

The Tsubaki Group's Performance and Strategies

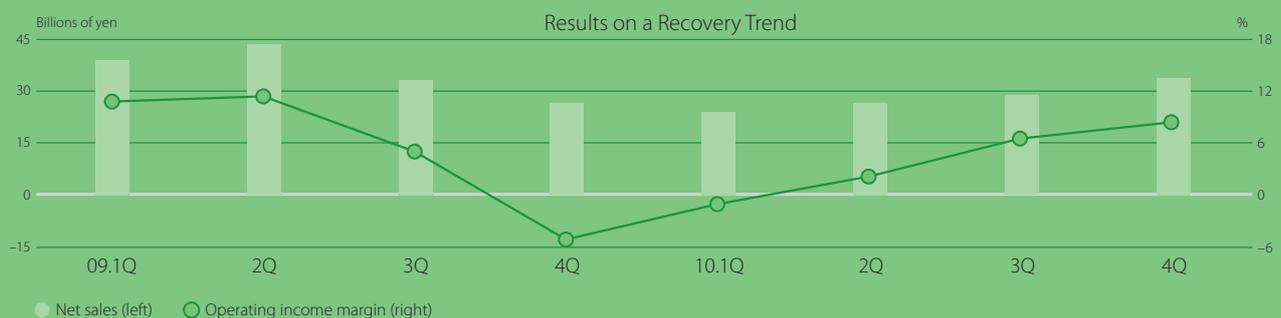
The Tsubaki Group is striving to build a strong management foundation that is less susceptible to the influence of economic fluctuations by rigorously bolstering its product capabilities and advancing the globalization of its operations.



Consolidated Results: Long-Term Trends



Consolidated Results: Short-Term Trends



Interview with the President

Strengthening our management foundation to support sustained growth

Emergency response measures related to the global economic slump have come to an end. Aiming to achieve sustainable growth, the Tsubaki Group will thoroughly strengthen its management foundation and advance to a new stage.



Isamu Osa
President and Representative Director

In fiscal 2010, ended March 31, 2010, we recorded significant declines in sales and profit when compared to fiscal 2009. However, operating income was ¥4.7 billion on a consolidated basis, greatly exceeding our initial expectations of ¥0.8 billion. The global economy showed massive deterioration after the Lehman shock. Regardless, we were able to turn a profit due to our early implementation of fixed cost-cutting measures and other such emergency response measures.

The turbulence in the global economy has begun to calm, and accordingly in May 2010, the Tsubaki Group established and subsequently announced a new three-year medium-term management plan set to end with fiscal 2013. However, the numerical targets set for fiscal 2013 in this plan are merely passing points. Whether we are to accelerate our growth from fiscal 2014 onward, or focus on making that growth more sustainable, it is important that we use the three years until fiscal 2013 to build a solid management foundation that is resilient to changes in the economy. This is the main goal of the next medium-term management plan.

As a manufacturing company, the Tsubaki Group strives to place customers first and to provide the best solutions to customers around the world. We aim to contribute to society as a whole through manufacturing initiatives, such as bolstering development of environmentally friendly products that help our customers to reduce their environmental burdens and increase their economic efficiency.

I ask for the continued support of our shareholders and investors.

Q What are some key points in regard to the Tsubaki Group's consolidated performance in fiscal 2010?

Through our early response to the decline in demand following the deterioration of the global economy, particularly in regard to our thorough measures to reduce fixed costs, we were able to achieve operating income that exceeded our initial expectations.

In fiscal 2010, net sales fell 20.3% or ¥28.7 billion year on year. This substantial decrease in net sales pulled operating income down to a level ¥13.1 billion lower than that of fiscal 2009. However, the Tsubaki Group managed to cut fixed costs, such as personnel costs, by approximately ¥8.3 billion. Additionally, we worked to reduce variable costs through such initiatives as promoting in-Group manufacturing. As a result of these efforts, operating income stood at ¥4.7 billion. This represented a significant year-on-year decrease of 47.9%, and greatly exceeded our initial expectations of ¥0.8 billion.

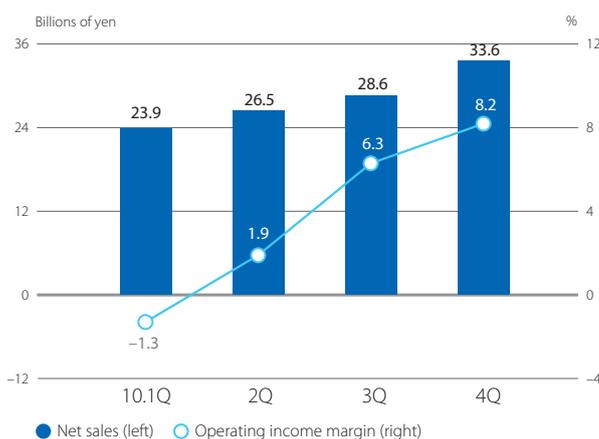
Q How was performance on a quarterly basis?

