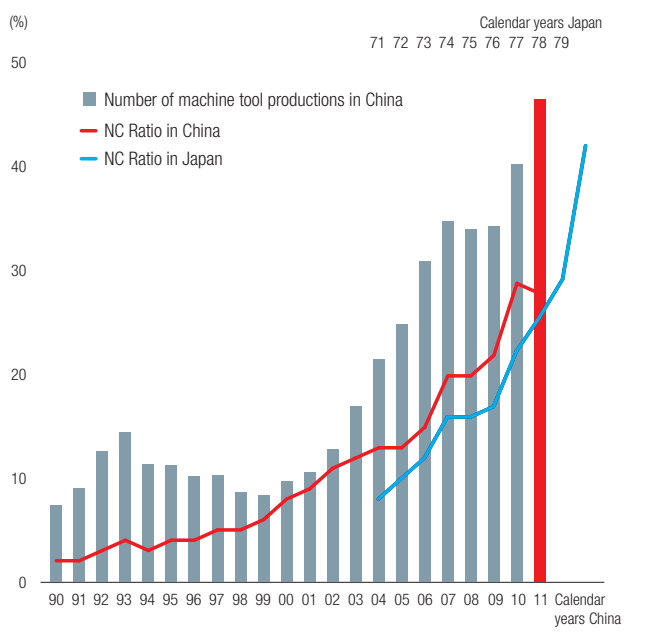


# Steadfastly Capturing Growing Demand by Further Accelerating Business Development in China

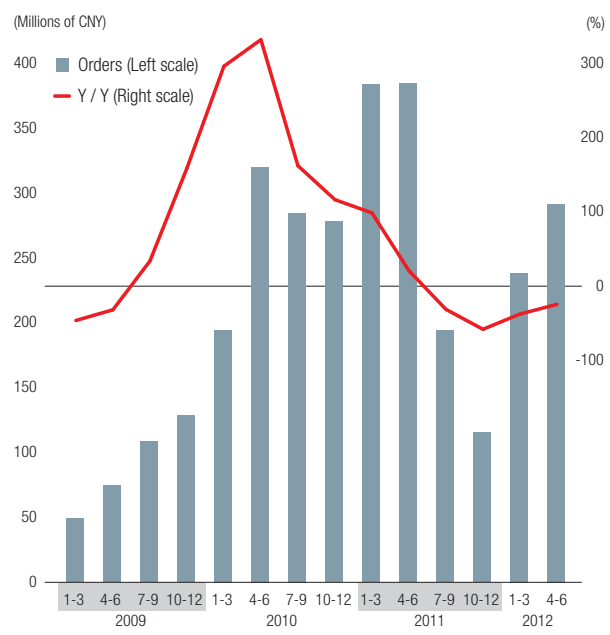
THK first entered the China market in the 1990s and was quick to build an integrated manufacturing and sales system. In fiscal 2011, the Company took steps to substantially increase its production capacity and dramatically increased the pace of sales base expansion in order to address the ever-increasing growth in demand.

Moreover, THK commenced operations at its first overseas research and development division in April 2012. Every effort is being made to develop products that match local needs.

■ Trends in the Number of Machine Tool Productions in China and the NC Ratio



■ Trends in the Combined Orders Received by THK CHINA (Sales Subsidiary) and THK SHANGHAI



Reference: China Statistical Year Book, JMTBA



## **Achieved Revenue Growth in Fiscal 2011 Despite a Year of Upheaval**

Fiscal 2011 was a year of considerable turmoil and upheaval. Exhibiting continuous high rates of economic growth throughout the first half of the year, beginning with mainstay machine tools, orders received in China were extremely strong. THK reported record high results for the two consecutive January and April quarters. In the second half, measures imposed by the Chinese government to tighten credit had the effect of slowing economic growth. This in turn led to a downturn in orders received. Buoyed by successful efforts to steadfastly capture demand during the first half and to secure positive flow-on effects through to sales, revenues for the full fiscal year were up year on year.

