



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

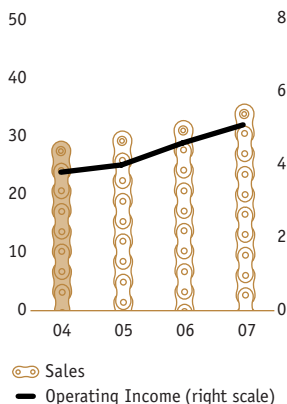
In engines, worldwide trends are toward higher performance, smaller size, and quieter operation. In this setting, the performance of our timing chain drive systems has been highly evaluated, and their use in new engines by automakers around the world has grown. In addition, with the start-up of full-fledged 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.

**Automotive Parts Operations
Operating Plan**
Billion ¥ (Consolidated)



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.



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

