ANNUAL REPORT 2000

THK

Serving the World with Technology

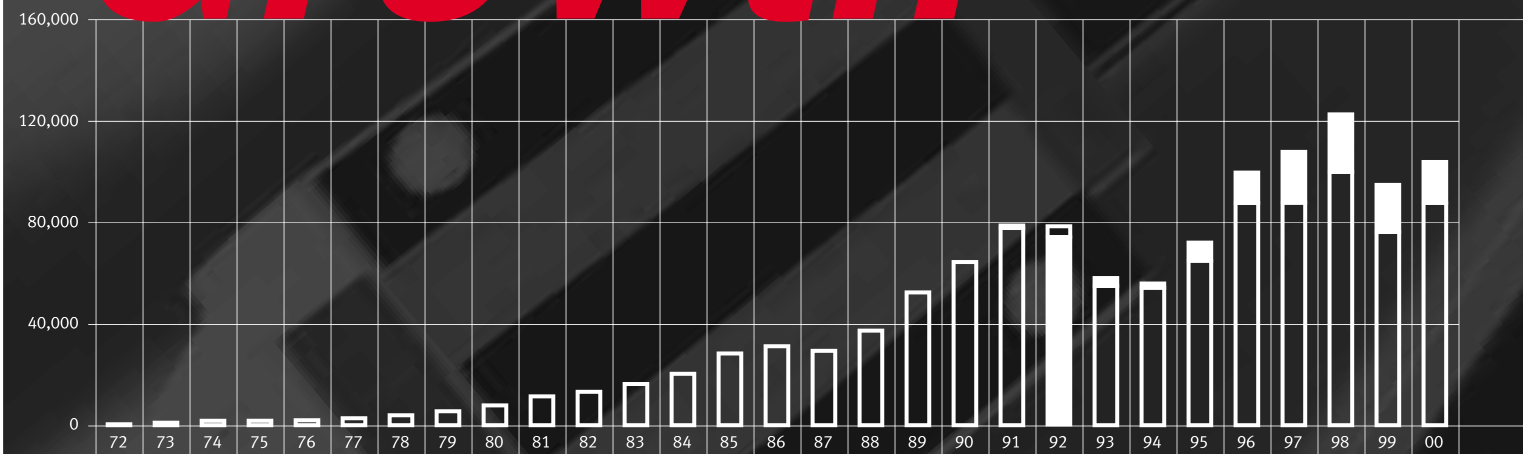
Serving the World with Technology THK—the Pioneer in "Linear Motion Guides"

Growth

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

Linear motion with rolling contact is considerably more efficient than sliding mechanisms, and has contributed to the rapid advancement of mechatronics equipment capabilities through more advanced functions, higher speeds and greater energy conservation. A wide range of industrial equipment requires linear motion, including machine tools, industrial robots and semiconductor production equipment.

As the pioneer in LM guides, THK currently holds market shares of 70% in Japan and more than 50% worldwide. THK is also a company focused on creation and development, holding 688 patents in Japan and 668 patents overseas (including patents pending).



SALES TREND SINCE ESTABLISHMENT
(Millions of Yen)

CONSOLIDATED
NON-CONSOLIDATED

Compared with ball bearings, which have a history of more than 100 years, the market for LM guides is still young with high growth potential. With a well-established market demand and substantial market opportunities worldwide, the LM guide market is expanding steadily year after year.

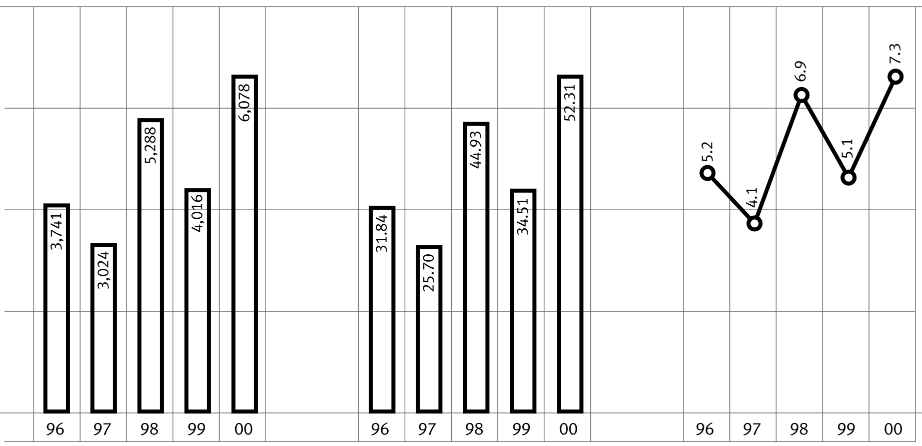
Responding to such strong demand growth and maintaining its leadership position amid market expansion are key management issues for THK. The Company is meeting these challenges with a management philosophy of "providing innovative products to the world and staying abreast of new trends to contribute to the creation of an affluent society." THK intends to continue corporate growth by offering value-added technologies and products.

CONSOLIDATED FINANCIAL HIGHLIGHTS

	Millions of Yen			Thousands of U.S. Dollars
	1998	1999	2000	2000
Net Sales	¥122,815	¥ 95,006	¥103,955	$ 979,317
Operating Income	21,504	11,385	14,343	135,115
Net Income	5,288	4,016	6,078	57,262
Total Assets	222,258	194,385	195,750	1,844,096
Total Shareholders' Equity	79,367	78,242	88,061	829,594
		Yen		U.S. Dollars
Net Income per Share	¥ 44.93	¥ 34.51	¥ 52.31	$ 0.493

Note 1: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥106.15=US$1, the approximate rate of exchange prevailing on March 31, 2000.

Note 2: Prior-period results have been restated to conform to current presentation standards for financial statements in Japan, and figures disclosed in Japanese financial statements.



NET INCOME
(Millions of Yen)

NET INCOME PER SHARE
(Yen)

ROE (%)
ROE=Net Income/Average Shareholders' Equity

CONTENTS

Vision

"We aim to grow into one of the world's top ten manufacturers of essential machinery components during the first part of the 21st century."

MESSAGE FROM THE CEO

In 1972, THK overcame considerable technical difficulties to develop a method of linear motion (LM) with rolling contact, becoming the world's first company to commercialize LM guides. As the pioneer in the industry, we currently hold market shares of 70% in Japan and more than 50% worldwide.

THK's LM guides are used in a wide range of leading-edge mechatronics equipment, and in recent years applications have spread to such high-tech medical equipment as CT scanners and MRI equipment, as well as automobiles, rolling stock, and earthquake-proofing systems for buildings.

However, we do not intend to rest on our laurels. Rather, we believe it is essential to create new corporate growth through continual change.

THK's management slogan is "Global 10 21" (or "Global Ten *Nijuichi*" as it is pronounced at THK), referring to our growth strategy of becoming one of the world's top ten manufacturers of essential machinery components for the first part of the 21st century. To achieve this goal, we must increase our efforts to manufacture and market products overseas. As Japan accounts for approximately 25% of the worldwide market for the machinery-related industry, the majority of market opportunities exist elsewhere in the world. Concurrently, the market penetration rate for LM guides is estimated at only 2% to 3% overseas, compared with 15% in Japan. So the realization of "Global 10 21" depends on tapping the substantial latent demand for LM guides in overseas markets and on raising our overseas sales ratio from the current 30% to 70%. We intend to take full advantage of our 27 marketing bases in the United States, Europe and Asia, while strengthening our overseas manufacturing network by establishing THK Manufacturing of Europe S.A.S. (TME) as a new base by April 2001, and expanding capacity at THK Manufacturing of America, Inc. (TMA).

THK is also a company focused on creation and development, holding 688 patents in Japan and 668 patents overseas (including patents pending). We are currently developing products with the linear motor, and expanding basic technologies and value-added products in the LM guide series with Caged Ball™ Technology as new technologies with solid market potential develop.

To maintain our technological strengths, management is targeting a two-fold increase in development staff over the next two years, and amid breathtaking changes in customer needs, a key goal is to shorten the lead time required to develop new products. Through such measures, THK will aggressively respond to the trends of the new millenium.

Improving the capabilities of each employee is another important goal. To steadily upgrade skills in each area of operations—sales, production and administration—we are implementing TAP* (THK Advantage Program). The professional development of each individual will lead to stronger competitiveness for the Company as a whole.

The LM guide market is currently recording consistently higher annual growth. Responding to such strong demand growth and maintaining our leadership position amid market expansion are key management issues for THK. We are meeting these challenges with a sound strategic vision embodied in our management slogan "Global 10 21."

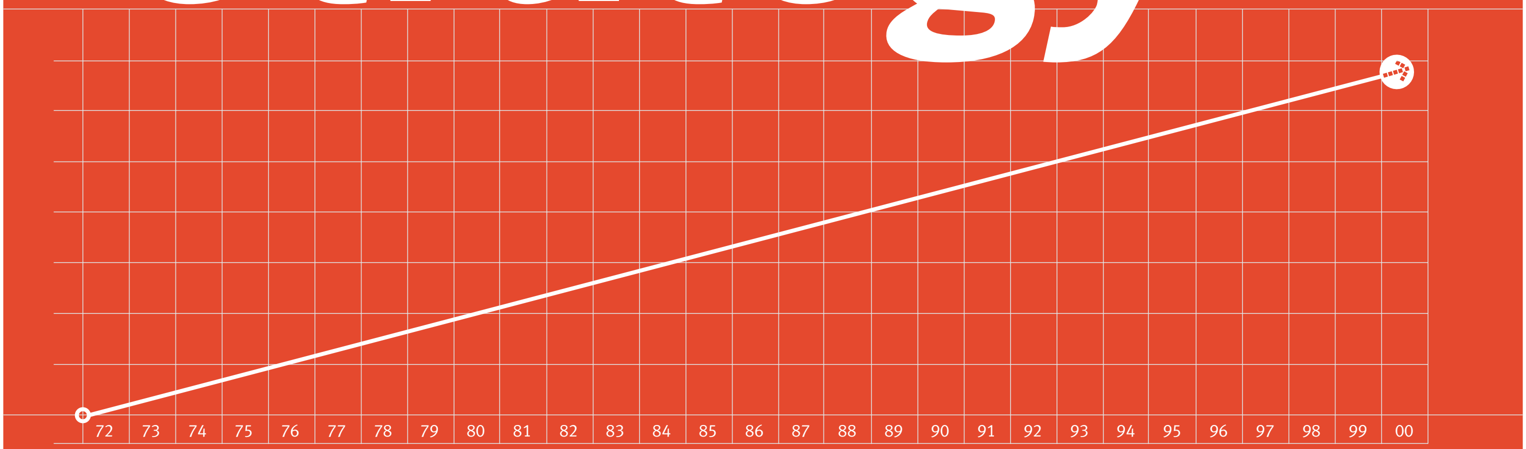
*TAP (THK Advantage Program):
TAP 1 (begun April 1998)
Establish a strong management system for the Sales Division; improve the capabilities of each member of the sales staff
TAP 2 (begun 1997, reinforced and relaunched August 1998)
Establish a production system that can respond to change
TAP 3 (begun April 2000)
Create administrative functions to support Sales and Production Divisions

