



Aggressive performance improvement measures have resulted in increased sales and profits for the second year in a row.

In the fiscal year ended March 31, 1997, Tsubakimoto Chain recorded increased sales and profits for the second consecutive term. Faced with challenging operating conditions in recent years, the Company has implemented aggressive measures. Those efforts have paid off, and Tsubakimoto Chain's performance is registering steady improvement.

In the year under review, the Japanese economy stayed on a course of moderate recovery, and capital investment was strong throughout the year. Tsubakimoto Chain's net sales increased 15.2%, to ¥127.2 billion (US\$1,026.1 million), and operating income advanced 47.2%, to ¥6.4 billion (US\$51.4 million). Net income was up 82.6%, to ¥3.3 billion (US\$26.5 million), and net income per share was ¥17.04 (US\$0.137), compared with ¥9.33 in the previous fiscal year.

Sales of power transmission products rose 7.6%, to ¥87.4 billion (US\$704.5 million). In Japan, products for the machine tool, conveying equipment and food processing industries and products used in sewage treatment equipment enjoyed strong demand. In addition, domestic sales of automotive parts began to improve. Overseas, the introduction of new products and the development of new markets led to large sales increases in the Republic of

Korea and other East Asian countries. Our power transmission products have exceptionally strong positions in markets around the world and have played a major role in supporting the Company's profits in recent years. During the past year, power transmission products made another significant contribution to the Company's performance.

We also registered continued improvement in materials handling systems during the year under review, with sales rising 37.2%, to ¥39.3 billion (US\$316.9 million). In Japan, products for use in the automotive, newspaper, and publishing industries recorded strong sales. Overseas, sales in North America and Korea increased. During the past several years, we have worked to improve the profitability of our materials handling systems business, and those measures are now starting to take effect.

Tsubakimoto Chain continues to record steady performance gains—proof that our current strategic direction is fundamentally sound. By taking aggressive action now, we are laying the foundation for the Company's continued growth in the future.

Tsubakimoto Chain's growth is led by a forward-looking strategy based directly on customer needs.

The globalization of our power transmission products business is one of our chief strategic challenges. For Tsubakimoto Chain, which has built an extremely strong market position in Japan, the role of overseas markets will

be vitally important in ensuring future growth. During the year under review, we continued to reinforce our overseas operations by implementing a wide range of measures, such as strengthening our marketing capabilities and bolstering our production systems.

In North America, where we have already established a solid market presence, demand for our power transmission products is increasing each year. Demand is growing especially rapidly for timing drive systems. To meet that rising demand, we significantly increased our manufacturing capacity in November 1996 when we opened a new automotive parts plant in Massachusetts.

In addition to North America, we plan to strengthen our operations in other key markets, such as P.R. of China, which holds immense potential, and Southeast Asia. In June 1997, we established a joint venture in Hangzhou, China, and began the production and sales of roller chains. In the future, this company will supply high-quality,

economically priced products to Asian markets, where price competition is especially intense, as well as to markets in North and South America.

Tsubakimoto Chain will continue to augment its overseas production bases to achieve two principal aims. The first is to strengthen our operations in local markets, and the second is to build an efficient product supply system among Tsubakimoto Chain Group companies from a global market perspective. We are committed to maintaining our position of global leadership in chain products, and we will commit the resources needed to do so.

In materials handling systems business, we are focusing our efforts on strengthening our market segmentation strategy and on conducting aggressive engineering service and marketing activities that are closely matched to the specific needs of each market sector. During the year under review, strong performances were recorded by our automatic guided vehicles (AGVs) for the newspaper industry and our paint shop conveyor systems for automakers. We also began sales of a number of new products during the year, including an in-house mail sorting machine for financial institutions and other large organizations and a hard disk production line handling system for the electronics industry. These products, which were developed to meet emerging, sector-specific needs, are a result of our commitment to entering new fields. We expect them to make strong contributions to sales in the years ahead.



Michio Noguchi, Chairman (seated)

Takashi Fukunaga, President (standing)

Although we have faced extremely difficult conditions in our materials handling systems business in recent years, we have focused our resources by clarifying our strategic direction. We have significantly enhanced operational efficiency, and our materials handling systems business has rapidly achieved an improved performance.

We are increasing productivity and developing new markets to build a highly profitable company.

The year under review was the first of ST05, the Company's new long-term management plan that covers the 10-year period through the fiscal year ending March 31, 2006. Increasing productivity is the chief strategic challenge outlined in ST05, which will be our guide as we implement the organizational changes needed to create a more profitable company. In addition to operational rationalization and cost cutting, ST05 calls for wide-ranging measures to increase efficiency throughout the Company, including staff departments. For example, we plan to double per person productivity within 10 years by implementing thorough rationalization measures in staff departments and then transferring employees from staff to line positions and to new business departments. Furthermore, by building a sophisticated computer network utilizing leading-edge technologies, we will reduce processing times and cut communications costs in areas ranging from order processing to development, production, and sales.

Besides increasing profitability by improving productivity, we will continue to expand by aggressively developing new markets. There are still a number of markets that hold significant untapped potential for Tsubakimoto Chain, especially in Asia and Europe. In the years ahead, we will steadily bolster our operations in these regions. By developing new products and new fields of business, we will work to push back the borders of our markets in Japan and around the world.

To meet the expectations of the Company's shareholders, customers, and employees, Tsubakimoto Chain will continue to execute its clearly defined strategies. We are confident that by following these strategies we can bolster the Company's market position and achieve continued gains in performance. We would like to ask for your continued support in the years ahead.

July 1997



Michio Noguchi,
Chairman



Takashi Fukunaga,
President