



During the past year, Tsubakimoto Chain was unable to avoid a downturn in its performance. The Company did, however, work toward improving its performance by aggressively strengthening its operations and laying the foundation for long-term growth. In this interview, President Takashi Fukunaga discusses the Company's plans and management vision.

“ *We will focus management resources on markets and products where we can effectively compete and take steps to thoroughly rationalize operations, including restructuring measures.* **”**

Performance

Tsubakimoto Chain faces a difficult operating environment. For example, the long-term slump in the Japanese economy has led to major cuts in capital investment. How do you evaluate Tsubakimoto Chain's performance in this environment in the past year?

As far as the numbers go, it was not satisfactory. Our performance has always been significantly affected by trends in private-sector capital investment. In the year ended March 31, 1999, capital investment in Japan fell about 15%, and this decline had a major influence on our results. Even though we cannot

completely avoid the influence of capital investment trends, we are making great strides in minimizing their effects. We are taking steps to ensure that our operations will be profitable even when capital investment is contracting.

How were the Company's results in power transmission products and materials handling systems?

Sales and orders declined in both divisions. In our key customer industries, such as automobiles, electrical equipment, machine tools, and general industrial equipment, production declined and capital investment was down considerably. We were severely affected by those trends. However, in power transmission products, timing chains and other automobile engine products posted higher sales, as did our Lini Sort systems in materials handling systems. We expect these product lines to record further growth in the future.

Restructuring Measures

You mentioned taking measures to ensure that the Company was profitable even in a slumping environment. Specifically, what types of measures are you implementing?

First, focusing management resources on markets and products where we can compete. Second, thoroughly rationalizing management, including restructuring. In order to ensure profitability in an environment where large-scale growth in sales cannot be expected, we are eliminating unprofitable products and lines of business and concentrating our resources on markets where we can compete and on products with high growth potential. And at the same time, we are strengthening the Company by reducing costs through the rationalization of production, including the consolidation of production bases, as well as through workforce reductions.

What are your plans for restructuring?

One example is labor expenses, which we plan to reduce from the current level, about 30% of sales, to 20% by 2004. We have begun to implement 50% workforce reductions in staff departments, and we will be making significant reductions in materials handling systems operations. During the year under review, we initiated a voluntary early retirement system in materials handling systems, and by the end of the fiscal year the workforce had been reduced to about 70% of its peak level. In addition, we consolidated our production bases by



The Company's automobile engine timing chains have earned a strong reputation as a leading brand, and their use by automakers in Japan and overseas continues to increase.

Our linear sorting system, Lini Sort, recorded strong sales to household goods makers and to the distribution industry during the year under review.



merging two production subsidiaries in April 1999. Beginning in the current fiscal year, we plan a full-fledged restructuring of the entire company. In materials handling systems, for example, we will consolidate all production operations into one location by shifting work from the Hyogo Plant to the Saitama Plant. And in power transmission products, we will implement significant changes in power transmission units and components.



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New Factory Construction

Please outline your plans for plant construction and funding.

Currently, domestic production of roller chains and conveyor chains is conducted at our Osaka Plant. However, the potential of that plant is limited by its size and age, so we have decided to transfer those operations to a new facility in Kyotanabe City in neighboring Kyoto Prefecture. We plan to make the new plant, which should be fully operational in April 2002, into one of the world's leading chain centers. It will serve as a technical center that oversees the development of new products and production technologies from a global viewpoint. The total investment will reach about ¥60 billion, with about 70% funded from internal sources, such as gain on the disposal of the Osaka Plant, and the remaining 30% from debt.

“*New plant construction is an indispensable part of our efforts to become the leading chain maker in the world.***”**

To meet its objective of being the No. 1 chain maker in the world, Tsubakimoto Chain decided to build a new chain plant in Kyotanabe City, Kyoto Prefecture. The new plant will be completed in 2002.



This is a relatively large investment. Why did you decide to take this step?

New plant construction is an indispensable part of our efforts to become the leading chain maker in the world. By installing new production management systems at the new plant, we will achieve not just increased production capacity but also dramatically enhanced productivity. The construction of this new plant requires a significant investment for Tsubakimoto Chain, but it is an investment that is necessary for us to achieve growth over the long term. Clearly, the merits of the new plant exceed its costs.

