

Management Strategy: Toward Global Best

Power Transmission Products

CHAIN OPERATIONS

In its mainstay chain operations, the Company continues to face a challenging operating environment brought about by prolonged sluggishness in the Japanese economy, an influx of low-priced products into the domestic marketplace, and intensified competition in overseas markets. In this setting, Tsubakimoto Chain is leveraging its unmatched technology and product quality to consolidate its position as an industry leader and to capture a 20% share of the global market for steel chains.

Tadashi Ichikawa Director, Chain Division



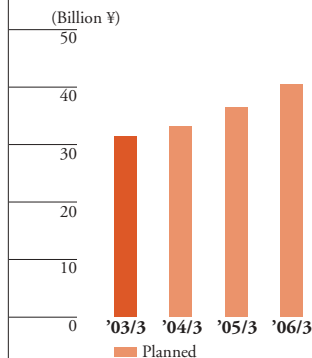
Drive chains

Market Trends and Operating Strategy

In our chain operations, slumping private-sector demand in our mainstay Japanese market had a significant impact on sales during the fiscal year under review. Meanwhile, at our new Kyotanabe Plant, which began full-scale operations in the year under review, we had difficulty raising output due to delays in reaching capacity utilization targets. Given the unlikelihood of a rapid recovery in demand or an expansion of the market in Japan, our main strategies for realizing growth in our chain operations are to secure 20% of the global market for steel chains by March 2006 and to ramp up capacity utilization at the Kyotanabe Plant.

Worldwide, the market for steel chains for general industrial applications is said to have reached maturity, while each year price competition becomes fiercer as manufacturers compete for survival. Tsubakimoto Chain continues to enhance its competitive advantage by increasing its market share and reinforcing its status as a leading company in the steel chain industry. In particular, we aim to win an overwhelming share of the mid-to-high-end market, where Tsubakimoto Chain can leverage its technological superiority. Boasting the world's best R&D and production engineering capabilities, the Company's cutting-edge chain plant in Kyotanabe will play a crucial part in realizing that goal. We will bring the world's highest-quality chains to market by positioning the Kyotanabe Plant at the strategic core of our chain operations and strengthening alliances with overseas Group companies.

Chain Operations— Projected Sales



Expanding Our Market Share

With a view to increasing our market share of the global steel chain market, we will rapidly implement a wide range of measures.

In the United States, we will strengthen ties with a major North American chain manufacturer, aiming to enhance profitability by boosting orders for core products that demonstrate our technological superiority.

In Europe, our primary task is to expand distribution channels. Accordingly, we will open up local distribution routes based on an agency agreement concluded through one of our European subsidiaries with a major machine trading company in France.

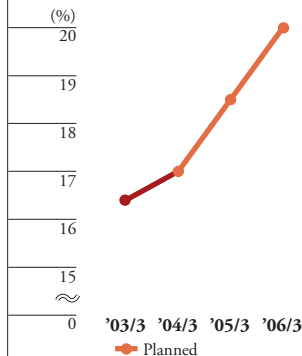


Cableveyors for automotive power slide doors and other applications



Recycled plastic chain used in a beverage processing plant

Chains—Global Market Share Targets



In China, we will position the Company to take advantage of that market's significant growth potential through the stepped-up marketing of high-end products to Japanese corporations and the oil industry. Specifically, we are working to increase the market penetration of the Tsubaki brand by concentrating on core product lines, including marine chains, oil drilling chains, conveyor chains for automobile production lines, and chains for the steel industry. The successful development of operations in the Chinese market is an extremely important part of our global strategy. We will therefore continue to strengthen our operations while examining the feasibility of establishing local marketing or production bases. As part of efforts to lay the groundwork for full-scale participation in the Chinese market, in April 2003 we established the China Business Development Section as a new department tasked with managing and advancing the Tsubakimoto Chain Group's overall strategy in China.

Although we do not anticipate any large increases in demand in our mainstay domestic market, it remains an important source of revenue. Our solid operational base in Japan—with sales accounting for more than 50% of the domestic market—enables us to pursue aggressive global strategies. While continuing to cater precisely to growing demand among customers for the rapid delivery of high-quality products, Tsubakimoto Chain will work to create new demand by developing products for such fields as environment-related business.

