

# PRESIDENT'S MESSAGE

Back in fiscal 2000, when we were preparing to celebrate the 30th anniversary of THK's establishment, we formulated a long-term management target in the form of the Fiscal 2010 Vision.

We set an aggressive target of doubling our sales within ten years, to reach ¥300 billion at the consolidated level by fiscal 2010.

Since then we have harnessed all of our efforts to attaining this goal.

Now we have finally reached the stage where the goal is within reach.

## Five years of sales and profit growth and three straight years of record performance

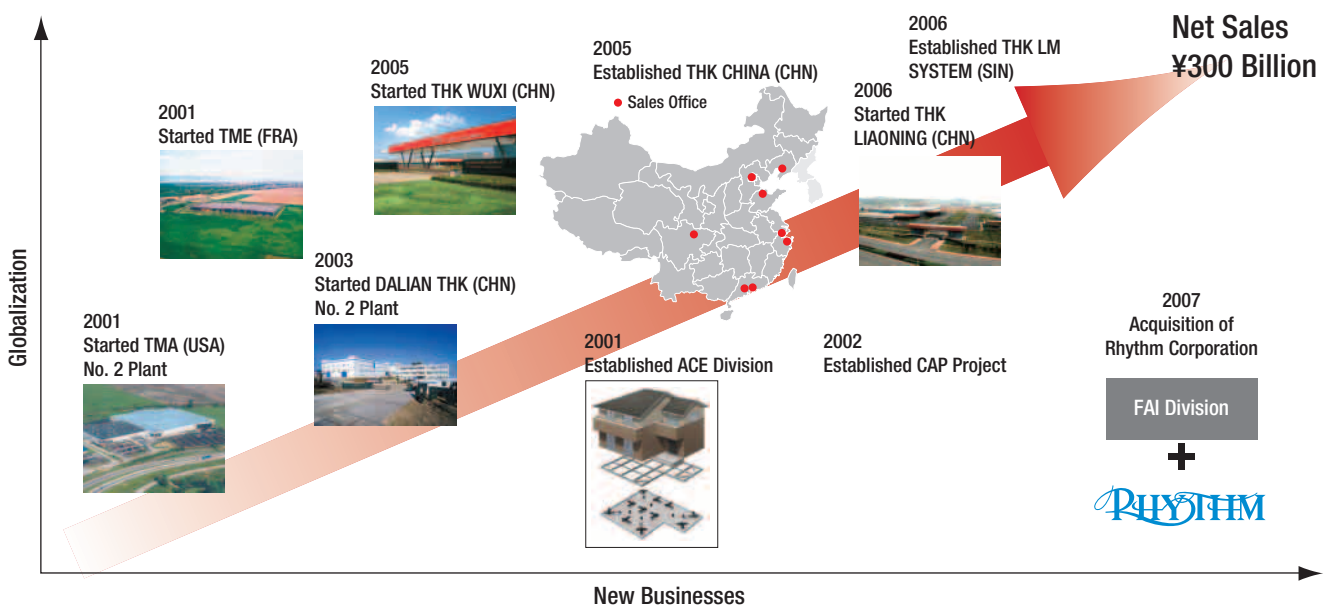
In fiscal 2006, the year ended March 31, 2007, we posted consolidated net sales of ¥174.7 billion, a 10.3% increase over the previous year. Operating income rose 17.5% in year-on-year terms, to ¥31.8 billion, while net income increased 13.2% to ¥21.0 billion. These figures represented the fifth successive year of increased sales and profits. We also achieved record-high sales and profits for the third year running.

Since fiscal 2001, with the aim of raising consolidated net sales to ¥300 billion in line with the Fiscal 2010 Vision, we have made considerable progress in expanding our business into new domains through an aggressive combination of full-scale globalization and development of new business areas. Although we did benefit from generally favorable global economic conditions, I believe that our fiscal 2006 performance is the direct result of positive effects arising from the initiatives that

we have undertaken over the past six years.

In fiscal 2006 we also strengthened our systems further with a view to attaining the goals in the Fiscal 2010 Vision. In China, where the economy continued to grow at a fast pace, we established four new sales branches and commenced operations at a second plant at THK MANUFACTURING OF CHINA (WUXI) CO., LTD. as well as at a new plant at THK MANUFACTURING OF CHINA (LIAONING) CO., LTD. In doing so, we made further substantial progress in expanding our sales capabilities and production capacity in China. In December 2006, we established THK LM SYSTEM Pte. Ltd. as a sales subsidiary based in Singapore to strengthen our sales set-up targeting customers in ASEAN countries. We also made steady progress in developing new regional markets. In Europe, we built up our sales infrastructure to serve markets in Eastern Europe and Turkey, while in the Americas we continued to make steady progress in developing markets in Canada and Mexico.

