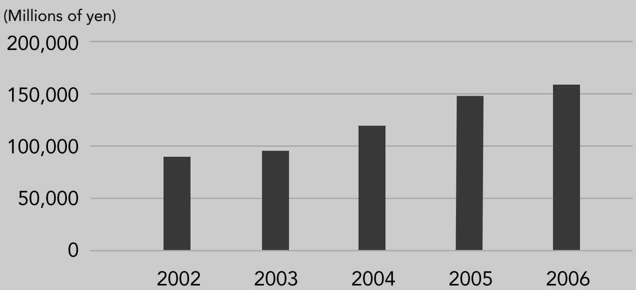
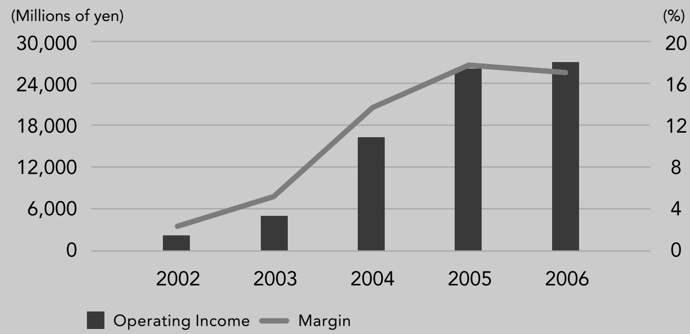
Consolidated Financial Statements

Years ended March 31

Net Sales



Operating Income Margin



MANAGEMENT'S DISCUSSION & ANALYSIS

(The fiscal year ended March 31, 2006 relative to the fiscal year ended March 31, 2005)

(1) Net Sales

Overview

In Japan, the current fiscal year saw THK continuing to enhance our sales capability and productivity at our network of domestic plants. Based on our belief that production in regions of high demand is the optimal method for growing the business, our production bases in North America and Europe were brought fully on line, with the production and sales teams working together to achieve an increase in sales. As a result, consolidated net sales for the current fiscal year came to ¥158,413 million, with operating income running at ¥27,080 million; both net sales and operating income reached record highs for the Company for two consecutive fiscal years.

Domestic and Overseas Net Sales

-Japan-

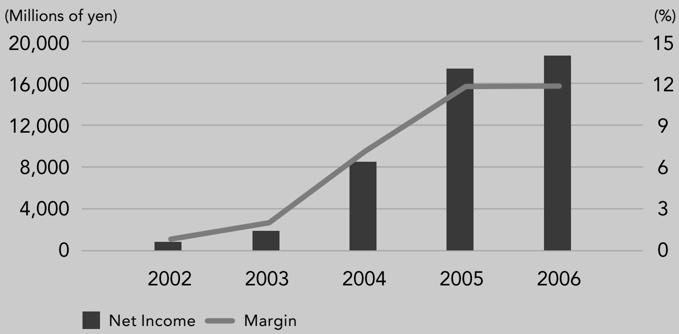
This fiscal year saw domestic net sales increase by ¥6,690 million over the previous fiscal year (6.3 percent) to ¥112,245 million. Examining the breakdown for each industry segment in more detail, in the machine tools industry, continued demand for equipment in the Chinese market, combined with a substantial drive in capital investment by the Japanese automobile industry sustained the healthy trend for machine tools sales, resulting in an across-the-board increase of 12.8 percent over the previous fiscal year. In the general equipment industry, there was steady growth in industrial robots and other equipment often used within the automobile industry. The second half of the fiscal year saw increasing demand for products for the electronics industry, such as chip mounters, with net sales of general machinery increasing 7.8 percent over the previous fiscal year. There was also an increase in demand for semiconductor and liquid crystal panel manufacturing equipment following an adjustment phase during the second half of the previous fiscal year. This recovery was not enough, however, to prevent a small drop in the rate of growth (0.2 percent) compared to the previous fiscal year.

-The Americas-

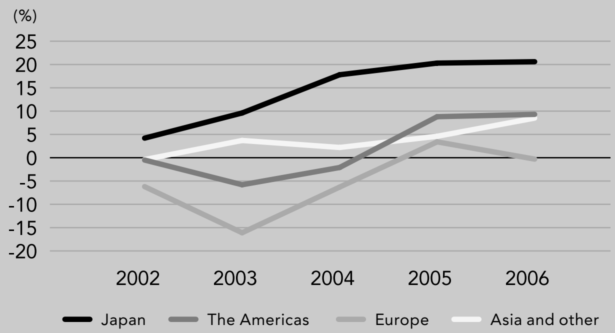
Net sales in our North American market (the United States, Canada, and Mexico) reached ¥14,108 million, up by ¥1,220 million over the previous fiscal year — an increase of 9.5 percent. With the US economy remaining steady and our manufacturing subsidiary in the US operated at full production capacity, both production and sales teams worked together in developing new customers, as well as further expanding business with existing customers. These efforts saw substantial growth in net sales to both the industrial machinery (68.3 percent) and transport equipment (25.4 percent) sectors. Further growth was also witnessed in net sales in the general machinery sector, especially in the core businesses of specialized industrial machinery and woodworking machinery, with an across-the-board increase of 11.4 percent compared to the previous fiscal year. Despite experiencing a recovery towards the end of the period, net sales in the electronics sector decreased by 4.6 percent from the previous fiscal year.

Years ended March 31

Net Income Margin



Operating Income Margin by Geographical Segment



-Europe-

Net sales increased in Europe, rising by ¥859 million (5.6 percent) to ¥16,199 million in the current fiscal year. Just as in the North American market, both production and sales teams worked together in developing new customers, as well as working to increase business with existing customers. With the recovery in the European economy, sales to our three major areas—machine tools, general machinery, and electronics—also increased. This was particularly true for the machine tools sector, which saw double-digit growth of 13.5 percent. On top of this, the Company was able to achieve a substantial increase of 41.6 percent in revenue from sales to the transportation equipment sector based on extensive capital investment in the automobile industry.

