

## POWER TRANSMISSION PRODUCTS OPERATIONS



**Kimio Takakura**

*Executive Managing Director  
and Representative Director*

A central pillar of Tsubakimoto Chain's business, and accounting for more than 70% of consolidated net sales, Power Transmission Products Operations play a crucial role as the driver of the Company's future growth. We are aggressively pursuing the globalization and restructuring of these operations to reinforce our leading position in world markets and to augment profitability. As part of such efforts, we began full-scale production at our new state-of-the-art chain plant in Japan in April 2002.

### CHAINS

In our mainstay chain operations, our core strategies are enhancing productivity and strengthening our brand presence in world markets by leveraging the unqualified superiority of our product quality and functionality. Although the chain sector is said to have reached maturity, we intend to expand our operations by securing an even larger market share. With full operations getting under way in April 2002, our new plant in Kyoto Prefecture constitutes the foundation upon which our core operating strategies will be implemented. Our new production center features world-class manufacturing technology and productivity as well as cutting-edge distribution systems and the latest production management systems. Also, with the inclusion of a technical center within the plant, we are confident our R&D staff will make a significant contribution to reducing lead times in product development and to enhancing our technological capabilities.

Tsubakimoto Chain has a medium-to-long-term operating strategy to raise its share of the global market for steel chains for general industrial applications from its current 18% to 20%. We will achieve this target by bolstering the operating bases of our subsidiaries in the United States and Europe and by forming strategic alliances with companies overseas. In addition, given the huge potential demand in Asia for industrial steel chains, we plan to steadily strengthen our position in this region through the further development of our operations in the Chinese market.

### AUTOMOTIVE PARTS

Our internationally acclaimed timing chain systems for automotive engines are the core products in our automotive parts lineup. Tsubakimoto Chain is a leading supplier of



Chain production lines at the Kyotanabe Plant

timing chains, with a 70% share of the Japanese market and a 15% share of the U.S. market. Business opportunities are expanding in the automotive industry, where growing demand for the enhanced durability and performance from automotive engines has led to an increasing shift from using belt systems for timing drives to using chain systems. In the U.S. market, until recently we mainly supplied automotive parts to General Motors. We now supply Ford as well as leading Japanese automakers Toyota and Honda. Also, Jaguar and Toyota are increasingly incorporating our timing chains into their vehicles manufactured in Europe. Against this backdrop, Tsubakimoto Chain is actively developing its automotive parts operations with its sights fixed on building an even stronger presence in international markets.

Until now, our main production centers for automotive parts have been our plants in Saitama, Japan, and Chicopee, Massachusetts, in the United States. During the fiscal year under review, we established a production base in Europe through the conclusion of an operational alliance agreement with Joh. Winklhofer & Sohne GmbH & Co. KG, of Germany. From 2003, plans call for the annual supply of 350,000 timing chain systems for automotive engines manufactured by Toyota in Europe. Also, the Company has established a subsidiary in Thailand for the production of timing chains and tensioners, which will get under way from October 2002. We now have in place a four-pronged production regime, spanning Japan, the United States, Europe, and Asia, that will enable us to supply parts for automotive engines worldwide. By developing its operations through its subsidiaries and through operational tie-ups, Tsubakimoto Chain aims to secure a more than 50% share of the global market for timing chains by fiscal year-end 2005.



Tsubakimoto Automotive (Thailand) Co., Ltd.

#### POWER TRANSMISSION UNITS AND COMPONENTS BUSINESS

Tsubakimoto Chain's Power Transmission Units and Components Business Unit manufactures motion control units, such as Power Cylinders, as well as reducers, couplings, and Power Locks. Structural reforms aimed at bolstering the Company's market competitiveness and profitability have been ongoing in recent years. And, as the final stage of this process, in April 2002 we merged this unit with our subsidiary Tsubakimoto Emerson Co. to form Tsubaki Emerson Co. As a comprehensive manufacturer of power transmission units and components, the new company will work to improve our competitive advantage in product and technology development and to further improve our customer-oriented operations.

## MATERIALS HANDLING SYSTEMS OPERATIONS



**Hideo Miyazaki**  
*Managing Director*

Since the mid-1990s, the Materials Handling Systems Division has responded to the challenging operating environment by taking decisive steps to raise profitability through a structural reorganization of the division. We are now building on the success of those initiatives, which included the consolidation of production bases, workforce reductions, and sharpening the focus of the division's areas of operation. Although difficult business conditions persisted during the year under review, the division's strong showing underpinned the performance of the Company as a whole. Demand for our mainstay products was robust, with divisional sales up 12.2%, to ¥29.5 billion, and operating income increasing approximately threefold, to ¥2.3 billion.

