



November 18, 2004

## Consolidated Financial Review for the Six Months Ended Sep. 30, 2004

|  |   |
|--|---|
| Company Name:  | <b>THK CO., LTD.</b>                                |
| Head Office:   | Tokyo, Japan (Tel: +81-03-5434-0300)                |
| URL:   | <a href="http://www.thk.com">http://www.thk.com</a> |
| Stock exchange listing:                                    | Tokyo Stock Exchange 1 <sup>st</sup> Section        |
| Code number:   | 6481  |
| President and CEO:   | Akihiro Teramachi                                   |
| Director/General Manager of Corporate Strategy Department: | Kotaro Yoshihara                                    |
| Date of the board meeting:                                 | November 18, 2004                                   |
| Application of U.S. GAAP:                                  | None  |

### 1. Consolidated Financial Highlights (Unaudited)

Note: All figures are rounded down to nearest million yen.

#### (1) Operating results

|                                  | Net sales       |      | Operating income |       | Ordinary income |       |
|----------------------------------|-----------------|------|------------------|-------|-----------------|-------|
|                                  | Millions of yen | %    | Millions of yen  | %     | Millions of yen | %     |
| Six months<br>Ended Sep.30, 2004 | 76,868          | 37.5 | 15,329           | 137.8 | 16,542          | 171.7 |
| Six Months<br>Ended Sep.30, 2003 | 55,924          | 23.4 | 6,447            | 267.5 | 6,088           | 303.6 |
| Year Ended Mar.31, 2004          | 119,253         |      | 16,231           |       | 15,892          |       |

|                                  | Net income      |         | Net income per share | Fully diluted net income per share |
|----------------------------------|-----------------|---------|----------------------|------------------------------------|
|                                  | Millions of yen | %       | Yen                  | Yen                                |
| Six months<br>Ended Sep.30, 2004 | 10,388          | 248.9   | 87.88                | 78.62                              |
| Six Months<br>Ended Sep.30, 2003 | 2,977           | 1,074.3 | 25.19                | 21.98                              |
| Year Ended Mar.31, 2004          | 8,853           |         | 72.27                | 63.69                              |

#### Notes:

- Profit/loss on equity method : Six Months end Sep.30, 2004: 284million yen  
Six Months end Sep.30, 2003: 40million yen  
Year ended Mar.31, 2004: 301million yen
- Average number of shares of common stock (consolidated) issued:  
Six Months ended Sep.30, 2004: 118,212,020 shares.  
Six Months ended Sep.30, 2003: 118,223,451 shares.  
Year ended Mar.31, 2004: 118,090,965 shares.
- Change of accounting policy: None
- Percentages for net sales, operating income, ordinary and net income indicated changes from the previous term.



(2) Financial position

|                               | Total assets    | Shareholders' equity | Equity ratio | Shareholders' equity per share |
|-------------------------------|-----------------|----------------------|--------------|--------------------------------|
|                               | Millions of yen | Millions of yen      | %            | Yen                            |
| Six months Ended Sep.30, 2004 | 205,848         | 118,190              | 57.4         | 999.83                         |
| Six months Ended Sep.30, 2003 | 177,956         | 105,299              | 59.2         | 892.26                         |
| Year ended Mar.31, 2004       | 191,105         | 109,181              | 57.1         | 923.35                         |

Note: Number of shares of common stock (consolidated) issued as of  
 Six months ended Sep.30, 2004: 118,210,676 shares  
 Six months ended Sep.30, 2003: 118,013,568 shares  
 Year ended Mar.31, 2004: 118,190,473 shares

(3) Consolidated cash flow position

|                               | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Cash and cash equivalents at the end of the period |
|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|--|
|                               | Millions of yen                     | Millions of yen                     | Millions of yen                     | Millions of yen                                    |
| Six months Ended Sep.30, 2004 | 8,028                               | (3,000)                             | (890)                               | 61,249   |
| Six months Ended Sep.30, 2003 | 5,995                               | (2,651)                             | (25,911)                            | 50,129   |
| Year ended Mar.31, 2004       | 15,735                              | (3,681)                             | (27,132)                            | 57,037   |

(4) Scope of consolidation and application of equity method

Consolidated subsidiaries: 14 companies  
 Unconsolidated subsidiaries using the equity method: 0 company  
 Affiliates using the equity method: 2 companies

(5) Changes in scope of consolidation and application of equity method

Consolidated companies: Additions: 0 company Deletion: 0 company  
 Companies using the equity method: Additions: 0 company Deletion: 0 company

2. Corporate estimates for the year ending March 31, 2005(4/1/04/-3/31/05)

|                          | Net sales       | Operating income | Ordinary income | Net income      |
|--------------------------|-----------------|------------------|-----------------|-----------------|
|                          | Millions of yen | Millions of yen  | Millions of yen | Millions of yen |
| Year ending Mar.31, 2005 | 143,000         | 25,400           | 26,700          | 16,500          |

For reference: Estimate of net income per share for the year ending March 31, 2005: 137.77 Yen  
 (By forecast average number of shares of common stock year of period)

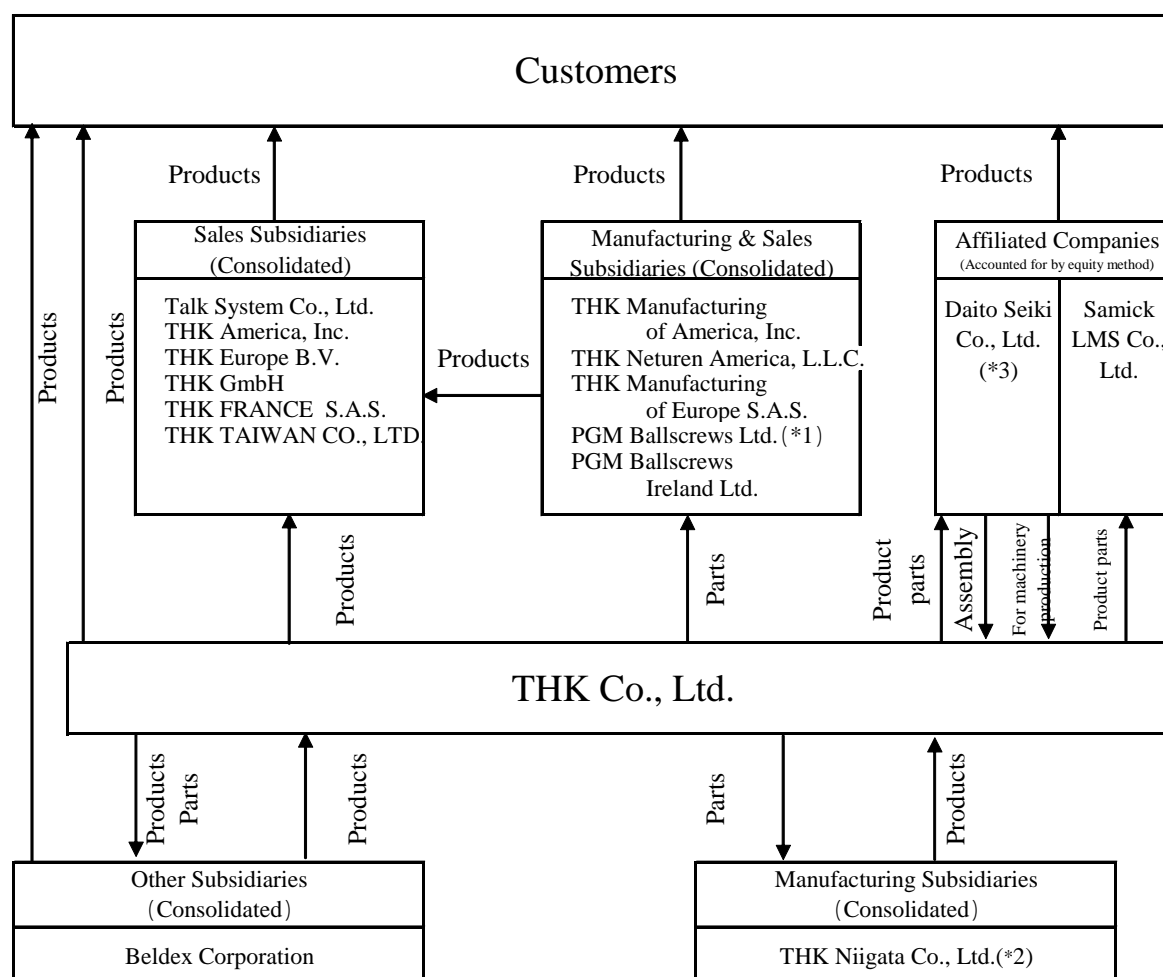
## Status of the Corporate Group

The company's business group consists of twenty-two subsidiaries and four affiliated companies, which engage in the manufacture and distribution of the subcomponents of equipment and machinery, centering on linear motion systems, ball screws, and spherical joints.

These products are manufactured by the company itself, as well as by THK Niigata Co., Ltd. and Daito Seiki Co., Ltd., in Japan, and by THK Manufacturing of America, Inc., THK Manufacturing of Europe S.A.S., PGM Ballscrews Ltd., PGM Ballscrews Ireland Ltd., and Samick LMS Co., Ltd. in foreign countries.

The company sells these products through its own distribution channels, Talk System Co., Ltd., and Daito Seiki Co., Ltd., in Japan, and using its own sales channels, THK America, Inc., THK Europe B.V., THK GmbH, THK FRANCE S.A.S. THK TAIWAN CO., LTD, and Samick LMS Co., Ltd., in foreign countries.

A diagram of the main THK Group companies is as follows:



(\*1) PGM Ballscrews Ltd., a consolidated subsidiary as shown above, ceased business activities on July 1, 2004, and has begun liquidation on August 31, 2004.

(\*2) THK Niigata Co., Ltd., a consolidated subsidiary, used to be THK Yasuda Co., Ltd. The name was changed on July 1, 2004.

(\*3) Daito Seiki Co., Ltd., an affiliated company, will become a wholly-owned subsidiary effective on November 1, 2004, by stock swap.

## **Management Policy**

### **(1) Basic Management Policies**

The company is a creativity and development-oriented enterprise that is well known as a world-leading maker of the Linear Motion Guide, and whose innovative technologies contribute to society. Supported by untiring research-and-development efforts, such contributions are the company's operating base.

The company has constantly worked toward technological innovation (it holds 942 domestic and 909 overseas patents and patents pending), and will continue to keep its basic posture as a creativity and development-oriented enterprise. Based on its commitment to providing innovative products to the world, and to generate new trends that contribute toward an affluent society, the company aims to expand its business base and to eventually increase its enterprise value by aggressively cultivating new markets and areas, helped by its technologies and products.