Positioning the Kyotanabe Plant as a Strategic Base

Full-scale operations at our world-class Kyotanabe Plant commenced in the year under review. The new plant not only forms the core of our domestic operations, it is central to the implementation of our global strategy. Accordingly, we are developing plant operations with global markets in mind and positioning the facility as our R&D and manufacturing hub for high-end, Tsubaki-brand products that leverage our engineering expertise.

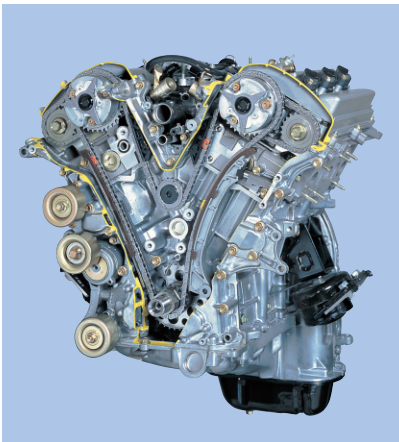
In addition, we are pursuing increased cost competitiveness at the plant through the introduction of a new production management system that greatly improves productivity. Although we were unable to achieve the production efficiency levels that we initially projected due to decreased orders and start-up problems, we intend to quickly overcome these difficulties to realize a 20% improvement in production efficiency in the near future.

Moreover, we will take full advantage of the functions of the Technical Center within the Kyotanabe Plant to create business opportunities. In doing so, we will develop new products for growth industries, such as cableveyors for automotive power slide doors, and energetically expand operations in such new business areas as plastic recycling.

AUTOMOTIVE PARTS OPERATIONS

Tsubakimoto Chain has positioned its automotive parts operations as the key driver of the Company's future growth. In the fiscal year under review, sales of our timing chain drive systems continued to grow strongly as increasing numbers of automakers worldwide chose to use our products. We aim to gain a 33% share of the world market for timing chain drive systems by aggressively expanding our operations based on four production sites in Japan, the United States, Europe, and Asia.

Yoshinobu Miyazaki Managing Director, Automotive Parts Division



Timing chain drive system for V6 engines

Market Trends and Operating Strategy

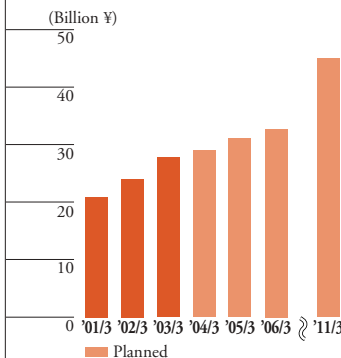
Timing chain drive systems are a core component of automotive engines. Today, the changeover from timing belts to timing chains is gathering pace in the automotive industry worldwide. This shift reflects growing demand for durable components as automakers strive to develop engines with enhanced compactness and performance. Improvements in the performance of timing chain drive systems themselves have contributed to the development of engines with reduced size, weight, and operating noise.

In the year under review, our automotive parts operations posted record sales as domestic and overseas automakers increasingly used our timing chain drive systems. Moreover, we significantly raised profitability through cost reduction efforts that enhanced the cost competitiveness of the Automotive Parts Division.

Anticipating the expanded use of timing chain drive systems, we aim to capture an even larger share of the market by further bolstering our marketing activities. Overseas, large potential markets still remain. In Europe, for example, the shift to timing chain drive systems has yet to begin in earnest. Meanwhile in China, the automotive industry is recording rapid growth and the Company is considering establishing local production capabilities.

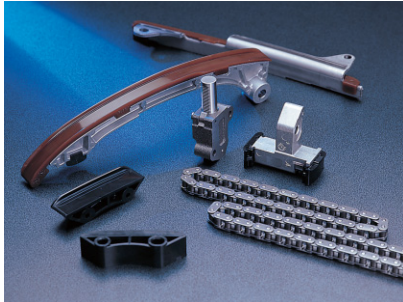
Through efforts to raise our share of the world market for timing chain drive systems from 30% to 33%, we plan to increase annual sales of these products from the current level of approximately ¥28.0 billion to ¥33.0 billion by March 2006. Our long-term target is to realize annual sales of ¥45.0 billion by the year ending March 2011.

