are changing. Delivery time is becoming shorter and shorter, while small-lot production and increase in product variety are rapidly becoming the norm.

In response to these changes, THK revised the Medium-Term Management Plan with the aim of further strengthening our product development capabilities and the establishment of a new business model. The following five company-wide targets were adopted: (1) to promote global development by building a globally-oriented organization to implement the tetra-lateral marketing strategy and by promoting the optimization of local production; (2) to hit an all-time high record level of consolidated sales during the period covered by the Plan (highest sales to date were recorded in FY 2000) by emphasizing sales of main products such as LM Guide with Caged Ball™ Technology, by exploring new markets and by acquiring new

Medium-Term Management Plan (FY 2004-2006)

Management Strategies

- Build Globally-Oriented Organizations
- Setting New Sales Records
- Move Forward on Fundamental Review of Production Systems
- Ongoing Development and Introduction of New Products
- Reinforcement of Individual Potential

Target: FY2006

Consolidated Net Sales
¥165 billion

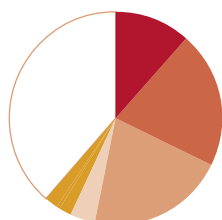
Operating Margin
18.8%

customers; (3) to undertake a fundamental review of the production system with the objective of improving productivity and cutting production cost, as well as promoting international and “green” procurement; (4) to foster new product innovation by reinforcing our development capability and speeding up the development process; and (5) to increase the ability of each employee by training globally-oriented personnel and by continuing with our TAP activities.

By accomplishing these targets, consolidated net sales and operating income for the final year of the Plan in FY 2006 are expected to increase to 165 billion yen and 31 billion yen respectively, implying an improvement in operating margin to 18.8%. The regional breakdown of sales is forecast at 120 billion yen in Japan, 15 billion yen in the Asia-Pacific region, 16.5 billion yen in Europe and 13.5 billion yen in North America. Sales in Japan and the Asia-Pacific region are expected to show a remarkable increase of approximately 40% compared with the last fiscal year. Sales in North America and Europe are also expected to grow about 30%.

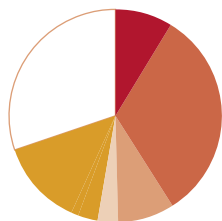
Because of the change of the structure of overseas sales, we expect to record a large increase in the number of employees in the Asia-Pacific region. The total number of employees in the region as of FY 2003 was 554, but that number is expected to increase to 1,100 in FY 2006. We also expect to increase the number of employees in Europe and North America.

Sales by Industry



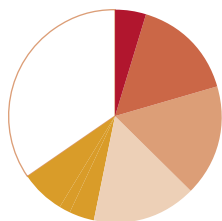
Japan

| | | | |
|-------|---------------|-------|-------------------|
| 11.5% | Machine Tools | 20.7% | General Machinery |
| 20.9% | Electronics | 3.8% | Automobiles |
| 4.5% | Other | 38.6% | Indirect Sales |



Europe

| | | | |
|-------|---------------|-------|-------------------|
| 8.7% | Machine Tools | 32.3% | General Machinery |
| 8.6% | Electronics | 3.1% | Automobiles |
| 17.1% | Other | 30.2% | Indirect Sales |



North America

| | | | |
|-------|---------------|-------|-------------------|
| 4.7% | Machine Tools | 15.8% | General Machinery |
| 16.9% | Electronics | 15.8% | Automobiles |
| 12.2% | Other | 34.6% | Indirect Sales |

On the other hand, the total number of employees in Japan is expected to show only a slight increase from 3,114 in FY 2003 to 3,200 for FY 2006.

Though the primary target of the Medium-Term Management Plan is to increase consolidated net sales, it is also important to show an improvement in ROE, the primary indicator of management efficiency. ROE rose above 14% in FY 2000, but subsequently plummeted to below 2%. For the last several years, it has shown some modest improvement although still falling short of satisfactory levels. During the period covered by the Medium-Term Management Plan, we aim to raise ROE to 10% and to maintain it stably at that level. In addition, operating margin is targeted to rise to 20%.

The Annual Management Plan for FY 2004

The primary targets for FY 2004 are threefold. The first is the “Formulation and Implementation of Global Strategies,” the aim of which is to coordinate regional marketing strategies by putting an emphasis on sales promotion for mainline LM Guide with Caged Ball™ Technology and to establish a tetra-lateral coordinated system. The second is “Continued Expansion in Developing Markets,” which puts an emphasis on increasing market share by promoting sales of conventional products as well as sales promotion of new products such as automotive parts and aseismatic structures. Another major goal implicit in this target is to address consumer-product-related markets. The third is “Creating Systems Sensitive to Demand Fluctuations,” which is designed to enable us to quickly review inventory and procurement plans and change production schedules rapidly in response to changes in market conditions.

When all these plans are implemented, consolidated net sales for FY 2004 are forecast to increase to 142 billion yen, a 19% rise from the previous year. Operating income and income before income taxes and minority interest are both expected to increase to 24 billion yen, representing 47% and 51% growth over the previous year, respectively. Net income is forecast to increase 58% to 13.6 billion yen. The major target of the annual management plan for FY 2004 is to record all-time high sales and to turn subsidiaries in Europe and North America into the black for the first time since their establishment.

We have earmarked 13 billion yen for capital expenditure during FY 2004, an 18% increase over the previous fiscal year (the amount includes capital expenditure by the non-consolidated companies, Dalian THK and THK Wuxi in China, and an affiliated company under equity method, Samick LMS in Korea). Capital investment in the Asia-Pacific region is forecast to increase four-fold over the previous year to 4 billion yen mainly due to the construction of the Chinese factory. In Japan, the amount of capital investment is also expected to increase 1.8 times over the previous year to 7.5 billion yen, which reflects investment in the construction of a facility to produce aseismatic structures at the Gifu Factory.



RESEARCH
& DEVELOPMENT
AND PRODUCTS

THK was the world's first company to convert rolling motion into linear motion and commercialize the technology, and since this initial breakthrough has continually developed creative new products.

THK's family of products falls naturally into three main categories. They are (1) LM guides, (2) Ball Screws, and (3) Spherical Joints, all of which are element parts used by various industries.

THK's main customers are machine tool makers, general machinery makers, semiconductor production equipment makers and others. However, recently the customer base has steadily expanded to consumer durable goods makers, such as automotive makers, medical equipment makers and construction companies.

The Basic Philosophy of THK's Technological Development

If one attempts to sum up THK in a single phrase, "a company focused on creation and development" immediately springs to mind. THK was the first company in the world to succeed in developing the technology needed to convert rolling motion into linear motion under a high load condition and to commercialize it. Since this initial breakthrough, THK has continually drawn on its corporate creativity to stay at the cutting-edge of product development. THK has been able to offer customers high-quality products with excellent added-value based on the corporate creed of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society."

New products are developed mainly at the Engineering Development Department with the cooperation of the Fundamental Technological Laboratory, the MRC Center and several projects which are created on an as needed basis. Since establishment in 1986, the Techno Plaza at the Kofu Plant has become another base for THK's research and development activities. Together with trial manufacturing and the testing of innovative LM guides, the Techno Plaza conducts stringent durability testing to maintain the high quality of products. Unique ideas and high quality have ensured that our products enjoy a good reputation among customers.

THK has continued to increase R&D spending steadily, from 1.9 billion yen in FY 2001 to 2.1 billion yen in FY 2002 and further to 2.5 billion yen in FY 2003. In addition, R&D activities are carried out not only at the R&D-related departments but also at each production site. Therefore, actual R&D spending substantially exceeds the amounts indicated above.

Development of New Products and Expansion of New Applications

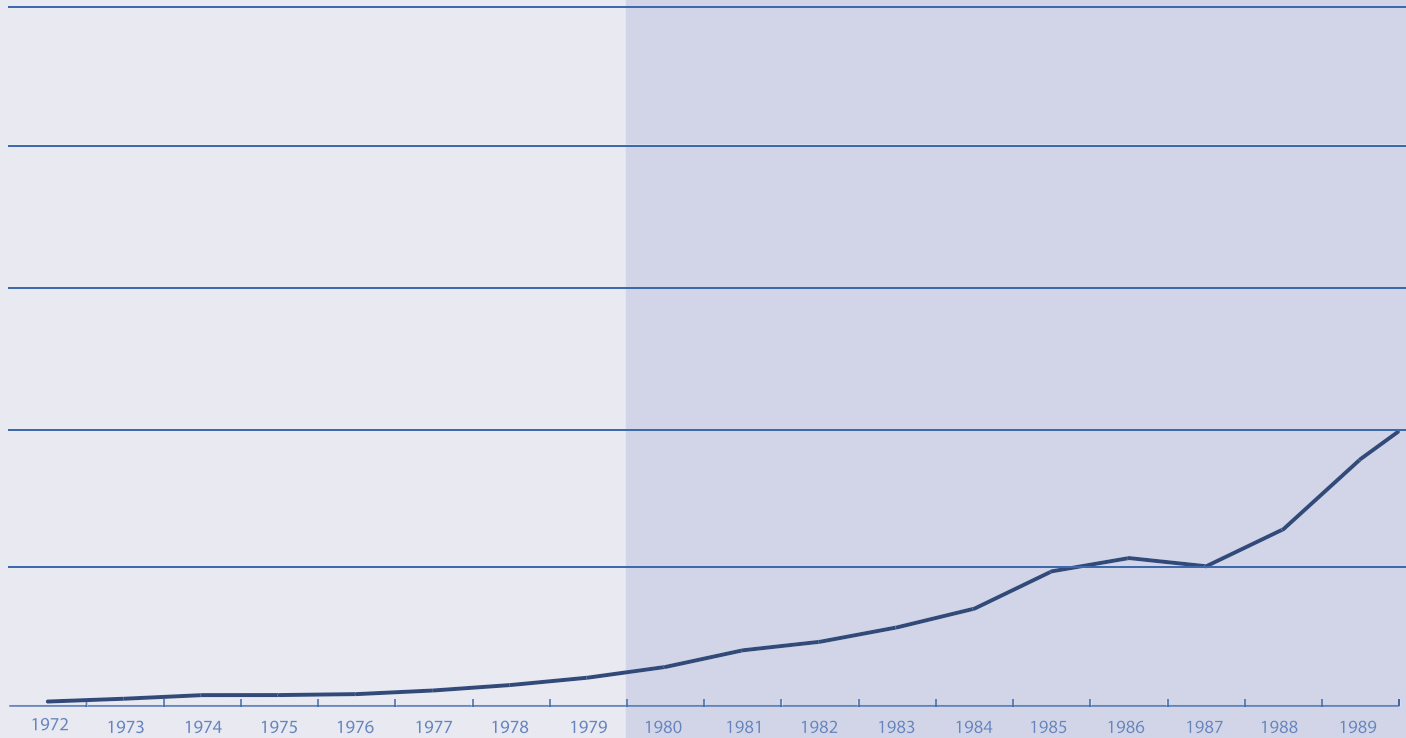
Since it began manufacturing and selling LM Guides in 1972, THK has commercialized a steady stream of new products. In 1996, THK developed a breakthrough LM Guide with Caged Ball™ Technology, a Linear Motor Actuator in 2002, followed by a Straight-Curved Guide in 2003.

Today a major corporate goal for THK is to expand the application of LM guides, ball screws and other products to new markets, while continuing to develop new products. We have steadily expanded the application of our products beyond traditional customers such as machine tools and chip mounting machines into new fields including medical equipment makers, automotive parts makers and construction companies. In semiconductor production, for example, the need for faster speeds, greater precision and modularization are increasing. To meet such needs, THK is attempting to develop hybrid products combining linear motors with LM Guides. For the micro-machine sector, THK is also striving to develop micro guides, micro ball screws, micro splines and others. The development of new products to meet the need for high speed and rigidity has also become an important issue.

