

## The Path toward Growth and Expansion



In our chain operations, in recent years we have implemented a range of measures targeting improved productivity and a stronger profit structure, and as a result of such efforts we have succeeded in enhancing profitability. Now, the Company will switch to an offensive strategy to establish an insurmountable position as the world's foremost manufacturer of high-quality chains. Moreover, we will strive to make the Kyotanabe Plant the number one chain plant in the world while maintaining a high level of productivity.

### Market Trends and Operating Strategy

To build a stronger profit structure for its chain operations, the Company has implemented a range of initiatives centered on the Kyotanabe Plant. Supported by a recovery in domestic capital investment, we achieved a significant increase in revenues in the year under review. In addition, the depreciation burden at the Kyotanabe Plant has declined, and our initiatives targeting improved productivity have been successful. In the year under review, our operations were profitable and our performance exceeded planned levels by a substantial margin. In the future, we will make aggressive advances in global markets, with the Kyotanabe Plant as our strategic base for chain operations.

## Chain Operations

# TAKING THE OFFENSIVE

Tadashi Ichikawa  
 Director and Managing  
 Executive Officer,  
 Chain Division

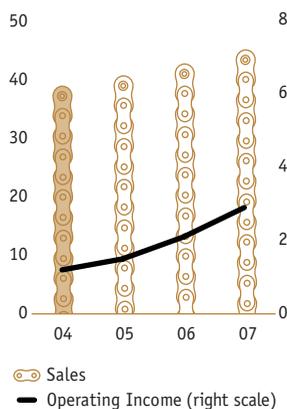
Currently, two key trends are accelerating on a global scale—the maturation of the market for chains for general industrial applications and the influx of low-end products from China and other markets. In this environment, we must follow a strategy of establishing a solid brand identity and increasing our share in the world market.

In overseas markets, our presence is increasing, and we have a 20% share in North America. In Europe, however, our market share is only 5%. This means that we have substantial room for further growth, and in the future, by working to expand sales of high-value-added chains, we will strive to achieve a world market share of 20% and to establish a position as the world's leading supplier of high-quality chains.



Roller Chains

Chain Operations  
 Operating Plan  
 Billion ¥ (Consolidated)



### Building a Presence in Global Markets with Carefully Selected Targets

To achieve our goal of a 20% share of the world market, at each of our bases we will move ahead with a strategy based on carefully selected targets. In North America, we will continue to strengthen the relationship between subsidiary U.S. Tsubaki and Rexnold Corporation, of the United States, and at the same time we will focus on the challenge of expanding sales of core products and raising profitability.

In Europe, we will work to increase sales of European-standard BS chains. We have already had concrete results, with our active use of sales engineers leading to our first orders from large European sales agents.

In the Chinese market, where significant growth is expected, we have selected as principal targets Japanese companies and companies in resource industries. We will work to expand sales of high-value-added chains that meet the needs of those companies, such as oil drilling chains and conveyor chains for automobile production lines. Also, in the year ending March 2005, we plan to establish a sales subsidiary with the objective of strengthening sales expansion efforts in the Chinese market.

And in the domestic market, accompanying the influx of products from China in recent years, low-end products have faced intense price competition. The market continues to polarize into low-end and high-end sectors. Tsubakimoto Chain has chosen to focus on high-end markets that are less susceptible to competition from China and to establish dominant technological superiority in those markets. Products for which we have high expectations include lube-free lambda roller chains and other environmentally friendly chains and cableveyors for automotive power sliding doors.



*Cableveyors*

**“ In the year under review, our operations were profitable and our performance exceeded planned levels by a substantial margin. In the future, we will make aggressive advances in global markets, with the Kyotanabe Plant as our strategic base for chain operations.”**

#### **Introduction of Cell Manufacturing Method**

At the Kyotanabe Plant, where we boast the world’s most advanced technical development capabilities and production technologies, we have emphasized EBITDA as a management objective and worked to raise productivity. In the year under review, an increase in orders led to higher production, and the results of our past efforts became apparent in one stroke. With manufacturing companies moving production overseas, in order to retain manufacturing in Japan it will be necessary to raise productivity to extremely high levels. Based on that belief, in January 2004 we began moving to the use of cells in fabrication lines.