### Towards Achieving the Fiscal 2010 Vision





*President and CEO Akihiro Teramachi*

### **The Fiscal 2010 Vision**

We formulated the Fiscal 2010 Vision in fiscal 2000 as part of preparations for the 30th anniversary of THK's establishment. We set an aggressive long-term management target of doubling consolidated net sales within ten years, to reach ¥300 billion in fiscal 2010. To achieve this goal, we adopted a two-pronged strategy of expanding our business domain along two axes: the adoption of THK products across more geographic regions, which we called "Full-Scale Globalization;" and the expansion of the range of THK product applications, a drive we referred to as "Development of New Business Areas."

Within "Full-Scale Globalization," our aim is to raise the proportion of overseas sales to 50% by fiscal 2010. We have divided the global market into the four core regions of Japan, the Americas, Europe and Asia. We are building up our production and sales systems in each of these core regions. Our overseas sales ratio in fiscal 2006 was around 30%. Even in our core business within the capital

goods sector, it stands to reason that markets outside Japan must be larger than the Japanese market alone. I believe that the sales potential for LM guides and other THK products in these markets remains huge.

Within "Development of New Business Areas," our goal has been to build up our business in sectors more closely related to consumer goods. Currently, most of THK's business remains with manufacturers of capital goods such as machine tools, industrial robots and semiconductor production equipment. While we expect to generate fast growth going forward within these industrial sectors, the flipside of our concentration in these areas is that our business is highly influenced by capital investment trends. We are therefore devoting efforts to develop THK's business in consumer goods-related sectors so that we can achieve stable future growth in sales. Specifically, we are building up this side of the business through a number of separate operating units. These include the FAI Division, which is developing automotive parts to contribute to



enhanced vehicle safety and comfort, and the ACE Division, which is in charge of developing seismic isolation devices as products for protecting people, buildings and home fixtures from the effects of earthquakes.

**Accelerating business development in new sectors**

To accelerate the development of our business within new sectors, on May 31, 2007 we acquired all of the shares in Rhythm Corporation, a Japanese company involved in the development, design, manufacture and sale of steering parts, suspension parts and other automotive components. Rhythm is now a wholly owned subsidiary of THK. We see Rhythm as a complementary and mutually reinforcing fit with THK in many areas of technology and sales. For instance, while Rhythm's clients are based in Japan, THK has developed an international customer base.

Together, we can focus on increasing sales volumes through our expanded sales network.

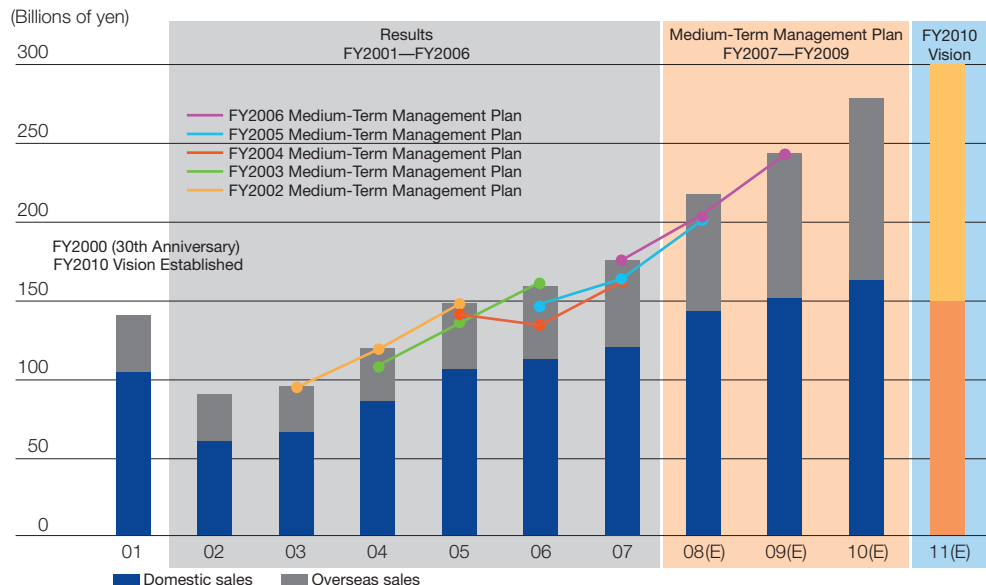
The fit is also excellent in technical terms. Rhythm possesses first-class forging technology for mass production of parts with extremely stable quality. THK possesses cutting-edge casting technology for aluminum die-cast production. By combining these two technologies, we can develop new, highly competitive products. Another benefit of this merger is that Rhythm's forging technology will also enable us to expand our existing business targeting manufacturers of capital goods.

