

President's Message

"FY 2004 was a banner year in THK's history of many great achievements, but for THK, a company aiming for long-term growth, this is only the first step."

FY 2004 was a year of record financial performance, expansion, and better-integrated operations at THK. On the financial side, our consolidated sales and earnings reached 147,100 million yen and 25,900 million yen, respectively, exceeding THK's previous best achieved in FY 2000. Having our U.S. and European production facilities operating at full capacity served as one major driver; a boost in both our domestic sales capability and productivity represented another. The optimum production system we have established in the U.S. and Europe ensures that our products

are made right in the regions with highest demand. As a result, our sales and production teams can now work more closely together to win new clients and devise new applications for THK products. Our subsidiaries in both regions, previously in the red because of large capital investments, are now posting positive numbers. As the president of this company, it gives me great pleasure to deliver such a favorable report to our stakeholders.

Although it represents a major milestone in our history, FY 2004 is merely one cru-

cial stage in THK's concerted drive for growth. In our Fiscal 2010 Vision plan, developed in FY 2001, we set an ambitious goal of 300,000 million yen in consolidated sales as part of the Long-Term Management Target, aiming to more than double our FY 2000 sales of 140,200 million yen within a decade. The IT bubble burst during FY 2001, however, and sales fell approximately 50,000 million yen. From a sales perspective, it has taken three years just to return to the 2010 Vision's starting point. We were not simply and idly hoping for the external environment to improve



President and CEO Akihiro Teramachi

during that period, of course: we crafted a proactive three-year Medium-Term Management Plan that linked our Fiscal 2010 Vision to the business strategies of each of our divisions. We also thoroughly reviewed every operational process, reshaped our organizational structure, and conducted staff training, all with the aim of achieving the goals set out in the plan.

The 2010 Vision plan calls for the expansion of our business areas through two methods: “Full-Scale Globalization” and “Development of New Business Areas.” In the area of “Full-Scale Globalization,” we have worked hard to expand and enhance our overseas production facilities. For example, at THK Manufacturing of America, Inc. (TMA), established in 1997 in the state of Ohio, we finished building a second manufacturing facility. We also finished a second factory for THK Manufacturing of Europe S.A.S. (TME),



established in the French region of Alsace in 2000. Because these initiatives were carried out during a period of sluggish demand, conditions were initially tough in terms of operating performance. However, our strategy is now bearing fruit: TMA and TME currently supply 50 percent and 30 percent of local demand, respectively. Both have become major forces behind our market development drives in the U.S. and Europe.

In Asia, we are making an even deeper commitment to the ever-expanding Chinese market. At DALIAN THK CO., LTD., where we produce Ball Screws, we built a second manufacturing facility to accommodate increasing demand there. THK MANUFACTURING OF CHINA (WUXI) CO., LTD.—the first linear motion (LM) Guide production plant in China—began operations in January 2005. We are currently constructing a second LM Guide production plant in China at our THK Liaoning facility. In Korea, we increased our holding in SAMICK LMS CO., LTD., which produces and sells LM systems, further strengthening that strategic partnership. In Japan, we acquired DAITO SEIKI CO., LTD., as a wholly owned subsidiary to enhance our production system and increase efficiencies.

On the sales front, we expanded THK’s sales network and also launched the THK Advantage Program (TAP1) to improve the skills of our overseas sales staff. The TAP1 program has already proven to be quite successful in Japan. It is my firm belief that staff development will always be the key issue for growth, no matter what the business is. As a group, we relentlessly promote improvement in the performance level of every staff member under our strategy of “Reinforce Individual Potential” from the Medium-Term Management Plan. Specific initiatives to boost performance include a comprehensive review of our staff evaluation system, new e-learning programs, and executive seminars for future management candidates.

As I mentioned above, development of new business areas is essential if THK is to expand its business. The FAI Division, which is responsible for automotive parts, has moved into a number of new businesses, and the use of THK auto products is growing steadily as a result. The ACE Division, which produces aseismatic structures that help buildings withstand earthquakes, is also acquiring more business. Although these divisions are not yet significant contributors to THK’s overall sales, we are working to ensure that they account for 10 percent of sales by FY 2010.

“In the Medium-Term Management Plan announced in May 2005, our projected sales for FY 2005, which had been previously announced at 135,000 million yen, were adjusted upward to 148,000 million yen.”

In May 2005, we announced a new three-year Medium-Term Management Plan that will commence in FY 2005. The plan lists five key strategies: “Build Globally-Oriented Organizations,” “Set New Sales Records,” “Move Forward on Fundamental Review of Production Systems,” “Continue Development and Introduction of New Products,” and “Reinforce Individual Potential.” With production in the U.S. and Europe coming fully online and the establishment of our sales/production bases in China, THK’s tetra-lateral sales and production system in Japan, North America, Europe and Asia is acquiring definition and momentum, to “Build Globally-Oriented Organizations.” We will continue to build the optimal local production systems needed to satisfy our customers in each region. With the development, production and sales teams working together to expand our business areas globally, we aim to achieve total sales of 200,000 million yen and earnings of 42,000 million yen by FY 2007, the final year of the new Medium-Term Management Plan.

Sales in FY 2005, which is the first year of the Medium-Term Management Plan, are forecasted at 148,000 million yen, roughly the same as the previous period. In the previous Medium-Term Management Plan

announced in May 2004, sales in FY 2005 were forecasted at 135,000 million yen. There were fears at the time of a slowdown in the American and Chinese economies, the driving forces behind the global economy. We expected a market correction, centering on electronics, between the last half of FY 2004 and first half of FY 2005. We also anticipated a basic recovery in demand for our products in the latter half of FY 2005. In reality, orders for THK products actually began to pick up in January 2005, however, and continue to rise. Recognizing that we had entered the recovery phase faster than originally predicted, we adjusted our projected FY 2005 sales. Profit projections were also revised upward from 21,000 million yen to 24,500 million yen, although this latter figure still represents a 6 percent reduction compared to the previous term. We also expect net sales and sales costs to be nearly parallel with the previous term. Increases in sales management costs, R&D expenses, and systematic expenses resulting from the consolidation of DAITO SEIKI CO., LTD. and four Chinese subsidiaries, among others, are seen as necessary investments in our growth strategy. We are confident, though, that these strategic investments will lead to greater net sales and profitability from FY 2006.



I believe that ample opportunities to expand still await THK through “Full-Scale Globalization” and “Development of New Business Areas.” We will strive to maximize corporate value by actively reinvesting our profits according to our basic business philosophy of providing innovative products to the world and generating new trends to contribute to the creation of an affluent society. THK will continue to relentlessly innovate, and in doing so contribute to the success of our stakeholders. We ask for your continued support in this endeavor.

Akihiro Teramachi

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THK Co., Ltd.