-Asia and other-

Asia and other regions also saw net sales surge by ¥2,486 million (18.6 percent) to ¥15,861 million. Net sales in South Korea, in particular, increased significantly (32.7 percent) over the previous fiscal year as a result of increased investment among leading liquid crystal manufacturers and increased use of our products. Robust demand for capital investment continued in the Chinese market, with THK continuing to expand its dealings with local manufacturers, resulting in an increase in net sales of 19.0 percent over the previous fiscal year. Although Taiwan continued along a road to recovery that began in FY 2005, after the adjustments in the second half of FY 2004, net sales for the current fiscal year increased by only 2.8 percent over the previous fiscal year.

(2) Cost of Sales and Gross Profit

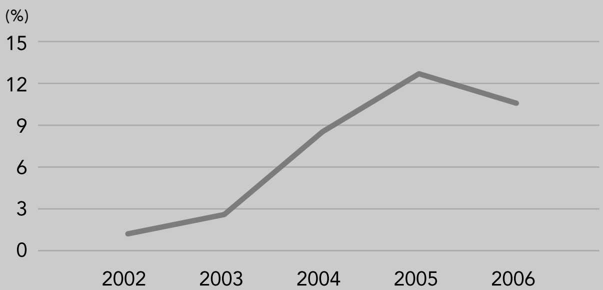
Our Cost of Goods Sold (COGS) ratio improved 0.2 points - from 63.6 percent to 63.4 percent - while gross profit rose by ¥4,315 million (8.0 percent) above the previous fiscal year to ¥57,922 million. On a non-consolidated basis, we felt the impact of a rise in steel prices and an increase in production costs accompanying the operation of additionally constructed facilities at the Gifu plant. This was combined with one-off expenses relating to the realignment of production items at all of the Company's domestic plants, which resulted in a deterioration in the COGS ratio from 66.4 percent to 67.0 percent, a deterioration of 0.6 points. Our domestic subsidiaries, however, experienced an improved operating ratio based on enhanced productivity and higher production levels; while our North American subsidiary also saw enhanced production levels and a better operating ratio leading to the consolidated COGS ratio improving by 0.2 percent from the previous fiscal year to 63.4 percent.

(3) Selling, General and Administrative Expenses

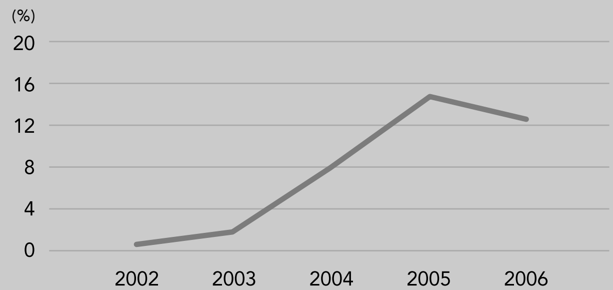
Selling, general and administrative (SG&A) expenses rose by ¥3,209 million (11.6 percent) over last year's figure to ¥30,842 million. The primary reasons underlying this increase were increased personnel related costs, amounting to ¥782 million, arising from the change in status of DAITO SEIKI CO., LTD. to a wholly owned subsidiary, and the consolidation of our Chinese subsidiaries. Increased net sales were also accompanied by increased distribution costs such as packing/shipment costs, which rose by ¥413 million over the previous fiscal year. Expenses also rose due to improvements made on the THK Group's information network, and increased rental costs from the establishment of a Techno Center aimed at improving the Group's

Years ended March 31

ROA



ROE



research and development activities. As a result of these increases in expenditures, the Group recorded a 0.8-point rise — from 18.7 percent to 19.5 percent — in the ratio of SG&A expenses to net sales.

(4) Operating Income

THK's operating income reached its highest level ever, rising by ¥1,106 million (4.3 percent) from the previous fiscal year to ¥27,080 million. In the Japanese market, operating income increased ¥1,768 million (7.5 percent) over the previous fiscal year to ¥25,277 million. In the North American market, increased net sales at our sales subsidiary led to increased profits, and together with improved revenue at our production subsidiary this led to an increase in operating income of ¥177 million (15.6 percent) from the previous fiscal year to ¥1,305 million. However, the European segment recorded losses of ¥55 million. This was due to a dispute with local customs authorities regarding the classification of manufactured imports, the result of which was that we accepted the custom authorities' claims, which led to an adjustment and payment of retroactive import duties. Within the Asian market outside of Japan, increased net sales in Taiwan and consolidation of our Chinese subsidiaries resulted in increased operating income of ¥480 million — a substantial increase from the previous fiscal year's figure of ¥150 million.

(5) Non-Operating Income/Expenses

The Company incurred ¥2,127 million in non-operating expenses due to factors such as ¥1,152 million in impairment losses resulting from the adoption of the impairment accounting standard for fixed assets from the beginning of the year. On the other hand, earnings from non-operating activities totaled ¥5,613 million due to factors such as ¥817 million in foreign exchange gains, which was primarily due to the yen's depreciation against other currencies, primarily the dollar, the amortization of negative goodwill of ¥648 million as a result of making DAITO SEIKI CO., LTD. a fully-owned subsidiary, and equity earnings of an affiliate of ¥416 million. Additionally, gains on sales of long-term investments in securities totaled ¥1,933 million. As a result, non-operating income for this period totaled ¥3,486 million, a large increase over the ¥871 million in non-operating income in the previous fiscal year.

(6) Income before Income Taxes and Minority Interest

Improvements in operating income and non-operating income lifted income before income taxes and minority interest by ¥3,721 million over the previous fiscal year (13.9 percent) to ¥30,566 million.

(7) Net Income

The factors mentioned above yielded a ¥1,236 million (7.1 percent) rise in net income to ¥18,584 million over the previous fiscal year. However, the Company's effective tax rate increased by 2.9 points due to the receipt of a tax refund in the previous fiscal year.

