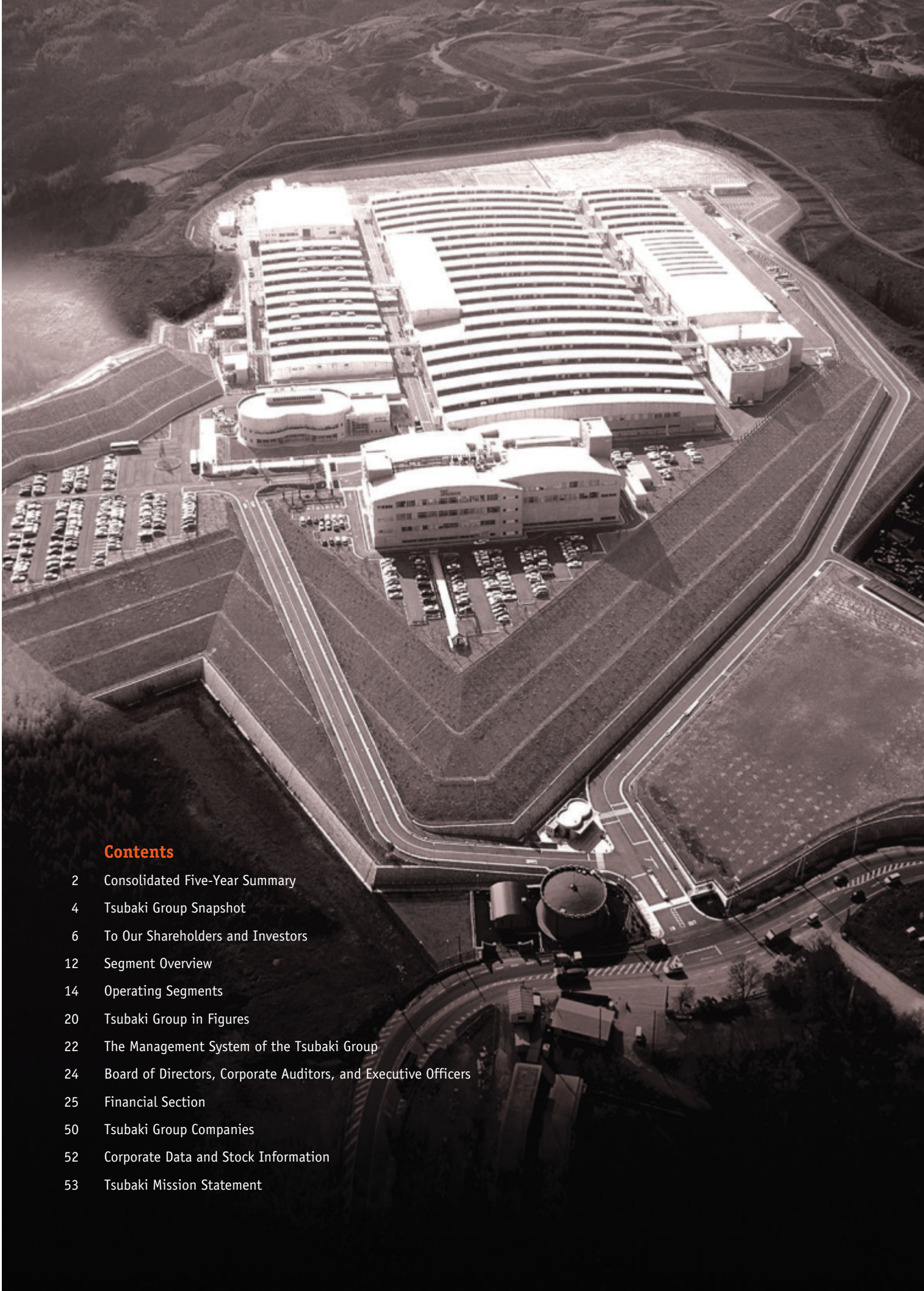
Innovation in Motion
TSUBAKI

Growing Globally through Differentiation

TSUBAKIMOTO CHAIN CO. ANNUAL REPORT 2006



Contents

2 Consolidated Five-Year Summary
4 Tsubaki Group Snapshot
6 To Our Shareholders and Investors
12 Segment Overview
14 Operating Segments
20 Tsubaki Group in Figures
22 The Management System of the Tsubaki Group
24 Board of Directors, Corporate Auditors, and Executive Officers
25 Financial Section
50 Tsubaki Group Companies
52 Corporate Data and Stock Information
53 Tsubaki Mission Statement

Innovation in Motion

Becoming a Unique International Company

The Tsubaki Group is a leading manufacturer of a wide range of industrial-use machine components and equipment as well as systems that drive automotive engines. In Japan, our lineups command overwhelming shares in their markets, with industrial-use chains claiming roughly 60% of the market, automotive timing drive systems 70%, clutches 80%, and Power Cylinders 50%. By drawing on rich lineups in the field of Motion & Control, we provide customers with comprehensive solutions. In particular, Tsubakimoto Chain is one of the world's foremost manufacturers of industrial-use chains and automotive parts.

Further, we have exploited our outstanding quality and technology in Motion & Control to launch extensive forays into the field of materials handling systems. For example, we produce automotive body paint shop conveyor systems and automatic roll paper feeding systems for the newspaper industry. Our Innovation in Motion slogan expresses our readiness to take the initiative to move and change. With that attitude, in the field of Motion & Control we will offer customers worldwide the best-value products, technology, quality, production, and marketing to continue forging ahead to sustain earnings growth and maximize corporate value.

Consolidated Five-Year Summary

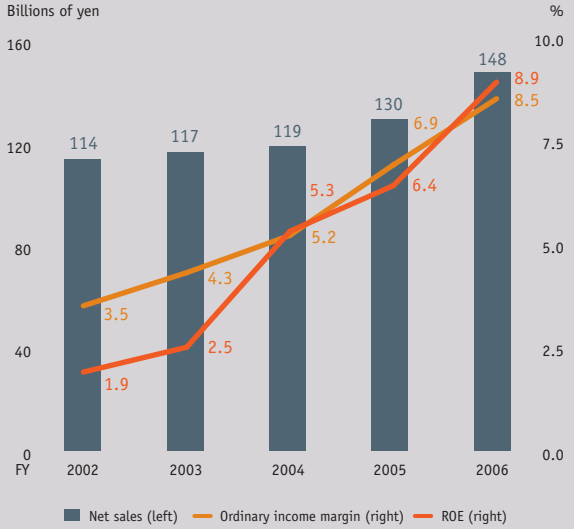
The Tsubaki Group's Business Results, Financial Position, and Returns to Shareholders

Years ended March 31

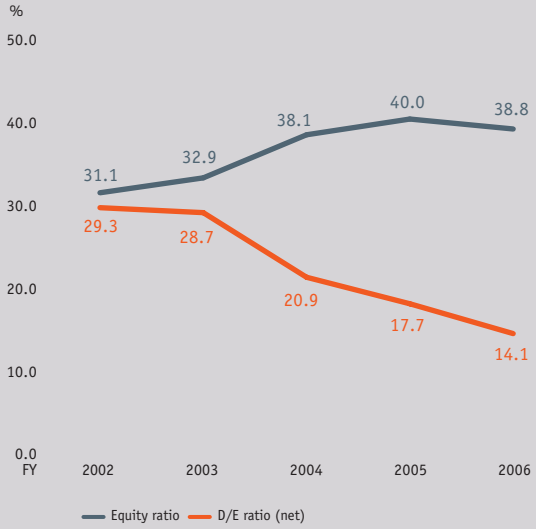
	FY				
	2002	2003	2004	2005	**2006**
■ Operating Performance (Millions of yen)					
Net sales	¥113,741	¥116,670	¥119,141	¥129,563	¥147,761
Operating income	6,038	7,351	7,951	10,448	13,830
EBITDA[1]	11,649	14,086	14,035	15,952	19,339
Ordinary income	4,021	4,999	6,215	8,888	12,594
Net income	1,202	1,531	3,385	4,449	6,607
Depreciation and amortization	5,611	6,736	6,083	5,504	5,509
Net interest and dividend expense[2]	(1,427)	(1,507)	(1,352)	(1,002)	(642)
■ Balance Sheet (Millions of yen)					
Total assets	¥201,555	¥183,260	¥175,432	¥179,263	¥198,458
Total shareholders' equity	62,674	60,307	66,873	71,634	77,098
Interest-bearing debt	76,734	64,930	50,317	43,380	38,967
Net interest-bearing debt[3]	59,055	52,513	36,637	31,818	27,982

1 EBITDA = operating income + depreciation
2 Net interest and dividend expense = interest and dividends received – interest paid
3 Net interest-bearing debt = interest-bearing debt – cash and cash equivalents

Net Sales and Profitability



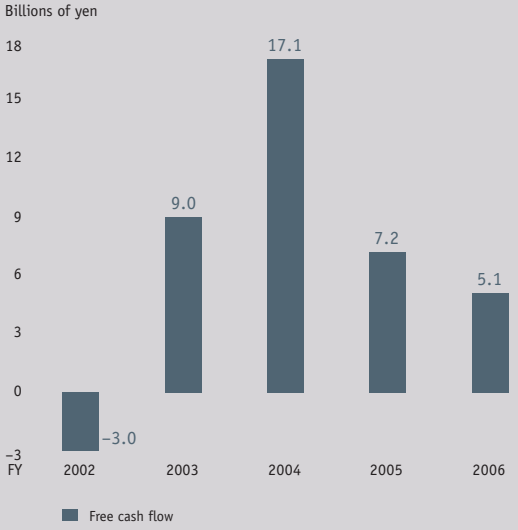
Financial Soundness



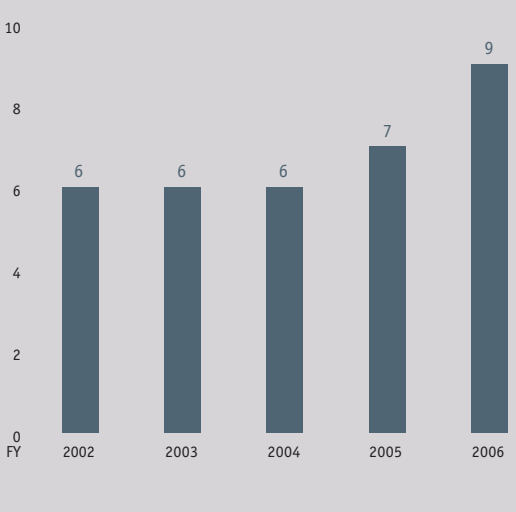
	FY				
	2002	2003	2004	2005	**2006**
■ Cash Flows (Millions of yen)					
Net cash provided by operating activities	¥ 7,709	¥ 12,020	¥ 7,995	¥ 9,673	¥10,681
Net cash provided by (used in) investing activities	(10,718)	(3,014)	9,068	(2,465)	(5,595)
Net cash used in financing activities	(4,243)	(14,216)	(15,538)	(9,412)	(5,596)
Free cash flow[4]	(3,009)	9,006	17,063	7,208	5,086
■ Major Indicators					
Ordinary income margin	3.5%	4.3%	5.2%	6.9%	8.5%
ROE[5]	1.9%	2.5%	5.3%	6.4%	8.9%
D/E ratio (net)[6]	0.94	0.87	0.55	0.44	0.36
■ Per Share Data (Yen)					
Net income	¥ 6.27	¥ 7.92	¥ 17.40	¥ 22.77	¥ 34.78
Total shareholders' equity	327.47	319.39	354.14	380.91	410.66
Cash dividends	6	6	6	7	9

4 Free cash flow = net cash provided by operating activities + net cash provided by (used in) investing activities
5 ROE = net income ÷ average total shareholders' equity
6 D/E ratio (net) = net interest-bearing debt ÷ total shareholders' equity

Capital for Growth



Cash Dividends



Tsubaki Group Snapshot

Toward *Global Best*

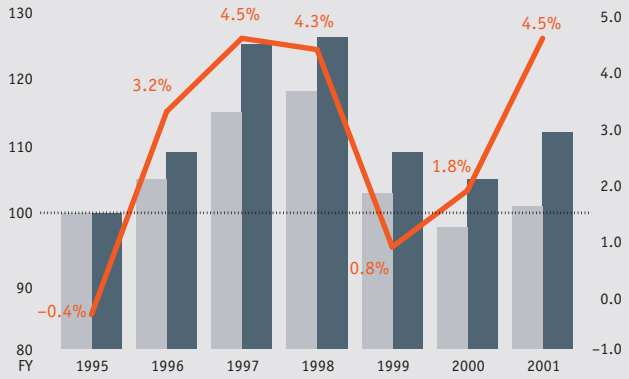
■ Development toward *Global Best*—Past, Present, and Future

In the 1990s, fluctuations in the economic climate largely dictated our business results.

We rectified this vulnerability by buttressing our technology base and financial position and concentrating on our fields of expertise.

Today, we are targeting sustained growth and expansion by capitalizing on that business base globally.

Era in which domestic economic conditions hold sway over business results



Total private-sector capital investment in Japan (fiscal 1995 = 100) (left)
Tsubaki Group—Consolidated net sales (fiscal 1995 = 100) (left)
Tsubaki Group—Consolidated ordinary income (loss) margin (right)

■ Conditions Met for Becoming *Global Best*

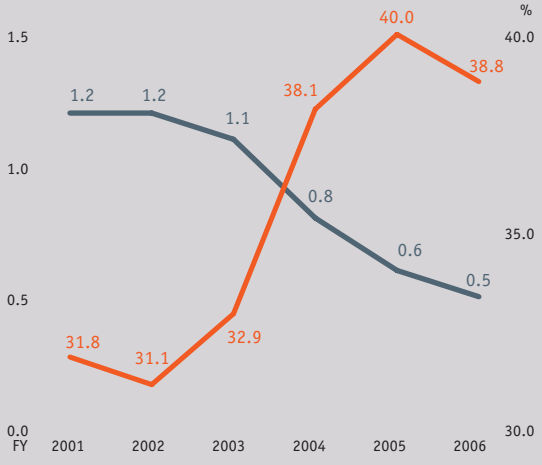
1. Market Presence Backed by Differentiated Technology and Quality

	Japan	World
Chains	63%	21%
Automotive Parts		
Timing Chains	73%	33%
Power Transmission Units and Components		
Cam Clutches	80%	
Power Cylinders	50%	
Materials Handling Systems		
Automotive Body Paint Shop Conveyor Systems	35%	
Systems for Newspaper Industry	80%	

Source: Tsubakimoto Chain

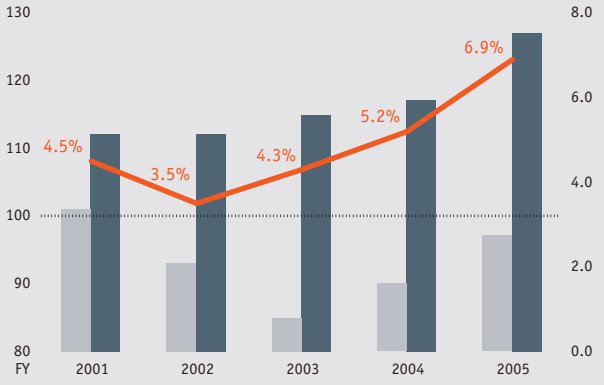
2. Robust Financial Position

Main Consolidated Financial Ratios

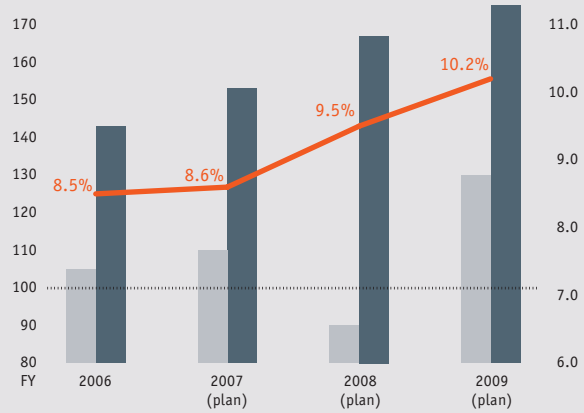


D/E ratio (left)
Equity ratio (right)

Era in which weaknesses are overcome, consolidating the base for sustained growth



Era in which accelerating globalization spurs growth and expansion



■ Background to *Global Best* Realization—Strategies and Business Trends

1. Structural Trends in External Environment

Japan

- Reviving investment focused on raising production of high-value-added products
- Increasing investment in productivity enhancement

Overseas

- Accelerating globalization of automotive parts development and procurement
- Accelerating shift toward chains in timing drive systems for automotive engines
- Continuing improvement of China's international economic standing
- Increasing investment in productivity enhancement

2. Strategies in Response to Trends

- Concentrate management resources on mainstay products
- Reduce costs further

- Accelerate globalization of optimal production and development system (five-point system)
- Emphasize superiority in quality and technology and increase world market share through alliances
- Expand production and sales bases in China
- Accelerate adoption of management based on global standards

To Our Shareholders and Investors

Takashi Fukunaga
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director

Our pursuit of *Global Best* has borne fruit.
Now, we are striding forward in markets worldwide.

