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Looking back on fiscal 2002, how would you describe the operating environment faced by THK?

Recession has expanded around the world to encompass the United States, which had been a driver of the world economy, and other advanced nations in Europe and elsewhere, leading to an unstable global economic situation. Meanwhile, industrialized nations sharply increased their investments in China, Eastern European, and other emerging economies. Indeed, fiscal 2002 was a year of major change, a year in which the world manufacturing picture was drastically rearranged.

Deflationary trends engulfed not only Japan but other countries worldwide, and such trends are adding impetus to the shift in manufacturing to China and Eastern Europe. These trends are having a major impact on the THK Group's major customers—manufacturers of semiconductor devices and construction equipment.

Against the background of worldwide deflation and the deteriorating situation in Iraq, the Japanese economy suffered from

depressed stock markets, stagnating personal consumption, and further suppression of capital expenditures. In short, the domestic economy ended the year in a generally severe condition.

Despite the difficult operating environment, THK posted consolidated net sales of ¥94.6 billion, up 5.9% from the previous fiscal year. Domestic sales increased owing mainly to stronger demand from mainstay customers, especially makers of industrial robots and electronic machinery that made inventory adjustments. Despite increased sales to makers of LCDs and other flat-panel display-related devices in Asia, overseas sales declined, due to weaker sales in the Americas and Europe.

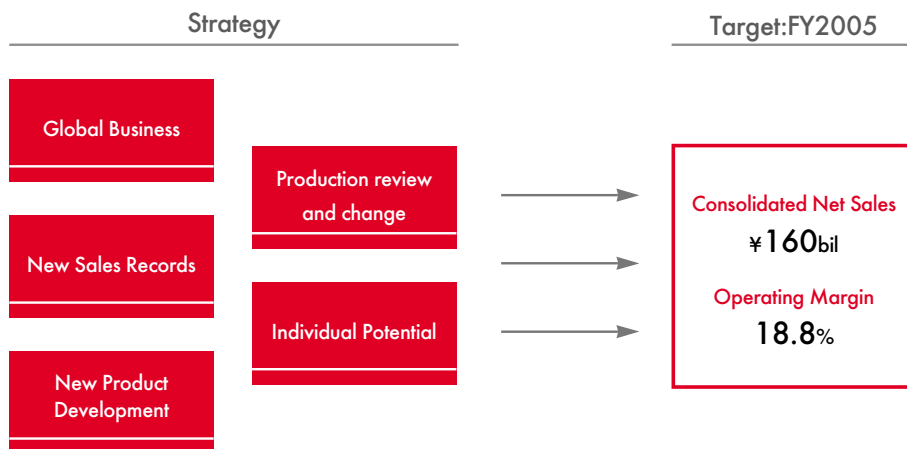
Operating income jumped 124.8%, to ¥4.8 billion. Despite incurring considerable strategic expenses in the form of upgrading overseas production capacity and reinforcing its overseas sales systems, the increase in domestic sales enabled THK to raise operating efficiency and productivity, which led to lower costs and increased earnings. The Company posted a net other loss, in contrast with net other income in fiscal 2001, due to a lower foreign exchange gain. Nevertheless, net income soared 130.5%, to ¥1.8 billion.

Can you summarize the progress of THK's medium-term management plan? What issues does the Company face, and what is your forecast for the future?

The THK Group has set long-term management targets to reach by the end of fiscal year 2010: consolidated net sales of ¥300 billion, of which overseas sales account for 50%, and sustained global market share of 60%. These targets are embodied in our long-term management plan, called Fiscal 2010 Vision. The plan calls for the Group to broaden its business domain through full-scale global expansion and entry into new business areas. As an important step in implementing that plan, we are currently pursuing a medium-term plan, announced in May 2002, covering the three-

year period from fiscal 2002 to fiscal 2004. In the year under review, we made important progress in three areas. First, we expanded overseas sales. Second, we built systems for accelerating growth of orders. Third, we established standards as a leading manufacturer. Unfortunately, overseas sales have declined, and domestic demand did not pick up until the end of the year, so we were unable to reap the full benefits of work done in preparation for sharp order increases. For this reason, we have set the following three objectives for fiscal 2003, ending March 2004: continue expanding overseas sales, build production systems tailored to customers, and create systems more sensitive to demand fluctuations.

Medium-term Management Plan (Fiscal 2003-2005)



>>> Interview with President Teramachi

You make overseas visits on a regular basis.

What is the purpose of such visits?

