

INTERVIEW WITH THE PRESIDENT

While responding flexibly to rapid changes in the external environment, THK is expanding its business domain through “Full-Scale Globalization” and “Development of New Business Areas,” thereby increasing its business value.



President and CEO Akihiro Teramachi

Fiscal 2007 Performance Review

Q. Please tell us about the performance trends for THK in fiscal 2007.

A. In fiscal 2007 we posted consolidated net sales of ¥208.7 billion, which was a 19.5% increase over the previous year. Consolidated operating income rose 15.3% to ¥26.9 billion.

Business conditions were generally favorable. Although an expected recovery in the electronics sector in Japan was delayed, demand from the machine tool sector was strong in overseas markets such as Europe and China. Against this backdrop, we continued to focus on expanding THK's business into new domains via a combination of "full-scale globalization" and "development of new business areas." By reinforcing our global set-up through this approach, we believe that we can achieve stable growth over the long term while also mitigating business risks such as those caused by a rapidly changing external business environment.

In this way, we were able to achieve steady growth in sales posted by THK Group companies outside Japan in fiscal 2007. By accelerating development of new business areas through the incorporation of automotive components manufacturer RHYTHM CORPORATION (which became a consolidated subsidiary in May 2007) into the THK Group, we were also able to offset the impact of lower parent company sales to the electronics sector in Japan. Overall, we were able to achieve growth in sales in fiscal 2007 at the consolidated level both inside and outside Japan.

On the costs side, we continued to pursue savings through better production yields and shorter manufacturing lead-times. At the same time, however, in addition to the impact of rising material prices, we saw a significant increase in costs due to higher depreciation expenses associated with the full-scale start-up of activities at new factories in Japan and overseas, as well as other costs related to making RHYTHM a consolidated subsidiary. Our aggressive capital investment program also weighed on the bottom line, contributing to a year-on-year decline in profits in fiscal 2007. However, we view this spending as necessary investment for the future from a management perspective. We remain confident that these investments will translate into future earnings.

Q. Full-scale globalization is one of your main goals. How would you evaluate THK's progress in this area?

A. On the production side, we have already completed construction of core facilities across the Americas, Europe and Asia. We are also making progress in upgrading production capacity at these facilities so that we can supply the markets where demand is booming, notably developing countries. Relative to plan, I would say that we are on track in terms of developing the production set-up to support THK's full-scale globalization.

The main issue for us going forward is to bolster our sales activities across each region by leveraging our strengths in terms of the local service and delivery capabilities that we have developed. To this end, we took steps in fiscal 2007 to upgrade our sales platform within overseas markets. In China, we expanded the THK sales network to nine locations. In Europe, too, we extended our sales network into Eastern Europe and Russia. In the Americas, we actively developed our presence in new markets such as Mexico and Canada.

Q. Could you tell us something about the current situation of THK's transportation equipment-related business following the addition of RHYTHM to the FAI Division's production base?

A. The transportation equipment-related business, which comprises the FAI (Future Automotive Industry) Division and RHYTHM, recorded net sales of ¥40.4 billion in fiscal 2007. Our goal now is to raise this top-line figure to ¥70.0 billion in fiscal 2010.

With this aim in mind, we made steady progress during fiscal 2007 in terms of organizational integration. In Japan, we relocated the main FAI Division to RHYTHM's head office and factory site to start integrated business activities. In the United States, we merged sites to create an efficient sales organization while eliminating any unnecessary duplication. In Europe, we reinforced our sales capabilities by appointing specialist

personnel from the FAI Division and RHYTHM to each THK branch office. In addition to these moves, we benefited from customers' growing appreciation of THK's global production set-up. This is now translating into a growing volume of inquiries from automakers.

On the production side, we have begun making FAI Division products at the RHYTHM production bases. We are deriving synergies on the development side as well: we have moved to integrate the two organizations and share technology so that we can develop new products more effectively.

