

Operating Segments



Power Transmission Products

Chain Operations

Our Commitments

- To achieve a 30% share of the world market by fiscal 2016 (currently 21%)
- To enhance profitability by further differentiating quality and rebuilding our global production system

Tadashi Ichikawa
Chain Division

Leveraging Our Business Base and Strengths

Our steel chains have a roughly 63% share of the domestic market and 21% share of the world market. Differentiated quality in drive performance (strength and durability) and wear resistance (life and precision) have created that solid customer base. For instance, we have differentiated our lineups from those of competitors by fully remodeling our RS Roller Chain, which forms the basis of a range of different chains, every 10 years. Launched in June 2006, our G7 RS Roller Chain doubles wear life, compared with our previous generation of products, through the incorporation of newly developed lube dimple solid bush technology (patent pending). Moreover, G7 products enhance drive performance by 33% at an unchanged price.

At a glance, their simple structure can lead to the misunderstanding that chains are a low-tech product. In fact, they are machine elements that call for expertise in such advanced technological

fields as materials and heat treatment. In relation to chain operations, we hold approximately 70 patents and have 78 patents pending. These figures testify to the technological superiority that leaves the second-place manufacturer far behind and enables our overwhelming dominance of the chain industry.

These Are Growth Drivers

- ① Increasing Capital Investment and Heightening Awareness of Total Life Cycle Costs

After the economic bubble burst, overcapacity plagued Japan's manufacturing sector, forcing small and medium-sized companies in particular to put off needed machinery and equipment renewals. With the overcapacity problem finally resolved, private-sector capital investment is showing double-digit growth. Rather than investing just to increase production, manufacturers are stepping up efforts to improve

New G7 RS Roller Chain

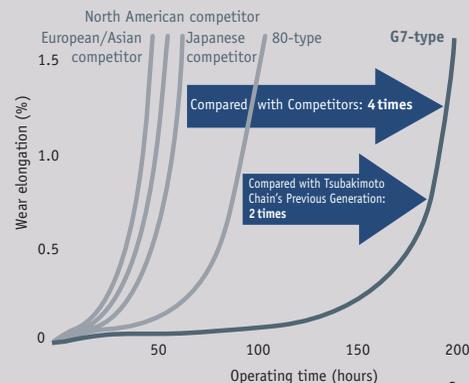


Lube dimple solid bush technology

Usage of our newly developed LD (lube dimple) solid bush technology (patent pending) realizes wear life twice as long as that of our previous RS Roller Chains and four times that of competitors' offerings. In addition, G7 enhances drive performance (kW) by 33%.

Wear Life—Comparison with Competitors (RS80 size)

100 represents the performance of our previous products



Source: Tsubakimoto Chain

production line efficiency to strengthen international competitiveness. As a result, in drive components, manufacturers now value differentiated quality and technology, which enhance efficiency and reduce running costs, over price competitiveness.

② Polarizing Competition among Chain Manufacturers

In the chain industry, the gap between world-class players and small and medium-sized players is widening. In fiscal 2006, we posted our highest-ever earnings and profit margins. In contrast, many chain manufacturers faced limitations on their ability to pursue new capital investment and R&D.

This Is How We Overcome Issues

① Enhancing Cost Competitiveness while Upholding and Magnifying Quality, Production, and Technology Advantages

Incorporating automated machinery and equipment, the Kyotanabe Plant is the last word in chain manufacturing. Since the 2004 introduction of a cell manufacturing method, the plant's productivity has risen even further. Also, focusing on conveyor chains and Lambda Chains, we will continue to review our production platform to build an optimal international site production and supply system. As part of its strategy to extend its lead in quality and technology, in June 2006 Tsubakimoto Chain unveiled G7, a seventh generation RS Roller Chain that realizes twice the wear life of the Company's existing lineups and four times that of competitors' products as well as a 33% enhancement of drive performance.