Akihiro Teramachi

AKIHIRO TERAMACHI, President and CEO

SPECIAL FEATURE

Strategy



Key Management Issues:
Meeting high order growth
Raising competitiveness amid market expansion

THK's Response:
Strengthening our manufacturing network
Providing value-added products

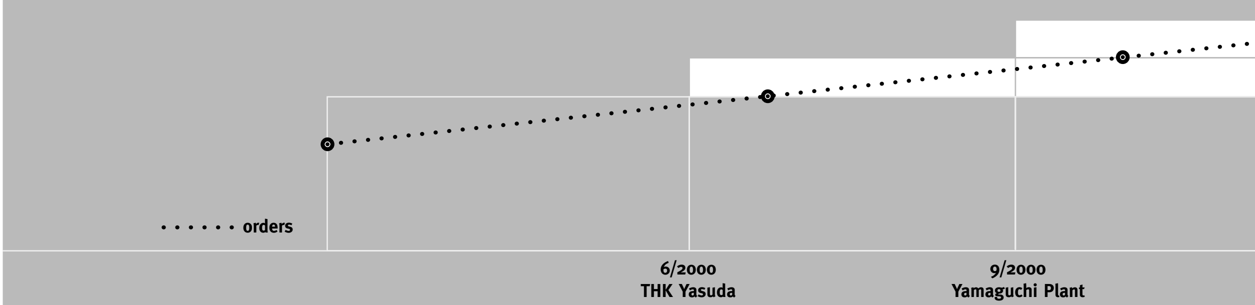
THK continues to record strong order growth from the electronics industry, especially for semiconductor production equipment. The background for this strong order growth is steady expansion of the LM guide market.

To meet such strong demand growth, THK will reinforce its manufacturing network in Japan in 2000 and overseas in 2001, aiming to raise capacity and develop optimally located production capabilities. Furthermore, THK intends to maintain its leadership position and strengthen competitiveness, as well as unlock latent demand through new applications, by providing high-value-added products.

Strengthening Our Manufacturing Network

> Raising capacity and developing optimally located global production capabilities

EXPANDING PRODUCTION NETWORK OVERSEAS



Japan 2000

THK Yasuda Co., Ltd. *(manufacturing subsidiary in Niigata Prefecture): New plant facility; completed in June 2000*

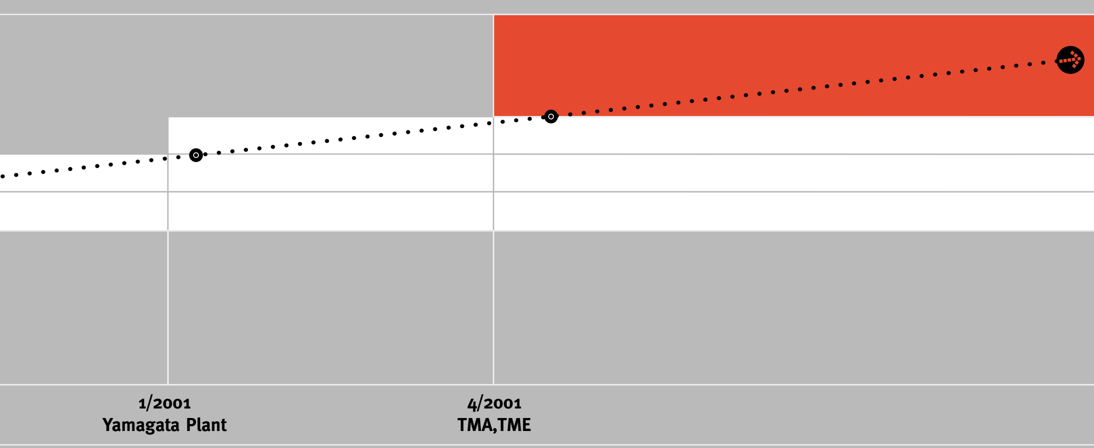
With the completion of this facility, THK increased its manufacturing capacity of ball splines, which are used mainly in conveyor equipment. Furthermore, costs were reduced by investment in in-house production capabilities throughout the manufacturing process.

Yamaguchi Plant *(Yamaguchi Prefecture): New plant facility; completed in September 2000*

The completion of this facility increased production capacity of medium- to large-scale LM guides for machine tools by an estimated 30% to 50%.

Yamagata Plant *(Yamagata Prefecture): New warehouse facility and expanded production equipment; completion scheduled for January 2001*

This project aims to increase production capacity for small LM guides used in semiconductor production equipment by approximately 30%.



In the future, THK aims to expand production capacity of TMA and TME to the level of the Yamaguchi and Yamagata Plants, creating optimal production bases to meet overseas orders, with coverage of approximately half of local demand.

Overseas ➔ 2001

TMA *(Ohio, U.S.A.):*

Expanding plant space by 29,000 square meters; shipments scheduled to begin April 2001

The 2nd phase of construction is currently underway. When completed, plant space will be increased from 8,000 to 37,000 square meters, and the company is targeting annual shipments of ¥3 billion to ¥5 billion. After completion, the original portion will be dedicated to link ball production with the expanded facility including an integrated line for LM guides. The base will support marketing efforts for semiconductor manufacturing equipment, machine tools and the new field of medical equipment, as well as the full-scale entry into the automotive market.

TME *(the Alsace region of France):*

New 16,500 square meter plant; shipments scheduled to begin in April 2001

The plant is located near numerous large-scale customers in Germany, and with 210,000 square meters of land (originally 120,000 square meters), management expects the site to become THK's largest manufacturing base in the future. Shipments are expected to reach ¥1 billion in the first year of operation, with planned investments leading to output of ¥10 billion in the future. The plant will be a significant base for local production and marketing in the European market, with output specializing in LM guides and targeting demand for machine tools, wood processing equipment and automation-related applications.

Providing Value-Added Products

> THK's high-quality products contribute to total cost reductions

Strengths of LM Guides

Benefits over previous methods

LM guides are innovative products to replace the sliding mechanisms of previous linear motion systems. LM guides offer numerous benefits for raising production efficiency, including the reduction of friction to one-tenth or one-twentieth of previous methods, as well as saving motive power, acceleration resistance and wear. Although roller bearings have been commercialized for 110 years, the development of a method for linear motion with rolling contact, said to be the most difficult method to develop among mechanical applications, was slow in coming due to the extreme technical difficulty.

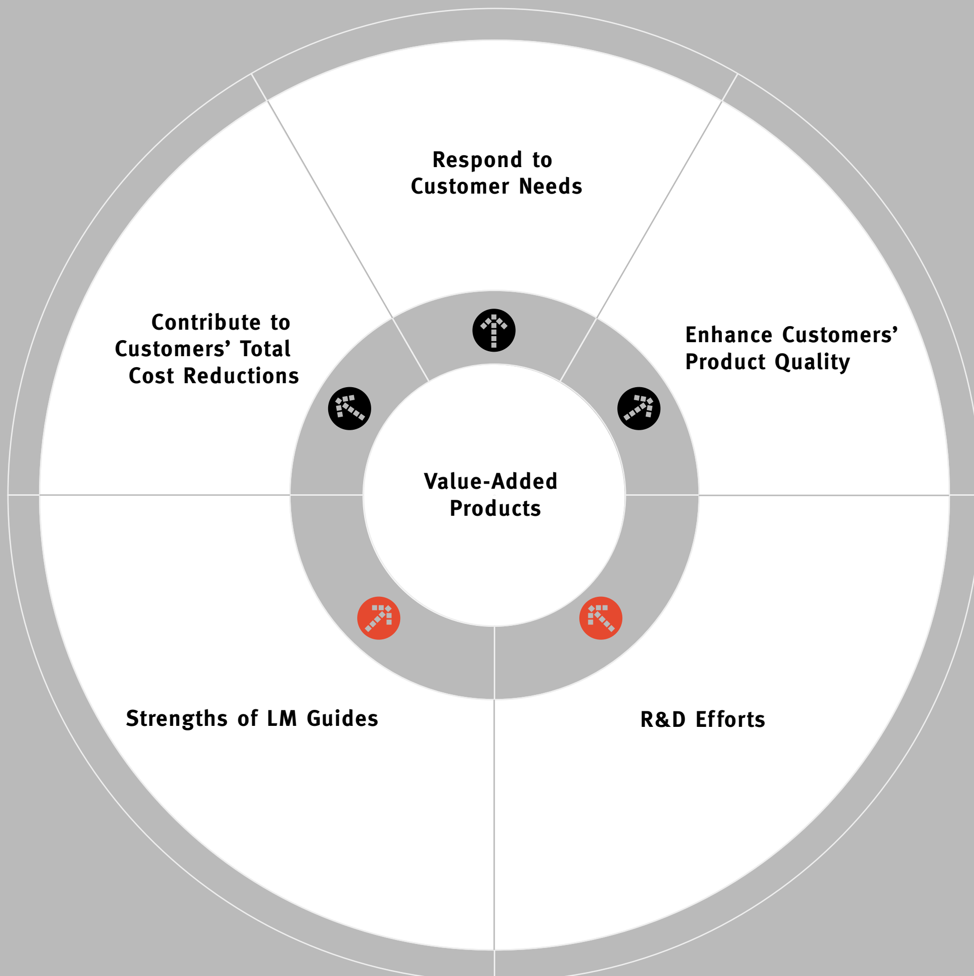
In 1972, THK succeeded in using the rotational theory of ball bearings to develop LM guides and other methods for linear motion with rolling contact. LM guides enabled high speed and submicron positioning, which had not been possible with sliding mechanisms, and substantially improved load capacity, durability and rigidity, allowing their use in heavy cutting and grinding equipment.