### **(2) Basic Profit Sharing Policies**

The company's basic profit-sharing policy is to continue to pay stable dividends to its shareholders. The company believes that it is also important to appropriate earnings that correspond to actual earnings results, in an attempt to enhance its retained earnings and financial strength.

The company will effectively use its retained earnings to reinvest in production equipment and facilities, and in information systems, responding to the future needs of R&D activities and of the globalization of its industry.

### **(3) Consideration and Policies on Deduction of Investment Units**

The company changed the number of shares constituting one trade unit from 1000 to 100, in accordance with a resolution adopted at the regular shareholders meeting held in June 1991.

The company will continue to make effort to implement flexible policy as needed, toward expanding the shareholder base and enhancing the market liquidity of its stocks.

### **(4) Targeted Management Indexes**

To maximize shareholders' interest, the company considers return-on-equity to be the most important management index; it has set a goal of 10-percent ROE. The company places the greatest emphasis on profitability, to improve ROE, and therefore has also targeted a 20-percent operating profit ratio.

### **(5) Medium-term Management Strategy**

The company's unique Linear Motion Guide technology is an unrivaled new mechanism. This product has received much recognition and a high share in the Japanese market. There is greater potential overseas demand for Linear Motion Guide, due to their lower rate of use than in Japan.

The company will aggressively cultivate overseas markets by supplying high-quality products, centering on Linear Motion Guide. To this end, it will strengthen its overseas sales system and focus on establishing a global manufacturing structure that can rapidly respond to local demand, based on the concept that production should be conducted as near as possible to the market of final demand. In this way, it aims to increase its overseas sales ratio to 50 percent (from the current 27.2 percent) over the long-term.

The company will make great efforts to expand its business by increasing its presence in global markets, and by cultivating new products, and will aggressively pursue improved profitability and financial strength. In this way, it will attempt to increase the enterprise's value.

## **(6) Issues to Be Acted Upon**

The company produces and distributes subcomponents for equipment and machinery, including the Linear Motion Guide, ball screws, and other items. The main users of these products are manufacturers of industrial machinery, such as machine tools and semiconductor manufacturing devices. The company's earnings results are significantly influenced by trends in its clients' industries private sector capital investment and production.

To mitigate fluctuations of business results, the company plans to expand its user base by accelerating overseas development and new business areas.

The company's overseas marketing regions are Europe, America, and Asia. To choose the best production spots, the company will expand its sales by reinforcing its cost competency, and by making appeals for its high-level technologies to users by increasing production nearer to their locations.

The company will also work toward gaining new business areas and markets, including electromechanics, housing, and automobile industries.

## **(7) Basic Policy of Corporate Governance**

To maximize shareholders' interest, the company aims for fair management by enhancing transparency to shareholders. The Board of Directors is composed of 15 members, none of whom are from outside the company. To segregate the management monitoring function from the business execution function, as is required of the Board of Directors, and to make the Board of Directors more efficient, the company has established as a supreme decision-making body a management meeting consisting mainly of executive directors.

This management meeting invites certain responsible directors, as needed, to collect necessary information from them, and solicits objective opinions from such third parties as lawyers and accountants as well. Opinions of the meeting are put together after discussion. Based on such information and opinions, the meeting's members exchange views and assemble proposals for the Board of Directors to discuss and to make final decisions for the company.

The company has also established the Internal Audit Office, to monitor the correctness of daily operations, and the appropriateness and efficiency of the management of the company and its affiliates at home and abroad. It is also working to strengthen the supervisory functions of the Corporate Auditors Meeting, which is composed of four

auditors. The auditors of all group companies in Japan hold regular meetings to exchange information on auditing practices.

The company will continue considering important the study of the pros and cons of introducing a committee system into its management structure, but will continue reforming the management structure and system within the current framework of the Board of Directors and Corporate Auditors Meeting.

The company will continue to work to demonstrate complete compliance with laws, rules, and regulations, and to increase accountability to respond to the trust of shareholders and investors.

## Business Performance and Financial Standings

### I. Business Performance

#### (1) Summary of Business Performance for the Current Consolidated Interim Fiscal Year

The Japanese economy showed steady recovery during the six months that ended on September 30, 2004, because capital investment increased with improvements in corporate earnings and the recovery of consumer spending, although there were some factors weighing on the economy, such as the sharp rise in crude oil prices. US consumer spending remained on the upswing, helped by an improved labor market, and the European economy also saw a mild recovery. The expansion of the Chinese economy activated capital investment in some parts of Asia, while the overseas economy generally continued to be strong.

Under these circumstances, the company improved the development and rollout of new products, focusing on expanding overseas production capacity, and made domestic productivity improvements in an effort to accommodate increased demand. The company also worked to enhance its sales capabilities by aggressively promoting TAP-1 activities (THK Advantage Program 1), to increase the skills of salespeople in Europe and the US, where the company is trying to expand sales. Driven by these improvement efforts, and helped by a positive external environment (such as an increase in machinery demand in China, increasing capital investment in the automobile industry, and expansion of the digital home appliance market), sales to main users of our products (makers of machine tools, general machinery, and electronics) continued to be strong during the current interim fiscal year.

Consolidated net sales for the six months ended September 30, 2004, were ¥76,868 million, marking an increase of ¥20,944 million (or 37.5 percent) since the previous interim fiscal year. The sales-cost ratio improved by 4.2 percent, to 62.8 percent, from the 67.0 percent of the previous interim fiscal period, helped by a rise in capacity utilization (due to production increases and increased worker skills in overseas plants) and by a sharp rise in capacity utilization in domestic plants. With the successful suppression of increases in sales and administrative expenses, and despite soaring sales results, operating income marked ¥15,329 million, up ¥8,881 million (or 137.8 percent) since the previous interim fiscal year. Ordinary income was ¥16,542 million, up ¥10,453 million (or 171.7 percent) since the previous interim fiscal year, due to foreign exchange profit and an increase in gains on investment using the equity method. Net income was ¥10,388 million, an increase of ¥7,411 (or 248.9 percent) since the previous interim fiscal year.

#### Summary of Consolidated Business Performance

(Millions of Yen)

|                  | Six months ended Sep 30, 2003 |       |                                 | Six months ended Sep 30, 2004 |       |                                 |
|------------------|-------------------------------|-------|---------------------------------|-------------------------------|-------|---------------------------------|
|                  | Amount                        | %     | Inc/Dec (%) from 2002 (interim) | Amount                        | %     | Inc/Dec (%) from 2003 (interim) |
| Net sales        | 55,924                        | 100.0 | 23.4                            | 76,868                        | 100.0 | 37.5                            |
| Operating income | 6,447                         | 11.5  | 267.5                           | 15,329                        | 19.9  | 137.8                           |
| Ordinary income  | 6,088                         | 10.8  | 303.6                           | 16,542                        | 21.5  | 171.7                           |
| Net income       | 2,977                         | 5.3   | 1,074.3                         | 10,388                        | 13.5  | 248.9                           |

**Reference: Summary of Non-consolidated Business Performance**

(Millions of Yen)

|                  | Six months ended Sep 30, 2003 |       |                                 | Six months ended Sep 30, 2004 |       |                                 |
|------------------|-------------------------------|-------|---------------------------------|-------------------------------|-------|---------------------------------|
|                  | Amount                        | %     | Inc/Dec (%) from 2002 (interim) | Amount                        | %     | Inc/Dec (%) from 2003 (interim) |
| Net sales        | 44,895                        | 100.0 | 25.7                            | 63,770                        | 100.0 | 42.0                            |
| Operating income | 6,938                         | 15.4  | 155.5                           | 13,684                        | 21.5  | 97.2                            |
| Ordinary income  | 6,833                         | 15.2  | 144.4                           | 14,747                        | 23.1  | 115.8                           |
| Net income       | 3,801                         | 8.5   | 149.7                           | 8,885                         | 13.9  | 133.8                           |

**(2) Segment Information for the Current Consolidated Interim Fiscal Year**

Geographic segment information is as follows.

***Japan:***

Sales to machine tool and industrial robot makers continued to be firm, due to the recovery in capital investment, and sales to the electronics sector (including semiconductor and liquid crystal display makers) also remained strong, due to the expansion of the digital home appliance market. Net sales amounted to ¥69,231 million, an increase of ¥20,146 million (or 41.0 percent) since the previous interim fiscal year. Operating income was ¥14,364 million, up ¥7,404 million (or 106.4 percent) since the previous interim fiscal year.

***America:***

Sales to automobile makers, semiconductor manufacturing device makers, and medical equipment makers continued to be firm. Net sales increased by ¥1,076 million (or 21.3 percent) since the previous interim fiscal year, to ¥6,129 million, although the yen was stronger against the US dollar than it was in the previous interim period. Operating income rose by ¥770 million since the previous interim fiscal year, to ¥694 million, thanks to improvements in the capacity utilization and productivity of THK Manufacturing of America, Inc.

***Europe:***

Sales to machine tool makers and semiconductor manufacturing device makers continued to be strong. Net sales increased by ¥1,372 million (or 20.5 percent) since the previous interim fiscal year, to ¥8,068 million. This is attributed to the increased adoption rate of the company's products and the successful cultivation of new clients. Operating income was ¥446 million, an increase of ¥832 million since the previous interim fiscal year, due to the improvement in capacity utilization and productivity of THK Manufacturing of Europe S.A.S. as in the case of the US manufacturing subsidiary.

***Asia and Other Regions:***

Sales to machine tools makers and the electronics industries were strong, driven by the expanded Chinese market. Net sales were ¥1,646 million, an increase of ¥483 million since the previous interim fiscal year. Operating income fell by ¥4 million since the previous interim fiscal year, to ¥30 million, due to decreased profitability



brought on by the strong yen and the weak Taiwan dollar, and to the rise in sales and administrative expenses caused by the expense of system development to improve business efficiency.

**Note:** The net sales above are those to external customers.

**(3) Profit-sharing for the Six Months Ended September 30, 2004**

The company decided to pay an interim fiscal year-end dividend of ¥7.50 per share.

## II. Financial Standings

### (1) Analysis of Balance Sheets

Total assets for the six months ended September 30, 2004, were ¥205,848 million, an increase of ¥14,743 million from the previous consolidated fiscal year-end. This is mainly because current assets increased by ¥13,936 million from the previous fiscal year-end, attributed to a gain in accounts receivable, which was caused by increased sales. Liabilities also increased by ¥5,684 million from the previous fiscal year-end, to ¥87,250 million. This is due mainly to an increase in accounts payable, which was caused by rising materials purchases, reflecting increased sales.

