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New Year's Greetings 2012

Mr. M. Watanabe - President

A Happy New Year! I hope you had a wonderful time with your family and friends during the holidays. On behalf of **Kanefusa**, I am very grateful for the kindness and support that you gave us last year.

Indeed 2011 was the year of natural disasters and political changes. We remember flood in Australia, tornado in the USA and the earthquake in New Zealand. Worst of all, in March, the Great East Japan earthquake occurred. The flood in Thailand is also fresh in our memory, which caused a big damage, too. We would like to send our deep sympathy and prayers to all the victims in the world.

2011 was also a year of democratic movement, as well seen in the so-called "The Arab Spring". After the revolution in Tunisia, other long-term dictatorships collapsed in Egypt, Libya and other countries.

In Europe, a financial crisis in Greece and Italy led to changes in the government finally and this confusion might influence adversely the other countries, too. Under these influences, the yen reached a record high and the export business in Japan was seriously affected. Of course, **Kanefusa** was no exception. In the process of recovering from the enormous sag brought by the Lehman's crisis, this yen's sharp appreciation caused **Kanefusa** big exchange losses as evaluation loss of our foreign currency asset.

Even in this difficult situation, without lag we will continuously execute our global growth strategies delineated in our midterm management plan focusing on expansions of market shares mainly in Asia, where we expect a stable development. As we are in a period of great changes, this is the time for us to redefine how a leading company of this industry should be, and to deepen



the understanding of the company policy symbolized as **Kanefusa** spirit and exercise it in our daily work.

Keeping the word "Each one of us is a professional" in our mind, we will work and proceed with pride and confidence.

Quality Policy of Kanefusa Products in 2012

Mr. M. Ota - Senior Managing Director

2011 was a year of unprecedented disaster such as the Great East Japan earthquake and flood in Thailand. Some Japanese manufacturers couldn't supply stably due to the cut of the supply network. But afterwards, the recovery speed surprised the world. It showed them the fundamental power of the Japanese manufacturing industry.

Fortunately, **Kanefusa** didn't suffer from any direct serious damage. Though, it reminded us of the importance for reviewing our risk assessment. To make a judgment quickly - even in the uncertain and unpredictable economic situation - we act the way how a leading company in this industry should act, as our president said in his New Year Greetings.

The first point is to continue the high quality. We will go on to work on high accurate tools, but especially this year, we carry out maintenance of facilities by TPM, total productive maintenance activities and build up production lines, which enable higher and more stable quality. Of course, it

will obviously be severer to survive in a global competition. In other words, manufacturers who make reliable and high quality products make the only difference and that is the only way for **Kanefusa** to win. Indeed, manufacturers in developing countries will improve their quality at a fast pace so we will and have to be better than other cutting tool manufacturers. It is said that the world's highest-cost plant is a Japanese plant. However, most of the workers of **Kanefusa** are nationally licensed and have a strong confidence that the quality of their products is the best in the world.

The second is the pursuit of stable and quick supplies. For the Asian market, which we expect more development, we expand off shore manufacturing sites in China and Indonesia to build up a firm supply system of "local production for local consumption". As from last year, we started to work on a new plant in Indonesia and equipment investment and we will continue to do so. The policy for both off shore manufacturing sites is the perfect quality of a product. With this state-of-the-art facility we will maintain the same quality as in the plant in Japan.

The third point is to improve the ability of product development, especially customer-oriented products, by global research and marketing. Now, we send engineers of R&D and other departments from our head office to The Netherlands, USA and China. They study the real need of the customers and give them valuable suggestions.

We will actively continue to send engineers to overseas' customers for follow-up and better solutions. **Kanefusa** wants to be a manufacturer who could suggest a new added value, launch innovative and improved products. We believe that we have this ability and that this is a strong advantage in sales, manufacturing and R&D department.

The recent volatile economic situation and unprecedented appreciation of the yen will make the management environment very difficult in 2012. We want to devote ourselves to manufacturing and win the trust of our customers. With pride and confidence, all staffs will contribute to our society through their daily works.

↓↓ 25th Anniversary of PT Kanefusa Indonesia And The Vision for 2012

Mr. S. Tanimoto-President, PT. Kanefusa Indonesia

PT. **KANEFUSA** INDONESIA was established at Pulogadung, Eastern Jakarta in 1986. The company was started for the purpose of manufacturing and sales of veneer knives with 11 staffs.

In 1996, we have moved to Cikarang in Bekasi for the relocation of our plant with around 30,000 square meters of land with 150 people. That was the time when the government began to control deforestation to the purpose of protection of the global environment in Southern East Asia. Accordingly, the price competition of plywood products became severe but we managed to increase sales of veneer knives and circular saw blades. Specifically, we expanded the production ratio of veneer knives made in our plant for exporting them to the Asian market and also kicked the production of circular saw blades in gear.