Net sales showed a trend toward recovery, particularly in Automotive Parts operations. Further, the effects of cost-cutting measures were great, and as a result profit margins showed improvement that was more impressive than that seen in net sales.

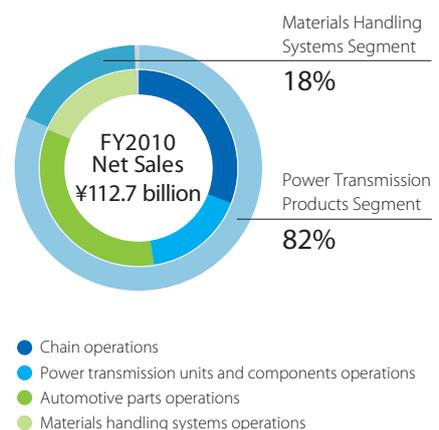
Consolidated net sales on a quarterly basis were as follows: net sales in the first quarter of fiscal 2010 fell to ¥23.9 billion, however, from the second quarter onward we saw strong recovery, and in the fourth quarter net sales were ¥33.6 billion, recovering to the same level as the third quarter of fiscal 2009 (¥33.1 billion). The speed of recovery, though, differed greatly between different areas of operation. The greatest driving force behind the recovery was the Tsubaki Group's Automotive Parts operations. These operations are seeing particularly impressive recovery in sales in Japan, North America, and Asia. Conversely, areas related to capital investment, such as Chain operations, Power Transmission Units and Components operations, and Materials Handling Systems operations, saw relatively sluggish recovery in sales. The curtailing of capital investment bottomed out and began to recover at a moderate pace in the second half of fiscal 2010. However, taking into account the business trends that we have seen thus far, we expect that there will be a 3–6 month time lag before the effects of the recovery spread to such areas as Chain operations and Power Transmission Units and Components operations.

The operating income margin, however, improved to 8.2% in the fourth quarter of fiscal 2010. While net sales were at the same level in the third quarter of fiscal 2009, the operating income margin at that time was only 4.8%. This represents the improvement of our break-even point through the effects of the cost-cutting measures that I have mentioned previously.

Quarterly Results



Composition of Sales by Segment



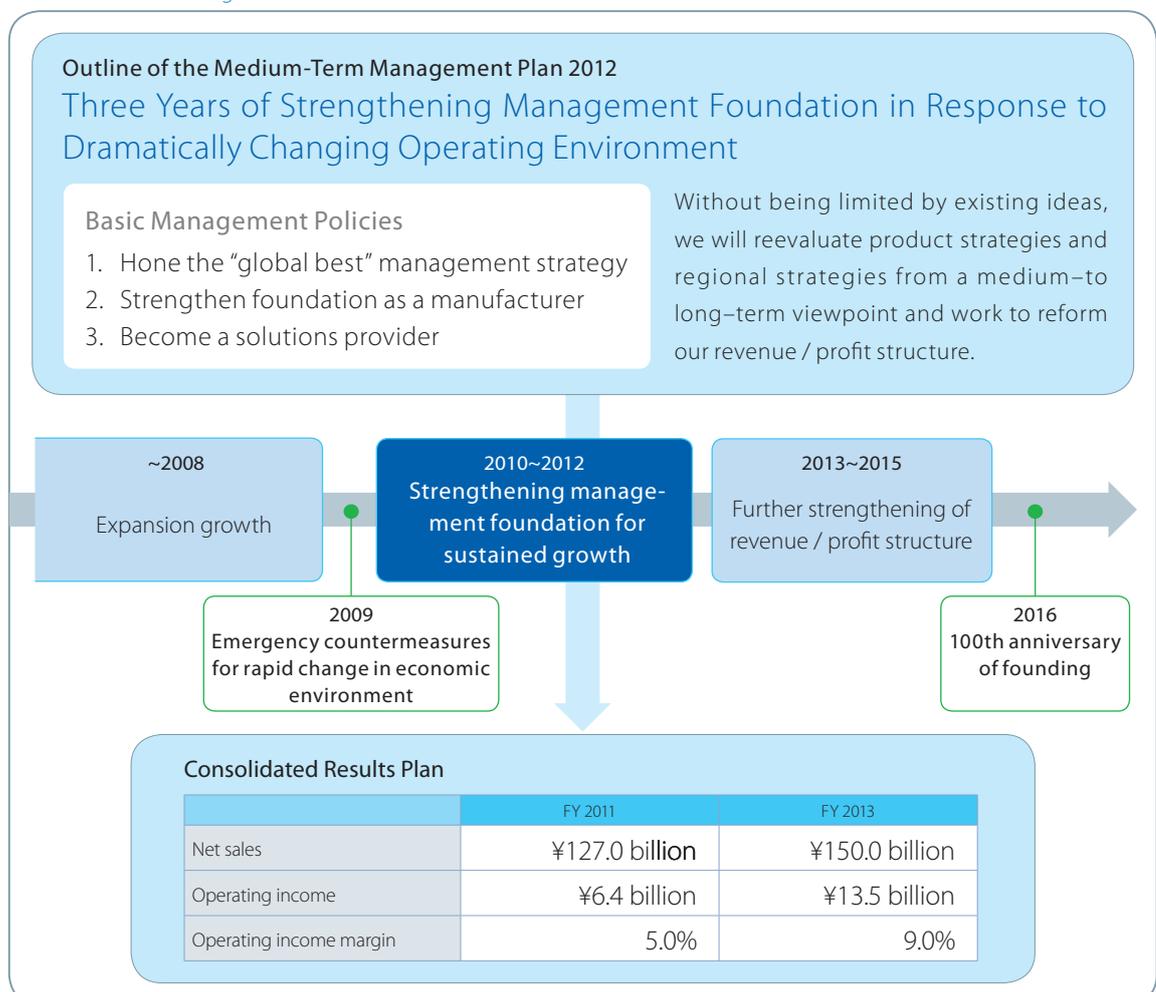
Q The newly announced medium-term management plan (for fiscal 2011 to 2013) targets net sales of ¥150.0 billion and an operating income margin of 9.0%, on a consolidated basis. These targets seem low compared to fiscal 2008, in which the Tsubaki Group achieved its highest record results (net sales of ¥167.2 billion and operating income margin of 11.8%). What is the reasoning behind this?

