



Looking back on fiscal 2009

Initiatives with a view to the future

The global economy witnessed a substantial decline in the aftermath of the Lehman Brothers shock in autumn 2008. At that time, the world faced two distinct possibilities: one, a substantial downturn in the economic environment rivaling the Great Depression of 1929; two, and in stark contrast, a speedy recovery in overall business conditions, driven by wide-ranging economic pump-priming measures. Looking back, the swift action adopted by various nations to implement policy initiatives aimed at stimulating the economy did in fact produce a positive spillover effect prompting increased capital investment. After bottoming out in February 2009, THK has experienced a steady monthly upswing in orders on a non-consolidated basis.

Despite this positive trend, the Company continued to confront an extremely harsh operating environment. On a

monthly basis, non-consolidated orders in February 2009, for example, fell to less than one-quarter of the levels recorded prior to the Lehman Brothers shock. Against this backdrop, THK has continued to pursue a growth strategy. While working diligently to further eliminate waste and inconsistency, we have increasingly focused on bolstering our business platform and the human, technological and financial capital capabilities that provide the wellspring for our growth potential.

Notwithstanding these endeavors, net sales in the fiscal year under review totaled ¥115.3 billion, a substantial year-on-year decline of 36%. Buffeted by the drop in net sales, THK incurred an operating loss of ¥9.5 billion. Taking into consideration the sharp recovery in orders throughout the second half of fiscal 2009, I am confident that the seeds we have continued to sow will prove a major strength in our ability to respond to the upswing in demand, bearing fruit from fiscal 2010 and beyond.

In addition to the aforementioned, the Company was

forced to make substantial adjustments to those earnings plans projected for RHYTHM at the time of integration. This was largely attributable to the deterioration in the external environment. As a result, THK undertook the lump-sum amortization of goodwill, which led to a net loss totaling ¥14.3 billion. On a brighter note, RHYTHM's performance is expected to improve, with forecasts indicating a return to the black in the current fiscal year. In addition to the positive turnaround in the external environment, this also reflects an increase in the use of the company's products in new vehicle models. As the THK Group and RHYTHM increasingly realize wide-ranging synergy benefits across each of the management, sales, production and technology functions, favorable expectations are held for future growth.

Bolstering revenues and earnings

Recognizing that China would experience the strongest rebound, we took our business development endeavors to the next level throughout fiscal 2009. Initiatives that included the upgrade and expansion of our sales base network in China are currently producing a powerful effect with year-on-year sales projected to double in fiscal 2010. These initiatives are based on the clear understanding that the Lehman Brothers shock served to create a framework under which newly developing countries including China would play a leading role in driving growth. We now recognize that newly emerging markets are the source and power behind future growth. At the same time, it is abundantly clear that THK will in future face fierce competition from not only those industries with which it is directly linked but from Asian manufacturers from every conceivable market. Against this backdrop, it is imperative that we reassess the way in which we conduct our business within the context of a keen sense of impending crisis.

In addition, we launched the P25 Project in fiscal 2009 in an effort to further strengthen our business platform. The P25 Project is an initiative that extends beyond the traditional boundaries of development, production and sales. While straddling all related areas of activity, our goal is to conduct a thorough and comprehensive review of issues confronting the Group's principal operations. In identifying various improvement measures, our plans are to increase the marginal profit ratio, enhance fixed cost efficiency and lower the break-even sales point. The first step in fiscal 2009 was to again cast a keen eye on our current status and conditions. With an analysis in hand, our next step is to draw up specific initiatives. Taking into consideration the Group's capabilities, THK is then poised to implement these measures on a gradual basis. Thanks to the analysis undertaken throughout the fiscal year

under review, THK has taken significant strides in "visualizing" the Group's current status and needs. This has in turn clarified specific measures that will allow the Group to most effectively achieve its established goals. In moving ahead, I am confident that the THK Group can look forward to success.

The business environment and outlook in fiscal 2010

There are those who have written off any possibility of a double-dip recession in the months and year ahead. I am not so sure. The possibility exists that the global economy will encounter residual aftereffects from the massive shock of 2008. Among a host of concerns, anxieties remain over the financial standing and status of Europe as well as corrections to the Chinese economy following the conclusion of the Shanghai Expo. With these concerns surrounding adjustments within the Chinese economy and other factors, I do not believe that we can at this point in time make a definitive decision as to whether we will enter a full-fledged "revival stage" or slip into a double-dip recession and accordingly a "survival stage."

With this in mind, the THK Group will maximize the full potential of its existing management resources to make the most of every available opportunity and the current robust recovery in orders. While taking into account future downside risks, we will continue to place every emphasis on the reduction of expenses.

On this basis, fiscal 2010 net sales announced in May 2010 are projected to reach ¥176.0 billion, a year-on-year increase of 53%. From a profit perspective we plan to secure ¥16.0 billion in operating income. Compared with results in fiscal 2008 when the Group reported net sales and operating income of ¥179.2 billion and ¥8.5 billion, respectively, we expect to almost double our earnings on approximately the same level of net sales. Our ability to achieve the goals set for fiscal 2010 will in effect verify the efficacy of the P25 Project and related initiatives.

