

A Message from the Management



Takashi Fukunaga
Chairman and
Representative Director

Tatsuhiko Mimoto
President and
Representative Director

The fiscal year ended March 31, 2005, which marked a transition for Tsubakimoto Chain from an emphasis on “streamlining and balance” to an emphasis on “growth and expansion,” was the third consecutive year of increased sales and profits for the Company. In the future, in accordance with the new management structure that we initiated on June 29, 2005, we will target growth in markets around the world.

Tsubakimoto Chain

Targeting Growth in Markets around the World

Transition to a New Management Structure

To begin with, we would like to inform our shareholders and other investors that we have moved to a new management structure.

The Tsubakimoto Chain Group has strengthened its foundation by restructuring its operations. On that basis, we have made a major shift from an emphasis on “streamlining and balance” to an emphasis on “growth and expansion.” To achieve continued growth in the future, we must further strengthen our development in global markets. Accordingly, from the viewpoint of shifting to the next generation of capable leaders with strong global outlooks, at the board of directors’ meeting held after the shareholders’ meeting on June 29, 2005, we implemented a system where Takashi Fukunaga, as chairman and representative director, will share supervisory responsibility for general management duties with president and representative director Tatsuhiko Mimoto, who will also have principal responsibility for operational execution.

Under the new structure, we will continue endeavoring to achieve further growth in accordance with our fundamental *Global Best* strategy, through which we strive to optimize each area of the Group’s operations. We would like to ask for your continued support as we take on the challenges that lie ahead.

Performance

In the fiscal year ended March 2005, Tsubakimoto Chain recorded increases in sales and profits, with consolidated net sales reaching ¥129.6 billion, operating income ¥10.4 billion, and net income ¥4.4 billion. Although our performance was supported by a favorable operating environment, more important factors were the successful implementation of our fundamental *Global Best* strategy and the transition to a growth phase by Group companies, which were backed up by the solid operating structure that we have built through a range of initiatives. In addition, we did our utmost to respond to pressures on profitability, such as the rising cost of steel and other raw materials and the appreciation of the yen, by raising our productivity and adjusting our prices.

By business segment, in power transmission products, chains, automotive parts, and power transmission units and components all recorded higher sales and profits. In particular, with an increase in orders and notable results from past investments, such as the Kyotanabe Plant, chains registered a substantial rise in profits.

In materials handling systems, we recorded increased sales on account of higher orders, due in part to the receipt of large orders from the automotive, machine tools, and distribution industries. However, operating profitability was down because of pressure on prices in conveyance systems for the automotive industry and to a decline in capital investment in the newspaper industry.



Progress in Tackling Management Challenges

Next, we will report on the progress the Group has made in shifting to a course of growth and expansion.

We have made steady progress in implementing our fundamental *Global Best* strategy. In the year under review, we took a major step forward in building our infrastructure in China with the establishment of four companies there – a chain sales company, an automotive parts production company, a power transmission units and components production company, and a materials handling systems engineering company.

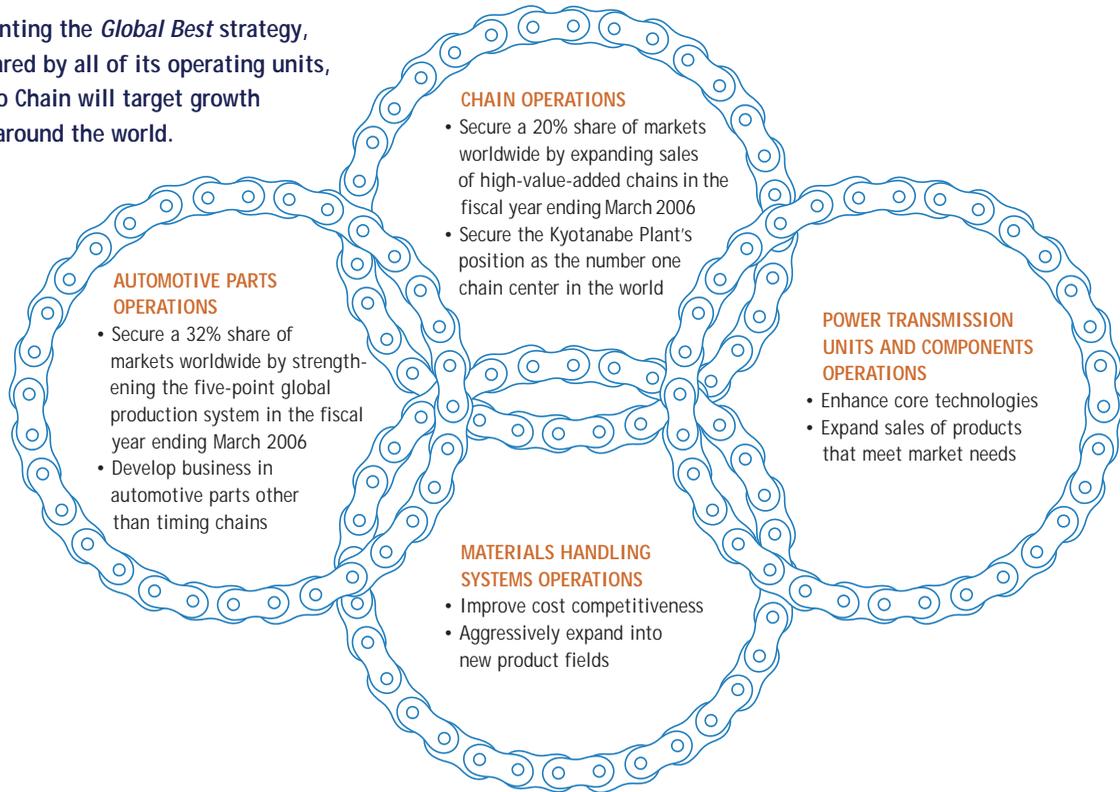
In automotive parts, the production base that we established in Shanghai has begun to supply products to Japanese automakers in China. As a result, we have completed a five-point production system for timing chain drive systems, with our new base in China joining bases in Japan, North America, Europe, and Southeast Asia. With our reinforced global production and supply system for automotive parts, we have achieved a 31% share of the global market for timing chains.