1970s

1980s

SALES



MILESTONES

1971
THK Co., Ltd. established

1972
Production and sale of LM guides commences

1977
Kofu Plant (JPN) built

1981
THK America (USA) established

1982
THK Europe (GER) established

1984
Gifu Plant (JPN) built

1985
Mie Plant (JPN) built
Yamaguchi Plant (JPN) built

1989
THK listed on OTC
THK Taiwan (TPE) established

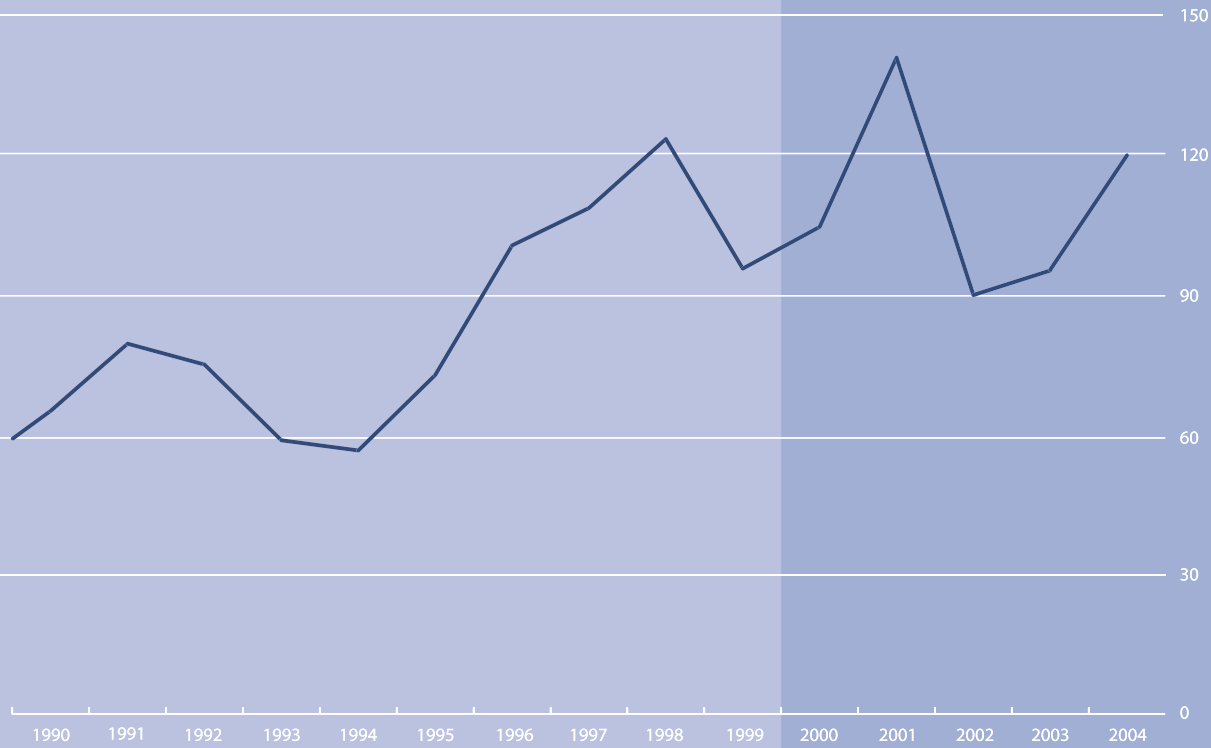
PRODUCT TIMELINE

| | | | | | | | |
|---|----------------------------------|---|----------------------------------|--|---------------------------------------|---|---------------------------------|
|  | 1971 Ball Spline (LBS) |  | 1972 LM Guide (LSR) |  | 1981 LM Guide (HSR) |  | 1983 Ball Screw (BLK) |
|  | 1971 Link Ball (RBL) |  | 1975 LM Guide (NSR) |  | 1982 Cross Roller Ring (RB) |  | 1988 Link Ball (BL) |
| | |  | 1979 Ball Screw (BNFN) | | | | |

1990s

2000s

(Billions of Yen)



- FY 1971 - FY 1989
Non-Consolidated Net Sales
- FY 1990 - FY 2003
Consolidated Net Sales

1991

Yamagata Plant (JPN) built

1992

PGM (UK) acquired

1996

Production and sale of LM Guide with Caged Ball™ Technology commences
Dalian THK (CHN) established

1997

TMA (USA) established

2000

TME (FRA) established

2001

THK Listed on TSE

2003

THK Wuxi (CHN) established



1990
LM Guide Actuator (KR)



1998
LM Guide (SHS)



2000
LM Guide (SHW)



2002
Ball Screw (HBN)



1996
LM Guide (SSR)



1998
LM Guide (SNR)



2002
Linear Motor Actuator (RDM)



2003
LM Guide (HMG)



1997
Linear Motor Actuator (GLM)



1999
LM Guide (SRS)

The development of new products to be used in sectors such as transportation, housing and automated commercial off-the-shelf components is another priority. The FAI (Future Automotive Industries) Division, the ACE (Amenity Creation Engineering) Division and the CAP (Consumer Application Products) Project are focusing on product-out marketing to anticipate future needs which are expected to appear five to ten years from now. Running continually ahead of the industry in the development of new products and new applications, THK has earned a reputation for excellence.

The Product Family

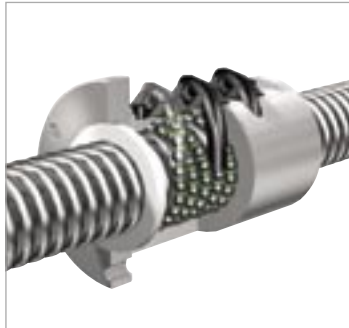
THK's major products fall into three main groups. The first group comprises "LM Systems," which facilitate the linear motion of machinery. The main products in this category are LM guides, which are the principle breadwinner for our company. The second group comprises "Ball Screws." The third group comprises "Spherical Joints" such as ring balls, demand for which has recently been increasing for use in automotive parts. All of these products are mainly invisible to the end consumer, being subcomponents of machinery and equipment. Nevertheless, these products are indispensable to industries such as the machine tool industry and others.

THK was established in 1972 as a pioneer in the manufacturing and marketing of LM guide products. Initially, there was a great deal of reluctance within industrial circles to adopt this new technology because it was revolutionary in its approach. Now, however, LM guide products are widely recognized as the global standard in their area of application. They are used by almost all capital goods industries, ranging from the machine tool industry and the industrial robot industry to the electronics industry. Recently their application is expanding steadily from capital-investment related to consumer-related industries and the construction industry. This expansion in the LM guide market can be ascribed to two main factors: one is that industry in general needs ever higher precision and efficiency of production and LM guide products meet these requirements; and the other is that as the superiority of LM guide products has become widely recognized, an increasing number of companies have started to introduce them.



The world's smallest LM Guide - Type RSR 1

THK introduced a new series of LM Guides—the "Micro LM Guide" or Type RSR 1 and Type RSR 2. Featuring rail widths of 1 mm & 2 mm's, respectively, these LM guides are the smallest available anywhere in the world. This new product first shipped in April 2004.



High Load Ball Screw with Caged Ball™ Technology Type HBN

This new ball screw can be applied in injection molding machines, press, blow molding machines, die-casting machines and extruders, and it is also suitable for the replacement of hydraulic cylinders. In addition, a new product that corresponds to the existing High Load Ball Screw with Caged Ball™ Technology Type HBN will be added to the line-up of products.

The machine tool industry, our major customer, needs to grind and process steel more precisely and at higher speeds than ever before, which means that the demand for LM guide products is increasing. In the semiconductor manufacturing equipment industry and LCD production equipment industry, which need high precision and low emission of dust particles in operation, LM guide products are well entrenched. As LM guides have exceptional low friction and wear-resistant properties, they are also becoming widely used in automobiles and special vehicles. Application of LM guides is expanding to encompass aseismatic structures used in buildings and factories. The Caged Ball LM Guide, which THK developed in 1996, is now the most promising product due to its characteristics of low-noise, long service life, superior high speed responsiveness and long-term maintenance-free operation.

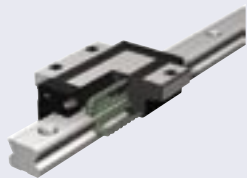
Ball Screw products offer high-precision rolling functions. Here we have introduced new products such as the High Speed Ball Screw with Caged Ball™ Technology and the High Load Ball Screw with Caged Ball™ Technology. THK produces various kinds of Ball Spline products, which offer torque-transferable, direct-acting, rolling movement. Meanwhile, LM Guide Actuators with Caged Ball™ Technology and Rod Type Linear Motor Actuators have grown to become the major products in the Actuator product group. By maintaining a comprehensive product line-up, THK can respond quickly to the needs of customers.

THK has enjoyed a dominant position in both the domestic and overseas markets for LM guide products for a long time. THK offers leading-edge products based on unrivalled know-how and production technology as well as an efficient production system all backed by the strong marketing power which THK has accumulated through its long-term commitment to the market as a specialized manufacturer. THK's quick responsiveness to changing market trends is embodied in its approach to the development of new products. The Techno Plaza located in the Kofu factory runs very rigorous tests to measure the endurance and reliability of new products. No product may be marketed unless it passes these tests. This procedure guarantees the high quality and reliability of the products and enhances customers'

trust in THK, which is naturally the ultimate source of the company's competitiveness. Information gathered through the "market-in" sales method—under which sales staff visit customers, ascertain their needs and present appropriate solutions to them—is used for the development of new products. In addition, THK has also energetically embraced the technology-led "product-out" method, by which we focus on the development of next generation products for introduction five or ten years hence.

As a company focused on creation and development, THK is committed to the development of new products as well as the improvement of conventional products. During FY 2003, we introduced a number of excellent products. These include two new models—"Micro LM Guide Type RSR1 and Type RSR2" which feature narrow rail widths of 1 mm and 2 mm,

LM Guide with Caged Ball™ Technology



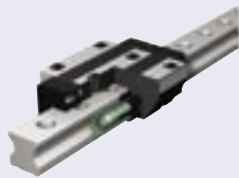
SSR



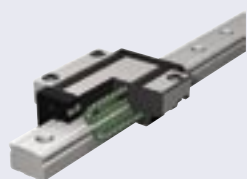
SRS



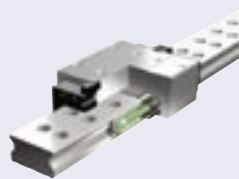
SHS



SRG



SNR

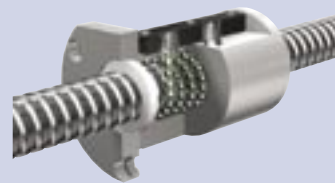


SRW

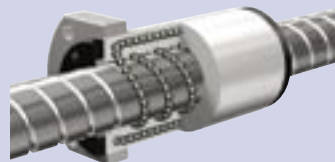


SHW

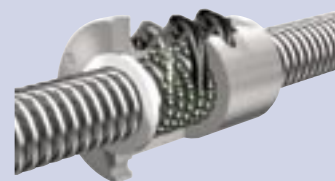
Ball Screw with Caged Ball™ Technology



SBN



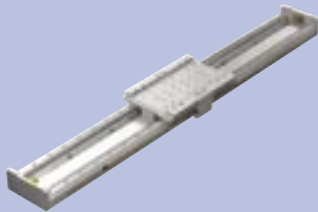
SBK



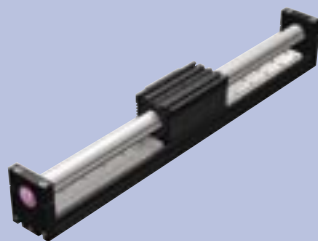
HBN

respectively. Type RSR1 is provided by THK to meet demands for smaller and more space-saving designs from customers. Other new products include High Load Ball Screw with Caged Ball™ Technology-Type HBN, which drastically improves rated load compared with conventional models by utilizing an internal structure optimized for use in heavy load conditions; LM Guide Miniature Actuator Type KR15, with minimum cross section area construction, high precision and rigidity; and Micro LM Guide Type RSR 3M/3N, which boasts an ultra compact design and high reliability, allowing savings in space and weight. This model also has low rolling resistance and excellent wear resistance as martensitic steel is adopted in all of the LM blocks. THK has been striving not only to develop new products in response to the changing needs of customers, but also to create new demand by developing new and unique products.

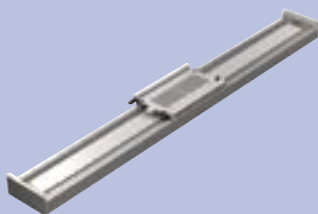
Linear Motor Actuators



GLM



RDM



CLM

Link Balls



BW



AL



BL



RBI

A photograph of four young men climbing a large, dark rock formation. They are all smiling and looking towards the camera. The man on the far left is wearing a dark sweater over a collared shirt. The man next to him is wearing a red sweater. The man in the center is wearing a dark jacket. The man on the far right is wearing a light blue button-down shirt. The rock formation is large and craggy, with some green plants growing at its base. The background is a bright, clear sky.

ENVIRONMENTAL ACTIVITIES

THK regards the protection of the environment and its safekeeping in trust for the next generation as an important social obligation. The company regards environmental protection as a key management goal.

THK's factories have long been individually involved in environmental protection activities. Some of the domestic factories have obtained ISO 14001 certification. The Yamaguchi Factory established its own basic environmental policy in March 2000.