Shareholders equity rose by ¥9,008 million from the previous fiscal year-end, to ¥118,190 million, attributed mainly to an increase in net profit for the six months ended September 30, 2004.

### (2) Analysis of Statements of Cash Flows

#### *Cash Flows from Operating Activities:*

“Income before income taxes and others” for the current interim fiscal year increased by ¥10,093 million from the previous consolidated interim fiscal year, to ¥15,973 million, and depreciation expenses amounted to ¥2,719 million. As a result of tax payments, increases or decreases of working capital related current assets and liabilities—such as accounts receivable, inventories, accounts payable, and others,—net cash provided by operating activities amounted to ¥8,028 million, an increase of ¥2,032 million since the previous interim fiscal year.

#### *Cash Flows from Investing Activities:*

Net cash used in investment activities was ¥3,000 million, an increase of ¥349 million since the previous interim fiscal year, due to the purchases of fixed assets including the new Gifu Plant building.

#### *Cash Flows from Financing Activities:*

Net cash used in financing activities was ¥890 million, due to dividends payment although decreased by ¥ 25,021 million since the previous interim fiscal year.

As a result, the outstanding balance of cash and cash equivalents increased over that of the previous interim fiscal year by ¥4,212 million during the current interim fiscal year, to ¥61,249 million.

### (3) Analysis of Cash Flow Indices

|  | FY2002<br>(interim) | FY2002 | FY2003<br>(interim) | FY 2003 | FY2004<br>(interim) |
|--|---------------------|--------|---------------------|---------|---------------------|
| Equity ratio (%)                         | 55.8                | 53.0   | 59.2                | 57.1    | 57.4                |
| Equity ratio on mark-to-market basis (%) | 98.5                | 70.2   | 127.5               | 127.1   | 106.4               |
| Debt redemption years (years)            | 5.6                 | 3.9    | 6.4                 | 2.4     | 4.7                 |
| Interest coverage ratio (multiples)      | 20.4                | 18.0   | 21.2                | 31.9    | 99.4                |

**Equity Ratio:** Shareholders equity as of fiscal year-end / Total assets as of fiscal year-end

**Equity Ratio on a Mark-to-market Basis:** Market capitalization of stocks as of fiscal year-end / Total assets as of fiscal year-end

**Debt Redemption Years:** Interest-bearing debts as of fiscal year-end / Net cash flows provided by operating activities

**Interest Coverage Ratio:** Net cash flows provided by operating activities / interest payable

- These are all calculated using consolidated financial data.
- Market capitalization of stocks is calculated by multiplying the total number of stocks issued, by a closing stock price as of fiscal year-end.
- Corporate bonds with non-interest-bearing warrants and bills discounted are included in interest-bearing debts.

### III. Earnings Projections

#### (1) General Earnings Projections for the Fiscal Year Ending March 31, 2005

The future economic environment surrounding the THK Group will continue to be hard to forecast, since economic recovery will probably falter due to destabilizing factors weighing down corporate earnings, such as sharply rising crude oil and raw-materials prices, and widely fluctuating foreign exchange rates. The group will build a stronger operating base by capitalizing on its tetra-lateral production and distribution systems covering Japan, North America, Europe, and Asia-Pacific, focusing on the achievement of three goals: 1) formulation and promotion of global strategies; 2) continued expansion in newly developing markets; and 3) creation of systems sensitive to demand fluctuations.

#### Consolidated Earnings Projections for the Fiscal Year Ending March 31, 2005

(Millions of Yen)

|                  | Consolidated |       |                              | Non-consolidated |       |                              |
|------------------|--------------|-------|------------------------------|------------------|-------|------------------------------|
|                  | Amount       | %     | Inc/Dec from Fiscal 2004 (%) | Amount           | %     | Inc/Dec from Fiscal 2004 (%) |
| Net sales        | 143,000      | 100.0 | 19.9                         | 117,000          | 100.0 | 19.7                         |
| Operating income | 25,400       | 17.8  | 56.5                         | 22,700           | 19.4  | 40.2                         |
| Ordinary income  | 26,700       | 18.7  | 68.0                         | 23,600           | 20.2  | 46.6                         |
| Net income       | 16,500       | 11.5  | 92.2                         | 14,000           | 12.0  | 58.5                         |

Annual average foreign exchange rate of ¥108.50 per US\$1 and ¥134.20 per €1 is used to calculate earnings projections for the fiscal year ending March 31, 2005.

#### (2) Dividend Projection for the Full Fiscal Year Ending March 31, 2005

The THK Group marked all-time-high business earnings in the first half of fiscal 2004, and it also expects strong earnings results for the full fiscal year. Accordingly, the company plans to pay ¥18.00 per share, up ¥3.00 from the previous period, as dividends for the full fiscal year ending March 31, 2005, in appreciation for shareholders' support.

For the interim dividend, however, the company plans to pay ¥7.50 per share, instead of ¥9.00, up ¥1.50 from the previous interim period, because it should comply with the provisions concerning interim dividend payments specified in the stock swap agreement entered into with Daito Seiki Company Limited on July 26, 2004.

Meanwhile, the company intends to pay ¥10.50 per share, up ¥3.00 from the previous fiscal year, as the fiscal year-end dividend, although this is subject to the resolution of an ordinary general shareholders' meeting scheduled for June 2005.

## Consolidated Balance Sheets

(Millions of Yen)

|                                       | As of September 30, 2003 |       | As of September 30, 2004 |       | As of March 31, 2004 |       |
|---------------------------------------|--------------------------|-------|--------------------------|-------|----------------------|-------|
|                                       | Amount                   | %     | Amount                   | %     | Amount               | %     |
| <b>Assets</b>                         |                          |       |                          |       |                      |       |
| Current assets:                       |                          |       |                          |       |                      |       |
| Cash on hand and in banks             | 50,082                   |       | 60,959                   |       | 56,550               |       |
| Notes and accounts receivable-trade   | 40,389                   |       | 55,485                   |       | 46,285               |       |
| Short-term investments in securities  | 77                       |       | 290                      |       | 516                  |       |
| Inventories                           | 23,415                   |       | 22,899                   |       | 23,108               |       |
| Deferred tax assets                   | 2,578                    |       | 2,853                    |       | 2,667                |       |
| Short-term loans                      | 205                      |       | 193                      |       | 173                  |       |
| Other                                 | 1,734                    |       | 2,232                    |       | 1,722                |       |
| Less: Allowance for doubtful accounts | (362)                    |       | (270)                    |       | (317)                |       |
| Total current assets                  | 118,119                  | 66.4  | 144,643                  | 70.3  | 130,706              | 68.4  |
| Fixed assets:                         |                          |       |                          |       |                      |       |
| Tangible fixed assets                 |                          |       |                          |       |                      |       |
| Buildings and structures              | 15,388                   |       | 14,515                   |       | 14,946               |       |
| Machinery, Equipment and vehicles     | 14,660                   |       | 15,723                   |       | 15,593               |       |
| Land                                  | 10,218                   |       | 10,165                   |       | 10,168               |       |
| Construction in progress              | 1,350                    |       | 1,947                    |       | 726                  |       |
| Other                                 | 1,496                    |       | 1,581                    |       | 1,546                |       |
| Total tangible fixed assets           | 43,113                   | 24.2  | 43,934                   | 21.3  | 42,982               | 22.5  |
| Intangible fixed assets               | 1,715                    | 1.0   | 1,245                    | 0.6   | 1,482                | 0.8   |
| Investment and other                  |                          |       |                          |       |                      |       |
| Long-term investments in securities   | 8,379                    |       | 8,488                    |       | 8,134                |       |
| Deferred tax assets                   | 1,666                    |       | 1,350                    |       | 1,474                |       |
| Other                                 | 5,402                    |       | 6,610                    |       | 6,750                |       |
| Less: Allowance for doubtful accounts | (440)                    |       | (424)                    |       | (425)                |       |
| Total investments and other           | 15,008                   | 8.4   | 16,024                   | 7.8   | 15,933               | 8.3   |
| Total fixed assets                    | 59,837                   | 33.6  | 61,204                   | 29.7  | 60,398               | 31.6  |
| Total assets                          | 177,956                  | 100.0 | 205,848                  | 100.0 | 191,105              | 100.0 |

( Millions of Yen )

|   | As of September 30, 2003 |       | As of September 30, 2004 |       | As of March 31, 2004 |       |
|---|--------------------------|-------|--------------------------|-------|----------------------|-------|
|   | Amount                   | %     | Amount                   | %     | Amount               | %     |
| <b>Liabilities</b>  |                          |       |                          |       |                      |       |
| Current liabilities:  |                          |       |                          |       |                      |       |
| Notes and accounts payable-trade                                | 20,206                   |       | 29,106                   |       | 24,219               |       |
| Short-term debt   | 99                       |       |                          |       |                      |       |
| Current portion of long-term debt                               | 243                      |       |                          |       |                      |       |
| Corporate income taxes payable and other                        | 3,074                    |       | 5,873                    |       | 6,482                |       |
| Allowance for bonuses   | 1,298                    |       | 1,839                    |       | 1,433                |       |
| Other   | 6,251                    |       | 9,127                    |       | 8,182                |       |
| Total current liabilities                                       | 31,174                   | 17.5  | 45,947                   | 22.3  | 40,318               | 21.1  |
| Long-term liabilities:  |                          |       |                          |       |                      |       |
| Bonds   | 15,000                   |       | 15,000                   |       | 15,000               |       |
| Bonds with stock acquisition rights                             | 23,000                   |       | 23,000                   |       | 23,000               |       |
| Allowance for retirement and severance benefits                 | 1,507                    |       | 1,688                    |       | 1,631                |       |
| Allowance for directors' and auditors' retirement benefits      | 1,254                    |       | 1,345                    |       | 1,315                |       |
| Other   | 395                      |       | 269                      |       | 300                  |       |
| Total long-term liabilities                                     | 41,158                   | 23.1  | 41,303                   | 20.1  | 41,247               | 21.6  |
| Total liabilities   | 72,333                   | 40.6  | 87,250                   | 42.4  | 81,565               | 42.7  |
| <b>Minority interests</b>                                       |                          |       |                          |       |                      |       |
| Minority interests  | 324                      | 0.2   | 407                      | 0.2   | 357                  | 0.2   |
| <b>Shareholders' equity</b>                                     |                          |       |                          |       |                      |       |
| Common stock  | 23,106                   | 12.9  | 23,106                   | 11.2  | 23,106               | 12.0  |
| Capital reserve   | 30,962                   | 17.4  | 30,962                   | 15.0  | 30,962               | 16.2  |
| Earned surplus  | 51,118                   | 28.7  | 65,288                   | 31.7  | 55,836               | 29.2  |
| Valuation adjustment for marketable securities                  | 333                      | 0.2   | 631                      | 0.3   | 721                  | 0.4   |
| Foreign currency translation adjustment                         | 1,550                    | 0.9   | (468)                    | (0.2) | (120)                | (0.0) |
| Treasury stock  | (1,771)                  | (0.9) | (1,329)                  | (0.6) | (1,324)              | (0.7) |
| Total shareholders' equity                                      | 105,299                  | 59.2  | 118,190                  | 57.4  | 109,181              | 57.1  |
| Total liabilities, minority interests, and Shareholders' equity | 177,956                  | 100.0 | 205,848                  | 100.0 | 191,105              | 100.0 |