Automotive Parts Operations— Projected Sales

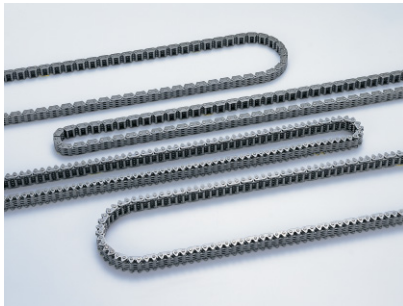


Bolstering Our Global Four-Production-Site System

In recent years, aiming to become a global supplier of the world's number one brand, we have built a production system for automotive parts that spans the four key areas of Japan, the United States, Europe, and Asia. In the year under review, we completed this system by commencing a strategic alliance in Europe with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten), of Germany. Also, in Asia, we began operations at a manufacturing subsidiary in Thailand. Meanwhile, we continue to strengthen our established automotive parts production bases in



Timing chain drive system components



Silent chains

Saitama, Japan, and Chicopee, Massachusetts, in the United States. Looking ahead, we plan to steadily boost the overall production capacity of the four-point system.

In the medium-to-long term, we will position the Saitama Plant at the core of our global production system, take measures to standardize product quality and pricing worldwide, and enhance cost competitiveness. In addition, the Saitama Plant will implement our global strategy of achieving overall optimization in automotive parts operations by functioning as a base tasked with developing new products and allocating them to the most suitable manufacturing sites. As part of this initiative, we have begun using indexes at the plant to evaluate the production and investment efficiency of operations at our four production sites in Japan and overseas. At the Saitama Plant, we are also actively developing promising products other than timing drive systems, including oil pump drive chains for continuously variable transmissions.

Strengthening Customer-Oriented Operations

At present, the customer base of our automotive parts operations comprises the automotive industry's major players. We supply products to Toyota, Nissan, Suzuki, Honda, and others in Japan; General Motors and Ford in the United States; and Jaguar in Europe. And, Tsubakimoto Chain is developing its operations in step with the heightened pace of corporate reorganization and globalization among automaker groups.

In April 2003, for example, we introduced a global account manager system. Instead of managing customers on a regional basis, we now offer a globally integrated, comprehensive range of services to automaker groups. Our aim is to address customer needs more accurately by consolidating the management of every aspect of the products we offer each group.

Also, in October 2002, we introduced a project manager system. In this initiative, when an automaker is sourcing for the launch of a new engine project, we task one of our managers to oversee the entire process from development to procurement, production, and delivery. As well as allowing us to build closer ties with customers, the project manager system helps us shorten lead times to manufacturers in the process of developing new engines for globally marketed vehicles.

POWER TRANSMISSION UNITS AND COMPONENTS OPERATIONS

In April 2002, we merged Tsubakimoto Chain's power transmission operations with subsidiary Tsubakimoto Emerson Co. to form Tsubaki Emerson Co., which produces and markets power transmission units and components, including Power Cylinders, reducers, and cam clutches. By maximizing the synergy created through this joining of forces, the new company is strengthening its mainstay products and technologies while aggressively expanding its business in such overseas markets as China.

Takehiro Ueda President and Representative Director, Tsubaki Emerson Co.



Cam clutches



Tsubaki Emerson's Power Cylinders are used in cutting-edge medical equipment, such as MRIs.

Market Trends and Operating Strategy

With many of its core lineups boasting leading market shares, the new company is successfully establishing a solid operating base. However, we must also take new measures to address emerging market trends. While the Japanese market for power transmission products has been contracting in recent years as major corporations accelerate the transfer of their production overseas, the market has also been characterized by growing demand among customers for smaller, lighter products and increased product diversity.