The goals of the introduction of the cell manufacturing method are to reduce lead times, cut inventories, and develop the ability to produce different products in varying amounts with short delivery periods. In other words, producing what is needed when it is needed in the amount in which it is needed. In the year ending March 2005, we will introduce this method in all of the Kyotanabe Plant’s fabrication lines, move ahead with the synchronization of component processing and fabrication lines, and establish “Tsubaki Style Cell Manufacturing.” And then, in the year ending March 2006, we will work to reform production at the plant level—increasing productivity 30%, cutting inventories in half, and reducing production lead times from 18 days to 7.



*Kyotanabe Plant*



Automotive parts operations are the key driver of the Tsubakimoto Chain Group's growth. The quality and functionality of our timing chain drive systems have been highly evaluated, and as a result the use of these systems by leading automakers around the world continues to grow. With our five-point manufacturing system—in Japan, North America, Europe, Thailand, and, most recently, China—we will implement aggressive expansion measures targeting the achievement of our mid-term objective of a 32% share of the world market.

### Market Trends and Operating Strategy

In engines, worldwide trends are toward higher performance, smaller size, and quieter operation. In this setting, the performance of our timing chain drive systems has been highly evaluated, and their use in new engines by automakers around the world has grown. In addition, with the start-up of full-fledged production at Tsubakimoto Automotive (Thailand), we can leverage our four-point production system—Japan, North America, Europe, and Thailand—to provide an enhanced response to engine development worldwide by manufacturing each product at the most suitable location. And, sales of automotive parts set a new record high in the year under review. Nonetheless, operating

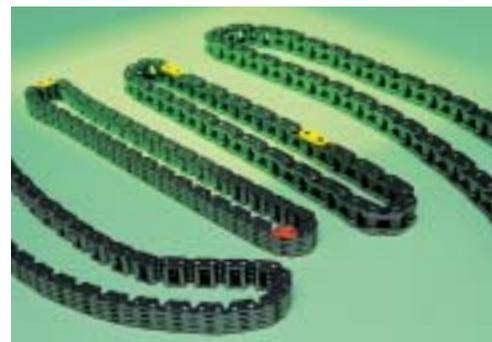
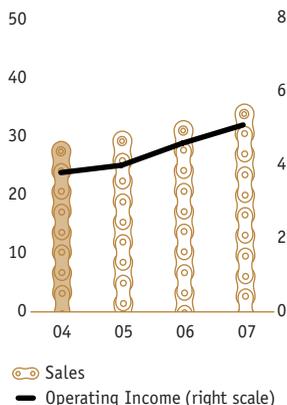
## Automotive Parts Operations EXPANDING AGGRESSIVELY

Toru Fujiwara  
Director and Executive Officer,  
Automotive Parts Division

income declined slightly from the previous year, due to expenses associated with the transfer of sintered automotive parts operations to Sumitomo Electric Industries. This transfer was a strategic move that we believe will pay off in the years ahead; the space freed up as a result of the transfer is being used to increase the Saitama Plant's production capacity for automotive chains. In the year ending March 2005 and thereafter, we anticipate growth in sales and profits.

The transition in timing drive systems from the belt drive method to the chain drive method is accelerating on a global scale. In this environment, our goal is to achieve a 32% share of the world market by the fiscal year ending March 2006. To reach that target, we are moving in step with the world's automakers as they develop global operations by bolstering our own overseas production system. Another strategic challenge that we face is to acquire business from new overseas customers. Through aggressive marketing measures, we will obtain new business not only in North America but also in Europe, where the belt drive system is still predominant.

Automotive Parts Operations  
Operating Plan  
Billion ¥ (Consolidated)



Timing Chains (left: silent chains, right: roller chains)

### Establishment of a Five-Point Global Production System

In recent years, accompanying rising wage levels, motorization in China has progressed rapidly, and automakers from around the world have shifted production to that market. Tsubakimoto Chain has also followed that trend, and to secure and expand market share in China, in April 2004, the Company established timing chain drive system production subsidiary Tsubakimoto Automotive (Shanghai).