## Consolidated Statements of Income

(Millions of Yen)

|  | Six months ended<br>September 30, 2003 |        |       | Six months ended<br>September 30, 2004 |        |       | Year ended March 31, 2004 |         |       |
|--|--|--------|-------|--|--------|-------|---------------------------|---------|-------|
|  | Amount                                 |        | %     | Amount                                 |        | %     | Amount                    |         | %     |
| Net sales  |  | 55,924 | 100.0 |  | 76,868 | 100.0 |                           | 119,253 | 100.0 |
| Cost of sales  |  | 37,443 | 67.0  |  | 48,249 | 62.8  |                           | 77,932  | 65.4  |
| Gross profit   |  | 18,481 | 33.0  |  | 28,619 | 37.2  |                           | 41,321  | 34.6  |
| Sales, general, and administrative expenses                      |  |        |       |  |        |       |                           |         |       |
| Packaging and transportation                                     | 829                                    |        |       | 1,111                                  |        |       | 2,073                     |         |       |
| Advertising and promotions                                       | 364                                    |        |       | 343                                    |        |       | 710                       |         |       |
| Provision for doubtful accounts                                  |  |        |       | 0                                      |        |       | 33                        |         |       |
| Salaries and allowances  | 4,053                                  |        |       | 4,138                                  |        |       | 8,732                     |         |       |
| Provision for employee bonuses                                   | 460                                    |        |       | 679                                    |        |       | 516                       |         |       |
| Retirement expenses  | 73                                     |        |       | 82                                     |        |       | 148                       |         |       |
| Provision for directors' bonuses                                 | 60                                     |        |       | 29                                     |        |       | 121                       |         |       |
| Rental expenses  | 832                                    |        |       | 864                                    |        |       | 1,694                     |         |       |
| Depreciation and amortization                                    | 292                                    |        |       | 346                                    |        |       | 603                       |         |       |
| Research and development   | 1,154                                  |        |       | 1,287                                  |        |       | 2,520                     |         |       |
| Other  | 3,911                                  | 12,033 | 21.5  | 4,408                                  | 13,290 | 17.3  | 7,935                     | 25,090  | 21.0  |
| Operating income   |  | 6,447  | 11.5  |  | 15,329 | 19.9  |                           | 16,231  | 13.6  |
| Non-operating income   |  |        |       |  |        |       |                           |         |       |
| Interest income  | 61                                     |        |       | 117                                    |        |       | 121                       |         |       |
| Dividend income  | 14                                     |        |       | 20                                     |        |       | 26                        |         |       |
| Foreign exchange gain  |  |        |       | 516                                    |        |       |                           |         |       |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 40                                     |        |       | 284                                    |        |       | 301                       |         |       |
| Rental income  | 78                                     |        |       | 93                                     |        |       | 159                       |         |       |
| Other  | 229                                    | 424    | 0.7   | 349                                    | 1,381  | 1.8   | 461                       | 1,070   | 0.9   |
| Non-operating expenses   |  |        |       |  |        |       |                           |         |       |
| Interest expenses  | 283                                    |        |       | 80                                     |        |       | 493                       |         |       |
| Payment costs  | 20                                     |        |       | 46                                     |        |       | 65                        |         |       |
| Foreign exchange loss  | 294                                    |        |       |  |        |       | 580                       |         |       |
| Other  | 185                                    | 783    | 1.4   | 41                                     | 168    | 0.2   | 271                       | 1,409   | 1.2   |
| Ordinary income  |  | 6,088  | 10.8  |  | 16,542 | 21.5  |                           | 15,892  | 13.3  |

( Millions of Yen )

|  | Six months ended<br>September 30, 2003 |       | Six months ended<br>September 30, 2004 |       | Year ended March 31, 2004 |        |
|--|--|-------|--|-------|---------------------------|--------|
|  | Amount                                 | %     | Amount                                 | %     | Amount                    | %      |
| Extraordinary gain   |  |       |  |       |                           |        |
| Gain on sales of property, plant<br>and equipment            | 4                                      |       | 22                                     |       | 33                        |        |
| Gain on sales of investment<br>securities                    | 35                                     |       |  |       | 35                        |        |
| Reversal of allowance for doubtful<br>accounts               | 5                                      | 45    | 22                                     | 0.0   | 68                        | 0.1    |
| Extraordinary loss   |  |       |  |       |                           |        |
| Loss on sales /disposals of property<br>,plant and equipment | 137                                    |       | 46                                     |       | 320                       |        |
| Loss from investment securities<br>revaluation               | 99                                     |       |  |       | 99                        |        |
| Loss on liquidation of subsidiary<br>company                 |  |       | 545                                    |       |                           |        |
| Loss on arrangement of subsidiary<br>company                 |  |       |  |       |                           |        |
| Other  | 17                                     | 254   | 591                                    | 0.7   | 19                        | 439    |
| Income before income taxes                                   |  | 5,879 | 15,973                                 | 20.8  |                           | 15,520 |
| Income taxes – current                                       | 3,132                                  |       | 5,605                                  |       | 7,265                     |        |
| Income taxes – deferred                                      | (244)                                  | 2,887 | (54)                                   | 5,551 | (338)                     | 6,926  |
| Minority interest income of<br>consolidated subsidiaries     |  | 14    | 32                                     |       |                           | 10     |
| Net income   |  | 2,977 | 10,388                                 | 13.5  |                           | 8,583  |



## Consolidated Statements of Retained Earnings

(millions of Yen)

|  | Six months ended<br>September 30, 2003 |        | Six months ended<br>September 30, 2004 |        | Year ended March 31, 2004 |        |
|--|--|--------|--|--------|---------------------------|--------|
|  |  |        |  |        |                           |        |
| <b>Capital surplus</b>   |  |        |  |        |                           |        |
| Consolidated capital surplus at beginning of the period                      |  | 30,962 |  | 30,962 |                           | 30,962 |
| Consolidated capital surplus at end of the period                            |  | 30,962 |  | 30,962 |                           | 30,962 |
| <b>Earned surplus</b>  |  |        |  |        |                           |        |
| Consolidated earned surplus at beginning of the period                       |  | 48,686 |  | 55,836 |                           | 48,686 |
| Increase in earned surplus   |  |        |  |        |                           |        |
| Net income   | 2,977                                  |        | 10,388                                 |        | 8,583                     |        |
| Increase from accounting for investment in an affiliate by the equity method | 378                                    | 3,356  | —                                      | 10,388 | 378                       | 8,962  |
| Decrease in earned surplus   |  |        |  |        |                           |        |
| Dividends  | 895                                    |        | 887                                    |        | 1,782                     |        |
| Bonuses to directors   | 30                                     |        | 50                                     |        | 30                        |        |
| (bonuses to auditors)  | (4)                                    | 925    | (7)                                    | 937    | (4)                       | 1,812  |
| Consolidated earned surplus at end of the period                             |  | 51,118 |  | 65,288 |                           | 55,836 |

## Consolidated Statements of Cash Flows

(Millions of Yen)

|  | Six months<br>ended<br>Sep. 30, 2003 | Six months<br>ended<br>Sep. 30, 2004 | Year ended<br>March 31, 2004 |
|--|--------------------------------------|--------------------------------------|------------------------------|
| <b>Cash flows from operating activities:</b>                       |                                      |                                      |                              |
| Income before income tax and minority interests                    | 5,879                                | 15,973                               | 15,520                       |
| Depreciation and amortization                                      | 2,646                                | 2,719                                | 5,566                        |
| Loss on sales or disposal of property, plant and equipment         | 132                                  | 23                                   | 287                          |
| Loss on liquidation of subsidiary company                          |                                      |                                      | 99                           |
| Loss on arrangement of subsidiary company                          |                                      | 545                                  |                              |
| Increase (decrease) in provisions                                  | 66                                   | 445                                  | 338                          |
| Interest and dividend income                                       | (75)                                 | (138)                                | (147)                        |
| Interest expense   | 283                                  | 80                                   | 493                          |
| Foreign exchange gain (loss)                                       | 21                                   | (296)                                | 108                          |
| Equity in earnings of unconsolidated subsidiaries and affiliates   | (40)                                 | (284)                                | (301)                        |
| Increase (decrease) in notes and accounts receivable               | (5,058)                              | (9,231)                              | (11,293)                     |
| Increase (decrease) in inventories                                 | 710                                  | 181                                  | 395                          |
| Increase (decrease) in notes and accounts payable                  | 2,920                                | 4,921                                | 7,337                        |
| Other  | 455                                  | (657)                                | 78                           |
| Subtotal   | 7,942                                | 14,281                               | 18,484                       |
| Interest and dividend received                                     | 118                                  | 200                                  | 192                          |
| Interest paid  | (337)                                | (80)                                 | (495)                        |
| Income taxes paid  | (1,727)                              | (6,373)                              | (2,446)                      |
| Net cash provided by operating activities                          | 5,995                                | 8,028                                | 15,735                       |
| <b>Cash flows from investing activities:</b>                       |                                      |                                      |                              |
| Increase in time deposits due over three months                    |                                      | 30                                   |                              |
| Proceeds from sales of short-term investments in securities        | 919                                  |                                      | 907                          |
| Payments for purchases of property, plant and equipment            | (2,500)                              | (2,663)                              | (5,105)                      |
| Proceeds from sales of property, plant and equipment               | 61                                   | 93                                   | 81                           |
| Payments for purchases of long-term investment securities          | (293)                                | (466)                                | (309)                        |
| Proceeds from sales of long-term investment securities             | 244                                  | 2                                    | 1,793                        |
| Payments for loans   | (1,180)                              | (400)                                | (1,183)                      |
| Collection of loans  | 98                                   | 403                                  | 135                          |
| Net cash provided by investing activities                          | (2,651)                              | (3,000)                              | (3,681)                      |
| <b>Cash flows from financing activities:</b>                       |                                      |                                      |                              |
| Increase (decrease) in short-term debt                             | (3,210)                              |                                      | (3,303)                      |
| Repayments of long-term debt                                       | (3,354)                              |                                      | (3,598)                      |
| Redemption of bonds  | (17,344)                             |                                      | (17,334)                     |
| Cash dividend  | (895)                                | (885)                                | (1,784)                      |
| Other  | (1,106)                              | (5)                                  | (1,111)                      |
| Net cash provided by financing activities                          | (25,911)                             | (890)                                | (27,132)                     |
| <b>Effect of exchange rate change on cash and cash equivalents</b> | 162                                  | 74                                   | (418)                        |
| <b>Net increase in cash and cash equivalents</b>                   | (22,404)                             | 4,212                                | (15,496)                     |
| <b>Cash and cash equivalents at beginning of the period</b>        | 72,533                               | 57,037                               | 72,533                       |
| <b>Cash and cash equivalents at end of the period</b>              | 50,129                               | 61,249                               | 57,037                       |

## **Basis for Preparing Interim Consolidated Financial Statements**

### **1. Scope of Consolidation**

**(1) *Number of consolidated subsidiaries:*** 14

Talk System Co., Ltd.; Beldex Corporation; THK Niigata Co., Ltd.; THK Holdings of America, L.L.C.; THK America, Inc.; THK Manufacturing of America, Inc.; THK Neturen America, L.L.C.; THK Europe B.V.; THK GmbH; THK Manufacturing of Europe S.A.S.; THK FRANCE S.A.S.; PGM Ballscrews Ltd.; PGM Ballscrews Ireland Ltd.; THK Taiwan Co., Ltd.

