FINANCIAL SECTION

Analysis of Operating Results

Net sales

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

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

Net sales* by region

— Japan —

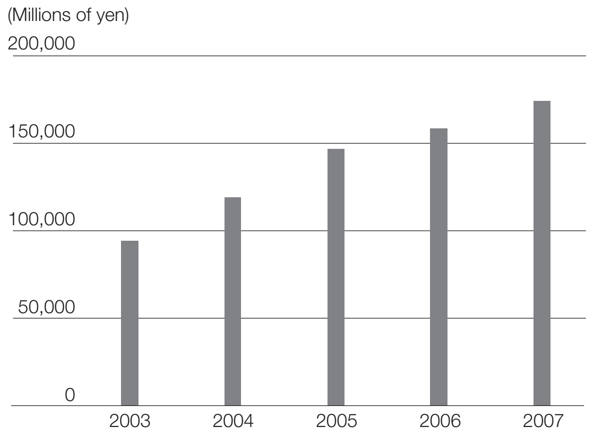
Sales in Japan increased by ¥7,268 million, or 6.5%, to ¥119,513 million. High capital investment levels due to rising corporate profits combined with strong demand from China and other emerging economies to stimulate growth in machinery orders. Sales performance in each of the three leading industry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

— The Americas —

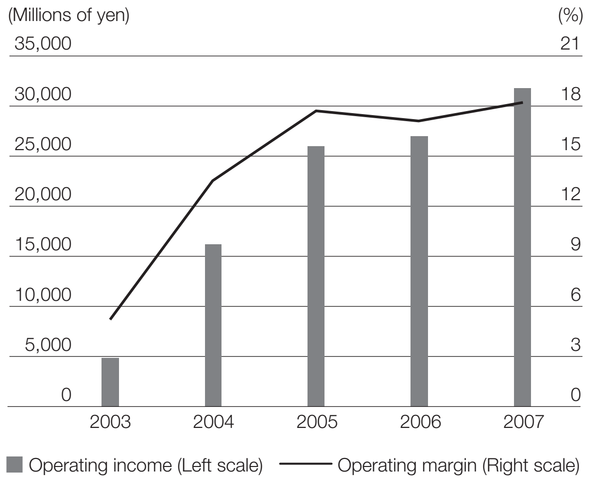
Sales in the Americas grew by ¥2,542 million, or 18.0%, to ¥16,650 million. Capital investment posted favorable growth, supported by continued expansion in consumer spending. THK focused on expanding business with existing clients while also seeking to develop new customers. Sales increased significantly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

* Sales accounted for by customers in each particular region

Net Sales



Operating Income and Operating Margin



Years ended March 31

— Europe —

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

— Asia and other —

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

Cost of sales and gross profit

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

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

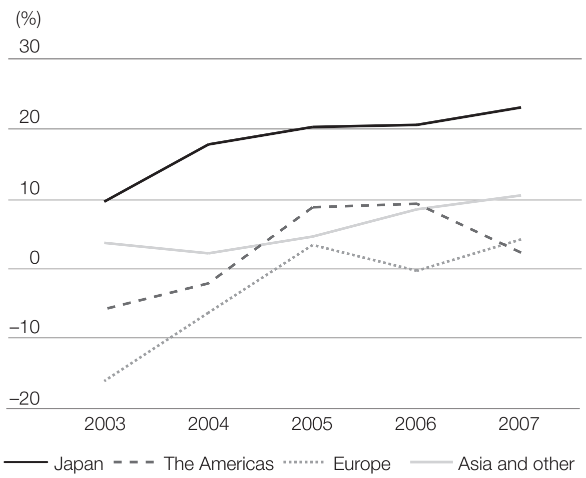
Selling, general and administrative (SG&A) expenses