Q. How do you view the near-term business environment with the global economy in such turmoil?

A. It is difficult to predict the U.S. slowdown's effect on the global economy. My personal view is that we should not expect too much from the U.S. economy. Also, we need to watch closely for any negative knock-on effects that might depress demand in Europe and Asia, which has been relatively firm until now.

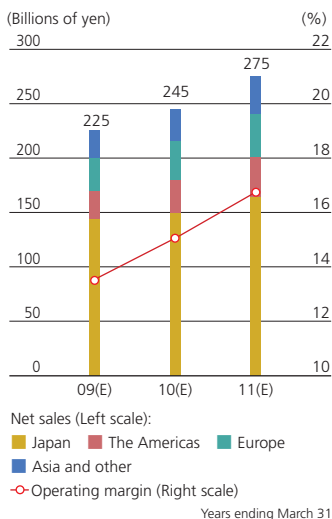
Yet, in the industry in which we operate, I believe that these macroeconomic trends present a major business opportunity. For instance, with machine tools, as soon as manufacturers start to cut back capital expenditure and reduce the number of machine tools that they install, the machine tool makers typically respond by accelerating their development of models incorporating new technology. In turn, this increases demand for the value-added elemental components of such machinery, which includes THK products.

In addition, not only is continuing high growth in China resulting in a strongly upward trend in the installed base of machine tools in that country, but there is also a rapid shift underway from the traditional manual machine tools to the more advanced numerical control (NC) models. We believe that both of these factors will boost demand for THK products.

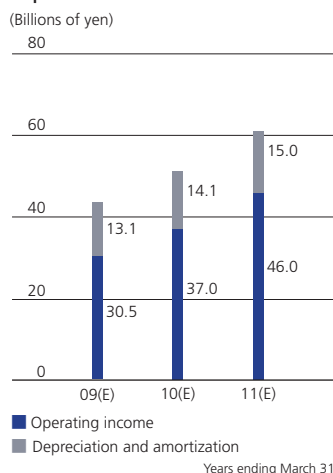
One final point is that the surge in prices in recent years for raw materials, oil, grains and other commodities has sharpened the incentives to pursue energy efficiency and protect the global environment. LM guides, which contribute in both these ways, are a product that we believe will be in increasing demand because they meet the needs of this new era.

Three-Year Medium-Term Management Plan Principal Indices

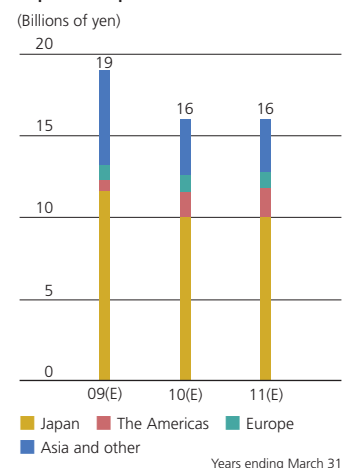
Net Sales/Operating Margin



Operating Income/ Depreciation and Amortization



Capital Expenditures



Fiscal 2008 Outlook and Prospects

Q. What practical steps is THK taking to expand its presence further into new business domains?



Q. What are the key issues in the new medium-term management plan you have recently adopted?

A. In terms of full-scale globalization, our aim is to expand into new business domains, using as our platform the integrated sales and production set-up that we have built in the four regions of Japan, the Americas, Europe and Asia.

In Japan, we will strive to increase sales of our key, high-priority products by leveraging the high-level marketing skills we have cultivated under our THK Advantage Program (TAP 1), a unique in-house skills development program for sales personnel.

In the United States, our focus is on expanding sales of mechatronics-related products. We plan to develop a corps of sales personnel with the necessary technical knowledge to help us achieve this aim. At the same time, we are continuing to work hard to develop new markets in Mexico and Canada.

In Europe, we plan to expand our sales network further to try to benefit from projected firm demand in the region. We also aim to boost the efficiency of our delivery set-up following the commencement of operations in April 2008 at our new regional distribution center.