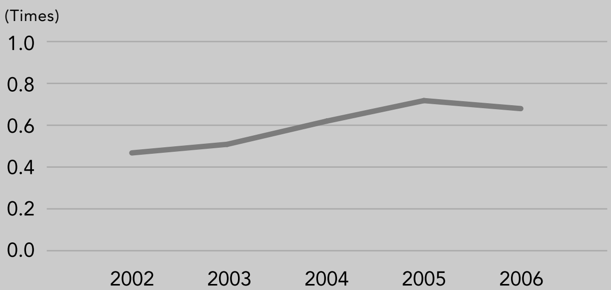
Financial Position

(1) Assets

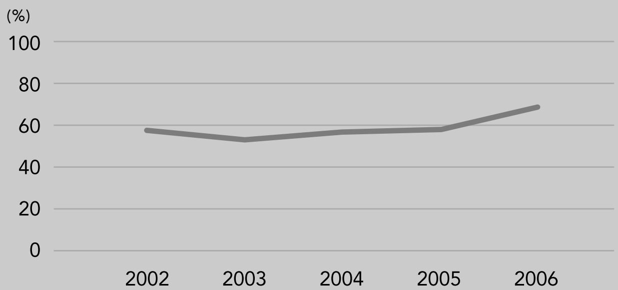
The Company's total assets reached ¥244,385 million, up ¥24,377 million from the end of the previous fiscal year. The main drivers behind this increase included ¥10,863 million in free cash flow generated due to increased profit, an increase in cash and bank

Years ended March 31

Turnover Ratio



Equity Ratio



deposits of ¥12,069 million, and an increase in accounts and notes receivable of ¥8,878 million accompanying the increase in net sales.

(2) Liabilities

Total liabilities decreased from the end of the previous fiscal year by ¥16,809 million to ¥74,593 million. The main reason behind this fall was a conversion of convertible bonds to common stock of ¥21,255 million, which offset an increase of ¥4,932 million in accounts and notes receivable attributed to the proportional increase in raw materials and operational need resulting from increased production.

(3) Shareholders' Equity

Total shareholders' equity increased from the end of the previous fiscal year by ¥40,623 million to ¥168,273 million. A portion of convertible bonds was converted into THK common stock and the resulting increase in paid-in capital and additional paid-in capital totaled ¥21,255 million. Additionally, retained earnings increased by ¥15,960 million compared to the previous fiscal year-end: factors included in this increase were net income of ¥18,584 million and deductions recorded as cash dividends and statutory auditors' bonuses of ¥2,624 million.

Cash Flows

(The fiscal year ended March 31, 2006 relative to the fiscal year ended March 31, 2005)

(1) From Operating Activities

Cash flow from operating activities decreased by ¥2,172 million from the previous fiscal year to ¥20,206 million. The primary causes of this decrease was the ¥2,320 million increase in income taxes payable due to the ¥3,721 million increase in income before income taxes and minority interest and an increase of ¥5,258 million in cash outflow due to an increase in accounts and notes receivable.

(2) From Investing Activities

Cash flow from investing activities increased by ¥2,172 million from the previous fiscal year, resulting in a cash outflow of ¥9,344 million. While cash inflows from the sale of long-term investments in securities increased by ¥3,846 million, this was offset by increased capital expenditures of ¥5,557 million compared to the previous fiscal year such as the procurement of property, plant and equipment at the Gifu Plant in Japan, THK MANUFACTURING OF CHINA (WUXI) CO., LTD., and DALIAN THK CO., LTD., as well as construction of a plant at THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.

(3) From Financing Activities

Cash flow from financing activities decreased by ¥80 million from the previous fiscal year, resulting in a cash outflow of ¥1,741 million. The primary reason behind this decrease was increased per-share dividends resulting in a ¥741 million increase in the total dividend payment, which was accompanied by proceeds of ¥899 million resulting from the sale of treasury stock held by a consolidated subsidiary.

(4) Cash and Cash Equivalents

Because of the factors mentioned above, our outstanding balance of cash and cash equivalents at the end of the year increased by ¥10,320 million from the previous fiscal year to ¥86,307 million.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

as of March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
ASSETS			
Current Assets:			
Cash and bank deposits (Note 15)	¥ 75,842	**¥ 87,911**	**$ 748,370**
Short-term investments in securities (Note 15)	145	**341**	**2,899**
Accounts and notes receivable-			
Trade	48,340	**56,395**	**480,076**
Unconsolidated subsidiaries and affiliates	1,290	**2,100**	**17,874**
Other	814	**628**	**5,347**
	50,444	**59,123**	**503,297**
Less: allowance for bad debts	(254)	**(234)**	**(1,989)**
	50,190	**58,889**	**501,308**
Inventories (Note 6)	24,208	**24,950**	**212,393**
Short-term advances -			
Unconsolidated subsidiaries and affiliates	100	**112**	**953**
Other	3	**2**	**16**
Deferred tax assets (Note 14)	3,041	**3,303**	**28,120**
Other current assets	656	**772**	**6,583**
Total current assets	154,185	**176,280**	**1,500,642**
Investments and Other:			
Long-term investments in securities (Note 5)	4,413	**3,340**	**28,435**
Investments in unconsolidated subsidiaries and affiliates	2,256	**2,249**	**19,144**
Deferred tax assets (Note 14)	1,096	**1,224**	**10,420**
Other investments	3,240	**3,955**	**33,669**
	11,005	**10,768**	**91,668**
Property, Plant and Equipment (Note 9):			
Buildings and structures	35,548	**35,347**	**300,904**
Machinery and equipment	77,888	**83,855**	**713,843**
	113,436	**119,202**	**1,014,747**
Less: accumulated depreciation	(74,687)	**(77,286)**	**(657,917)**
	38,749	**41,916**	**356,830**
Land	11,447	**9,887**	**84,166**
Construction in progress	3,299	**4,599**	**39,147**
	53,495	**56,402**	**480,143**
Deferred Charges and Intangibles (Note 9)	1,323	**935**	**7,948**
Total assets	¥ 220,008	**¥ 244,385**	**$ 2,080,401**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2005	2006	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Current portion of long-term debt (Note 7)	¥ 186	**¥ 10,072**	**$ 85,741**
Accounts and notes payable-			
Trade	25,082	**29,735**	**253,129**
Unconsolidated subsidiaries and affiliates	310	**589**	**5,013**
Other	2,274	**2,355**	**20,045**
	27,666	**32,679**	**278,187**
Income taxes payable	6,685	**7,202**	**61,306**
Accrued expenses	5,920	**7,785**	**66,270**
Accrued bonuses	2,094	**2,096**	**17,846**
Other current liabilities	3,806	**1,824**	**15,533**
Total current liabilities	46,357	**61,658**	**524,883**
Long-term Liabilities:			
Long-term debt (Note 7)	38,350	**6,849**	**58,304**
Reserve for employees' retirement benefits (Note 13)	2,107	**2,316**	**19,717**
Negative goodwill	2,917	**2,269**	**19,312**
Other liabilities	1,671	**1,501**	**12,783**
Total long-term liabilities	45,045	**12,935**	**110,116**
Minority Interest	956	**1,519**	**12,927**
Shareholders' Equity:			
Common stock			
Authorized: 465,877,700 shares;			
Issued: 119,917,526 shares and 132,799,331 shares at March 31, 2005 and 2006, respectively	23,106	**33,734**	**287,169**
Additional paid-in capital	32,652	**43,471**	**370,056**
Retained earnings	71,131	**87,091**	**741,387**
Net unrealized gain on other securities (Note 5)	1,041	**1,357**	**11,561**
Foreign currency translation adjustments	327	**2,668**	**22,715**
Treasury stock, at cost: 423,801 shares and 29,741 shares for 2005 and 2006, respectively	(607)	**(48)**	**(413)**
Total shareholders' equity	127,650	**168,273**	**1,432,475**
Contingent Liabilities (Note 8)			
Total liabilities and shareholders' equity	¥ 220,008	**¥ 244,385**	**$ 2,080,401**