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

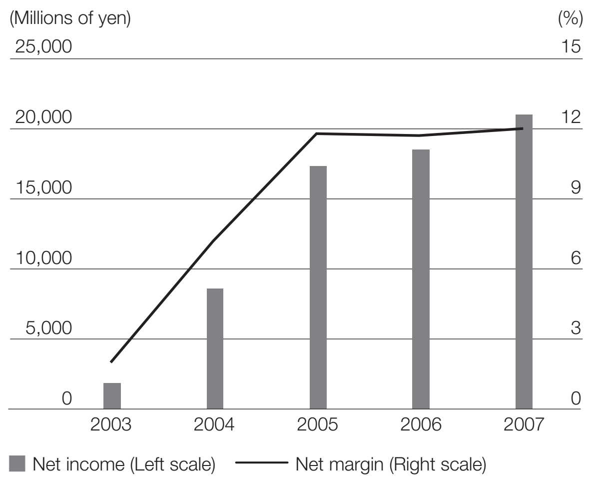
Operating income

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

Operating Margin, by Geographic Segment



Net Income and Net Margin



Years ended March 31

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

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

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

Financial Position

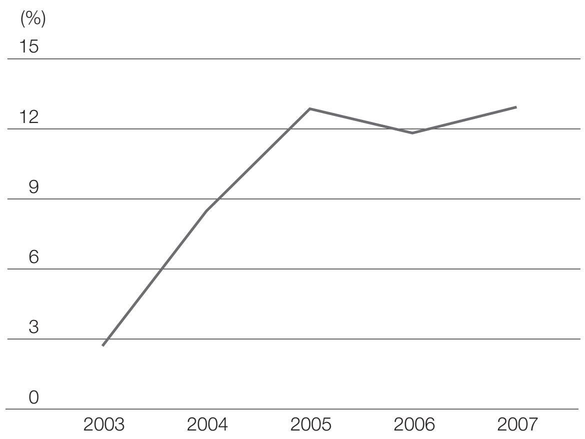
Assets, Liabilities and Net Assets
— Assets —

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

— Liabilities —

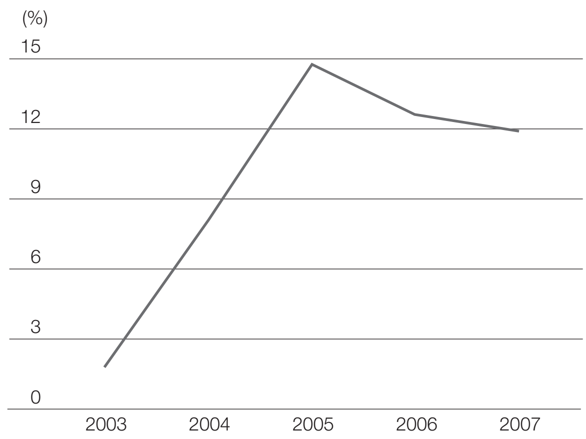
Current liabilities amounted to ¥63,493 million at March 31, 2007, an increase of ¥1,835 million, or 3.0%, compared with the previous year-end. Major causative factors included an increase of ¥4,445 million in accounts and notes payable associated with higher production; increases of ¥4,021 million in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

Return on Assets (ROA)



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

Return on Equity (ROE)



Years ended March 31

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

— Net assets —

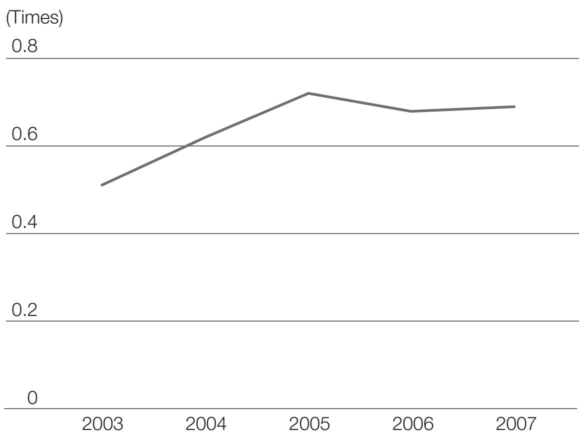
Mainly due to higher retained earnings resulting from net income for the year of ¥21,038 million, net assets totaled ¥189,040 million at March 31, 2007.