## **Boasting Competitive Advantage across Various Facets of Our Business Activities from Development, through Production to Sales**

Standing at the forefront of its industry, THK was quick to commence business in China. As early as the 1990s, the Company took proactive steps to build an integrated production and sales structure with facilities and operations closer to centers of demand. The THK Group maintains a competitive advantage over other companies in terms of its business operations with a sales network of 30 bases and five production facilities as of July 2012. From a development perspective, the Group established an R&D division in April 2010, which continues to develop products that address local needs. These efforts have provided the wellspring for the Company's competitive advantage and its ability to definitively capture demand in China, which continues to experience rapid economic growth. As a result, the THK Group maintains a high market share in China in its mainstay products. Looking ahead, THK will further cement its leading position within the China market by strengthening its integrated production and sales structure.

## **Steadily Increasing Production Volumes of Numerically Controlled (NC) Machine Tools and the Ratio of NC Machine Tools to Total Production (the "NC Ratio")**

In addition to increasing the number of machine tool units produced in China, the ratio of NC machine tools is steadily rising. These trends are expected to provide considerable impetus for product demand going forward. Production volumes have risen sharply in recent years. After securing its position as the world's largest producer of machine tools in 2009 in terms of production amount, China has continued to enjoy accelerated growth throughout 2010 and 2011.

In Japan, the ratio of NC machine tools stands at around 90% while the same ratio in China is 30%. Moving forward, increases in disposable income are expected to fuel growing demand for higher quality products. Moreover, against the backdrop of a decline in the workforce, demand for advanced machine tools equipped with NC devices is projected to climb in similar fashion to earlier trends in Japan. At exhibitions in China, while low-priced, general-purpose machinery remains commonplace, an upswing in the number of medium-zone machinery is becoming evident.

## Fiscal 2011 Results

In fiscal 2011, THK CHINA reported an approximate 20% increase in net sales compared with the previous fiscal year for a second consecutive year of record results. While orders received have recently declined owing mainly to government efforts to tighten monetary conditions from the second half of fiscal 2011, a recovery trend has emerged after order levels hit bottom in November 2011. Added to this, a change in the nation's leadership is triggering expectations of a further upswing based on the implementation of expansionary measures. Taking each of the aforementioned factors into consideration, THK CHINA is targeting a year-on-year increase in revenues of slightly below 20% in fiscal 2012.

Convinced of its vast potential, THK took the lead ahead of its rivals in upgrading and expanding its sales network in China while boosting its production capacity. As a result of these endeavors, in fiscal 2011, the Company was able to record an upswing in net sales by steadfastly capturing robust demand in the first half. From an earnings perspective, China was the most profitable geographic region of operations for the second consecutive fiscal year. As a market leader, THK has been successful in accurately addressing the vast demand inherent in China. There is therefore a strong sense that the Company is further garnering the trust and confidence of customers throughout the market.

## Medium-Term Operating Activities

The entire THK Group has identified the medium-term goal of achieving consolidated net sales of ¥300 billion. On this basis, we will work to fulfill our role as a major contributor toward achieving this established goal by steadfastly laying a solid foundation and making tangible progress in the Asian market, which is expected to continue experiencing high rates of growth. We have identified the medium-term goal of achieving net sales of ¥50 billion in our business in China including sales to transportation equipment-related fields. Striving to achieve this goal, we will bolster our integrated manufacturing and sales systems.

In transportation equipment-related fields the FAI Division is mainly

taking the lead in promoting business development. In this regard, aggressive efforts are being made to also approach the automobile industries of Asia. In addition, the IMT Division was established in 2009 to promote further take-up of electric actuators and unit products. Looking ahead, particular emphasis will be placed on cultivating the China market with a focus on electric-powered fields where investments aimed at advancing automation and reducing the need for labor are expected to expand.

## Measures Aimed at Promoting Sales

Together with the economic policies promoted by the Chinese government, sharp upswings in personnel expenses are prompting global companies to diversify their geographic areas of expansion. As a result, demand for THK products, which to date has been concentrated around coastal areas, is steadily spreading throughout all of China, including the northeast and inland areas. Against the backdrop of China's vast business area, the Company is promoting sales and marketing activities that are deeply rooted in the local community while upgrading and expanding its sales network at a rapid pace. THK's nationwide network stood at 30 bases as of July 2012, with plans to bring this figure to 60 by 2014. In this manner, we are further expanding our sales network.