The Medium-Term Management Plan 2012 was established based on a medium-term perspective and therefore places strengthening our management foundation to ensure sustainable growth as its top priority. In order to construct a solid management foundation that is resilient to changes in the economic environment, we will step up investments in areas that are crucial to this goal.

This medium-term management plan does not merely focus on the coming three-year period, but instead takes a more medium-term perspective. Accordingly, its main priority is strengthening the Tsubaki Group's management foundation in order to improve the Group's growth potential, as well as the sustainability of this growth. Previously, we have revised medium-term management plans yearly. By setting this medium-term management plan for three years, we intend to steadily implement investment that is crucial toward strengthening our management foundation.

Further, in fiscal 2008, when we achieved our record performance, the exchange rate was ¥114 to the US\$ and ¥161 to the euro. This medium-term management plan, however, is based on the yen remaining strong, with an exchange rate of ¥85 to the US\$ and ¥115 to the euro. The difference in the exchange rates is another reason that these goals were set low.

○ Medium-Term Management Plan 2012



Q In the Medium-term Management Plan 2012, what specific strategies will you implement, and what are the basic management policies behind these?

Based on three basic management policies—hone the “global best” management strategy, strengthen foundation as a manufacturer, and become a solutions provider—we will work to further differentiate ourselves, as it is this differentiation that is the source of the Tsubaki Group’s competitive edge.

Basic management policy 1: Hone the “global best” management strategy

The Tsubaki Group’s consolidated net sales ranged from ¥64.6 billion to ¥120.7 billion in the 1980s and from ¥101.6 billion to ¥140.3 billion in the 1990s. Since 2000, net sales have ranged from ¥112.7 billion to ¥167.2 billion. In this manner, the level of Tsubaki Group’s consolidated net sales has gradually increased. One of the factors behind this steady growth is our implementation of the “global best” management strategy. We have progressively advanced the globalization of our operations based on the concept of comprehensive optimization—optimal location for production, optimal location for procurement, and optimal location for marketing. Regardless of the results, however, there still remained a number of problems with the “global best” management strategy.

One example of this would be the operation of U.S. Tsubaki, Inc. (referred to as UST hereinafter), our subsidiary in the United States. UST engages in production and sales of chains, power transmission products, automotive parts, and materials handling systems. At this subsidiary, optimization for specific regional characteristics was prioritized. This, however, restricted our ability to perform comprehensive optimization on a global scale while taking into account the characteristics of all operations. Reflecting on this, in July 2010 we reorganized operations at UST, dividing it into headquarters, which handles management only, and two operating companies. Each operating unit was then placed under the direct control of a chief business officer (CBO). This allowed for the timely development and prompt implementation of global strategies pertaining to production, procurement, and sales.