From fiscal 2007, we plan to report the results achieved by the FAI Division and Rhythm in a new business segment called "transport equipment parts." Our business vision in this sector is to target first-tier supplier status by providing products that are regarded as global benchmarks and by offering our customers guarantees of unrivaled quality in terms of zero defects and delivery problems plus novel technological possibilities. Our target for fiscal 2010 is to achieve ¥70 billion in segment sales, which is roughly double the current figure.

**Attainment of Fiscal 2010 Vision now within reach**

We are formulating more specific medium-term management plans as we target the attainment of the long-term management target contained in the Fiscal 2010 Vision. We intend to use rolling three-year plans so that we can factor in

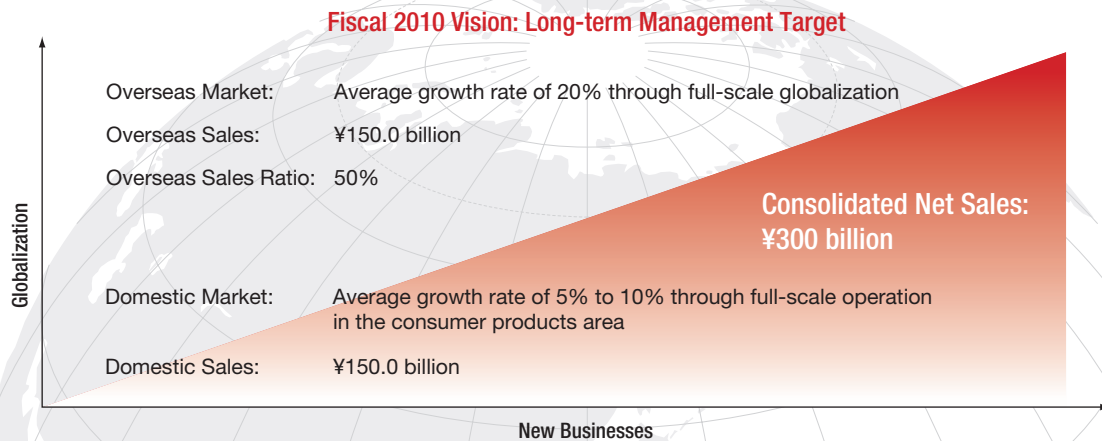
**Medium-Term Management Plan Virtually Achieved by FY2006**



# Fiscal 2010 Vision

## Outline of Fiscal 2010 Vision

The Fiscal 2010 Vision describes a long-term management target that THK announced in April 2001 to prepare for the Company's 30th anniversary. This vision mapped out the direction for THK over the next ten years. It named "Full-Scale Globalization" and "Development of New Business Areas" as the two targeted means of expanding THK products into new business domains to achieve stable growth in sales, irrespective of trends in particular geographic regions or industries. The consolidated net sales target for fiscal 2010 was set at ¥300 billion.



## "Full-Scale Globalization"

THK is working to optimize production by locating facilities closer to demand centers. This involves reinforcing the integration of sales and manufacturing functions in the four key geographic regions of Japan, the Americas, Europe and Asia. THK aims to generate sales outside Japan of ¥150 billion by fiscal 2010 (for an overseas sales ratio of 50%), compared with a figure of ¥36.2 billion (25.8%) in fiscal 2000.

In fiscal 2006, THK recorded sales outside Japan of ¥55.2 billion, with an overseas sales ratio of 31.6%. However, THK also made steady progress in terms of strengthening the overseas set-up as the platform for faster growth going forward. Production bases in Europe and the United States are now in full-scale operation; production facilities in China are steadily progressing from recent start-ups; THK's sales reach within overseas markets has expanded considerably; and overseas management capabilities have been increased with the establishment of a local subsidiary to manage operations in China.

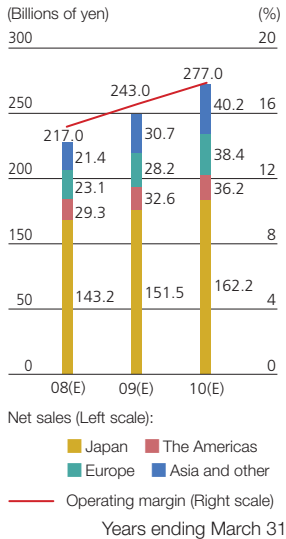
## "Development of New Business Areas"

THK's aim is to broaden the business base into consumer goods and related sectors to balance the current focus on capital goods sectors such as machine tools, industrial robots and semiconductor production equipment. We have already established businesses in areas such as automotive components, seismic isolation devices and parts for consumer appliances.