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

for the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Net Sales	¥ 119,254	¥ 147,158	**¥ 158,413**	**$ 1,348,537**
Cost of Sales	77,932	93,551	**100,491**	**855,461**
Gross profit	41,322	53,607	**57,922**	**493,076**
Selling, General and Administrative Expenses (Note 11)	25,090	27,633	**30,842**	**262,549**
Operating income	16,232	25,974	**27,080**	**230,527**
Non-Operating Income/(Expenses):				
Interest and dividend income	148	282	**308**	**2,625**
Interest expenses	(493)	(163)	**(168)**	**(1,433)**
Foreign exchange gain/(loss), net	(580)	362	**817**	**6,958**
Gain on sales of long-term investments in securities, net	33	—	**1,933**	**16,458**
Equity earnings of affiliates	301	433	**416**	**3,539**
Rental income	159	169	**196**	**1,666**
Amortization of negative goodwill	—	324	**648**	**5,518**
Commission expenses	(61)	(88)	**(85)**	**(721)**
Liquidation loss of unconsolidated subsidiaries	(100)	—	**—**	**—**
Liquidation loss of a consolidated subsidiary	—	(650)	**—**	**—**
Gain/(loss) on sales/disposal of property and equipment, net	(288)	(201)	**58**	**496**
Loss on write-down of long-term investments in securities	—	—	**(164)**	**(1,399)**
Gain on reversal of reserve for directors' and statutory auditors' retirement allowances	—	48	**—**	**—**
Impairment loss on fixed assets	—	—	**(1,152)**	**(9,808)**
Prior-period adjustments (Note 12)	—	—	**253**	**2,152**
Other, net	170	355	**426**	**3,624**
	(711)	871	**3,486**	**29,675**
Income before income taxes and minority interest	15,521	26,845	**30,566**	**260,202**
Income Taxes (Note 14)	6,926	9,442	**11,636**	**99,059**
Income before minority interest	8,595	17,403	**18,930**	**161,143**
Minority interest in income of consolidated subsidiaries	(11)	(55)	**(346)**	**(2,941)**
Net income	¥ 8,584	¥ 17,348	**¥ 18,584**	**$ 158,202**

	Yen			U.S. dollars (Note 2)
Per Share Data:				
Net income - basic	¥ 72.27	¥ 145.31	**¥ 148.42**	**$ 1.263**
Net income - diluted	¥ 63.69	¥ 130.05	**¥ 137.97**	**$ 1.175**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

for the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Common Stock				
At beginning of year	¥ 23,106	¥ 23,106	**¥ 23,106**	**$ 196,699**
Conversion of convertible bonds to common stock	—	—	**10,628**	**90,470**
At end of year	¥ 23,106	¥ 23,106	**¥ 33,734**	**$ 287,169**
Additional Paid-In Capital				
At beginning of year	¥ 30,962	¥ 30,962	**¥ 32,652**	**$ 277,957**
Conversion of convertible bonds to common stock	—	—	**10,628**	**90,470**
Gain from disposition of treasury stock under stock-swap	—	689	—	—
Stock issued under stock-swap	—	1,001	—	—
Gain from disposition of treasury stock	—	—	**191**	**1,629**
At end of year	¥ 30,962	¥ 32,652	**¥ 43,471**	**$ 370,056**
Retained Earnings				
At beginning of year	¥ 48,687	¥ 55,837	**¥ 71,131**	**$ 605,522**
Net income	8,584	17,348	**18,584**	**158,202**
Increase from investment in an affiliate newly accounted for by the equity method	379	—	—	—
Decrease resulting from inclusion of consolidated subsidiaries	—	(232)	—	—
Cash dividends	(1,783)	(1,772)	**(2,514)**	**(21,401)**
Directors' and statutory auditors' bonuses	(30)	(50)	**(110)**	**(936)**
At end of year	¥ 55,837	¥ 71,131	**¥ 87,091**	**$ 741,387**
Net Unrealized Gain on Other Securities				
At beginning of year	¥ (355)	¥ 722	**¥ 1,041**	**$ 8,866**
Change in the year	1,077	319	**316**	**2,695**
At end of year	¥ 722	¥ 1,041	**¥ 1,357**	**$ 11,561**
Foreign Currency Translation Adjustments				
At beginning of year	¥ 481	¥ (120)	**¥ 327**	**$ 2,784**
Change in the year	(601)	447	**2,341**	**19,931**
At end of year	¥ (120)	¥ 327	**¥ 2,668**	**$ 22,715**
Treasury Stock, at cost				
At beginning of year	¥ (403)	¥ (1,325)	**¥ (607)**	**$ (5,170)**
Purchase of treasury stock	(1,112)	(14)	**(20)**	**(168)**
Sales of treasury stock	1	1	**1**	**3**
Disposition under stock-swap	—	1,116	—	—
Change in the year of treasury stock held by a consolidated subsidiary	—	(385)	**578**	**4,922**
Change in the year of treasury stock held by an affiliated company	189	—	—	—
At end of year	¥ (1,325)	¥ (607)	**¥ (48)**	**$ (413)**
Total Shareholders' Equity at end of year	¥ 109,182	¥ 127,650	**¥ 168,273**	**$ 1,432,475**