② Offsetting Raw Material Cost Hikes

To counteract sharp increases in the prices of steel and other raw materials, we increased product prices by between approximately 6% and 15% in May 2005.

③ Expanding Plastic Chain Lineups

In April 2006, we acquired shares of Japan's largest manufacturer of plastic chains, Yamakyu Chain Co., Ltd., a company holding a 41%

share of the domestic market, and made it a consolidated subsidiary. In May, we changed the name of the new subsidiary to Tsubaki Yamakyu Chain Co. Because plastic chains have low-friction, heat resistant, antibacterial, and other properties, their usage is rapidly increasing in sectors ranging from food processing through to semiconductors, LCD-related products, and small electric appliances. We will expand lineups by developing products that cater to the needs of a wide range of industries. Further, developing overseas markets for plastic chains will be an important focus of our initiatives. As a first step, we aim to increase orders from markets in Asia and Oceania through aggressive sales activities.

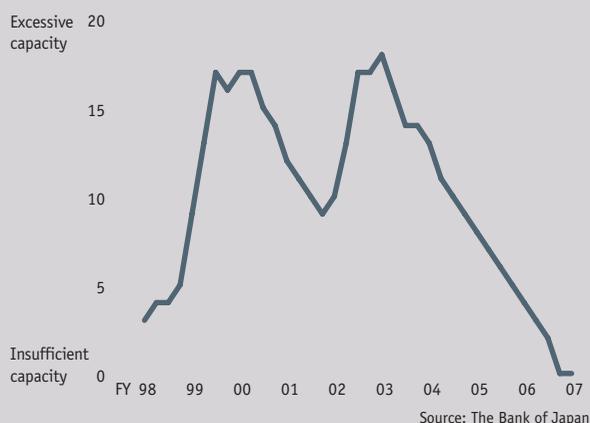
Business Results over the Past Two Years and Future Plans

The Tsubaki Group only discloses net sales and income for its three operational segments: power transmission products, materials handling systems, and others. Within the power transmission products segment, we only disclose net sales for Chain Operations, Automotive Parts Operations, and Power Transmission Units and Components Operations. However, we offer the following income-related information.

Amid favorable business conditions, Chain Operations' net sales grew at an average annual rate of 11.1% over the past two fiscal years. Meanwhile, income from Chain Operations is trending steeply upward as a synergistic combination of increased production, enhanced productivity, and higher product prices absorbs hikes in raw material prices.

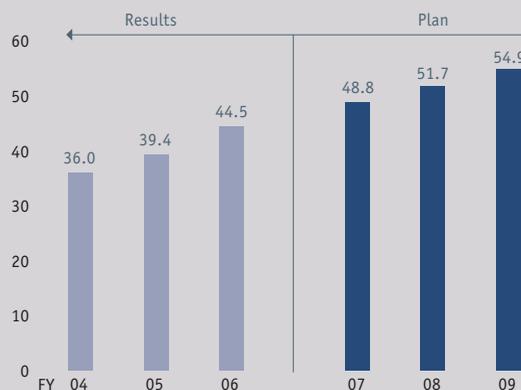
A new three-year medium-term management plan covering April 2006 through March 2009, STEP 08 calls for average annual net sales growth of 7.3% and net sales of ¥54.9 billion in fiscal 2009. Further, we expect that strategies to increase net sales and profitability will improve Chain Operations' income margins.

Capacity Trends in Japan



Chain Operations—Net Sales

Billions of yen





Power Transmission Products

Automotive Parts Operations

Our Commitments

- To achieve a 36% world market share by fiscal 2008 (currently 33%)
- To strengthen our international five-point production system by increasing overseas production
- To seek early commercialization of such products as power-train in new business areas

Toru Fujiwara
Automotive Parts Division

Leveraging Our Business Base and Strengths

Tsubakimoto Chain is one of the world's leading manufacturers of timing chain drive systems, used to drive camshafts in automotive engines, ranking alongside BorgWarner Inc. In timing chains, we account for 73% of the Japanese market and 33% of the global market. Further, our customer base is rapidly expanding. In addition to Japanese automakers, we count major overseas automakers among our clients. In quality and technology, our products offer unrivaled strength, quietness, and lightness. Also, our one-stop capabilities as a supplier and our ability to collaborate with automakers in new product development are major advantages. Because we manufacture such parts as tensioners and sprockets, we can deliver complete timing drive systems. Another asset is our optimal site production and supply system based on manufacturing bases at five points around the world: Japan, North America, Europe, China, and elsewhere in Asia.

