

President's Message

In the fiscal year ended March 31, 2004, Tsubakimoto Chain recorded increases in sales and profits for the second consecutive year. In accordance with the Company's Global Best management strategy, Group companies are working together to strengthen consolidated management, and those efforts have begun to bear fruit.



Takashi Fukunaga
President and Representative Director

The Three Gs: Global, Group, Growth

THE PATH TOWARD GROWTH AND EXPANSION

Performance: Second Consecutive Year of Increased Sales and Profits

In the year under review, we recorded increases in sales, operating income, and net income for the second consecutive year. In comparison with our initial plans, we exceeded our targets for operating income and net income; however, we missed our sales target by a small margin.

In the second half of the year, the number of industries in which conditions were favorable increased, centered on the automotive and machine tool industries, but the sluggish conditions in the first half adversely affected sales for the full fiscal year. The rate of growth in operating income was greater than that in sales, and we believe that this improvement is the result of the structural reforms targeting enhanced profitability that we have implemented in recent years.

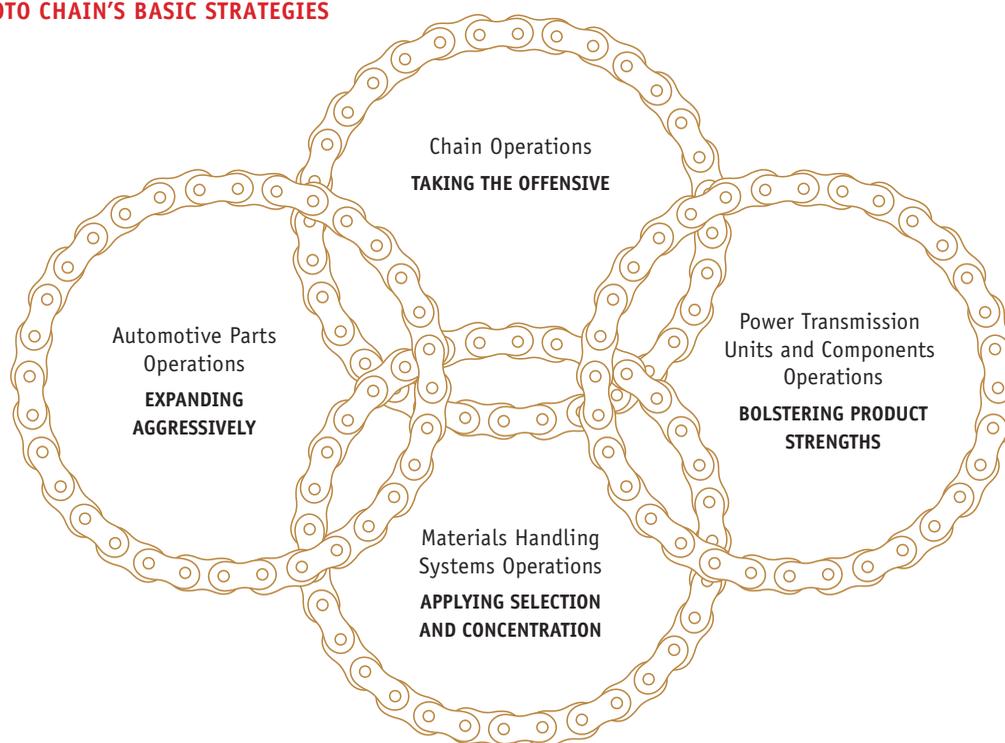
By business segment, the materials handling systems segment recorded lower sales and profits due to a downturn in orders from the automotive and distribution industries. However, this decline was offset by the strong performance of our mainstay power transmission products segment, where we recorded favorable sales of chains, automotive parts, and power transmission units and components in major markets around the world, leading to increases in sales and profits for the segment.

We recorded a substantial gain in net income, which reached 2.2 times the previous year's level. This improvement was primarily attributable to a decline in extraordinary loss and the recording of extraordinary profit, due to income accompanying pension system reform.

Management Policies: Aiming for Further Development on a Course of Growth and Expansion

For the past several years, we have aggressively implemented management rationalization and operational restructuring measures, and we have devoted ourselves to strengthening our corporate constitution to achieve increased profitability. In the year under review, we reformed our Head Office structure by rationalizing and reducing the workforce in back-office departments. Through a series of measures, we have made progress in building a management constitution that can steadily generate profits. As a result, we will now make a significant change in the direction of our management strategy, from an emphasis on "streamlining and balance" to a focus on "growth and expansion." Along with the implementation

TSUBAKIMOTO CHAIN'S BASIC STRATEGIES



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of further management rationalization initiatives, we will focus on growth. Also, by steadily implementing our STEP '06 mid-term three-year plan, we will strive to raise our market capitalization from the current level of ¥75.0 billion to ¥100.0 billion in the fiscal year ending March 2007, the final year of the plan.