In Japan, dividends, and directors' and statutory auditors' bonuses proposed by the Board of Directors out of retained earnings as of the end of a fiscal year are approved at the general shareholders' meeting in the following fiscal year. In the Consolidated Statements of Shareholders' Equity, dividends, and directors' and statutory auditors' bonuses are shown as a reduction of retained earnings in the year approved and paid.

The accompanying notes are an integral part of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

for the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2005	2006	2006
Cash Flows from Operating Activities:				
Income before income taxes and minority interest	¥ 15,521	¥ 26,845	**¥ 30,566**	**$ 260,202**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	5,566	5,657	**6,562**	**55,863**
Amortization of negative goodwill	—	(324)	**(648)**	**(5,518)**
Increase/(decrease) in provisions	338	(717)	**156**	**1,328**
(Gain)/loss on sale/disposal of property and equipment, net	288	201	**(58)**	**(496)**
Interest and dividend income	(148)	(282)	**(308)**	**(2,625)**
Interest expenses	493	163	**168**	**1,433**
Foreign exchange (gain)/loss, net	109	(167)	**(134)**	**(1,144)**
Equity earnings of affiliates	(301)	(433)	**(416)**	**(3,539)**
Loss on write-down of long-term investments in securities	—	—	**164**	**1,399**
Gain on sale of long-term investments in securities, net	(33)	—	**(1,933)**	**(16,458)**
Liquidation loss of unconsolidated subsidiaries	100	—	**—**	**—**
Liquidation loss of a consolidated subsidiary	—	650	**—**	**—**
Impairment loss on fixed assets	—	—	**1,152**	**9,808**
Changes in assets and liabilities:				
Increase in accounts and notes receivable	(11,293)	(3,203)	**(8,461)**	**(72,029)**
(Increase)/decrease in inventories	396	14	**(220)**	**(1,873)**
Increase in accounts and notes payable	7,337	3,098	**4,565**	**38,861**
Other, net	110	228	**643**	**5,476**
Subtotal	18,483	31,730	**31,798**	**270,688**
Interest and dividend income received	193	339	**399**	**3,394**
Interest expenses paid	(495)	(192)	**(171)**	**(1,453)**
Income taxes paid	(2,446)	(9,499)	**(11,820)**	**(100,617)**
Net cash provided by operating activities	15,735	22,378	**20,206**	**172,012**
Cash Flows from Investing Activities:				
Decrease in term deposits due over three months	—	30	**—**	**—**
Increase in term deposits due over three months	—	—	**(1,945)**	**(16,553)**
Proceeds from sales of short-term investments in securities	907	—	**—**	**—**
Payments for purchase of property, plant and equipment	(5,106)	(6,963)	**(12,520)**	**(106,584)**
Proceeds from sales of property, plant and equipment	81	215	**1,339**	**11,398**
Payments for purchase of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	(310)	(475)	**(13)**	**(108)**
Proceeds from sales of long-term investments in securities/investments in unconsolidated subsidiaries and affiliates	1,794	3	**3,850**	**32,773**
Payments of advances	(1,184)	(400)	**(67)**	**(569)**
Collections of advances	136	418	**12**	**103**
Net cash used in investing activities	(3,682)	(7,172)	**(9,344)**	**(79,540)**
Cash Flows from Financing Activities:				
Decrease in short-term bank loans	(3,304)	—	**—**	**—**
Repayments of long-term debt	(3,599)	(36)	**(352)**	**(3,000)**
Proceeds from sale of treasury stock	0	0	**899**	**7,650**
Redemption of bonds	(17,334)	—	**—**	**—**
Cash dividends	(1,784)	(1,772)	**(2,524)**	**(21,483)**
Payments for purchase of treasury stock	(1,112)	(14)	**(20)**	**(168)**
Proceeds from minority shareholders' payment	—	—	**256**	**2,178**
Other, net	1	0	**—**	**—**
Net cash used in financing activities	(27,132)	(1,822)	**(1,741)**	**(14,823)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(418)	(41)	**1,199**	**10,202**
Net Increase/(Decrease) in Cash and Cash Equivalents	(15,497)	13,343	**10,320**	**87,851**
Cash and Cash Equivalents at Beginning of Year	72,534	57,037	**75,987**	**646,865**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	—	5,622	**—**	**—**
Decrease in cash and cash equivalents resulting from exclusion of a consolidated subsidiary	—	(15)	**—**	**—**
Cash and Cash Equivalents at End of Year (Note 15)	¥ 57,037	¥ 75,987	**¥ 86,307**	**$ 734,716**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

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

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

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

2. United States Dollar Amounts

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the readers outside Japan and are unaudited. These translations should not be construed as presentations that the yen amounts actually represent or have been or could be converted into, U.S. dollars. For this purpose the rate of ¥117.47=U.S. 1, the approximate rate of exchange prevailing in Tokyo on March 31, 2006, was used for the translation of the accompanying consolidated financial of the Company as of and for the year ended March 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