**(2) *Main unconsolidated subsidiaries:***

Dalian THK Co., Ltd.    Nippon Slide Co., Ltd.

**(3) *Reasons for excluding unconsolidated subsidiaries from the consolidation:***

The unconsolidated subsidiaries are small, and their total assets, sales, net incomes (corresponding to equity portion), and retained earnings (corresponding to equity portion), have no material effect on the company's interim consolidated financial statements.

### **2. Use of the Equity Method**

**(1) *Number of affiliated companies accounted for using the equity method:*** 2

Daito Seiki Co., Ltd.    Samick LMS Co., Ltd.

**(2) *Names of main unconsolidated subsidiaries and affiliated companies not accounted for using the equity method:***

Dalian THK Co., Ltd.    Nippon Slide Co., Ltd.

**(3) *Reason for excluding unconsolidated subsidiaries from those subject to the equity method:***

Net income (corresponding to equity portion) and retained earnings (corresponding to equity portion) of these subsidiaries have no material effect on the company's interim consolidated statements, and they are of no importance as a whole, even though they are not accounted for using the equity method.

### **3. Fiscal Years of consolidated subsidiaries**

The following consolidated subsidiaries' interim fiscal year-ends are on June 30.

THK Holdings of America, L.L.C.; THK America, Inc.; THK Manufacturing of America, Inc.; THK Neturen America, L.L.C.; THK Europe B.V.; THK GmbH; THK Manufacturing of Europe S.A.S.; THK France S.A.S.; PGM Ballscrews Ltd.; PGM Ballscrews Ireland Ltd.; THK Taiwan Co., Ltd.

Adjustments have been made for significant transactions between subsidiaries' interim fiscal year-ends and September 30.

#### 4. Summary of Significant Accounting Policies

##### (1) Evaluation of significant assets

###### *Other securities:*

###### *i. Securities*

**Marketable Securities:** Stated at market value at the interim fiscal year-end (valuation gains and losses are included in shareholders' equity, net of taxes, and costs of sales are calculated using the moving-average method).

**Non-marketable Securities:** Stated at costs determined using the moving-average method.

###### *ii. Inventories*

| Company name                       | Asset Evaluation Method        | Evaluation Standard     |
|------------------------------------|--------------------------------|-------------------------|
| THK Co., Ltd.                      | Mainly weighted average method | Cost method             |
| Talk System Co., Ltd.              | Mainly weighted average method | Cost method             |
| Beldex Corporation                 | Mainly actual cost method      | Cost method             |
| THK Niigata Co., Ltd.              | Mainly weighted average method | Cost method             |
| THK America, Inc.                  | First-in-first-out method      | Lower of cost or market |
| THK Manufacturing of America, Inc. | First-in-first-out method      | Lower of cost or market |
| THK Neturen America, L.L.C.        | First-in-first-out method      | Lower of cost or market |
| THK Europe B.V.                    | Moving average method          | Lower of cost or market |
| THK Manufacturing of Europe S.A.S. | Mainly weighted average method | Cost method             |
| THK France S.A.S.                  | Moving average method          | Lower of cost or market |
| THK GmbH                           | Moving average method          | Lower of cost or market |
| PGM Ballscrews Ltd.                | First-in-first-out method      | Lower of cost or market |
| PGM Ballscrews Ireland Ltd.        | First-in-first-out method      | Lower of cost or market |
| THK Taiwan Co., Ltd.               | Moving average method          | Lower of cost or market |

##### (2) Method of depreciation and amortization

###### *i. Tangible Fixed Assets*

The tangible fixed assets of the company and its domestic subsidiaries are depreciated using the declining-balance method, and those of overseas consolidated subsidiaries are depreciated using either the straight-line method or the accelerated depreciation method, depending on their local accounting standards. The amount of depreciation for buildings (excluding fixtures to buildings) acquired on and after April 1, 1998, by the company and its domestic subsidiaries is estimated using the straight-line method.

The useful lives of main properties are as follows:

|  |            |
|--|------------|
| Buildings and structures.....            | 5-50 years |
| Machinery, equipment, and vehicles ..... | 4-10 years |

- ii. Intangible Fixed Assets** The straight-line method is used by the company and its consolidated subsidiaries. Software costs for their internal use are amortized using the straight-line method over their estimated useful lives (5 years).  
The intangible fixed assets of overseas consolidated subsidiaries are amortized using the declining-balance method, based on their local accounting standards.

**(3) Accounting for major lease transactions**

Finance lease transactions, excluding those in which the ownership of the leased properties is transferred to the lessee, are accounted for in the same manner as operating leases.

**(4) Accounting standards for major allowances**

- i. Allowance for doubtful accounts** To prepare for possible losses caused by irrecoverable money claims at the fiscal year-end, the company and its subsidiaries provide allowances as follows:  
For general credit claims, allowance is provided for the amount calculated based on the past credit loss experience, and for specifically doubtful credit claims, allowance is provided for the estimated uncollectible amount based on the collectibility assessment for individual credit claims.  
Overseas consolidated subsidiaries provide allowances for the amounts they deem necessary, considering the collectibility of specific doubtful credit claims.
- ii. Allowance for bonuses** Allowance for employee bonuses is provided in provisions for payment of bonuses to employees in the amount of estimated bonuses, which are attributable to the current interim consolidated fiscal year.
- iii. Allowance for employees' retirement benefits** Allowance for employee retirement benefits is provided in provision for payment of retirement benefits to employees in the amount deemed accrued at the end of the current interim consolidated fiscal year, based on the projected retirement benefit obligation and fair value of plan assets at this fiscal year end.  
Unrecognized net actuarial difference is amortized using the straight-line method over a number of years (usually 10 years) within the employees' average remaining employment period, commencing from the next fiscal year in which they arise (stated as either income or expense in the statement of income).
- iv. Allowance for directors' and auditors' retirement benefits** Allowance is provided for the amount the company would have to pay at the end of the interim fiscal year, which is estimated in accordance with internal regulations. The system for paying retirement benefits to directors and auditors, however, was abolished in June 2004, so the outstanding balance of this allowance represents an estimated amount for payment to the directors and auditors currently holding offices under the previous system.

**(5) Hedge accounting**

- i. Method of hedge accounting** Currency swap transactions meet the requirement of allocation treatment, and are accounted for accordingly.
- |   |                           |   |
|---|---------------------------|---|
| <b>ii. Hedging instruments and hedged items</b> | <b>Hedging instrument</b> | <b>Hedged items</b>                       |
|   | Currency swap transaction | Foreign currency denominated money claims |

- iii. Hedging policy*                      The company uses currency related hedge accounting for the purpose of fixing cash flows related to the collection of principal and interest on loans.
- iv. Assessment method for the effectiveness of hedges*                      The company omits the assessment of the effectiveness of hedges for currency swap transactions, because the significant terms and conditions for such transactions and for hedged assets are identical, and are assumed beforehand to offset exchange rate risks and cash flow fluctuations continuously from the time hedging is initiated.

**(6) Other significant items to prepare interim consolidated financial statements**

**Consumption taxes**                      Consumption taxes are excluded from the transaction amounts.

**5. Scope of Funds Stated in the Interim Consolidated Statements of Cash Flows**

The funds (cash and cash equivalents) stated in the interim 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 maturities of up to three months that are exposed to minor value fluctuation risk.

**Additional Information**

Since the company has used a size-based corporate tax system since the beginning of the current interim fiscal period, sales and general administrative expenses increased by ¥157 million, and operating income, ordinary income, and net income before taxes each decreased by ¥157 million.

## Notes

### Interim Consolidated Balance Sheets

(Millions of Yen)

|  | FY2003<br>Interim | FY2004<br>Interim | FY2003 |
|--|-------------------|-------------------|--------|
| Accumulated depreciation and amortization of tangible fixed assets | 66,136            | 69,861            | 67,862 |
| Liabilities for guarantee  | 300               | 214               | 263    |

### Interim Consolidated Statements of Cash Flow

Relationships of outstanding balance of cash and cash equivalents as of the end of the interim period and the amounts of account items stated in the interim consolidated balance sheets.

(Millions of Yen)

|   | FY2003<br>Interim | FY2004<br>Interim | FY2003        |
|---|-------------------|-------------------|---------------|
| Cash on hand and deposits with banks        | 50,082            | 60,959            | 56,550        |
| Securities                                  | 77                | 290               | 516           |
| <b>Total:</b>                               | <b>50,159</b>     | <b>61,249</b>     | <b>57,067</b> |
| Time deposits (term exceeding three months) | (30)              | —                 | (30)          |
| <b>Cash and Cash Equivalents:</b>           | <b>50,129</b>     | <b>61,249</b>     | <b>57,037</b> |

### Lease Transactions

Data on lease transactions is omitted, because they have been disclosed via EDINET for the fiscal half-year ended September 30, 2004.

## Segment Information

### 1. Business Segment Information

Net sales and operating income of machinery subcomponent departments exceed 90 percent of the consolidated net sales of all segments, and of the total operating income of segments that generated operating income, and so segment information by business category is omitted.