Another problem that occurred in relation to the “global best” management plan was the slow expansion of Chain operations into the European market. While Chain operations boast a 24% share of the global market for industrial-use steel chains, in the European market, that share was stalled at less than 10%. Aiming for the quick resolution of this problem, in April 2010 the Group purchased KabelSchlepp GmbH (referred to as KS hereinafter), and made it a subsidiary. (For further information, please see the column below.) KS, based in Germany, possesses a diverse customer base, as well as global manufacturing facilities. In addition to expanding our share of the cableveyor market, taking advantage of KS’ European customer base will allow us to bolster sales of a wide range of Tsubaki products, including not only industrial-use steel chains but also such products as power transmission units and components. Furthermore, this contributes to our ability to perform comprehensive optimization of production and procurement on a global scale.

Acquisition of KabelSchlepp GmbH (April 2010)

KabelSchlepp (KS) is an equipment component manufacturer that was established in 1954. The company’s headquarters is in Wenden, Germany. With a pioneering presence in support and guidance systems for cables and hoses, which are known as cableveyors in Tsubakimoto’s product lineup, KS has a strong customer base that includes more than 7,000 companies in Germany, France, and Italy alone. In particular, KS has built a strong direct sales system that serves top manufacturers of machine tools and automobiles.

Tsubakimoto has had a technical cooperation agreement with KS for many years, and in April 2010 we acquired KS for €20 million, making KS a subsidiary. As a

result, we will be able to combine the agent-based sales channel that is a strength of the Tsubaki Group with the direct sales network that is a strength of KS. We expect to expand our global share of the markets for chains and power transmission products. Moreover, by consolidating bases, we will work to further increase efficiency in product development and production.



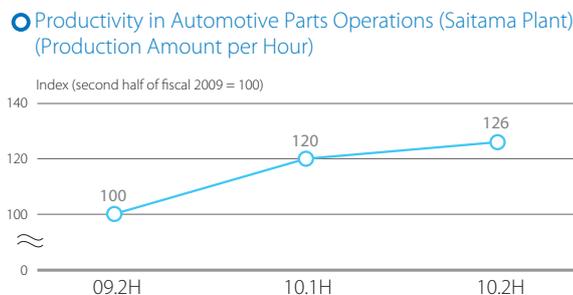
KS headquarters building and cableveyor production site

Through such efforts, we are expanding our share in high-end markets in Europe and the United States. At the same time, we will work to capture demand in the promising markets in emerging countries, such as the BRICs, and expand our global market share. To this end, in addition to the sales office in Brazil established during 2009, we founded a sales company for power transmission products (general industrial machinery and parts) in India in June 2010. However, in order to advance in emerging markets, it is not enough to simply increase the number of sales offices. I believe that it is important that we work to provide new products tailored to each market's needs. To enhance our ability to introduce such products, we will thoroughly cut cost by revising our component lineup and reevaluating our manufacturing processes.

Basic management policy 2: Strengthen foundation as a manufacturer

The Tsubaki Group possesses product lines that have a large share of the global market in each of the areas it operates in. Further, it has steadily expanded the scope of these business activities. The reason it was able to accomplish these feats lies in its product and manufacturing technologies, which have been the driving force behind the differentiation of the Tsubaki Group. During the period of the new medium-term management plan, we will return once again to these roots. I believe that working to further improve the quality of all of our products will form the foundation on which we will achieve sustainable growth.

Dantotsu activities are an example of our efforts geared toward this goal. These activities are not based on the conventional approach of reducing quality defects or increasing productivity. They are production innovation activities that are rigorously focused on quality and costs, so that we achieve "zero quality defects" and do not have to stop a production line once per day. In Automotive Parts operations, where these production innovation activities were introduced at an early stage, not only was there an improvement in product quality, profitability also greatly increased due to the substantial rise in productivity. As a result, the segment achieved higher income regardless of the decrease in sales. Going forward, the Tsubaki Group will implement these *dantotsu* activities at all Group manufacturing companies. Moreover, we will work to bolster our human resources development on a global basis through such initiatives as posting engineers overseas and sending young engineers on overseas assignments.



**Auto Engineering Lab Opens at the Saitama Plant
(June 2009)**

At the Saitama Plant, we opened the Auto Engineering Lab, which started full scale operations in June 2009. This lab will be our base for R&D in next-generation automotive technologies and parts, such as timing chain drive systems, in which we have a global market share of more than 30%.

