

Operational and Other Risks

1. Risks Related to Raw Material Price Hikes

Marked increases in crude oil prices have accompanied worldwide economic recovery. As a result, hikes in the prices of raw materials for the Group's products have become unavoidable. From May 2005, the Group revised product prices. Further, the Group worked to reduce costs by enhancing productivity. However, if Group is unable to offset increases in costs due to prolonged price hikes, its business performance could be affected.

2. Risks Related to Disasters

The Group supplies such engine parts as timing chains and tensioners to automakers in Japan and overseas. In the unlikely event of a natural disaster or a man-made disaster at the Saitama Plant, the Company's main production base in Japan, the Group may be unable to provide a stable supply of products to automakers. In response to this type of risk, the Group has developed countermeasures, such as supplying products from an overseas production base to replace output from the Saitama Plant.

3. Risks Related to Overseas Operational Activities

The Group is increasing parts procurement and product sales in China's market, which continues to see economic growth. However, due to political and economic factors in China, there is the possibility of temporary disorder or stagnation in the economy. In that event, certain operational problems may arise, such as delays in the production of the Group's products and difficulties in procuring parts or operating plants, which could affect business performance.

4. Risks Related to Price Competition

In materials handling systems operation, which face intense competition for orders, the Company may not be able to avoid low-profit orders, which could affect business performance.

5. Risks Related to Currency Exchange Rates

The Tsubakimoto Chain Group, which is conducting aggressive global development, works to minimize the influence of foreign exchange rate fluctuations by hedging foreign exchange forward contracts across the time of settlements of payments for exports, the time orders are received, the time the sales are recorded, and the time payments are received. However, short-term, dramatic fluctuations in exchange rates could affect business performance.

6. Risks Related to Changes in Interest Rates

It may become necessary to procure funds for the expansion of production facilities in response to higher production output necessitated by favorable orders. Therefore, higher interest payable resulting from increases in interest rates could affect business performance.