3. Summary of Significant Accounting Policies

(a) Scope of Consolidation

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

The Company had 25 subsidiaries ("controlled" companies—companies whose decision making is controlled) as of March 31, 2006 (23 as of March 31, 2005). The consolidated financial statements for the year ended March 31, 2006 include the accounts of the Company and 20 (18 for 2005) of its subsidiaries. The 20 major subsidiaries, which have been consolidated with the Company, are listed below (the Company and these consolidated subsidiaries are together, referred to as the "Companies"):

Name of subsidiary	Percentage owned by the Company (directly or indirectly)	Fiscal year ended
THK Holdings of America, L.L.C. (USA)	100%	Dec. 31, 2005
THK America, Inc. (USA)	100	Dec. 31, 2005
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 2005
THK Neturen America, L.L.C. (USA)	50	Dec. 31, 2005
THK Europe B.V. (the Netherlands)	100	Dec. 31, 2005
THK GmbH (Germany)	100	Dec. 31, 2005
THK France S.A.S. (France)	100	Dec. 31, 2005
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 2005
THK Manufacturing of Europe S.A.S. (France)	100	Dec. 31, 2005
THK TAIWAN CO., LTD. (Taiwan)	94.99	Dec. 31, 2005
Beldex KOREA Corporation (Korea)	100	Dec. 31, 2005
THK (CHINA) CO., LTD. (China)	100	Dec. 31, 2005
THK (SHANGHAI) CO., LTD. (China)	100	Dec. 31, 2005
DALIAN THK CO., LTD. (China)	70	Dec. 31, 2005
THK MANUFACTURING OF CHINA (WUXI) CO., LTD. (China)	100	Dec. 31, 2005
THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. (China)	100	Dec. 31, 2005
DAITO SEIKI CO., LTD. (Japan)	100	Mar. 31, 2006
THK NIIGATA CO., LTD. (Japan)	70	Mar. 31, 2006
TALK SYSTEM CORPORATION (Japan)	99	Mar. 31, 2006
Beldex Corporation (Japan)	94.73	Mar. 31, 2006

The accounts for the year ended March 31, 2006 of the remaining 5 (5 for 2005) subsidiaries are insignificant, meaning that these accounts have not been consolidated with the Company since combined assets, net sales, net income and retained earnings of these companies, in the aggregate, are not significant in relation to those of the Companies.

The changes of the scope of consolidation for the year ended March 31, 2006 are as follows:

Due to new establishments, Beldex KOREA Corporation and THK (CHINA) CO., LTD. were included in the consolidation scope as of the end of the first half year.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company has 3 (3 for 2005) affiliates ("influenced companies"--companies whose financial and operating or business decision making can be influenced by the Companies in a material degree, and are not subsidiaries) at March 31, 2006. The equity method is applied to the investment in SAMICK LMS CO., LTD. The investments in the unconsolidated subsidiaries and the remaining affiliates do not have a material effect on consolidated net income and retained earnings in the consolidated financial statements, had they been accounted for using the equity method. Thus the investments in the unconsolidated subsidiaries and affiliates are carried at cost or less any impairment loss.

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

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

(d) Inventories

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

(e) Financial Instruments

Securities

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Derivative

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

For forward foreign exchange contracts and currency swap contracts that meet the required condition under the related Japanese accounting standards, the Company and its subsidiaries translate hedged foreign currency assets and liabilities at the rate of these contracts.

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

(f) Property, Plant and Equipment

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

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

(g) Amortization

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

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

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

(h) Allowance for Doubtful Accounts

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

(i) Accrued Bonuses

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

(j) Reserve for Employees’ Retirement Benefits

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

(k) Accounting for Leases

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

(l) Foreign Currency Translation

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

(m) Accounting for the Consumption Tax

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

(n) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes.
The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(o) Cash and Cash Equivalents

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

(p) Net Income per Share

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

(q)Change in Accounting Policies

(1) Effective from the year ended March 31, 2006, the Company adopted the accounting standard for impairment of fixed assets ("*Accounting Standards for Impairment of Fixed Assets*" issued by the Business Accounting Council on August 9, 2002) and "*Guidance on Accounting Standards for Impairment of Fixed Assets*" (ASB Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).
The Company recognized impairment loss on fixed assets such as idle assets at the amount measured as the excess of the carrying amount over the recoverable amount of the assets. The recoverable amount is determined by the net realizable value measured by certified real estate appraisers.
As a result, income before income taxes and minority interest decreased by ¥1,152 million ($9,808 thousand), compared with what would have been reported if the new accounting standard had not been adopted.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

4. Impairment Losses

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

For idle assets whose operating profitability has worsened substantially due to such factors as ongoing decline in fair market value of assets, the Company decided to mark the assets down to the net realizable value and recorded the impairment loss of ¥1,152 million ($9,808 thousand), which is comprised of the following.

			Millions of yen	Thousands of U.S. dollars
Use	Category	Location	Impairment loss	Impairment loss
Idle	Land	Ikoma, Nara	590	5,023
Idle	Land, leasehold	Shinagawa, Tokyo	245	2,089
Idle	Land	Sanyo-onoda, Yamaguchi	97	822
Idle	Land, buildings and structures, other	Other	220	1,874
Total			1,152	9,808

5. Long-term investments in securities

At March 31, 2005 and 2006, “other securities” with available market value were as follows:

	Millions of yen		
	2005		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	¥ 2,392	¥ 4,123	¥ 1,731
Other	7	8	1
Subtotal	2,399	4,131	1,732
Carrying amounts not in excess of acquisition cost:			
Equity securities	1	1	(0)
Other	—	—	—
Subtotal	1	1	(0)
Total	¥ 2,400	¥ 4,132	¥ 1,732

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

	Thousands of U.S. dollars		
	2006		
	Cost	Carrying amount	Net unrealized gain (loss)
Carrying amounts in excess of acquisition cost:			
Equity securities	$ 4,929	$ 24,117	$ 19,188
Other	28	41	13
Subtotal	4,957	24,158	19,201
Carrying amounts not in excess of acquisition cost:			
Equity securities	18	17	(1)
Other	—	—	—
Subtotal	18	17	(1)
Total	$ 4,975	$ 24,175	$ 19,200

Proceeds and net realized gain (loss) from the sales of "other securities" for the year ended March 31, 2005 was immaterial.