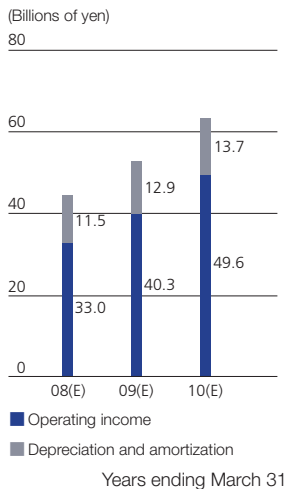
## Overview of New Business Development Divisions

FAI Division	The THK Group manufactures and sells parts that contribute to higher automotive safety.
ACE Division	THK focuses on the manufacture and sale of seismic isolation devices that protect people and property from the threat of earthquakes.
CAP Project	THK is developing new markets for products with consumer-related applications.
MRC Center	THK is developing cutting-edge technology in areas such as surgical assistance robots.

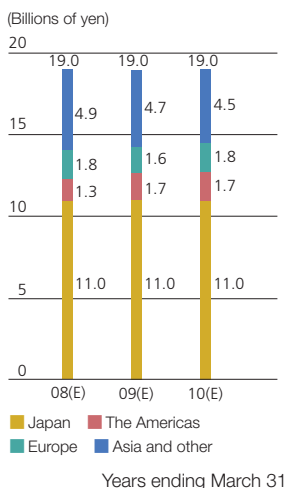
**Domestic and Overseas Net Sales**



**Operating Income/ Depreciation and Amortization**



**Capital Expenditures**



the progress made in the previous fiscal year and any changes in the operating environment on an annual basis. In the past, we have tended to revise our medium-term management plans upward, and we have generally come close to achieving the upwardly revised targets. In this way we have made steady, incremental progress toward the achievement of the Fiscal 2010 Vision. In the three-year medium-term management plan that we announced in June 2007, we set a target of ¥277 billion for consolidated net sales in fiscal 2009, the plan's final year. I believe that the attainment of the Fiscal 2010 Vision is now finally within reach.

For fiscal 2007, the first year of the new plan, we are targeting consolidated net sales of ¥217.0 billion, a year-on-year increase of 24.2%, and a 3.7% gain in operating income to ¥33.0 billion. These figures would represent new record highs for the fourth successive year and enable us to make further steady progress toward achieving the Fiscal 2010 Vision. We are also planning to spend ¥19.0 billion on capital investments, another projected record. The dip in projected profit growth is due to the fact that we plan to amortize goodwill arising from the Rhythm acquisition over a five-year period starting in fiscal 2007. However, we expect to maintain a high level of profitability on a cash-flow basis.

**Greater group-level awareness**

In targeting further growth, I believe that we also cannot afford to ignore the qualitative changes in customer requirements across sectors. Our existing customers mainly look for high-precision machining, high rigidity and compact design from THK products. However, the THK product range is also evolving in new directions to cater to different customer needs, as demonstrated by the larger products in our range such as seismic isolation devices.

This demonstrates the point that perhaps our greatest risk is to be satisfied with the status quo or to stop trying to grow. Critically, therefore, we must do two things: first, respond to such changes in customer needs by developing, producing and selling appropriate products to meet new requirements; and, second, try to anticipate the future needs of our customers by overturning traditional concepts to create novel THK products that

offer truly original value.

To this end, I believe that we must further deepen awareness across the THK Group of the need to develop business activities along multiple dimensions. For 2007, we have defined the three keywords for THK business activities as speed, flexibility and quality. We cannot afford to leave any one of these out. We must aim to realize all three simultaneously. By making progress along all three dimensions, THK can evolve to a higher level. And I believe that the view from that elevated point will be quite different from what we see today.

**A commitment to constant reform and innovation**

At THK, we do not operate our business in a market that is limited in scope. We continue to expand our business by focusing on full-scale globalization of our operations alongside the development of new business areas. To this end, we aim to meet the expectations of all THK shareholders by seeking to maximize the value of the Company through aggressive re-investment of earnings. At the same time, however, we plan to base business development on the assumption of making stable and sustained dividend payments. In this way, we aim to return profits to shareholders that are commensurate with the performance of the business. Based on this thinking, in fiscal 2006 we elected to pay cash dividends of ¥33 per share, an increase of ¥8 over cash dividends of ¥25 per share recorded in fiscal 2005.