The LM guide market is young, with traditional sliding mechanisms still used in a large number of applications. THK intends to use the value-added strengths of LM guides to target untapped demand areas and promote greater market penetration.

Reinforcing R&D Efforts

Our goals extend beyond lower prices to total cost reductions through higher quality.

THK believes saving customers money means more than just reducing prices on individual products. Rather, total cost reductions for our customers can only be realized by providing the highest quality products. This philosophy forms the basic stance of our R&D activities. Advancements in THK's products contribute to improvements in the production output and corporate value of its customers. Through an aggressive R&D program, THK aims to raise the growth levels of customers through higher-value-added LM guides.



R&D Results

LM Guides with Caged Ball™ Technology

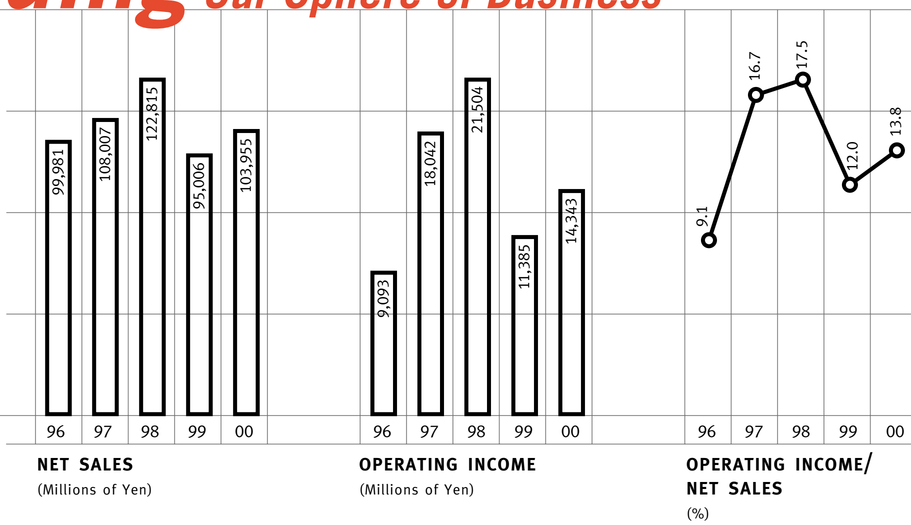
Value-added characteristics for silent, smooth and environmentally sound operations

LM guides with Caged Ball™ Technology make use of resin within the carriage block to reduce ball friction and realize quiet operation by covering the balls with a film of lubricant, sharply reducing maintenance needs and increasing durability—features that contribute to total cost reductions of equipment adopting these advanced products.

Lubricator QZ™

This system places fiber nets with a high oil content next to the rotational structures of the balls, applying lubrication only where needed in the minimum amount necessary. By conserving oil, the system reduces environmental impact and also greatly extends periods between maintenance.

Strengthening Our Marketing Structure and Expanding Our Sphere of Business



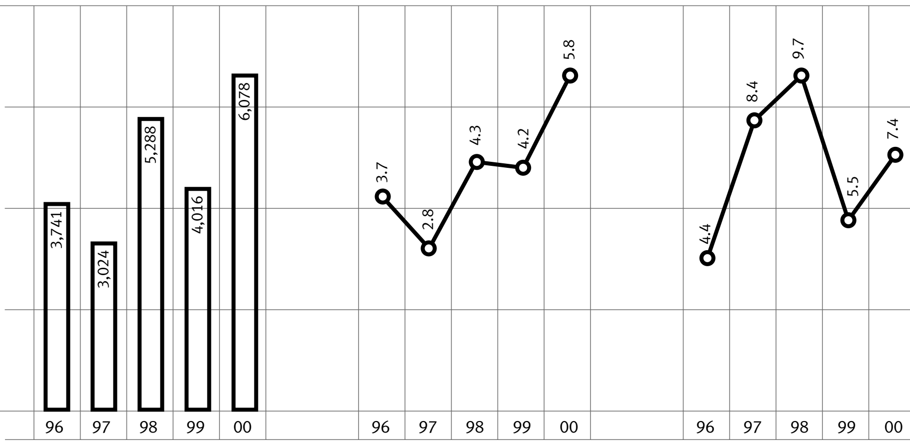
Performance

During the fiscal year ended March 31, 2000, the Japanese economy remained stagnant despite signs of a recovery, owing to weak consumer spending and sluggish private-sector capital investment. Overseas, economies in the United States and Europe were strong, and economies in Asia showed signs of a sharp recovery.

In the operating environment for our customers in Japan, the electronics-related field enjoyed robust demand and the semiconductor manufacturing equipment industry rebounded against a backdrop of growth in information communications fields including the Internet, personal computers and mobile information terminals. The machine tool and industrial robot industries showed signs of an upturn, but fell short of a full-scale recovery due to restricted capital investment in the automobile industry.

Overseas operations did not contribute significantly to profits, owing to the adverse effects of the rapid appreciation of the yen. In the United States, Europe and Asia, demand for LM guides was strong in the electronics-related field, mainly in the semiconductor production equipment industry.

As a result, consolidated net sales advanced 9.4% to ¥103,955 million (US$979 million) compared with the previous fiscal year. Operating income climbed 26.0% to ¥14,343 million (US$135 million) and net income rose 51.3% to ¥6,078 million (US$57 million).



NET INCOME
(Millions of Yen)

NET INCOME/NET SALES
(%)

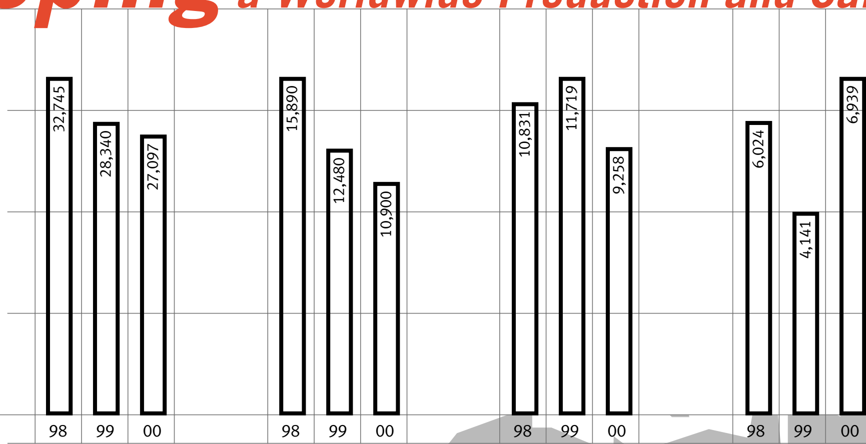
ROA (%)
ROA=Operating Income/Average Total Assets

Outlook

In Japan, prospects for a self-sustained economic recovery remain unclear. However, information technology investment in areas including the Internet, PCs and mobile information terminals is expected to continue expanding. Overseas, the recovery in Asian economies is forecast to progress further. The economies of the United States and Europe are projected to remain strong despite reasons for concern.

Based on these business conditions, THK aims to strengthen sales to primary customers in the semiconductor production equipment, machine tool and industrial robot industries. At the same time, the Company plans to bolster its overseas sales structure in the United States, Europe and Asia. We aim to expand our sphere of business by creating demand in new fields, and are considering entering the consumer goods field.

Developing a Worldwide Production and Sales Network



TOTAL OVERSEAS SALES
(Millions of Yen)

SALES IN AMERICA
(Millions of Yen)

SALES IN EUROPE
(Millions of Yen)

SALES IN ASIA AND OTHER
(Millions of Yen)

Europe

In Europe in the fiscal year under review, wood processing and automation-related demand was robust. Demand from the machine tool industry was weak, however, and the appreciation of the yen to the euro adversely affected performance. As a result, sales in Europe fell 21.0% to ¥9,258 million (US$87 million). At present, demand for roller guides is strong, particularly in Germany. As Germany is a promising region with a concentration of machine tool manufacturers, THK is constructing the new plant TME in the neighboring Alsace region of France. Reinforcing its regional production structure with the new plant, the Company aims to develop latent demand and increase its market share by supplying products to Germany and fulfilling demand for its actuators throughout Europe.

