

Meeting the challenge of change. To ensure steady growth in the years ahead, Tsubakimoto Chain is implementing changes designed to strengthen its competitiveness in a wide range of business fields. These efforts include developing high-value-added products, implementing production and marketing systems from a global viewpoint, placing the customer first in all areas of our operations, and improving profitability by increasing productivity. We have incorporated these broad objectives into detailed medium- and long-term management goals, and we are making steady progress each year toward meeting those goals. In our power transmission products business, which is centered on chains, we are one of the leading companies in international markets; however, our goal is to be the No. 1 manufacturer of power transmission products in the world, and accordingly we are working to further strengthen our operational and management capabilities.



Michio Noguchi, Chairman (left) and Takashi Fukunaga, President

- Under the slogan of “meeting the challenge of change,” Tsubakimoto Chain is taking steps to raise competitiveness to reinforce its ability to meet the expectations of its shareholders, customers, and employees.
- Guided by clear-cut management objectives, Tsubakimoto Chain is aggressively tackling the strategic challenges it faces and is laying the foundation for continued growth in the years ahead.
- Tsubakimoto Chain is determined to be the No. 1 company in the world in the field of chains and other power transmission products. To that end, the Company is striving to add even more value to its products and to build a production system with improved cost performance.

Three Consecutive Years of Higher Sales

In the fiscal year ended March 31, 1998, Tsubakimoto Chain achieved its third consecutive increase in sales, a performance that was attributable to the Company's strenuous efforts in a difficult operating environment marked by a continued slump in the Japanese economy. The highlights of the year under review are outlined below.

- Our mainstay power transmission products operations recorded a steady performance, and consolidated net sales rose 0.8%, to ¥128.3 billion (US\$972.0 million).
- Operating income increased 1.0%, to ¥6.4 billion (US\$48.8 million), as a result of efforts to improve our gross profit margin through rationalization and other measures.
- Net income was down 17.4%, to ¥2.7 billion (US\$20.5 million).
- Dividends per share were maintained at ¥6.0 (US\$0.045), for a payout ratio of 42.6%.

Our mainstay power transmission products business recorded steady sales, up 1.9%, to ¥89.1 billion (US\$674.6 million). In Japan, sales to key industries, such as machine tools and automobiles, were firm. Overseas sales also increased, especially in the key North American market. Orders, however, were adversely affected by the difficult operating environment, especially in the second half of the fiscal year, as worsening business conditions forced major customers to postpone capital investment and reduce production.

In our materials handling systems business, sales declined 1.6%, to ¥38.7 billion (US\$293.0 million), in a difficult operating environment. Although many customers postponed or canceled their capital investment plans, capital spending remained favorable in the electrical and electronic equipment and automobile industries, and a number of large orders that were received in the previous fiscal year were recorded as sales during the year under review. In the first half of the year under review, orders from the electrical and electronic equipment, automobile, and distribution

industries were strong both domestically and overseas. In the second half, however, orders were down considerably as companies postponed or canceled projects due to the adverse influences of weak capital investment sentiment in Japan and the Southeast Asian currency crisis.

Tsubakimoto Chain's businesses are significantly affected by external factors over which the Company has no control, such as private-sector capital investment. This fact underlines the significance of our steady performance gains in the difficult economic conditions that we have faced in recent years. In the current year, however, Japan's economic slump is continuing and the economies of Southeast Asia and South Korea show no signs of recovery. These conditions will adversely influence our orders and sales, and maintaining our performance is the largest challenge that we face. To overcome that challenge, we will work to develop high-value-added products, to bolster our marketing capabilities by reorganizing our sales force, and to reduce costs by rationalizing production and raising efficiency in staff departments. We are confident that such wide-ranging measures as these will enable us to strengthen our management foundation.

Ensuring Continued Growth by Meeting Three Strategic Challenges

Tsubakimoto Chain is working to meet the challenges for ensuring continued growth. Our operating environment is characterized by business conditions that fluctuate even as the underlying trend remains weak. We view these conditions as a turning point that, if handled appropriately, will offer excellent opportunities for laying the foundation for future growth. We have identified three strategic challenges that we must face to become a more competitive company with higher productivity.

- Globalizing our power transmission products business
- Establishing a profitable structure for our materials handling systems business
- Aggressively entering new markets and new business areas

In power transmission products, we aim to further solidify our No. 1 position in the global market for chains, our principal product, by 2000, securing a 20% market share. To succeed in international markets, we must provide the best value in products that meet customer needs, which vary from region to region. To that end, Tsubakimoto Chain will improve its competitiveness in international markets by building a global network that makes full use of exports, overseas production, and international procurement in accordance with changing business conditions.

In materials handling systems, where we have faced difficult conditions in recent years, our efforts to respond more flexibly to changes in order levels are gradually yielding results. We are making the most of key products by thoroughly segmenting our markets. And by rationalizing our development and production processes to reduce costs, we are improving our structure to be profitable.

Accepting the challenge of entering new markets and new areas of business is an important step in bolstering our growth prospects. We are already strengthening our development and marketing of new products targeted at growth fields and applying our original technologies to new markets. Over the past few years, we have begun to make strong progress in water treatment and in health care. We aim to raise the percentage of net sales accounted for by products introduced within the past five years to 30% by 2005.

Becoming No. 1 in Power Transmission Products

During the year under review, Tsubakimoto Chain decided to relocate its Osaka Plant, the Company's main factory and principal production base for its mainstay chains, to a new facility in the nearby city of Kyotanabe. This move was based on our judgment that the limitations of our existing factory would hinder efforts to dramatically increase productivity and capacity and to secure a solid position at the top of the chain industry. Acquiring the land and building the factory required an investment of about ¥60 billion (US\$ 455 million), and the new facility is slated to begin operations in the early 2000s. We will make full use of this plant, not only as a production base but also as a technical center with advanced product and technical development capabilities and as a head factory

that is a source of basic technology for Tsubakimoto Chain Group production bases around the world. Making this project a success is a high-priority task for the entire Company.

As is clear from trends in the Japanese economy, our operating environment is likely to become even more difficult in the years ahead. Nonetheless, Tsubakimoto Chain has the fundamental strength to surmount any difficulties, no matter how challenging the environment. And we have clear-cut objectives, such as the rationalization of staff departments, to ensure that we can record steady profits even in low-growth environments. Also, we are taking steps to convert from the traditional Japanese-style personnel system, which emphasizes seniority, to a merit-based system that will place a much greater emphasis on individual ability.

Tsubakimoto Chain will continue to anticipate future trends, formulate accurate policies, and strive for steady growth and development. In these endeavors, we would like to ask our shareholders for their continued support in the years ahead.

June 1998



Michio Noguchi

Chairman and Representative Director



Takashi Fukunaga

President and Representative Director