

POWER TRANSMISSION PRODUCTS OPERATIONS



Kimio Takakura

*Executive Managing Director
and Representative Director*

A central pillar of Tsubakimoto Chain's business, and accounting for more than 70% of consolidated net sales, Power Transmission Products Operations play a crucial role as the driver of the Company's future growth. We are aggressively pursuing the globalization and restructuring of these operations to reinforce our leading position in world markets and to augment profitability. As part of such efforts, we began full-scale production at our new state-of-the-art chain plant in Japan in April 2002.

CHAINS

In our mainstay chain operations, our core strategies are enhancing productivity and strengthening our brand presence in world markets by leveraging the unqualified superiority of our product quality and functionality. Although the chain sector is said to have reached maturity, we intend to expand our operations by securing an even larger market share. With full operations getting under way in April 2002, our new plant in Kyoto Prefecture constitutes the foundation upon which our core operating strategies will be implemented. Our new production center features world-class manufacturing technology and productivity as well as cutting-edge distribution systems and the latest production management systems. Also, with the inclusion of a technical center within the plant, we are confident our R&D staff will make a significant contribution to reducing lead times in product development and to enhancing our technological capabilities.

Tsubakimoto Chain has a medium-to-long-term operating strategy to raise its share of the global market for steel chains for general industrial applications from its current 18% to 20%. We will achieve this target by bolstering the operating bases of our subsidiaries in the United States and Europe and by forming strategic alliances with companies overseas. In addition, given the huge potential demand in Asia for industrial steel chains, we plan to steadily strengthen our position in this region through the further development of our operations in the Chinese market.

AUTOMOTIVE PARTS

Our internationally acclaimed timing chain systems for automotive engines are the core products in our automotive parts lineup. Tsubakimoto Chain is a leading supplier of



Chain production lines at the Kyotanabe Plant

timing chains, with a 70% share of the Japanese market and a 15% share of the U.S. market. Business opportunities are expanding in the automotive industry, where growing demand for the enhanced durability and performance from automotive engines has led to an increasing shift from using belt systems for timing drives to using chain systems. In the U.S. market, until recently we mainly supplied automotive parts to General Motors. We now supply Ford as well as leading Japanese automakers Toyota and Honda. Also, Jaguar and Toyota are increasingly incorporating our timing chains into their vehicles manufactured in Europe. Against this backdrop, Tsubakimoto Chain is actively developing its automotive parts operations with its sights fixed on building an even stronger presence in international markets.

Until now, our main production centers for automotive parts have been our plants in Saitama, Japan, and Chicopee, Massachusetts, in the United States. During the fiscal year under review, we established a production base in Europe through the conclusion of an operational alliance agreement with Joh. Winklhofer & Sohne GmbH & Co. KG, of Germany. From 2003, plans call for the annual supply of 350,000 timing chain systems for automotive engines manufactured by Toyota in Europe. Also, the Company has established a subsidiary in Thailand for the production of timing chains and tensioners, which will get under way from October 2002. We now have in place a four-pronged production regime, spanning Japan, the United States, Europe, and Asia, that will enable us to supply parts for automotive engines worldwide. By developing its operations through its subsidiaries and through operational tie-ups, Tsubakimoto Chain aims to secure a more than 50% share of the global market for timing chains by fiscal year-end 2005.



Tsubakimoto Automotive (Thailand) Co., Ltd.

POWER TRANSMISSION UNITS AND COMPONENTS BUSINESS

Tsubakimoto Chain's Power Transmission Units and Components Business Unit manufactures motion control units, such as Power Cylinders, as well as reducers, couplings, and Power Locks. Structural reforms aimed at bolstering the Company's market competitiveness and profitability have been ongoing in recent years. And, as the final stage of this process, in April 2002 we merged this unit with our subsidiary Tsubakimoto Emerson Co. to form Tsubaki Emerson Co. As a comprehensive manufacturer of power transmission units and components, the new company will work to improve our competitive advantage in product and technology development and to further improve our customer-oriented operations.