In Asia and the rest of the world, where demand is expected to be firm due to high economic growth rates, our plans involve continued efforts to upgrade our production and sales set-up. On the production side, the start-up of operations at THK RHYTHM (THAILAND) CO., LTD. in fiscal 2008 will supplement our four existing plants in China. On the sales side, as of August 2008 we have 15 sales bases in China. We plan to add a further 12 bases to raise this figure to 27 by the end of fiscal 2009. In December 2006, we established THK LM SYSTEM Pte. Ltd. as a sales subsidiary based in Singapore. We plan to use this firm to reinforce our sales set-up for ASEAN markets, India and Oceania so that we can service existing customers and develop the customer base.

In terms of the development of new business areas, alongside the efforts of our various specialist divisions to broaden the range of applications for THK products, we also plan to expand into new business domains by realizing the synergies from the organizational integration of the FAI Division with RHYTHM.

A. We are using rolling three-year medium-term management plans so that we can adjust our progress toward achieving our long-term performance goals based on actual changes in operating conditions. We adjust our targets each year based on the progress made in the previous fiscal year and the shifts in the business environment.

In the medium-term management plan that we announced in June 2007, our performance targets were net sales of ¥243.0 billion and operating income of ¥40.3 billion in fiscal 2008, rising to net sales of ¥277.0 billion and operating income of ¥49.6 billion in fiscal 2009. In the medium-term management plan that we announced in May 2008, we revised these performance targets to net sales of ¥225.0 billion and operating income of ¥30.5 billion for fiscal 2008, and net sales of ¥245.0 billion and operating income of ¥37.0 billion in fiscal 2009. We also lowered our sales target for fiscal 2010 to ¥275.0 billion, which means that we now expect to achieve the target of ¥300.0 billion one year later than originally planned.

After a hardheaded analysis of global macroeconomic trends, commodity prices and the rapidly changing business environment surrounding the THK Group, we decided that there were a significant number of negative factors that had emerged compared to when we announced the new medium-term

management plan in June 2007. We realized that we would need to factor in much more challenging business conditions for the two years of fiscal 2009 and fiscal 2010. Our view is that it is our responsibility as managers to provide a forecast that we believe we can achieve with a high degree of probability. That is why we lowered the sales forecasts. At the same time, that has not diminished our determination as managers to do our utmost in leading unified efforts across the THK Group to hit the original long-term sales target of ¥300.0 billion for fiscal 2010.

Q. What are your thoughts on shareholder value and returning profits to shareholders?



A. At THK, we have set long-term management targets as milestones on the way to generating shareholder value. To realize these targets, we plan to expand our business into new domains through a combination of full-scale globalization and the development of new business areas. I am confident that we can continue to expand into new business areas going forward, given the potential of our LM guides and the other products that we have developed. Accordingly, we believe that the earnings generated by our business should in the first instance be reinvested aggressively to maximize corporate value, because that is what we need to do to satisfy shareholders' expectations.

Moreover, since improving capital efficiency is an important part of trying to achieve greater corporate value, we have also set a target of making a 15% return on assets as one of our key management indicators. In line with this approach, we plan to return profits to shareholders in the form of stable dividends that are commensurate with our performance. Based on this rationale, for fiscal 2007 we have increased the dividend by ¥3.00 per share compared with fiscal 2006, from ¥33.00 to ¥36.00. In addition, with an eye to improving capital efficiency, in fiscal 2007 we undertook a buyback of 5.2 million shares of stock.

In view of the challenging business environment going forward, we are under no illusion that the path toward achieving our long-term performance targets will be an easy one. However, based on our business philosophy of "providing innovative products to the world and generating new trends to contribute to the creation of an affluent society," we are committed to a continual process of reform so that no matter what sort of headwinds we face we will make steady progress toward achieving these goals. In doing so, we aim to build corporate value so that THK can contribute to the growing prosperity of shareholders and other stakeholders. I ask for the continued support of all shareholders as we move forward.

August 2008

Akihiro Teramachi

Akihiro Teramachi
President and CEO
THK CO., LTD.