

TOWARD GLOBAL BEST



Takashi Fukunaga
President and Representative Director

In the fiscal year ended March 31, 2003, amid low private-sector capital investment due to the prolonged downturn in the Japanese economy, Tsubakimoto Chain took decisive measures aimed at building a robust corporate constitution and strengthening the Tsubakimoto Chain Group's consolidated management. Thanks to these initiatives, the Company posted increased revenues and profits. In the current fiscal year, we will rapidly implement a range of operational strategies to bolster our competitiveness in international markets.

Evaluation of the Operating Environment and Year's Performance

In the fiscal year under review, despite some favorable developments in the automotive industry, private-sector capital investment remained low due to uncertainty over the economic outlook accompanying advancing deflation, instability in the financial services industry, and an across-the-board worsening of economic indicators. Against this backdrop, Tsubakimoto Chain worked to strengthen its management platform by reorganizing its Head Office—the final stage of a series of measures to comprehensively restructure the Company's operations. In conjunction with these efforts, we continued to actively promote customer-oriented operations. We also aggressively pursued our global strategy of bolstering local production and forging alliances with overseas partners.

As a result of these endeavors, the Company recorded higher revenues and profits in the year under review. Consolidated net sales increased 2.6%, to ¥116.7 billion; operating income grew 21.7%, to ¥7.4 billion; and net income was up 27.4%, to ¥1.5 billion.

By business segment, sales of power transmission products were 3.6% higher than in the previous year, at ¥86.8 billion, and operating income was up 14.7%, to ¥7.5 billion. In mainstay industrial-use chains, although we recorded brisk sales of such high-value-added products as high-strength chains and specialty chains, overall these operations were adversely affected by slumping demand. In automotive parts, reflecting the increasing use of timing chains in drive systems by automakers worldwide, demand for these products rose sharply, contributing to growth of the power transmission products segment as a whole. In April 2002, our Power Transmission Units and Components Business Unit merged with Tsubakimoto Emerson Co. to form Tsubaki Emerson Co. The synergy achieved by combining these two operations is steadily bearing fruit, with the new company posting steady sales in such areas of expertise as reducers and motion control units.

In the materials handling segment, although sales were roughly the same as in the previous year, at ¥29.5 billion, operating income rose 8.1%, to ¥2.5 billion. This improved performance reflected concerted efforts to enhance the segment's profitability by reducing fixed costs and concentrating management resources on core operations.

Tsubakimoto Chain's Global Best Strategy

In Japan, due to the prolonged economic downturn and advancing deflation, there remains little prospect of rapid recovery in private-sector capital investment. Moreover, domestic demand is continuing to weaken as companies transfer production overseas. To achieve sustained growth in this challenging environment, the management strategy that the Company must take is clear. Tsubakimoto Chain has to bolster its profitability through continued structural reforms while enhancing its international competitiveness to facilitate the expansion of its operations.

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To those ends, based on the Company's key slogan of Global Best, Tsubakimoto Chain is working to expand its operating base and enhance its performance by strengthening ties between domestic divisions and overseas Group companies. Each Group company will contribute to bolstering consolidated management through the development, manufacture, and marketing of products best suited to the needs of its particular regional market. In other words, by taking a Global Best approach, we will work to optimize each area of the Group's operations.

While the specific global initiatives for each of our operational segments are covered in more detail in the special feature section of this annual report, the following paragraphs set out the main objectives of the Group's overall global strategy.

In chains, we intend to capture a 20% share of the world steel chain market by March 2006 by strengthening the marketing of core products that allow us to leverage our superior technology. Although the international market for steel chains for general industrial applications is said to have reached maturity, Tsubakimoto Chain intends to achieve continued growth by securing an overwhelming market share and, in turn, further consolidating its position as a leading company in the steel chain industry. Moreover, in the near future we will realize unrivaled productivity, technological capability, and product quality at the Kyotanabe Plant—the largest and best-equipped chain factory in the world.