This production subsidiary was established in Shanghai because of the many bases that automakers have located there. In the future, as the market expands, automakers are expected to set up bases in many regions of China, and accordingly Tsubakimoto Chain will consider the establishment of additional bases.

With this new company, we have in place a five-point production system, with China joining Japan, North America, Europe, and Thailand. Under this new system, we will pursue overall optimization, with the Saitama Plant positioned as the control base for allocating products to the most suitable manufacturing sites and as the source of new technologies. At the same time, we will work to bolster production capacity, cost competitiveness, and marketing capabilities at each of our bases and will implement our Global Best strategy for automotive parts.



Timing Chain Drive System

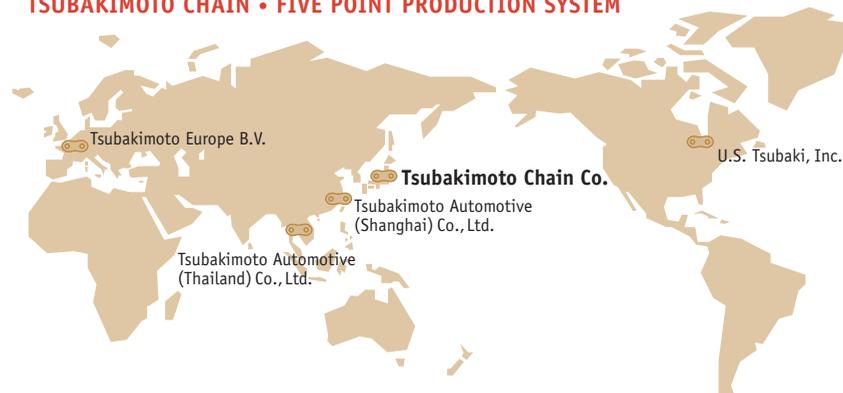
**“...we are moving in step with the world’s automakers as they develop global operations by bolstering our own overseas production system.”**

### Bolstering Offense and Defense

We have formulated specific strategies for each market. In North America, we will follow an offensive strategy of obtaining new business through local subsidiary U.S. Tsubaki as well as a defensive strategy of reinforcing our close ties with Japanese automakers and by achieving differentiation through such measures as the provision of prediction technology at the design stage. In Europe, we are working aggressively to expand market share, which is still low. Specifically, by strengthening our cooperative relationship with Joh. Winkhofer & Söhne, of Germany, we will intensify our development of new customers and new markets, and at the same time, through local subsidiary Tsubakimoto Europe, we will move forward with efforts on the new engines of our existing customers.

In Japan, Thailand, and China, we will also follow offensive and defensive strategies. In the domestic market, we will aggressively pursue an offensive strategy for the use of chains in non-timing-drive system parts, such as oil drive systems and balancer systems.

### TSUBAKIMOTO CHAIN • FIVE POINT PRODUCTION SYSTEM



In the fiscal year ended March 2004, the effects of the merger that created Tsubaki Emerson two years ago became apparent. All of our business units were profitable, and, overall, we recorded increases in sales and profits. In the future, we will work to achieve further growth by developing products that meet market needs in each of our product lines.

### Market Trends and Operating Strategy

The year under review was the second for Tsubaki Emerson since the merger of Tsubakimoto Chain's power transmission units and components operations and Tsubakimoto Emerson Co. For such products as reducers, linear actuators, couplings, and cam clutches, we implemented a product strategy that accurately matched increasingly diverse and subdivided market needs. As a result, we achieved profitability in our reducer operations and recorded significantly higher sales of Power Locks for LCD production lines. Our performance considerably exceeded planned levels, with increases in both sales and profits.

The domestic operating environment is marked by the manufacturing industry's ongoing shift of production overseas and by growing demand for products that are more advanced and more compact. In this setting, we will continue to carefully select target markets for each product line and to provide products that meet the needs of those target markets.