Future Strategies and Outlook

What strategic issues are you facing as you work to improve the Company's performance?

Workforce reductions in staff departments are a Companywide goal. Our initial target was 50% reductions by 2005, but we have recently moved that target up to 2004. Increasing sales, which declined by a large margin in the year under review, remains a top priority. By the year ending March 2001, we plan to raise sales

above the level of the year ended March 1998. We have also clarified the strategies for each division. First, we have begun highly focused marketing activities in power transmission products, centered on roller chains, engineered plastic chains, and conveyor chains. These activities target customers in key industries, such as heavy machinery, machine tools, and food processing machinery. In materials handling systems, we will focus our marketing efforts on the distribution, newspaper, paper manufacturing, and automotive industries and aggressively introduce high-value-added products. In addition, we will reinforce our relationships with customers by expanding our maintenance services network.

What are your expectations for future growth in power transmission products?

First, we will spark a recovery in sales by strengthening our marketing activities. By focusing our marketing on key industries, we have succeeded in acquiring new orders from environment-related and machine tool companies. Second, we will stimulate new demand by bolstering the development of new products. Among those products launched during the year under review were a highly corrosion resistant drive chain with non-chrome surface processing that meets needs related to the



Tsubakimoto Chain's operational strategy calls for increasing sales by bolstering marketing activities targeted at key industries.

In materials handling systems operations, we launched a maintenance service during the year under review. We have high expectations for this new field of business, which is an example of how we are working to offer services linked even more closely to the needs of our customers.



environment and a low-noise roller chain. Both of these products were well received. In order to bolster our ability to sell power transmission products, we have decided to merge with six of our eight directly operated domestic sales subsidiaries as of October 1, 1999. In the future, we will work for a steady recovery in performance, without regard to private-sector capital investment trends, by strengthening our marketing activities and further bolstering our product development.

recent years, higher-output, higher-RPM engines have become increasingly common, and the transition from timing belts to steel chains has accelerated. Our products are the focus of growing attention. In Japan, despite the fact that automobile production has declined, our results were about level with the previous year. And overseas, we are conducting local production at a subsidiary in the United States, and that company's sales were up 10% during the year under review.

Do you anticipate growth in automotive products?

The outlook is good for our business in automotive products. We provide timing drive systems for automobile engines to automakers in Japan and overseas, and we have an especially high share of the market for timing chains. In



“In automotive products, where demand remains strong, the launch of the new Super Silent Chain will further expand the use of our products.”

At U.S. Tsubaki's automotive products plant in Chicopee, the volume of timing chains made for leading U.S. auto companies is increasing steadily.



Do you expect that growth to continue?

Yes, we do. In the year under review, we introduced the Super Silent Chain, and we are marketing it aggressively. In the United States, our products have strong reputations. We have, for example, been named a Supplier of the Year by General Motors Corporation for five years in a row. In addition, we recently signed a contract to become a supplier for Jaguar Cars Ltd., of the United Kingdom, and we anticipate strong growth in the European market. We are also evaluating the possibility of local production in Europe in the years ahead.

What is the outlook for materials handling systems, the other pillar of Tsubakimoto Chain's operations?

At this point, we do not forecast a rapid recovery in sales. Our first priority is to improve profitability by reducing fixed expenses. We are aiming to minimize the impact of economic fluctuations on profitability. By the end of the current fiscal year, our plant consolidation and other restructuring measures will have given us a more compact organization, and we will be better able to focus our resources on markets and products where we

can truly display our strengths. In the future, by enhancing the quality rather than the scale of our operations, we will improve our performance in materials handling systems.

Mission Statement

How will the Company utilize its recently announced mission statement?

Given the drastic changes in our operating environment, we decided to complement our corporate philosophy by clarifying our mission in a way that is easier for all employees to understand and share. The basic concepts are "providing the best value to customers around the world," and "aiming to become a leading company in global markets." We will use the original technical capabilities that we have cultivated over many years of successful operations to provide the best value to our customers. That will be the driving force behind Tsubakimoto Chain's future growth.



In the field of timing chains, the Company has bolstered its strong position with the introduction of the Super Silent Chain, and this new product is expected to generate further growth in demand for the Company's timing drive systems in the years ahead.

In spring 1999, we formulated a mission statement to clarify our management objectives and introduced it at a management policy meeting attended by all executives.

