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Major Operating Officer

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## On Technical Developments in 2004

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The outcomes of technological and product development attained by our Cooling Systems, Servo Systems, and Power Systems Divisions during the past year have culminated here. Our technological achievements all realize the basic strategies of the 4th Mid-Term Management Plan, which are to “enhance the brand power of products,” to “develop products attractive to our customers” and to “harness the synergy from collaboration.” Furthermore, these achievements are also consistent with the three types of technologies on which the company remains focused, namely technologies for conserving the Earth’s environment, for utilizing new energy sources and conserving existing ones, and for protecting the health and safety of individuals. The technologies developed this year have been incorporated into new products already released into the market, or are expected to soon be utilized in new products and contribute toward achieving the goals set in the 4th Mid-Term Management Plan.

Our company’s product groups are truly geared for the global market. To enhance the brand power of our products under existing circumstances, it is essential to offer products with appeal and merits that are powerful enough to compete globally and win customers. From the perspective of our customers, our products are judged on their respective costs, capacities and functions, and reliability in relation to their needs; it is up to each customer to judge the value of our products and make a decision. We must therefore steadfastly work to develop new markets and customers based on the judgment of whether or not the area concerned is one in which it is possible for us to excel, not merely compete. We must constantly strive to remain informed of the latest trends among customers and the current situations of our competitors. We must become better informed of the weaknesses and strengths of our competitors, and continue to develop technologies and products that can surpass them.

The market has changed rapidly. Our responsibility is to remain keenly aware of these changes, and continue developing technologies and new products that take us a step ahead of our competitors. From the outset, the 4th Mid-Term Management Plan presents a roadmap for the development of

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technologies and new products. However, this roadmap needs constant adjustment in order to stay abreast of changes, and flexibility is required in cases that might necessitate a change in priorities, or in the planning and implementation of new products not considered in the original plan.

In recent years, the life cycle of products has become increasingly shorter, due to the rapid obsolescence of conventional technologies in the face of a dramatic acceleration in technological improvement. Under these circumstances, it is incumbent upon us to shorten the development period for new products, and, within reason, accelerate their release into the market. At the same time, a shorter product life cycle dictates faster recovery of investments in technical and product development. Needless to say, we must sustain reasonable profits, while remaining attractive to customers. To do so, costs must be minimized while achieving our products' targeted capacities, functions, reliability and production costs, and maintaining the necessary standards for materials and processing. Critical in reducing costs in components and materials is the utilization of materials from overseas suppliers, together with reductions in the number and complexity of manufacturing processes through sensible production methods and facility investments. Selection of the optimum locations for production is also fundamental to this process. Our Design and Development Divisions, as well as our Systems Division, have worked hard to fully attain these goals.

At this point, we are well underway in the second year of the 4th Mid-Term Management Plan. Technical developments attained during 2004 will certainly play their part in achieving the goals outlined in our Management Plan. We remain keenly aware of changes in the market, continue to identify key customers and competitors, and forge ahead in technical and product development that benefits our customers and positions us in front of our competitors. By remaining true to these principles, we will surely attain the goal set forth in the 4th Mid-Term Management Plan, which is "to secure stable profits immune to fluctuations in the market environment."

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