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Chairman and
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Turning an unprecedented financial crisis into the platform for "a further step up"

A review of performance in fiscal 2009

The Tsubaki Group has registered sales and profit growth for sixth straight terms, while also recording historically high profits for the last three consecutive fiscal years. However, this sequence came to an end in fiscal 2009, ended March 31, 2009, and both sales and profits declined substantially. In February 2009, we had to downwardly revise our performance forecasts. We were able to slightly exceed this revised profit target through the rapid implementation of cost-cutting measures in response to customers' rapid cuts in their capital investment and the drastic decrease in output by automobile companies. However, we want to apologize to shareholders for the ultimately disappointing level of performance.

A silver lining to the dark clouds

Perhaps overshadowed by the overall slump in performance, through the Tsubaki Group's global best management strategy—which aims for global growth in production and sales by leveraging the Group's high-quality products and differentiated technologies—we were able to steadily produce results, such as increasing share for our mainstay products in overseas markets and steadily generating profits at our Asian subsidiaries.

Two key strategies—"further structural strengthening" and "increasing our technological competitive advantages"

Recently, some economic indicators have suggested that the worst of the economic recession is over, such as those for automobile production. However, the Tsubaki Group refuses to be complacent, and is pushing forward with far-reaching cost-cutting measures to create a robust corporate structure that is strong even in an economic recession. At the same time, we are further accelerating our strategy of product differentiation that is supported by our capabilities in technological development. We believe that executing these two strategies will be crucial for us to achieve growth, enabling the Tsubaki Group to push forward and take "a further step up."

We ask for the continued support of our shareholders and investors as we strive to achieve this goal.

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Q Reasons behind the sudden and drastic decrease in earnings

Up until June of this year, you were responsible for management planning, which you carried out using a numerical analysis. Based on your unique perspective gained from this experience and from the point of view of realizing sustainable growth, could you give us a concrete explanation for the deterioration in financial performance? Did the Tsubaki Group fail to create a corporate structure robust enough to withstand an economic depression?

A We have made considerable progress in strengthening our corporate structure, but we are only halfway down the road to completing the task.

Beginning with fiscal 2002, the Tsubaki Group was able to achieve sustained growth up until the second half of fiscal 2009. During that period, we expanded the scale of our operations as well as reformed our cost structure and steadily increased profitability. For example, we improved the cost of sales ratio from 72.4% in fiscal 2002 to 70.5% in the first half of fiscal 2009, and the ratio of SG&A costs to sales from 22.3% to 18.6%. While we increased spending on capital investment across this period due to the construction of the Kyotanabe Plant and in response to the rapid growth of our Automotive Parts operations, we were still able to lower the ratio of depreciation and amortization to net sales from 4.9% to 4.3%. We have completely curtailed any investment in personnel and equipment that we consider excessive relative to the growth in sales, and instead we have been able to expand the scale of our operations by increasing efficiency as a streamlined organization.

However, the pace and severity of the current economic recession has exceeded all expectations. Net sales in the second half of fiscal 2009 slumped dramatically, to ¥59.5 billion, approximately the same level as in the second half of fiscal 2004. In other words, within the space of just half a year we had regressed to a level of five years ago. As a result, the figures that I have just described quickly deteriorated in the severe conditions in the second half of fiscal 2009, the backdrop to our drastic decline in business performance. While we had successfully secured business footholds, we had not done so to the extent that we could withstand entirely the impact of such a dramatic change in our business environment. Going forward, we will offer no more excuses and our attitude at the Tsubaki Group will be to focus our energies into further solidifying our business footholds until we reach the point where we are strong enough to withstand even the severest recession.

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Q The Tsubaki Group's financial position

Without question, the severity of the current global economic recession is unprecedented. However, it is precisely because it is so severe that shareholders and investors tend to value business stability and sustainability over performance forecasts in an uncertain operating environment. With this in mind, how is the Tsubaki Group's financial structure?

A The Tsubaki Group's financial structure is extremely strong, and this strength is one of the ways we differentiate ourselves from our competitors.

Net sales in fiscal 2009 were 1.24 times the level of fiscal 2002, while conversely we were able to slim down total assets, to 0.89 times the level of fiscal 2002. On the other hand, net assets at the end of fiscal 2009 were 1.35 times the level of the end of fiscal 2002, while the net assets ratio had risen significantly, from 31.1% to 47.3%. The greatest impact of our slimming down of the balance sheet has been on the reduction in interest-bearing debt, with the amount at the end of fiscal 2009 less than half the amount at the end of fiscal 2002. In addition, our debt to equity (D/E) ratio had also substantially improved, to 0.48 times the level of fiscal 2002.