The foundation of this growth strategy is Tsubakimoto Chain's Global Best concept. To communicate the Global Best idea throughout the Company, I use the “three G” key words. The first key word is Global. We cannot discuss our future growth without including success in global markets; that is why we are working to efficiently build optimal procurement, production, and sales bases.

The second key word is Group. Group companies in markets around the world are developing, producing, and selling products that meet local market needs. In this way, we are raising our competitiveness and building a stronger management constitution.

The third key word is Growth. By promoting globalization and enhancing Group management capabilities, we will strive to make steady progress on the path to growth and expansion.

Growth Strategy: Reinforce the Superiority of the Tsubaki Brand in Each Market

In chain operations, which are the Company's profit foundation, our fundamental strategy is to maintain our world number one position with dominant functionality, quality, and price competitiveness. Chain markets are mature, but we will work to achieve further growth by expanding our worldwide share of markets for high-value-added products. To that end, Tsubakimoto Chain is taking steps to bolster alliances with overseas companies and to pursue OEM supply business, and its target is a global share of 20% in the near future.

The Kyotanabe Plant, the central base of the Company's chain operations, is a leading-edge plant that boasts a scale and facilities not available anywhere else in the chain industry. At the same time, it is a world-class technical development base. We will leverage these strengths as we cultivate new possibilities in the chain business.

We expect automotive parts to drive our growth in the years ahead. In the future, we will invest further Group management resources in this field and work to expand our operations. We will bolster our five-point global production and sales system—

in Japan, the United States, Europe, Thailand, and China—and expand our operations globally. In this way, the Company will enhance its ability to supply automakers around the world and rapidly achieve a more-than-30% share of the world market for timing chain drive systems.

In power transmission units and components operations, Tsubakimoto Chain will draw on the technical skills of subsidiary Tsubaki Emerson Co. and take steps to expand operations, centered on its reducer business.

In materials handling systems operations, we will continue to pursue our core business and focus on products and markets in which we can leverage our technical strengths. At the same time, guided by the concept of transitioning from “materials handling” to “process handling,” we will bolster our efforts to develop products for markets with good growth prospects, such as pharmaceuticals and food.

Management Challenge: Raising Production and Operational Efficiency

In putting our Global Best strategy into practice, the most important task we face is to bolster our global competitiveness. To raise production efficiency and operational efficiency, we are working to reform manufacturing and to significantly increase our inventory turnover rate.

Looking at our core chain operations, the past pattern of manufacturing large volumes of a few products has shifted; the emphasis is now on manufacturing smaller quantities of a larger range of products with short delivery schedules. Accordingly, at the Kyotanabe Plant we are moving in stages from the lot manufacturing method to the cell manufacturing method. In cell manufacturing, a small group of workers finish the fabrication of a product themselves. This method has the advantage of being readily adaptable to varying production volumes. After confirming its effectiveness, in the year ending March 2005 we plan to complete the introduction of this method in all of the plant’s fabrication lines.

These manufacturing reforms target enhanced production efficiency and streamlined inventories. Inventories reduce operational efficiency and hinder cash flow management; therefore, we have set the goals of cutting inventories in half and doubling

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our inventory turnover rate within three years.

On the other hand, the substantial interest-bearing debt that was incurred in the construction of the Kyotanabe Plant was reduced from ¥49.8 billion at the end of March 2003 to ¥37.8 billion at the end of March 2004. The Company will continue to aggressively cut interest-bearing debt, with a target of ¥30.0 billion by the end of March 2007. In the future, we will accelerate debt reductions as much as possible while continuing to pay close attention to cash flows.

Outlook: Continued Increases in Sales and Profits while Stabilizing Growth Path

The economies in the United States, Europe, and Asia are expected to enjoy favorable conditions. In Japan, there is cause for concern, such as exchange rate trends and rising crude oil and materials prices; nonetheless, continued, gradual expansion in the economy is anticipated. Moreover, domestic companies are expected to steadily expand capital investment.

In this environment, the Tsubakimoto Chain Group, on a foundation of the results of the management constitution reforms I have just outlined, will shift its management strategy from an emphasis on “streamlining and balance” to a focus on “growth and expansion” and will implement more aggressive management initiatives. In this way, we will strive to record further increases in sales and profits and will make continued progress on our path of growth and expansion.

In the year ending March 2005, we anticipate consolidated net sales of ¥125.0 billion, operating income of ¥8.4 billion, and net income of ¥3.5 billion. I would like to ask our shareholders and other investors for their continued support in the years ahead.

July 2004



Takashi Fukunaga
President and Representative Director