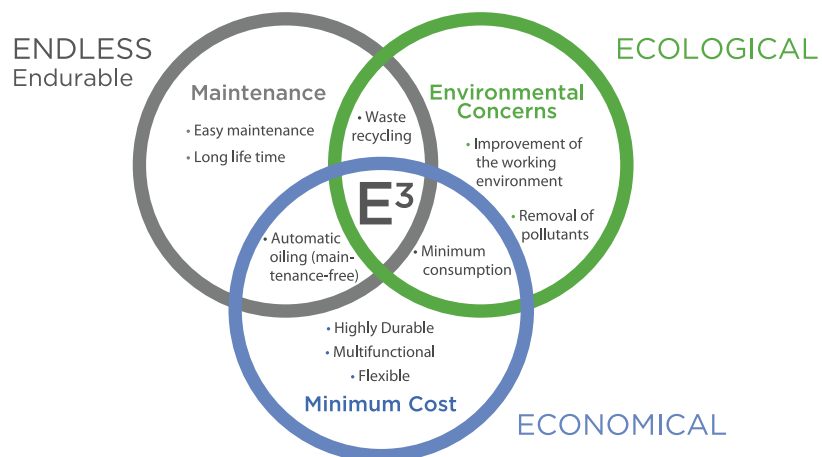
THK established the Environmental Management Promotion Office in April 2004 within the headquarters to promote comprehensive company-wide environmental activities. The company is considering the issuance of an environmental report and the introduction of an environmental accounting system as part of its disclosure activities.

THK believes that we hold the environment in trust for future generations and regards protection of that environment as a central tenet of its social responsibility obligations. Protection of the environment ranks among the most important management priorities adopted by the company. In order to realize the goals embodied in this commitment, we have formulated a Basic Environmental Policy which comprises the following five elements:

- (1) We will analyze and understand the environmental impact our products and services have and will implement appropriate measures to protect the environment.
- (2) In addition to compliance with rules and regulations regarding environmental protection, we will voluntarily establish and rigorously apply our own environmental standards within our group companies. We will regularly review these policies to ensure that they remain appropriate and to improve their effectiveness.
- (3) We will employ a variety of measures to promote energy conservation and the recycling of natural resources, mainly by focusing on the reduction and recycling of industrial waste.
- (4) We will provide guidance and assistance to our affiliates and related companies to encourage them to participate in efforts to address environmental issues as members of the THK group. In addition, we will make strenuous efforts to cooperate with local communities in our environmental protection activities.
- (5) We will provide environmental education and training to all employees of group companies to promote awareness of the Basic Environmental Policy. At the same time, we will disclose information concerning the involvement of THK and its group companies in this area.

In accordance with the Basic Environmental Policy, we established the Environmental Management Promotion Office in April 2004 within the headquarters to foster comprehensive company-wide environmental activities.

In addition to these company-wide activities, our factories have long pursued independent initiatives in the field of environmental protection. Some of the factories have already obtained ISO 14001 certification (the environmental qualification promulgated by the International

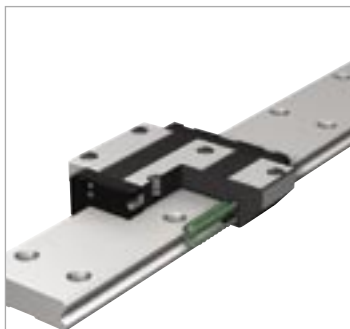


Standards Organization) and have made visible progress in implementing environmental protection programs at the individual factory sites.

For example, the Yamaguchi factory established its own basic environmental policy as early as March 2000. This policy comprised three main goals—conservation of energy, recycling of industrial waste and prevention of environmental contamination. They have been steadily working towards implementation of these goals ever since. Management has attempted to enhance awareness of environmental issues by distributing an environmental policy card to every employee. Employees at all levels are also encouraged to participate in various programs to protect the environment through the medium of a poster produced with the slogan, “Take care of the Earth; the Earth is home for all of us.” This slogan was selected from among many alternatives proposed by employees. This factory has obtained measurable results by setting definite targets concerning electric power conservation, 5R activities to promote the recycling of industrial waste and the elimination of toxic chemicals. For FY 2004, they continue to promote environmental protection by setting targets that include a 10% reduction in electricity consumption from the levels used in FY 1999, achievement of 100% recycling of chemical waste and zero spillage of chemical materials outside of the factory. Extensive on-the-job training such as an annual exercise in coping with a theoretical oil spill also promotes an extremely high level of awareness of environmental issues.

Such activities are not limited to the Yamaguchi factory. The Yamagata factory, for instance, is making efforts to reduce electricity consumption by optimizing the pattern of electricity consumption through the application of a cogeneration system. Each factory in the company is striving to achieve the ultimate goal of zero-emission of industrial waste by improving its recycling rate by 5% compared with the previous year. They have also established their own rules for environmental protection and improving product specifications. For example, they are gradually shifting from the use of wood to recyclable cardboard for packaging at the request of customers.

The most remarkable characteristics of our products is that all of our major products are basically environmentally friendly. THK develops products in conformance with a philosophy of



LM Guide with Caged Ball™ Technology

Our “LM Guide with Caged Ball™ Technology” was commercialized in 1996. It features low noise, low vibration and high resistance to ash and dust, which contribute to improvement in the work environment. Moreover, the high-speed performance requires no maintenance for long periods of time, while the materials used in the products and manufacturing process are friendly to the environment.



Each factory is engaged in its own activities to protect the environment. At the same time, they are trying to improve the amenities available to workers. (Photo is of the Yamaguchi Factory)

the “Cubic E”; three Es that represent Endless, Ecological and Economical. “Endless” implies that the products have a long life time as well as a high degree of safety and reliability. “Ecological” means environmentally-friendly products which are produced with an eye to their environmental impact as well as improvement in working conditions and reduction in industrial waste. Finally, “Economical” means products whose production cost is reduced to a minimum through the promotion of multi-functionality and long life time. THK is also working towards the elimination of waste oil through the development of auto-lubrication systems to be incorporated directly into the product. By addressing environmental issues from the design stage, THK has been able to build in a high level of environmental protection. One product which fully reflects these efforts is the LM Guide with Caged Ball™ Technology which offers low noise, low vibration, low dust production and is maintenance free, while still allowing minimal consumption of natural resources and a reduction in industrial waste. THK is determined to continue development of such environmentally-friendly products in future and believes that this will also assist in increasing new business opportunities and gaining new customers.

THK is also in the process of establishing a system of “green procurement.” Recently, many customers have made the establishment of a green procurement system a precondition for the purchase of parts from suppliers. In response to this trend, THK is now planning the introduction of a system to collect and analyze data on toxic substances contained in products by 2005. At the same time, we will substitute safe substances for toxic ones and establish a management system for the production of new parts and products. We regard it as urgent to produce standards for the green procurement program which, in essence, represents a promise not to produce and not to purchase any product which may do damage to the environment. We are making preparations to establish the green procurement system as soon as possible. In addition, we are consolidating our corporate systems in order to be able to cope with the EU’s Directive on Waste Electrical and Electronic Equipment and the Directive on Restrictions on Hazardous Substances in the area of EHS (Environmental Health and Safety).

Finally, the company is considering issuing an environmental report and the introduction of an environmental accounting system as an element of its corporate disclosure.

CORPORATE GOVERNANCE

As is well known, the Japanese economy has suffered from a prolonged period of stagnation since the end of the bubble economy in the early 1990s. During the so-called “Lost Decade,” Japan’s socio-economic framework underwent a drastic change including an intensive re-view of Japanese management practices. Corporate governance has now moved to the fore as an issue of national importance. It is widely believed that the conventional management system of Japanese companies cannot fully cope with the various challenges which they are expected to face in the 21st century. A number of major Japanese companies have already gone so far as to adopt American norms for corporate governance. THK is also working to establish an efficient corporate structure and a system of corporate governance befitting the changing operating environment.

In response to these needs, we have established a “Management Meeting” to complement the ordinary Board of Directors meeting. The Board of Directors meeting is composed of 14 directors. The Management Meeting, by contrast, is composed of the President together with two senior directors and functions as the company’s supreme decision-making body. The President also serves as the company’s CEO (Chief Executive Officer). The members of the Management Meeting are not directly engaged in the execution of day-to-day business operations. By establishing the Management Meeting, THK has separated the monitoring function from the business execution function in order to facilitate prompt decision making and clarify management responsibility. When necessary, the Management Meeting can enlist the service of executive officers and others to collect any required information, and solicit objective opinions from third parties such as lawyers and certified accountants by conducting hearings. The Management Meeting is held on a discretionary basis and seeks formal approval for policies adopted by means of a vote at the Board of Directors meeting. The Management Meeting and the Board of Directors meeting thereby cooperate in a natural way to promote prompt decision making.

In order to increase the monitoring function and management transparency, many Japanese companies have introduced outside directors. THK, on the other hand, has taken a rather cautious attitude in this respect, since we believe that members of the Board of Directors should possess in-depth knowledge and expertise in our business affairs. As an alternative, THK is trying to strengthen the auditing function. The Meeting of Auditors, which is composed of two statutory and two part-time auditors, monitors whether or not the settlement of accounts and other important business issues are executed in an appropriate way. In addition to the Meeting of Auditors, we have the Internal Audit Office with two full-time staffs, which monitors whether or not our business operations are being conducted in compliance with our internal rules.

We have carefully considered the possibility of introducing an executive officer system, and have concluded that reform of the present system of management should be made a high priority. We are positively disposed to the introduction of executive officers. Unfortunately, under the current Commercial Code, the status of executive officers is legally ambiguous. We regard a change to the Code as a necessary precondition to the introduction of an executive director system and will very likely introduce such a system as soon as the Commercial Code is modified.

We have also been attempting to increase the accountability of our company to shareholders through the provision of timely information and accurate disclosure. The IR Group of the President's Office takes responsibility for this function. This group not only makes available the necessary regulatory information but also attempts to insure that price-sensitive information is released in a timely fashion.

Compliance has become increasingly important for Japanese companies, to the point that the fate of the company is sometimes dependent on the degree to which its compliance with rules and regulations can be demonstrated. In response to this situation, THK has established a compliance system and enforcement mechanisms. For example, we export machine parts meaning that we are subject to the Trade Control Law, which lists controlled products and countries to which exports are prohibited. THK has established the Trading Administration Department in order to monitor compliance of the company's export activities with applicable constraints and to manage the associated risks.

The dividend payout ratio is currently attracting a lot of attention in Japan. We believe, however, that this measure is not suitable for companies like THK, whose earnings are greatly affected by business fluctuations. We believe that it is important to appropriate earnings for dividends according to the actual level of earnings achieved. We also believe that the best way to reward our shareholders is to maintain a stable dividend policy and to maximize our long-term corporate value. We believe that this goal is best served if retained earnings are reinvested so that THK can maintain its leading market position.

DIRECTORS & AUDITORS



Akihiro Teramachi
President and CEO



Katsuhito Imai
Senior Managing Director



Yoshimi Sato
Managing Director



Toshihiro Teramachi
President and Representative Director,
THK Europe B.V.



Takeki Shirai
General Manager, Engineering Division



Masamichi Ishii
General Manager, Sales Division



Katsuyoshi Muto
General Manager,
Sales Support Division



Isamu Hatanaka
General Manager, Production Division



Kotaro Yoshihara
General Manager,
Corporate Strategy Department



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



Hiroshi Funahashi
Deputy General Manager,
Production Division



Shigeru Wako
President and Representative Director,
Talk System Co., Ltd.



Mikio Matsui
Director



Hiroshi Hyodo
Director



Yoshito Nagafuchi
Standing Auditor



Akira Sugi
Standing Auditor



Shigeharu Mabuchi
Auditor



Shoji Namiki
Auditor

FINANCIAL STATEMENTS

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Financial statements begin on the following page.