The primary reason is to pioneer new users and deepen relationships with our existing users overseas. Frankly speaking, when we first started making overseas visits, we heard that the Japanese style did not gel with overseas markets due to the difference of customs, cultures, religions, languages, and regulations in the each individual country and region; and we felt so, too. After multiple visits, however, we realized that the customer's heart is universal, both in Japan and overseas. No matter where customers are, they want the same to get products with better quality at reasonable prices when they need them, and they want to be the first to receive more services. Therefore, THK has adopted a more customer-oriented standpoint and aims for being the No. 1 company in keeping the heart of the customer in mind.

The opportunity for direct communication between top management and local employees is another important motive for my overseas visits. Although attitudes and guidelines in each country and region are understood, all of our people in overseas operations must foster the common basic philosophies, commitments and strategies of THK Group. My role is to explain directly to local employees my ideas and these above-mentioned aspects. That is the real significance of having top management make such trips. Without doubt, our overseas business will expand in the near future. For this reason, nurturing employees who are capable of comprehending the customer's heart, who follow the management strategies and operate on a global basis is an top priority for THK.

For the time being, our attempts to penetrate overseas markets with the THK brand will focus on sales activities and improving the capabilities of our employees.

How do you perceive market trends in various countries?

World economies are becoming increasingly global in nature, with boundaries separating nations and regions rapidly disappearing. Nevertheless, many problems remain unsolved, such as the conflict in Iraq and other issues in the Middle East. For this reason, THK bases its overseas business development decisions on careful judgments of specific situations.

In the United States, the pace of recovery in the IT sector is very weak. The automobile sector, by contrast, is benefiting from large-scale investments by major automakers in the development of next-generation vehicles. Thanks to these and other factors, the U.S. economy is showing signs of steady recovery. Turning to Western Europe, the German economy resembles Japan's in terms of growing deflation. Government policies in that nation to raise taxes have dampened investor and consumer sentiment. In Eastern Europe, by contrast, rapid industrialization has sparked a rush of companies seeking to establish a presence. The Russian and Ukrainian economies are also enjoying solid improvement. While Europe in general is showing weak economic growth, demand from major users in the machine tools and woodworking machinery sectors is projected to meet previous-year levels. In the Asia and Other region, we expect the pace of market growth to increase, especially in China. In South Korea and Taiwan, we notice some signs of improvement in the electronics sector, a major source of demand for our products. Overall, however, economic recovery in those nations is slow.

THK considers the world in terms of four key markets, including Japan. Spearheaded by the parent company, THK Manufacturing of America (TMA), and THK Manufacturing of Europe (TME), we will continue to build and reinforce our global network.

We plan to find the best possible corporate governance system after further close scrutiny of our situation.

Please describe how THK is developing new applications for its LM guides.

Many potential applications for our LM guides come to mind immediately. In the medical field, for example, surgical robots are being developed to perform medical procedures. LM guides would be crucial to undertake high-precision and accurate operations by remote communications technologies. In the electronics field, semiconductor technologies have entered the “nanometer” realm, and THK is already developing products with 10-nanometer precision. Meanwhile, to date, although applications for LM guides would be mostly centered for capital goods, we anticipate growing applications in consumer goods, which automobile and housing, and we strengthen product development, expand production sites and improving marketing skill. Moreover, we are seeking to raise our profile as a market leader by product-put approach through proactively offering application development proposals as well as market-in approach.



The term “corporate governance” is receiving a lot of attention. What is THK’s basic stance in this regard?

Discussion of corporate governance has become highly fashionable lately. However, I think that arguments about U.S.-style versus Japanese-style corporate governance are premature. At first glance, U.S.-style governance seems to be superior, but it does not necessarily match the requirements of today’s Japanese companies. The lack of outside director candidates and insufficient authority given to the CEO are two aspects of U.S.-style governance that make it difficult to transplant in Japan. Having said that, the Japanese way, which has centered on auditing, cannot be regarded as conforming to global standards.

We at THK plan to find the best possible corporate governance system after further close scrutiny of our situation. At present, we are actively reforming the Board of Directors to make it function more effectively. We are also upgrading and expediting the functions of the Management Conference, which serves as the Company’s supreme decision-making body and consists mainly of directors. At the same time, we are reinforcing the auditing

functions of the Board of Auditors. To maximize transparency, we will pursue active IR initiatives, while promoting extensive compliance awareness, instituting stricter accountability standards, and ensuring timely information disclosure.

How do you envisage THK’s future evolution?

In the near future, overseas sales will account for half of THK’s revenues, perhaps more. We plan to expand our overseas operations and increase the ratio of non-Japanese employees. Although our Japan-oriented business development policy will remain unchanged, we anticipate steady increases in exchanges between personnel in Japan and our overseas group companies. We currently place high emphasis on English in our education program. Rather than simply teach the English language, however, we focus on nurturing the development of employees, both in Japan and overseas, into internationally competent ambassadors. These initiatives reflect our desire to become a truly global corporation.