Cash Flows

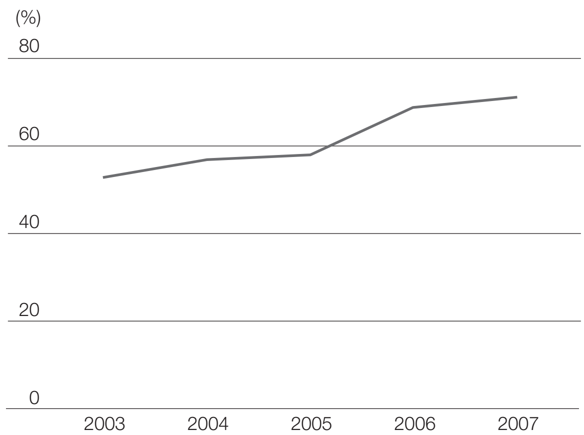
Net cash provided by operating activities equaled ¥29,933 million. Major items included net income of ¥21,038 million and depreciation and amortization of ¥7,131 million. Net cash used in investing activities amounted to ¥10,884 million, primarily reflecting payments for purchase of property, plant and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

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

Asset Turnover Ratio



Equity Ratio



Years ended March 31

Risk factors and uncertainties that could affect the THK Group's business results and financial position include, but are not limited to, the items outlined in the following discussion. Please note that information provided on this page was accurate as of June 18, 2007. Any items relating to the future are based on the best judgment of THK Group management as of this date.

Dependence on linear motion systems

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

Effect of changes in production trends within specific industries

The THK Group manufactures and sells LM guides, ball screws and other machinery components. The principal users of these products are companies that make industrial machinery and equipment, particularly in categories such as general machinery and semiconductor production equipment. While the THK Group is striving through overseas development and cultivation of new business areas to realize expansions in the user base in both quantitative and qualitative terms, the performance of the THK Group is influenced by production trends within industrial sectors such as general machinery and semiconductor production equipment that form the core customer base. The business results and financial position of the THK Group could be affected negatively in the future by a downturn in production levels in these specific industries. However, production trends within these industries currently do not tend to move in tandem at the global level; management believes that national macroeconomic conditions remain a more important driver of demand.

Overseas business expansion

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

Exchange rate fluctuations

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

Reliance on specific sources of supply

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

Incidence of defective products

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

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

Consolidated Balance Sheets

as of March 31, 2006 and 2007

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

The accompanying notes are an integral part of these statements.

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

Consolidated Statements of Income

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Change in Net Assets

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

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

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

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

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

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

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007 was approved at the shareholders' meeting held on June 16, 2007 and commenced its payment on June 18, 2007:

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

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

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2006	2007	2007
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥26,845	¥ 30,566	¥ 34,524	$ 292,355
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,657	6,562	7,131	60,382
Amortization of negative goodwill	(324)	(648)	(648)	(5,489)
Increase/(decrease) in provisions	(717)	156	551	4,670
(Gain)/loss on sale/disposal of property and equipment, net	201	(58)	326	2,761
Interest and dividend income	(282)	(308)	(579)	(4,903)
Interest expenses	163	168	128	1,084
Foreign exchange (gain)/loss, net	(167)	(134)	136	1,151
Equity earnings of affiliates	(433)	(416)	(490)	(4,151)
Loss on write-down of long-term investments in securities	—	164	—	—
Gain on sale of long-term investments in securities, net	—	(1,933)	—	—
Liquidation loss of a consolidated subsidiary	650	—	—	—
Impairment loss on fixed assets	—	1,152	71	598
Changes in assets and liabilities:				
Increase in accounts and notes receivable	(3,203)	(8,461)	(636)	(5,387)
(Increase)/decrease in inventories	14	(220)	(340)	(2,875)
Increase in accounts and notes payable	3,098	4,565	3,835	32,476
Other, net	228	643	(1,335)	(11,306)
Subtotal	31,730	31,798	42,674	361,366
Interest and dividend income received	339	399	710	6,011
Interest expenses paid	(192)	(171)	(167)	(1,411)
Income taxes paid	(9,499)	(11,820)	(13,284)	(112,487)
Net cash provided by operating activities	22,378	20,206	29,933	253,479
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	30	—	2,558	21,663
Increase in term deposits due over three months	—	(1,945)	(463)	(3,925)
Payments for purchase of property, plant and equipment	(6,963)	(12,520)	(12,848)	(108,800)
Proceeds from sales of property, plant and equipment	215	1,339	99	838
Payments for purchase of long-term investments in securities	(475)	(13)	(516)	(4,367)
Proceeds from sales of long-term investments in securities/ investments in unconsolidated subsidiaries and affiliates	3	3,850	25	209
Payments of advances	(400)	(67)	(85)	(716)
Collections of advances	418	12	58	495
Other, net	—	—	288	2,434
Net cash used in investing activities	(7,172)	(9,344)	(10,884)	(92,169)
Cash Flows from Financing Activities:				
Repayments of long-term debt	(36)	(352)	(72)	(610)
Proceeds from sale of treasury stock	0	899	1	10
Redemption of bonds	—	—	(10,000)	(84,681)
Cash dividends	(1,772)	(2,524)	(3,752)	(31,774)
Payments for purchase of treasury stock	(14)	(20)	(16)	(136)
Proceeds from minority shareholders' payment	—	256	—	—
Other, net	0	—	(1)	(6)
Net cash used in financing activities	(1,822)	(1,741)	(13,840)	(117,197)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(41)	1,199	437	3,699
Net Increase in Cash and Cash Equivalents	13,343	10,320	5,646	47,812
Cash and Cash Equivalents at Beginning of Year	57,037	75,987	86,307	730,858
Increase in Cash and Cash Equivalents Resulting from Inclusion of Consolidated Subsidiaries	5,622	—	—	—
Decrease in Cash and Cash Equivalents Resulting from Exclusion of a Consolidated Subsidiary	(15)	—	—	—
Cash and Cash Equivalents at End of Year (Note 15)	¥75,987	¥ 86,307	¥ 91,953	$ 778,670

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements of THK CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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

2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the readers outside Japan and are unaudited. These translations should not be construed as presentations that the yen amounts actually represent or have been or could be converted into, U.S. dollars. For this purpose the rate of ¥118.09=U.S. 1, the approximate rate of exchange prevailing in Tokyo on March 30, 2007, was used for the translation of the accompanying consolidated financial statements of the Company as of and for the year ended March 31, 2007.

3. Summary of Significant Accounting Policies

(a) Scope of Consolidation

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

The Company had 24 subsidiaries ("controlled" companies — companies whose decision making is controlled) as of March 31, 2007 (25 as of March 31, 2006). The consolidated financial statements for the year ended March 31, 2007 include the accounts of the Company and 20 (20 for 2006) of its subsidiaries. The 20 major subsidiaries, which have been consolidated with the Company, are listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal year ended
THK Holdings of America, L.L.C. (USA)	100%	Dec. 31, 2006
THK America, Inc. (USA)	100	Dec. 31, 2006
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2006
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2006
THK GmbH (Germany)	100	Dec. 31, 2006
THK France S.A.S. (France)	100	Dec. 31, 2006
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2006
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2006
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec. 31, 2006
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2006
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2006
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2006
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2006
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2006
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2006
THK LM SYSTEM Pte. Ltd. (Singapore)	100	Dec. 31, 2006
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2007
THK NIIGATA CO., LTD. (Japan)	70	Mar. 31, 2007
TALK SYSTEM CORPORATION (Japan)	99	Mar. 31, 2007
Beldex Corporation (Japan)	94.73	Mar. 31, 2007

The accounts for the year ended March 31, 2007 of the remaining 4 (5 for 2006) subsidiaries are insignificant, meaning that these accounts have not been consolidated with the Company since combined assets, net sales, net income and retained earnings of these companies, in the aggregate, are not significant in relation to those of the Companies.

