

A professional portrait of Akihiro Teramachi, President and CEO. He is an older man with dark hair, wearing glasses, a dark suit jacket, a white shirt, and a patterned tie. He is looking directly at the camera with a slight smile. The background is a plain, light-colored wall. The text 'PRESIDENT'S MESSAGE' is overlaid on the lower right of the image. A red horizontal bar is at the bottom of the page.

PRESIDENT'S MESSAGE

Akihiro Teramachi President and CEO

Supported mainly by a recovery in capital investment by domestic firms and an increase in demand for machinery in China, THK achieved consolidated net sales of 119.2 billion yen and operating income of 16.2 billion yen, an increase of 26.1% and 231.7%, respectively for FY 2003.

With the implementation of various improvements such as the THK Advantage Program, the company was able to strengthen the production/sales structure of its overseas group companies by further improving the abilities of local staff members, as well as promote the establishment of a "Global Structure."

Results for FY 2003 showed great progress in achieving the goals set by the long-term management plan to FY 2010 (including consolidated sales of 300 billion yen).

Striding Towards Our Goals

Following a prolonged period of economic stagnation lasting for more than ten years, clear signs of recovery are now discernible in Japan backed by a long-anticipated resurgence in capital expenditures by Japanese companies and a sharp upturn in exports. Against this background, THK recorded a steady improvement in new orders from major customers such as machine tool and industrial machinery companies, which are themselves benefiting from the resurgence in capital expenditure in the domestic automobile and electronics industries and demand from China. As a result, THK was able to exceed its initial financial projections to post consolidated operating income of 16.2 billion yen on sales of 119.2 billion yen versus initial forecasts of 9 billion yen and 104 billion yen, respectively.

Looking forward, we still face challenges in the year to come including uncertainty over the state of the international and domestic economies. In Japan, even though the deflationary environment seems to be coming to an end, an upturn in domestic consumer spending still seems some way off due to widespread concern over the state of the national pension program, deteriorating employment situation and concerns for future income. Globally, concerns abound concerning the sustainability of the Chinese economic expansion and the direction of interest rate policy in the United States as well as the hike in oil and other commodity prices. Nevertheless, in spite of these uncertainties, our continuing initiatives at the corporate level are bearing fruit, which makes us optimistic that we will be able to post another improvement in our financial results during the current year to March 2005.

We are in the process of implementing our Long-Term Management Target (LTMT) entitled "Fiscal 2010 Vision." One goal, as laid out in this plan, is to increase consolidated sales to 300 billion yen in the final year of the plan. We have revised our Medium-Term Management Plan (MTMP) covering the next three years to align it with the objectives set out in the LTMT.

In the MTMP we define targets designed to further strengthen our future sales and earnings potential. These targets can be summarized as follows:

- (1) Building a foundation for global businesses
- (2) Setting new sales records
- (3) Sweeping review and change of production
- (4) Ongoing development and introduction of new products
- (5) Reinforcement of individual potential

The LTMT is firmly rooted in the perception that manufacturing is changing across the world. Geographically, the locus of manufacturing activity is shifting to China and Eastern Europe. This trend is expected to accelerate further. Our main customers including semiconductor manufacturing equipment makers and machine tool companies are in the midst of transferring production overseas which, in turn, has implications for the pattern of

demand for our products at the global level. The LTMT rests on two major foundations of “Full-scale Globalization” and “Development of New Business Areas.” Numerical measures of success which have been adopted in respect of these goals are as follows: to achieve consolidated sales of 300 billion yen, to increase our consolidated overseas sales ratio from 30% to 50% and to increase our overseas production ratio from 10% to 40%. These targets are based on the understanding that exploiting the substantial growth opportunities available overseas is essential to the long-term growth of THK.

During FY 2003 we took aggressive steps to promote global development. We have strengthened our production system in China in anticipation of the day when that country represents the largest market in Asia. I believe that these steps will inevitably bear fruit in the years after FY 2004. Complementing our moves to strengthen overseas production, we have taken steps to streamline our overseas sales system. To date, our emphasis has been on increasing the number of sales offices and sales staffs we have worldwide. Recently, we began to shift our emphasis to sales staff quality. For this purpose, we introduced a program dubbed TAP (THK Advantage Program) Activities in the American and European regions. This follows the successful introduction of a similar program in Japan. TAP Activities improves the efficacy of all staff members in providing timely and accurate customer service by adopting a paradigm of PDCA (Plan, Do, Check, Action). I have personally taken an active part in sales meetings with senior managers of customers in every region. As a result, it is my belief that the results of our actions were already apparent during FY 2003.

Another major target of the LTMT, the “Development of New Business Areas,” is also steadily yielding results. In the past we were overwhelmingly dependent on certain industries which were themselves highly dependent on demand related to capital expenditure. As a result, demand for our products was dependent on cyclical and unpredictable factors which were easily influenced by fluctuations in the business environment. In order to stabilize the pattern of demand, we are attempting to cultivate customers in industries such as consumer products which are less directly affected by business cycles.



The Long-Term Management Target aims to increase the ratio of overseas sales to total sales to 50%, and the ratio of overseas production to total production to 40% by 2010.

We are planning to increase ROE to 10% or more and achieve an operating margin of 20%.



Efforts to cultivate new markets have progressed through the establishment of new divisions such as the FAI Division, which is dedicated to soliciting demand from automotive-related customers; and the ACE Division, which focuses on housing-related demand, particularly in the area of aseismatic structures for buildings.

It is my belief that there are still many profitable opportunities available to us. Therefore, we are trying to maximize our corporate value by aggressively reinvesting profits in plants and equipment. On the other hand, I also recognize that it is important to maintain a stable dividend policy and to distribute profits to shareholders in line with our financial performance.

At THK, we aim for long-term growth and the provision of superior long-term returns to investors. In this context, I believe that the most appropriate management policy geared to the maximization of corporate value must embrace both aggressive reinvestment of profits and the distribution of profits to shareholders.

As I have already mentioned, our numerical targets embrace measures of performance for the company as a whole including achieving a return on equity of 10% or more and an operating margin of 20%. I believe that the day when we can announce the achievement of these goals to shareholders is not far away.

Akihiro Teramachi
President and CEO

A handwritten signature in black ink that reads "Akihiro Teramachi". The signature is written in a cursive, flowing style.