FIVE YEAR CONSOLIDATED FINANCIAL SUMMARY

Years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-----------|----------|----------|-----------|---------------------------------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Net Sales | ¥ 103,955 | ¥ 140,287 | ¥ 89,340 | ¥ 94,600 | ¥ 119,254 | \$ 1,128,977 |
| Cost of Sales | 69,817 | 91,447 | 63,294 | 66,647 | 77,932 | 737,786 |
| Gross Profit | 34,138 | 48,840 | 26,046 | 27,953 | 41,322 | 391,191 |
| Selling, General and Administrative Expenses | 19,795 | 23,145 | 23,870 | 23,060 | 25,090 | 237,527 |
| Operating Income | 14,343 | 25,695 | 2,176 | 4,893 | 16,232 | 153,664 |
| Income before Income Taxes and Minority Interest | 11,415 | 24,330 | 833 | 3,597 | 15,521 | 146,935 |
| Income Taxes | 5,297 | 9,889 | 15 | 1,773 | 6,926 | 65,572 |
| Net Income | 6,078 | 14,316 | 820 | 1,892 | 8,584 | 81,263 |

| Per Share of Data: | Yen | | | | | U.S. dollars (Note 1) |
|--------------------------------------|---------|----------|--------|---------|---------|--------------------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Net Income - basic | ¥ 52.31 | ¥ 120.20 | ¥ 6.88 | ¥ 15.65 | ¥ 72.27 | \$ 0.684 |
| Net Income - diluted | 49.99 | 115.44 | — | 15.12 | 63.69 | 0.603 |
| Shareholders' Equity per Share (Yen) | 746.67 | 859.82 | 869.20 | 860.80 | 923.35 | 8.74 |

| | Millions of yen | | | | | Thousands of U.S. dollars (Note 1) |
|----------------------------|-----------------|-----------|-----------|-----------|-----------|---------------------------------------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| Total Assets | ¥ 195,750 | ¥ 198,130 | ¥ 179,705 | ¥ 193,197 | ¥ 191,105 | \$ 1,809,193 |
| Total Shareholders' Equity | 88,061 | 102,612 | 103,748 | 102,478 | 109,182 | 1,033,624 |
| Capital Expenditures | 3,573 | 13,841 | 6,476 | 4,611 | 6,307 | 59,708 |
| Depreciation | 5,272 | 5,191 | 5,503 | 5,529 | 5,005 | 47,389 |
| R&D Expenses | 1,415 | 1,426 | 1,932 | 2,104 | 2,520 | 23,858 |

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|--|------|------|------|------|------|
| Operating Margin (%) | 13.8 | 18.3 | 2.4 | 5.2 | 13.6 |
| Net Income Percentage of Net Sales (%) | 5.8 | 10.2 | 0.9 | 2.0 | 7.2 |
| Return on Equity (%) | 7.3 | 15.0 | 0.8 | 1.8 | 8.1 |
| Return on Assets (%) (Note 2) | 7.6 | 13.3 | 1.3 | 2.7 | 8.5 |
| Equity Ratio (%) | 45.0 | 51.8 | 57.7 | 53.0 | 57.1 |
| Debt Equity Ratio (Times) | 0.8 | 0.5 | 0.5 | 0.6 | 0.4 |
| Interest Coverage Ratio (Times) | 7.2 | 21.1 | 2.3 | 5.8 | 33.2 |

Note 1: Throughout this report, U.S. dollars amounts represent translation of Japanese yen, for convenience only, at the rate of ¥105.63=U.S.\$1, the rate prevailing on March 31, 2004.

Note 2: Return on assets is the percentage of operating income and interest and dividend income to annual average balance of total assets.

MANAGEMENT'S DISCUSSION & ANALYSIS

Performance Review

(1) Sales

Overview:

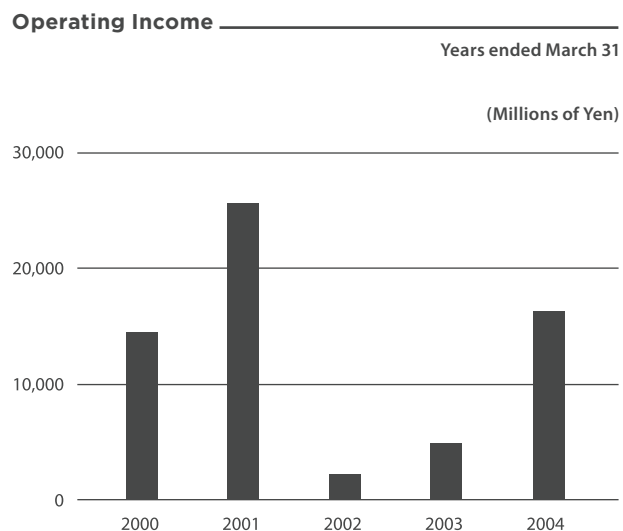
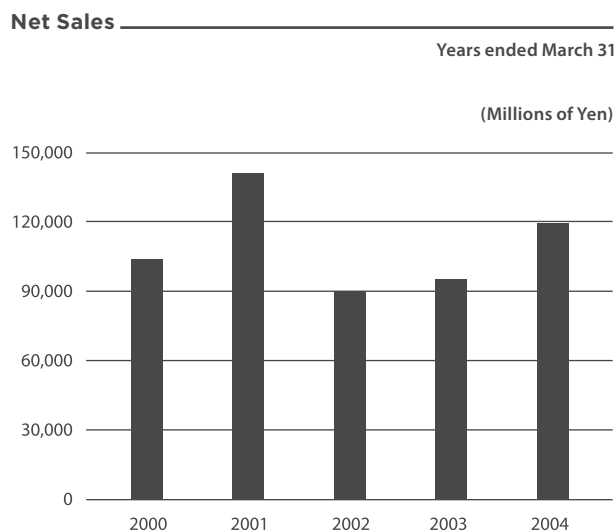
THK looked to an increase in overseas sales as a primary goal for the fiscal year under consideration, and stepped up efforts to achieve this target. We strengthened our overseas sales activities by conducting training programs under TAP (THK Advantage Program)-1 activities for sales personnel in the United States and Europe, the primary purpose of which is to improve sales skills. This follows the provision of training under the TAP activities for staff in Japan. Coupled with the improvement in the business environment, consolidated sales for the current financial year increased 26.1% to ¥119,254 million.

Domestic and Overseas Sales:

Japan: Shipment of our products continued favorably from the beginning of the current financial year to the general machinery industry for use in industrial robots and chip-mounting machines, to the machine tool industry and to the electronics industry for use in liquid crystal panel and flat-panel display manufacturing equipment. During the second half of the year, shipment of our products to the semiconductor production equipment industry showed a remarkable recovery. Our three major customers, the machine tool industry, the general machinery industry and the electronics industry, started to recover together. Therefore, sales increased 30.7% to ¥85,344 million.

North America: Sales to the industrial machinery industry made a strong showing. From the second half of the year, sales to the electronics-related industry also staged a recovery. As a result, overall sales increased slightly in dollar terms. However, due to the appreciation of the yen against the dollar, sales in yen terms declined 3.1% from the previous term to ¥10,436 million.

Europe: Demand from our main customers such as the machine tool industry remained sluggish. In a difficult environment, we made efforts to increase the adoption of our products by local companies and attract new customers. As a result, we achieved an



increase in sales in euro terms. In this case, because of the depreciation of the yen against the euro, sales in yen terms also increased 18.2% to ¥12,739 million.

Asia and Other: In Asia, shipments related to liquid crystal and flat panel display related manufacturing equipment remained firm. Sales to the machine tool industry increased in response to rising demand for machinery in China. As a result, sales increased 38.2% to ¥10,735 million.

(2) Cost of Sales and Gross Profit

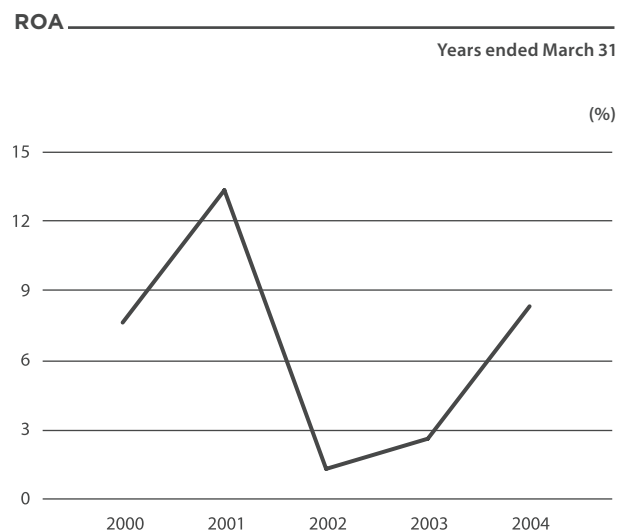
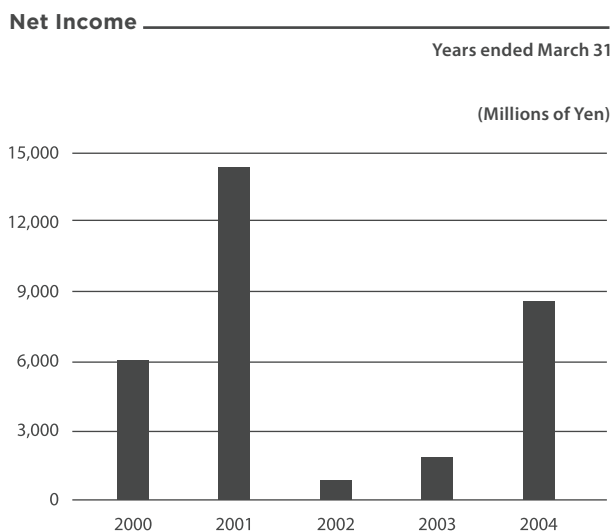
At production sites in Japan, we engaged in various initiatives to improve productivity including TAP-2 activities, which aims at shortening manufacturing lead times and reducing inventory levels. Despite a sharp increase in production due to these efforts, the ratio of variable costs to sales showed a strong improvement compared with the previous financial year, while the increase in fixed costs was minimal. Improved production skills at foreign subsidiaries such as THK Manufacturing of America, Inc., and THK Manufacturing of Europe, S.A.S. added to the effects of an improved operating ratio following on the increase in production levels and led to an improvement in profitability. As a result, the cost of goods sold ratio improved 5.1 points from 70.5% to 65.4%, while gross profit on sales rose to ¥41,322 million, 47.8% up from the previous term.

(3) SG&A Expenses

SG&A expenses (selling, general and administrative expenses) rose 8.8% (¥2,030 million) compared with the previous term to ¥25,090 million. This is due mainly to increases in personnel costs and R&D costs of ¥1,164 million and ¥416 million, respectively.

(4) Operating Income

Operating Income jumped to ¥16,232 million, 231.7% up from the previous fiscal year. Because of a decline in the Cost of Sales ratio of 5.1 points and the ratio of SG&A expenses to sales of 3.3 points, the operating margin rose 8.4 points to 13.6%.



MANAGEMENT'S DISCUSSION & ANALYSIS

(5) Non-Operating Income and Non-Operating Expenses

Because of the appreciation of the yen exchange rate, mainly against the US dollar, THK incurred foreign exchange losses of ¥580 million, which were partially offset by an improvement in the financial balance due to a reduction in interest-bearing debt. Net non-operating expenses emerged at ¥711 million.

(6) Net Income

Because of the above-mentioned factors, net income rose to ¥8,584 million, a 353.7% increase compared with the previous term.

Financial Position

(1) Assets

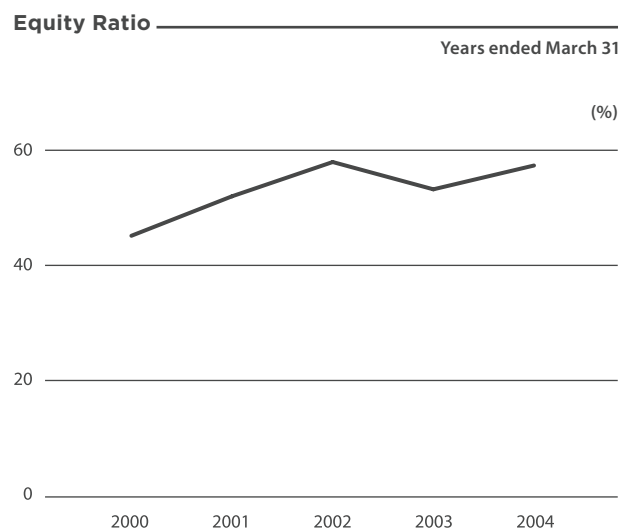
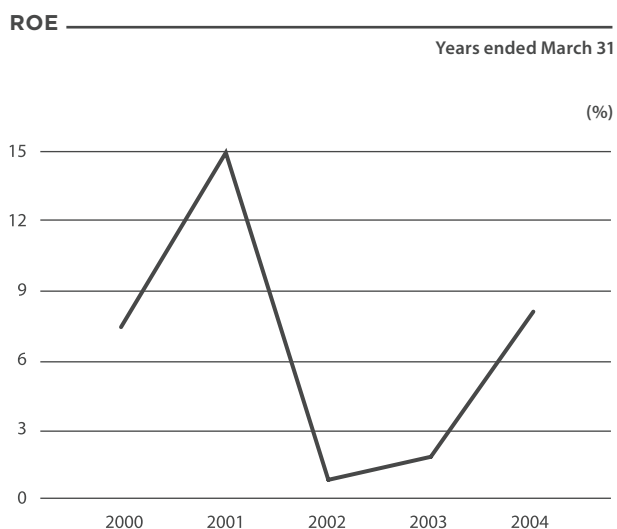
Total assets declined to ¥191,105 million, ¥2,092 million down from the previous term. As a result of increased sales, notes and accounts receivable increased, while cash and bank deposits decreased compared with the previous year due to the repayment of interest-bearing debt, which was the main cause of the decline recorded in total assets.