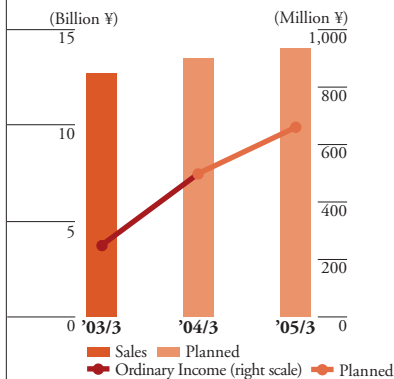
Tsubaki Emerson will achieve sustained growth by reinforcing domestic operations, which account for 90% of its sales, and stepping up the pace of its advance into overseas markets. To bolster operations at home, we will hone core technologies and strengthen the targeted marketing of our most competitive products. In the development of overseas operations, we will work to increase sales of high-end products, particularly in the Chinese market. By positioning our local subsidiary in Tianjin as a strategic base, we aim to expand our procurement, marketing, and service systems in China.

Strengthening Market Competitiveness

Our goal is to construct a highly profitable operational structure in each of Tsubaki Emerson's five business units, which handle reducers and variable speed drives, linear actuators, cam clutches, couplings, and mechatronics products. Each unit is currently rethinking its business model and bolstering its technological base by identifying those products that allow Tsubaki Emerson to fully realize its competitive advantage. At the same time, the business units are continuing to raise cost competitiveness by standardizing product specifications and streamlining production processes. Meanwhile, for general-purpose products that present limited opportunities to leverage our technological strengths we are shifting production overseas.

A great deal of scope remains for generating new demand in the market for power transmission products by catering to customer needs with even greater precision. By taking on the conflicting challenges of creating products that are both standardized and customized, Tsubaki Emerson will actively pursue the possibilities for creating new demand for its power transmission products.

Tsubaki Emerson's Operating Plan



Materials Handling Systems

MATERIALS HANDLING OPERATIONS

In materials handling operations, we are enhancing the competitiveness of mainstay products by continuing to allocate our management resources to areas of expertise. At the same time, looking to future growth, we are successfully developing products aimed at cultivating new markets. We will continue to seek significant growth by promoting global operations and leveraging our technological capabilities to create unique products.

Akira Morikiyo Managing Director, Materials Handling Division



Labo Stocker



Hybrid Traverser

Market Trends and Operating Strategy

The Company restructured materials handling operations and created a strategy that enables these operations to generate stable profits without being unduly affected by fluctuations in the economic climate. As a result, we posted higher profits in the year under review despite a year-on-year decrease in sales.

Our central strategy in materials handling operations is to concentrate on mainstay products. In other words, we make maximum use of Tsubakimoto Chain's technological expertise to create high-value-added products for target markets. Examples of such products are the Hybrid Traverser body paint shop conveyor system for the automotive industry; the AGV automatic roll paper feeding system for the newspaper industry; and the Linisort linear motor actuated sorting system for the distribution industry. Our customers have highly evaluated the unique functionality and performance of such core products, which ensures that these products continue to enjoy firm demand and a dominant share of their respective markets. Plans call for raising sales of core products incrementally to account for more than 50% of total sales in the materials handling segment, compared with approximately 40% at present.

Expanding Sales of Core Products and Advancing Globalization

In materials handling operations, we intend to focus product development on profitable growth sectors and areas where we can leverage our unique engineering expertise. For example, we will aggressively market Labo Stocker, our library compound storage system for the pharmaceutical industry; and Space Freezer, our flash-freezing system for the food industry. We have already received orders for Labo Stocker from several major pharmaceutical companies and prospects are good for increased orders.

The main pillar of our global strategy is our range of body paint shop conveyor systems for the automotive industry. In recent years, automakers have been turning their attention to the development and expansion of operations in China. In response, we are considering the establishment of a local production base to enhance the products and services we deliver to those customers entering the Chinese market. Furthermore, as the standardization of system specifications advances, we will work to develop products with the quality and performance to make the Tsubaki brand the industry's de facto standard for automotive body paint shop conveyor systems.

Materials Handling Operations—Performance

