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Looking Back on Fiscal 2012

Upheavals carried over from fiscal 2011 served to make fiscal 2012, ended March 31, 2013, a turbulent year. At the start of the year, investment in smartphones and tablet computers drove strong demand, centered on electronics in Japan and Asia. In addition to a significant reduction in that demand from the summer onward, however, with the exception of the Americas, demand became sluggish due to such factors as the spread of economic instability across Europe. As a result, net sales for the fiscal year amounted to ¥168.3 billion, a decline of 14.5% compared with the previous fiscal year. From a profit perspective, operating income decreased 40.8%, to ¥11.6 billion, and net income was down 22.4%, to ¥9.8 billion, due to the marked decline in sales and exchange rate fluctuations.

Continuing to develop its business, the Company identified Full-Scale Globalization and the Development of New Business Areas as cornerstones of its growth strategy and efforts to expand its business domain. In fiscal 2012, we enterprisingly took steps to expand and upgrade our sales networks in developing countries, including China, where we continued Full-Scale Globalization, and enhanced our production capabilities. In the Development of New Business Areas, we placed even more focus on cultivating new markets, such as by working to vigorously expand sales on the appeal of the Company's effective seismic isolation and damping systems, where interest is increasing as a result of recent earthquakes. In addition to activities to expand these business areas, we vigorously promoted a range of improvement activities, including the cross-sectional P25 Project, which is designed to reinforce our earnings base, and endeavored to improve profitability.

As a result, despite a decrease in revenue from the previous fiscal year, we worked steadily to control the extent of our declining profit and were able to exceed each profit item in the revised plan announced in the third quarter. We see this as a positive as it has made it possible for us to upgrade to an earnings base that will steadily bring about improvements in performance in the upcoming demand recovery phase. At the same time, even though business fluctuations in fiscal 2012 were pronounced, we are very much aware that having ended the fiscal year with a revenue decline will present a challenge for the future.

Outlook for Fiscal 2013

With regard to the business environment in fiscal 2013, it is thought that the macro economy will remain stable over the short term and that there will be a gradual increase in capital investment. The outlook this time last year was for the business environment in fiscal 2013 to become even more demanding, but promising signs have been seen earlier than expected, beginning from summer 2012. Orders began to show an upward trend from the end of the year, and orders for January to March 2013 were on the rise in each overseas region compared with October to December 2012. Orders in Japan were slow, but showed an underlying improving trend. In addition, we will be able to enjoy the benefits of a progressively weakening exchange rate for the yen.

Under such circumstances, we are planning for ¥190.0 billion, an increase of 12.8% year on year, in the fiscal 2013 consolidated net sales announced in May 2013. Furthermore, we expect operating income to leap 71.0%, to ¥20.0 billion, due to further invigoration of activities, such as the P25 Project, designed to reinforce our earnings base.

Toward Further Growth

Although there will be business fluctuations in the short term, in the medium to long term there will be no change whatsoever in the recognition that there will be growing demand for the Company's products. For that reason, new growth drivers will emerge in an external environment that has changed radically in the aftermath of the Lehman crisis.

Amid economic growth that continues to be higher than that of developed countries, burgeoning demand for machinery is especially expected in developing countries. In addition, amid climbing personnel costs and rising demand for high-quality end products in China, there are prospects for development in factory automation (FA) and it is thought that there will be ongoing demand for the Company's products, which form indispensable components in FA. It is also expected that, in developed countries, there will be growing demand for our products in the consumer goods sector, against a backdrop of rising awareness of measures that can be taken to mitigate disasters and increasing electrification. To respond to these changes, we plan to accelerate more than ever Full-Scale Globalization and the Development of New Business Areas and to expand our business domain.

🚩 Growth Strategy: Full-Scale Globalization

With regard to Full-Scale Globalization, we are positioning China as our most important market amid accelerated deployment toward developing countries. Having rapidly increased the production value of machine tools, a major destination for the Company's products, China became the No. 1 country in the world in terms of production generally in 2009. On the other hand, you also hear concerns voiced about the future of the Chinese economy and the growth potential of machinery production there. The growth rate of the Chinese economy has certainly slowed of late, but it is thought to be moving from a period of high economic growth to one of stable growth against a backdrop of the government's view of a reduction in the economy's growth rate prospects. In Japan, however, it was in this period of stable growth that GDP grew substantially and demand for advanced machine tools increased while the shift to FA progressed. Looking ahead, there is no doubting the potential of the Chinese market amid expected similar trends in China.