(2) Liabilities

Total liabilities decreased by ¥8,843 million to ¥81,566 million. Accounts payable increased because of the increase in sales, while corporate income taxes payable rose due to the increase in pretax income. But as these increases were more than offset by the decrease in interest-bearing debt due to repayment of loans and redemption of corporate bonds, total liabilities decreased.

(3) Shareholders' Equity

Total shareholders' equity increased ¥6,704 million to ¥109,182 million. The main reason for this increase was an increase in retained earnings in accordance with the increase in net income.



Cash Flows

(1) Cash Flows from Operating Activities

Income before income taxes and minority interests increased by ¥11,924 million to ¥15,521 million. Depreciation and amortization decreased to ¥5,566 million. Cash inflows increased because of a decrease in inventory of ¥396 million and an increase in accounts and notes payable of ¥7,337 million. Cash outflows of ¥11,293 million were caused by an increase in accounts and notes receivable due to the increase in sales. In the absence of cash inflows of ¥5,524 million caused by the refund of corporate taxes in the previous year, cash flows from operating activities decreased by ¥277 million, meaning that net cash provided by operating activities was ¥15,735 million.

(2) Cash Flows from Investing Activities

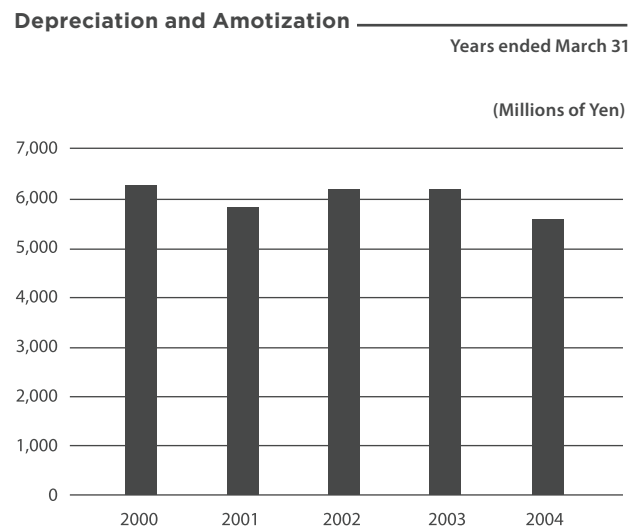
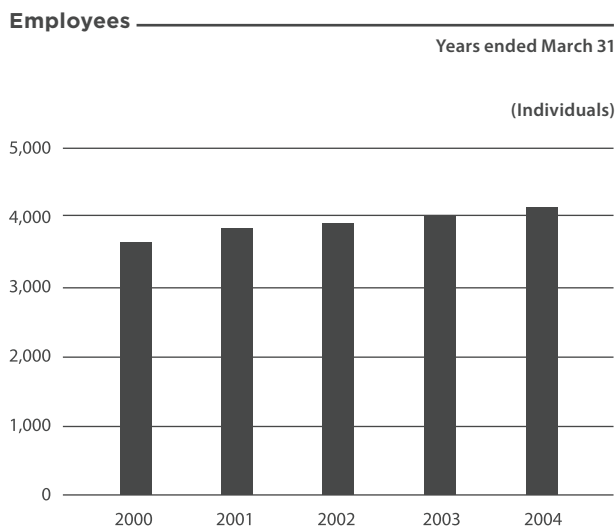
Cash of ¥5,106 million was spent principally for capital investment for the second stage of factory construction at THK Manufacturing of Europe, equipment investment at the domestic factories to improve productivity and purchase of fixed assets. Accounting for cash inflows of ¥1,794 million due to sales of investment securities, the net outflow of cash from investing activities was ¥3,682 million.

(3) Cash Flows from Financing Activities

As cash on hand was used for repayment of debt and redemption of bonds and as there was no additional borrowing, net outflow of cash from financial activities was ¥27,132 million.

(4) Cash and Cash Equivalents

Because of the above-mentioned factors, the outstanding balance of cash and cash equivalents at the end of the year decreased by ¥15,497 million to ¥57,037 million.



CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

as of March 31, 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|------------------|------------------|---------------------------------------|
| | 2003 | 2004 | 2004 |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and bank deposits (Note 13) | ¥ 66,460 | ¥ 56,551 | \$ 535,366 |
| Short-term investments in securities (Notes 6 and 13) | 7,004 | 516 | 4,888 |
| Accounts and notes receivable- | | | |
| Trade | 33,115 | 43,791 | 414,566 |
| Unconsolidated subsidiaries and affiliates | 1,949 | 2,773 | 26,251 |
| Other | 456 | 1,029 | 9,741 |
| | 35,520 | 47,593 | 450,558 |
| Less: allowance for bad debts | (384) | (318) | (3,006) |
| | 35,136 | 47,275 | 447,552 |
| Inventories (Note 5) | 23,748 | 23,108 | 218,764 |
| Short-term advances - | | | |
| Unconsolidated subsidiaries and affiliates | 252 | 130 | 1,231 |
| Other | 8 | 44 | 412 |
| Deferred tax assets (Note 12) | 2,249 | 2,668 | 25,254 |
| Other current assets | 756 | 415 | 3,933 |
| Total current assets | 135,613 | 130,707 | 1,237,400 |
| Investments and Other: | | | |
| Long-term investments in securities (Note 4) | 3,845 | 3,729 | 35,308 |
| Investments in unconsolidated subsidiaries and affiliates | 4,667 | 4,405 | 41,699 |
| Deferred tax assets (Note 12) | 2,134 | 1,474 | 13,958 |
| Other investments | 2,504 | 6,235 | 59,026 |
| | 13,150 | 15,843 | 149,991 |
| Property, Plant and Equipment (Note 8): | | | |
| Buildings and structures | 27,405 | 29,161 | 276,064 |
| Machinery and equipment | 67,436 | 70,789 | 670,163 |
| | 94,841 | 99,950 | 946,227 |
| Less: accumulated depreciation | (64,012) | (67,863) | (642,459) |
| | 30,829 | 32,087 | 303,768 |
| Land | 10,258 | 10,168 | 96,265 |
| Construction in progress | 1,304 | 727 | 6,882 |
| | 42,391 | 42,982 | 406,915 |
| Deferred Charges and Intangibles (Note 8) | | | |
| | 2,043 | 1,573 | 14,887 |
| Total assets | ¥ 193,197 | ¥ 191,105 | \$ 1,809,193 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------------|---------------------------------------|
| | 2003 | 2004 | 2004 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Short-term bank loans (Note 6) | ¥ 3,306 | ¥ — | \$ — |
| Current portion of long-term debt (Note 6) | 19,755 | — | — |
| Accounts and notes payable- | | | |
| Trade | 14,941 | 21,929 | 207,606 |
| Unconsolidated subsidiaries and affiliates | 2,096 | 2,516 | 23,817 |
| Other | 688 | 1,052 | 9,955 |
| | 17,725 | 25,497 | 241,378 |
| Income taxes payable | 1,668 | 6,483 | 61,373 |
| Accrued expenses | 4,842 | 6,283 | 59,482 |
| Other current liabilities | 853 | 2,055 | 19,459 |
| Total current liabilities | 48,149 | 40,318 | 381,692 |
| Long-term Liabilities: | | | |
| Long-term debt (Note 6) | 39,192 | 38,000 | 359,746 |
| Reserve for employees' retirement benefits (Note 11) | 1,484 | 1,632 | 15,447 |
| Reserve for directors' and statutory auditors' retirement benefits | 1,194 | 1,316 | 12,455 |
| Other liabilities (Note 12) | 390 | 300 | 2,843 |
| Total long-term liabilities | 42,260 | 41,248 | 390,491 |
| Minority Interest | 310 | 357 | 3,386 |
| Shareholders' Equity: | | | |
| Common stock, | | | |
| Authorized: 465,877,700 shares; | | | |
| Issued: 119,363,018 shares at March 31, 2003 and 2004 | 23,106 | 23,106 | 218,747 |
| Additional paid-in capital | 30,962 | 30,962 | 293,119 |
| Retained earnings | 48,687 | 55,837 | 528,608 |
| Net unrealized gain/(loss) on other securities (Note 4) | (355) | 722 | 6,832 |
| Foreign currency translation adjustments | 481 | (120) | (1,142) |
| Treasury stock, at cost: 347,765 shares and 1,149,721 shares at March 31, 2003 and 2004, respectively | (403) | (1,325) | (12,540) |
| Total shareholders' equity | 102,478 | 109,182 | 1,033,624 |
| Contingent Liabilities (Note 7) | | | |
| Total liabilities and shareholders' equity | ¥ 193,197 | ¥ 191,105 | \$ 1,809,193 |

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

for the years ended March 31, 2002, 2003 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|----------|-----------|---------------------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Net Sales | ¥ 89,340 | ¥ 94,600 | ¥ 119,254 | \$ 1,128,977 |
| Cost of Sales | 63,294 | 66,647 | 77,932 | 737,786 |
| Gross profit | 26,046 | 27,953 | 41,322 | 391,191 |
| Selling, General and Administrative Expenses (Note 10) | 23,870 | 23,060 | 25,090 | 237,527 |
| Operating income | 2,176 | 4,893 | 16,232 | 153,664 |
| Non-Operating Income/(Expenses): | | | | |
| Interest and dividend income | 356 | 219 | 148 | 1,400 |
| Interest expenses | (1,041) | (888) | (493) | (4,670) |
| Foreign exchange gain/(loss), net | 801 | 352 | (580) | (5,494) |
| Gain on sales of long-term investments in securities, net | — | — | 33 | 316 |
| Equity earnings/(losses) of affiliates | 8 | (12) | 301 | 2,854 |
| Rental income | 132 | 149 | 159 | 1,510 |
| Liquidation loss of unconsolidated subsidiaries | (466) | — | (100) | (944) |
| Loss on change in interest in affiliated company | (136) | (318) | — | — |
| Loss on sales/disposal of property and equipment | (153) | (403) | (288) | (2,726) |
| Loss on write-down of long-term investments in securities | (875) | (510) | — | — |
| Other, net | 31 | 115 | 109 | 1,025 |
| | (1,343) | (1,296) | (711) | (6,729) |
| Income before income taxes and minority interest | 833 | 3,597 | 15,521 | 146,935 |
| Income Taxes (Note 12) | 15 | 1,773 | 6,926 | 65,572 |
| Income before minority interest | 818 | 1,824 | 8,595 | 81,363 |
| Minority interest in (income)/loss of consolidated subsidiaries | 2 | 68 | (11) | (100) |
| Net income | ¥ 820 | ¥ 1,892 | ¥ 8,584 | \$ 81,263 |
| | | Yen | | U.S. dollars (Note 1) |
| Per Share Data: | | | | |
| Net income - basic | ¥ 6.88 | ¥ 15.65 | ¥ 72.27 | \$ 0.684 |
| Net income - diluted | ¥ — | ¥ 15.12 | ¥ 63.69 | \$ 0.603 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity
for the years ended March 31, 2002, 2003 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|--|------------------|------------------|------------------|---------------------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Common Stock | | | | |
| At beginning of year | ¥ 23,076 | ¥ 23,106 | ¥ 23,106 | \$ 218,747 |
| Conversion of convertible bonds to common stock | 30 | — | — | — |
| At end of year | ¥ 23,106 | ¥ 23,106 | ¥ 23,106 | \$ 218,747 |
| Additional Paid-In Capital | | | | |
| At beginning of year | ¥ 30,932 | ¥ 30,962 | ¥ 30,962 | \$ 293,119 |
| Conversion of convertible bonds to common stock | 30 | — | — | — |
| At end of year | ¥ 30,962 | ¥ 30,962 | ¥ 30,962 | \$ 293,119 |
| Retained Earnings | | | | |
| At beginning of year | ¥ 49,614 | ¥ 48,585 | ¥ 48,687 | \$ 460,919 |
| Net income | 820 | 1,892 | 8,584 | 81,263 |
| Increase from investment in an affiliate newly accounted for by the equity method | — | — | 379 | 3,587 |
| Cash dividends | (1,789) | (1,790) | (1,783) | (16,877) |
| Directors' and statutory auditors' bonuses | (60) | — | (30) | (284) |
| At end of year | ¥ 48,585 | ¥ 48,687 | ¥ 55,837 | \$ 528,608 |
| Net Unrealized Gain/(Loss) on Other Securities | | | | |
| At beginning of year | ¥ 268 | ¥ 45 | ¥ (355) | \$ (3,362) |
| Change in year | (223) | (400) | 1,077 | 10,194 |
| At end of year | ¥ 45 | ¥ (355) | ¥ 722 | \$ 6,832 |
| Foreign Currency Translation Adjustments | | | | |
| At beginning of year | ¥ (1,278) | ¥ 1,053 | ¥ 481 | \$ 4,554 |
| Change in year | 2,331 | (572) | (601) | (5,696) |
| At end of year | ¥ 1,053 | ¥ 481 | ¥ (120) | \$ (1,142) |
| Treasury Stock, at cost | | | | |
| At beginning of year | ¥ (0) | ¥ (3) | ¥ (403) | \$ (3,816) |
| Purchase of treasury stock | (6) | (17) | (1,112) | (10,526) |
| Sales of treasury stock | 3 | — | 1 | 5 |
| Change in year of treasury stock held by an affiliated company | — | (383) | 189 | 1,797 |
| At end of year | ¥ (3) | ¥ (403) | ¥ (1,325) | \$ (12,540) |
| Total Shareholders' Equity at end of year | ¥ 103,748 | ¥ 102,478 | ¥ 109,182 | \$ 1,033,624 |