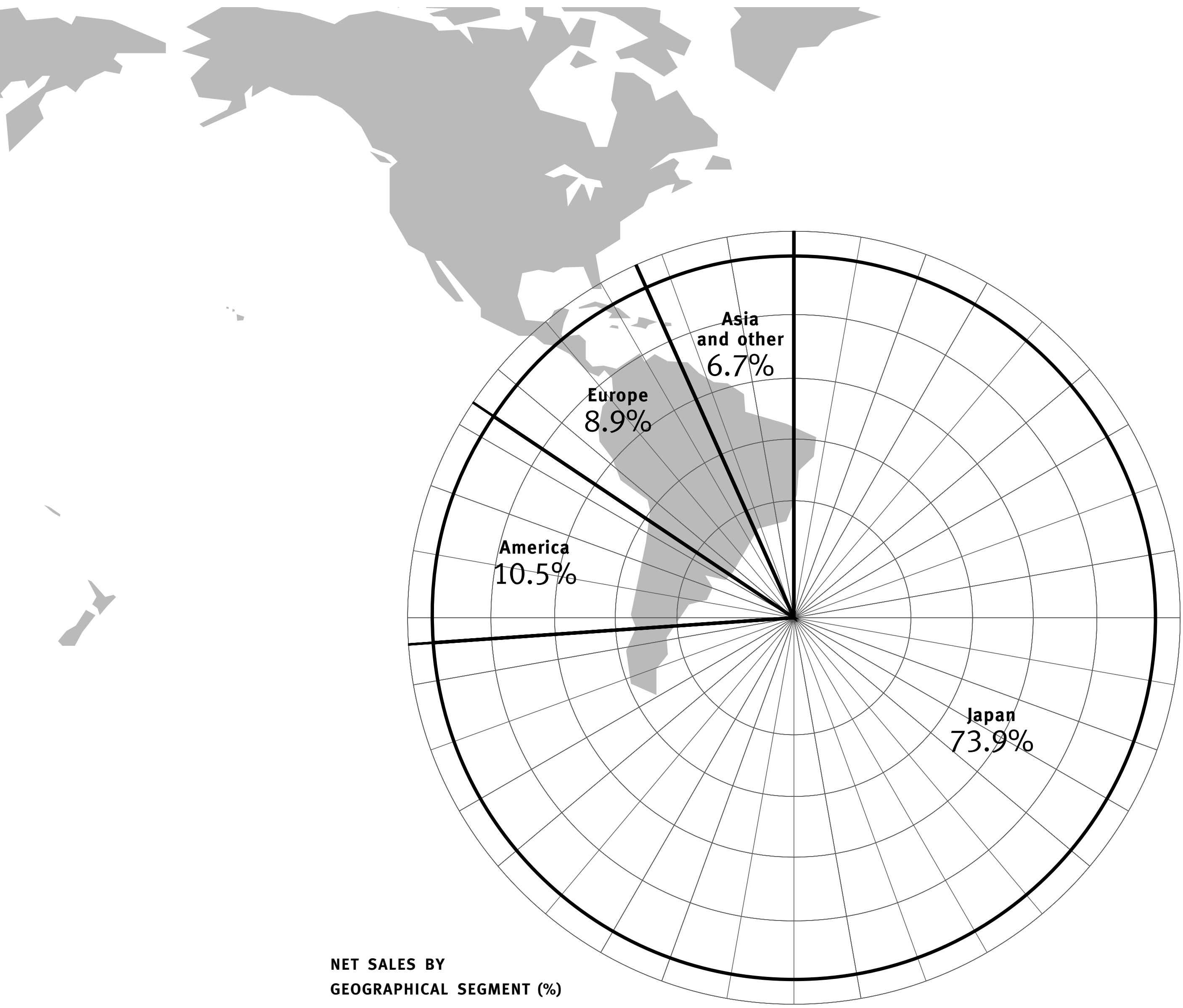
Asia and other

In Asia, despite lackluster machine tool demand during the term, electronics-related demand grew substantially in the semiconductor production equipment industries of Singapore and Korea. As a result, sales soared 67.6% to ¥6,939 million (US$65 million). The Asian market is expected to grow remarkably in the future. Demand for semiconductors and LCDs for PCs and mobile information terminals drives growth in the market and intensifies changes in needs. Companies able to swiftly and precisely grasp these changing needs are in high demand. By responding rapidly to market needs, THK aims to expand sales in growing Asian markets.

Based on our "Global 10 21" strategy, we aim to overturn the present 70% to 30% ratio of domestic to overseas sales to 30% to 70% in the near future. Through the development of a worldwide production and sales structure, we are increasing our responsiveness to market needs in overseas regions.

America

In the United States during the term under review, while demand was solid for LM guides for semiconductor production equipment and automobile-related equipment, demand was sluggish for machine tools and medical equipment. Adversely affected by the strong yen, sales in the United States dropped 12.7% to ¥10,900 million (US$103 million). Working to meet rapidly changing needs by building regional production lines in the second-stage construction of TMA, the Company aims to expand sales and market share by strengthening business through the full-scale entry into the automobile industry, aggressive introduction of mechatronics products and the launch of Internet businesses.



NET SALES BY GEOGRAPHICAL SEGMENT (%)

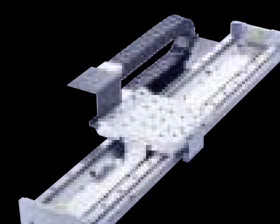
PRODUCTS

High Quality

LM Guides

Ball Screw

Spherical Joints



Actuator

LM Guides

A core product of the Company, LM guides are unique motion systems in which linear motion is supported by rolling contact elements. Pioneered by THK, LM guides are widely used in the mechatronic industry as core machine components in numerically controlled (NC) machine tools, industrial robots and semiconductor and LCD production equipment.

Ball Screws

The ball screws are driving force transmission apparatuses that obtain extremely smooth rolling motion through balls that, positioned between the screw shaft and the nut, move in rolling contact and keep friction resistance to a minimum. With strong transmissibility, ball screws are not only able to transfer rolling motion into linear motion but can also transfer linear motion into rolling motion without difficulty. Ball screws contribute to performance improvements in a wide range of machinery, including NC machine tools, industrial robots, automatic assembly machines, conveyance systems and semiconductor and LCD production equipment.

Spherical Joints

Link balls utilize an original manufacturing process whereby the holder is formed by die casting around a high-precision steel ball bearing as the core. As a result, the spherical shape of the ball replicates the holder, and full contact is achieved on the entire surface areas of both components. Due to the absence of a gap between these components, the motion is extremely smooth. Automobile-related sales are rising as demand increases for link balls as a component in the hubs of automotive wheels of cars of domestic and overseas automobile manufacturers.

Actuators

Actuators are mechatronics products that combine LM guides and motor regulating devices into a single compact format. As a developer of LM guides and ball screws that comprise actuators, THK is able to specifically design optimal and compact actuators that cut down on labor for machine design and are easily assembled, earning a strong reputation among users. Although these products were originally used in conveyance systems and assembly devices, demand for them is rising in semiconductor and LCD production equipment, inspection instruments and electronic component mounting devices.

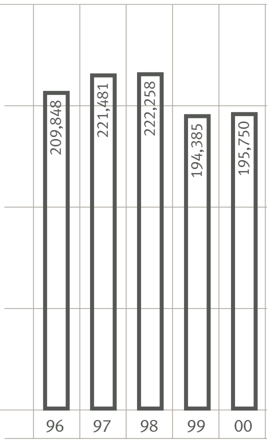
FINANCIAL SECTION

FIVE YEAR CONSOLIDATED FINANCIAL SUMMARY

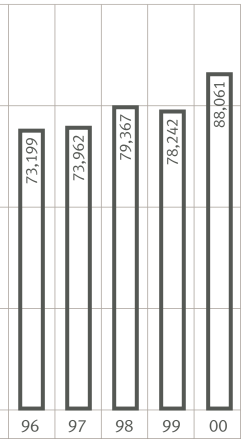
	Millions of Yen					Thousands of U.S. Dollars
	1996	1997	1998	1999	2000	2000
Net Sales	¥ 99,981	¥ 108,007	¥122,815	¥ 95,006	¥103,955	$ 979,317
Cost of Sales	75,340	73,584	81,207	64,443	69,817	657,719
Gross Profit	24,641	34,423	41,607	30,563	34,138	321,598
Selling, General and Administrative Expenses	15,548	16,380	20,103	19,178	19,795	186,483
Operating Income	9,093	18,042	21,504	11,385	14,343	135,115
Income before Income Taxes	7,020	4,754	12,141	7,463	11,415	107,533
Income Taxes	2,433	1,844	6,903	3,376	5,297	49,898
Net Income	3,741	3,024	5,288	4,016	6,078	57,262
	Yen					U.S. Dollars
Per Share of Common Stock:						
Net income—basic	¥ 31.84	¥ 25.70	¥ 44.93	¥ 34.51	¥ 52.31	$ 0.493
Net income—diluted	31.76	25.21	43.06	33.20	49.99	0.471
	Millions of Yen					Thousands of U.S. Dollars
Total Assets	¥209,848	¥221,481	¥222,258	¥194,385	¥195,750	$1,844,096
Total Shareholders' Equity	73,199	73,962	79,367	78,242	88,061	829,594
Capital Expenditures	5,664	7,561	4,131	4,680	3,573	33,660
Depreciation and Amortization	5,385	5,281	5,480	5,450	5,272	49,666
R&D Expenses	325	520	1,096	954	1,415	13,330
Operating Income Percentage of Net Sales (%)	9.1	16.7	17.5	12.0	13.8	
Net Income Percentage of Net Sales (%)	3.7	2.8	4.3	4.2	5.8	
Return on Equity (%)	5.2	4.1	6.9	5.1	7.3	
Return on Assets (%)	4.4	8.4	9.7	5.5	7.4	
Equity Ratio (%)	34.9	33.4	35.7	40.2	45.0	
Book Value per Share (Yen)	622.94	628.43	674.36	676.98	746.67	
Debt Equity Ratio (Times)	1.3	1.5	1.3	1.1	0.8	
Interest Coverage Ratio (Times)	2.1	4.8	6.2	4.5	7.2	

Note 1: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥106.15=US$1, the approximate rate of exchange prevailing on March 31, 2000.

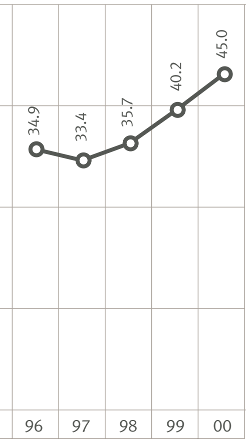
Note 2: Prior-period results have been restated to conform to current presentation standards for financial statements in Japan, and figures disclosed in Japanese financial statements.