### 2. Geographic Segment Information

For the six months ended September 30, 2003

(Millions of Yen)

|                                 | Japan         | America      | Europe       | Asia and others | Total         | (Elimination)  | Consolidated  |
|---------------------------------|---------------|--------------|--------------|-----------------|---------------|----------------|---------------|
| <b>Net Sales:</b>               |               |              |              |                 |               |                |               |
| To customers                    | 43,107        | 5,021        | 6,632        | 1,163           | 55,924        | —              | 55,924        |
| Inter-segment                   | 5,976         | 31           | 63           | —               | 6,071         | (6,071)        | —             |
| <b>Total:</b>                   | <b>49,084</b> | <b>5,052</b> | <b>6,695</b> | <b>1,163</b>    | <b>61,996</b> | <b>(6,071)</b> | <b>55,924</b> |
| Operating expenses              | 42,124        | 5,129        | 7,081        | 1,128           | 55,463        | (5,986)        | 49,476        |
| <b>Operating Income (loss):</b> | <b>6,959</b>  | <b>(76)</b>  | <b>(385)</b> | <b>34</b>       | <b>6,532</b>  | <b>(85)</b>    | <b>6,447</b>  |

For the six months ended September 30, 2004

(Millions of Yen)

|                                 | Japan         | America      | Europe       | Asia and others | Total         | (Elimination)  | Consolidated  |
|---------------------------------|---------------|--------------|--------------|-----------------|---------------|----------------|---------------|
| <b>Net Sales:</b>               |               |              |              |                 |               |                |               |
| To customers                    | 61,133        | 6,105        | 7,982        | 1,646           | 76,868        | —              | 76,868        |
| Inter-segment                   | 8,097         | 23           | 85           | —               | 8,206         | (8,206)        | —             |
| <b>Total:</b>                   | <b>69,231</b> | <b>6,129</b> | <b>8,068</b> | <b>1,646</b>    | <b>85,075</b> | <b>(8,206)</b> | <b>76,868</b> |
| Operating expenses              | 54,866        | 5,434        | 7,621        | 1,616           | 69,539        | (8,000)        | 61,539        |
| <b>Operating Income (loss):</b> | <b>14,364</b> | <b>694</b>   | <b>446</b>   | <b>30</b>       | <b>15,535</b> | <b>(206)</b>   | <b>15,329</b> |

For the year ended March 31, 2004

(Millions of Yen)

|                                 | Japan          | America       | Europe        | Asia and others | Total          | (Elimination)   | Consolidated   |
|---------------------------------|----------------|---------------|---------------|-----------------|----------------|-----------------|----------------|
| <b>Net Sales:</b>               |                |               |               |                 |                |                 |                |
| To customers                    | 93,771         | 10,341        | 12,742        | 2,399           | 119,253        | —               | 119,253        |
| Inter-segment                   | 12,654         | 53            | 117           | —               | 12,824         | (12,824)        | —              |
| <b>Total:</b>                   | <b>106,425</b> | <b>10,394</b> | <b>12,859</b> | <b>2,399</b>    | <b>132,078</b> | <b>(12,824)</b> | <b>119,253</b> |
| Operating expenses              | 89,727         | 10,608        | 13,665        | 2,347           | 116,348        | (13,326)        | 103,022        |
| <b>Operating Income (loss):</b> | <b>16,698</b>  | <b>(214)</b>  | <b>(805)</b>  | <b>51</b>       | <b>15,729</b>  | <b>501</b>      | <b>16,231</b>  |

**Note:**

- Classification of countries and regions is based on geographical proximity.
- Main countries and areas belonging to each classification are as follows.

*America:* United States of America and other countries

*Europe:* Germany, UK, Netherlands, and other countries

*Asia and others:* South Korea, Taiwan and other countries



### 3. Overseas Sales

For the six months ended September 30, 2003

(Millions of Yen)

|  | America | Europe | Asia and others | Total  |
|--|---------|--------|-----------------|--------|
| Overseas sales   | 5,073   | 6,630  | 4,857           | 16,562 |
| Consolidated net sales                                   |         |        |                 | 55,924 |
| Overseas sales as a percentage of consolidated net sales | 9.1%    | 11.8%  | 8.7%            | 29.6%  |

For the six months ended September 30, 2004

(Millions of Yen)

|  | America | Europe | Asia and others | Total  |
|--|---------|--------|-----------------|--------|
| Overseas sales   | 6,159   | 7,963  | 6,811           | 20,934 |
| Consolidated net sales                                   |         |        |                 | 76,868 |
| Overseas sales as a percentage of consolidated net sales | 8.0%    | 10.3%  | 8.9%            | 27.2%  |

For the year ended March 31, 2004

(Millions of Yen)

|  | America | Europe | Asia and others | Total   |
|--|---------|--------|-----------------|---------|
| Overseas sales   | 10,436  | 12,739 | 10,734          | 33,910  |
| Consolidated net sales                                   |         |        |                 | 119,253 |
| Overseas sales as a percentage of consolidated net sales | 8.7%    | 10.7%  | 9.0%            | 28.4%   |

**Note:**

- Classification of countries and regions is based on geographical proximity.
- Main countries and areas belonging to each classification are as follows.
  - America:* United States of America and other countries
  - Europe:* Germany, UK, Netherlands, and other countries
  - Asia and others:* South Korea, Taiwan and other countries
- Overseas sales are sales booked in foreign countries or in regions other than Japan, by the company and its consolidated subsidiaries.

## Securities

### 1. Marketable Securities

(Millions of Yen)

|               | As of September 30, 2003 |              |            | As of September 30, 2004 |              |              | As of March 31, 2004 |              |              |
|---------------|--------------------------|--------------|------------|--------------------------|--------------|--------------|----------------------|--------------|--------------|
|               | Acquisition cost         | Book value   | Difference | Acquisition cost         | Book value   | Difference   | Acquisition cost     | Book value   | Difference   |
| Equities      | 2,399                    | 2,750        | 351        | 2,384                    | 3,406        | 1,022        | 2,360                | 3,542        | 1,182        |
| Others        | 15                       | 18           | 2          | 7                        | 8            | 1            | 9                    | 11           | 1            |
| <b>Total:</b> | <b>2,414</b>             | <b>2,769</b> | <b>354</b> | <b>2,391</b>             | <b>3,415</b> | <b>1,023</b> | <b>2,370</b>         | <b>3,554</b> | <b>1,183</b> |

**Note:** In addition to the above, differences between acquisition costs and book values in the group's equity portion in investment partnership are included under "Valuation adjustment for marketable securities" on the balance sheets. Such differences are ¥26 million for the six months ended September 30, 2003, ¥38 million for the six months ended September 30, 2004, and ¥27 million for the fiscal year ended March 31, 2004, all of which are nets of tax effect amounts.

When an issue's market value of the equities stated in the table above falls by 50 percent or more below its acquisition cost, the company makes it a rule to write them down. For securities whose market values are 30 percent or more, or more than 50 percent below their acquisition costs, the company judges whether to write them down by assessing issuers' financial conditions as of their latest fiscal year-ends, and their earnings results for the last two fiscal years, and by comparing each issue's acquisition cost with its average month-end closing price for the last 24 months.

### 2. Breakdown of Main Non-marketable Securities

(Millions of Yen)

|                                   | As of Sept 30, 2003 | As of Sept 30, 2004 | As of March 31, 2004 |
|-----------------------------------|---------------------|---------------------|----------------------|
|                                   | Book value          | Book value          | Book value           |
| Other securities                  |                     |                     |                      |
| Unlisted equities (non-OTC)       | 175                 | 157                 | 175                  |
| Unlisted foreign bonds            | 1,500               | —                   | —                    |
| Unlisted foreign investment trust | 77                  | 290                 | 516                  |

## Significant Subsequent Events

### **For the six months ended September 30, 2003:**

There were no corresponding events.

### **For the six months ended September 30, 2004:**

#### *Stock swap with Daito Seiki Co., Ltd.*

The company's board of directors resolved at a meeting on July 26, 2004, to make Daito Seiki Company Limited a wholly-owned subsidiary, by applying a stock-swap scheme in accordance with Article 358, paragraph 1, of the Commercial Code, for the purpose of consolidating management resources and enhancing investment efficiency within the THK Group. This stock swap was approved by an extraordinary general shareholders' meeting of Daito Seiki Company Limited on September 24, 2004, and executed on November 1, 2004.

With this stock swap, two-tenths of one common share of the company was allocated to one share of Daito Seiki Company Limited. To implement this stock swap, the company allocated and delivered 1,000,000 treasury shares and issued new 554,508 shares.

### **For the year ended March 31, 2004:**

There were no corresponding events.

## Non-Consolidated Financial Review for the Six Months Ended September 30, 2004

|  |   |
|--|---|
| Company Name:  | <b>THK CO., LTD.</b>                                      |
| Head Office:   | Tokyo, Japan (Tel: +81-03-5434-0300)                      |
| URL:   | <a href="http://www.thk.co.jp/">http://www.thk.co.jp/</a> |
| Stock exchange listing:                                    | Tokyo Stock Exchange 1 <sup>st</sup> Section              |
| Code number:   | 6481  |
| President and CEO:   | Akihiro Teramachi   |
| Director/General Manager of Corporate Strategy Department: | Kotaro Yoshihara  |
| Date of the board meeting:                                 | November 18, 2004   |
| Interim cash dividends:                                    | Yes   |
| Adoption of Unit stock system:                             | Yes (1unit 100 shares)                                    |

### 1. Consolidated Financial Highlights (Unaudited)

Note: All figures are rounded down to the nearest million yen.

#### (1) Operating results

|                                  | Net sales       |      | Operating income |       | Ordinary income |       |
|----------------------------------|-----------------|------|------------------|-------|-----------------|-------|
|                                  | Millions of yen | %    | Millions of yen  | %     | Millions of yen | %     |
| Six months<br>Ended Sep.30, 2004 | 63,770          | 42.0 | 13,684           | 97.2  | 14,747          | 115.8 |
| Six Months<br>Ended Sep.30, 2003 | 44,895          | 25.7 | 6,938            | 155.5 | 6,833           | 144.4 |
| Year Ended Mar.31, 2004          | 97,740          |      | 16,186           |       | 16,099          |       |

|                                  | Net income      |       | Net<br>income<br>per share |
|----------------------------------|-----------------|-------|----------------------------|
|                                  | Millions of yen | %     | Yen                        |
| Six months<br>Ended Sep.30, 2004 | 8,885           | 133.8 | 75.08                      |
| Six Months<br>Ended Sep.30, 2003 | 3,801           | 149.7 | 32.06                      |
| Year Ended Mar.31, 2004          | 8,831           |       | 74.18                      |

#### Notes:

- Change of accounting policy: None
- Average number of shares of common stock issued (non-consolidated)
  - Six Months ended Sep.30, 2004: 118,345,420 shares.
  - Six Months ended Sep.30, 2003: 118,558,752 shares.
  - Year ended Mar.31, 2004: 118,387,267 shares.
- Regarding net sales, operating income, ordinary income and net income, percent indications show percentage changes from the same period of the previous year.