The accompanying notes are an integral part of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

for the years ended March 31, 2002, 2003 and 2004

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|-----------------|-----------------|---------------------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Cash Flows from Operating Activities: | | | | |
| Income before income taxes and minority interest | ¥ 833 | ¥ 3,597 | ¥ 15,521 | \$ 146,935 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 6,164 | 6,164 | 5,566 | 52,698 |
| Increase/(decrease) in provisions | (128) | (390) | 338 | 3,203 |
| Loss on sale/disposal of property and equipment | 153 | 403 | 288 | 2,726 |
| Interest and dividend income | (356) | (219) | (148) | (1,400) |
| Interest expenses | 1,041 | 888 | 493 | 4,670 |
| Foreign exchange (gain)/loss, net | (135) | (141) | 109 | 1,032 |
| Equity (earnings)/losses of affiliates | (8) | 12 | (301) | (2,854) |
| Loss on write-down of long-term investments in securities | 875 | 510 | — | — |
| Gain on sale of long-term investments in securities, net | — | — | (33) | (316) |
| Liquidation loss of unconsolidated subsidiaries | 466 | — | 100 | 944 |
| Loss on change in interest in affiliated company | 136 | 318 | — | — |
| Changes in assets and liabilities: | | | | |
| (Increase)/decrease in accounts and notes receivable | 22,138 | (10,254) | (11,293) | (106,913) |
| Decrease in inventories | 4,697 | 2,502 | 396 | 3,745 |
| Increase/(decrease) in accounts and notes payable | (15,976) | 5,221 | 7,337 | 69,464 |
| Other, net | (1,285) | 2,560 | 110 | 1,058 |
| Subtotal | 18,615 | 11,171 | 18,483 | 174,992 |
| Interest and dividend income received | 374 | 220 | 193 | 1,825 |
| Interest expenses paid | (1,003) | (903) | (495) | (4,687) |
| Income taxes (paid)/refunded | (14,714) | 5,524 | (2,446) | (23,160) |
| Net cash provided by operating activities | 3,272 | 16,012 | 15,735 | 148,970 |
| Cash Flows from Investing Activities: | | | | |
| (Increase)/decrease in time deposits due over three months | (498) | 468 | — | — |
| Payments for purchase of short-term investments in securities | (1,999) | (1,199) | — | — |
| Proceeds from sales of short-term investments in securities | 2,063 | 1,328 | 907 | 8,588 |
| Payments for purchase of property, plant and equipment | (9,225) | (4,760) | (5,106) | (48,338) |
| Proceeds from sales of property, plant and equipment | 194 | 149 | 81 | 771 |
| Payments for purchase of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates | (486) | (10) | (310) | (2,934) |
| Proceeds from sales of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates | 888 | 104 | 1,794 | 16,981 |
| Payments of advances | (663) | (335) | (1,184) | (11,207) |
| Collections of advances | 1,819 | 345 | 136 | 1,285 |
| Net cash used in investing activities | (7,907) | (3,910) | (3,682) | (34,854) |
| Cash Flows from Financing Activities: | | | | |
| Decrease in short-term bank loans | (1,512) | (2,887) | (3,304) | (31,277) |
| Borrowings of long-term debt | 1,210 | — | — | — |
| Repayments of long-term debt | (6,038) | (4,787) | (3,599) | (34,069) |
| Proceeds from issuance of bonds | 15,000 | 22,905 | — | — |
| Redemption of bonds | — | (8,000) | (17,334) | (164,102) |
| Cash dividends | (1,790) | (1,790) | (1,784) | (16,892) |
| Payments for purchase of treasury stock | (6) | (17) | (1,112) | (10,526) |
| Other, net | 66 | — | 1 | 5 |
| Net cash provided by (used in) financing activities | 6,930 | 5,424 | (27,132) | (256,861) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 664 | 1 | (418) | (3,962) |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 2,959 | 17,527 | (15,497) | (146,707) |
| Cash and Cash Equivalents at Beginning of Year (Note 13) | 52,048 | 55,007 | 72,534 | 686,677 |
| Cash and Cash Equivalents at End of Year (Note 13) | ¥ 55,007 | ¥ 72,534 | ¥ 57,037 | \$ 539,970 |

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Consolidated Financial Statements

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 of Japan, and in conformity with accounting principles generally accepted in Japan, which differ 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 the Kanto Financial Bureau in Japan have been reclassified in these financial statements for the convenience of readers outside Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.63=U.S.\$1, the rate of exchange prevailing in Tokyo on March 31, 2004 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts 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 (companies whose decision making is controlled) as of March 31, 2004 (21 as of March 31, 2003). The consolidated financial statements for the year ended March 31, 2004 include the accounts of the Company and 14 (13 for 2003) of its subsidiaries. The 14 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"). The accounts of THK FRANCE S.A.S. (France) has been consolidated since the beginning of the year ended March 31, 2004.

| 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, 2003 |
| THK America, Inc. (USA) | 100 | Dec.31, 2003 |
| THK Manufacturing of America, Inc. (USA) | 100 | Dec.31, 2003 |
| THK Neturen America, L.L.C.(USA) | 50 | Dec.31, 2003 |
| THK Europe B.V. (the Netherlands) | 100 | Dec.31, 2003 |
| THK GmbH (Germany) | 100 | Dec.31, 2003 |
| THK FRANCE S.A.S. (France) | 100 | Dec.31, 2003 |
| PGM Ballscrews Ltd. (UK) | 100 | Dec.31, 2003 |
| PGM Ballscrews Ireland Ltd. (Ireland) | 98.97 | Dec.31, 2003 |
| THK Manufacturing of Europe S.A.S. (France) | 100 | Dec.31, 2003 |
| THK TAIWAN Co., Ltd. (Taiwan) | 94.99 | Dec.31, 2003 |
| THK Yasuda Co., Ltd. (Japan) | 70 | Mar.31, 2004 |
| Talk System Co., Ltd. (Japan) | 98.90 | Mar.31, 2004 |
| Beldex Corporation (Japan) | 94.73 | Mar.31, 2004 |

The accounts for the year ended March 31, 2004 of the remaining 8 (8 for 2003) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

(b) Elimination of Inter-company Transactions

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.

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 3 (3 for 2003) affiliates (companies whose financial and operating or business decision making can be influenced by the Companies in material degree, and are not subsidiaries) at March 31, 2004. The equity method is applied to investments in Daito Seiki Co., Ltd., and SAMICK LMS CO., LTD. The investment in SAMICK LMS CO., LTD. has been accounted for by the equity method since the beginning of the year ended March 31, 2004. The investments in the unconsolidated subsidiaries and the remaining affiliate would not have 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.

(d) 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 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 shareholders' equity.

3. Summary of Significant Accounting Policies

(a) Inventories

Inventories held by the Company, THK Yasuda Co., Ltd., Talk System Co., Ltd. and THK Manufacturing of Europe S.A.S. are valued at cost, cost being determined using the average cost method. Inventories held by THK America, Inc., THK Manufacturing of America, Inc., THK Neturen America, L.L.C., 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 GmbH, THK FRANCE S.A.S. 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 at cost, cost being determined using the identified cost method.

(b) Financial Instruments

(i) 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 or less 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.

(c) Property, Plant and Equipment

For the Company and its domestic subsidiaries, depreciation is computed using the declining-balance method at the rates based on the estimated useful lives of assets. For its overseas subsidiaries, depreciation is computed using the straight-line and accelerated methods in accordance with their local accounting standards and regulations. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 4 to 10 years for machinery and equipment.

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

(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.

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

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 a period of 10 years from the next year in which they arise.

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

Accounting policy is 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 resigned at the balance sheet date.

(h) Lease

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.

(i) 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 the net profit or loss for the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

(j) Accounting for Consumption Tax

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

(k) Income Taxes

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

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(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 carry a minor risk of fluctuation in value.

(m) Net Income per Share

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

(n) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amounts of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

For the year ended March 31, 2004, the Company and its subsidiaries had not applied this standard. The Company is currently in the process of assessing the potential impact that this standard will have on the consolidated financial statements.

4. Long-term Investments in Securities

At March 31, 2003 and 2004, "other securities" with available market value were as follows:

| | Millions of yen | | |
|---|-----------------|-----------------|----------------------------|
| | 2003 | | |
| | Cost | Carrying amount | Net unrealized gain/(loss) |
| Carrying amounts in excess of acquisition cost: | | | |
| Equity securities | ¥ 314 | ¥ 376 | ¥ 62 |
| Other | 16 | 20 | 4 |
| Subtotal | 330 | 396 | 66 |
| Carrying amounts not in excess of acquisition cost: | | | |
| Equity securities | 2,291 | 1,773 | (518) |
| Total | ¥ 2,621 | ¥ 2,169 | ¥ (452) |

| | Millions of yen | | |
|---|-----------------|-----------------|----------------------------|
| | 2004 | | |
| | Cost | Carrying amount | Net unrealized gain/(loss) |
| Carrying amounts in excess of acquisition cost: | | | |
| Equity securities | ¥ 2,356 | ¥ 3,539 | ¥ 1,183 |
| Other | 10 | 11 | 1 |
| Subtotal | 2,366 | 3,550 | 1,184 |
| Carrying amounts not in excess of acquisition cost: | | | |
| Equity securities | 4 | 4 | (0) |
| Total | ¥ 2,370 | ¥ 3,554 | ¥ 1,184 |

| | Thousands of U.S. dollars | | |
|---|---------------------------|-----------------|----------------------------|
| | 2004 | | |
| | Cost | Carrying amount | Net unrealized gain/(loss) |
| Carrying amounts in excess of acquisition cost: | | | |
| Equity securities | \$ 22,305 | \$ 33,500 | \$ 11,195 |
| Other | 95 | 107 | 12 |
| Subtotal | 22,400 | 33,607 | 11,207 |
| Carrying amounts not in excess of acquisition cost: | | | |
| Equity securities | 42 | 40 | (2) |
| Total | \$ 22,442 | \$ 33,647 | \$ 11,205 |

Proceeds and net realized gain (loss) from the sales of "other securities" for the years ended March 31, 2002, 2003 and 2004 were immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

5. Inventories

Inventories at March 31, 2003 and 2004 comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------|-----------------|----------|---------------------------|
| | 2003 | 2004 | 2004 |
| Finished goods | ¥ 14,080 | ¥ 12,871 | \$ 121,846 |
| Work in process | 3,931 | 4,184 | 39,606 |
| Raw materials and supplies | 5,737 | 6,053 | 57,312 |
| Total | ¥ 23,748 | ¥ 23,108 | \$ 218,764 |

6. Short-term Bank Loans and Long-term Debt

The annual average interest rate applicable to short-term bank loans at March 31, 2003 was 1.17%.