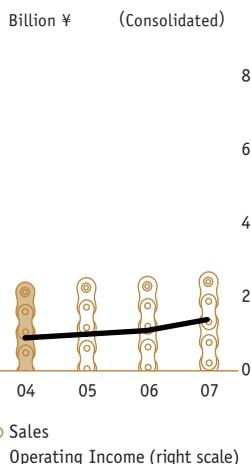
By product line, in reducers, which are one of our core products, we will use the just-fit model to create a series of products that meet the needs of market subdivisions, such as stage equipment and waste processing equipment. In addition, we will provide a precise response to



## Power Transmission Units and Components Operations BOLSTERING PRODUCT STRENGTHS

Takehiro Ueda  
Chairman and Representative  
Director, Tsubaki Emerson Co.

### Power Transmission Units and Components Operations Operating Plan



market needs with the launch of a global series of products for use in industrial equipment that is exported. These products will meet international safety standards in such markets as Europe, North America, and China. Moreover, in linear actuators, environmental issues have resulted in a trend away from the hydraulic and air methods and toward electromechanical Power Cylinders. We will emphasize Power Cylinders as we work to develop products that meet needs for higher precision and greater environmental friendliness.



Reducers

### High-End Products in the Global Market

The domestic market accounts for about 90% of sales, and to achieve further growth in the years ahead we must enhance our overseas presence. In the future, we will center our product strategy on high-end products and aggressively expand sales to such markets as China, South Korea, and Taiwan. Sales in Asia account for 30% of our production of clutches, and we will

focus on those products as the driver of our global expansion. Also, in China, in addition to subsidiary Tsubaki Emerson Gear (Tianjin), in the year ending March 2005 we plan to establish a local sales and production subsidiary that will provide us with a local supply system with which to meet the needs of manufacturers that have operations in China.



Lini Power Jack and  
Power Cylinder

Tsubakimoto Chain's fundamental strategy in materials handling systems is to achieve steady growth through the application of the principles of selection and concentration to growth fields. With production processes trending toward high-variety, small-lot production, we will add more value by providing not materials handling systems but process handling systems that play a greater role in the production process. At the same time, we will work to aggressively expand our presence in global markets.

### Market Trends and Operating Strategy

In materials handling systems operations, the Company is aiming to achieve steady improvement in profitability through the implementation of the principles of selection and concentration in growth fields, such as the automotive, newspaper, distribution, IT, pharmaceutical, and food industries. In the year under review, sales of products for the distribution and automotive industries decreased, leading to declines in sales and profits for the materials handling division. However, we recorded favorable sales results in the pharmaceutical and food industries, which we have positioned as new growth fields and to which we are devoting resources. In particular, in the pharmaceutical industry we have a 70% share of the market for library compound storage systems, such as our Labo Stocker. With this foothold in the drug discovery field, we will launch new products for genome analysis, thereby



Genome DNA Freezer Storage System

further heightening our market presence. In addition, accompanying competition in mail delivery between private delivery companies and Japan Post, demand for mail sorting equipment has increased, and we will use our product strengths and maintenance and other services as points of differentiation, thereby leading to steady growth in orders.

Under the theme of a transition from materials handling to process handling, we must respond to diversifying needs while striving to add even more value. Examples of these efforts include our development of a large-scale version of Vanguard, our unmanned monorail system that is compatible with the trend toward larger LCDs, and, in a new field, our pallet conveyance module for automobile fabrication processes.

### Aggressive Approach to Global Markets

The development of global markets is an important theme in materials handling systems operations. In the United States, we plan to strengthen the marketing of our AGV automatic roll paper feeding system for the newspaper industry and of maintenance services at automotive plants. In recent years, an expanding number of automakers have established operations in China, which is enjoying strong economic growth. Accordingly, we will strengthen our marketing of the Hybrid Traverser body paint shop conveyor system and other systems for automotive plants. Moreover, in other growth fields, such as products for the machine tools industry, we will mount an aggressive challenge by drawing on the strengths of Group companies. And in China, we plan to add to our production subsidiary with the establishment of an engineering joint venture. In the future, we will reinforce our presence in the Chinese market with integrated production and sales initiatives.



Mailsort

## Materials Handling Systems Operations APPLYING SELECTION AND CONCENTRATION

Akira Morikiyo  
Director and Managing  
Executive Officer,  
Materials Handling Division

### Materials Handling Systems Operations Operating Plan

Billion ¥ (Consolidated)