Based on rationalization measures aimed at restoring profitability, the Materials Handling Systems Division achieved a markedly improved performance during the fiscal year under review. In response to the adverse operating conditions in recent years, we have worked to create a solid structure that is less susceptible to the impact of changes in the business environment through such measures as aggressively acquiring subsidiaries, consolidating production bases, and reducing our workforce. Further, as a result of concentrating our product development and operating strategies on sectors where we can leverage Tsubakimoto Chain's unique engineering expertise, sales of core products accounted for close to 60% of total sales in the materials handling systems segment. Also, revenues from our maintenance operations, which we have been focusing efforts on in recent years, grew to 10% of sales in the segment.

The Materials Handling Systems Division serves a wide range of business sectors, including the automotive, paper manufacturing, newspaper, and distribution industries. Accordingly, the division has developed customer-oriented operations by targeting its core products to meet the needs of specific sectors. We are building strong market positions through such mainstay products as the Hybrid Traverser system, an automotive body paint shop conveyor system for the automotive industry; the AGV automatic roll paper feeding system for the newspaper industry; and LiniSort, a linear motor actuated sorting system for the distribution industry. Similarly, the division has strengthened the development and sales of library compound storage systems for the pharmaceutical industry. Of these systems, orders for the Hybrid Traverser system continue to be brisk, as Japanese automakers expand their production capacities overseas. Sales of the AGV paper feeding system are also growing, supported by our enhancement of after-sales service through the introduction of a 24-hour support service and software that simulates the system's operations. In addition, with a view to increasing sales in new areas of demand, we have introduced such products as a space-saving version of LiniSort 3DR that can operate on vertical as well as horizontal planes.

Recently, there has also been an upward trend in sales of environment-related products, such as bulk conveyors, and the division is working in conjunction with Tsubakimoto Chain's subsidiaries to step up its marketing of these products.



LiniSort 3DR

## CORPORATE PLANNING



**Norikazu Ohno**

*Executive Managing Director*

In April 2002, Tsubakimoto Chain launched its new medium-term management plan, STEP04. Over the next three years, the Company will develop its operations in accordance with the concrete targets and benchmarks outlined in the plan. STEP04 sets out profit schedules for each division, measures to reduce interest-bearing liabilities, and workforce reductions. Based on these initiatives, the Company aims to secure a sound business base that can generate profits even during periods of economic downturn when rapid recovery in private-sector capital investment is unlikely.

The STEP04 medium-term management plan contains financial forecasts for the fiscal year ending March 2005, which include consolidated net sales of ¥124.0 billion, operating income of ¥8.3 billion, and net income of ¥4.6 billion. In our mainstay chain operations, although a continued decline in private-sector capital investment is expected in domestic sectors, we will enhance profitability by promoting globalization, expanding sales of high-performance, high-quality products, and improving production efficiency through the optimal utilization of new plants. Supported by growing demand for its automotive parts as well as organizational improvements within its materials handling systems operations, Tsubakimoto Chain will use the momentum of these two businesses to achieve its financial and operational targets.

Short-term and long-term interest-bearing debt amounted to ¥76.7 billion on a consolidated basis at the end of the fiscal year under review, mainly associated with capital expenditures for new plant construction. The Company has established a plan for the coming years to implement the staged reduction of this amount on an annual basis.

Our basic strategy has been to allocate capital generated through the comprehensive rationalization of operations, such as workforce reductions, to depreciation and interest obligations. In the years ahead, we will continue to aggressively cut staff numbers, focusing on our back-office sections. After reaching a peak at the end of March 1994, when the parent company had 3,180 employees, staff numbers have been reduced through rationalization and other measures and at the end of the year under review totaled 2,263. Including employee transfers that accompanied the spin off of the Power Transmission Units and Components Business Unit, we are taking steps to have a workforce of 1,800 employees at the parent company by the end of March 2005. Such efforts will focus on reducing back-office staff numbers. At present, approximately 300 administrative employees are employed at our Head Office and related companies in Japan, and we intend to halve this number to roughly 150 staff. As part of this process, we will establish a new support company responsible for administrative tasks that will strive to improve the operational efficiency of the Tsubakimoto Chain Group as a whole.

Through the implementation of the above policies and strategies, Tsubakimoto Chain will transform itself into a company that is founded on a solid operating base and is capable of generating higher profitability.



Tsubakimoto Chain Group  
environmental meeting