Fiscal 2006 Business Results

Reached Targets of Three-Year STEP 07 Medium-Term Management Plan Early and Posted Record Net Sales and Earnings

In fiscal 2006, ended March 31, 2006, the Tsubaki Group achieved its highest-ever consolidated net sales, which were up 14.0% year on year, to ¥147.8 billion. Also, the Group posted new earnings records for the first time since 1990, with year-on-year increases of 32.4% in operating income, 41.7% in ordinary income, and 48.5% in net income. Moreover, net sales surpassed targets set at the beginning of the year by approximately 9%, while earnings exceeded benchmarks by between 26% and 30%. In addition, almost one year ahead of schedule, we reached the fiscal 2007 targets set out in our three-year STEP 07 medium-term management plan, prepared in fiscal 2005.

Our strong business results were not only due to favorable business conditions but also to our decisive implementation of selection and concentration.

All Operational Areas Delivered Higher Revenues and Earnings—Strategic Differentiation of Quality, Technology, and Production Contributes Significantly

All operational areas recorded higher revenues and earnings as well as enhanced operating income margins.

Chain operations were buoyed by stepped-up private-sector capital investment in Japan compared with the previous fiscal year and by the solid growth of economies in North America, Europe, and Asia. However, this solid performance was not entirely attributable to favorable external business conditions. Our differentiated quality and technology broadened our customer base, giving us a 21% share of the worldwide steel chain market. For example, we won a large order from a British food manufacturer and will begin OEM for a major overseas construction machinery manufacturer.

Further, automotive parts operations carved out a 33% share of the world market for automotive timing chain drive systems, which use timing chains and other components to drive engine camshafts. We are now hard on the heels of the timing drive system industry's largest manufacturer. The ongoing shift in global demand from belt to chain drive systems coupled with the increasing international presence of Japanese automakers—our mainstay customers—boosted automotive parts operations. Equally important contributing factors were our international five-point optimal site production system and the enhanced strength and durability of our products, which resulted from continuous efforts to develop technology.

Power transmission units and components operations worked to increase sales of reducers for shredders. Also, underpinned by ever-improving technology development capabilities, this operational area continued to diversify its customer base by launching new high-precision products, including couplings for servo motors and stepping motors. Meanwhile, we steadily exploited technological advances to differentiate materials handling systems operations. For example, we rolled out the recently released Minomi Conveyor System worldwide, which enables automakers to shorten paint shop conveyor lines and enhance productivity. Further, we attracted new customers through the solutions-based marketing of such products as drug discovery support equipment.

Initiatives to Date and Issues and Basic Strategy Going Forward

This Is *Global Best*

At Tsubakimoto Chain, our medium-to-long-term goal is to establish ourselves as the *Global Best*. In other words, we aim to enlarge our field of vision beyond the domestic market and offer the best-value products in markets worldwide. Under the STEP 08 medium-term management plan, in fiscal 2009 we target increases compared with fiscal 2006 of 6.4% in consolidated net sales, to ¥178.0 billion, and 12.9% in ordinary income, to ¥18.1 billion, as well as an ordinary income margin of 10.2%, up from 8.5%. Moreover, we are using upwardly revised targets because in fiscal 2006, we reached the numerical targets of the STEP 07 medium-term management plan approximately one year ahead of schedule.

This Is the Journey—Combining Defensive and Aggressive Strategies on the Way to *Global Best*

Groundless calls for increases in world market share or ever-improving business results are not business plans or targets; they are simply dreams or hopes. To truly be the *Global Best,* we must satisfy certain major preconditions. With that in mind, we would like to review the road we have traveled in recent years.

Over the past five years, we have concentrated efforts on removing our vulnerability to economic fluctuations. A look at business results before fiscal 2001 reveals structural weakness. During the period, such economic indicators as private-sector capital investment in Japan drove our results up or down significantly. One reason was that there was little leeway left for the expansion of our domestic customer base. For example, our chain operations and automotive parts operations account for about 60% and 70% of their target markets in Japan. Clearly, we needed to extend the scope of our operations worldwide. However, that was by no means the only factor that spurred us to develop overseas business.

Patient, farsighted garnering of world-beating capabilities is crucial.

First, we felt we had to construct an unshakable financial base and earnings structure that could withstand aggressive management. Second, we wanted to differentiate our quality, technology development, and production system. To those ends, we undertook multifaceted reforms.

For example, by consolidating plants and withdrawing from unprofitable lineups, we reformed the structure of power transmission units and components operations and materials handling systems operations, which were competitively weaker than chain operations and automotive parts operations. Meanwhile, in chain operations, we heightened our technological superiority and the competitiveness of pricing through bold forward-looking investment that included the construction of a large state-of-the-art plant in Kyotanabe, Kyoto Prefecture, Japan. We knew that if we wanted to switch to more aggressive management at some point we had to upgrade the structure and core content of our operations—based on differentiated quality, technology, and production—rather than simply pursuing cost reductions and personnel rationalization. That prescient strategy underpinned our favorable business results in fiscal 2006 and has dramatically improved our profitability. For example, in fiscal 1998 and in fiscal 2005, net sales were roughly the same: ¥128.3 billion and ¥129.6 billion. In ordinary income, however, in fiscal 1998, we posted ¥5.5 billion, while in fiscal 2005, we recorded ¥8.9 billion. And, in fiscal 2006, ordinary income amounted to ¥12.6 billion.

Simultaneously pursuing defensive and aggressive management enhanced our profitability and financial position.

Meanwhile, we honed the efficiency of our administrative organization through operational outsourcing and other initiatives. Consequently, selling, general and administrative expenses as a percentage of net sales have fallen steadily, from 21.7% in fiscal 1998 to 18.9% in fiscal 2005 and 17.2% in fiscal 2006. Looking at our financial position, due to major investments for the Kyotanabe Plant, interest-bearing debt spiked to ¥78.7 billion in fiscal 2001, compared with ¥41.6 billion in fiscal 1998. However, interesting-bearing debt was down to ¥39.0 billion at the end of fiscal 2006.

Analysis of Immediate Business Conditions

We are not excessively optimistic about current worldwide economic expansion. Nevertheless, several long-term structural trends in the global economy and in competition will likely give us a tail wind in the immediate future.

We are not overly optimistic about the economic climate. We are focusing on long-term structural trends in the global economy and in competition.

To take chain operations as one example, our main customers, manufacturers, are increasingly concerned with total life cycle costs. Therefore, demand is stronger than ever for enhanced quality and technology, particularly with respect to strength, durability, and drive performance. Among suppliers, however, there is a large gap between those that have the resources to invest in development and facilities along with the know-how to meet the emerging needs of manufacturers, and those that have not. This trend benefits well for the Group because Tsubakimoto Chain is the largest manufacturer of chain products in the world and stands well above its competitors in terms of quality and financial strength.

Further, automotive parts operations are witnessing a shift from the use of belts to chains in timing drive systems—the component that drives an engine's camshaft—because the additional strength and durability of chains makes them better suited to the high-powered, compact engines that are becoming increasingly prevalent. In particular, Europe, which has lagged behind other regions, will likely see stepped-up use of chain systems. Other positive factors include accelerating globalization in the design, development, and procurement of automotive parts and the increasing share of worldwide markets held by Japanese automakers, our mainstay customers. Such trends also benefit materials handling systems operations. Similarly, a shift from hydraulic to electro-mechanical linear actuators, which we call Power Cylinders, is helping our power transmission units and components operations, which produce more than half of the electro-mechanical cylinders sold in Japan.

Issues and Countermeasures

The Group faces several hurdles that it must clear. In chain operations, we have to extend the lead that our products have in quality. At the same time, no matter how much customers value quality, enhancing the competitiveness of our pricing remains critical. With respect to quality, for example, in June 2006, we marketed seventh generation RS Roller Chains that have the highest quality in the world. Their wear elongation, or durability, is twice that of the previous generation and four times that of competitors' offerings. Further, a review of our optimal site production system resulted in the transfer of some production of conveyor chains, Lambda Chains, and other products to overseas plants. Meanwhile, in automotive parts, we are taking steps to address various issues, including the early development of new mainstay lineups to succeed timing chains and the improvement of overseas subsidiaries' profitability. Also, in power transmission units and components, we need to expand our overseas customer base, and, in materials handling systems, we must manage project profitability stringently while targeting customers in a greater variety of industries. (For further details on issues and countermeasures, please see pages 14 to 19 for overviews of each operational area.)

We are dealing with key issues to become *Global Best*.

Our Basic Approaches to Management Systems and Returns to Shareholders

Our endeavors to be the *Global Best* are not limited to product quality, pricing, and business development. We also aim for world-class governance and compliance. Specifically, irrespective of how high we grow earnings, we could lose corporate value in a moment due to a compliance-related incident. Although this is an unlikely scenario, we strengthen compliance measures for systems and personnel every year through such initiatives as the establishment of an ethics helpline. Furthermore, rather than simple "one-way" distribution of information to investors and analysts, we seek ongoing feedback on management from our stakeholders, and we reflect those opinions in management through a range of measures. (For further information on the management system of the Tsubaki Group, please see pages 22 and 23.)

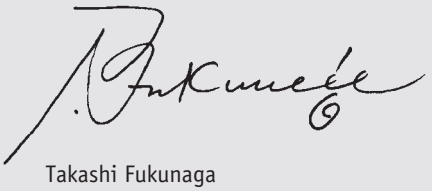
Pursuing the highest returns to shareholders, our goal is to grow earnings steadily to maximize corporate value and raise market capitalization. Further, we aim to pay stable dividends based on consideration of business results. To those ends, as far as possible, we will continue paying annual dividends of ¥6.00 per share while linking the distribution of profits to consolidated business results. For fiscal 2006, the Company paid an annual dividend of ¥9.00 per share (including a 90th anniversary commemorative dividend of ¥2.00 per share), up ¥2.00 from the previous fiscal year.

Tsubakimoto Chain targets *Global Best* in products, business, and management.

This Is Tsubakimoto Chain

The Tsubaki Group will redouble pursuit of its *Global Best* strategy by focusing on the "Three Gs"—Global operational development, Group management reinforcement, and Growth continuation and enhancement. We ask our shareholders and investors for their further support as we pursue those strategies.

August 2006



Takashi Fukunaga
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director

Three-Year STEP 08 Medium-Term Management Plan

Numerical Targets (Consolidated)

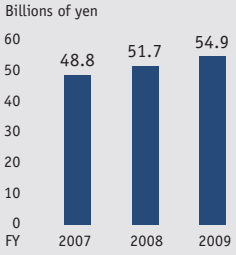
Billions of yen		FY 2007		FY 2008		FY 2009	
Consolidated	Net sales	¥157.0		¥170.0		¥178.0	
	Operating income	15.5	(9.9%)	17.6	(10.4%)	19.7	(11.1%)
	Ordinary income	13.5	(8.6%)	16.1	(9.5%)	18.1	(10.2%)
	Net income	6.8	(4.3%)	8.7	(5.1%)	9.8	(5.5%)

( ) indicates percentage of net sales

Priority Measures and Sales Targets of Business Units

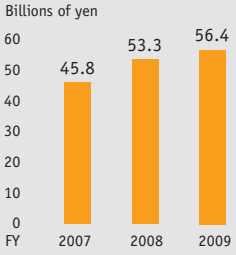
Chain Operations

① Increase sales of new G7 RS Roller Chain
② Expand conveyor chain business
③ Increase market share of plastic chains in Asia and Oceania



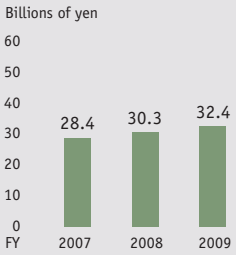
Automotive Parts Operations

① Strengthen consolidated management (enhance consolidated income margins)
② Pursue global initiatives to achieve upgraded, uniform quality
③ Develop next-generation timing chain systems



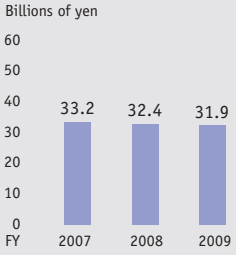
Power Transmission Units and Components Operations

① Hone priority lineups
② Increase support for overseas operations, raise export ratios
③ Advance new product development



Materials Handling Systems Operations

① Continue seeking orders for Minomi Conveyor System
② Develop overseas after-sales service
③ Strengthen development of drug discovery related products and other new products



Segment Overview

The Tsubaki Group's Operations, Lineups, and Locations

1. Business Segments

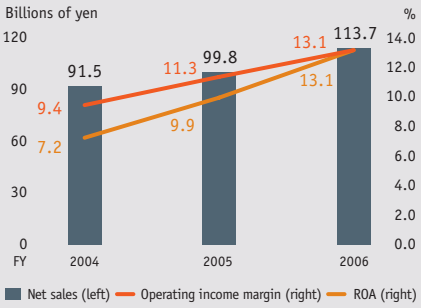
■ POWER TRANSMISSION PRODUCTS SEGMENT

Driving Sales Higher

Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	75.7%
Operating income:	86.8%
Assets:	79.9%

Three-Year Performance



Main Lineups

Chain Operations

- Drive chains
- Conveyor chains
- Plastic chains
- Cable and hose protection and guidance products

Automotive Parts Operations

- Timing chains (roller chains, silent chains)
- Tensioners, levers, guides, sprockets
- Auto tensioners
- General industrial timing belts and pulleys

Power Transmission Units and Components Operations

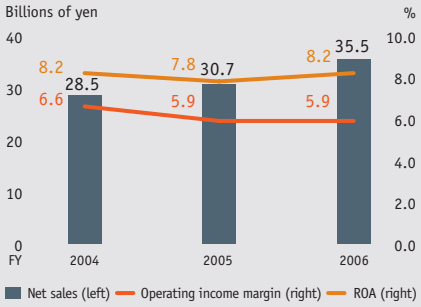
- Reducers and variable speed drives
- Motion control units
- Clutches and couplings
- Sprockets

■ MATERIALS HANDLING SYSTEMS SEGMENT

Stable Growth with a Focus on Profitability

Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	23.9%
Operating income:	12.3%
Assets:	18.5%



Materials Handling Systems Operations

- Sorting systems
- Conveyance systems
- Storage and picking systems
- Bulk conveyance systems
- Scrap metal conveyance and coolant processing equipment

2. Breakdown by Region

■ JAPAN

Present Hub

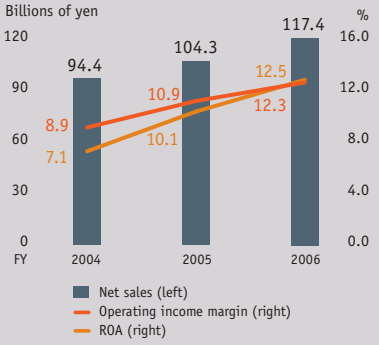
Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	69.2%
Operating income:	85.3%
Assets:	79.0%

Principal Companies

- Tsubakimoto Chain Co.
- Tsubaki Emerson Co.