The changes of the scope of consolidation for the year ended March 31, 2007 are as follows:

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

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company has 3 (3 for 2006) affiliates ("influenced companies" — companies whose financial and operating or business decision making can be influenced by the Companies in a material degree, and are not subsidiaries) at March 31, 2007. The equity method is applied to the investment in SAMICK THK CO., LTD. The investments in the unconsolidated subsidiaries and the remaining affiliates do not have a material effect on consolidated net income and retained earnings in the consolidated financial statements, had they been accounted for using the equity method. Thus the investments in the unconsolidated subsidiaries and affiliates are carried at cost or less any impairment loss.

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

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

(d) Inventories

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

(e) Financial Instruments

Securities

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

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

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

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

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

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

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

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

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

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

(g) Amortization
Amortization of intangible assets (included in "Deferred Charges and Intangibles" account) is computed using the straight-line method.

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

Differences between the cost and the fair value of the underlying net equity in subsidiaries and affiliates which are consolidated or accounted for by the equity method are amortized on a straight-line basis over a period of 5 years ("Negative goodwill").

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

(h) Allowance for Bad Debts

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

(i) Accrued Bonuses to Employees

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

(j) Accrued Bonuses to Directors and Statutory Auditors

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

(k) Reserve for Employees' Retirement Benefits

The reserve for employees' retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except for the unrecognized actuarial differences which are amortized on a straight-line basis over the period, from 5 to 10 years, from the next year in which they arise.

(l) Accounting for Leases

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

(m) Foreign Currency Translation

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

(n) Accounting for the Consumption Tax

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

(o) Income Taxes

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

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

(p) Cash and Cash Equivalents

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

(q) Change in Accounting Policies

(1) Effective from the year ended March 31, 2006, the Company adopted the accounting standard for impairment of fixed assets (*"Accounting Standards for Impairment of Fixed Assets"* issued by the Business Accounting Council on August 9, 2002) and *"Guidance on Accounting Standards for Impairment of Fixed Assets"* (ASB Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

The Company recognized impairment loss on fixed assets such as idle assets at the amount measured as the excess of the carrying amount over the recoverable amount of the assets. The recoverable amount is determined by the net realizable value measured by certified real estate appraisers.

As a result, income before income taxes and minority interest decreased by ¥1,152 million, compared with what would have been reported if the new accounting standard had not been adopted.

Accumulated loss from impairment is deducted directly from the acquisition costs of the related assets in accordance with the revised disclosure requirements.

(2) Effective from the year ended March 31, 2006, THK TAIWAN CO., LTD. has changed its inventory valuation method from using the moving average method to the first-in, first-out method in order to figure out the net income/loss of the period properly by introducing the new sales/distribution and accounting systems as a part of implementing a program to achieve effective and efficient operations. The effect of this change on income and loss on the consolidated financial statements for the year ended March 31, 2006 was immaterial.

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

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

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

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

4. Impairment Losses

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

For idle assets whose operating profitability has worsened substantially due to such factors as ongoing decline in fair market value of assets, the Company decided to mark the assets down to the net realizable value and recorded the impairment loss of ¥71 million ($598 thousand), which is comprised of the following.

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

5. Long-term investments in securities

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

	Millions of yen		
	2006		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥579	¥2,833	¥2,254
Other	3	4	1
Subtotal	582	2,837	2,255
Carrying amounts not in excess of acquisition cost:			
Equity securities	2	2	(0)
Other	—	—	—
Subtotal	2	2	(0)
Total	¥584	¥2,839	¥2,255

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

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

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

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

6. Inventories

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

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

7. Long-term Debt

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

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

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

At March 31, 2007, the Company and some of its subsidiaries had committed lines of credit amounting to ¥13,000 million ($110,086 thousand). None of the committed lines of credit were used.

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2007, were as follows:

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

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

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

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

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

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

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

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

9. Contingent Liabilities

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

10. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥677 million, ¥658 million, and ¥673 million ($5,703 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively. Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2006 and 2007 were as follows:

	Millions of yen		
	2006		
	Machinery and equipment	Other	Total
Acquisition costs	¥2,959	¥—	¥2,959
Accumulated depreciation	901	—	901
Net leased property	¥2,058	¥—	¥2,058

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

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

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

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

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Depreciation of the leased property, which is not reflected in the accompanying Consolidated Statements of Income, computed by using the straight-line method, would be ¥677 million, ¥658 million and ¥673 million ($5,703 thousand) for the years ended March 31, 2005, 2006 and 2007, respectively.

