



Meeting the Challenge of Change

“**M**eeting the Challenge of Change”
is the slogan that underlies

Tsubakimoto Chain’s efforts to further strengthen the Company’s market position and achieve stable growth. Each and every change in our operating environment gives rise to a new business opportunity and becomes the driving force behind our next growth phase. As we did in the past, we will continue working to strengthen our corporate constitution and operational foundation by aggressively seeking out the opportunities associated with change. In this special feature section, we outline three of the challenges we face today.

Product Innovation
Globalization
Customer Focus

To achieve its goal of having products introduced within the past five years contribute 30% of net sales, Tsubakimoto Chain is taking an aggressive approach to product development. The launch of products with new characteristics and functions serves both to activate our markets and to expand the scope of our operations.

In our mainstay chain business, innovative product development has enabled us to steadily expand the range of applications for our products. Tsubakimoto Chain continually improves its original production, quality control, and quality evaluation technologies, and those efforts play a key role in its ability to develop high-value-added products.

Lube-free chain



Over the past several years, Tsubakimoto Chain has introduced a large number of innovative new products. Our lube-free chains, for example, use specially sintered, oil-impregnated bushings. Our corrosion-resistant chains are manufactured using special surface processing technology. And our sophisticated engineered plastic chains take advantage of advanced materials. These are just a few examples of

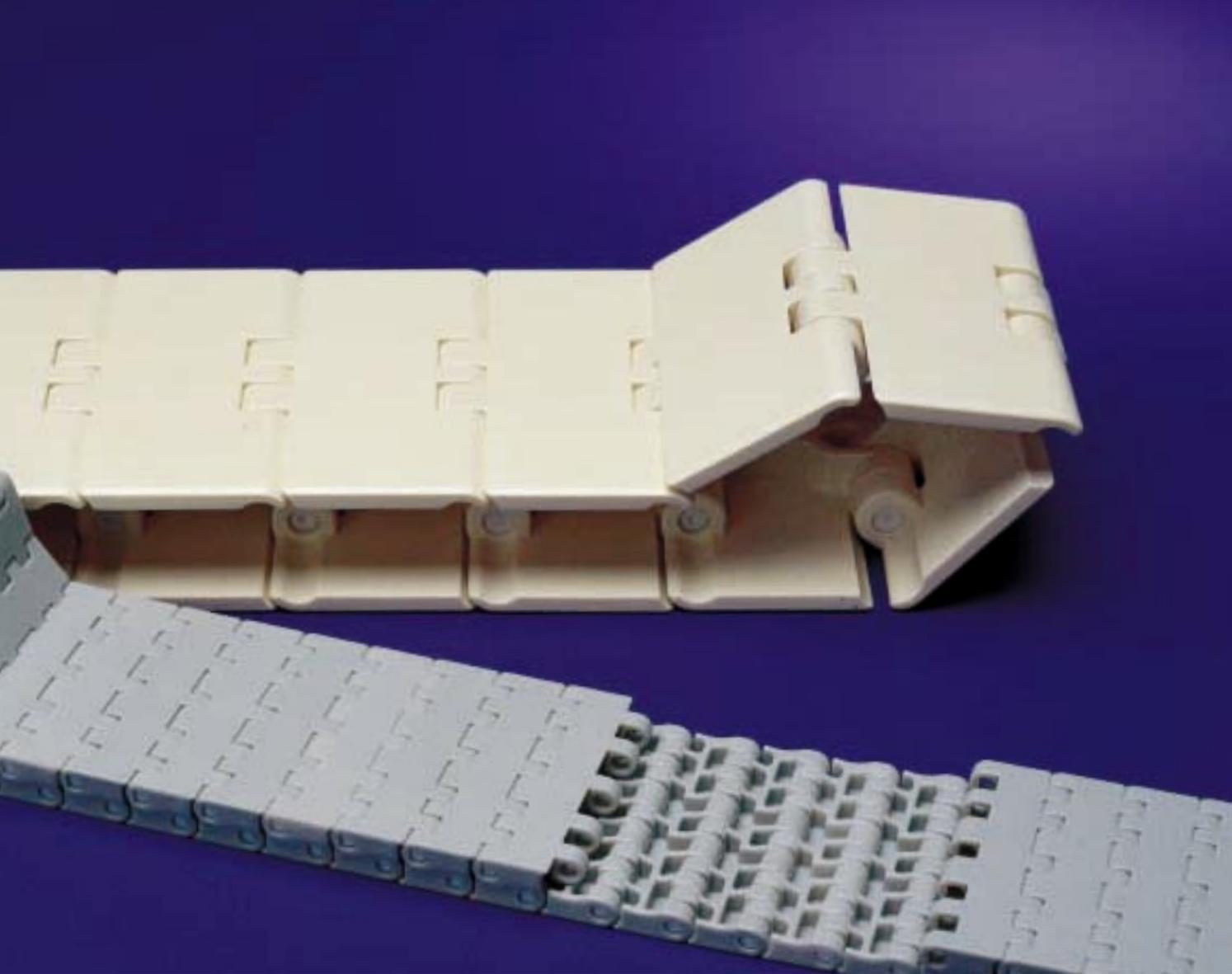
Product Innovation

how we are significantly expanding the possible uses of chain products through the application of new technologies and materials.