Three-Year Performance



■ NORTH AMERICA

Stable Growth Track

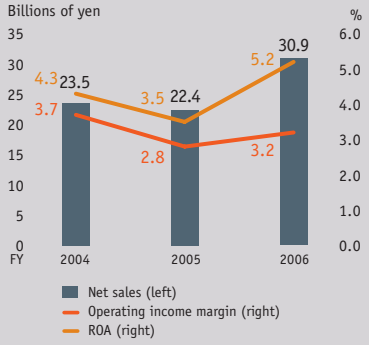
Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	20.5%
Operating income:	5.8%
Assets:	13.7%

Principal Companies

- U.S. Tsubaki, Inc.
- Tsubaki Conveyor of America, Inc.

Three-Year Performance



Note: Percentages of overall results have been calculated using denominator figures that have not been adjusted for internal transactions among divisions or for items related to headquarters.
In ROA, operating income for the numerator and average total assets (before adjustments) for the denominator have been used.

Features and Standing

Accounts for 63% of domestic market for steel chains and 21% of world market. Also, realizes advantages in plastic chains, cableveyors, and other products. Differentiated in world market by technological superiority based on quality and development of high-value-added products.

Closing in on leading overseas manufacturer rapidly, with 73% of domestic and 33% of overseas market for automotive engine timing chains. Tensioners also leveraging superiority. Differentiated by quality—durability and low-noise—adaptability of systems, and five-point global supply system.

Aggressively leveraging mainstay reducers to grow sales. Enjoys advantages in domestic niche markets for clutches, electro-mechanical cylinders, couplings, and other products. Differentiated by ability to draw on diverse product lineups to provide one-stop Motion & Control solutions.

Boasts long track record in delivery of automotive body paint shop conveyor systems, conveyance systems for newspaper industry, sorting systems, and bulk conveyance systems. While focusing management resources on mainstay lineups, markets new products for drug discovery and other new fields. Strength lies in ability to customize systems and realize solutions-based marketing.

■ EUROPE
Growing Market Share

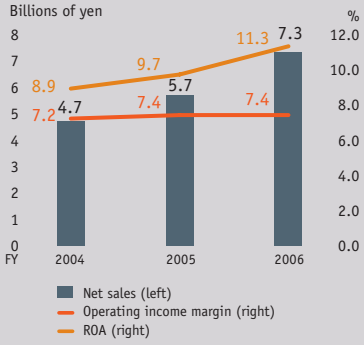
Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	4.9%
Operating income:	3.2%
Assets:	3.3%

Principal Companies

- Tsubakimoto Europe B.V.
- Tsubakimoto U.K. Ltd.

Three-Year Performance



■ ASIA/OCEANIA
Rapid Expansion of Sales and Production Localization

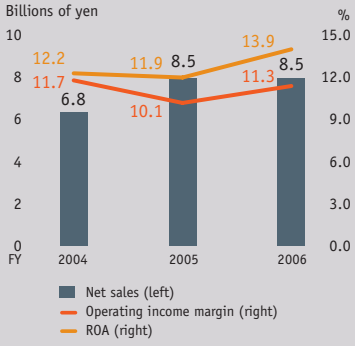
Percentage of Overall Results (Fiscal 2006 Results)

Net sales:	5.4%
Operating income:	5.7%
Assets:	4.0%

Principal Companies

- Taiwan Tsubakimoto Co.
- Tsubaki Emerson Gear (Tianjin) Co., Ltd.

Three-Year Performance



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

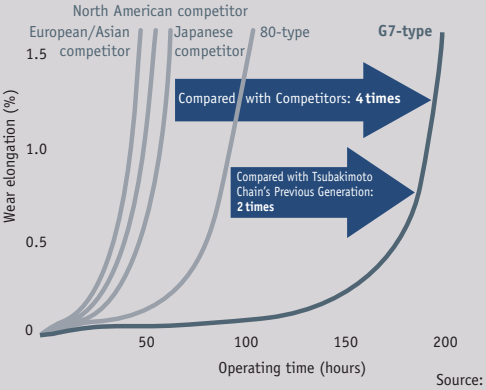
After the economic bubble burst, overcapacity plagued Japan's manufacturing sector, forcing small and medium-sized companies in particular to put off needed machinery and equipment renewals. With the overcapacity problem finally resolved, private-sector capital investment is showing double-digit growth.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

New G7 RS Roller Chain

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.

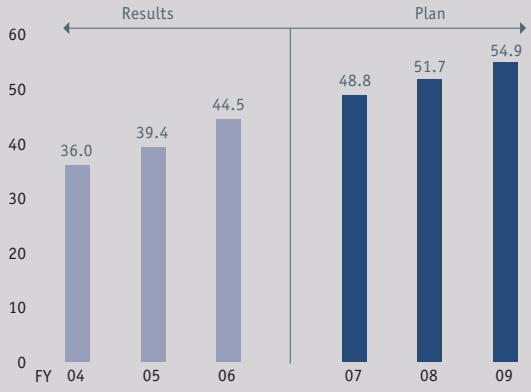
A new three-year medium-term management plan covering April 2006 through March 2009, STEP 08 calls for average annual net sales growth of 7.3% and net sales of ¥54.9 billion in fiscal 2009. Further, we expect that strategies to increase net sales and profitability will improve Chain Operations' income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

Capacity Trends in Japan

Source: The Bank of 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

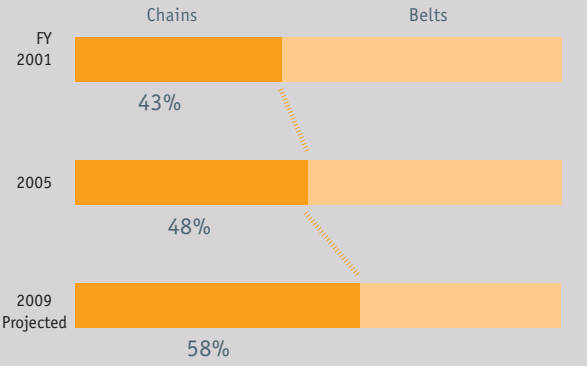
High-performance engines and more-compact engines are fueling a worldwide changeover from belts to chains in timing drive systems. In fiscal 2001, roughly 43% of systems used chains. By fiscal 2005, this had risen to 48%. With chain usage estimated at a comparatively low 35% in Europe, this region will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

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.

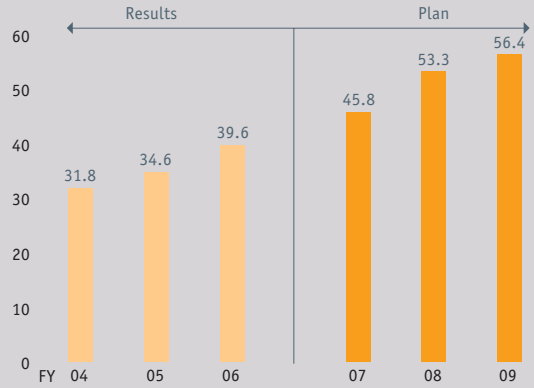
Against a backdrop of favorable business conditions, Automotive Parts Operations' net sales grew at an average annual rate of 11.6% over the past two fiscal years. Meanwhile, income trended upward on increased production and the acquisition of such new projects as the V-type engine project.

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

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.

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.

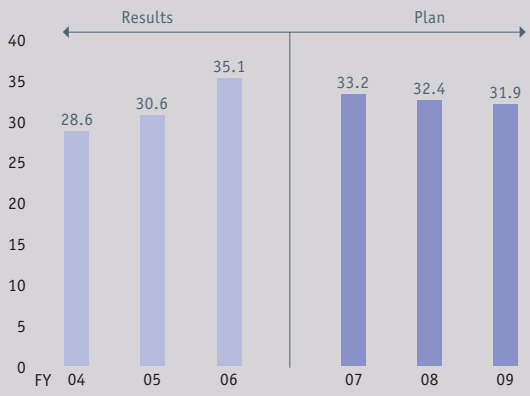
② Enhancing Productivity

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



Tsubaki Group in Figures

Years ended March 31

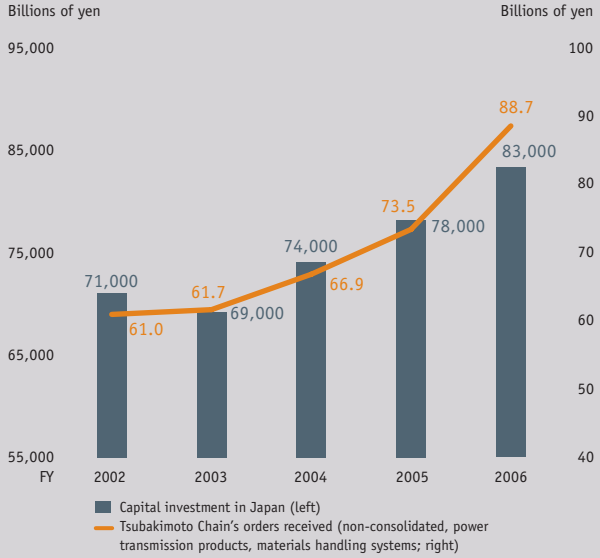
	FY				
	2002	2003	2004	2005	2006
■ Related Macroeconomic Statistics					
Domestic machinery orders (Billions of yen)	¥10,662	¥10,266	¥11,108	¥11,829	¥12,490
Domestic capital investment (Billions of yen)	71,099	69,265	74,110	78,248	83,391
World passenger vehicle production (Million units)*	—	41.4	41.9	44.1	44.8
Japan's big three	10.3	11.2	12.0	13.1	14.3
Their shares	—	27.2%	28.6%	29.7%	31.9%
Passenger vehicle sales in the U.S. (Million units)	8.2	8.0	7.6	7.5	7.7
Japan's big three	2.8	2.9	2.8	3.0	3.2
Their shares	34.4%	35.6%	37.4%	39.4%	41.3%

Note: Prepared by the Tsubaki Group based on various materials. * Calendar years: from January to December. Other figures are for fiscal years: from April to March.
Machinery orders refers to private-sector demand excluding electric power companies and orders for ships. Capital investment refers to the "non-residential investment" of GDP statistics.

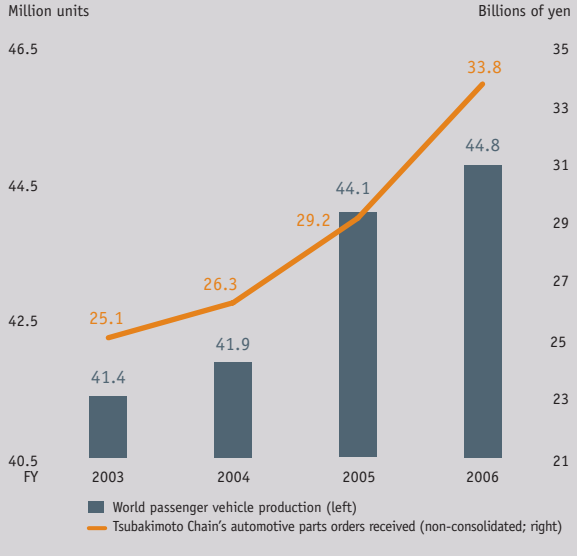
■ Tsubakimoto Chain Non-Consolidated Orders Received Statistics					
Power Transmission Products Segment					
(By division, billions of yen):					
Chain Division	¥23.0	¥21.6	¥23.8	¥26.4	¥29.8
Automotive Parts Division	22.0	25.1	26.2	29.2	34.0
Segment total	45.0	46.8	50.0	55.7	63.8
Materials Handling Systems Segment					
(By industrial sector, billions of yen):					
Automotive sector	6.1	5.8	5.3	7.2	15.7
Distribution sector	3.5	3.5	4.4	3.0	2.0
Newspaper sector	4.0	3.6	2.5	2.8	2.6
Other sectors	2.2	1.9	4.4	4.5	4.4
Segment total	16.0	14.9	16.8	17.8	24.8

Note: In fiscal 2004, environmental operations were merged with the Materials Handling Systems segment.