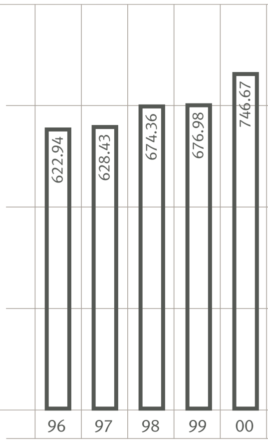
TOTAL ASSETS
(Millions of Yen)



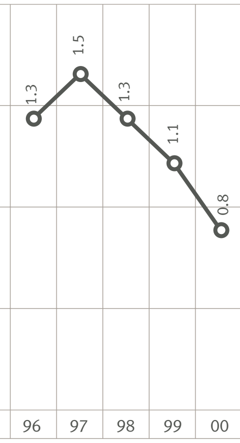
TOTAL SHAREHOLDERS' EQUITY
(Millions of Yen)



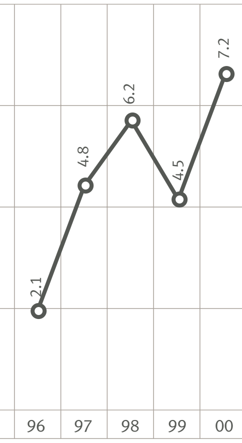
EQUITY RATIO
(%)



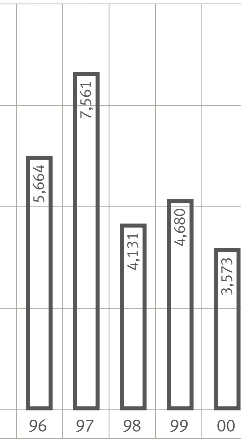
BOOK VALUE PER SHARE
(Yen)



DEBT EQUITY RATIO
(Times)



INTEREST COVERAGE RATIO
(Times)



CAPITAL EXPENDITURES
(Millions of Yen)

OPERATING RESULTS

Net sales for the fiscal year ended March 31, 2000, grew 9.4% to ¥103,955 million (US$979.3 million). Sales in Japan (excluding export sales) climbed 15.3% to ¥76,858 million (US$724.1 million). Overseas sales (including exports plus sales by overseas consolidated subsidiaries) declined 4.4% to ¥27,097 million (US$255.3 million), reflecting the adverse impact of exchange rate movements, despite a recovery in Asian markets. Overseas sales as a percentage of net sales declined 3.7 percentage points to 26.1%. The Company is currently aiming to increase the weight of overseas sales as part of its Global 10 21 strategy for growth as a global corporation, with measures underway to raise production capacity in the United States and Europe.

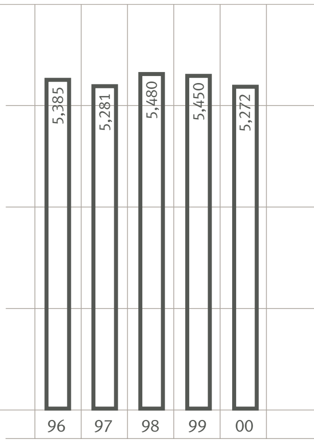
Gross profit increased 11.7% to ¥34,138 million (US$321.6 million), reflecting higher net sales and cost-cutting measures that reduced the ratio of cost of sales to net sales by 0.6 percentage point to 67.2%. Although selling, general and administrative (SG&A) expenses rose 3.2% to ¥19,795 million (US$186.5 million), SG&A expenses as a percentage of net sales declined 1.2 percentage points to 19.0%. As a result, operating income advanced 26.0% to ¥14,343 million (US$135.1 million), and the operating income margin improved 1.8 percentage points to 13.8%.

Net non-operating losses declined ¥563 million, or 15.3%, to ¥3,124 million (US$29.4 million). Factors behind this improvement included the absence of special charges for the retirement and severance payment to directors and for the write-down of investment in securities. Interest expenses declined ¥699 million to ¥2,057 million (US$19.4 million), and interest expenses net of interest and dividend income declined ¥153 million to ¥1,595 million (US$15.0 million). On the other hand, the Company recorded a loss on disposal of inventories of ¥1,289 million (US$12.1 million), reflecting efforts to streamline and improve the soundness of its asset base.

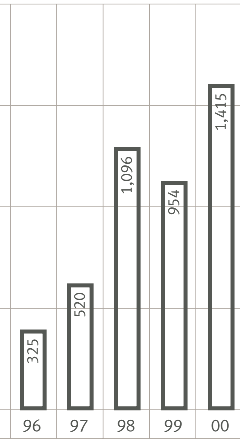
These factors supported a 53.0% rise in income before income taxes to ¥11,415 million (US$107.5 million). Net income increased 51.3% to ¥6,078 million (US$57.3 million) and net income per share—diluted was ¥49.99 (US$0.471).

LIQUIDITY AND FINANCIAL RESOURCES

Net cash provided by operating activities was ¥20,368 million (US$191.9 million). In addition to income before income tax and minority interests of ¥11,415 million (US$107.5 million), main sources of cash included depreciation and amortization of ¥6,257 million (US$58.9 million). Reflecting higher levels of operating activity, an increase in accounts and notes payables of ¥10,360 million (US$97.6 million) was partly offset by an increase in accounts and notes receivable of ¥9,825 million (US$92.6 million). As part of efforts to raise operating efficiency, a decrease in inventories provided cash of ¥3,291 million (US$31.0 million).



DEPRECIATION AND AMORTIZATION
(Millions of Yen)



R&D EXPENSES
(Millions of Yen)

Net cash provided by investing activities was ¥9,022 million (US$85.0 million), mainly due to proceeds from sales of short-term investment in securities of ¥17,860 million (US$168.3 million), which was partly offset by payments for purchase of short-term investment in securities of ¥9,693 million (US$91.3 million). Payments for purchase of property, plant and equipment were ¥4,858 million (US$45.8 million).

Net cash used for financing activities was ¥14,891 million (US$140.3 million), as the Company used strong cash flows from operating and investing activities to retire interest-bearing debt. The largest uses of cash in the category were a ¥10,000 million (US$94.2 million) expenditure from redemption of bonds and an ¥8,184 million (US$77.1 million) decrease in short-term bank loans. The early issue of stocks, related to the exercise of stock warrants, provided cash of ¥4,081 million (US$38.4 million).

In aggregate, cash and cash equivalents at end of year totaled ¥58,866 million (US$554.6 million), an increase of ¥13,614 million (US$128.3 million) compared with the beginning of the year.

Total current assets increased ¥3,739 million, or 2.8%, to ¥137,068 million (US$1,291.3 million), reflecting increases in cash and cash equivalents and accounts and notes receivable. Securities loaned declined ¥10,565 million.

Investments and other declined ¥547 million to ¥15,724 million (US$148.1 million). Property, plant and equipment declined ¥2,179 million to ¥36,218 million (US$341.2 million)

Total assets edged up ¥1,365 million, or 0.7%, to ¥195,750 million (US$1,844.1 million).

Total current liabilities increased ¥10,790 million, or 20.4%, to ¥63,706 million (US$600.2 million). The main reasons for this increase were a ¥9,723 million increase in the current portion of long-term debt to ¥15,142 million (US$142.6 million), including ¥9,770 million (US$92.0 million) in Swiss franc bonds with detachable warrants, and an ¥8,964 million rise in accounts and notes payable—trade to ¥23,277 million (US$219.3 million). Short-term bank loans declined ¥8,520 million to ¥12,640 million (US$119.1 million). Net working capital decreased ¥7,051 million to ¥73,362 million (US$691.1 million), and the current ratio declined from 2.52 to 2.15.

Long-term debt decreased ¥19,393 million to ¥42,542 million (US$400.8 million).

Total shareholders' equity increased ¥9,819 million, or 12.5%, to ¥88,061 million (US$829.6 million) as a result of higher retained earnings due to net income for the period, as well as increases in common stock and additional paid-in capital, primarily due to the exercise of warrants.

The equity ratio increased 4.7 percentage points to 45.0%. Return on average assets (operating income basis) was 7.4%, with a return on average equity (net income basis) of 7.3%.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 1999 and 2000

	Millions of yen March 31, 1999	Millions of yen March 31, 2000	Thousands of U.S. dollars (Note 1) March 31, 2000
ASSETS			
Current Assets:			
Cash	¥ 10,953	¥ 39,766	$ 374,620
Time deposits	23,943	7,531	70,947
Short-term investment in securities (Note 4)	4,769	9,118	85,895
Securities loaned	10,565	—	—
Accounts and notes receivable—			
Trade	27,061	34,795	327,796
Unconsolidated subsidiaries and affiliates	60	1,460	13,761
Other	755	480	4,524
	27,876	36,735	346,081
Less: allowance for bad debts	(424)	(280)	(2,640)
	27,452	36,455	343,441
Inventories (Note 5)	39,771	34,830	328,120
Short-term loans			
Unconsolidated subsidiaries and affiliates	—	428	4,028
Other	11,873	6,502	61,253
Deferred tax assets (Note 11)	2,287	2,036	19,178
Other current assets	1,716	402	3,786
Total current assets	133,329	137,068	1,291,268
Investments and Other:			
Long-term investment in securities (Note 4)	7,136	5,770	54,359
Investments in unconsolidated subsidiaries and affiliates (Note 4)	4,039	4,495	42,350
Deferred tax assets (Note 11)	—	451	4,247
Other investments	5,096	5,008	47,182
	16,271	15,724	148,138
Property, Plant and Equipment: (Notes 6 and 8)			
Buildings and structures	19,998	19,893	187,404
Machinery and equipment	65,146	62,728	590,940
	85,144	82,621	778,344
Less: accumulated depreciation	(56,624)	(57,267)	(539,494)
	28,520	25,354	238,850
Land	9,534	9,815	92,465
Construction in progress	343	1,049	9,885
	38,397	36,218	341,200
Deferred Charges and Intangibles	5,467	4,170	39,280
Adjustments Resulting from Foreign Currency Statement Translation	921	2,570	24,210
	¥194,385	¥195,750	$1,844,096

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	March 31,		March 31,
	1999	2000	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 21,160	¥ 12,640	$ 119,080
Current portion of long-term debt (Note 6)	5,419	15,142	142,648
Accounts and notes payable—			
Trade	14,313	23,277	219,283
Unconsolidated subsidiaries and affiliates	249	2,691	25,352
Other	2,425	345	3,248
	16,987	54,095	509,611
Income taxes payable	1,208	3,934	37,060
Accrued expenses	1,311	3,898	36,720
Other current liabilities	6,831	1,779	16,769
Total current liabilities	52,916	63,706	600,160
Long-Term Debt (Note 6)	61,935	42,542	400,774
Accrued Employees' Retirement Benefits	1,092	1,219	11,485
Other Liabilities	59	41	379
	63,086	43,802	412,638
Minority Interests	141	181	1,704
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 467,642,100 shares and 465,877,700 shares for 1999 and 2000, respectively			
Issued: 115,575,543 shares and 117,939,535 shares for 1999 and 2000, respectively	19,394	21,733	204,741
Additional paid-in capital	26,306	29,220	275,276
Retained earnings	32,542	37,109	349,594
Treasury stock	—	(1)	(17)
Total shareholders' equity	78,242	88,061	829,594
Contingent Liabilities (Note 7)	¥194,385	¥195,750	$1,844,096

