Takashi Fukunaga
President and Representative Director

FOCUSING ON GROWTH

In the year under review, Tsubakimoto Chain faced an increasingly challenging operating environment that was marked by a falloff in capital investment across related business sectors. In response, we worked to consolidate our position as a leading company in the global steel chain industry by leveraging the solidarity of the Tsubakimoto Chain Group to bolster our market competitiveness.

OVERVIEW OF THE YEAR'S PERFORMANCE

In the fiscal year ended March 31, 2002, a worldwide slump in IT-related industries triggered a decline in capital investment that spanned almost all business sectors in Japan, creating a difficult operating environment for Tsubakimoto Chain. Against this backdrop, the Company aggressively implemented restructuring measures to enable it to respond flexibly to market shifts while taking steps to develop more customer-oriented operations. We also actively worked to expand our operations by forging strategic alliances with overseas manufacturers. Thanks to these efforts, the Company recorded net sales of ¥113.7 billion in the year under review, approximately the same as in the previous fiscal year. Although higher selling, general and administrative expenses led to a 13.3% decrease in operating income, to ¥6.0 billion, a significant reduction in extraordinary losses compared with the previous year resulted in a rise in net income to ¥1.2 billion.

By business segment, in power transmission products, we recorded lower sales than in the previous fiscal year due to sluggish market conditions, which were reflected in weak demand for our mainstay industrial-use chains. We began original equipment manufacturing (OEM) supply through a strategic alliance with a company based in the United States; however, sales of steel chains for general industrial applications were sluggish because of a significant slump in the market as a whole. Sales of plastic chains and power transmission units and components, including reducers, were also weak. On the other hand, sales of automotive parts exceeded expectations, as automakers steadily increased their usage of Tsubakimoto Chain timing chain systems.

Recording double-digit sales growth, our materials handling systems operations continued to perform well in the fiscal year under review, centered on our environment-related product lineup. Over the past several years, the Company has worked to augment the profitability of its materials handling systems segment by consolidating its production centers and reducing its workforce. The Company has also concentrated its resources on the development of operations in areas where Tsubakimoto Chain has particular strengths, and the success of these initiatives is now being realized. In addition to robust demand for such environment-related products as our refuse conveyors, overseas sales of factory automation (FA) systems for the automotive industry were brisk.

MEDIUM-TO-LONG -TERM OPERATING STRATEGY

Tsubakimoto Chain adheres to a fundamental management strategy of reinforcing its position as a leader in the global chain industry by developing its operations based on a full awareness of the dynamic changes shaping world markets. Accordingly, the Company is actively undertaking a structural reorganization aimed at strengthening the Tsubakimoto Chain Group as well as enhancing its international competitiveness through strategic alliances with overseas companies.

On April 1, 2002, we merged our Power Transmission Units and Components Business Unit with our subsidiary Tsubakimoto Emerson Co. to form Tsubaki Emerson Co. As a comprehensive manufacturer of power transmissions and components, the new company will develop highly efficient operations through tightly integrated production and marketing activities.

Furthermore, we are working to raise the competitiveness of our chain operations in international markets by beginning full-scale production at our new global chain center in Japan, by boosting our local production capacity in the United States, and by pursuing strategic business alliances. In the years ahead, we aim to secure a 20% share of the global steel chain market by enhancing our operations in Europe and by expanding those in China.

We will also move forward with the globalization of our automotive parts business based on a production regime grounded in the four key areas of Japan, North America, Europe, and Asia. During the year under review, we established a production base for timing chains in Europe, forming a strategic alliance with Joh. Winklhofer & Sohne GmbH & Co. KG, of Germany, as well as a wholly owned manufacturing subsidiary in Thailand. With steady growth expected in the automotive parts sector, the Company intends to further strengthen its operational base in this sector by drawing on its technological advantages to shape its automotive parts operations into a driving force behind Tsubakimoto Chain's continued growth.

Likewise, we will work to secure a competitive advantage in the market for materials handling systems by concentrating our corporate resources on those markets and products in which we have special strengths, such as systems for the environment-related, automotive, physical distribution, and newspaper industries.

TOWARD FURTHER GROWTH

In April 2002, full-scale production began at our new chain plant in Japan. Constructed to entrench our position as a world-leading chain manufacturer, the new plant includes a technical center that consolidates our R&D capabilities and will enable the delivery of highly competitive products to international markets. Moreover, mindful of the need to establish the precedence of quality to avoid becoming caught up in reckless price competition, we are working to ensure that each of our products meets the highest standards.

Looking ahead, there remains little prospect of a rapid recovery in the domestic economy, which is expected to lead to further declines in private-sector capital investment. Under these operating conditions, Tsubakimoto Chain will strive to bolster its profitability by continuing to move forward with structural rationalization while strengthening its financial position through efforts directed at achieving the early reduction of interest-bearing liabilities. In the current fiscal year ending March 2003, we expect to achieve net sales of ¥117.0 billion, ordinary income of ¥5.0 billion, and net income of ¥3.0 billion.

In facing the challenges ahead, I would like to ask our shareholders for their continued support.

July 2002

Takashi Fukunaga
President and Representative Director