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

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

11. Derivative and Hedging Activities

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

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

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

12. Research and Development

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

13. Reserve for Employees' Retirement Benefits

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

The reserve for employees' retirement benefits as of March 31, 2006 and 2007 were analyzed as follows:

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

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

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

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

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

14. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the Company and its subsidiaries for the years ended March 31, 2005 , 2006 and 2007 was 40.7%.

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

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

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

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

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

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

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

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

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

2) Significant non-cash transactions

In the year ended March 31, 2006 and 2007, a portion of convertible bonds were converted into THK's common stock: resulting in an increase in the Company's paid-in capital and additional paid-in capital. The following summarizes change in paid-in capital and additional paid-in capital accounts included in the net assets.

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

16. Amounts per Share

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

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

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

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

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

17. Segment Information

(1) Industry Segment Information

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

(2) Geographical Segment Information

Net sales are attributed to geographies based on the country location of the parent company or the subsidiaries that transacted the sale with the external customers.

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

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

Net sales of the Companies for the years ended March 31, 2005, 2006 and 2007 classified by geographic segments were summarized as follows:

Millions of yen

	2005						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income —							
Net sales:							
Customers	¥115,701	¥12,818	¥15,371	¥3,268	¥147,158	¥ —	¥147,158
Inter-segment	15,680	35	133	—	15,848	(15,848)	—
Total	131,381	12,853	15,504	3,268	163,006	(15,848)	147,158
Operating expenses	107,872	11,725	14,977	3,118	137,692	(16,508)	121,184
Operating income	¥ 23,509	¥ 1,128	¥ 527	¥ 150	¥ 25,314	¥ 660	¥ 25,974
II. Assets —							
Assets	¥200,778	¥15,148	¥18,730	¥2,454	¥237,110	¥(17,102)	¥220,008

Millions of yen

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

Millions of yen

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

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

The amounts of assets held for corporate purpose include in “Eliminations and corporate”, which primarily consist of term deposits and investment securities held by the parent company. Such corporate assets were ¥12,905 million, ¥54,029 million, and ¥55,003 million ($465,775 thousand), as of March 31, 2005, 2006 and 2007, respectively.

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

(3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company plus the sales by the overseas consolidated subsidiaries) for the years ended March 31, 2005, 2006 and 2007 were summarized as follows:

	Millions of yen			
	2005			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥12,888	¥15,340	¥13,375	¥ 41,603
Consolidated net sales				¥147,158
Overseas sales as a percentage of consolidated net sales	8.8%	10.4%	9.1%	28.3%

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

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

18. Related Party Information

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

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

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

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

19. Subsequent Events

Rhythm Corporation Acquisition

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

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

Purpose of the Acquisition

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

Overview of Rhythm

— Name of company: Rhythm Corporation

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

— Representative: Katsuo Kitamura
President and CEO

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

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

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

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

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

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

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

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

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

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of THK Co., Ltd. and its subsidiaries as of March 31, 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the two years in the period ended March 31, 2006, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THK Co., Ltd. and its subsidiaries as of March 31, 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended March 31, 2006 in conformity with accounting principles generally accepted in Japan.

As described in Note 3, effective for the year ended March 31, 2006, THK Co., Ltd. and its subsidiaries adopted the accounting standard for impairment of fixed assets ("Accounting Standards for Impairment of Fixed Asstes" issued by the Business Accounting Council on August 9, 2002) and "Guidance on Accounting Standards for Impairment of Fixed Assets" (ASB Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

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

Misuzu Audit Corporation

Misuzu Audit Corporation
(formerly ChuoAoyama PricewaterhouseCoopers)
Tokyo, Japan

June 16, 2006

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of THK Co., Ltd. and its subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

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

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

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan

Grant Thornton Taiyo ASG

Grant Thornton Taiyo ASG
Tokyo, Japan

June 16, 2007