At the lab, we collect data from performance tests of products using actual engines and vehicles. In addition, customers can directly view testing conditions and results. Moreover, we will research structures and materials needed to create environmentally friendly products and to reduce costs. We will also develop new production

and processing technologies for the efficient mass production of new products. In these ways, we will work to achieve further gains in the quality, technologies, and production capacity of the Group's automotive parts operations and to differentiate those operations.



The building housing the Auto Engineering Lab reflects consideration for the environment, such as rooftop greening.

Basic management policy 3: Become a solutions provider

There are two implications to our basic management policy of becoming a solutions provider.

The first is to go one step beyond simply producing products at the request of customers. This entails proposing solutions to customer problems and working together with customers to develop products. While we have always been strong in this area, we will work to further increase this strength. In fiscal 2009, the Automotive Parts segment, which primarily sells products directly to customers, opened the Auto Engineering Lab at the flagship Saitama Plant. This new lab allows customers to see first-hand the details and results of technological tests conducted on actual engines and vehicles. Additionally, in regard to Chain and Power Transmission Units and Components operations, which primarily deal indirectly through retailers, we are strengthening the system through which sales divisions can analyze and understand the needs of products' end-users, and communicate these to manufacturing divisions in a timely manner.

The second is to expand into new areas of operation. Looking at the lineup of Tsubaki products, the Power Transmission Products segment (chains, power transmission units and components, and automotive parts) deals in parts and units, and the Materials Handling Systems segment deals in systems. However, our development in the area of modules, which are positioned between the two, has been slow. For the past several years, we have been advancing the development of module products. In particular, we have been highly successful in our development of such new products as the Zip Chain Lifter*¹, an ultra-high-speed elevator, and the Direflex Modular Unit*². In fiscal 2011, we will develop a Module Business Unit in the Materials Handling Systems segment, and work to expand operations in the area of modules, which we have previously been unable to fully enter into.

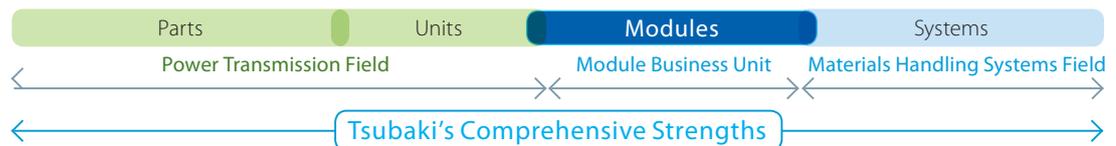
*1 Zip Chain Lifter: A lifter that uses two chains that interlock in a zip-like fashion to form a single strong unit that can be pushed or pulled.

*2 Direflex Modular Unit: A compact monofunctional conveyor unit that is capable of paying out, rotation while stopped, and rotation while traveling.

Centered on these three basic management policies, we will strive to build a strong management foundation that supports sustained growth. Through manufacturing initiatives, the Tsubaki Group will endeavor to provide the best solutions to customers around the world.

○ Taking on the Challenge of the Module Business

Operational Fields after the Establishment of the Module Business



Enhancing our Lineup of Modular Conveyors through Sales Tie-up with FlexLink, of Sweden (July 2010)

To enhance the lineup of products in our Module Business, we concluded a sales tie-up agreement with Sweden's FlexLink, which has a 50% share of the global market for aluminum-frame modular conveyors. From July 1, we started sales of FlexLink's aluminum-frame 3-D conveyors. Through combinations of more than 10,000 units and components, these conveyor systems can flexibly accommodate diverse conveyance styles matched to applications, such as linear, round, inclined, and vertical movement. The systems are suitable for comparatively small volume, light weight conveyance operations. The Company will

work to increase sales of these products. These sales initiatives will include offering these products in combination with our high-speed Zip Chain Lifter for use in such areas as automotive parts, photovoltaic panels, and medical equipment.



