

Chains Division

Chains are Tsubakimoto Chain's core business, and, as the world's leading chain company, the most important strategic challenges the Company faces is to continue strengthening its market competitiveness. That is why we decided to build a new plant, which was completed in June 2001. We plan to begin full operation of the plant in April 2002, after production equipment is transferred in stages from the existing plant. The new plant boasts leading-edge distribution systems and new

production control systems, and we intend to make it the world's leading chain plant in terms of both production technology and production efficiency.

Reinforcing Our Position as the World's Leading Chain Company

The plant is also the site of our new technical center, which gathers together our technical and marketing personnel. This new technical center will help us to speed up the development of new products and to enhance our technical product development capabilities, thereby serving to reinforce our competitive advantage in the marketplace.

The product strategy for the Chain Division's flagship drive chains calls for clarifying target industries and customers and further increasing our share in each market. To that end, we will aggressively propose new products that offer added functionality. In small chains, where cost competition is intense, we will utilize overseas production and strive to expand our operations. In newer product lines, such as plastic chains, we will work to secure the leading share in the domestic market by strengthening our ability to market our products to key industries, bolstering our product development capabilities, and reducing costs. In global markets, we will expand our business in mining and port facility related projects by pursuing joint marketing activities with overseas members of the Tsubakimoto Chain Group.



New Plant Designed to Be the World's Leading Chain Center



In June 2001, Tsubakimoto Chain completed the construction of its new plant in the city of Kyotanabe in Kyoto Prefecture. This chain center, in which the Company invested about ¥60.0 billion, boasts the largest scale and the most advanced production equipment of any chain production facility in the world.

With total floor space of about 100,000 square meters on a 230,000 square meter

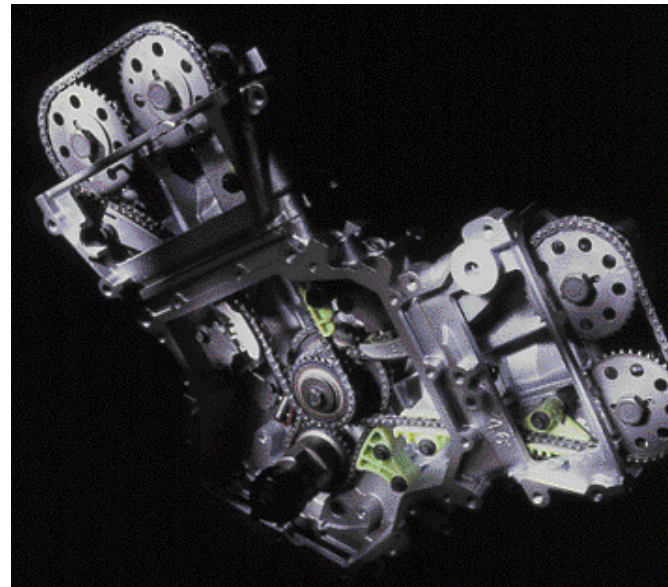
lot, this leading-edge plant, built in accordance with the concepts of "high quality," "low cost," and "easy on people and the environment," is also the site of the Tsubakimoto Chain Group's new technical center. (Full operation is scheduled to commence in April 2002.)

Automotive Parts Division

Automotive engine timing drive systems, the Automotive Parts Division's core product, are strategically important and showcase Tsubakimoto Chain's strengths in global markets. Tsubakimoto Chain has positioned automotive products as the key driver of the Company's future growth and is conducting aggressive operational development in this field. The automotive industry is making engines that are more advanced and more durable, and as a result there is a growing trend in timing drive systems from belts to chains. This trend is leading to expanded business opportunities for the Company. We are already the world leader in timing drive chains, and we will further reinforce that market position with continued enhancement of product quality and functionality. In addition, we will expand our customer base through aggressive marketing to automakers around the world. Domestically, our automotive products are used by many of the major automakers, such as Toyota and Nissan, while our overseas customers include General Motors, Ford, and Jaguar.

Demand for silent drive systems is increasing, and we will work to improve our production technology for these products. In drive chains as well as in power drives, our goal is to develop silent drive systems with quality and functionality that are clearly superior to those of competitors' products. Also, to bolster our market competitiveness, we are taking steps to ensure that our technical and product capabilities keep pace with progress in the automotive industry. We will continue to take measures in response to the world engine initiative and will build production bases around the world to achieve a higher level of service that will constitute a competitive advantage. At the same time, we will accelerate our development of products suitable for use with new types of engines.

Maintaining the Top Global Share for Timing Drive Systems



Continued Reinforcement of Automotive Parts Operations in North America



U.S. Tsubaki, Inc.'s Chicopee, Massachusetts, plant is a strategic production base for the Company's automotive parts operations in North America. The plant supplies General Motors, Ford, and Japanese-related automakers with timing chain drive systems.