Other key challenges for the Group include bolstering production capacity and reducing inventories. At the Kyotanabe Plant, we have made further progress toward the creation of a highly efficient production system with the introduction of the cell manufacturing method to all 76 assembly lines in the year under review.

We also improved our financial position in the year under review through the introduction of a cash management system and other initiatives. We made steady progress with bolstering our financial position, reducing interest-bearing debt at year-end by ¥6.9 billion from a year earlier.



By implementing the *Global Best* strategy, which is shared by all of its operating units, Tsubakimoto Chain will target growth in markets around the world.



Medium-Term Management Plan

In preparation for the implementation of our new management system, we formulated a medium-term management plan – STEP 07 – that will cover the three-year period from April 2005 to March 2008.

The foundation of this plan will be our *Global Best* strategy, which has the “three G” key words – global operational development, bolstered Group management, and transition to a course of growth. The plan's objectives include boosting our marketing capabilities, product strengths, human resources and systems, and financial position. The plan's numerical targets call for record high operating income in the fiscal year ending March 2006 followed by record high operating, ordinary, and net income in the fiscal year ending March 2007.

Next, we will describe our specific development policies.

In the year under review, we began to build the *Global Best* organization, a process that is centered on the clarification of operational categories and decision-making processes. At the end of June 2005, we assigned *Global Best* promotion supervisors to each department in order to advance the adoption of *Global Best* and to strengthen operational functionality.

Looking at operational strategies, in chain operations we have already built a dominant competitive position in the domestic market, and the key to further growth is our progress in overseas markets. Accordingly, we will work to increase orders by further enhancing the functionality and quality of the high-value-added chains in which we boast a competitive edge and by emphasizing the Tsubaki name as a supplier of solutions. We have decided to give special focus to the development of our operations in the European market, where we have a relatively small market presence, and we are moving ahead with sales of local-specification Lambda® BS Roller Chains and strategic alliances. We will work to achieve a 20% share in worldwide markets in the fiscal year ending March 2006 and to continue to increase our share in subsequent years. Moreover, an ongoing objective in chain operations will be to secure the Kyotanabe Plant's position as the number one chain center in the world. We will move ahead with the synchronization of assembly lines, where the introduction of the cell manufacturing method has been completed, with component processing and will work to cut inventories and reduce production lead times. In these ways, we will strive to realize the highest level of productivity in the world.

In automotive parts, our fundamental strategy will be to bolster our five-point global production system for timing chain drive systems. We will enhance differentiation through technical development capabilities, achieve our goal for the current fiscal year of a 32% global market share, and continue to increase market share over the medium term, working in collaboration with OEM supplier Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten) to secure a global market share of more than 50%. To reach that goal, we will implement capital investment targeting bolstered production capacity at overseas production bases and increased productivity. We will also strive to improve our consolidated profitability by continuing to work with optimal site procurement and optimal site production. Furthermore, forward-looking measures will include the aggressive development of new automotive parts, targeting areas other than timing chain drive systems, our current mainstay automotive parts.

In power transmission units and components, by enhancing our core technologies, we will further strengthen our marketing capabilities and expand sales. Specifically, we will take steps to implement a sales strategy of matching market needs and product characteristics, such as introducing products that meet specific industry needs in our core product categories, including reducers, couplings, Cam Clutches, and linear actuators. At the same time, we will work to further expand sales by advancing global business, centered on our two production subsidiaries in China.

In materials handling systems, we will reinforce our strong competitive advantage in core fields – automotive, distribution, newspapers, and pharmaceuticals – and expand into new fields, such as process handling. We will also create synergies by integrating the technologies of various Group companies, and we will aggressively develop our operations in global markets, principally North America and China. In addition, increasing our cost competitiveness and enhancing our marketing capabilities have become extremely important issues in materials handling systems operations, and in the current fiscal year we will step up efforts to make progress in these areas.



To Our Shareholders and Other Investors

The Tsubakimoto Chain Group has successfully taken the first step on a course of growth and expansion. However, for the Group, which is targeting growth in markets around the world, this is only the first step. In the future, in accordance with the *Global Best* strategy, we will bolster the unified strength of the Group and, at the same time, expand corporate value by resolutely establishing a presence in new fields.

To further enhance shareholder-centered management, from the year under review, in addition to the stable dividends that we have paid in the past, we have transitioned to a policy of implementing profit allocation flexibly in consideration of consolidated performance.

We would like to ask our shareholders and other investors for their continued support in the years ahead.

June 2005

Takashi Fukunaga
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director