Medium- to long-term strategy: Full-Scale Globalization

Responding to each market

In such developed markets as Japan, the Americas and Europe, the THK Group will work diligently to expand ties with customers engaged in the development of leading-edge



machinery as well as in such new business areas as automobiles and aircrafts. While time will be required to fully develop opportunities in each field, we are confident that these new areas offer significant potential for future growth.

Taking full advantage of the Asia region including China is an issue that is not exclusive to the THK Group. Historically, developed nations where wages and salaries remain high have stood at the center of both growth markets and supply. Looking ahead, newly developing economies where on a comparative basis wages and salaries are low can be expected to take over these prominent roles. Manufacturers based in major industrialized countries are therefore projected to confront intense competition.

Under these circumstances, and recognizing the critical role that newly developing nations will play in driving future growth, it is not an exaggeration to say that the P25 Project will lay the foundation for the THK Group's ability to maintain its competitive advantage in the years ahead. Consequently, it is critical that we focus not only on short-term gains, but on building a business platform that will allow us to maintain a leading position and generate a consistent stream of profits.

In order to take full advantage of forecast improvements in activity, particularly amid the upswing in demand from newly developing countries, an adequate supply structure and system is considered essential. In this regard, THK already boasts production bases in eleven overseas regions. It is particularly strong in Asia where markets are anticipated to enjoy robust growth with a network of seven manufacturing facilities based mainly in China and Southeast Asia.

Not content to rest on our laurels, we are currently considering further expansion in such areas as India and Brazil. While we currently maintain sales bases in each country, signs of an increase in the demand for local supply are steadily emerging. Looking ahead, we will closely monitor the requirements of future markets and tailor our business development activities accordingly.

Strategic expenditure and returns on investment

On the understanding that the Chinese market will continue to expand and in adopting the underlying concept of optimizing production by locating facilities closer to demand centers, the THK Group will continue to bolster its manufacturing capabilities in China. Simply boosting production facilities will not of itself immediately lead to an increase in sales. Integral to the Group's success is its ability to deliver relevant and optimal products and technologies to its customers. With this in mind, we will accelerate the expansion of our sales network with a greater sense of urgency. Plans call for the current level of 19

branches to rise to 30 at the earliest opportunity and to 60 in 2014.

Another option is naturally to place additional weight on bolstering indirect sales. As a leading manufacturer that recognizes its principal responsibility as providing detailed and tailor-made services to customers, this is not however a viable alternative. THK has always taken great pride in its direct ties with customers and communications that entail explanations of product use and the selection of the most appropriate item for a particular environment. Our efforts therefore revolve entirely around increasing sales bases that can deliver products and services directly to customers. We will continue to strengthen a sales structure that is underpinned by the overarching goal of increasing customer satisfaction. By maintaining direct customer contact, we are also confident in our ability to reduce the risks involved in collecting outstanding receivables.

Marking another milestone in the Group's business development in China, THK established a research and development division within THK (CHINA) CO., LTD. in Dalian City, Liaoning Province in April 2010. While the fruits of this endeavor may take a few years to harvest, our expectations remain high based on an enhanced ability to accurately identify and grasp the needs of customers.

Medium- to long-term strategy: Development of New Business Areas

Building new growth pillars for the next era

Hand-in-hand with Full-Scale Globalization, THK is committed to the development of new business areas as a part of its overall growth strategy. In this regard, we will also accelerate initiatives in new business development.

First, we will maintain our focus on existing auto-related areas. Auto-related activities are primarily undertaken by the FAI Division where business development revolves essentially around automobile undercarriage products. While continuing to pursue business with these products as our linchpin, we will ramp up activities that recognize the growing trend toward electric-powered products. In this regard, we will place every emphasis on promoting increased use of THK's linear motion systems. In fiscal 2009, we reorganized our development processes on an individual automobile structure basis. Looking ahead, we plan to actively promote proposals based on the wide-ranging ideas put forward by specialist areas.

A second area of focus is the ACE Division which is responsible for the residential field. As awareness toward disaster countermeasures increases throughout the world, interest in seismic isolation systems is steadily rising. Against the backdrop of a projected increase in systems application, the THK Group will work in earnest to further verify cost benefits. In addition, steps are being taken to promote increased use of the division's products and technologies in home automation-related devices.

Third, is the IMT Division which was launched in 2009. Amid the growing trend toward electric-powered machinery and equipment, THK will develop and propose electric actuators that embody the Group's unique qualities and characteristics. In addition, demand for the electric-powered products handled by the IMT Division is forecast to extend into the automobile and living environments including household appliance applications. Recognizing that volumes in the consumer products field are overwhelmingly higher than the industrial sector, the THK Group will place equal emphasis on developing business in each area. Moreover, THK is currently active in the areas of robot and related product development. At some point in the future we believe that humankind will coexist with robots not only in industrial areas but also living environments. Our development activities are therefore premised on this forecast scenario.

The potential of THK

Recognizing and harnessing the vast potential of its products, the THK Group will significantly expand its business domain by engaging in efforts that realize Full-Scale Globalization as well as the development of new business areas. Not only will this allow us to achieve our consolidated net sales target of ¥300 billion as a matter of course, but I am confident that it will also lay the platform for further long-term growth. While flexibly responding to short-term changes in our external environment, we will carry out our established growth strategies. By definition, our goals are to enhance corporate value and to fulfill the expectations of all stakeholders including shareholders. As we work toward achieving these objectives, we kindly request your continued support and understanding.

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