FlexLink System, 3-D conveyor

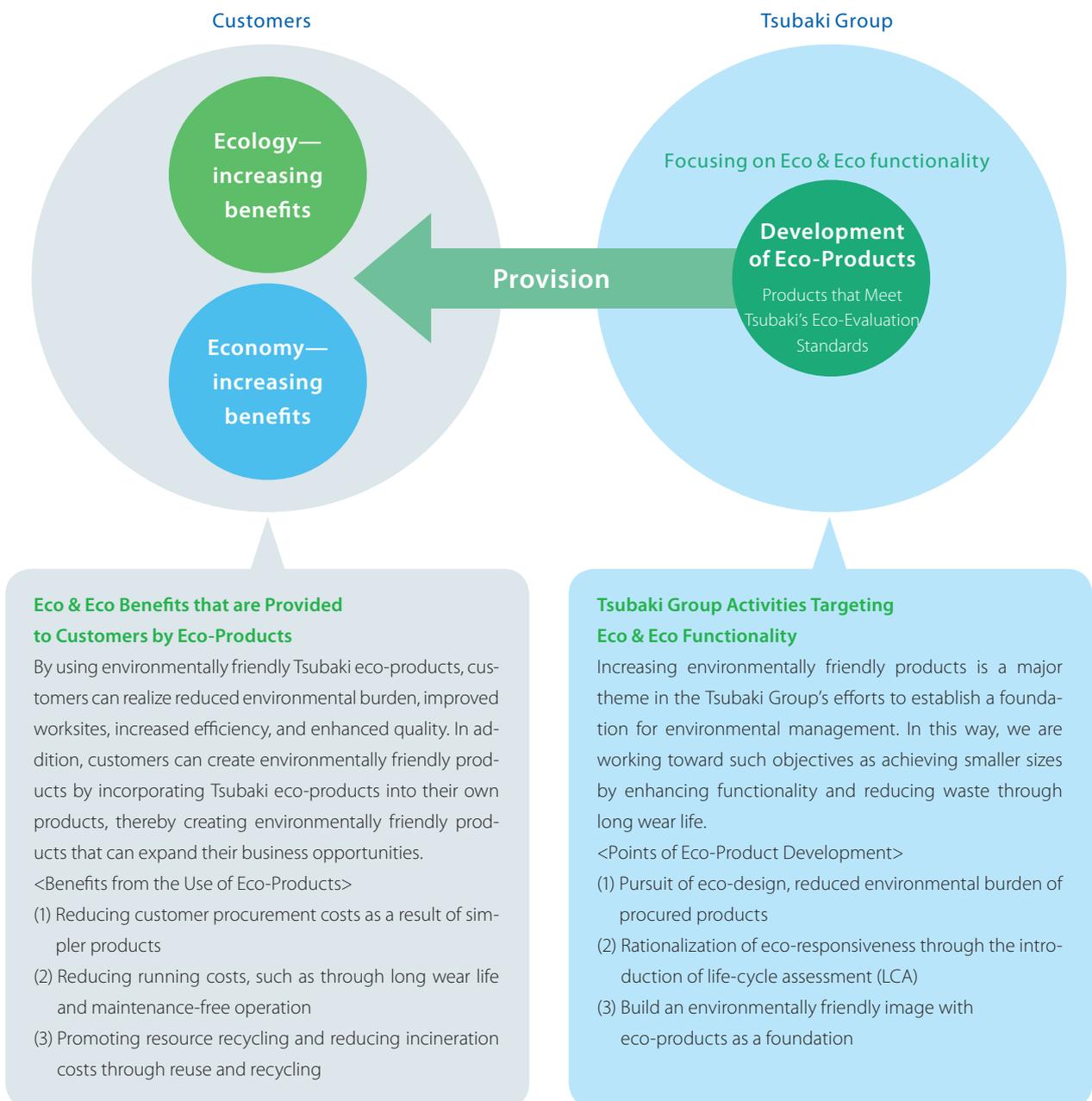
Tsubaki's Eco & Eco (Ecology and Economy)

Tsubaki's environmentally friendly eco-products help customers to achieve their own environmental objectives.

As an equipment manufacturer, the Tsubaki Group works to develop environmentally friendly products that help its customers to reduce the environmental burden of their operations and to improve their economic efficiency. To that end, we have instituted a policy that all of the new products that we develop must be environmentally friendly.

◎ The Tsubaki Group's Eco & Eco Approach

For Tsubaki, Eco & Eco (Ecology and Economy) means working for both a reduced environmental burden and enhanced economic efficiency, such as cost saving for customers, through the provision of environmentally friendly products to customers. Through its products, the Tsubaki Group will work together with its customers to drive progress in environmental friendliness and to enhance customers' economic efficiency.



Moving Forward, all New Products will be Eco-Products.

In accordance with the key phrase, "All new product development is eco-product development," the entire Tsubaki Group is working together in the development of eco-products.

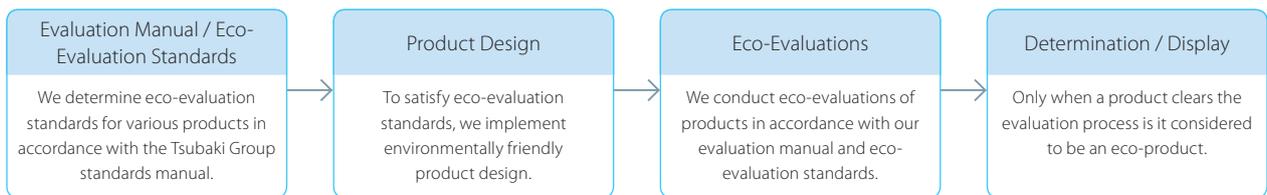
Environmental Friendliness Factors

The Tsubaki Group classifies the environmental friendliness factors that are under its control into seven categories. These factors are used in the formation of a framework for product development and design.