(2) Cash dividends

|                                  | Annual Dividends per share |           |
|----------------------------------|----------------------------|-----------|
|                                  | Interim                    | Full year |
| Six months<br>Ended Sep.30, 2004 | Yen<br>7.50                | Yen<br>—  |
| Six months<br>Ended Sep.30, 2003 | 7.50                       | —         |
| Year Ended Mar.31, 2004          | —                          | 15.00     |

(3) Financial position

|                                  | Total assets    | Total shareholders' equity | Equity ratio | Shareholder's equity per share |
|----------------------------------|-----------------|----------------------------|--------------|--------------------------------|
|                                  | Millions of yen | Millions of yen            | %            | Yen                            |
| Six months<br>Ended Sep.30, 2004 | 195,663         | 113,615                    | 58.1         | 960.04                         |
| Six months<br>Ended Sep.30, 2003 | 167,630         | 101,127                    | 60.3         | 854.48                         |
| Year Ended Mar.31, 2004          | 181,983         | 105,760                    | 58.1         | 893.23                         |

Notes:

- Net number of shares issued and outstanding at the end of the fiscal year (non-consolidated)
  - Six months ended Sep.30, 2004: 118,344,076 shares
  - Six months ended Sep.30, 2003: 118,348,869 shares.
  - Year ended Mar.31, 2004: 118,346,697 shares.
- The number of treasury stock as of :
  - Six months ended Sep.30, 2004: 1,018,942 shares.
  - Six months ended Sep.30, 2003: 1,014,149 shares.
  - Year ended Mar.31, 2004: 1,016,321 shares.

2. Projections of Non-Consolidated Results for the Fiscal Year ending March 31, 2005

|                          | Net sales      | Operating income | Ordinary Income | Net income     | Annual cash dividends per share |       |
|--------------------------|----------------|------------------|-----------------|----------------|---------------------------------|-------|
|                          | Million of yen | Million of yen   | Million of yen  | Million of yen | Yen                             |       |
| Year ending Mar.31, 2005 | 117,000        | 22,700           | 23,600          | 14,000         | F.Y. end<br>10.50               | 18.00 |

For reference: Estimate of net income per share for the year ending March 31, 2005: 116.77 Yen  
(By forecast average number of shares of common stock year of period)

\*Forward-Looking Statements:

This release contains forward-looking statements that are based on management's estimates, assumptions and projections at the time of release. Some factors, which include, but are not limited to, the risks and uncertainty associated with the worldwide economy, competitive activity and currency fluctuation, could cause actual results to differ materially from expectations.

Note to the Financial Information:

This is summarized and translated financial information that the Company posted to the Tokyo Stock Exchange in accordance with their rules that governs the disclosure of financial information.

The Company maintains an Internet website at [www.thk.co.jp](http://www.thk.co.jp). The Company makes available free of charge on the website its financial information in Japanese language. Those information translated in English language will be disclosed as soon as reasonably practicable after disclosing materials in Japanese language.

## Non-Consolidated Balance Sheets

(Millions of Yen)

|  | As of September 30, 2003 |       | As of September 30, 2004 |       | As of March 31, 2004 |       |
|--|--------------------------|-------|--------------------------|-------|----------------------|-------|
|  | Amount                   | %     | Amount                   | %     | Amount               | %     |
| <b>Assets</b>  |                          |       |                          |       |                      |       |
| Current assets:  |                          |       |                          |       |                      |       |
| Cash on hand and in banks                                  | 43,386                   |       | 52,413                   |       | 49,298               |       |
| Notes receivable-trade                                     | 15,297                   |       | 20,387                   |       | 17,100               |       |
| Accounts receivable-trade                                  | 21,613                   |       | 33,199                   |       | 26,865               |       |
| Inventories  | 13,749                   |       | 14,674                   |       | 14,250               |       |
| Deferred tax assets  | 1,327                    |       | 1,714                    |       | 1,670                |       |
| Short-term loans   | 6,840                    |       | 7,389                    |       | 7,491                |       |
| Other  | 1,104                    |       | 1,446                    |       | 1,420                |       |
| Less: Allowance for doubtful accounts                      | (131)                    |       | (93)                     |       | (134)                |       |
| Total current assets                                       | 103,188                  | 61.6  | 131,132                  | 67.0  | 117,963              | 64.8  |
| Fixed assets:  |                          |       |                          |       |                      |       |
| Tangible fixed assets                                      |                          |       |                          |       |                      |       |
| Buildings and structures                                   | 8,836                    |       | 8,597                    |       | 8,848                |       |
| Machinery and equipment                                    | 10,834                   |       | 11,443                   |       | 11,238               |       |
| Land   | 9,104                    |       | 9,094                    |       | 9,094                |       |
| Other  | 1,876                    |       | 2,736                    |       | 1,609                |       |
| Total Tangible fixed assets                                | 30,652                   | 18.2  | 31,871                   | 16.3  | 30,790               | 16.9  |
| Intangible fixed assets                                    | 1,603                    | 1.0   | 1,125                    | 0.6   | 1,357                | 0.8   |
| Investments and others                                     |                          |       |                          |       |                      |       |
| Long-term investments in securities                        | 4,389                    |       | 3,564                    |       | 3,721                |       |
| Investments in shares of subsidiary and affiliated company | 12,058                   |       | 12,530                   |       | 12,069               |       |
| Investments in subsidiary and affiliated company           | 6,720                    |       | 7,777                    |       | 7,777                |       |
| Deferred tax assets  | 1,626                    |       | 1,307                    |       | 1,430                |       |
| Other  | 7,789                    |       | 6,731                    |       | 7,568                |       |
| Less: Allowance for doubtful accounts                      | (397)                    |       | (376)                    |       | (696)                |       |
| Total investments and others                               | 32,186                   | 19.2  | 31,534                   | 16.1  | 31,871               | 17.5  |
| Total fixed assets   | 64,442                   | 38.4  | 64,531                   | 33.0  | 64,019               | 35.2  |
| Total assets   | 167,630                  | 100.0 | 195,663                  | 100.0 | 181,983              | 100.0 |

( millions of Yen )

|  | As of September 30, 2003 |       | As of September 30, 2004 |       | As of March 31, 2004 |       |
|--|--------------------------|-------|--------------------------|-------|----------------------|-------|
|  | Amount                   | %     | Amount                   | %     | Amount               | %     |
| <b>Liabilities</b>   |                          |       |                          |       |                      |       |
| Current liabilities:                                       |                          |       |                          |       |                      |       |
| Notes payable-trade  | 4,205                    |       | 5,859                    |       | 5,176                |       |
| Accounts payable-trade                                     | 12,490                   |       | 20,560                   |       | 15,937               |       |
| Accounts payable-other                                     | 1,035                    |       | 1,451                    |       | 1,209                |       |
| Accrued expenses   | 3,149                    |       | 4,095                    |       | 3,833                |       |
| Corporate income taxes payable and other                   | 3,006                    |       | 5,654                    |       | 6,307                |       |
| Accrued bonuses  | 1,219                    |       | 1,737                    |       | 1,346                |       |
| Notes payable-equipment and other                          | 376                      |       | 1,478                    |       | 942                  |       |
| Other  | 405                      |       | 365                      |       | 721                  |       |
| Total current liabilities                                  | 25,888                   | 15.5  | 41,204                   | 21.0  | 35,476               | 19.5  |
| Long-term liabilities:                                     |                          |       |                          |       |                      |       |
| Bonds  | 15,000                   |       | 15,000                   |       | 15,000               |       |
| Bonds with stock acquisition rights                        | 23,000                   |       | 23,000                   |       | 23,000               |       |
| Allowance for retirement and severance Benefits            | 1,355                    |       | 1,495                    |       | 1,428                |       |
| Allowance for director's and auditor's retirement benefits | 1,254                    |       | 1,345                    |       | 1,315                |       |
| Other  | 4                        |       | 3                        |       | 3                    |       |
| Total long-term liabilities                                | 40,615                   | 24.2  | 40,843                   | 20.9  | 40,747               | 22.4  |
| Total liabilities  | 66,503                   | 39.7  | 82,048                   | 41.9  | 76,223               | 41.9  |
| <b>Shareholders' equity</b>                                |                          |       |                          |       |                      |       |
| Common stock   | 23,106                   | 13.8  | 23,106                   | 11.8  | 23,106               | 12.7  |
| Additional paid-in capital                                 |                          |       |                          |       |                      |       |
| Capital reserve  | 30,962                   |       | 30,962                   |       | 30,962               |       |
| Total additional paid-in capital                           | 30,962                   | 18.5  | 30,962                   | 15.9  | 30,962               | 17.0  |
| Surplus  |                          |       |                          |       |                      |       |
| Earned reserves  | 1,958                    |       | 1,958                    |       | 1,958                |       |
| Other reserves   | 40,523                   |       | 47,661                   |       | 40,523               |       |
| Unappropriated retained earnings                           | 5,480                    |       | 10,443                   |       | 9,623                |       |
| Total surplus  | 47,963                   | 28.6  | 60,053                   | 30.7  | 52,105               | 28.6  |
| Valuation adjustment for marketable securities             | 223                      | 0.1   | 630                      | 0.3   | 718                  | 0.4   |
| Treasury stock   | (1,127)                  | (0.7) | (1,137)                  | (0.6) | (1,132)              | (0.6) |
| Total shareholder's equity                                 | 101,127                  | 60.3  | 113,615                  | 58.1  | 105,760              | 58.1  |
| Total liabilities and shareholder's equity                 | 167,630                  | 100.0 | 195,663                  | 100.0 | 181,983              | 100.0 |