We believe that this strong financial structure is one of the robust platforms we can use to make the leap to our next stage as a company. The economic recession has hit all companies hard, not just the Tsubaki Group. It is precisely in these difficult times that the strength of our financial structure will enable us to differentiate ourselves from our rivals, as it indicates the financial reserves we posses which will enable us to make upfront investments in the future.

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Q Strategic results for fiscal 2009

While financial performance may have significantly worsened, can you explain in a little more detail some of the strategic results that were steadily achieved during the year?

A We consistently increased sales of mainstay products, which are supported by our competitive advantages in technology and quality. In addition, we made progress in developing our business globally.

As an example, let's look at Automotive Parts operations, which up until the second half of fiscal 2009 had played an enormously important role in expanding the scale of the Tsubaki Group's sales. Our results in this segment were down significantly due to the effects of the global reduction in automobile production. However, this decline accompanied a reduction in market scale and absolutely does not reflect a fall in our market share. Timing chain drive systems are one of our mainstay products. With a global share of 37%, this shows that the market has recognized not only the products' superiority in terms of quality, but also its adaptability for systems. We have continued to increase sales channels, such as via an order from a Korean automotive manufacturer. In addition, in China—the market that is considered to have the greatest growth potential—we have rapidly increased our market share.

Despite the recession, in Chain operations sales of the RS Roller Chain G7—which realizes dramatic improvements in wear life and transmission capabilities—remained solid.

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Q Outlook for fiscal 2010

Your forecasts for fiscal 2010, ending March 31, 2010, continue to be fairly bleak, with net sales down 22.3% and ordinary income dropping 92.5%. However, with net sales estimated to fall by more than 20% and a loss recorded in the fourth quarter of the previous fiscal year, do you sincerely believe the Tsubaki Group can make a profit for the year?

A Our forecasts assume the yen will be stronger than the current rate. Also, while we can see signs that the slump has bottomed out for some products, this has not made us unrealistically optimistic and we are continuing to carry out extensive cost-cutting measures.

Our performance forecasts for fiscal 2009 assume exchange rates of ¥90 to the US$ and ¥115 to the euro. On a U.S. dollar basis, we have determined that a fluctuation of one yen against the U.S. dollar will have an impact of approximately ¥50 million on the Tsubaki Group's operating income.

Since April, excluding ASEAN countries, we have seen an increase in orders for parts from automotive manufacturers that have exceeded our expectations, with these manufacturers having just completed an inventory adjustment. Of course, the real problem is trends in final demand, but in China at least automotive sales have already started to pick up. Moreover, every advanced nation has been hammering out policies to support sales of environmentally friendly vehicles. It is good news for us that the recovery in automotive sales is centered on this type of car.

But overall, the sense of uncertainty about the future remains. At the Tsubaki Group, we are not merely passively waiting for an improvement in our external environment, but are carrying out every feasible cost-cutting measure. As an example of a specific measure, we are aiming to reduce our total personnel costs by ¥3.4 billion compared to fiscal 2009 by methods including adjusting operational periods at our plants. Further, we are working to cut costs for the procurement of raw materials, such as steel, by a targeted ¥2.0 billion, primarily by increasing the number of suppliers and through tenacious price negotiations. Through methods such as these, we will strive to achieve our published profit targets, which we have established as our most pressing management issue.

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Q Fundamental growth strategies

You have stated that the key strategies are not only further strengthening your corporate structure through reducing costs, but also increasing your technological superiority. Could you tell us about these strategies?

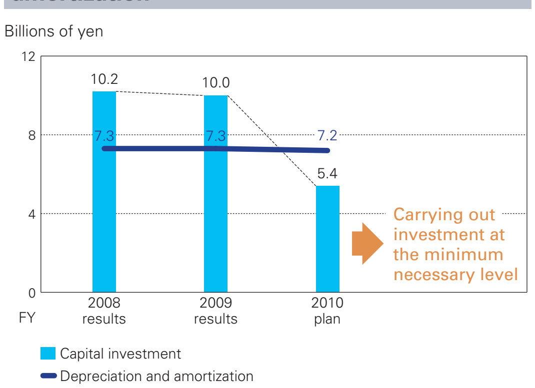
A Sustainable growth is impossible without products with technological competitive advantages—this belief is hard-wired into the Tsubaki Group DNA.