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 1999 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	For the year ended March 31,		For the year ended March 31,
	1999	2000	2000
Net Sales	¥ 95,006	¥103,955	$ 979,317
Cost of Sales	64,443	69,817	657,719
Gross profit	30,563	34,138	321,598
Selling, General and Administrative Expenses (Note 10)	19,178	19,795	186,483
Operating income	11,385	14,343	135,115
Non-Operating Income (Losses):			
Interest and dividend income	1,008	462	4,348
Interest expenses	(2,756)	(2,057)	(19,382)
Gain (loss) on sales of short-term investment in securities	(139)	(2)	(19)
Gain (loss) on sales of long-term investment in securities	(112)	169	1,594
Write-down of short-term investment in securities	(352)	—	—
Write-down of long-term investment in securities	(648)	48	457
Loss on early redemption of bond	—	(374)	(3,526)
Gain (loss) on sales/disposal of property and equipment	(168)	(899)	(8,464)
Foreign exchange gain (loss)	1,295	823	7,757
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	(306)	156	1,469
Loss on disposal of inventories	—	(1,289)	(12,147)
Loss on liquidation of non-consolidated subsidiaries	(241)	—	—
Retirement and severance payment to directors	(1,323)	—	—
Other, net	(180)	35	331
	(3,687)	(3,124)	(29,424)
Income before income taxes	7,463	11,415	107,533
Income Taxes, Net (Note 11)	3,376	5,297	49,898
	4,087	6,118	57,635
Minority Interest in Income (Loss) of Consolidated Subsidiaries	(71)	(40)	(373)
Net income	¥ 4,016	¥ 6,078	$ 57,262

	Yen		U.S. dollars (Note 1)
Per Share Data:			
Net income—basic	¥ 34.51	¥ 52.31	$ 0.493
Net income—diluted	¥ 33.20	¥ 49.99	$ 0.471
Weighted average number of shares of common stock (in thousands)	116,625	116,202	

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended March 31, 1999 and 2000

		Millions of yen		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	117,676,843	¥ 19,394	¥ 29,228	¥ 30,745
Net income	—	—	—	4,016
Cash dividends	—	—	—	(1,752)
Bonus to the Company officers and auditors	—	—	—	(30)
Retirement of shares of common stock	(2,103,300)	—	(2,922)	(437)
Balance at March 31, 1999	115,573,543	19,394	26,306	32,542
Cumulative effect of adopting new accounting standards for income taxes	—	—	—	226
Net income	—	—	—	6,078
Cash dividends	—	—	—	(1,737)
Conversion of convertible bonds to common stock	220,454	299	299	—
Exercise of stock warrants to common stock	2,145,538	2,040	2,615	—
Balance at March 31, 2000	117,939,535	¥ 21,733	¥ 29,220	¥ 37,109

		Thousands of U.S. dollars (Note 1)		
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	115,573,543	$182,697	$247,820	$306,568
Cumulative effect of adopting new accounting standards for income taxes	—	—	—	2,136
Net income	—	—	—	57,262
Cash dividends	—	—	—	(16,372)
Conversion of convertible bonds to common stock	220,454	2,822	2,820	—
Exercise of stock warrants to common stock	2,145,538	19,222	24,636	—
Balance at March 31, 2000	117,939,535	$204,741	$275,276	$349,594

The accompanying notes are an integral part of these statements.

THK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 1999 and 2000

	Millions of yen For the year ended March 31, 1999
Cash Flows from Operating Activities:	
Net income	¥ 4,016
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	6,930
Provision for reserve for retirement benefits	152
(Gain)/loss on sale/disposal of property and equipment	168
Write-down of long-term investment securities	648
Equity in net (income)/loss of affiliates	306
Changes in assets and liabilities:	
(Increase)/decrease in receivables	15,392
Decrease in inventories	5,839
Increase in other current assets	5,792
Increase/(decrease) in payables	(10,595)
Increase/(decrease) in income taxes payable	(4,156)
Increase/(decrease) in accrued expenses and other	(2,757)
Other, net	521
Cash provided by operating activities	22,256
Cash Flows from Investing Activities:	
Increase in securities loan	(10,565)
Acquisition of property, plant and equipment	(4,830)
Proceeds from sales of property and equipment	728
Increase in deferred charges and intangibles	(3,945)
(Increase)/decrease in short-term loans	9,354
(Increase)/decrease in investments in securities	693
(Increase)/decrease in investments and advances to subsidiaries and affiliates	974
(Increase)/decrease in other investments	(2,780)
Cash provided by (used for) investing activities	(10,371)
Cash Flows from Financing Activities:	
Proceeds from issue of bonds and notes	13,000
Borrowings of long-term debt	7,715
Repayment of long-term debt	(30,312)
Increase/(decrease) in short-term borrowings	(2,060)
Retirement of treasury stocks	(3,359)
Cash dividends	(1,752)
Cash provided by/(used for) financing activities	(16,768)
Changes in Cash and Cash Equivalents	(4,883)
Cash and Cash Equivalents at Beginning of Year	44,548
Cash and Cash Equivalents at End of Year (Note 12)	¥39,665

	Millions of yen	Thousands of U.S. dollars (Note 1)
	For the year ended March 31, 2000	For the year ended March 31, 2000
Cash Flows from Operating Activities:		
Income before income tax and minority interests	¥11,415	$107,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,257	58,942
Increase/(decrease) in Provisions	(458)	(4,311)
(Gain)/loss on sale/disposal of property and equipment	898	8,464
Interest and dividend income	(462)	(4,348)
Interest expenses	2,057	19,382
Exchange gain (loss)	123	1,158
Investment gain (loss) on the equity method	(156)	(1,469)
Changes in assets and liabilities:		
(Increase)/decrease in accounts and notes receivable	(9,825)	(92,554)
(Increase)/decrease in inventories	3,291	31,007
Increase/(decrease) in accounts and notes payables	10,360	97,595
Other, net	76	709
Subtotal	23,576	222,107
Interest and dividend income received	813	7,662
Interest expenses paid	(2,172)	(20,464)
Income taxes paid	(1,849)	(17,423)
Net cash provided by operating activities	20,368	191,882
Cash Flows from Investing Activities:		
Payments for purchase of short-term investment in securities	(9,693)	(91,316)
Proceeds from sales of short-term investment in securities	17,860	168,253
Payments for purchase of property, plant and equipment	(4,858)	(45,764)
Proceeds from sales of property and equipment	111	1,043
Payments for purchase of long-term investment securities/investment in unconsolidated subsidiaries and affiliates	(92)	(868)
Proceeds from sales of long-term investment securities/investment in unconsolidated subsidiaries and affiliates	1,551	14,614
Increase/(decrease) in short-term loans	(496)	(4,675)
Increase/(decrease) of short-term loans receivable	4,639	43,709
Net cash provided by investing activities	9,022	84,996
Cash Flows from Financing Activities:		
Increase/(decrease) in short-term bank loans	(8,184)	(77,100)
Borrowings of long-term debt	3,219	30,327
Repayments of long-term debt	(5,237)	(49,340)
Proceeds from issue of bonds	2,938	27,681
Expenditure from redemption of bonds	(10,000)	(94,206)
Early issue of stocks	4,081	38,444
Cash dividends	(1,708)	(16,091)
Net cash provided by (used for) financing activities	(14,891)	(140,285)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(885)	(8,341)
Net Increase in Cash and Cash Equivalents	13,614	128,252
Cash and Cash Equivalents at Beginning of Year (Note 12)	45,252	426,304
Cash and Cash Equivalents at End of Year (Note 12)	¥58,866	$554,556

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

>1 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

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

Certain items presented in the consolidated financial statements submitted to the director of the Kanto Financial Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan. In addition, the consolidated statement of cash flows has been required to be prepared with effect for the year ended March 31, 2000, in accordance with a new accounting standard. This new standard specifies a format which differs from that used in earlier years, under the previous accounting practice. The prior year's consolidated statement of cash flows has been presented separately from the consolidated statement of cash flows for the year ended March 31, 2000.

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan.

The rate of ¥106.15=U.S.$1, the rate of exchange on March 31, 2000, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

>2 BASIS OF CONSOLIDATION

(a) Scope of Consolidation

The Company had 20 subsidiaries ("controlling companies"—companies whose decision making is controlled) as at March 31, 2000, (19 as at March 31, 1999). The consolidated financial statements include the accounts of the Company and its 12 (12 for 1999) subsidiaries. The 12 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, 1999
THK America, Inc. (USA)	100	Dec. 31, 1999
THK Manufacturing of America, Inc. (USA)	100	Dec. 31, 1999
THK G.m.b.H. (Germany)	100	Dec. 31, 1999
THK Europe B.V. (The Netherlands)	100	Dec. 31, 1999
PGM Ballscrews Ltd. (UK)	100	Dec. 31, 1999
PGM Ballscrews Ireland Ltd. (Ireland)	98.97	Dec. 31, 1999
THK International Finance (UK) Ltd. (UK)	100	Dec. 31, 1999
THK TAIWAN Co., Ltd. (Taiwan)	94.99	Dec. 31, 1999
THK Yasuda Co., Ltd. (Japan)	70	Mar. 31, 2000
Talk System Co., Ltd. (Japan)	98.90	Mar. 31, 2000
Beldex Corporation (Japan)	94.73	Mar. 31, 2000

The accounts of the remaining 8 (7 for 1999) unconsolidated subsidiaries are insignificant, meaning that these accounts have not been consolidated with the Company since combined assets, net sales, net income and retained earnings of these companies, in the aggregate, are not significant in relation to those of the Companies.

(b) Elimination and Combination

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

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

(c) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company had 5 (5 for 1999) affiliates ("influencing companies"—companies whose financial and operating or business decision making can be influenced in material degree, and those are not subsidiaries) at March 31, 2000. The equity method is applied only to the investments in Daito Seiki Co., Ltd., since the investments in the unconsolidated subsidiaries and the remaining affiliates would not have material effects on consolidated net income and retained earnings in the consolidated financial statements, had they been accounted for using the equity method.

Thus the investments in the unconsolidated subsidiaries and affiliates are carried at cost or less.