Environmental Friendliness Factors	Product Specification Definitions	Benefits
 Resource conservation, reduction of waste generated	Reduction of amount of resources consumed, recycling, increased wear life, etc., leading to resource conservation	Small size and light weight, lube-free, long wear life, reduced waste, recycling, no residue
 Energy saving, reduced CO ₂ emissions	Reduced energy usage, leading to reductions in CO ₂	Low friction, high efficiency, small size and light weight
 Clean workplaces and usage environments	Leading to improvements in customer workplace environments, usage environments, etc.	Lube-free, minimal dust, prevention of spills
 Consideration for the surrounding environment	Consideration for the area around customer worksites and for the general living environment in the surrounding area	Pollution prevention, low noise, low vibration, low odor
 Ease of disposal	Supporting environmental friendliness through recyclability, waste sortability, etc.	Use of same types of materials, ease of disassembly
 Reuse	Reuse of certain product components after product collection	Reuse of products
 Consideration for harmful substances	Elimination of harmful chemical substances, including reductions in line with customer requests	Reduction in harmful chemical substances, use of edible grease

Eco-Product Decision Process

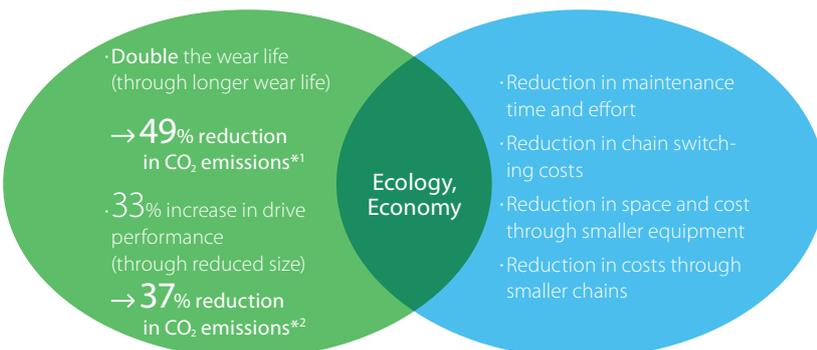
To increase the reliability of product environmental friendliness, the Tsubaki Group has set standards that must be fulfilled for a product to be considered an eco-product.



Representative Eco-Products

RS Roller Chain G7-EX

Environmental Friendliness Factors 



*1 In comparison with the Company's conventional RS Roller Chain (RS80-1) and LCA Inventory analysis (per unit)

*2 In comparison with the Company's conventional RS Roller Chain (RS100-1 and RS80-1) and LCA Inventory analysis (per unit)

Fiscal 2011 Segment Strategies

Chain Operations

Steady progress in business development based on a global perspective

The chain industry is undergoing reorganization on a global scale. In this setting, the Tsubaki Group will work to further increase its share in high-end of the markets, where we can leverage our technical strengths, and we will accelerate our business development activities in growth fields, such as photovoltaic panels.

Our highest priority will be to increase our share in high-end markets, centered on differentiated products in areas where we can leverage the strengths of our products, such as abrasion resistance, strength, and energy efficiency.

Specifically, in North America we will work to expand sales of the RS Roller Chain G7-EX. In comparison with conventional products, this new roller chain provides twice the wear life and 33% better drive performance. In Europe, we introduced the RS-WINNER, a new European-specification roller chain. We will also take steps to expand our share of the chain market, such as leveraging the customer base of the recently acquired KS. In Japan, meanwhile, we will make the most of our proposal capabilities and promote the usage of Tsubaki products in

growth fields, such as areas related to photovoltaic panels and lithium batteries.

In emerging markets, our strategy calls for focusing on industries that are recording relatively stable growth, even in a challenging global economic environment, such as mining and steel. In addition, we will strive to accelerate growth in sales of conveyor chains in China, which is recording relatively strong economic expansion.

In this way, we are steadily implementing our marketing strategy. Moreover, in addition to Japan and the United States, we are working to optimize our supply bases in such markets as Taiwan, South Korea, and Germany, and strategic partner in Brazil and Italy. We will also implement *dantotsu* activities to further strengthen our production technologies.