The growth we achieved at the Tsubaki Group until fiscal 2009 was achieved by the expansion of our customer base. For example, by pushing forward with our global development we increased our overseas sales ratio from 30.0% in fiscal 2002 to 37.5% in fiscal 2008.

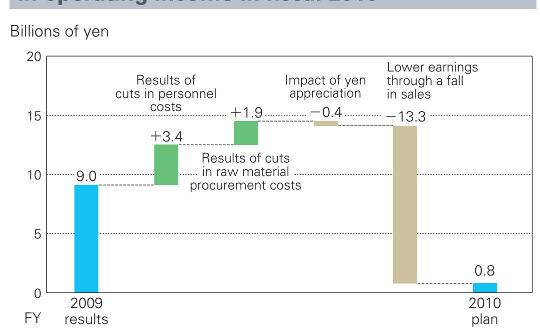
Reducing prices is one way of expanding a customer base. For example, the Group's industrial-use steel chains hold a 24% share in their global market, while within this market there are a large number of inexpensive products provided by Chinese manufacturers. If the Tsubaki Group aimed to compete solely in terms of price, then do you think that we would have been able to not only expand our scale of operations, but also sustainably improve profitability? It would not have been possible. The product's high market share is a testimony to the added value it provides in such areas as abrasion resistance and heightened efficiency. It is precisely because our added value strategy is clearly distinguished from our competitors' price strategy that we have achieved growth with profits. In other words, we realized sustainable growth.

In addition, we will carry out far-reaching measures to cut fixed costs, such as personnel costs,

Capital expenditures and depreciation and amortization



Analysis of the factors behind the decrease in operating income in fiscal 2010



and variable costs, including material costs. As previously stated, the Tsubaki Group will also continue to steadily invest in technology and quality to increase its competitive superiority. It is precisely because we are aiming to further heighten our competitive advantages that we have strengthened our financial structure. In the middle of this unprecedented financial crisis, we will cut our total capital investment, from ¥10.0 billion in fiscal 2009 to ¥5.4 billion in fiscal 2010, but we will continue to invest in areas that are crucial to product development and to improving quality. Moreover, we will maintain our R&D budget at the same level as fiscal 2009.

(We will continue to invest through a strategy of "selection and concentration," and in the subsequent "Special Feature: Getting ready for the future of the Tsubaki Group" and "Operating Segments" sections, we will explain in detail the areas we will invest in and how this investment will increase the competitive superiority of the Tsubaki Group.)

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Q Returning profit to shareholders

Finally, I would like to ask your opinion on returning profit to shareholders. As the new Company president, please give a message to the Tsubaki Group's stakeholders, including its shareholders and investors.

A The mission of the Tsubaki Group is to be a strong corporate group that is able to provide shareholders with dividends no matter what the economic environment. Also, by leveraging our competitive superiority and launching products that are effective in protecting the environment or conserving energy, I believe we can continue to be a corporate group that realizes growth while contributing to the prosperity of society as a whole.

The Tsubaki Group has incrementally increased its cash dividends per share, to ¥6.0 up until fiscal 2004, to ¥7.0 between fiscal 2005 to fiscal 2007, and to ¥8.0 between fiscal 2008 to fiscal 2009. (This explanation excludes the special dividend of ¥2.0 per share paid in fiscal 2006.)

We apologize to shareholders, but in fiscal 2010 we unfortunately plan to decrease dividends per share by ¥2.0, to ¥6.0, due to the severe earning conditions discussed. The Tsubaki Group has continued to pay dividends to shareholders regardless of its level of profits. Going forward, while maintaining a strong corporate structure that is able to pay dividends regardless of the economic environment, we will target a rapid return to the path of sustainable growth, supported by our competitive superiority in quality and technology, and to be a corporate group that increases dividends in accordance with improvements in financial performance.

To achieve this, it is essential we receive the support of all stakeholders, not just our shareholders and investors. Our competitive superiority in quality and technology make direct contributions to such areas as "improving productivity at customer companies," "environmental protection," and "energy conservation." Through our product lineup, I believe that the Tsubaki Group can continue to be a corporate group that can continuously contribute to the prosperity of society as a whole.

We ask for the continued understanding and support of all our stakeholders as we strive to fulfill the Tsubaki Group's mission and to carry out our key strategies.

August 2009

Isamu Osa
President and Representative Director