



# TOP MESSAGE

## Fiscal 2008 performance review

We were able to achieve positive sales growth in the first half of fiscal 2008, despite some concerns from the start of the year that the financial uncertainty originating in the United States would produce a global economic slowdown. Demand from the machine tool sector and for flat panel-related applications remained firm during this period. In the second half, however, the uncertainty amplified after the collapse of major U.S. financial institutions. The knock-on effects flowed through to the real economy. A global slump in consumption led to falls in capital investment, reducing demand for our products sharply.

For the year as a whole we posted consolidated net sales of ¥179.3 billion, which was a 14.1% decrease compared with the previous year. This marked our first decline in sales since fiscal 2001 seven years previously, when our sales were negatively affected by a slump in IT-related investment.

On the cost side, we made further productivity improvements by continuing to focus on achieving higher production yields and shorter manufacturing lead-times. We applied strict cost controls as our sales started to fall in the second half, which included revising facility operating periods and paring back our capital spending. Despite our best efforts at cost reduction, however, we were unable to offset the decline in sales revenue fully. Consolidated operating income fell 68.4% to ¥8.5 billion.

To date, we have focused on reinforcing our set-up so that we can achieve stable growth in performance over the long term by expanding the business of THK into new domains through a combination of “full-scale globalization” and “development of new business areas.” The results from both these strategic initiatives are now emerging steadily. Although fiscal 2008 marked our first dip in sales in seven years, overseas sales in fiscal 2008 were more than double the figure that we posted in fiscal 2001. We also made further inroads into the new business area of automotive parts, expanding both our client base in the industry and the number of vehicle models for which we supply parts.

## Business environment outlook

The downturn in the real economy has affected not just the United States, Europe and Japan, but also developing countries such as China. The slump in consumption has had a worldwide impact. Consumer goods and capital goods industries have both been hit severely. With many markets having contracted suddenly, companies are now locked in fierce competition. What we need to realize is that business conditions are currently entering a “survival stage.”

Accordingly, we anticipate a harsh external environment during fiscal 2009. Whilst we will not reduce costs to the point of impairing our growth potential, we plan to redouble our cost controls and implement strict cash management. Despite our best efforts, a significant drop in sales is unavoidable. We expect to record an operating loss of ¥15 billion in fiscal 2009 due to a sharp drop in sales to ¥110 billion.

At present, we cannot say how long we expect current conditions to last or how deep the downturn will be. However, I am confident that we will not have to remain in this “survival stage” forever, and that a period of “revival” will commence in due course.

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## Reinforcing our medium-to-long-term business stance

In the short term, we must adopt a dynamic stance to navigate the current harsh operating conditions successfully. Our growth strategy to develop the business over the medium and long term based on “full-scale globalization” and “development of new business areas” remains unchanged. In fiscal 2000, we set a long-term performance target of consolidated net sales of ¥300 billion by fiscal 2010. In light of current conditions, it is extremely difficult for us to achieve this goal by the original target date of fiscal 2010. In view of the potential of THK’s products, however, I am confident that we can achieve ¥300 billion in annual sales. This target figure is therefore unchanged.

Several factors support this confidence. First, we believe that there remains vast untapped potential for THK in markets outside Japan. For example, even in machine tools, which are a major source of demand for our products, there is considerable potential overseas. Japan is the top producer of machine tools by value, but its output is considerably exceeded by the regional production of Europe, which includes four of the top ten machine tool-producing countries in the world – Germany, Italy, Switzerland and Spain. In addition, production of machine tools is forecast to expand rapidly going forward in emerging markets such as China, Russia and India. At the moment, however, around 60% of our sales derive from our business with customers in Japan. We believe that this implies there is still a vast potential market for THK overseas in servicing the demand for linear motion applications by supplying our LM guides.

While there are fears that protectionism could become more prominent if the worldwide consumption slump continues, we have been strengthening our integrated production and sales set-up in each of four key regions worldwide. Going forward, we believe that we can maintain our competitive position at the global level.

Machinery motion can be rotary, linear or a combination of the two. Rotary bearings, which introduced a rolling component to rotary motion, were first used in industrial equipment before new applications were developed for them in consumer-related fields, notably in the automotive parts sector. Today, the automotive sector accounts for the majority of demand for rotary bearings. Our LM guides, which add a rolling component to linear motion, are following a similar development trajectory to rotary bearings. To date, demand for LM guides has expanded in line with the adoption of computer controls for machine tools, industrial robots and other types of industrial equipment. In the future, hybrid cars and electric vehicles are expected to occupy the new mainstream of the auto industry. The structural changes in automobiles and the increase in the degree of computer control that this trend will bring provide us with an opportunity to expand auto-related applications for LM guides.

A further potential opportunity for THK products comes from protecting the global environment, which is now an important corporate responsibility. We expect the corporate sector to accelerate further moves toward developing carbon-offset solutions that can help to reduce carbon dioxide emissions. In this context, we believe that there will be growing demand for products that can help to conserve energy or save space. We see this as another factor boosting demand for LM guides.

In view of these factors outlined above, I remain convinced that there is ample potential to achieve annual sales of ¥300 billion for THK products.

## Strengthening our business platform for sustainable growth

In the current harsh business environment, there is a temptation when profits plunge to adopt cost-reduction measures that reduce a firm's human capital or damage technical capabilities. We will do our utmost to control costs by trying to reduce expenses and restrict waste, but at the same time it is imperative that we continue to strengthen our business platform due to the potential of THK's products. The three essential factors for the future growth of the company – our human, technological and financial capital – are supported by our business platform, which delivers functional capabilities in terms of development, production and sales. In the past, we have focused on projects aimed at reinforcing each of these functional capabilities. Recently we have set up a new cross-functional project whose objective is to increase profitability by lowering our break-even sales point. In this project, we plan to examine each of these functions thoroughly to determine whether there is any further waste or variability that needs to be eliminated in order to strengthen our business platform, and then put measures for improvement in place.

This project is a key element of our plans to ensure that THK endures and overcomes the current "survival stage." I believe that it will also be vital for creating the framework that will fuel the company's growth once the economy enters an inevitable "revival stage."

Based on the strategy of "full-scale globalization" combined with "development of new business areas," we plan to continue working to build corporate value in the current environment through strict cost control alongside ongoing efforts to strengthen our business platform. We plan to be ready for dramatic growth once the "revival stage" arrives so that we can contribute to the greater prosperity of shareholders and other stakeholders. In closing, I ask for your continued support and understanding.

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Akihiro Teramachi  
President and CEO  
THK CO., LTD.