As part of THK's endeavors to bolster its sales and marketing structure and systems, the Company is fully aware of the importance that intangible development will play in combination with tangible expansion. With this in mind, THK newly recruited approximately 80 personnel to boost its local workforce in fiscal 2011. Taking into consideration the growing sophistication of customer needs in China, the Company is implementing thoroughgoing, unique human resource education and training in collaboration with the Engineering and Development Division in China as part of its comprehensive efforts to raise the skills set and capabilities of local staff.

Moreover, particular emphasis will be placed on expanding transactions with existing customers including major machine tool manufacturers. This emphasis will be complemented by endeavors to cultivate new customers.

## Steadfastly Capturing Growing Demand by Further Accelerating Business Development in China



Takashi Okubo

Director  
President of THK (CHINA) CO., LTD.



In specific terms, THK will hold exhibitions in each region and effectively utilize its website to promote PR activities from a broad perspective.

### Measures Aimed at Boosting Production

THK is working to expand the production activity of each plant in China with the aim of steadfastly capturing expanding demand. Compared with the beginning of 2011, the Company has managed to more than double its production capacity as of June 2012.

In addition to introducing machinery facilities and equipment, construction to expand production at DALIAN THK CO., LTD. was completed in August 2011. With the aim of further increasing production, plans are in place to relocate to a new plant that boasts a site area that is approximately four times the size of the current base. THK MANUFACTURING OF CHINA (WUXI) CO., LTD. completed construction of a third plant. This facility came online in May 2012. Building on each of these initiatives, THK established THK RHYTHM CHANGZHOU CO., LTD. as its fifth plant in China in April 2011. Deliveries of automotive parts to customers began in July 2012. Moreover, in April 2012 THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD. was established as the Group's sixth plant in China to manufacture linear motion-related parts and units. Operations are scheduled to commence in October 2012.

Complementing these activities, the THK Group will position its plant network in China as not only a source of supply that aims to address local demand but also as a platform for export to the rest of the world. Steps have already been taken to ship products to the United States, Europe and Taiwan. Amid these efforts and the pickup in orders in China, the THK Group implemented a four-squad "triple-shift" full production system from April 2012. Harnessing the collective strengths of all employees, THK will work diligently to boost production.

### Measures Aimed at Advancing Development

The Group's first overseas R&D division was established within the headquarters of THK CHINA in April 2010. In line with a market that

continues to exhibit growth, customer needs in China are becoming increasingly diverse. THK recognizes the critical importance of providing high-value-added products that meet these needs. Since establishing this designated R&D division, the Company has focused on the education and training of its personnel. The specialist R&D Center was therefore brought online in April 2012, with steps taken to accelerate development that matches local needs in collaboration with the Engineering and Development Department in Japan.

The THK Group places the utmost emphasis on global quality as part of its comprehensive efforts to ensure the same level of quality irrespective of the location of production throughout the Group's production network. Moreover, and in order to further increase its market share, the THK Group balances the equally critical requirements of quality maintenance and cost competitiveness. In this context, the Group is promoting local materials procurement and the shift to in-house operations wherever possible.

### Engaging in Business Development Activities in Other Developing Countries

Based on the aforementioned measures and activities, THK began developing business in China ahead of its rivals. In addition to building an integrated manufacturing and sales system, the Company has continued to aggressively expand its business. As a result, THK continues to reap the many benefits of its pioneering position to secure definitive growth.

Drawing on its experiences and track record in China, THK is proactively promoting business development in other developing countries. In specific terms, the Company established THK RHYTHM MEXICANA, S.A. DE C.V. in Mexico. From the current fiscal year, the Company will also bolster direct sales in India and has plans to establish a local subsidiary. The THK Group is therefore picking up the pace of actively developing business in other developing countries going forward.