During the year ended march 31, 2006, proceeds and net realized gain from the sales of "other securities" were ¥3,850 ($32,773) and ¥1,933 ($16,458) respectively.

6. Inventories

Inventories at March 31, 2005 and 2006 comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished goods	¥ 13,261	¥ 12,814	$ 109,079
Work in process	4,082	4,764	40,559
Raw materials and supplies	6,865	7,372	62,755
Total	¥ 24,208	¥ 24,950	$ 212,393

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

7. Long-term Debt

The annual average interest rate applicable to long-term debt at March 31, 2006 was 0.97%.

Long-term debt at March 31, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
0.91% Straight bonds 2006	¥10,000	¥10,000	$ 85,128
1.37% Straight bonds 2008	5,000	5,000	42,564
Zero Coupon Convertible bonds 2008, currently convertible at ¥1,650 ($14)	23,000	1,745	14,855
Loans from banks(2.75%):			
Collateralized	248	176	1,498
Non-collateralized	288	—	—
	38,536	16,921	144,045
Less - current portion	186	10,072	85,741
	¥38,350	¥ 6,849	$ 58,304

At March 31, 2006, the Company and some of its subsidiaries had committed lines of credit amounting to ¥14,000 million ($119,179 thousand). None of the committed lines of credit were used.

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2006, were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2006	2006
2008	¥ 1,817	$ 15,468
2009	5,032	42,836
2010	—	—
2011 and after	—	—
	¥ 6,849	$ 58,304

Assets pledged as collateral for secured debt at March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
Pledged assets	2005	2006	2006
Buildings and structures	¥ 1,016	¥ 987	$ 8,402
Machinery and equipment	182	168	1,432
Land	240	240	2,044
Total	¥ 1,438	¥ 1,395	$ 11,878

	Millions of yen		Thousands of U.S. dollars
Secured debt	2005	2006	2006
Long-term debt	¥ 248	¥ 176	$ 1,498

8. Contingent Liabilities

Contingent liabilities for guarantees of liabilities (accounts payable) held by NIPPON SLIDE CO., LTD. as of March 31, 2006 was ¥27 ($230 thousand).

9. Lease

The Companies lease certain machinery and equipment and other assets. Total lease payments under these leases were ¥622 million, ¥677 million, and ¥658 million ($5,601 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively. Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis as of March 31, 2005 and 2006 were as follows:

	Millions of yen		
	2005		
	Machinery and equipment	Other	Total
Acquisition costs	¥ 3,110	¥ 143	¥ 3,253
Accumulated depreciation	810	119	929
Net leased property	¥ 2,300	¥ 24	¥ 2,324

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

	Thousands of U.S. dollars		
	2006		
	Machinery and equipment	Other	Total
Acquisition costs	$ 25,188	$ —	$ 25,188
Accumulated depreciation	7,673	—	7,673
Net leased property	$ 17,515	$ —	$ 17,515

Future minimum lease payments under finance leases as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 649	¥ 652	$ 5,546
Due after one year	1,675	1,406	11,969
Total	¥ 2,324	¥ 2,058	$ 17,515

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

The amounts of acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Depreciation of the leased property, which is not reflected in the accompanying consolidated statements of income, computed by using the straight-line method, would be ¥622 million, ¥677 million and ¥658 million ($5,601 thousand) for the years ended March 31, 2004, 2005 and 2006, respectively.

Obligations under non-cancelable operating leases as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥ 602	¥ 647	$ 5,503
Due after one year	1,455	1,534	13,061
Total	¥ 2,057	¥ 2,181	$ 18,564

10. Derivative and Hedging Activities

For the years ended March 31, 2005 and 2006, the Company utilized certain interest rate swap, currency swap agreements and forward exchange contracts. Market value information for such derivatives held by the Company at March 31, 2005and 2006 has been omitted as such derivatives qualified the conditions for hedge accounting under the related Japanese accounting standards.

11. Research and Development

Research and development expenses for the years ended March 31, 2004, 2005 and 2006 were ¥2,520 million, ¥2,686 million and ¥2,684million ($22,846 thousand), respectively, and were included in "selling, general and administrative expenses" in the Consolidated Statements of Income.

12. Prior-period Adjustments

In accordance with the applicable CNC ("Conseil National de la Comptabilité": French National Accounting Committee) statements and the CRC ("Comité de la Réglementation Comptable": a regulatory authority dealing with accounting rules) regulations, THK Manufacturing of Europe S.A.S. ("TME") implemented the component approach method for depreciating certain real property assets. This new approach requires the reclassification of real property assets as well as change in useful lives of assets along with respective economic useful lives of each component or element of assets (instead of single grouping of a lump sum real property purchase). TME made the change in useful lives for major component of assets. This change of useful lives resulted in recording a gain amount of ¥253 million ($2,152 thousand), in Prior-period adjustments on the Consolidated Statements of Income.

(This was originally presented as an increase amount in the retained earnings; however this has been reclassified to, in accordance with Japan GAAP requirement, a line in the consolidated income statements.)

13. Reserve for Employees' Retirement Benefits

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

The reserve for employees' retirement benefits as of March 31, 2005 and 2006 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligations	¥ 5,696	¥ 6,676	$ 56,836
Plan assets	(2,858)	(3,617)	(30,794)
	2,838	3,059	26,042
Unrecognized actuarial differences	(731)	(743)	(6,325)
Reserve for employees' retirement benefit	¥ 2,107	¥ 2,316	$ 19,717

Net periodic pension and severance costs for the years ended March, 2004, 2005 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2005	2006	2006
Service cost	¥ 338	¥ 376	¥ 499	$ 4,248
Interest cost	97	113	136	1,161
Expected return on plan assets	(9)	(12)	(13)	(119)
Recognized actuarial differences	86	74	109	930
Net periodic pension and severance costs	¥ 512	¥ 551	¥ 731	$ 6,220

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

	2004	2005	2006
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis	Straight-line basis
Discount rate	2.5%	2.5%	2.0%
Expected rate of return on plan assets	0.5%	0.5%	0.5%
Amortization of unrecognized actuarial differences	10 years	Between 5 and 10 years	Between 5 and 10 years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

14. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the Company and its subsidiaries for the years ended March 31, 2004 was 42.1%, and 2005 and 2006 was 40.7%.