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

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

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

>3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Inventories

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

(b) Valuation of Securities

Short-term investment in securities (current portfolio) and long-term investment in securities (non-current portfolio) listed on stock exchanges are valued at the lower of cost or market, cost being determined using the moving-average method.

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

(c) Property, Plant and Equipment

Depreciation is computed using the declining-balance method at rates based on the estimated useful lives of assets which are prescribed by the Japanese income tax laws. The range of useful lives is principally from 2 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

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

(d) Software for Internal Use

Pursuant to the application of transition measure of "Guidance on Research and Development Cost" issued by the Accounting Standards Committee of the Japanese Institute of Certified Pubic Accountants as of March 31, 1999, software costs for internal use which had been capitalized as assets on and before March 31, 1999, and amortized thereafter, remain as assets and are being amortized. And such costs are amortized over their estimated useful lives (5 years) on a straight-line basis.

(e) Amortization

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

Research and development costs and debt security issue expenses are charged to income as incurred. Unamortized premium on debt securities is amortized over the period that bonds remain outstanding.

(f) Allowance for Bad Debts

Allowance for bad debts is provided at an estimated amount of uncollectible receivables individually identified at the balance sheet date as well as the amount using the statutory percentage of outstanding receivables on based the Japanese tax laws.

(g) Employees' Retirement Benefits

The company provided for accrued employees' retirement benefits based on tax regulations. The balances of the liabilities at March 31, 1999 and 2000, were the amount which would be required to be paid if all employees voluntarily terminated employment at those dates.

(h) Lease

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

(i) Foreign Currency Translation

Revenue and expense items arising from the Company's transactions denominated in foreign currencies are translated into Japanese yen at approximate exchange rates prevailing when such transactions occur.

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates prevailing at the respective balance sheet dates. Resulting translation gains or losses are included in the determination of net income for the year.

In connection with the bonds with warrants denominated in foreign currencies, the difference between the amount translated at the forward exchange contract rate and the amount translated at the historical exchange rate has been deferred and amortized over the period from the inception date of the forward exchange contract to its settlement date. During the years ended March 31, 1999 and 2000, ¥164 million and ¥165 million ($1,560 thousand), respectively were amortized and netted against "Interest expenses" under "Non-Operating Income (Losses)" in the accompanying consolidated statements of income. The unamortized balances of deferred gains of ¥207 million and ¥43 million ($403 thousand) are presented as "Other current liabilities" or "Other non-current liabilities" in the accompanying consolidated balance sheets at March 31, 1999 and 2000, respectively.

(j) Accounting for Consumption Tax

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

(k) Income Taxes

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

In the year ended March 31, 2000, the Company and its subsidiaries adopted deferred tax accounting in accordance with the amended regulations for preparation of consolidated financial statements. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at April 1, 1999, was directly charged to retained earnings.

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

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Deferred tax assets:		
Current	¥2,036	$19,178
Non-current	451	4,247
	¥2,487	$23,425

(l) Cash and Cash Equivalents

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

(m) Net Income per Share

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

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

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

	Millions of yen		
	2000		
	Carrying amounts	Market value	Unrealized gain (loss)
Short-term investment in securities:			
Market value available:			
Equity securities	¥ 44	¥ 134	¥ 90
Other securities	312	312	—
	¥ 356	¥ 446	¥ 90
Market value not available	8,762		
Total	¥9,118		
Long-term investment in securities:			
Market value available:			
Equity securities	¥3,781	¥4,383	¥ 602
Other securities	253	312	59
	4,034	¥4,695	¥ 661
Market value not available	1,736		
Total	¥5,770		
Investments in unconsolidated subsidiaries and affiliates			
Market value available:			
Equity securities	¥3,789	¥1,933	¥1,857
Market value not available	706		
Total	¥4,495		

	Thousands of U.S. dollars (Note 1)		
	2000		
	Carrying amounts	Market value	Unrealized gain(loss)
Short-term investment in securities:			
Market value available:			
Equity securities	$ 415	$ 1,258	$ 843
Other securities	2,944	2,944	—
	3,359	$ 4,202	$ 843
Market value not available	82,536		
Total	$85,895		
Long-term investment in securities:			
Market value available:			
Equity securities	$35,621	$41,295	$ 5,674
Other securities	2,385	2,938	553
	38,006	$44,233	$ 6,227
Market value not available	16,353		
Total	$54,359		
Investments in unconsolidated subsidiaries and affiliates			
Market value available:			
Equity securities	$35,699	$ 8,209	$17,490
Market value not available	6,651		
Total	$42,350		

>5 INVENTORIES

Inventories at March 31, 1999 and 2000, comprised the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Finished goods	¥22,893	¥19,662	$185,233
Work in process	9,214	8,494	80,019
Raw materials and supplies	7,664	6,674	62,868
	¥39,771	¥34,830	$328,120

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

The annual average interest rates applicable to short-term bank loans at March 31, 2000 is 2.67%.

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
0.3%. Convertible bonds 2003, currently convertible at ¥2,717	¥14,033	$132,200
0.875%. Swiss franc bond with detachable warrant 2000	9,770	92,043
1.95%. Straight bonds 2003	1,000	9,421
1.95%. Straight bonds 2003	1,000	9,421
2.25%. Straight bonds 2003	1,000	9,421
2.28%. Euro yen straight bonds 2001	5,000	47,103
2.6%. Straight bonds 2003	5,000	47,103
0.52%. Euro yen straight bonds 2003	3,000	28,262
6.15%. Industrial development revenue bonds 2011	379	3,569
Loans from banks:		
Collateralized	14,247	134,218
Non-collateralized	3,255	30,661
Less, current portion	15,142	142,648
	¥42,542	$400,774

At March 31, 2000, the following assets were pledged for collateralized long-term loans:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Short-term investment in securities	¥ 1,017	$ 9,582
Long-term investment in securities	2,361	22,246
Property, plant and equipment	3,426	32,276
Industrial factory foundation	10,898	102,666

The aggregate annual maturities of the non-current portion of long-term debt at March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ending March 31, 2000	2000	2000
2002	¥10,932	$102,988
2003	11,786	111,036
2004	19,281	181,638
2005 and thereafter	543	5,112
	¥42,542	$400,774

>7 CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2000, with respect to notes discounted and endorsed in the ordinary course of business and loans guaranteed (for non-consolidated subsidiaries and affiliates), including a letter of awareness of ¥830 million ($7,819 thousand), amounted to ¥5,171 million ($48,722 thousand) and ¥988 million ($9,305 thousand) respectively.

The Company was also contingently liable for the debt assumption agreement on 3.55%. Straight bonds 2000 amounted to ¥10,355 million ($97,551 thousand).

>8 LEASES

The Group leases certain machinery and equipment and other assets. Total lease payments under these leases were ¥676 million and ¥718 million ($6,763 thousand) for the years ended March 31, 1999 and 2000, respectively.

Pro forma information of leased property such as acquisition costs, accumulated depreciation, future minimum lease payments under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 1999 and 2000, were as follows:

	Millions of yen		
	1999		
	Machinery and equipment	Other	Total
Acquisition costs	¥2,900	¥469	¥3,369
Accumulated depreciation	1,780	263	2,043
Net leased property	¥1,120	¥206	¥1,326

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

	Thousands of U.S. dollars (Note 1)		
	2000		
	Machinery and equipment	Other	Total
Acquisition costs	$ 30,002	$ 1,239	$ 31,241
Accumulated depreciation	14,626	1,074	15,700
Net leased property	$ 15,376	$ 165	$ 15,541

Future minimum lease payments under finance leases as of March 31, 1999 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Due within one year	¥ 609	¥ 486	$ 4,575
Due after one year	717	1,164	10,965
Total	¥1,326	¥1,650	$15,541

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

Depreciation, which is not reflected in the accompanying consolidated statements of income, computed by using the straight-line method, was ¥675 million and ¥718 million ($6,763 thousand) for the years ended March 31, 1999 and 2000, respectively.

Obligations under non-cancelable operating leases as of March 31, 1999 and 2000, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	2000	2000
Due within one year	¥ 203	¥ 305	$ 2,878
Due after one year	1,170	1,103	10,394
Total	¥1,373	¥1,408	$13,272

>9 DERIVATIVES AND HEDGING ACTIVITIES

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

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

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

	Thousands of U.S. dollars (Note 1)		
	2000		
	Carrying amount	Market value	Unrealized gain
Swiss franc forward exchange contracts to buy Swiss francs	$922	$720	$(202)

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

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

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

	Thousands of U.S. dollars (Note 1)	
	2000	
	Carrying Amount	Unrealized gain (loss)
Interest-rate swap agreements:		
Variable-rate into fixed-rate obligation	$94,206	$(3,022)

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

>10 RESEARCH AND DEVELOPMENT

Research and development expenses for the year ended March 31, 2000, were ¥1,415 million ($13,330 thousand) and were included in "Selling, General and Administrative Expenses."

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

>11 INCOME TAXES

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities for the Company and its subsidiaries for the year ended March 31, 2000, was 42.05%.

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Deferred tax assets:		
Enterprise tax payable	¥ 341	$ 3,208
Accrued bonuses to employees	144	1,357
Loss on devaluation of inventories	369	3,477
Elimination of intercompany profit (Inventories)	1,136	10,704
Accrued severance indemnities	319	3,005
Net operating loss carried forward	287	2,708
Other	566	5,327
Total gross deferred tax assets	3,162	29,768
Less valuation allowance	(287)	(2,708)
Net deferred tax assets	¥2,875	$27,078
Deferred tax liabilities:		
Special depreciation reserve	(244)	(2,299)
Other	(144)	(1,353)
Total gross deferred tax liabilities	¥ (388)	$ (3,652)
Net deferred tax assets	¥2,487	$23,426

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

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

>12 RECONCILIATION OF CASH AND CASH EQUIVALENTS ON CONSOLIDATED STATEMENTS OF CASH FLOWS AND ACCOUNT BALANCES ON CONSOLIDATED BALANCE SHEETS

Cash and cash equivalents consisted of:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2000	2000
Cash and bank deposits	¥47,297	$445,568
Short-term investment in securities	9,118	85,895
Short-term loans	6,930	65,281
Short-term investment in securities excluding M.M.F. and others	(3,749)	(35,312)
Short-term loans excluding Gensaki	(730)	(6,876)
	¥58,866	$554,556

Consolidated Statements of Cash Flows for the year ended March 31, 2000, have been prepared in compliance with the methods recommended by the Japanese Institute of Certified Public Accountants.