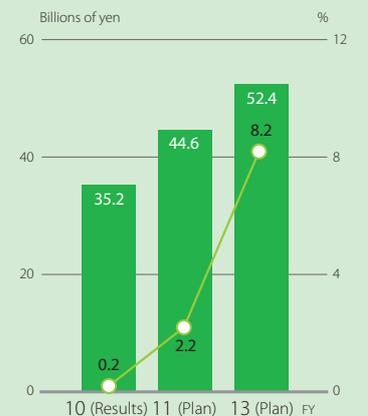
Strategic product for the European market: RS-WINNER



Sales promotion tools available in six languages, including Russian

Chain Operations

Results of Operations*



● Net sales (left) ● Operating income margin (right)

* From fiscal 2011, sprocket operations are included in this segment.

Automotive Parts Operations

Expanding global share with acquisition of new engine projects

In developed countries, we will use our advanced technical proposal capabilities to achieve continued progress with our differentiation strategy. In addition, through wide-ranging innovation and improvements in the areas of “costs and speed,” we will move forward aggressively in emerging markets and strive to expand our global market share for timing chain drive systems.

In developed countries, we will follow the key concept of “differentiation in environmental technologies” as we continue working to expand our share in high-end markets, where we can fully leverage the strengths of our products. These advantages include small size, light weight, high efficiency, low friction loss, long wear life, and low noise operation.

However, the scale of the automotive industry is recording rapid growth in China and other emerging markets. In this setting, to further expand the global share of the Tsubaki Group we need to implement aggressive initiatives targeting these emerging markets. Our key words in these markets will be “costs and speed.” Especially in

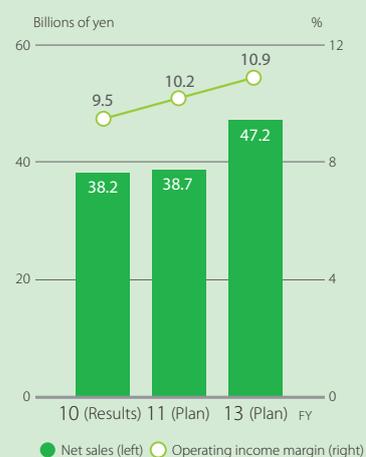
regard to costs, we need to rapidly develop timing chain drive systems that can be provided at substantially lower prices. To that end, we will make full use of the Auto Engineering Lab that we opened at the Saitama Plant to propel further innovation in production and development. At the same time, we will accelerate our implementation of *dantotsu* activities, which are already generating substantial results at the Saitama Plant. Moreover, we will take steps to further strengthen our global production system, which now has bases in six regions—Japan, North America, Europe, Thailand, China, and South Korea. For example, we are building a new plant in South Korea that is scheduled to be completed in June 2011.



Testing in anechoic engine bench room

Automotive Parts Operations

Results of Operations



Power Transmission Units and Components Operations

Rigorously enhancing product capabilities through technical leadership

By fostering innovation in production technologies, we will enhance our product capabilities and productivity and achieve business growth.

These operations are characterized by a large number of products and intense competition. Accordingly, it is essential to have a flexible marketing strategy based on technical differentiation. In particular, three of our products have been highly evaluated for their differentiated technologies—cam clutches, linear actuators, and worm gear reducers. Moving forward, these three products will play a central role in our efforts to expand our share in overseas markets.

We will also focus on expanding our business in comparatively new fields, such as cam clutches for motorcycles and four-wheeled vehicles. In fiscal 2011, ending March 31, 2011, sales of cam clutches for use in motorcycle starters and in four-wheeled vehicle automatic transmissions are expected to record substantial growth, rising 50% to 100% from fiscal 2010.

In addition, this segment will work together with the chain segment to implement business development initiatives in new markets, such as mining. As one facet of those activities, we have restarted sales of ultra-large couplings used in petroleum plants. In the future, through sustained innovation in production technologies, we will endeavor to further expand the scope of the segment's business.

Power Transmission Units and Components Operations

Results of Operations*



Materials Handling Systems Operations

Building a foundation for stable, ongoing operations by bolstering solutions provision activities and customer service

We will bolster the provision of solutions and step up our promotion of the Module Business and our focus on increasing maintenance services.

This segment's results are heavily influenced by trends in private-sector capital investment. In this operating environment, to foster stable growth in this segment we must bolster the provision of solutions and enhance customer service. Accordingly, we will strengthen all functions and services in sales, engineering, and maintenance and will work closely with our customers at their work sites to provide solutions that help them to resolve their challenges.

Also, we will focus on enhancing the capabilities of our automatic sorting systems, which have been highly evaluated for their operational stability and sorting precision. At the same time, we will strengthen our operations in the Module Business, where we expect growth, and will step up our focus on maintenance operations, which help customers to achieve stable operation and increased productivity with installed facilities.

Materials Handling Systems Operations

Results of Operations