These Are Growth Drivers

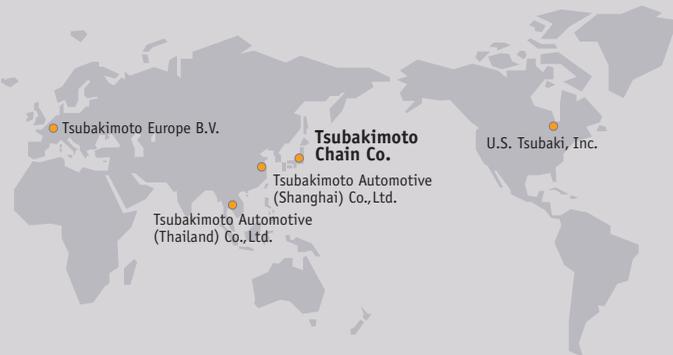
① Replacing Belts with Chains in Timing Drive Systems

High-performance engines and more-compact engines are fueling a worldwide changeover from belts to chains in timing drive systems. In fiscal 2001, roughly 43% of systems used chains. By fiscal 2005, this had risen to 48%. With chain usage estimated at a comparatively low 35% in Europe, this region will likely see an appreciable shift toward chains for timing drive systems.

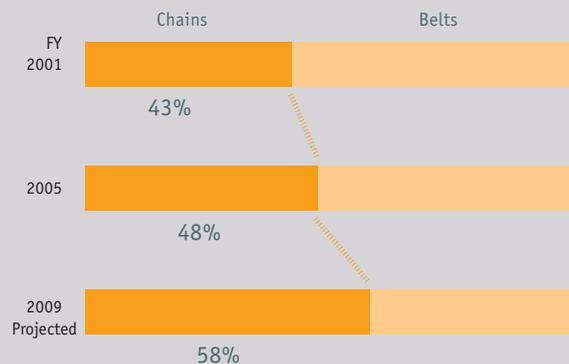
② Growing Market Shares of Japanese Automakers

As crude oil prices remain high and the fuel efficiency and safety of hybrids and other vehicles earn strong endorsement, Japanese automakers are rapidly enlarging their shares of overseas markets. Given that close to 60% of Tsubakimoto Chain's Automotive Parts Operations' net sales still come from Japanese car manufacturers, their upbeat performances coupled with our stepped-up shipments to overseas automakers provide fair wind for the Group's Automotive Parts Operations.

International Five-Point Production System for Automotive Parts



Worldwide Changeover to Chains in Timing Drive Systems



③ Globalizing Purchasing, Development, and Production of Automakers

In auto manufacturing, the globalization of production, development, and parts procurement is gathering momentum as automakers seek to enhance competitiveness and circumvent potential trade friction issues. Because we established an international five-point production system early, this trend is advantageous for us.

This Is How We Overcome Issues

① Advancing Further Globalization

Concentrating on the United States and China, we are strengthening our international five-point production system in stages. In Europe, centered on Group company Tsubakimoto Europe B.V., we bolstered our global supply system through the August 2001 conclusion of a tie-up agreement with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten) of Germany.

② Expanding New Businesses beyond Timing Drive Systems

The reliance of Automotive Parts Operations on timing drive systems contributes to vigorous growth. However, by the same token, dependence potentially threatens long-term stability. Mindful of that, we are front-loading the cultivation of such new automotive parts businesses as chains for power-train and auxiliary drives, oil pump drives, and balancer shaft drives. Although these businesses are still in their infancy, we project fiscal 2008 sales of just under ¥2 billion, primarily from power-train chains.