Capital Investment in Japan and Tsubakimoto Chain's Orders Received (Non-Consolidated)

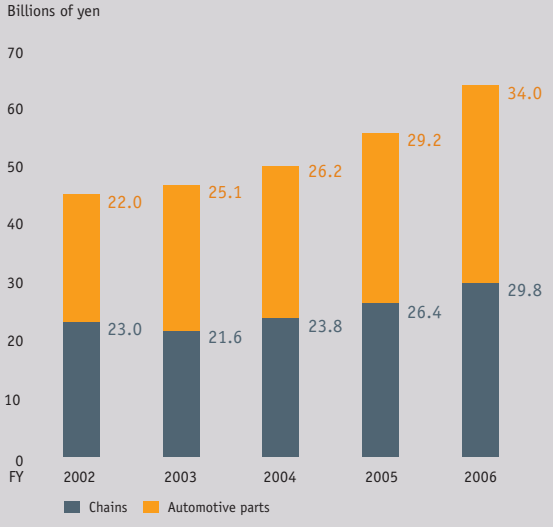


World Passenger Vehicle Production and Tsubakimoto Chain's Automotive Parts Orders Received (Non-Consolidated)

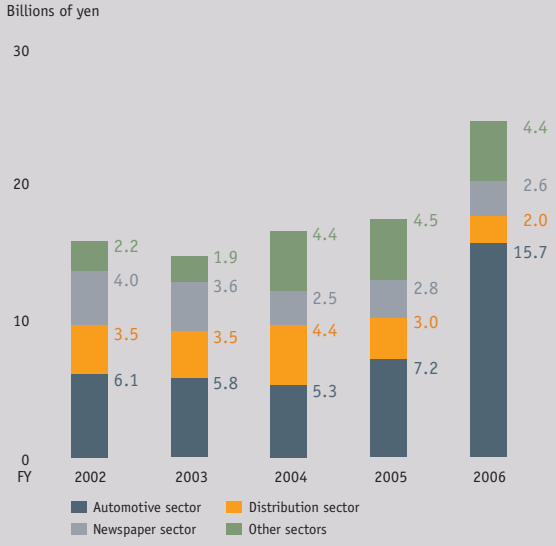


	FY 2005				FY 2006			
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
	¥ 2,973	¥ 2,835	¥ 2,973	¥ 3,020	¥ 3,014	¥ 3,110	¥ 3,197	¥ 3,185
	19,179	19,288	19,511	20,181	20,589	20,853	20,806	21,098
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	1,755	1,775	2,111	2,057	1,724	1,818
	—	—	702	704	856	884	714	726
	—	—	40.0%	39.7%	40.5%	43.0%	41.4%	39.9%
	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
	—	—	—	—	—	—	—	—
	13.3	13.3	14.0	14.9	15.4	15.3	16.4	16.6
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	2.1	6.4	1.9	7.1	5.7	5.7	2.0	11.2

Power Transmission Products Segment's Product Orders Received (Non-Consolidated)



Materials Handling Systems Segment's Product Orders Received (Non-Consolidated)



The Management System of the Tsubaki Group

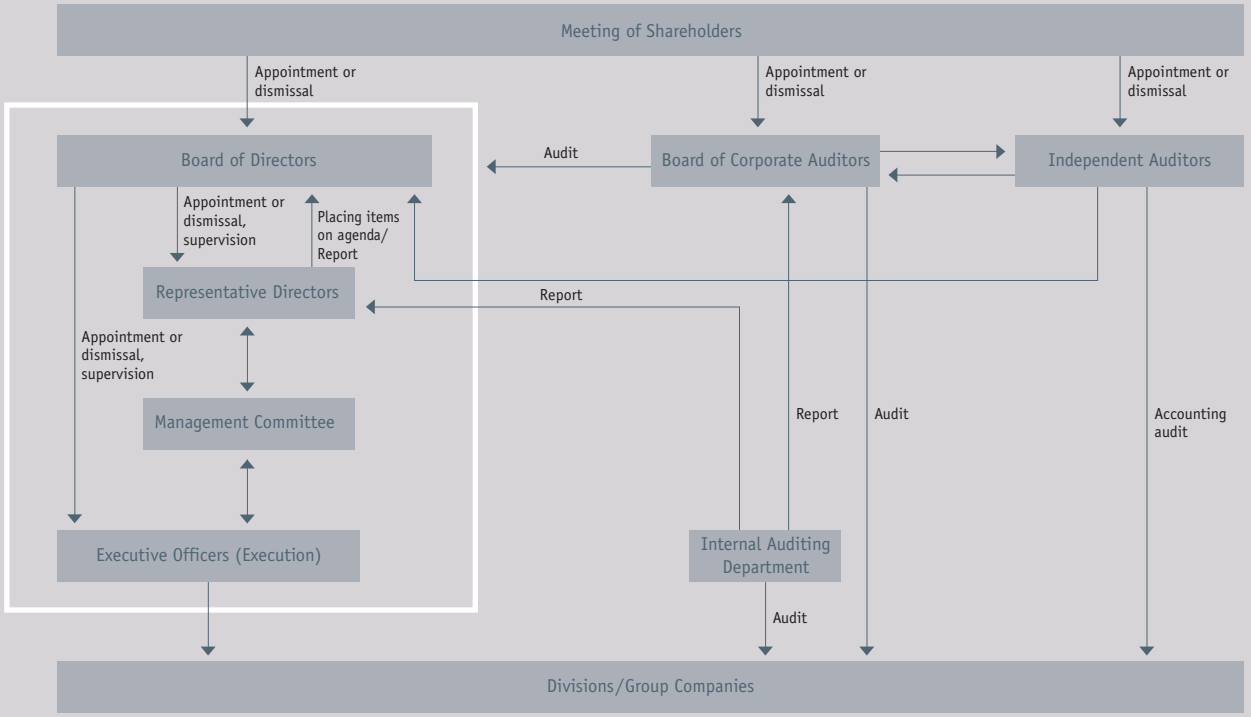
Our efforts to become the *Global Best* are not limited to such operational considerations as product quality, technology, and market share. We also aim to be a world-class company with respect to management, including corporate governance, compliance, and corporate social responsibility. In other words, our overriding goal is to be a company that pursues excellence in everything.

A Small Decision-Making Body and a Large Operational Implementation Body

The Tsubaki Group's management system is principally based on directors, corporate auditors, and executive officers. We have a small number of directors, enabling us to make strategic decisions rapidly. As of June 29, 2006, we have nine directors, of whom six are also executive officers. Further, we have appointed one outside director to heighten management transparency and objectivity.

We use an executive officer system that comprises 17 executive officers, including six directors with joint responsibilities. Because the executive officer system is larger than our body for making decisions on management strategy—the Board of Directors—it facilitates precise, rapid, and smooth implementation of operations. Our Board of Corporate Auditors supervises management and the implementation of operations. Among four corporate auditors, we have appointed two outside corporate auditors with a view to enhancing management transparency further.

Corporate Governance System



Communicating with Capital Markets to Enhance Management Transparency and Flexibility and Secure Growth

We enhance our management transparency and flexibility by rapidly and equitably disclosing information to capital markets—shareholders, potential investors, and analysts. Meanwhile, we gather, and incorporate, opinions on our management from a wide range of sources. For analysts and investors, our president gives twice-yearly presentations of financial results and management strategies, which heads of operational divisions attend. In addition, to deepen capital markets' understanding of the Group, Tsubakimoto Chain conducts tours of its plants as appropriate. Also, we quickly reflect feedback from capital markets on management. Further, from the fiscal year under review, we began overseas IR meetings. We believe that such initiatives not only add to management transparency and flexibility but also contribute significantly to our growth potential over the medium-to-long term.

Measures to Reinforce Compliance

The Tsubaki Group has taken a range of positive steps to strengthen compliance. We established a mission statement in April 1999 and a code of ethics in November 2002. Also, we distribute a code of ethics handbook to all our employees. Moreover, to enable employees to report, or seek consolation with regard to, actions running counter to the code of ethics, we established an ethics helpline in November 2002. Since then, we have continued efforts to strengthen personnel and organizations related to compliance. In April 2004, we launched the Compliance Center headed by an executive managing director to ensure strict compliance in operations. Following the inclusion of the newly established Internal Auditing Department and the Environmental Management Department, the Compliance Center was renamed the Corporate Social Responsibility Advancement Center in April 2006.

Our Unique Social Contributions

In order to maximize corporate value, companies must heighten growth potential while enhancing sustainability and stability. Given that society and the environment underpin sustained and stable corporate growth, companies are obliged to contribute in these areas. Mindful of this duty, we have acquired ISO 14001 accreditations. However, we believe that our most efficient and effective social contributions are those that capitalize on our operations' differentiated technology and quality.

To take one mainstay product as an example, using our long-life, lube-free Lambda Chain reduces CO_2 emissions by almost 90% compared with conventional products. Our SpeedMech environment-friendly electro-mechanical cylinders achieve high-frequency operation, up to 15 times per minute, and longevity, 1 million repetitions. Such products enabled by our technology are our unique contribution to society.

For further details about our initiatives in energy saving, environmental protection, environmental management, and volunteer activities as well as our environmental targets and achievements, please see Tsubakimoto Chain's Environmental and Social Report, scheduled for publication in October 2006.

* Please see the Company's Japanese web site for the 2005 version of the report.

Board of Directors, Corporate Auditors, and Executive Officers

As of June 29, 2006

Takashi Fukunaga
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director

Makoto Kanehira
Director and Senior Managing Executive Officer

Tadashi Ichikawa
Director and Managing Executive Officer

Toru Fujiwara
Director and Managing Executive Officer

Nobuhiko Miki
Director and Managing Executive Officer

Isamu Osa
Director and Executive Officer

Tamio Miyamoto
Director and Executive Officer

Hidetoshi Yajima
Director

Corporate Auditors (Standing) Tadachi Yokoyama, Tatsuo Komatsu

Corporate Auditors Masaru Tokuda, Takafumi Watanabe

Managing Executive Officers Hideo Miyazaki, Yoshinobu Miyazaki, Akira Morikiyo, Tadasu Suzuki, Masato Kondo

Executive Officers Hiroshi Yanagase, Shigeya Tsubakimoto, Yoshikazu Kitayama, Jiro Baba, Toshimitsu Sakai, Toshio Takahashi

Financial Section

Contents

26 Eleven-Year Financial Summary

28 Report and Analysis of Financial Conditions and Results of Operations for the Fiscal Year Ended March 2006 (Consolidated)

31 Operational and Other Risks

32 Consolidated Financial Statements

37 Notes to Consolidated Financial Statements

49 Report of Independent Auditors

Eleven-Year Financial Summary

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
Years ended March 31

	2006	2005	2004	2003
Net sales	**¥147,761**	¥129,563	¥119,141	¥116,670
Operating income	**13,830**	10,448	7,951	7,351
Income (loss) before income taxes and minority interests	**12,609**	8,598	6,537	2,800
Net income (loss)	**6,607**	4,449	3,385	1,531
Net income (loss) per share (yen and dollars)	**¥34.78**	¥22.77	¥17.40	¥7.92
Diluted net income (loss) (yen and dollars)	**—**	—	—	—
Interest expense:				
Net	**¥ 909**	¥ 1,161	¥ 1,363	¥ 1,636
Gross: Interest received	**85**	34	68	103
Interest paid	**994**	1,195	1,431	1,739
Capital expenditures	**7,489**	3,698	3,506	2,942
Depreciation	**5,509**	5,504	6,083	6,736
Total current assets	**78,856**	72,125	69,735	83,074
Total current liabilities	**56,337**	53,801	48,395	52,062
Property, plant and equipment, net	**76,263**	75,394	76,307	80,416
Total long-term liabilities	**60,918**	49,850	56,758	67,638
Total assets	**198,458**	179,263	175,432	183,260
Paid-in capital	**17,077**	17,077	17,077	17,077
Retained earnings	**44,509**	39,344	36,199	33,975
Total shareholders' equity	**77,098**	71,634	66,873	60,307
Equity ratio (%)	**38.8**	40.0	38.1	32.9
ROE (%)	**8.9**	6.4	5.3	2.5
D/E ratio	**0.51**	0.61	0.75	1.08
Net cash provided by operating activities	**¥ 10,681**	¥ 9,673	¥ 7,995	¥ 12,020
Net cash provided by (used in) investing activities	**(5,595)**	(2,465)	9,068	(3,014)
Net cash provided by (used in) financing activities	**(5,596)**	(9,412)	(15,538)	(14,216)
Cash and cash equivalents at end of the year	**10,984**	11,562	13,681	12,417
Number of shares outstanding at end of the year* (thousands)	**187,541**	187,613	188,544	188,723
Number of employees	**4,675**	4,765	4,709	4,871

* Excluding treasury stock.

MILLIONS OF YEN UNLESS NOTED OTHERWISE							THOUSANDS OF U.S. DOLLARS (NOTE 1)
2002	2001	2000	1999	1998	1997	1996	**2006**
¥113,741	¥114,206	¥106,281	¥110,919	¥128,298	¥127,231	¥110,424	**$1,257,754**
6,038	6,962	2,705	2,358	6,435	6,374	4,329	**117,722**
2,661	226	2,725	(1,018)	5,508	5,931	3,649	**107,329**
1,202	465	1,218	(1,715)	2,709	3,280	1,796	**56,239**
¥6.27	¥2.42	¥6.36	¥(8.92)	¥14.08	¥17.04	¥9.33	**$0.296**
—	—	—	—	—	—	—	**—**
¥ 1,585	¥ 1,666	¥ 1,577	¥ 1,163	¥ 1,172	¥ 1,073	¥ 1,063	**$ 7,737**
223	284	162	263	323	385	492	**724**
1,808	1,950	1,739	1,426	1,495	1,458	1,555	**8,461**
16,194	10,251	32,487	5,157	15,050	5,680	4,759	**63,747**
5,611	4,321	4,444	4,620	4,790	4,783	4,837	**46,893**
90,750	93,984	83,143	72,541	81,622	80,929	77,995	**671,229**
58,125	65,374	50,080	47,256	62,224	58,349	62,312	**479,545**
85,381	82,179	76,352	48,249	48,837	38,331	36,904	**649,157**
77,676	74,066	67,474	27,397	18,710	21,847	16,849	**518,539**
201,555	208,877	184,468	137,691	147,668	145,268	141,863	**1,689,291**
17,077	17,077	17,077	17,077	17,077	17,075	17,068	**145,361**
33,500	33,480	34,020	31,943	35,260	33,791	31,682	**378,864**
62,674	66,463	63,750	61,673	64,989	63,516	61,392	**656,265**
31.1	31.8	34.6	44.8	44.0	43.7	43.3	
1.9	0.7	1.9	—	4.2	5.2	2.9	
1.22	1.18	1.16	0.73	0.64	0.62	0.60	
¥ 7,709	¥ 5,968	¥ 3,268	¥ 6,951	¥ 2,740	¥ 4,028	¥ 5,456	**$ 90,918**
(10,718)	(10,834)	(28,755)	(4,527)	(4,475)	(4,663)	(4,245)	**(47,625)**
(4,243)	2,026	27,166	2,427	1,021	955	1,246	**(47,634)**
17,679	24,853	27,586	24,879	20,029	21,999	21,679	**93,497**
191,386	191,406	191,406	191,406	192,406	192,399	192,377	
4,916	5,237	5,440	5,368	5,720	5,789	5,844	

Report and Analysis of Financial Conditions and Results of Operations for the Fiscal Year Ended March 2006 (Consolidated)

■ Operating Environment

I. DOMESTIC ECONOMIC CONDITIONS

Real GDP grew 3.2% in the fiscal year ended March 2006, marking the fourth continuous year of positive growth and the highest rate of growth since the 6.0% recorded in the fiscal year ended March 1991. Particularly noteworthy was the growth in private-sector capital investment, the financial indicator that most significantly affects the Tsubaki Group's business results. Capital investment is on an accelerating trend with the annual rate of growth at 6.6%, up from 5.6% in the fiscal year ended March 2005. The current wave of economic growth is expanding beyond the major centers to the local regions and from the corporate sector to the individual. Another major development in the operating environment in the fiscal year under review was the appearance of definite signs that the domestic economy may be breaking out of a deflationary cycle.

II. ECONOMIC CONDITIONS OVERSEAS

Despite concerns over higher oil prices and the effects of major hurricanes, the U.S. economy maintained real growth in GDP exceeding 3% on the back of strong consumer spending. Although results tended to vary according to region in Europe, the general trend was toward sturdy economic recovery. Economic growth in Asia continued at a fast pace fueled by growth in China amid ongoing concern about overheating.

■ Statements of Income

Supported by the favorable business environment, the Tsubaki Group recorded a solid business performance during the fiscal year under review.