## Non-Consolidated Statements of Income

(Millions of Yen)

|  | Six months ended Sep.30,2004 |        |       | Six months ended Sep.30,2003 |        |       | Year ended March 31, 2004 |        |       |
|--|------------------------------|--------|-------|------------------------------|--------|-------|---------------------------|--------|-------|
|  | Amount                       |        | %     | Amount                       |        | %     | Amount                    |        | %     |
| Net sales  |                              | 44,895 | 100.0 |                              | 63,770 | 100.0 |                           | 97,740 | 100.0 |
| Cost of sales                                      |                              | 30,606 | 68.2  |                              | 41,473 | 65.0  |                           | 65,770 | 67.3  |
| Gross profit                                       |                              | 14,288 | 31.8  |                              | 22,297 | 35.0  |                           | 31,970 | 32.7  |
| Selling, general and administrative expenses       |                              | 7,349  | 16.4  |                              | 8,612  | 13.5  |                           | 15,784 | 16.1  |
| Operating income                                   |                              | 6,938  | 15.4  |                              | 13,684 | 21.5  |                           | 16,186 | 16.6  |
| Non-operating income                               |                              |        |       |                              |        |       |                           |        |       |
| Interest income                                    | 81                           |        |       | 88                           |        |       | 183                       |        |       |
| Dividend income                                    | 56                           |        |       | 84                           |        |       | 67                        |        |       |
| Foreign exchange gain                              | —                            |        |       | 603                          |        |       | —                         |        |       |
| Other  | 294                          | 433    | 1.0   | 443                          | 1,219  | 1.9   | 631                       | 882    | 0.9   |
| Non-operating expenses                             |                              |        |       |                              |        |       |                           |        |       |
| Interest expenses                                  | 9                            |        |       | 0                            |        |       | 9                         |        |       |
| Bond interest                                      | 118                          |        |       | 80                           |        |       | 197                       |        |       |
| Foreign exchange loss                              | 246                          |        |       | —                            |        |       | 518                       |        |       |
| Other  | 163                          | 538    | 1.2   | 76                           | 156    | 0.3   | 243                       | 969    | 1.0   |
| Ordinary income                                    |                              | 6,833  | 15.2  |                              | 14,747 | 23.1  |                           | 16,099 | 16.5  |
| Extraordinary gain                                 |                              |        |       |                              |        |       |                           |        |       |
| Gain on sales of property plant, and equipment     | 0                            |        |       | 18                           |        |       | 58                        |        |       |
| Reversal of allowance for doubtful accounts        | 25                           |        |       | 26                           |        |       | —                         |        |       |
| Other  | 35                           | 61     | 0.2   | —                            | 44     | 0.1   | 35                        | 94     | 0.1   |
| Extraordinary loss                                 |                              |        |       |                              |        |       |                           |        |       |
| Loss on disposals of property, plant and equipment | 112                          |        |       | 40                           |        |       | 195                       |        |       |
| Valuation loss on investment in subsidiary company | 99                           |        |       | —                            |        |       | —                         |        |       |
| Loss on liquidation of subsidiary company          | —                            |        |       | —                            |        |       | 99                        |        |       |
| Loss on forgiveness of subsidiary company debt     | —                            |        |       | —                            |        |       | 563                       |        |       |
| Loss on arrangement of subsidiary company          | —                            |        |       | 473                          |        |       | —                         |        |       |
| Other  | 17                           | 229    | 0.6   | —                            | 513    | 0.8   | 19                        | 877    | 0.9   |
| Income before income taxes                         |                              | 6,665  | 14.8  |                              | 14,278 | 22.4  |                           | 15,316 | 15.7  |
| Income taxes – current                             | 3,023                        |        |       | 5,253                        |        |       | 7,130                     |        |       |
| Income taxes – deferred                            | (159)                        | 2,864  | 6.3   | 139                          | 5,393  | 8.5   | (645)                     | 6,484  | 6.7   |
| Net income   |                              | 3,801  | 8.5   |                              | 8,885  | 13.9  |                           | 8,831  | 9.0   |
| Unappropriated retained earnings brought forward   |                              | 1,679  |       |                              | 1,547  |       |                           | 1,679  |       |
| Interim dividend                                   |                              | —      |       |                              | —      |       |                           | 887    |       |
| Unappropriated retained earnings                   |                              | 5,480  |       |                              | 10,433 |       |                           | 9,623  |       |



## Basis for Preparing Interim Non-Consolidated Financial Statements

### 1. Evaluation of Assets

#### (1) Securities

- i. Stocks of subsidiaries and affiliated companies      Stated at costs determined using the moving-average method.
- ii. Other securities
  - Marketable securities:      Stated at the market value at the interim fiscal year-end (valuation gains/losses are included in shareholders' equity; net of taxes and sales costs are calculated using the moving-average method).
  - Non-marketable securities:      Stated at costs determined using the moving-average method.

#### (2) Inventories

- i. Products/Finished goods      Stated at cost determined using the weighted-average method.
- ii. Merchandise      Stated at cost determined using the first-in-first-out method.
- iii. Raw materials      Stated at cost determined using weighted-average method.
- iv. Goods in process      Stated at cost determined using weighted-average method.
- v. Supplies      Stated at cost determined using the last-purchase-cost method.

### 2. Depreciation and Amortization

#### (1) Tangible Fixed Assets:

***Depreciated using the declining-balance method.***

Note that the amount of depreciation for buildings (excluding fixtures to buildings) acquired by the company on and after April 1, 1998, is estimated using the straight-line method.

The useful lives of main properties are as follows:

|                                       |            |
|---------------------------------------|------------|
| Buildings and structures .....        | 5-50 years |
| Machinery and equipment.....          | 10 years   |
| Vehicles and delivery equipment ..... | 4-6 years  |
| Tools/furniture and furnishings.....  | 2-10 years |

#### (2) Intangible Fixed Assets:

***Amortized using the straight-line method.***

Note that software costs for internal use are amortized using the straight-line method over the internally estimated useful lives (5 years).

#### (3) Long-term Prepaid Expenses:

***Amortized using the straight-line method.***

### 3. Accounting Standards for Providing Allowances

- (1) **Allowance for Doubtful accounts:** To prepare for possible losses caused by irrecoverable money claims at the fiscal year-end, the company provides allowances as follows:  
For general credit claims, an allowance is provided for the amount calculated based on past credit-loss experience. For specifically doubtful credit claims, an allowance is provided for the estimated uncollectible amount based on the collectibility assessment for each such credit claim.
- (2) **Allowance for Bonuses:** Allowance for employee bonuses is provided in the provision for payment of bonuses to employees, and in the amount of estimated bonuses, which are attributable to the current interim consolidated fiscal year.
- (3) **Allowance for Employees' Retirement Benefits:** Allowance for employee retirement benefits is provided in the provision for payment of retirement benefits to employees, and in the amount deemed to have been accrued at the end of the current interim consolidated fiscal year, based on the projected retirement benefits obligation and the fair value of plan assets at this fiscal year-end.  
The unrecognized net actuarial difference is amortized using the straight-line method over a number of years (usually 10 years) within an employee's average remaining employment period, commencing from the next fiscal year in which they arise (stated as either income or expenses in the statement of income).
- (4) **Allowance for Directors' and Auditors' Retirement Benefits:** An allowance is provided for the amount the company would have to pay at the end of the interim fiscal year, which is estimated in accordance with internal regulations. The system for paying retirement benefits to directors and auditors, however, was abolished in June 2004, so the outstanding balance of this allowance represents an estimated amount for payment to the directors and auditors currently holding offices under the previous system.

### 4. Accounting of Lease Transactions

Excluding those in which the ownership of the leased properties is transferred to the lessee, finance lease transactions are accounted for in the same manner as operating leases.

### 5. Hedge Accounting

- (1) **Hedge Accounting Method:** Currency swap transactions meet the requirement of allocation treatment and are accounted for accordingly.
- (2) **Hedging Instruments and Hedged Items:**
- | <i>Hedging Instrument</i> | <i>Hedged Items</i>                       |
|---------------------------|---|
| Currency swap transaction | Foreign currency denominated money claims |
- (3) **Hedging Policy:** The company uses currency-related hedge accounting for the purpose of fixing cash flows related to the collection of principal and interest on loans.
- (4) **Assessment Method for the Effectiveness of Hedges:** The company omits assessment of the effectiveness of hedges for currency swap transactions, since the significant terms and conditions for such transactions and for hedged assets are identical, and assumed beforehand to offset exchange rate risks and cash flow fluctuations from the time the hedging is initiated.

## **6. Other Significant Items to Prepare for Interim Financial Statements**

- (1) Consumption Taxes:** Consumption taxes are excluded from the transaction amounts. Net amount of suspense paid for consumption taxes on purchases and suspense received for consumption taxes on sales is included under "Others" for current liabilities.
- (2) Treatment of Reserves:** Taxes payable and corporate tax adjustment for the current interim period are calculated under the premise that entries of provisions and reversals will be made to reserve accounts for special depreciation in accordance with profit appropriation scheduled for the current fiscal year.

### **Additional Information**

Since the company has used a size-based corporate tax system since the beginning of the current interim fiscal period, sales and general administrative expenses increased by ¥152 million, and operating income, ordinary income, and net income before taxes each decreased by ¥152 million.

## Notes

### NON-CONSOLIDATED BALANCE SHEETS

(Millions of Yen)

|  | As of Sept 30,<br>2003 | As of Sept 30,<br>2004 | As of March 31,<br>2004 |
|--|------------------------|------------------------|-------------------------|
| 1. Accumulated depreciation on tangible fixed assets | 60,067                 | 63,048                 | 61,636                  |
| 2. Advanced depreciation by national subsidy         | 150                    | 150                    | 150                     |
| 3. Liabilities on guarantees and others              |                        |                        |                         |
| <i>Liabilities on guarantees</i>                     | 1,911                  | 1,735                  | 1,891                   |
| <i>Committed guarantees and others</i>               | 200                    | —                      | —                       |

### NON-CONSOLIDATED STATEMENTS OF INCOME

(Millions of Yen)

|                                 | FY2003 (Interim) | FY2004 (Interim) | FY2004 |
|---------------------------------|------------------|------------------|--------|
| 1. Depreciation of fixed assets |                  |                  |        |
| <i>Tangible assets</i>          | 1,719            | 1,783            | 3,693  |
| <i>Intangible assets</i>        | 264              | 262              | 526    |

#### LEASE TRANSACTIONS:

Details are omitted because they are disclosed by EDINET.

#### SECURITIES:

Marketable stocks of subsidiaries and affiliated companies.

#### As of September 30, 2003

(Millions of Yen)

|                                | Book value | Market Value | Difference |
|--------------------------------|------------|--------------|------------|
| Stocks of affiliated companies | 1,374      | 2,284        | 909        |

#### As of September 30, 2004

(Millions of Yen)

|                                | Book value | Market Value | Difference |
|--------------------------------|------------|--------------|------------|
| Stocks of affiliated companies | 1,770      | 3,490        | 1,719      |

#### As of March 31, 2004

(Millions of Yen)

|                                | Book value | Market Value | Difference |
|--------------------------------|------------|--------------|------------|
| Stocks of affiliated companies | 1,374      | 2,776        | 1,402      |