In North America, silent chains have been widely used for many years, but as a result of the development of higher performance

engines, there is an ongoing shift toward the use of new-generation roller chains and silent chains. There is significant room for growth in the years ahead, and demand for chain drives is expected to expand not only in North America but also in other markets around the world. Accordingly, the Company is steadily increasing production capacity at the Chicopee plant.

Power Transmission Units and Components Business Unit

The products made by the Power Transmission Units and Components Business Unit include reducers, such as gear motors and hypoid motors, motion control units, such as Power Cylinders and Power Locks, and electric control devices, such as shock relays. The key elements of the unit's strategy are raising market competitiveness and improving profitability. Steady progress has already been

Establishing a New Company as a Comprehensive Maker of Power Transmission Units and Components

made in restructuring production bases and reducing the workforce. In April 2002, the Unit will merge with subsidiary Tsubakimoto Emerson Co., and the new company will make a fresh start toward future growth as a comprehensive manu-

facturer of power transmission units and components. As a result of the plant restructuring that will accompany the merger, production of the Unit's products will be consolidated in the Kyoto, Hyogo, and Okayama plants. The Kyoto Plant will take over Tsubakimoto Emerson's reducer department and focus exclusively on the production of reducers. The Hyogo Plant, meanwhile, will handle the production of motion control units and the Okayama Plant will produce clutches.

The Unit's marketing activities will focus on enhancing product capabilities through a product-oriented organizational structure while implementing marketing activities with a strong customer focus. This will enable the Unit to intensively market competitive products to target customers. The merger of the Power Transmission Units and Components Business Unit and Tsubakimoto Emerson will further enhance our competitive edge in product development and technology. The business plan for the new company calls for sales of ¥16.0 billion in its first fiscal year, ending March 2003. Plans also call for the workforce to be reduced from the current level of 670 to about 600. We expect the new company to achieve excellent management efficiency.



Preparation for 2002 Merger: Rebuilding the Operational Foundation



In accordance with the operational reorganization plan announced in May 1999, the Power Transmission Units and Components Business Unit will merge with subsidiary Tsubakimoto Emerson in April 2002. The new company, which will be a joint venture between Tsubakimoto Chain and Emerson Electric, of the United States, will target further expansion through efficient operational development based

on tightly integrated manufacturing and sales. In this way, the new company will work to augment the market competitiveness of key products, such as motion control units, mechatronics products, and reducers.

Currently, the Power Transmission Units and Components Business Unit is aggressively strengthening its operations in preparation for the merger and has begun to reposition its production bases.

Materials Handling Systems Division

In recent years, the Materials Handling Systems Division has faced a difficult operating environment marked by sluggish capital investment, and in response it has focused on operational rationalization targeting a return to profitability. The division has taken such measures as acquiring subsidiaries, consolidating production bases, and reducing its workforce. Following a policy of focusing on small numbers of highly talented people, the division is making progress toward building an efficient operational structure and a stronger profit foundation that is less susceptible to fluctuations in the operating environment. As a result of these measures, the division returned to profitability in the second half of the year under review.

To improve profitability, the division will pursue overall cost reductions, including streamlining product design processes, cutting materials procurement costs, and reducing expenses associated with the use of outside suppliers. To strengthen product competitiveness, the division will clarify its core products and target industries and reinforce its engineering activities with a customer-oriented marketing system. The division's core products include the New Traverser, an automotive body paint shop conveyor system; the AGV, an automatic roll paper feeding system for the newspaper industry; and the Linisort, a linear motor actuated sorting system for the distribution industry. These products will be the focus of intensive marketing. In addition, the division has recently recorded growth in sales of packaged equipment products that functionally combine the division's materials handling systems in accordance with specific applications. In the pharmaceutical industry, for example, where companies are reinforcing their capabilities in genome related drug development, including the use of library compound storage systems, our packaged equipment products are making a significant contribution to the automation of compound storage and picking.

Striving to Improve Profitability and Strengthen Product Competitiveness, Centered on Core Products



Development of Wracruxes Provides Entry into Waste Processing



Wracruxes is a fully automated, volume-reducing packing machine that Tsubakimoto Chain developed in conjunction with Yamazen Co., Ltd. This new product meets needs related to the passage of a law in Japan promoting the recycling of containers and packaging. It not only reduces the volume of non-PET-bottle, plastic-related waste that is categorized under

the law as other plastics, it also automatically fills, bundles, and packs bags. In addition, it contributes to reduced shipping costs and helps to prevent the scattering of left-over material as well as unpleasant odors during conveyance.

In the future, the Company plans to expand its environment-related operations with similar initiatives.