In a Chinese market of this nature, the Company is enterprisingly expanding and upgrading its sales network to steadily capture demand; as of the end of March 2013, the Company's network comprised a total of 34 offices and bases. Amid expectations of FA development, we will strengthen our sales network and further cement our position in China to capture demand other than in the machine tools for which China is currently the main destination.

From the point of view of production, in addition to THK RHYTHM CHANGZHOU CO., LTD. commencing deliveries to customers in July 2012, the third plant at THK MANUFACTURING OF CHINA (WUXI) CO., LTD. was completed and came online in August 2012. Furthermore, there are plans to move DALIAN THK CO., LTD. to a site more than four times the size of its current location and to start operations at the new plant in December 2014. While monitoring demand trends, we will work to enhance our production capabilities.

Turning to development, a specialist R&D Center was completed. This center was brought online as our first overseas R&D division base in April 2012. While smoothly working in collaboration with the R&D Division in Japan, we are engaging in the development of products that address local needs.

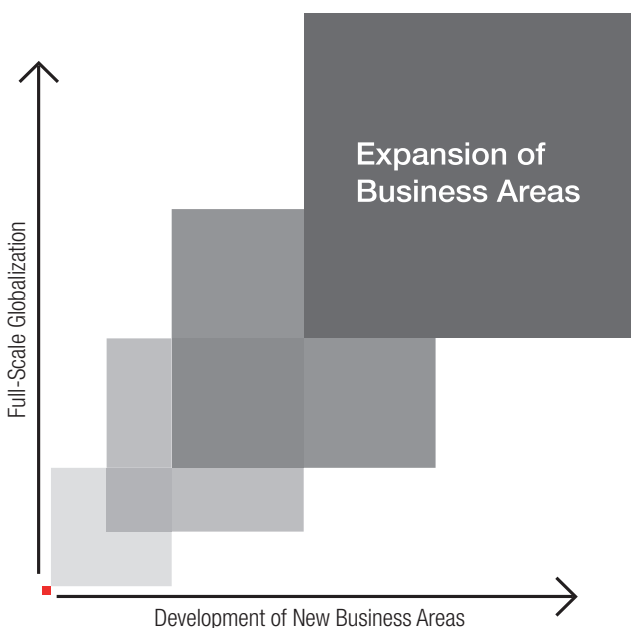
In addition to its activities in China, THK is accelerating the inroads it is making into other developing country markets. We established a local subsidiary in India in November 2012 and are planning to open around three sales and service bases in the next few years. Maintaining a keen eye on trends in demand for automotive parts and capital goods, THK will assess the most appropriate timing to set up production bases. In the ASEAN region, it is expected that set makers, including those for home electric appliances and automobiles, will be gaining ground in the years to come and that there will be a resultant increase in related demand. Here we will strengthen our sales system to develop sales and marketing activities that are in keeping with the characteristics of the region. In Mexico, we are planning for THK RHYTHM MEXICANA, S.A. DE C.V., where construction commenced in 2012, to start deliveries to customers from October 2013 to reinforce the supply system to North and South America. Beginning with the production of automotive parts, this facility will look toward manufacturing linear motion-related products.

Up to now, the Company has worked proactively on Full-Scale Globalization and has been expanding its production, sales and development bases. In addition to accelerating these developments in the years to come, the Company will realize true globalization that has been in collaboration in every respect—by having developed bases share information more closely with bases and connect organically—and produce even greater achievements.

➤ Growth Strategy: Development of New Business Areas

At present, the Company's business remains susceptible to the production industry's highly variable capital investment trends. As such, I consider it to be of the utmost importance that we work to move away from a business cycle model to an autonomous growth model by working on moving into new areas that are close to consumer goods and creating new growth drivers. Under the Development of New Business Areas, we will conduct proposal activities to have our products, including linear motion systems, adopted as new mechanical components in new fields. Metaphorically, as those industries were themselves regarded as mature, in the Company's eyes, to still have new business fields holds the promise of expanding by 10 or even 100 in the years to come. In this way, while working on the Development of New Business Areas centered on our core products, I am confident that we can still expand the Company's business domain.