In 2000, a new facility for heat treatment was adopted and it enabled us to manufacture solid chipper and flaker knives. The number of employees climbed to over 350. At this time, we were focusing on exporting our products.



Then, in June 2010, a labor dispute has occurred. Half of them left the company and we had to operate the company with help of the head office. At last, now the number of employees is back as it used to be and we are able to mark the 25th anniversary. To celebrate the 25th anniversary as well as express our apology and appreciation

to what we have been through during the labor dispute, we decided to have a ceremony.

In this party, people enjoyed many events such as the old pictures of the plant at Pulogadung, messages from employees and traditional Indonesian performance. At the ending, we sang and danced all together. Also, we could see the feelings of all employees who stayed and fought the strike together for months. The ceremony made me feel that the experience of labor dispute makes all of us more united and persuaded myself that it brings us more development.



Before the ceremony, the dealer's meeting, which was postponed due to the labor dispute, was held. In total, 8 dealers participated in it; 4 dealers from Medan, Pekanbaru, Palembang and Jambi in the Sumatra area, 2 dealers from Banjarmasin and Samarinda in the Kalimantan area, 1 dealer from Semarang in the mid Java area and 1 dealer from Surabaya in the East Java area.

Some of them work together from the beginning and even with the newest dealer, we have business for over 10 years. All of them are old partners. Perhaps, some of them became anxious

about the insufficient communication during the labor dispute. However, I think the dealer's meeting and 25th ceremony were a good chance to make them understand more about our culture and philosophy. We look forward to keep this good relationship in the future.

As a kick for our 26th year, PT. **Kanefusa** Indonesia will add a plant of 3,000 square meters in our plant site, which will be completed this June. In this plant, we will manufacture veneer knives and chipper knives at the lowest possible cost and boost production. We will start up

this operation as soon as possible and accelerate to gain the market share. This year, we also plan to raise the percentage of the export sales ratio up to 40%. In this plan, the challenge for the higher quality will be continuously important. It is inevitable to grasp customers' needs and push the quality level higher through QCD activity.

In the domestic market, the motorbike and automobile industry is strong now and the economy grows steadily. Especially, due to the earthquake of Japan and flood in Thailand, Japanese companies are actively moving to Indonesia.

In this situation, it is a good chance for us to find out new demands and products for the next generation.

Besides, the reinforcement of marketing activities and the development of products for the automobile industry are important too. As the rise in wages and price boost in Bekasi, it is not easy for us to cut initial cost and it will be a tough road to achieve our plans.

Yet, we have vitality, which we found last year after the labor dispute and all of us will push forward our biggest goal "To be the No.1 Chipper manufacturer in the world".

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Mr. T. Hirako-Managing Director, Overseas

At **Kanefusa**, we have a three-year medium management plan, and this year is the second year of the 12th management plan. For the overseas sales, we have set our sales budget at 6.35 billion yen or about US\$82.5 million, which is an 18% increase compared to 2011. This makes an overseas ratio of 39% against the total sales budget of 16.35 billion yen, a 3 % increase from 36% of 2011.

With the saturation and high market share in the domestic market, we have a strong intention to increase our presence in the world market. Under the present uncertainty of the world economy, we need our full determination and effort to attain the goal and I would like to ask you for your support.

Our main marketing strategies for this year are as follows:

1. To strengthen our positions in the fast developing markets or in BRIC's.
2. To expedite our marketing in new domains, especially in pipe and engine manufacturing.
3. To maximize our advantages based on our unique technologies of coating and micro engineering for cutting edges.
4. To establish clear product differentiations in the wood chip and sawmill industries in respect to yield improvement.
5. To reestablish our strength in the traditional markets, such as plywood and furniture industries.
6. To focus on the designated main users for each industrial domain for the maximum turnover and the brand image.

7. To hold more technical meetings and establish deeper relationships with the designated main machine manufactures in each industrial domain.

8. To appeal more to users in all the related industries with proposals on improvements in yield and efficiency for their profit increment.

To attain the above strategies, we need:

1. To increase visits to important and influential users with application engineers.
2. To improve communications in the **Kanefusa** group for better service and faster deliveries to our customers.
3. To train our sales and application engineers faster to be prepared for the expanding markets.
4. To provide adequate technical information to our agents and dealers to facilitate their sales activities.
5. To attend the main trade fairs of the related industries to enhance our brand in each market.

I believe that when we make our paths clear by implementing each strategy with carefully chosen action plans with all the strengths of the **Kanefusa** group combined together, we can achieve this year's goal even in the present unclear circumstances.

I hope that year 2012 will be prosperous and enjoyable for everyone in the **Kanefusa** family.

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