

## 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

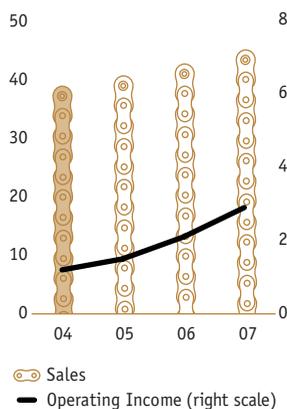
Currently, two key trends are accelerating on a global scale—the maturation of the market for chains for general industrial applications and the influx of low-end products from China and other markets. In this environment, we must follow a strategy of establishing a solid brand identity and increasing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

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#### **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*