Long-term debt at March 31, 2003 and 2004 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
| | 2003 | 2004 | 2004 |
| 0.3% Convertible bonds 2003, currently convertible at ¥2,717 (\$26) | ¥ 13,905 | ¥ — | \$ — |
| 1.95% Straight bonds 2003 | 1,000 | — | — |
| 1.95% Straight bonds 2003 | 1,000 | — | — |
| 2.25% Straight bonds 2003 | 1,000 | — | — |
| Floating rate Industrial development revenue bonds 2003 (4.8% for 2003) of a consolidated subsidiary | 444 | — | — |
| 0.91% Straight bonds 2006 | 10,000 | 10,000 | 94,670 |
| 1.37% Straight bonds 2008 | 5,000 | 5,000 | 47,335 |
| Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 (\$16) | 23,000 | 23,000 | 217,741 |
| Loans from banks: | | | |
| Collateralized | 2,048 | — | — |
| Non-collateralized | 1,550 | — | — |
| | 58,947 | 38,000 | 359,746 |
| Less - current portion | 19,755 | — | — |
| | ¥ 39,192 | ¥ 38,000 | \$ 359,746 |

At March 31, 2004, the Company and some of its subsidiaries had unused committed lines of credit amounting to ¥15,000 million (\$142,005 thousand).

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2004, were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| | 2004 | 2004 |
| 2007 | ¥ 10,000 | \$ 94,670 |
| 2008 | 23,000 | 217,741 |
| 2009 and after | 5,000 | 47,335 |
| | ¥ 38,000 | \$ 359,746 |

7. Contingent Liabilities

Contingent liabilities at March 31, 2004 with respect to loans guaranteed (for non-consolidated subsidiaries), amounted to ¥263 million (\$2,493 thousand).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

8. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥697 million, ¥666 million, and ¥622 million (\$5,891 thousand) for the years ended March 31, 2002, 2003 and 2004, 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, 2003 and 2004 were as follows:

| | Millions of yen | | |
|--------------------------|-------------------------|-------|---------|
| | 2003 | | |
| | Machinery and equipment | Other | Total |
| Acquisition costs | ¥ 2,956 | ¥ 72 | ¥ 3,028 |
| Accumulated depreciation | 975 | 34 | 1,009 |
| Net leased property | ¥ 1,981 | ¥ 38 | ¥ 2,019 |

| | Millions of yen | | |
|--------------------------|-------------------------|-------|---------|
| | 2004 | | |
| | Machinery and equipment | Other | Total |
| Acquisition costs | ¥ 2,885 | ¥ 72 | ¥ 2,957 |
| Accumulated depreciation | 1,375 | 48 | 1,423 |
| Net leased property | ¥ 1,510 | ¥ 24 | ¥ 1,534 |

| | Thousands of U.S. dollars | | |
|--------------------------|---------------------------|--------|-----------|
| | 2004 | | |
| | Machinery and equipment | Other | Total |
| Acquisition costs | \$ 27,313 | \$ 678 | \$ 27,991 |
| Accumulated depreciation | 13,019 | 453 | 13,472 |
| Net leased property | \$ 14,294 | \$ 225 | \$ 14,519 |

Future minimum lease payments under finance leases as of March 31, 2003 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|---------|---------------------------|
| | 2003 | 2004 | 2004 |
| Due within one year | ¥ 607 | ¥ 551 | \$ 5,213 |
| Due after one year | 1,412 | 983 | 9,306 |
| Total | ¥ 2,019 | ¥ 1,534 | \$ 14,519 |

The amounts of acquisition costs and future minimum lease payments under finance leases include 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 ¥697 million, ¥666 million and ¥622 million (\$5,891 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

Obligations under non-cancelable operating leases as of March 31, 2003 and 2004 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|---------|---------------------------|
| | 2003 | 2004 | 2004 |
| Due within one year | ¥ 711 | ¥ 619 | \$ 5,866 |
| Due after one year | 1,839 | 1,694 | 16,035 |
| Total | ¥ 2,550 | ¥ 2,313 | \$ 21,901 |

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

For the year ended March 31, 2003, the Company utilized certain interest rate swap and currency swap agreements. For the year ended March 31, 2004, the Company utilized certain currency swap agreements. Market value information for such swaps held by the Company at March 31, 2003 and 2004 has been omitted as such swap agreements qualified the conditions for hedge accounting under the related Japanese accounting standards.

10. Research and Development

Research and development expenses for the years ended March 31, 2002, 2003 and 2004 were ¥1,932 million, ¥2,104 million and ¥2,520 million (\$23,858 thousand), respectively, and were included in "Selling, General and Administrative Expenses".

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, 2003 and 2004 was analyzed as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2003 | 2004 | 2004 |
| Projected benefit obligations | ¥ 4,140 | ¥ 4,525 | \$ 42,840 |
| Plan assets | (1,888) | (2,397) | (22,691) |
| | 2,252 | 2,128 | 20,149 |
| Unrecognized actuarial differences | (768) | (496) | (4,702) |
| Reserve for employees' retirement benefit | ¥ 1,484 | ¥ 1,632 | \$ 15,447 |

Net periodic pension and severance costs for the years ended March, 2002, 2003 and 2004 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|-------|-------|---------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Service cost | ¥ 303 | ¥ 336 | ¥ 338 | \$ 3,195 |
| Interest cost | 91 | 89 | 97 | 921 |
| Expected return on plan assets | (49) | (9) | (9) | (87) |
| Recognized actuarial differences | 25 | 68 | 86 | 815 |
| Net periodic pension and severance costs | ¥ 370 | ¥ 484 | ¥ 512 | \$ 4,844 |

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

| | As of March 31 | | |
|---|---------------------|---------------------|---------------------|
| | 2002 | 2003 | 2004 |
| Method of attributing the projected benefits to periods of services | Straight-line basis | Straight-line basis | Straight-line basis |
| Discount rate | 2.5% | 2.5% | 2.5% |
| Expected rate of return on plan assets | 3.0% | 0.5% | 0.5% |
| Amortization of unrecognized actuarial differences | 10 years | 10 years | 10 years |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

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, 2002 and 2003 was 42.1% and 2004 was 40.7%.

At March 31, 2003 and 2004, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2003 | 2004 | 2004 |
| Deferred tax assets: | | | |
| Loss on devaluation of inventories | ¥ 951 | ¥ 1,039 | \$ 9,838 |
| Software | 759 | 686 | 6,493 |
| Elimination of inter-company profit (inventories) | 690 | 484 | 4,578 |
| Reserve for directors' retirement benefits | 486 | 535 | 5,068 |
| Allowance for bad debts | 474 | 408 | 3,864 |
| Reserve for employees' retirement benefits | 466 | 576 | 5,450 |
| Net operating loss carried forward | 411 | 219 | 2,069 |
| Accrued bonuses to employees | 409 | 570 | 5,404 |
| Loss on write-down of investment securities | 162 | — | — |
| Enterprise tax payable | 142 | 558 | 5,279 |
| Other | 917 | 942 | 8,915 |
| Gross deferred tax assets | 5,867 | 6,017 | 56,958 |
| Less: valuation allowance | (976) | (885) | (8,377) |
| Total deferred tax assets | 4,891 | 5,132 | 48,581 |
| Deferred tax liabilities: | | | |
| Unrealized gains on marketable equity securities | (13) | (493) | (4,665) |
| Insurance premium | (162) | (219) | (2,075) |
| Special depreciation reserve | (239) | (188) | (1,775) |
| Other | (158) | (184) | (1,743) |
| Total deferred tax liabilities | (572) | (1,084) | (10,258) |
| Net deferred tax assets | ¥ 4,319 | ¥ 4,048 | \$ 38,323 |

Net deferred tax assets are included in the consolidated balance sheets as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
| | 2003 | 2004 | 2004 |
| Current assets - Deferred tax assets | ¥ 2,249 | ¥ 2,668 | \$ 25,254 |
| Investments and other - Deferred tax assets | 2,134 | 1,474 | 13,958 |
| Long-term liabilities - Other liabilities | (64) | (94) | (889) |
| Net deferred tax assets | ¥ 4,319 | ¥ 4,048 | \$ 38,323 |

For the years ended March 31, 2003 and 2004, the reconciliation of the statutory tax rate to the effective tax rate was follows:

| | 2003 | 2004 |
|---|--------|-------|
| Statutory tax rate | 42.1% | 42.1% |
| Increase/(reduction) in taxes resulting from: | | |
| Permanent differences | 1.0 | 0.3 |
| Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided | 25.6 | 2.6 |
| Change in tax consequences related to devaluation of investments in consolidated subsidiaries | (21.8) | — |
| Equalization inhabitant taxes | 1.7 | 0.4 |
| Tax rate differences between domestic and overseas | (0.7) | 0.6 |
| Change in tax rate resulting from enactment of income tax regulations | 2.0 | 0.7 |
| Others | (0.6) | (2.1) |
| Effective income tax rate | 49.3% | 44.6% |

13. Reconciliation of Cash and Cash Equivalents per Consolidated Cash Flow Statements with Account Balances on Consolidated Balance Sheets

Cash and cash equivalents at March 31, 2003 and 2004 consisted of:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
| | 2003 | 2004 | 2004 |
| Cash and bank deposits | ¥ 66,460 | ¥ 56,551 | \$ 535,366 |
| Short-term investments in securities | 7,004 | 516 | 4,888 |
| | 73,464 | 57,067 | 540,254 |
| Less: | | | |
| Time deposit due over three months | (30) | (30) | (284) |
| Short-term investments in securities excluding MMF and others | (900) | — | — |
| | ¥ 72,534 | ¥ 57,037 | \$ 539,970 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

14. Segment Information

(1) Industry Segment Information

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

(2) Geographical Segment Information

Net sales of the Companies for the years ended March 31, 2002, 2003 and 2004 classified by geographic segments were summarized as follows:

| | Millions of yen | | | | | | |
|------------------------------------|-----------------|----------|----------|----------------|----------|----------|----------------------------|
| | 2002 | | | | | | Eliminations and corporate |
| | Japan | America | Europe | Asia and other | Total | | |
| I. Net sales and operating income- | | | | | | | |
| Net sales: | | | | | | | |
| Customers | ¥ 63,316 | ¥ 11,632 | ¥ 12,726 | ¥ 1,666 | ¥ 89,340 | ¥ — | ¥ 89,340 |
| Inter-segment | 11,396 | 190 | 130 | — | 11,716 | (11,716) | — |
| Total | 74,712 | 11,822 | 12,856 | 1,666 | 101,056 | (11,716) | 89,340 |
| Operating expenses | 72,059 | 11,876 | 13,641 | 1,673 | 99,249 | (12,085) | 87,164 |
| Operating income/(loss) | ¥ 2,653 | ¥ (54) | ¥ (785) | ¥ (7) | ¥ 1,807 | ¥ 369 | ¥ 2,176 |

II. Assets-

| | | | | | | | |
|--------|-----------|----------|----------|---------|-----------|-----------|-----------|
| Assets | ¥ 154,625 | ¥ 16,219 | ¥ 13,530 | ¥ 1,242 | ¥ 185,616 | ¥ (5,911) | ¥ 179,705 |
|--------|-----------|----------|----------|---------|-----------|-----------|-----------|

| | Millions of yen | | | | | | |
|------------------------------------|-----------------|----------|-----------|----------------|----------|----------|----------------------------|
| | 2003 | | | | | | Eliminations and corporate |
| | Japan | America | Europe | Asia and other | Total | | |
| I. Net sales and operating income- | | | | | | | |
| Net sales: | | | | | | | |
| Customers | ¥ 71,060 | ¥ 10,732 | ¥ 10,982 | ¥ 1,826 | ¥ 94,600 | ¥ — | ¥ 94,600 |
| Inter-segment | 12,193 | 148 | 98 | — | 12,439 | (12,439) | — |
| Total | 83,253 | 10,880 | 11,080 | 1,826 | 107,039 | (12,439) | 94,600 |
| Operating expenses | 76,434 | 11,502 | 12,849 | 1,759 | 102,544 | (12,837) | 89,707 |
| Operating income/(loss) | ¥ 6,819 | ¥ (622) | ¥ (1,769) | ¥ 67 | ¥ 4,495 | ¥ 398 | ¥ 4,893 |