Business Results over the Past Two Years and Future Plans

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Against a backdrop of favorable business conditions, Automotive Parts Operations' net sales grew at an average annual rate of 11.6% over the past two fiscal years. Meanwhile, income trended upward on increased production and the acquisition of such new projects as the V-type engine project.

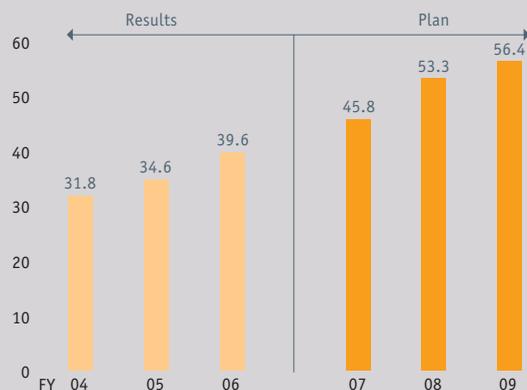
Incorporating numerical targets that have been upwardly revised from the plan prepared in fiscal 2005, a new three-year medium-term management plan covering April 2006 through March 2009, STEP 08, calls for average annual net sales growth of 12.5% and net sales of ¥56.4 billion in fiscal 2009. We anticipate a higher rate of net sales growth because we have already started large-scale projects for orders secured from overseas automakers. Given that a competitor had monopolized one automaker, these orders reflect positively on the headway our enhanced competitiveness is making.



Timing chain drive system components—chains, tensioners, guides, levers, and sprockets. The world-class quality and performance of our lineups underpins the realization of engines with more advanced performance.

Automotive Parts Operations—Net Sales

Billions of yen





Power Transmission Products

Power Transmission Units and Components Operations

Our Commitments

- To step up the development of overseas markets to reach an export ratio of 10% or higher (currently 9%)
- To heighten our new product development capabilities to raise the new-product ratio to 15%

Hideo Miyazaki
President, Tsubaki Emerson Co.

Leveraging Our Business Base and Strengths

A distinctive feature of Power Transmission Units and Components Operations is their ability to offer an array of industrial machines and equipment in the field of Motion & Control. That kind of strength comprehensively encompasses the needs of a wide spectrum of customers. The operations' capacity provides a rich lineup of products, including reducers, linear actuators (electro-mechanical cylinders), and clutches. These operations are an unignorable presence in the power transmission units and components industry, with electro-mechanical cylinders and cam clutches staking out 50% and 80% shares of their domestic markets.

These Are Growth Drivers

- ① Offering Electro-Mechanical Cylinders Suited to Diverse Usage Conditions

There are three types of linear actuators: pneumatic, hydraulic, and electro-mechanical. Of those, demand is growing for electro-mechanical cylinders, which do not leak oil or air and suit many usage conditions because they have low operating noise. In addition, they are more powerful than pneumatic cylinders and capable of highly precise positioning. Since we make more than half of the electro-mechanical cylinders sold in Japan, growing demand is propelling us forward.

- ② Recovering Japanese Economy Set for Prolonged Expansion

Since the resolution of the overcapacity issue, capital investment in Japan's manufacturing sector has been on a long-term recovery track that benefits Power Transmission Units and Components Operations. Also, these operations are growing on a trend among many manufacturers toward building new plants or transferring plants overseas.