Our business philosophy is “providing innovative products to the world and generating new trends to contribute to the creation of an affluent society.” We believe that building corporate value through constant reform and innovation is our best way to make a positive contribution to the development of society, thus enriching shareholders as well as other stakeholders.

I ask THK stakeholders to share our confidence in the future prosperous development of the Company.

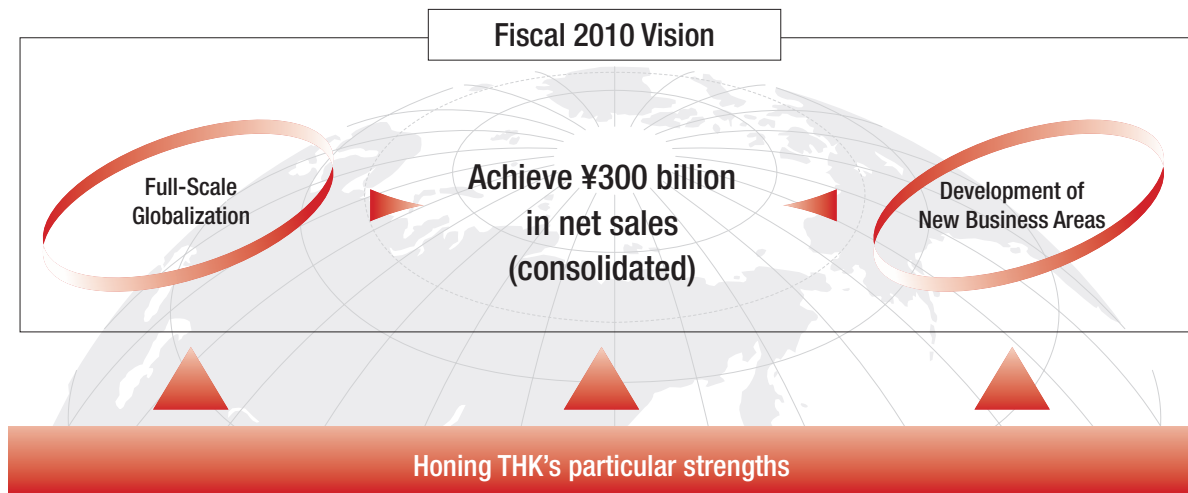
*Akihiro Teramachi*

Akihiro Teramachi  
 President & CEO  
 THK CO., LTD.



# Fiscal 2010 Vision: Targeting the Goal

Achieving the goal of ¥300 billion in consolidated net sales specified in the Fiscal 2010 Vision involves honing THK's particular strengths.



## Honing THK's particular strengths

### The world's leading manufacturer of LM guides

One of the key strengths of THK is our leading position in the global market for LM guides, products that are vital parts of machinery by virtue of the way they introduce a rolling component to linear motion. Global leadership in this market translates not only into economies of scale, but also allows us to gain a greater share of customer feedback. This means that we operate on the frontline in terms of assessing the implications of evolving customer needs.

To date, THK has been highly proactive in developing and commercializing a stream of products that cater to a broad variety of such requirements. This has enabled us to develop strong trust with our customers, which in turn has helped us maintain our position as the world's top LM guide manufacturer.

Besides using the feedback from many customers internally, we also try to develop products that anticipate the requirements of customers

five or even ten years ahead. Such efforts enable us to boost our competitiveness. Going forward, our aim is to continue to hone the value of the THK brand, which rests on our status as the world's leading manufacturer of LM guides.

### First-mover advantage

Years of technical research are required to create products that must operate under harsh usage conditions with extremely high degrees of precision. The fact that we pioneered the development of LM guides proves that THK is a creative development-driven enterprise. And, as such, we have continued to refine our technical edge. The technical accomplishments gained over many years are arguably what make THK's products competitive today. This is why we continue to invest in our R&D programs, to ensure that we continue to exploit our technical superiority as a pioneer.

Besides being a critical part of our achieving the Fiscal 2010 Vision, the drive to develop new business areas

will also translate into other future strengths for THK. Not only will we derive first-mover advantage by being the only company to exploit a particular market early on, but the fact that we can demonstrate leadership in the creation of new markets will also become a part of our corporate DNA—an intangible strength in itself.

### Our practical skills on the ground

Our production system, which is fully integrated from early processes to final delivery, is also a major strength of THK on the production side. The unique production know-how that we have developed is an important determinant of the high-level performance and quality of our products. At the same time, we have continued to develop just-in-time production systems and to undertake fundamental reviews of our production processes. As we continue to build up the strengths inherent in integrating our production and sales systems, this will translate into further gains in profitability.