II. Assets-

| | | | | | | | |
|--------|-----------|----------|----------|---------|-----------|------------|-----------|
| Assets | ¥ 173,615 | ¥ 15,830 | ¥ 15,551 | ¥ 1,471 | ¥ 206,467 | ¥ (13,270) | ¥ 193,197 |
|--------|-----------|----------|----------|---------|-----------|------------|-----------|

| Millions of yen | | | | | | | |
|------------------------------------|-----------|----------|----------|----------------|-----------|----------------------------|--------------|
| 2004 | | | | | | | |
| | Japan | America | Europe | Asia and other | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income- | | | | | | | |
| Net sales: | | | | | | | |
| Customers | ¥ 93,771 | ¥ 10,341 | ¥ 12,743 | ¥ 2,399 | ¥ 119,254 | ¥ — | ¥ 119,254 |
| Inter-segment | 12,654 | 53 | 118 | — | 12,825 | (12,825) | — |
| Total | 106,425 | 10,394 | 12,861 | 2,399 | 132,079 | (12,825) | 119,254 |
| Operating expenses | 89,727 | 10,608 | 13,666 | 2,348 | 116,349 | (13,327) | 103,022 |
| Operating income/(loss) | ¥ 16,698 | ¥ (214) | ¥ (805) | ¥ 51 | ¥ 15,730 | ¥ 502 | ¥ 16,232 |
| II. Assets- | | | | | | | |
| Assets | ¥ 180,711 | ¥ 13,316 | ¥ 17,769 | ¥ 1,735 | ¥ 213,531 | ¥ (22,426) | ¥ 191,105 |

| Thousands of U.S. dollars | | | | | | | |
|------------------------------------|--------------|------------|------------|----------------|--------------|----------------------------|--------------|
| 2004 | | | | | | | |
| | Japan | America | Europe | Asia and other | Total | Eliminations and corporate | Consolidated |
| I. Net sales and operating income- | | | | | | | |
| Net sales: | | | | | | | |
| Customers | \$ 887,734 | \$ 97,899 | \$ 120,632 | \$ 22,712 | \$ 1,128,977 | \$ — | \$ 1,128,977 |
| Inter-segment | 119,797 | 502 | 1,113 | — | 121,412 | (121,412) | — |
| Total | 1,007,531 | 98,401 | 121,745 | 22,712 | 1,250,389 | (121,412) | 1,128,977 |
| Operating expenses | 849,449 | 100,429 | 129,372 | 22,223 | 1,101,473 | (126,160) | 975,313 |
| Operating income/(loss) | \$ 158,082 | \$ (2,028) | \$ (7,627) | \$ 489 | \$ 148,916 | \$ 4,748 | \$ 153,664 |
| II. Assets- | | | | | | | |
| Assets | \$ 1,710,797 | \$ 126,067 | \$ 168,218 | \$ 16,422 | \$ 2,021,504 | \$ (212,311) | \$ 1,809,193 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

(3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company and certain domestic subsidiaries plus the sales by the overseas consolidated subsidiaries) for the years ended March 31, 2002, 2003 and 2004 were summarized as follows:

| | Millions of yen | | | |
|--|-----------------|----------|----------------|----------|
| | 2002 | | | |
| | America | Europe | Asia and other | Total |
| Overseas sales | ¥ 11,629 | ¥ 12,863 | ¥ 5,203 | ¥ 29,695 |
| Consolidated net sales | | | | ¥ 89,340 |
| Overseas sales as a percentage of consolidated net sales | 13.0% | 14.4% | 5.8% | 33.2% |

| | Millions of yen | | | |
|--|-----------------|----------|----------------|----------|
| | 2003 | | | |
| | America | Europe | Asia and other | Total |
| Overseas sales | ¥ 10,775 | ¥ 10,780 | ¥ 7,765 | ¥ 29,320 |
| Consolidated net sales | | | | ¥ 94,600 |
| Overseas sales as a percentage of consolidated net sales | 11.4% | 11.4% | 8.2% | 31.0% |

| | Millions of yen/(Thousands of U.S. dollars) | | | |
|--|---|--------------|----------------|----------------|
| | 2004 | | | |
| | America | Europe | Asia and other | Total |
| Overseas sales | ¥ 10,436 | ¥ 12,739 | ¥ 10,735 | ¥ 33,910 |
| | (\$ 98,799) | (\$ 120,604) | (\$ 101,624) | (\$ 321,027) |
| Consolidated net sales | | | | ¥ 119,254 |
| | | | | (\$ 1,128,977) |
| Overseas sales as a percentage of consolidated net sales | 8.7% | 10.7% | 9.0% | 28.4% |

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, 2003 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of three years in the period ended March 31, 2004, 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. These 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, 2003 and 2004, and the consolidated results of their operations and their cash flows for each of three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in Japan.

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 PricewaterhouseCoopers

June 26, 2004

GLOBAL NETWORK



The company has already set up overseas production and sales channels in Europe, North America and Asia. Most recently in March, 2004, the company announced the construction of a factory in Wuxi, Jiangsu Province in China, to produce LM guides.

EUROPE



THK Europe, B.V. Head Office



THK Manufacturing of Europe S.A.S.



PGM Ballscrews, Ltd.



PGM Ballscrews Ireland, Ltd.

THK Europe, B.V.

The holding company of THK group companies in Europe.
Sells LM guides, ball screws and spherical joints

THK GmbH

Sells LM guides, ball screws and spherical joints

THK Manufacturing of Europe S.A.S.

Manufactures LM guides and spherical joints

PGM Ballscrews, Ltd.

Manufactures and sells ball screws

PGM Ballscrews Ireland, Ltd.

Manufactures and sells ball screws

THK France S.A.S.

Sells LM guides, ball screws and spherical joints

ASIA



Dalian THK Co., Ltd.



Samick LMS Co., Ltd.

THK Taiwan Co., Ltd.

Sells LM guides, ball screws and spherical joints

Dalian THK Co., Ltd.

Manufactures ball screws

Samick LMS Co., Ltd.

Manufactures and sells LM guides

JAPAN



THK Head Office



Kofu Plant



Yamaguchi Plant



Yamagata Plant



Gifu Plant



Mie Plant



THK Yasuda

THK Head Office

Manufactures and sells LM guides, ball screws and spherical joints

THK Yasuda Co., Ltd.

Manufactures ball splines

Talk System Co., Ltd.

Sells parts for various machinery

Beldex Corporation

Manufactures and sells parts for optical machines, medical instruments, electronic equipment and electronic devices

Daito Seiki Co., Ltd.

Manufactures and sells parts and equipment for machinery

AMERICA



THK America, Inc. Head Office



THK Manufacturing of America, Inc.

THK Holdings of America, L.L.C.

The holding company of THK Group companies in America

THK America, Inc.

Sells LM guides, ball screws and spherical joints

THK Manufacturing of America, Inc.

Manufactures LM guides and spherical joints

THK Neturen America, L.L.C.

Manufactures LM guides

THK'S WORLDWIDE PRODUCTION/SALES NETWORK

THK has production bases and sales franchises not only in Japan but also in Europe, North America and Asia. In Japan, THK has 9 factories, including one of its subsidiary's. The company built the first factory in Kofu in 1977, which specializes in the production of precision ball screws and unit products. The construction of the second factory in Gifu was completed in 1984, which now mainly produces actuators, damping devices and other products. In the following year, both the Mie and Yamaguchi factories were completed. The Mie factory produces cross roller rings, and the Yamaguchi factory produces large and medium-sized LM guides. In 1991, the Yamagata factory was built to produce small-sized LM guides. THK Yasuda Co., Ltd., an affiliated company of THK, produces ball splines, which is the original prototype of LM guides.

The company's sales network comprises 30 domestic branches, as well as sales subsidiaries and agencies.

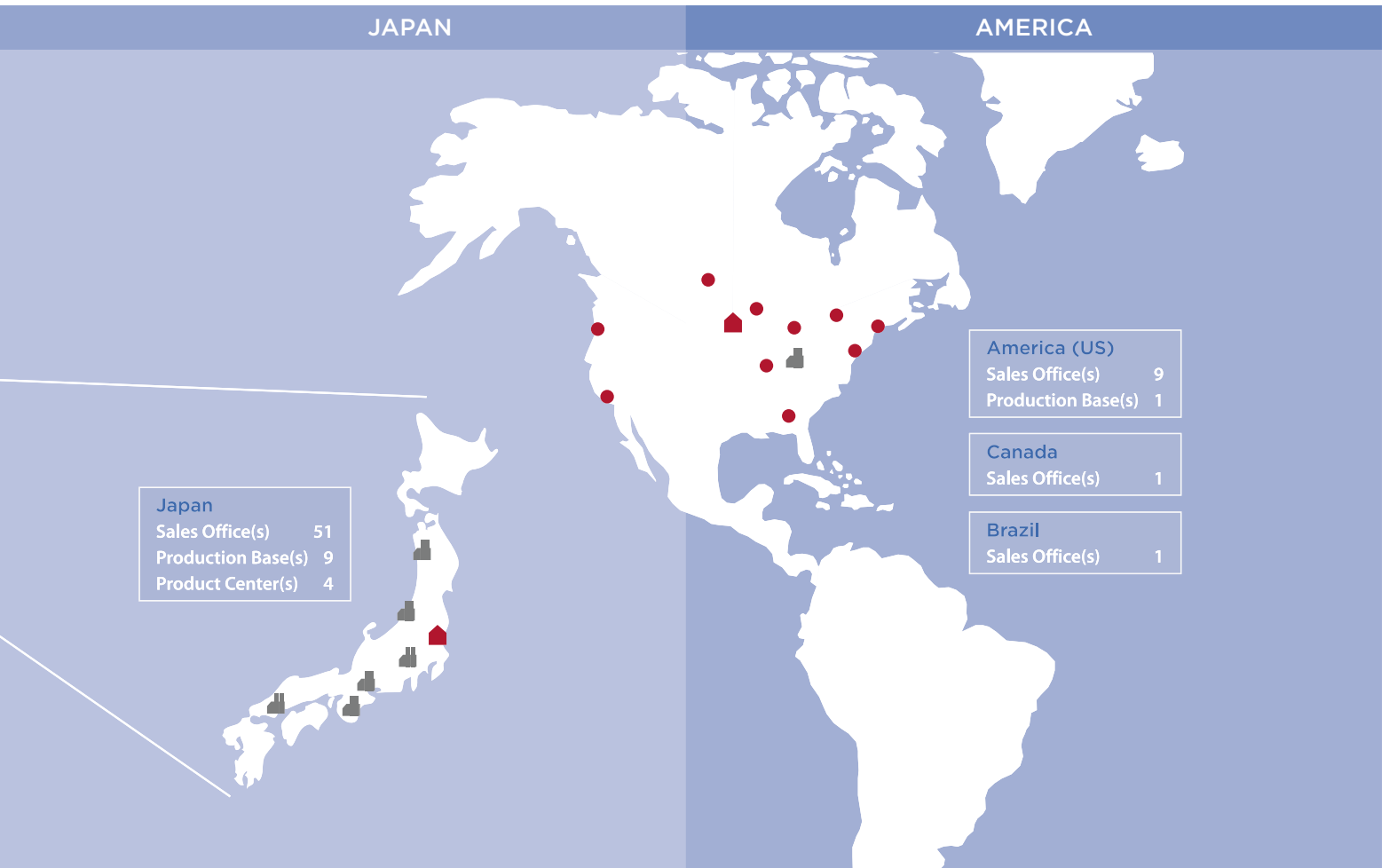
The establishment of THK America, Inc. in 1981 saw the start of full-scale production in the U.S. market. In 1997, THK started local production in the United States by establishing a production affiliate named TMA (THK Manufacturing of America, Inc.).



THK established THK Europe GmbH, the current name of which is THK GmbH, in 1982. THK acquired PGM Ballscrews, Ltd. in 1992 in England, and established THK Europe, B.V. in 1993. This established the sales network in the European region. A French production base, TME (THK Manufacturing of Europe S.A.S.) was established in 2000. The construction of the second factory of TME was completed in 2003, which further strengthened the production base in the European region.

In Asia, THK established THK Taiwan Co., Ltd. in Taiwan in 1989. In Korea, THK purchased a stake in Samick LMS Co., Ltd., which is currently engaged in the production and sales of LM guides. In the promising Chinese market, we constructed a factory in Dalian in 1996 and began producing precision ball screws. In 2004 we also established THK Manufacturing of China Wuxi Co., Ltd. in Jiangsu Province.

Through these activities, THK is making steady progress towards the establishment of the tetra-lateral production system, which is a main target of the Long-Term Management Plan.



CORPORATE DATA

Company Profile

| | |
|---|---|
| Head Office | 3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503, Japan |
| Telephone | +81-3-5434-0300 |
| Established | April 1971 |
| Number of Employees | 2,825 |
| Month of Ordinary General Meeting of Shareholders | June |
| Website Address | http://www.thk.co.jp/en/index.html |

Stock Information

| | |
|-------------------------|------------------------------------|
| Common Stock: | |
| Authorized | 465,877,700 |
| Issued | 119,363,018 |
| Stock Exchange Listings | Tokyo Stock Exchange |
| Number of Shareholders | 37,191 (Unit shareholders: 35,856) |
| Auditing Corporation | ChuoAoyama PricewaterhouseCoopers |

As of March 31, 2004



Printed in Japan