At March 31, 2005 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Loss on devaluation of inventories	¥ 1,071	¥ 1,098	$ 9,344
Software	541	400	3,401
Elimination of inter-company profit (inventories)	407	430	3,661
Accrual of directors' retirement benefits	399	399	3,393
Allowance for bad debts	250	194	1,655
Reserve for employees' retirement benefits	785	784	6,676
Net operating loss carried forward	269	263	2,238
Accrued bonuses to employees	888	903	7,688
Enterprise tax payable	465	583	4,959
Impairment losses	—	346	2,946
Other	1,192	1,127	9,605
Gross deferred tax assets	6,267	6,527	55,566
Less: valuation allowance	(851)	(466)	(3,971)
Total deferred tax assets	5,416	6,061	51,595
Deferred tax liabilities:			
Unrealized gains on marketable equity securities	(712)	(922)	(7,850)
Insurance premium	(280)	(271)	(2,306)
Special depreciation reserve	(214)	(226)	(1,926)
Unrealized gains on land	(418)	(418)	(3,561)
Other	(188)	(205)	(1,738)
Total deferred tax liabilities	(1,812)	(2,042)	(17,381)
Net deferred tax assets	¥ 3,604	¥ 4,019	$ 34,214

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current assets - Deferred tax assets	¥ 3,041	¥ 3,303	$ 28,120
Investments and other - Deferred tax assets	1,096	1,224	10,420
Long-term liabilities - Other liabilities	(533)	(508)	(4,326)
Net deferred tax assets	¥ 3,604	¥ 4,019	$ 34,214

For the years ended March 31, 2005 and 2006, the reconciliation of the statutory tax rate to the effective tax rate was follows:

	2005	2006
Statutory tax rate	40.7%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences	0.2	0.2
Net operating losses of consolidated subsidiaries for which valuation allowances were fully provided	(0.6)	0.6
Amortization of negative goodwill	(0.5)	(0.9)
Equity earnings from unconsolidated subsidiaries and affiliates	(0.7)	(0.6)
Equalization inhabitant taxes	0.3	0.2
Tax rate differences between domestic and overseas	(0.2)	(1.0)
Tax credit for research and development expenses	(1.1)	(0.9)
Refunded tax payment	(1.5)	(0.1)
Other	(1.4)	(0.1)
Effective income tax rate	35.2%	38.1%

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

1) Cash and cash equivalents at March 31, 2005 and 2006 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and bank deposits	¥ 75,842	¥ 87,911	$ 748,370
Short-term investments in securities	145	341	2,899
	75,987	88,252	751,269
Less:			
Time deposit due over three months	—	(1,945)	(16,553)
	¥ 75,987	¥ 86,307	$ 734,716

2) Significant non-cash transactions

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

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Increase resulting from conversion of convertible bonds (Paid-in capital)	¥ 10,628	$ 90,470
Increase resulting from conversion of convertible bonds (Additional paid-in capital)	10,628	90,470
Decrease resulting from conversion of convertible bonds outstanding	¥ 21,256	$ 180,940

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

16. Segment Information

(1) Industry Segment Information

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

(2) Geographical Segment Information

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

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

"The Americas" mainly includes the United States.

"Europe" mainly includes Germany, the United Kingdom and the Netherlands.

"Asia and other" mainly includes China, Korea and Taiwan.

Net sales of the Companies for the years ended March 31, 2004, 2005 and 2006 classified by geographic segments were summarized as follows:

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

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

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

	Thousands of U.S. dollars						
	2006						
	Japan	The Americas	Europe	Asia and other	Total	Eliminations and corporate	Consolidated
I. Net sales and operating income-							
Net sales:							
Customers	$ 1,042,452	$ 119,253	$ 138,842	$ 47,990	$ 1,348,537	$ —	$ 1,348,537
Inter-segment	164,828	284	746	11,841	177,699	(177,699)	—
Total	1,207,280	119,537	139,588	59,831	1,526,236	(177,699)	1,348,537
Operating expenses	992,101	108,432	140,057	55,743	1,296,333	(178,323)	1,118,010
Operating income	$ 215,179	$ 11,105	$ (469)	$ 4,088	$ 229,903	$ 624	$ 230,527
II. Assets-							
Assets	$ 1,553,538	$ 130,070	$ 152,126	$ 136,287	$ 1,972,021	$ 108,380	$ 2,080,401

The amounts of assets held for corporate purpose include in "Eliminations and corporate", which primarily consist of term deposits and investment securities held by the parent company. Such corporate assets were 8,292 million, 12,905 million, and 54,029 million ($459,942 thousand), as of March 31, 2004, 2005 and 2006, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THK CO., LTD. AND CONSOLIDATED SUBSIDIARIES

(3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company plus the sales by the overseas consolidated subsidiaries) for the years ended March 31, 2004, 2005 and 2006 were summarized as follows:

	Millions of yen			
	2004			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥ 10,436	¥ 12,739	¥ 10,735	¥ 33,910
Consolidated net sales				¥ 119,254
Overseas sales as a percentage of consolidated net sales	8.7%	10.7%	9.0%	28.4%

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

	Millions of yen/ (Thousands of U.S. dollars)			
	2006			
	The Americas	Europe	Asia and other	Total
Overseas sales	¥ 14,108	¥ 16,199	¥ 15,861	¥ 46,168
	($ 120,096)	($ 137,898)	($ 135,024)	($ 393,018)
Consolidated net sales				¥ 158,413
				($ 1,348,537)
Overseas sales as a percentage of consolidated net sales	8.9%	10.2%	10.0%	29.1%

ChuoAoyama PricewaterhouseCoopers

PricewaterhouseCoopers

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of THK Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2006, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THK Co., Ltd. and its subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

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

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 23, 2006