During the year under review, we began sales of an engineered plastic chain that features antibacterial and antimold characteristics. The hygiene and cleaning standards applied to conveyors and related equipment are becoming increasingly stringent, especially in the food processing industry. In response, we have used our original technology to incorporate long-lasting antibacterial agents into this chain, which has been highly evaluated by customers for its functionality and superior quality.



Corrosion-resistant chains



novation

In our materials handling systems business, we have introduced a number of new products in recent years that have accurately anticipated emerging market needs. During the year under review, we launched Lini Sort V, an automatic sorter that meets growing demand for small lot sorting capabilities. Our New Power Column automatic vertical shelves enable customers to significantly reduce the time required for stocking and retrieval, and our New Storage Conveyor features low-noise operation on automobile painting lines.

Tsubakimoto Chain will continue to accept the challenge of maintaining its position as a leader by developing innovative new products that accurately meet emerging market needs.



Lini Sort V

Our new engineered plastic chains, which were launched during the year under review, feature antibacterial and antimold properties and have been well received by customers, especially in the food processing industry.

As a global leader in power transmission products and materials handling systems, Tsubakimoto Chain has a corporate mission to provide best value products that meet the needs of customers around the world.

For Tsubakimoto Chain, globalization means innovating to establish a system that can efficiently and accurately meet a range of product needs that vary with region and customer, including quality, price, and performance. There are many untapped markets for Tsubakimoto Chain, and the Company is working to build an organization that can aggressively capitalize on the opportunities these markets present.

U.S. Tsubaki, Inc.'s Holyoke Plant



To offer its customers the best value, Tsubakimoto Chain is strengthening the market competitiveness of its products by taking an integrated approach to exports, local production, and international procurement among Tsubakimoto Chain Group companies. To that end, Tsubakimoto Chain Group companies around the world are developing close ties to the regions they serve while building information networks to maintain close contact with other Group companies. In this way, we

G l o b a l i z a t i o n

are making progress toward an improved response to changing conditions in global markets.

Currently, the scale of our operations in North America, our largest overseas market, is increasing each year, principally due to the growing production of roller chains and automotive engine timing chains. We are steadily building a stronger presence in this key market, with especially notable success as a top manufacturer of timing chains. In June 1997, we established a joint venture company in Hangzhou, China, for the production and marketing of roller chains. This company has begun to supply general-purpose



U.S. Tsubaki's headquarters plant in Chicago



Production

products, principally to the local market as well as other Asian nations, where price competition is intense.

Tsubakimoto Chain Group companies will continue to accept the challenge of implementing a wide range of projects to open new markets while making ongoing contributions to the success of the Group as a whole. In these and other ways, Tsubakimoto Chain will continue to develop products that satisfy customers in markets around the world.



*Hangzhou
Tsubaki Dunpai
Chain Co., Ltd.,
in China*

Production levels at U.S. Tsubaki's Chicopee Plant, a specialized facility for the manufacture of timing drive systems for automobiles, are growing each year.

"Customer First" has been one of our corporate philosophies since our first day in business. Based on the conviction that customer satisfaction in the provision of products and services is essential for business growth, we have made the Customer First philosophy a key part of all of our strategic decision making.

In putting the Company's customer orientation into practice, the first challenge for Tsubakimoto Chain as a manufacturer is the establishment of a quality control system that meets global standards. Our success in that endeavor is reflected in our

chain products, which are used in markets around the world. Nearly all of our chain production facilities in Japan and overseas have earned the ISO 9000 series certification.

We continue to strengthen our quality control capabilities, especially for timing chains, which are used to drive the cam shafts in automobile engines. We manufacture these chains at two plants, one each in Japan and the United States, and both of these plants have received the QS 9000 quality control certification that is required by the Big Three U.S.



C u s t o m e r

automakers. With a high evaluation from customers for quality, our timing chains are recording strong sales growth and solidifying a position as the top brand in worldwide markets.

Tsubakimoto Chain applies its Customer First philosophy in marketing as well as in production. We are taking aggressive steps to strengthen our relationships with customers and to increase customer satisfaction.

Recently, by expanding the information network used in customer-contact sales areas, such as branches and sales offices, we have increased the speed at which sales-related tasks are handled and enabled more accurate responses to



The year under review was the fourth in a row and the fifth overall in which U.S. Tsubaki was named Supplier of the Year by General Motors.



Tsubakimoto Chain is committed to customer-first principles in product development and marketing and continually strives to strengthen relationships with customers.

Customer First

changing customer needs. And in the after-sales service of materials handling systems, we are reorganizing our maintenance operations and building a database of related information to enhance our maintenance capabilities.

From production to marketing, the thorough implementation of our Customer First philosophy is laying a solid foundation for future growth.