Due to the change in preparation methods of consolidated statements of cash flow, marketable securities and time deposits that mature over 3 months have been excluded from Cash and Cash Equivalents for the year ended March 31, 2000.

The difference between Cash and Cash Equivalents at March 31, 1999, and Cash and Cash Equivalents at April 1, 1999, is as follows:

	Millions of yen
Cash and Cash Equivalents as of March 31, 1999	¥39,665
Short-term investment securities excluding M.M.F. and others as of March 31, 1999	(1,411)
Short-term loans excluding Gensaki as of March 31, 1999	6,998
Cash Equivalents at April 1, 1999	¥45,252

>13 SEGMENT INFORMATION

(1) Industry Segment Information

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

(2) Geographical Segment Information

Net sales of the Companies for the years ended March 31, 1999 and 2000, classified by geographic segments are summarized as follows:

	Millions of yen						
	Year ended March 31, 1999						
	Japan	America	Europe	Asia and other	Total	Elimina-tions and corporate assets	Consoli-dated
I. Net Sales and Operating Income							
Net Sales:							
Customers	¥ 70,716	¥11,689	¥11,415	¥1,186	¥ 95,006	¥ —	¥ 95,006
Intersegment	14,258	2	88	—	14,348	(14,348)	—
Total	84,974	11,691	11,503	1,186	109,354	(14,348)	95,006
Operating Expenses	75,185	11,041	9,902	1,032	97,160	(13,539)	83,621
Operating Income	¥ 9,789	¥ 650	¥ 1,601	¥ 154	¥ 12,194	¥ (809)	¥ 11,385
II. Assets							
Assets	¥130,498	¥12,059	¥ 9,275	¥1,078	¥152,910	¥ 41,475	¥194,385

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

	Thousands of U.S. dollars (Note 1)						
	Year ended March 31, 2000						
	Japan	America	Europe	Asia and other	Total	Elimina-tions and corporate assets	Consoli-dated
I. Net Sales and Operating Income							
Net Sales:							
Customers	$ 779,298	$ 102,393	$85,460	$12,166	$ 979,317	$ —	$ 979,317
Intersegment	131,974	205	801	—	132,980	(132,980)	—
Total	911,272	102,598	86,261	12,166	1,112,297	(132,980)	979,317
Operating Expenses	796,257	97,624	78,909	11,201	983,991	(139,789)	844,202
Operating Income	$ 115,015	$ 4,974	$ 7,352	$ 965	$ 128,306	$ 6,809	$ 135,115
II. Assets							
Assets	$1,541,605	$ 97,244	$66,636	$12,367	$1,717,852	$ 126,244	$1,844,096

(3) Export Sales and Sales by Overseas Subsidiaries

Overseas sales of the Companies (referring to the amounts of exports made by the Company plus the sales by overseas consolidated subsidiaries) for the years ended March 31, 1999 and 2000, are summarized as follows:

	Millions of yen			
	1999			
	America	Europe	Asia and other	Total
Overseas sales	¥12,480	¥11,719	¥4,141	¥28,340
Consolidated net sales				¥95,006
Overseas sales as a percentage of consolidated net sales	13.1%	12.3%	4.4%	29.8%

	Millions of yen/Thousands of U.S. dollars (Note 1)			
	2000			
	America	Europe	Asia and other	Total
Overseas sales	¥10,900	¥9,258	¥6,939	¥27,097
	($102,688)	($87,217)	($65,374)	($255,279)
Consolidated net sales				¥103,955
				($979,317)
Overseas sales as a percentage of consolidated net sales	10.5%	8.9%	6.7%	26.1%

>14 RELATED PARTY INFORMATION

Material transactions of the Company with its related companies and individuals for the years ended March 31, 1999 and 2000, excluding transactions with consolidated subsidiaries, which are eliminated in the consolidated financial statements, and other than those disclosed elsewhere in these financial statements, were as follows:

At March 31, 2000					Millions of yen /Thousands of U.S. dollars (Note 1)				
					Transactions for the year ended March 31,			Account balances at March 31,	
Name of related company	Paid-in capital	Principal business	Equity ownership percentage by the Company	Description of the Company's transactions	1999	2000	Account	1999	2000
Daito Seiki Co., Ltd.	¥4,255 million	Manufacture and sales of industrial machines	38.75%	Sales of industrial parts	¥2,114	¥ 2,375 ($ 22,370)	Accounts and notes receivable	¥ 471	¥ 1,078 ($ 10,154)
				Manufacturing of the Company's product	¥2,585	¥ 3,637 ($ 34,267)	Accounts and notes payable	¥ 227	¥ 452 ($ 4,257)
				Sales of machinery and equipment	¥ 13	—	Accounts payable—other	¥ 1,506	¥ 2,070 ($ 19,504)
				Purchase of machinery and equipment	¥3,428	¥ 406 ($ 3,821)			
				Loans of fund	—	¥ 330 ($ 3,109)			
				Interest received	—	¥ — ($ 3)			
				Guarantee of loans	¥ 990	¥ 830 ($ 7,819)			
THK Insurance Service Co., Ltd.	¥10 million	Insurance Agent	20.00%	Loans of fund	¥4,300	¥ 4,300 ($ 40,509)			
				Interest received	¥ 60	¥ 20 ($ 185)			

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To: The Board of Directors of
THK CO., LTD.

We have audited the accompanying consolidated balance sheets of THK CO., LTD. and its subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of THK CO., LTD. and its subsidiaries as of March 31, 1999 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Notes 2, 3 and 10, effective for the year ended March 31, 2000, THK CO., LTD. and its subsidiaries have adopted new Japanese accounting standards for preparation of consolidated financial statements, research and development costs and income taxes.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 24, 2000

NETWORK

OVERSEAS

(As of March 31, 2000)

Company	Capital (Local Currency in Thousands)	Employees	Operations
THK Holdings of America, L.L.C.	US$30,000	—	Holding company for THK Group marketing and manufacturing companies in America
THK America, Inc.	US$20,100	206	Import and sale of LM guides in North America
THK Manufacturing of America, Inc.	US$8,000	68	Manufacture of LM guides
THK Brasil Ltda.	R$293	12	Import and sale of LM guides in the Brazilian market
THK Europe B.V.	f.84,080	65	Import of LM guides, distribution center and holding company for THK Group European marketing companies
THK G.m.b.H.	DM 200	143	Import and sale of LM guides for the German and U.K. markets
PGM Ballscrews Ltd.	£5,233	96	Manufacture of precision ball screws for Europe and the United States
PGM Ballscrews Ireland Ltd.	IR£975	26	Manufacture of rolled ball screws for Europe and the United States
THK International Finance (U.K.) Ltd.	£1,500	—	Finance subsidiary
THK Taiwan Co., Ltd.	NT$62,000	20	Import and sale of LM guides for the Taiwanese market
THK L.M.S. International Co., Ltd.	US$10,500	—	Holding company for THK Group Chinese subsidiary
Dalian THK Co. Ltd.	Y124,564	94	Manufacture of precision ball screws
Shouzan Co., Ltd.	HK$2,000	5	Import and sale of LM guides for Hong Kong and Chinese markets
Samick Industrial Co., Ltd.	W9,800,000	311	Manufacture, import and sale of LM guides for the Korean market
Charoen Sakata (Thailand) Co., Ltd.	Bt309,100	719	Semiconductor board mounting
THK-Samick Slide Co., Ltd.	W1,000,000	9	Manufacture and sale of consumer-use slides for Korean and Japanese markets

DOMESTIC

(As of March 31, 2000)

Company	Capital (Millions of Yen)	Employees	Operations
Beldex Corporation	195	59	Manufacture of three-dimensional measurement instruments, sale of glass-cutting machines
THK Yasuda Co., Ltd.	100	109	Manufacture of splines for THK
S-Factory Co., Ltd.	30	4	Sale of socks and related items
Nihon Slide Kogyo Co., Ltd.	80	43	Consumer-use furniture, copy machines and slide rails for drawers in office equipment
Talk System Corporation	406	106	Bearings, electric conductive devices, and other (computer-aided design [CAD]); also computer-aided manufacturing (CAM) and Internet provider
THK Mechanic Research Co., Ltd.	100	14	Manufacture and sale of square robots
THK Chubu Sales Co., Ltd.	30	4	LM guides purchasing and sales
Daito Seiki Co., Ltd	4,255	302	Manufacture of sock-knitting and production machinery; purchase and sale of LM guides
THK Insurance Service Co., Ltd.	10	2	Non-life insurance agency operations and life-insurance search operations

CORPORATE DATA

THK CO., LTD.

Head Office:
3-11-6 Nishi-Gotanda, Shinagawa-ku, Tokyo 141-8503, Japan

Tel.:
+81-3-5434-0300

Established:
April 1971

Number of Employees:
2,760

Common Stock:

Authorized	465,877,700
Issued	117,939,535

Number of Shareholders:
25,883

Transfer Agent:
The Mitsubishi Trust & Banking Corporation

Equity Securities Registration:
Japan Securities Dealers Association

(As of March 31, 2000)

BOARD OF DIRECTORS

(As of March 31, 2000)

MANAGING DIRECTOR
Yoshimi Sato

SENIOR MANAGING DIRECTOR
Mikio Hayashi

PRESIDENT AND CEO
Akihiro Teramachi

MANAGING DIRECTOR
Katsuhito Imai

DIRECTOR
Shigeru Wako

DIRECTOR
Katsuyoshi Muto

DIRECTOR
Shigeharu Mabuchi

DIRECTOR
Masamichi Ishii

DIRECTOR
Hiroshi Funahashi

DIRECTOR
Toshihiro Teramachi

DIRECTOR
Mikio Matsui

DIRECTOR
Takeki Shirai

DIRECTOR
Toshio Tonegawa

AUDITOR
Kihachiro Yucho

STANDING AUDITOR
Yoshito Nagafuchi

STANDING AUDITOR
Akira Sugi

AUDITOR
Shoji Namiki

THK

Printed in Japan