First the number of applications is growing steadily in the Future Automotive Industry (FAI) Division, the purpose of which is to expand the adoption of THK products in transportation-related fields. Here, at the same time as expanding existing business such as in stabilizer link balls, we are working to expand linear motion product applications in a variety of automotive mechanical components—such as next-generation steering, brakes, suspension and interiors—amid the changes that are being made to conventional mechanisms due to the development and proliferation of hybrid and electric vehicles. Going forward, we will accelerate product development and further enhance our customer approaches.



Amid increased awareness of the dangers that earthquakes present, we are increasing the number of applications for our products in the Amenity Creation Engineering (ACE) Division, which is engaged in the provision of seismic isolation and damping systems that help protect people's lives and possessions from the threat of earthquakes. Following the substantial upswing in interest in business continuity plans (BCPs), we are receiving a number of orders for seismic isolation platforms that provide earthquake protection for a company's valuable assets, such as servers and manufacturing equipment. Furthermore, in damping system-related products for buildings, we have launched onto the market the Inertial Rotary Damping Tube (IRDT), as a part of efforts to increase the number of buildings in which it is installed. Amid expectations that a major earthquake will strike at some time in the future, I firmly believe that THK products have an extremely important role to play. We are therefore taking proactive and ongoing sales and marketing steps to increase the number of applications for the Company's products. At



the same time, the Company is endeavoring to contribute to society by raising awareness of the importance of earthquake countermeasures by providing firsthand experience to as many people as possible through its proprietary Seismic Isolation Experience Car.

In the Innovation Mechatronics Technology (IMT) Division, we are working to expand our hybrid unit and equipment as well as electric actuator businesses. Looking ahead, the trend toward electric-powered equipment and devices is projected to expand across a variety of areas, from capital to consumer goods. This in turn is fueling expectations of an increase in demand for the Company's electric actuators. We have made steady progress in expanding and upgrading our products to capture demand, but I believe that the product types are still not sufficient. Going forward, we will work on expanding and upgrading the lineup to

cover the full gamut, from low- to high-end products, in conjunction with expanding and upgrading the manufacturing systems for those products at our bases in South Korea and China as well as, naturally, in Japan.

In addition to the fields in which these three business divisions are engaged, we are expanding the applications for THK's products, including LM guides and ball screws, in a variety of fields. For example, we participated with Japan Aerospace Exploration Agency (JAXA) on the REX-J astronaut support robot (astrobot) technological experiment mission designed to ultimately support extravehicular activity (EVA) on the International Space Station. In this case, we were engaged in the development of a robotic hand fitted with a space environment-resistant actuator with small ball screws. Being developed as a range of elemental components in a robotics system for next-generation robots, our SEED (Smart End Effector Devices) Solutions won the outstanding performance awards in the component and software categories at the Fifth Robot Awards, organized by the Ministry of Economy, Trade and Industry and the Japan Machinery Federation and which recognize contributions to the creation of a robot market in Japan, high-potential robots and robot-related components.

Through these means, we are working to supply the advanced elemental components demanded in equipment in a wide range of fields. Amid proactive efforts in the Development of New Business Areas for the future, we are in the process of building our second and third earnings pillars.

Toward Enhanced Corporate Value

As previously mentioned, there are numerous inherent opportunities for investment with the potential to deliver to the Company renewed growth. Accordingly, there is considerable promise in further expanding THK's business domain by promoting Full-Scale Globalization and the Development of New Business Areas. Moving forward, THK will continue to steadfastly implement these two growth strategies, increase profitability, press strongly ahead with the cross-sectional P25 Project and build a robust and resilient business base for sustained growth under any external environment conditions. As a result, our growth milestones are the achievement of consolidated net sales of ¥300.0 billion, an operating margin of 20% and an ROA of 15%, as we make further enhancements in corporate value to meet the expectations of all our stakeholders, including shareholders.

I would like to take this opportunity to personally express my gratitude to all the parties concerned in eager anticipation of your ongoing support.

July 2013

Akihiro Teramachi
President and CEO
THK CO., LTD.