I. OVERALL PERFORMANCE

1. Net Sales

Consolidated net sales reached ¥147.8 billion (up 14.0%), exceeding the target of ¥136.0 billion set in the initial plan formulated at the beginning of the fiscal year under review as well as the revised target of ¥145.0 billion included in the interim-term financial statements. Net sales results by business segment, which will be discussed later in this section, benefited from market share increases in industrial-use chains and automotive parts, the Tsubaki Group's mainstay products, in addition to the strong growth shown in private-sector capital investment and the strong performance of the automotive sector.

2. Operating Income

Operating income posted significant growth of 32.4% from the previous year, reaching ¥13.8 billion, a new record. Despite the adverse effects of steep rises in prices of raw materials, particularly steel, sales growth was supported by two factors. First, a significant increase in sales of chains and automotive parts, the most profitable in the Tsubakimoto Chain lineup, helped to improve the overall business segments and product mix. Second, price increases for power transmission units and components helped to offset higher raw material prices. These two factors combined to fuel a 1.3-point rise in the operating margin, from 8.1% to 9.4%.

3. Net Income

Net income for the fiscal year under review also reached a historic high of ¥6.6 billion. The balance of interest income and interest expenses (interest and dividend income minus interest expense) yielded a net expense for the year of ¥0.6 billion, down ¥0.4 billion from the previous year. Contributing to this improvement was a reduction in interest-bearing debt. Other relevant items included a gain of ¥0.5 billion on sales of property, plant and equipment, extraordinary profit of ¥0.5 billion, a loss of ¥0.3 billion due to modification of the retirement benefit plan, and an extraordinary loss of ¥0.5 billion.

II. PERFORMANCE BY BUSINESS SEGMENT

1. Business Segments

Please refer to pages 14 to 19 for detailed information on business segments.

① Power Transmission Products

Total sales in this segment came to ¥113.7 billion, an increase of 13.9% from the previous year. The operating margin also expanded, to 13.1% from 11.3% in the previous year.

In terms of product sales, vigorous, double-digit growth was registered by chain products (up 12.9%), automotive parts (up 14.4%), and power transmission units and components (up 12.8%).

Sales growth in chain products, in particular, was sustained by strong capital investment in plant and equipment by the domestic manufacturing sector and growth in market share. Across-the-board growth was recorded for various categories of chains, including ATC chains for machine tools, chains for small and large conveyor systems, and cableveyors. Growth in sales volumes was accompanied by price increases for certain products, productivity enhancements, and cost reduction measures, such as cell manufacturing, that combined to significantly increase profit margins.

In automotive parts, steady expansion of automobile production by domestic automakers helped to significantly expand sales of timing chain drive systems, one of the Company's leading product lines. Timing chain drive systems also showed favorable sales growth in the overseas five-point production network encompassing bases in Japan, North America, Europe, Thailand, and China, with very large orders received from several overseas automakers.

In power transmission units and components, such key products as reducers, linear actuators, and clutches registered growth in sales to the automotive, machine tools, injection molding equipment, steel, and LCD-related industries.

② Materials Handling Systems

Total sales of materials handling systems expanded 15.7%, to ¥35.5 billion. The operating margin was about the same as in the previous year, at 5.9%.

In terms of products, sales increased steadily for automotive body paint shop conveyor systems, automatic roll paper feeding systems for the newspaper industry, conveyor systems for the machine tools industry, and bulk conveyance systems for such granulated materials as grain and feed. While we have aggressively pursued measures to reduce costs, additional costs incurred in newly developed automotive body paint shop conveyor systems kept the operating margin at the level of the previous fiscal year.

2. Performance by Geographical Segment

Total sales in Japan increased 12.5%, to ¥117.4 billion, while the operating margin grew 1.3 points, to 12.3%. The principal factors contributing to this result included the increase in overall chain sales volume, success in implementing cost reduction measures, and the rationalization of productivity for such leading product lines as chains, automotive parts, power transmission units and components, and materials handling systems.

Total sales in North America showed strong growth of 37.8%, with the chain and automotive parts operations of U.S. Tsubaki, Inc., making an important contribution. However, the operating margin remained at the modest level of 3.2%, up just 0.4 points. While productivity has improved significantly thanks to higher production levels, unprofitable projects in the area of automotive body paint shop conveyor systems (as mentioned above) had a hobbling effect on earnings growth during the fiscal year under review.

Total sales in Europe registered strong growth of 27.5%. Contributing to this success were major orders for conveyor chains destined for food processing companies in the United Kingdom. Nevertheless, the operating margin of 7.4% remained near the level of the previous fiscal year.

Total sales in Asia and Oceania remained flat, while the operating margin grew by 1.2 points, to 11.3%.

■ Cash Flows

1. Cash Flows from Operating Activities

Net cash from operating activities rose to ¥10.7 billion, from ¥9.7 billion in the previous fiscal year. Income before income taxes and minority interests rose to ¥12.6 billion, up significantly from the ¥8.6 billion in the previous year. Among other items, the growth in trade notes and accounts receivable accompanying increased business capacity and inventories (specifically related to Materials Handling Systems Operations) negatively affected growth. Depreciation came to ¥5.5 billion, about the same level as recorded in the previous year.

2. Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥5.6 billion, compared with net cash of ¥2.5 billion used in the preceding year. Principal factors leading to the sharp increase in cash outflow included an aggressive program of investment in plant and equipment centered on the key growth area of automotive parts. This included payments for purchases of property, plant and equipment, which grew to ¥6.8 billion from ¥3.0 billion in the previous year. On the positive side, proceeds from sales of property, plant and equipment in the form of idle plant property came to ¥1.2 billion.

3. Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥5.6 billion, compared with net cash of ¥9.4 billion used in the preceding year. An inflow of cash of ¥7.0 billion from issuance of bonds was exceeded by an outflow of ¥8.2 billion for repayment of long-term loans. While, in terms of direction, the Tsubaki Group continues to maintain a special focus on reducing interest-bearing debt, the current favorable business environment has also led the Group to adopt a somewhat more positive business stance.

■ Balance Sheets

1. Assets

Total assets increased to ¥198.5 billion, from ¥179.3 billion at the previous year-end.

Due to growth in trade notes and accounts receivable and inventories accompanying the expansion in business capacity described previously, total current assets increased ¥6.7 billion, to ¥78.9 billion. Affected by the assessment of non-recoverability of deferred income tax assets on property revalued previously, property, plant and equipment, net, was reduced ¥2.1 billion. In investments and other assets, a significant gain on valuation of investment in securities accompanying a rise in share prices contributed to an overall increase of ¥12.5 billion in noncurrent assets, bringing their total to ¥119.6 billion.

2. Liabilities

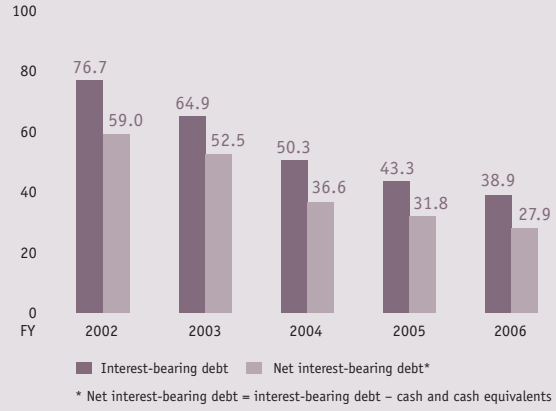
Ongoing efforts during the fiscal year under review to improve the Company's financial position helped reduce interest-bearing debt by ¥4.4 billion, bringing the total down to ¥39.0 billion. This represents a reduction in interest-bearing debt of approximately half from the ¥78.7 billion recorded at the close of the fiscal year ended March 2001. Total liabilities for the fiscal year under review increased ¥13.6 billion, to ¥117.3 billion. This result reflected such factors as a rise in deferred income tax liabilities by ¥6.8 billion, which is associated with the assessment of non-recoverability of deferred income tax assets (see the discussion in the Assets section), an increase in deferred income tax liabilities on market valuation of securities, and an increase in trade notes and accounts payable accompanying the growth in business capacity.

3. Shareholders' Equity

Total shareholders' equity expanded ¥5.5 billion, to ¥77.1 billion. This was due to a combination of factors. On the positive side was the significant growth in retained earnings accompanying growth in net income and an increase in net unrealized holding gain on securities accompanying the gain on valuation of investment in securities. On the negative side were the interplay between the accounting procedures that apply to revaluation of land under the assets and the liabilities sections that reduced the property revaluation surplus by ¥9.0 billion. As a result, the equity ratio fell to 38.8%, from 40.0%. At the same time, however, the debt-equity ratio (total interest-bearing liabilities divided by total shareholders' equity) improved to 0.51, from 0.61 at the previous year-end.

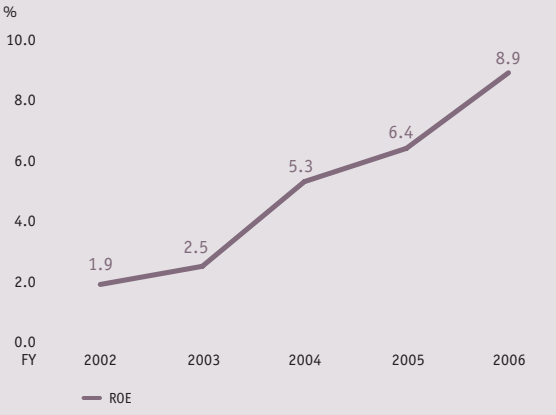
Total Assets and Shareholders' Equity

Interest-Bearing Debt



* Net interest-bearing debt = interest-bearing debt – cash and cash equivalents

ROE



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.

Consolidated Balance Sheets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2006 and 2005

Assets	MILLIONS OF YEN 2006	2005	THOUSANDS OF U.S. DOLLARS (NOTE 1) 2006
Current assets:			
Cash and cash equivalents	**¥ 10,984**	¥ 11,562	**$ 93,497**
Time deposits	**500**	4	**4,256**
Marketable securities (Note 4)	**—**	39	**—**
Trade notes and accounts receivable	**39,975**	35,626	**340,271**
Inventories (Note 5)	**23,875**	21,287	**203,226**
Deferred income taxes (Note 7)	**2,436**	2,058	**20,735**
Other current assets	**1,358**	1,823	**11,559**
Allowance for doubtful accounts	**(272)**	(274)	**(2,315)**
Total current assets	**78,856**	72,125	**671,229**
Property, plant and equipment, at cost (Note 6):			
Land (Note 10)	**35,306**	36,034	**300,528**
Buildings and structures	**41,967**	42,014	**357,227**
Machinery, equipment and vehicles	**62,606**	59,256	**532,908**
Tools, furniture and fixtures	**15,465**	14,961	**131,639**
Construction in progress	**3,156**	1,361	**26,864**
Less accumulated depreciation	**(82,237)**	(78,232)	**(700,009)**
Property, plant and equipment, net	**76,263**	75,394	**649,157**
Investments and other assets:			
Investment in securities (Note 4)	**34,881**	21,193	**296,910**
Investments in unconsolidated subsidiaries and affiliates	**1,501**	752	**12,777**
Long-term loans receivable	**38**	41	**323**
Deferred income taxes (Note 7)	**1,815**	1,933	**15,450**
Deferred income taxes on revaluation of land	**—**	2,113	**—**
Other assets (Note 6)	**5,279**	5,944	**44,935**
Allowance for doubtful accounts	**(175)**	(232)	**(1,490)**
Total investments and other assets	**43,339**	31,744	**368,905**
Total assets	**¥198,458**	¥179,263	**$1,689,291**

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	MILLIONS OF YEN 2006	2005	THOUSANDS OF U.S. DOLLARS (NOTE 1) 2006
Current liabilities:			
Short-term loans (Note 6)	**¥ 7,413**	¥ 9,909	**$ 63,100**
Current portion of long-term debt (Note 6)	**7,955**	9,196	**67,714**
Trade notes and accounts payable	**25,444**	21,496	**216,581**
Accrued income taxes	**3,461**	2,330	**29,460**
Accrued expenses	**4,179**	4,237	**35,572**
Other current liabilities (Note 6)	**7,885**	6,633	**67,118**
Total current liabilities	**56,337**	53,801	**479,545**
Long-term liabilities:			
Long-term debt (Note 6)	**23,598**	24,275	**200,868**
Accrued retirement benefits to employees (Note 8)	**9,916**	11,024	**84,406**
Accrued retirement benefits to directors and corporate auditors	**364**	337	**3,098**
Deferred income taxes (Note 7)	**14,148**	8,203	**120,429**
Deferred income taxes on revaluation of land	**6,773**	—	**57,652**
Other long-term liabilities (Note 6)	**6,119**	6,011	**52,086**
Total long-term liabilities	**60,918**	49,850	**518,539**
Minority interests	**4,105**	3,978	**34,942**
Contingent liabilities (Note 9)			
Shareholders' equity (Note 11):			
Common stock:			
Authorized - 299,000,000 shares in 2006 and 2005			
Issued - 191,406,969 shares in 2006 and 2005	**17,077**	17,077	**145,361**
Capital surplus	**12,654**	12,653	**107,712**
Net unrealized loss on land revaluation (Note 10)	**(12,047)**	(3,091)	**(102,545)**
Retained earnings (Note 2)	**44,509**	39,344	**378,864**
Net unrealized holding gain on securities	**16,749**	8,591	**142,569**
Translation adjustments	**(429)**	(1,575)	**(3,652)**
Treasury stock:			
3,865,828 shares in 2006 and 3,794,043 shares in 2005	**(1,415)**	(1,365)	**(12,044)**
Total shareholders' equity	**77,098**	71,634	**656,265**
Total liabilities and shareholders' equity	**¥198,458**	¥179,263	**$1,689,291**