This Is How We Overcome Issues

Globalizing and Enhancing Productivity

An extensive product range can adversely affect cost competitiveness by diluting manufacturing and product development capabilities. To mitigate that danger, we pursue customized sales strategies,

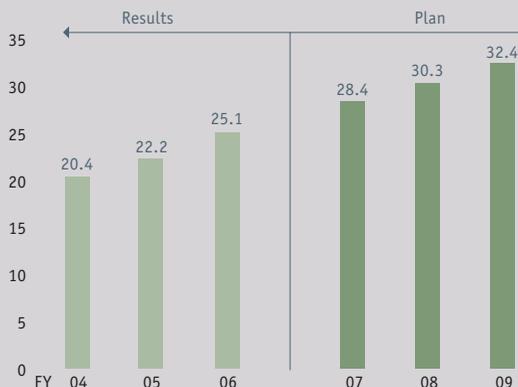
particularly in reducers, for respective sectors, including IT, machine tools, and steel. Further, we are actively moving forward with the development of overseas markets, centering on China. And, we are taking steps to enhance profitability that include the introduction of IT-based business process management.

Business Results over the Past Two Years and Future Plans

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Net sales in these operations have grown at an average annual rate of 11.0% over the past two fiscal years due to steady expansion of businesses in three categories: reducers, linear actuators, and clutches. Under STEP 08, our new medium-term management plan covering the three years through to March 2009, we aim to maintain that rate of net sales growth, achieve net sales of ¥32.4 billion in fiscal 2009, and continuously improve profitability.

Power Transmission Units and Components Operations—Net Sales
Billions of yen





Materials Handling Systems Operations

Our Commitments

- To reestablish a stable customer base centered on mainstay businesses in the automotive, newspaper, and distribution sectors
- To strengthen project management while targeting growth, paying particular attention to profitability by fostering niche markets

Tamio Miyamoto
Materials Handling Systems Division

Leveraging Our Business Base and Strengths

Our share of the materials handling systems market is not large. However, we have unmatched capabilities in special-specification systems development and solutions-based marketing. We have a particularly impressive track record: automotive body paint shop conveyor systems claim between 30% and 40% of the domestic market; automatic roll paper feeding systems for the newspaper industry account for approximately 80% of the domestic market; and sorting systems for the distribution industry, bulk conveyance systems for such materials as grain and feed, and chip conveyor systems for the machine tools industry continue building strong bases.

These Are Growth Drivers

A high proportion of Tsubakimoto Chain's Materials Handling Systems Operations net sales originate at automakers. Therefore, the increasing momentum of Japanese automakers abroad is energizing this Group segment. For example, compared with conventional offerings, our automotive body paint shop conveyor system, the Minomi Conveyor System, occupies less space, contributes to cost reductions, and enhances painting quality. One of the world's leading automakers uses this system as a global benchmark. However, the heavier demand that we are experiencing for those types of systems is not restricted to the automotive industry. Similar trends are clear in a wide range of industries, including distribution and pharmaceuticals. Our offerings of development and solutions capabilities that cater to diverse customer needs are now more important than ever in our competition with other materials handling systems manufacturers.

This Is How We Overcome Issues

① Rebuilding a Stable Customer Base

The recent heavy reliance of our Materials Handling Systems Operations net sales on the automotive industry is a significant risk for sustained growth. In response, we will enhance core products and step up the global development of other mainstay operations catering to the distribution and newspaper industries. Further, in

such fields as pharmaceuticals, we will cultivate customers that value our engineering prowess in materials handling systems.

② Enhancing Productivity

The Materials Handling Systems Operations has established a new system based on direct overall control by three executives that ensures careful management at every project stage, from estimates through delivery completion. Under the new system, we will do our utmost to eliminate reworking and other factors that greatly influence project earnings. In addition, we will focus on lifting profitability by accelerating the development of niche areas in pharmaceuticals and other industries.

Business Results over the Past Two Years and Future Plans

In the past two fiscal years, the segment's net sales have grown at an average annual rate of 10.8%, while operating income has increased at a rate of 28.0%. However, that high-paced net sales growth was attributable to such special factors as a concentration of large orders from the automotive industry. Going forward, we intend to pursue a strategy that focuses more on profitability than on net sales growth. Plans call for net sales of ¥31.9 billion in fiscal 2009.

Materials Handling Systems—Net Sales

Billions of yen