In automotive parts, we will further bolster our four-point production system that spans Japan, the United States, Europe, and Asia. We have positioned our automotive parts operations, which boast a more-than-30% share of the world market for timing chain drive systems, as the key driver of the Company's future growth. Going forward, we will work to increase our share of the global market for timing chain drive systems by strengthening our international alliance with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten), of Germany, and by building a production system that can service automakers' increasingly globalized operations.

In power transmission units and components, we will work to increase our share of the Japanese market by further enhancing our customer-oriented operations. Meanwhile, plans call for the full-scale launch of marketing in China.

And in material handling systems, our mainstay operations supply customers in Japan's automotive and distribution industries. Looking ahead, we will also focus management resources on such new strategic sectors as the pharmaceutical and food industries. Overseas, the Company will continue to concentrate its efforts on marketing automotive body paint shop conveyor systems. In addition, Tsubakimoto Chain is considering the establishment of a local production base in China, where automakers are rapidly expanding their operations.

Strengthened Management Organization

In the year under review, we began reorganizing our Head Office, which is the last stage of a wide-ranging program to restructure our operations. In April 2003, we formed Tsubaki Support Center Co., Ltd., by merging two subsidiaries with some of our Head Office departments, including general affairs, personnel, and information systems. Through this restructuring initiative, the Company aims to further enhance profitability by rationalizing its back-office operations. Accordingly, we will reduce the current workforce of 220 back-office employees at the Tsubakimoto Chain Group's eight main companies in Japan to 150 by March 2006. For the Group

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as a whole, this is expected to result in an approximately ¥0.5 billion decrease in costs. Moreover, we relocated our Head Office on July 1, 2003, in line with efforts to downsize this area of our operations.

Although reform of our Head Office functions brings us toward the conclusion of the current program of operational restructuring, we will continue our relentless implementation of reform measures focused on creating a robust management platform.

With respect to corporate governance, decisions on substantive management matters and compliance issues are reached at meetings of the Board of Directors. The Board also continuously supervises the Company's operations. In 2003, revisions to the Japanese Commercial Code permitted companies to adopt the “Company with Committees System.” However, Tsubakimoto Chain intends to continue using its Statutory Auditor / Board of Statutory Auditors System. Our Board of Auditors, which comprises three auditors, one of whom is from outside of Tsubakimoto Chain, audits the legal compliance of directors in the execution of their duties through such activities as attending meetings of the Company's Board of Directors. Furthermore, we have made rigorous efforts to inculcate an awareness of legal issues among our employees by establishing and promoting a code of ethical practice.

At the end of the fiscal year under review, interest-bearing debt totaled ¥64.9 billion. Tsubakimoto Chain is aggressively reducing interest-bearing debt, including loan repayments to financial institutions and bond redemptions. In the current fiscal year ending March 31, 2004, we intend to lower interest-bearing debt to ¥40.0 billion—five years ahead of schedule. In the future, the Company will front-load repayments as far as possible while paying close attention to cash flows.

Performance Outlook for the Current Fiscal Year

In the world economy, uncertain prospects for the U.S. economy and economic slowdowns in Europe and Asia are causing concern. In Japan, challenging economic conditions are expected to persist as export growth loses momentum, deflation advances, and private-sector capital investment remains depressed.

In this business climate, the Tsubakimoto Chain Group will redouble its efforts to realize customer-oriented operations and to develop products that cater to the needs of specific markets and customers around the world. In conjunction with these efforts, Tsubakimoto Chain will work to enhance its corporate value by further restructuring the Company's operations to raise competitiveness and profitability. Despite intensified competition in international markets, by adhering to our Global Best strategy we aim to achieve dramatic growth. In the current fiscal year ending March 2004, we anticipate net sales of ¥121.0 billion, operating income of ¥7.6 billion, and net income of ¥3.0 billion.

In closing, I would like to take this opportunity to ask our shareholders and other investors for their continued support.

August 2003

A handwritten signature in black ink, appearing to read 'Takashi Fukunaga'.

Takashi Fukunaga, *President and Representative Director*