Consolidated Statements of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2006	2005	**2006**
Net sales (Note 16)	**¥147,761**	¥129,563	**$1,257,754**
Cost of sales (Note 12)	**108,500**	94,630	**923,561**
Gross profit	**39,261**	34,933	**334,193**
Selling, general and administrative expenses (Note 12)	**25,431**	24,485	**216,471**
Operating income (Note 16)	**13,830**	10,448	**117,722**
Other income (expenses):			
Interest and dividend income	**353**	193	**3,005**
Interest expense	**(994)**	(1,195)	**(8,461)**
Equity in earnings of affiliates	**7**	21	**60**
Foreign exchange loss	**(244)**	(163)	**(2,077)**
Loss on amendment to retirement benefit plans (Note 8)	**(273)**	—	**(2,324)**
Loss on impairment of fixed assets (Note 3)	**(32)**	—	**(272)**
Other, net	**(38)**	(706)	**(324)**
Income before income taxes and minority interests	**12,609**	8,598	**107,329**
Income taxes (Note 7):			
Current	**5,402**	3,314	**45,982**
Deferred	**(111)**	159	**(944)**
	5,291	3,473	**45,038**
Income before minority interests	**7,318**	5,125	**62,291**
Minority interests	**(711)**	(676)	**(6,052)**
Net income	**¥ 6,607**	¥ 4,449	**$ 56,239**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2006	2005	**2006**
Common stock:			
Balance at beginning and end of the year	**¥ 17,077**	¥17,077	**$ 145,361**
Capital surplus:			
Balance at beginning of the year	**¥ 12,653**	¥12,653	**$ 107,703**
Gain on sales of treasury stock	**1**	0	**9**
Balance at end of the year	**¥ 12,654**	¥12,653	**$ 107,712**
Net unrealized loss on land revaluation:			
Balance at beginning of the year	**¥ (3,091)**	¥(3,091)	**$ (26,311)**
Transfer to retained earnings	**(41)**	—	**(349)**
Adjustment to deferred tax assets on land revaluation reserve	**(8,915)**	—	**(75,885)**
Balance at end of the year	**¥(12,047)**	¥(3,091)	**$(102,545)**
Retained earnings:			
Balance at beginning of the year	**¥ 39,344**	¥36,199	**$ 334,899**
Net income	**6,607**	4,449	**56,239**
Appropriations:			
Cash dividends	**(1,313)**	(1,130)	**(11,176)**
Bonuses to directors and corporate auditors	**(170)**	(101)	**(1,447)**
Decrease resulting from initial consolidation of additional subsidiaries	**—**	(73)	**—**
Transfer from net unrealized loss on land revaluation	**41**	—	**349**
Balance at end of the year	**¥ 44,509**	¥39,344	**$ 378,864**
Net unrealized holding gain on securities:			
Balance at beginning of the year	**¥ 8,591**	¥ 7,066	**$ 73,127**
Net changes during the year	**8,158**	1,525	**69,442**
Balance at end of the year	**¥ 16,749**	¥ 8,591	**$ 142,569**
Translation adjustments:			
Balance at beginning of the year	**¥ (1,575)**	¥(2,003)	**$ (13,406)**
Net changes during the year	**1,146**	428	**9,754**
Balance at end of the year	**¥ (429)**	¥(1,575)	**$ (3,652)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS (NOTE 1)
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥12,609**	¥ 8,598	**$107,329**
Adjustments for:			
Depreciation	**5,509**	5,504	**46,893**
Loss on impairment of fixed assets	**32**	—	**272**
Gain on sales of property, plant and equipment	**(305)**	(866)	**(2,596)**
Allowance for doubtful accounts, net	**(43)**	(85)	**(366)**
Decrease in accrued retirement benefits	**(763)**	(568)	**(6,495)**
Increase (decrease) in obligation on transfer to defined contribution pension plans	**488**	(447)	**4,154**
Increase in trade notes and accounts receivable	**(4,194)**	(2,380)	**(35,699)**
Increase in inventories	**(3,147)**	(630)	**(26,788)**
Increase in trade notes and accounts payable	**4,441**	3,168	**37,802**
Other	**958**	963	**8,155**
Subtotal	**15,585**	13,257	**132,661**
Interest and dividends received	**359**	209	**3,056**
Interest paid	**(990)**	(1,210)	**(8,427)**
Income taxes paid	**(4,273)**	(2,583)	**(36,372)**
Net cash provided by operating activities	**10,681**	9,673	**90,918**
Cash flows from investing activities:			
Decrease in time deposits	**4**	93	**34**
Increase in investments in securities	**(20)**	(192)	**(170)**
Proceeds from sales of investments in securities	**142**	188	**1,209**
Increase in investments in affiliates	**(155)**	(439)	**(1,319)**
Increase in long-term loans receivable	**(66)**	(48)	**(562)**
Decrease in long-term loans receivable	**68**	171	**579**
Purchases of property, plant and equipment	**(6,786)**	(3,034)	**(57,763)**
Proceeds from sales of property, plant and equipment	**1,218**	796	**10,367**
Net cash used in investing activities	**(5,595)**	(2,465)	**(47,625)**
Cash flows from financing activities:			
(Decrease) increase in short-term loans, net	**(1,694)**	2,658	**(14,419)**
Proceeds from long-term loans	**1,000**	3,156	**8,512**
Repayment of long-term loans	**(8,183)**	(6,985)	**(69,654)**
Issuance of bonds	**6,955**	—	**59,201**
Redemption of bonds	**(1,700)**	(6,200)	**(14,471)**
Payments on installment payables	**(451)**	(456)	**(3,839)**
Cash dividends paid	**(1,313)**	(1,130)	**(11,176)**
Cash dividends paid to minority interests	**(160)**	(119)	**(1,362)**
Purchases of treasury stock	**(51)**	(339)	**(434)**
Proceeds from sales of treasury stock	**1**	3	**8**
Net cash used in financing activities	**(5,596)**	(9,412)	**(47,634)**
Effect of exchange rate changes on cash and cash equivalents	**205**	73	**1,745**
Net decrease in cash and cash equivalents	**(305)**	(2,131)	**(2,596)**
Cash and cash equivalents at beginning of the year	**11,562**	13,681	**98,417**
(Decrease) increase in cash and cash equivalents resulting from initial inclusion in or exclusion from consolidation	**(273)**	12	**(2,324)**
Cash and cash equivalents at end of the year	**¥10,984**	¥11,562	**$ 93,497**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2006

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥117.48 = U.S.$1.00, the exchange rate prevailing on March 31, 2006. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2005 to the 2006 presentation. These reclassifications had no effect on consolidated net income or consolidated shareholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The assets and liabilities of the consolidated subsidiaries are revalued at fair value by the full value method as of their respective dates of acquisition. The difference, not significant in amount, between the cost of investments in such subsidiaries and the equity in their net assets at their dates of acquisition is amortized over a period of five years on a straight-line basis.

The balance sheet dates of certain consolidated subsidiaries are December 31 and January 31. Any significant differences in their intercompany accounts and transactions arising from intercompany transactions during the periods from January 1 through March 31 and February 1 through March 31 have been adjusted, if necessary.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(c) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(d) Marketable securities and investment in securities

Marketable securities and investment in securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(e) Derivatives

Derivatives are stated at fair value.

(f) Inventories

Inventories except for certain overseas subsidiaries are principally stated at cost determined by the first-in, first-out method, the individual identification method or the moving average cost method. Inventories of certain overseas subsidiaries are stated at the lower of cost or market.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is calculated by the declining-balance method over the useful lives of the respective assets. Depreciation of buildings, except for structures attached to the buildings, is calculated by the straight-line method.

The principal estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	4 to 13 years

(h) Leases

Finance leases other than those which transfer ownership of the leased property to the lessees are accounted for as operating leases.

(i) Income taxes

Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(j) Accrued retirement benefits to employees

Accrued retirement benefits for employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a period which is shorter than the average estimated remaining years of service of the eligible employees (10 years).

(k) Accrued retirement benefits to directors and corporate auditors

Directors and corporate auditors of the Company and its domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and corporate auditors has been made at an estimated amount based on the internal regulations.

(l) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the interest-rate swaps had originally applied to the underlying debt. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding contract rates.

(m) Revenue recognition

The Company and its consolidated subsidiaries recognize revenue and the related costs of long-term construction contracts by applying the completed-contract method, except for those of certain overseas subsidiaries in the Materials Handling Systems business to which the percentage-of-completion method is applied.

(n) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

(o) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The assets and liabilities of overseas subsidiaries and affiliates are translated into yen at the exchange rates in effect on the respective balance sheet date, and shareholders' equity is translated at the respective historical rates. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in shareholders' equity (presented as "Translation adjustments") and minority interests in the accompanying consolidated balance sheets.

(p) Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations. (Refer to Note 17.)

3. CHANGES IN METHOD OF ACCOUNTING

(1) New accounting standard for the impairment of fixed assets

Effective the year ended March 31, 2006, the Company and its consolidated subsidiaries have adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and its consolidated subsidiaries are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that impairment losses are to be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, or (2) the present value of future cash flows arising from ongoing utilization of the asset and from its disposal after use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest level for which there are identifiable cash flows which are independent of the cash flows from other groups of assets.

As a result of the adoption of this new accounting standard, a loss on impairment of land in the amount of ¥32 million ($272 thousand) has been recognized for the year ended March 31, 2006 and income before income taxes and minority interests decreased by the same amount for the year then ended.

The impairment losses on such assets have been deducted directly from the carrying amounts of the respective assets in the consolidated balance sheet at March 31, 2006.

(2) Revenue recognition and construction contracts

Effective the year ended March 31, 2006, certain overseas subsidiaries in the Materials Handling Systems business have changed their revenue recognition policy for projects including long-term construction contracts from accounting for such projects by the completed-contract method, to applying the percentage-of-completion method. This change was made in order to present their operating results more accurately as large scale long-term construction contracts as a percentage of annual construction orders have recently become more significant.

The effect of this change was to increase net sales by ¥5,624 million ($47,872 thousand) and cost of sales by ¥5,672 million ($48,281 thousand) and to decrease operating income and income before income taxes and minority interests by ¥47 million ($400 thousand) for the year ended March 31, 2006 as compared with the corresponding amounts which would have been recorded if the previous method of accounting had been followed.

4. SECURITIES

(a) Marketable securities classified as held-to-maturity debt securities at March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN						THOUSANDS OF U.S. DOLLARS		
	2006			2005			**2006**		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:									
Corporate bonds	**¥100**	**¥100**	**¥ 0**	¥ —	¥—	¥—	**$851**	**$851**	**$ 0**
Securities whose estimated fair value does not exceed their carrying value:									
Corporate bonds	**—**	**—**	**—**	100	94	(6)	**—**	**—**	**—**
Total	**¥100**	**¥100**	**¥ 0**	¥100	¥94	¥(6)	**$851**	**$851**	**$ 0**

(b) Marketable securities classified as other securities at March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN						THOUSANDS OF U.S. DOLLARS		
	2006			2005			**2006**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities	**¥6,002**	**¥34,263**	**¥28,261**	¥5,971	¥20,485	¥14,514	**$51,090**	**$291,650**	**$240,560**
Other	**59**	**69**	**10**	—	—	—	**502**	**587**	**85**
Subtotal	**6,061**	**34,332**	**28,271**	5,971	20,485	14,514	**51,592**	**292,237**	**240,645**
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities	**—**	**—**	**—**	2	2	(0)	**—**	**—**	**—**
Debt securities	**—**	**—**	**—**	54	44	(10)	**—**	**—**	**—**
Other	**90**	**80**	**(10)**	179	164	(15)	**766**	**681**	**(85)**
Subtotal	**90**	**80**	**(10)**	235	210	(25)	**766**	**681**	**(85)**
Total	**¥6,151**	**¥34,412**	**¥28,261**	¥6,206	¥20,695	¥14,489	**$52,358**	**$292,918**	**$240,560**

(c) Sales of other securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Sales	**¥75**	¥176	**$638**
Gross realized gain	**15**	5	**128**
Gross realized loss	**—**	(8)	**—**

The carrying value of securities without determinable market value at March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Other securities:			
Unlisted overseas bonds	**¥ —**	¥ 39	**$ —**
Unlisted equity securities	**369**	398	**3,141**

(d) The redemption schedule for held-to-maturity debt securities at March 31, 2006 is summarized as follows:

	MILLIONS OF YEN			
	2006			
	Due within one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds	**¥—**	**¥—**	**¥—**	**¥100**

	THOUSANDS OF U.S. DOLLARS			
	2006			
	Due within one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Corporate bonds	**$—**	**$—**	**$—**	**$851**

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Finished goods	**¥ 9,515**	¥ 8,953	**$ 80,993**
Raw materials	**2,903**	2,578	**24,711**
Work in process	**10,623**	9,182	**90,424**
Supplies	**834**	574	**7,098**
	¥23,875	¥21,287	**$203,226**

6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at March 31, 2006 and 2005 consisted principally of loans from banks and insurance companies at weighted average rates of 1.3% and 1.7%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Loans, principally from banks and insurance companies, due through 2014 at an average annual interest rate of 3.0%:			
Secured	**¥13,079**	¥13,142	**$111,330**
Unsecured	**10,474**	17,629	**89,155**
0.73% to 1.20% secured bonds due 2005	**—**	100	**—**
2.40% unsecured bonds due 2005	**—**	1,600	**—**
0.38% unsecured bonds due 2006	**100**	100	**851**
2.30% secured bonds due 2007	**800**	800	**6,810**
0.44% unsecured bonds due 2007	**100**	100	**851**
0.83% unsecured bonds due 2010	**7,000**	—	**59,585**
	31,553	33,471	**268,582**
Less current portion	**7,955**	9,196	**67,714**
Total	**¥23,598**	¥24,275	**$200,868**

Other interest-bearing liabilities included in other current and long-term liabilities represented installment payables at average annual interest rates of 3.15% and 3.04% at March 31, 2006 and 2005, respectively.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
2007	¥ 7,955	$ 67,714
2008	2,062	17,552
2009	3,015	25,664
2010	10,452	88,968
2011	8,015	68,224
2012 and thereafter	54	460
Total	¥31,553	$268,582

The aggregate annual maturities of other interest-bearing liabilities subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
2007	¥ 398	$ 3,388
2008	348	2,962
2009	336	2,860
2010	318	2,707
2011	329	2,800
2012 and thereafter	173	1,473
Total	¥1,902	$16,190

Assets pledged as collateral for short-term bank loans of ¥409 million ($3,481 thousand), the current portion of long-term debt of ¥4,344 million ($36,977 thousand), the current portion of secured bonds of ¥800 million ($6,810 thousand) and long-term debt of ¥8,736 million ($74,362 thousand) at March 31, 2006 were composed of the following:

	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
	2006	**2006**
Land	**¥30,133**	**$256,495**
Buildings and structures	**15,743**	**134,006**
Machinery, equipment and vehicles	**7,660**	**65,203**
Tools, furniture and fixtures	**943**	**8,027**
Construction in progress	**211**	**1,796**
Other assets	**63**	**536**
	¥54,753	**$466,063**

The Company has concluded lines-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2006 was as follows:

	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
Lines of credit	**¥15,000**	**$127,681**
Credit utilized	**1,000**	**8,512**
Available credit	**¥14,000**	**$119,169**

7. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2006 and 2005.

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2006 and 2005 has not been presented, because the differences were less than five percent of the statutory tax rate.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Deferred tax assets:			
Accrued retirement benefits	**¥ 4,241**	¥ 4,216	**$ 36,100**
Obligation on change to defined contribution pension plans	**1,893**	1,725	**16,113**
Accrued retirement benefits for directors and corporate auditors	**148**	137	**1,260**
Accrued bonuses	**1,038**	955	**8,836**
Allowance for doubtful accounts	**122**	142	**1,038**
Other	**1,486**	1,373	**12,649**
Gross deferred tax assets	**8,928**	8,548	**75,996**
Less: valuation allowance	**(357)**	—	**(3,039)**
Total deferred tax assets	**8,571**	8,548	**72,957**
Deferred tax liabilities:			
Deferred gain on replacement of property	**(5,377)**	(5,175)	**(45,769)**
Net unrealized gain on revaluation of assets and liabilities of subsidiaries	**(269)**	(370)	**(2,290)**
Unrealized holding gain on securities	**(11,475)**	(5,882)	**(97,676)**
Other	**(1,347)**	(1,333)	**(11,466)**
Total deferred tax liabilities	**(18,468)**	(12,760)	**(157,201)**
Net deferred tax liabilities	**¥ (9,897)**	¥ (4,212)	**$ (84,244)**

8. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain overseas subsidiaries also have defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Retirement benefit obligation	**¥(14,108)**	¥(16,078)	**$(120,088)**
Plan assets at fair value	**3,123**	3,748	**26,583**
Unfunded retirement benefit obligation	**(10,985)**	(12,330)	**(93,505)**
Unrecognized actuarial loss	**1,069**	1,306	**9,099**
Accrued retirement benefits	**¥ (9,916)**	¥(11,024)	**$ (84,406)**

As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by simplified methods.

Certain domestic consolidated subsidiaries amended a portion of their lump-sum payment plans and adopted defined contribution pension plans and advance payment schemes for retirement benefits at March 31, 2005 and April 1, 2006. The effect of these amendments to the retirement benefit plans as of March 31, 2006 is summarized as follows.

	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
	2006	**2006**
Decrease in retirement benefit obligation	**¥ 3,188**	**$ 27,137**
Plan assets transferred from tax-qualified pension plans	**(1,455)**	**(12,385)**
Unrecognized actuarial loss	**(472)**	**(4,018)**
Unrecognized prior service cost	**(173)**	**(1,473)**
Decrease in accrued retirement benefits	**1,088**	**9,261**
Plan assets to be transferred to defined contribution pension plans	**(1,361)**	**(11,585)**
Net loss on amendments to retirement benefit plans	**¥ (273)**	**$ (2,324)**

The amount to be transferred to the defined contribution pension plans over eight years is ¥1,361 million ($11,585 thousand), which has been included in "Other current liabilities" of ¥168 million ($1,430 thousand) and "Other long-term liabilities" of ¥1,075 million ($9,150 thousand) at March 31, 2006.

Certain domestic consolidated subsidiaries abolished their tax-qualified pension plans and transferred a portion of their lump-sum payment plans to defined contribution pension plans and to advance payment schemes for retirement benefits effective April 1, 2005.

The effect of these amendments to the retirement benefit plans at March 31, 2005 is summarized as follows:

	MILLIONS OF YEN
	2005
Decrease in retirement benefit obligation	¥ 801
Plan assets transferred from tax-qualified pension plans	(437)
Decrease in accrued retirement benefits	364
Plan assets to be transferred to defined contribution pension plans	(364)
Gain on amendments to retirement benefit plans	¥ —

The total amount to be transferred to the defined contribution pension plans over the next eight years is ¥801 million, which has been included in "Other current liabilities" of ¥46 million and "Other long-term liabilities" of ¥319 million in the consolidated balance sheets at March 31, 2005.

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Service cost	**¥ 658**	¥ 824	**$ 5,601**
Interest cost	**341**	377	**2,902**
Expected return on plan assets	**(89)**	(99)	**(757)**
Net loss on amendments to retirement benefit plans	**273**	—	**2,324**
Amortization of unrecognized actuarial loss	**147**	193	**1,251**
Contributions to defined contribution pension plans	**440**	312	**3,745**
Retirement benefit expenses	**¥1,770**	¥1,607	**$15,066**

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rates	**Principally 2.0%**	2.5%
Expected rates of return on plan assets	**Principally 2.5%**	2.5%

9. CONTINGENT LIABILITIES

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable for notes receivable discounted and for guarantees of loans to employees and affiliates in the aggregate amount of ¥683 million ($5,814 thousand).

10. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as "Net unrealized loss on land revaluation" under shareholders' equity at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its corresponding fair value by ¥10,435 million ($88,824 thousand) and ¥9,305 million at March 31, 2006 and 2005, respectively.

11. SHAREHOLDERS' EQUITY

The Code provides that an amount equivalent to at least 10% of cash dividends and bonuses paid to directors and corporate auditors and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of common stock. The Code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code further stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Additional paid-in capital is presented as capital surplus and the legal reserve is included in retained earnings in the accompanying consolidated balance sheets and consolidated statements of shareholders' equity. The Company's legal reserve amounted to ¥3,376 million ($28,737 thousand) at March 31, 2006 and 2005.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Code, went into effect on May 1, 2006. The Law stipulates requirements on distributions of earnings which are similar to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2006 and 2005 amounted to ¥3,422 million ($29,128 thousand) and ¥2,215 million, respectively.

13. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases under which the Company and its consolidated subsidiaries are lessees and which are currently accounted for as operating leases:

	MILLIONS OF YEN			
	2006			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery, equipment and vehicles	**¥ 143**	**¥ 52**	**¥ —**	**¥ 91**
Tools, furniture and fixtures	**1,119**	**801**	**—**	**318**
Other assets	**378**	**205**	**—**	**173**
Total	**¥1,640**	**¥1,058**	**¥ —**	**¥582**

	MILLIONS OF YEN			
	2005			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery, equipment and vehicles	¥ 70	¥ 27	¥ —	¥ 43
Tools, furniture and fixtures	1,348	870	—	478
Other assets	452	217	—	235
Total	¥1,870	¥1,114	¥ —	¥756

	THOUSANDS OF U.S. DOLLARS			
	2006			
	Acquisition cost	Accumulated depreciation	Accumulated impairment loss	Net book value
Machinery, equipment and vehicles	**$ 1,217**	**$ 442**	**$ —**	**$ 775**
Tools, furniture and fixtures	**9,525**	**6,818**	**—**	**2,707**
Other assets	**3,218**	**1,745**	**—**	**1,473**
Total	**$13,960**	**$9,005**	**$ —**	**$4,955**

Lease payments related to finance leases accounted for as operating leases and depreciation which have not been reflected in the consolidated statements of income and retained earnings for the years ended March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN		THOUSANDS OF U.S. DOLLARS
	2006	2005	**2006**
Lease payments	**¥369**	¥445	**$3,141**
Depreciation	**369**	445	**3,141**

Future minimum payments subsequent to March 31, 2006 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

Year ending March 31,	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
2007	¥255	$2,171
2008 and thereafter	327	2,783
	¥582	$4,954

The acquisition costs and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

Future minimum payments subsequent to March 31, 2006 for noncancelable operating leases are summarized as follows:

Year ending March 31,	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
2007	¥ 5	$ 43
2008 and thereafter	14	119
	¥19	$162

14. DERIVATIVES

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk. The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to ensure stable profit by hedging the risk of exchange rate fluctuation which impacts their assets and liabilities denominated in foreign currencies. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the effect of any fluctuation in interest rates on their borrowings. The Company and these consolidated subsidiaries do not enter into derivatives contracts for speculative trading purposes.

The Company and certain consolidated subsidiaries are exposed to certain market risk arising from their forward foreign exchange contracts and interest-rate swap agreements. They are also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to such forward foreign exchange contracts and interest-rate swap agreements; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Each business department determines the appropriate amount of forward foreign exchange contracts within predetermined limits and the financial sections of each department execute and manage these positions. In addition, the Finance Department of the Company enters into and manages interest-rate swap positions as an integral part of the process of entering into loan agreements.

The notional amounts of forward foreign exchange contracts, the estimated fair value of the outstanding derivatives positions and unrealized gain or loss at March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN						THOUSANDS OF U.S. DOLLARS		
	2006			2005			2006		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:									
Sell:									
U.S. dollars	**¥2,284**	**¥2,351**	**¥(67)**	¥ —	¥ —	¥ —	**$19,442**	**$20,012**	**$(570)**
Canadian dollars	**258**	**261**	**(3)**	—	—	—	**2,196**	**2,222**	**(26)**
Australian dollars	**145**	**141**	**4**	—	—	—	**1,234**	**1,200**	**34**
Buy:				—	—	—			
Japanese Yen	**1,211**	**1,196**	**(15)**	—	—	—	**10,308**	**10,180**	**(128)**
Pounds sterling	**18**	**18**	**(0)**	—	—	—	**153**	**153**	**(0)**
Total			**¥(81)**			¥ —			**$(690)**

Notes: 1. Market value is based on the prices quoted by various financial institutions.
2. Derivatives positions to which hedge accounting has been applied have been excluded from the above table.

15. AMOUNTS PER SHARE

Amounts per share at March 31, 2006 and 2005 and for the years then ended were as follows:

	YEN		U.S. DOLLARS
	2006	2005	**2006**
Net assets	**¥410.66**	¥380.91	**$3.496**
Net income	**34.78**	22.77	**0.296**
Cash dividends	**9.00**	7.00	**0.077**

The amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each year end.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

16. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of power transmission products and materials handling systems. The Company and its consolidated subsidiaries also engage in other activities such as building maintenance, insurance brokerage, sales of health care equipment, and so forth.

The business and geographical segments of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are outlined as follows:

Business Segments

MILLIONS OF YEN

	2006					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	**¥111,865**	**¥35,309**	**¥ 587**	**¥147,761**	**¥ —**	**¥147,761**
Intergroup sales and transfers	**1,791**	**175**	**1,836**	**3,802**	**(3,802)**	**—**
Total sales	**113,656**	**35,484**	**2,423**	**151,563**	**(3,802)**	**147,761**
Operating expenses	**98,767**	**33,378**	**2,260**	**134,405**	**(474)**	**133,931**
Operating income	**¥ 14,889**	**¥ 2,106**	**¥ 163**	**¥ 17,158**	**¥(3,328)**	**¥ 13,830**
II. Assets, depreciation and capital expenditures						
Total assets	**¥115,031**	**¥26,670**	**¥2,235**	**¥143,936**	**¥54,522**	**¥198,458**
Depreciation	**4,836**	**320**	**5**	**5,161**	**348**	**5,509**
Capital expenditures	**5,756**	**292**	**768**	**6,816**	**673**	**7,489**

MILLIONS OF YEN

	2005					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	¥ 98,404	¥30,592	¥ 567	¥129,563	¥ —	¥129,563
Intergroup sales and transfers	1,383	82	1,784	3,249	(3,249)	—
Total sales	99,787	30,674	2,351	132,812	(3,249)	129,563
Operating expenses	88,524	28,874	2,250	119,648	(533)	119,115
Operating income	¥ 11,263	¥ 1,800	¥ 101	¥ 13,164	¥(2,716)	¥ 10,448
II. Assets, depreciation and capital expenditures						
Total assets	¥112,608	¥24,406	¥1,750	¥138,764	¥40,499	¥179,263
Depreciation	4,795	370	6	5,171	333	5,504
Capital expenditures	3,125	295	18	3,438	260	3,698

THOUSANDS OF U.S. DOLLARS

	2006					
	Power transmission products	Materials handling systems	Other	Total	Eliminations and general corporate assets	Consolidated
I. Sales and operating income						
Sales to third parties	**$952,204**	**$300,553**	**$ 4,997**	**$1,257,754**	**$ —**	**$1,257,754**
Intergroup sales and transfers	**15,245**	**1,490**	**15,628**	**32,363**	**(32,363)**	**—**
Total sales	**967,449**	**302,043**	**20,625**	**1,290,117**	**(32,363)**	**1,257,754**
Operating expenses	**840,713**	**284,117**	**19,237**	**1,144,067**	**(4,035)**	**1,140,032**
Operating income	**$126,736**	**$ 17,926**	**$ 1,388**	**$ 146,050**	**$(28,328)**	**$ 117,722**
II. Assets, depreciation and capital expenditures						
Total assets	**$979,154**	**$227,017**	**$19,024**	**$1,225,195**	**$464,096**	**$1,689,291**
Depreciation	**41,164**	**2,724**	**43**	**43,931**	**2,962**	**46,893**
Capital expenditures	**48,996**	**2,485**	**6,537**	**58,018**	**5,729**	**63,747**

As described in Note 3 (2), effective the year ended March 31, 2006, certain overseas subsidiaries in the Materials Handling Systems business have changed their revenue recognition policy for projects including long-term construction contracts from accounting for such projects by the completed-contract method, to applying the percentage-of-completion method.

The effect of this change on the Materials Handling Systems segment for the year ended March 31, 2006 was to increase net sales by ¥5,624 million ($47,872 thousand) and cost of sales by ¥5,672 million ($48,281 thousand) and to decrease operating income by ¥47 million ($400 thousand) as compared with the corresponding amounts which would have been recorded if the previous method of accounting had been followed.

Geographic Segment Information

Segment information by geographic area for the years ended March 31, 2006 and 2005 is summarized as follows:

	MILLIONS OF YEN						
	2006						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	**¥102,330**	**¥30,245**	**¥7,275**	**¥7,911**	**¥147,761**	**¥ —**	**¥147,761**
Intersegment sales	**15,080**	**687**	**13**	**557**	**16,337**	**(16,337)**	**—**
Total sales	**117,410**	**30,932**	**7,288**	**8,468**	**164,098**	**(16,337)**	**147,761**
Operating expenses	**102,982**	**29,953**	**6,750**	**7,512**	**147,197**	**(13,266)**	**133,931**
Operating income	**¥ 14,428**	**¥ 979**	**¥ 538**	**¥ 956**	**¥ 16,901**	**¥ (3,071)**	**¥ 13,830**
Assets	**¥117,956**	**¥20,404**	**¥4,903**	**¥5,975**	**¥149,238**	**¥ 49,220**	**¥198,458**

	MILLIONS OF YEN						
	2005						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	¥ 93,820	¥22,089	¥5,718	¥7,936	¥129,563	¥ —	¥129,563
Intersegment sales	10,504	351	0	534	11,389	(11,389)	—
Total sales	104,324	22,440	5,718	8,470	140,952	(11,389)	129,563
Operating expenses	92,905	21,821	5,295	7,612	127,633	(8,518)	119,115
Operating income	¥ 11,419	¥ 619	¥ 423	¥ 858	¥ 13,319	¥ (2,871)	¥ 10,448
Assets	¥112,243	¥17,477	¥4,573	¥7,783	¥142,076	¥ 37,187	¥179,263

	THOUSANDS OF U.S. DOLLARS						
	2006						
	Japan	North America	Europe	Asia and Oceania	Total	Eliminations	Consolidated
External sales	**$ 871,042**	**$257,448**	**$61,925**	**$67,339**	**$1,257,754**	**$ —**	**$1,257,754**
Intersegment sales	**128,362**	**5,848**	**111**	**4,741**	**139,062**	**(139,062)**	**—**
Total sales	**999,404**	**263,296**	**62,036**	**72,080**	**1,396,816**	**(139,062)**	**1,257,754**
Operating expenses	**876,592**	**254,963**	**57,456**	**63,942**	**1,252,953**	**(112,921)**	**1,140,032**
Operating income	**$ 122,812**	**$ 8,333**	**$ 4,580**	**$ 8,138**	**$ 143,863**	**$ (26,141)**	**$ 117,722**
Assets	**$1,004,051**	**$173,680**	**$41,735**	**$50,860**	**$1,270,326**	**$ 418,965**	**$1,689,291**

Each segment principally covers the following countries or regions:

North America: U.S.A. and Canada

Europe: The Netherlands and U.K.

Asia and Oceania: Taiwan, Korea, China, Singapore, Thailand and Australia

As described in Note 3 (2), effective the year ended March 31, 2006, certain overseas subsidiaries in the Materials Handling Systems business have changed their revenue recognition policy for projects including long-term construction contracts from accounting for such projects by the completed-contract method, to applying the percentage-of-completion method.

The effect of this change on the "North America" segment for the year ended March 31, 2006, was to increase net sales by ¥5,624 million ($47,872 thousand) and cost of sales by ¥5,672 million ($48,281 thousand) and to decrease operating income by ¥47 million ($400 thousand) as compared with the corresponding amounts which would have been recorded if the previous method of accounting had been followed.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2006 and 2005 are summarized as follows:

	MILLIONS OF YEN				
	2006				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	**¥31,148**	**¥7,944**	**¥13,927**	**¥491**	**¥ 53,510**
Consolidated net sales					**147,761**
Overseas sales as a percentage of consolidated net sales	**21.1%**	**5.4%**	**9.4%**	**0.3%**	**36.2%**

	MILLIONS OF YEN				
	2005				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	¥22,857	¥7,387	¥11,670	¥432	¥ 42,346
Consolidated net sales					129,563
Overseas sales as a percentage of consolidated net sales	17.6%	5.7%	9.0%	0.3%	32.7%

	THOUSANDS OF U.S. DOLLARS				
	2006				
	North America	Europe	Asia and Oceania	Other	Total
Overseas sales	**$265,134**	**$67,620**	**$118,548**	**$4,180**	**$ 455,482**
Consolidated net sales					**1,257,754**

17. SUBSEQUENT EVENT

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, was approved at a shareholders' meeting held on June 29, 2006:

	MILLIONS OF YEN	THOUSANDS OF U.S. DOLLARS
Cash dividends (¥6.0 = U.S.$0.05 per share)	**¥1,125**	**$9,576**

Report of Independent Auditors

The Board of Directors
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated balance sheets of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 29, 2006

Ernst & Young Shinnihon

Tsubaki Group Companies

As of March 31, 2006

* Consolidated Subsidiary

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees	Date of Establishment	Principal Business
JAPAN					
TSUBAKI EMERSON CO.*	¥460.0 million	70.6%	537	April 2002	Manufacture and sales of power transmission products
TSUBAKIMOTO CUSTOM CHAIN CO.*	¥125.0 million	99.6%	195	October 1951	Manufacture of power transmission chains
TSUBAKIMOTO SPROCKET CO.*	¥126.0 million	99.9%	139	October 1968	Manufacture and sales of sprockets
TSUBAKIMOTO IRON CASTING CO., LTD.*	¥ 50.0 million	100.0%	54	October 1968	Manufacture and sales of casting products
TSUBAKI YAMAKYU CHAIN CO. (Newly consolidated on April 3, 2006)	¥126.0 million	51.0%	174	September 1939	Manufacture and sale of various types of plastic chain and automated equipment
SHINKO MACHINERY CO.	¥ 50.0 million	50.0%	35	March 1971	Manufacture of conveyor chains
KATO MANUFACTORY CO., LTD.	¥ 30.0 million	20.0%	20	July 1968	Manufacture of tire chains
TSUBAKIMOTO MAYFRAN INC.*	¥ 90.0 million	50.0%	97	November 1973	Manufacture and sales of chip conveyors
TSUBAKIMOTO BULK SYSTEMS CORP.*	¥150.0 million	100.0%	143	April 1981	Manufacture and sales of bulk materials handling systems
TSUBAKIMOTO MACHINERY CO.*	¥139.0 million	68.2%	123	April 1971	Sales of Tsubakimoto Chain products
HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.*	¥ 30.0 million	100.0%	14	October 1961	Sales of Tsubakimoto Chain products
TSUBAKIMOTO NISHINIHON CO., LTD.*	¥ 90.0 million	50.0%	51	October 1993	Sales of Tsubakimoto Chain products
TSUBAKI SUPPORT CENTER CO.*	¥ 80.0 million	100.0%	110	October 1970	Back-office services
NORTH AMERICA					
U.S. TSUBAKI, INC.* 301 E. Marquardt Drive, Wheeling, IL 60090-6497, U.S.A. Telephone: (847) 459-9500 Facsimile: (847) 459-9515	US$33,500,000	100.0%	774	February 1971	Manufacture and sales of power transmission products
Holyoke Plant					Manufacture of roller chains
Chicopee Plant					Manufacture of automotive parts
Sandusky Plant					Manufacture of engineering chains
BALLANTINE, INC.* 840 McKinley Street, Anoka, MN 55303-1146, U.S.A. Telephone: (763) 427-3959 Facsimile: (763) 427-2277	US$50,000	U.S. Tsubaki 100.0%	36	March 1988	Sales of trencher parts
TSUBAKI OF CANADA LIMITED* 1630 Drew Road, Mississauga, Ontario, L5S 1J6 Canada Telephone: (905) 676-0400 Facsimile: (905) 676-0904	C$6,295,955	100.0%	129	July 1973	Manufacture and sales of power transmission products
TSUBAKI CONVEYOR OF AMERICA, INC.* 138 Davis Street, P.O. Box 710, Portland, TN 37148-0710, U.S.A. Telephone: (615) 325-9221 Facsimile: (615) 325-2442	US$900,000	100.0%	53	July 1983	Manufacture and sales of materials handling systems
EUROPE					
TSUBAKIMOTO EUROPE B.V.* Belder 1, 4704 RK, Roosendaal, The Netherlands Telephone: (165) 594800 Facsimile: (165) 549450	EUR2,722,681	100.0%	62	April 1972	Sales of power transmission products
TSUBAKIMOTO U.K. LTD.* Osier Drive, Sherwood Park, Annesley, Nottingham, NG15 ODX, United Kingdom Telephone: (1623) 688700 Facsimile: (1623) 688789	£550,000	Tsubakimoto Europe 100.0%	67	March 1985	Manufacture and sales of power transmission products
T.E.E.U. LIMITED 55 Kedleston Court, Norbury Close, Allestree, Derby, DE22 2QF, United Kingdom Telephone: (1332) 551277 Facsimile: (1332) 551277	£30,000	100.0%	0	March 1990	Sales and maintenance of materials handling systems

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees	Date of Establishment	Principal Business
ASIA & OCEANIA					
TAIWAN TSUBAKIMOTO CO.* No. 7 Feng Sun Keng, Kuei Shan-Hsiang, Taoyuan-Hsien, Taiwan Telephone: (33) 293827~9 Facsimile: (33) 293065	NT$70,000,000	99.9%	97	January 1970	Manufacture and sales of power transmission products
TSUBAKIMOTO SINGAPORE PTE. LTD.* 25 Gul Lane, Jurong, Singapore 629419 Telephone: 6861 0422~4 Facsimile: 6861 7035	¥271.1 million	100.0%	22	January 1981	Sales of power transmission products
TSUBAKIMOTO AUTOMOTIVE (THAILAND) CO., LTD.* 700-467 Moo 7, Amata Nakorn Industrial Estate, Tambol Don Hua Roh, Amphur Muang, Chonburi 20000, Thailand Telephone: (38) 454021~4 Facsimile: (38) 454025	THB70,000,000	100.0%	60	March 2002	Manufacture, sales, and exports of timing drive systems
TSUBAKIMOTO (THAILAND) CO., LTD.* 999/9 The Offices at Centralworld, No. 1001, Rama 1 Road, Pathumwan, Bangkok 10330, Thailand Telephone: (2) 264-5354~6 Facsimile: (2) 251-3912	THB4,000,000	Tsubakimoto Singapore 95.1%	4	March 2002	Sales of power transmission products
TSUBAKI AUSTRALIA PTY. LIMITED* Unit E, 95-101 Silverwater Road, Silverwater, N.S.W. 2128, Australia Telephone: (2) 9648-5269 Facsimile: (2) 9648-3115	AU$300,000	100.0%	30	May 1987	Sales of power transmission products
TSUBAKIMOTO AUTOMOTIVE (SHANGHAI) CO., LTD. No. 3 Building, No.1588 Gaotai Rd., Jiading Industrial Area Shanghai 201821 People's Republic of China Telephone: (21) 6916-9441 Facsimile: (21) 6916-9446	US$2,500,000	100.0%	31	April 2004	Manufacture, sales, and exports of timing drive systems
TSUBAKIMOTO CHAIN TRADING (SHANGHAI) CO., LTD. Room 1712, Lippo Plaza, No. 222 Huai Hai Zhong Rd., Shanghai 200021, People's Republic of China Telephone: (21) 5396-6651 Facsimile: (21) 5396-6628	US$400,000	100.0%	13	June 2004	Imports and exports of power transmission products
TSUBAKI KABELSCHLEPP SHANGHAI CO., LTD. Rm. 701 Dongfang Road Pudong Shanghai 200122 People's Republic of China Telephone: (21) 6867-0511 Facsimile: (21) 6876-9456	US$200,000	60.0%	11	November 2000	Imports and sales of cableveyors
TSUBAKI EMERSON GEAR (TIANJIN) CO., LTD.* 135 Dong Ting Road, Teda, Tianjin, 300457, People's Republic of China Telephone: (22) 2532-6410 Facsimile: (22) 2532-6421	RMB48,334,923	Tsubaki Emerson 52.2%	124	June 1990	Manufacture and sales of power transmission products
TSUBAKI EMERSON MACHINERY (SHANGHAI) CO., LTD. No. 4 Building, No. 1588 Gaotai Rd., Jiading Industrial Area, Shanghai 201821, People's Republic of China Telephone: (21) 6916-9305 Facsimile: (21) 6916-9308	US$1,200,000	Tsubaki Emerson 100.0%	29	July 2004	Manufacture and sales of power transmission products
TIANJIN DONGCHUN-TAIKI METAL FINISHING & CONVEYOR SYSTEM MANUFACTURING CO., LTD. Yang Cheng Zhuang Bridge 4, Southwest Side, Jinghai, Tianjin, 301617, People's Republic of China Telephone: (22) 6864-5848 Facsimile: (22) 6864-5849	US$500,000	20.0%	101	January 2004	Manufacture and sales of materials handling systems
SHANGHAI DONGBO-TAIKI CONVEYOR SYSTEM MANUFACTURING CO., LTD. Room 1128 Pine City Hotel, No. 8, Dong An Road Shanghai 200032, People's Republic of China Telephone: (21) 6443-0780 Facsimile: (21) 6443-9478	US$900,000	20.0%	49	March 2005	Manufacture and sales of materials handling systems
TIANJIN TSUBAKIMOTO CONVEYOR SYSTEMS CO., LTD. Beichen District, Tianjin, 300400, People's Republic of China Telephone: (22) 2681-8124 Facsimile: (22) 2639-8721	RMB8,314,833	Tsubakimoto Bulk Systems 47.0%	39	August 1995	Manufacture and sales of bulk materials handling systems
KOREA CONVEYOR IND. CO., LTD. 68B 7L, Namdong Industrial Estate, 627-3, Gojan-dong, Namdong-gu, Incheon, Republic of Korea Telephone: (32) 817-0160 Facsimile: (32) 819-9168	KRW1,200,000,000	49.0%	125	January 1970	Manufacture and sales of materials handling systems and conveyor chains
KOREA MAYFRAN CO., LTD. 68B 7L, Namdong Industrial Estate, 627-3, Gojan-dong, Namdong-gu, Incheon, Republic of Korea Telephone: (32) 822-5886~7 Facsimile: (32) 822-5897	KRW600,000,000	Tsubakimoto Mayfran 37.5% Korea Conveyor 25.0%	16	October 1990	Manufacture and sales of chip conveyors
TSUBAKIMOTO MAYFRAN CONVEYOR (SHANGHAI) Co., LTD. No. 1688-B Hong De Road, Jiading Industrial Area, Shanghai 201821, People's Republic of China Telephone: (21) 6916-9916 Facsimile: (21) 6916-9918	US$1,200,000	Tsubakimoto Mayfran 100.0%	22	June 2005	Manufacture and sales of chip conveyors

Corporate Data and Stock Information

As of March 31, 2006

1. Corporate Data

Company Name	TSUBAKIMOTO CHAIN CO.
Date of Incorporation	January 1941
Paid-in Capital	¥17,076 million
Headquarters	3-3-3, Nakanoshima, Kita-ku Osaka 530-0005, Japan (as of August 7, 2006)
Telephone	+81-6-6441-0011

Fiscal Year-End	March 31	
Number of Consolidated Subsidiaries	22	
Number of Equity-Method Affiliates	2	
Number of Employees	Consolidated	4,675
	Non-consolidated	1,754

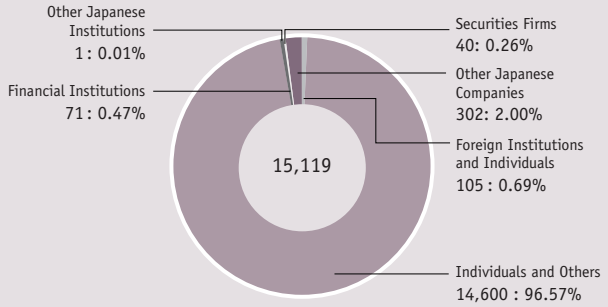
2. Stock Information

Shareholder Register	The Chuo Mitsui Trust and Banking Company, Limited
Stock Listings	Tokyo, Osaka, and Nagoya
Common Stock	Authorized: 299,000,000 shares
	Issued: 191,406,969 shares
Number of Shareholders	15,119

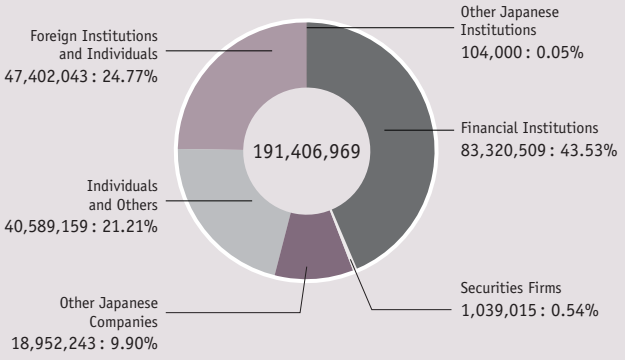
Major Shareholders

Name	Number of shares held (thousands)	% of total shares issued
Taiyo Life Insurance Company	16,398	8.6
The Bear Stearns Companies Inc.	14,999	7.8
The Master Trust Bank of Japan, Ltd.	12,483	6.5
Nippon Life Insurance Company	12,029	6.3
Toyota Motor Corporation	7,722	4.0
Sumitomo Mitsui Banking Corporation	6,689	3.5
Japan Trustee Services Bank, Ltd.	6,454	3.4
Kyoeikai Employee Stock Ownership Association	4,387	2.3
The Chuo Mitsui Trust and Banking Company, Limited	4,245	2.2
TSUBAKIMOTO CHAIN CO.	3,865	2.0

Composition of Shareholders



Composition of Issued Shares by Type of Shareholder



Tsubaki Mission Statement

Underpinning all management activities, this Mission Statement clearly and concisely expresses the Tsubaki Group's aim of becoming one of the world's foremost manufacturers through the continued pursuit of manufacturing excellence and ambitious goals guided by a basic commitment to doing the utmost for customers through concerted effort.

OUR MISSION

- Excellence in Manufacturing for Customers around the World.

We will provide the best value to customers around the world by capitalizing on our technical strengths in power transmission products and materials handling systems.

OUR VISION

- We aim to be a leading company in the global markets for our products.

OUR VALUES

- We will contribute to society through the pursuit of customer satisfaction.
- We value the creativity of employees and eagerly accept the challenges posed by new fields of business.
- We will conduct our business in an open, transparent manner and work for the benefit of our shareholders.
- We will make decisions and take action promptly.
- We will strengthen the competitiveness of Tsubaki Group companies in Japan and overseas.

Innovation in Motion
TSUBAKI

www.tsubakimoto.jp

Printed in Japan