

Review of Operations

POWER TRANSMISSION PRODUCTS

In the fiscal year ended March 31, 2005, with support from favorable capital investment in Japan and economic conditions in Asia, we recorded higher sales of chains, automotive parts, and power transmission units and components. As a result, sales of power transmission products rose 9.2%, to ¥98.4 billion. Each operational category also recorded higher profits, and operating income was up 30.5%, to ¥11.3 billion. On the other hand, conditions in North America remained challenging.

Chains

In chain operations, our high-value-added chains, such as steel chains for applications that require high durability and precision and plastic chains, offer world-leading quality and functionality.

In the year under review, private-sector capital investment in Japan improved in a wide range of industries, such as machine tools, shipbuilding, steel, and IT, and our operating environment was generally favorable. Especially strong sales growth was recorded by chains for the machine tools industry and lube-free, long-life Lambda® RS Roller Chains. Outside Japan, conditions were generally favorable in Asia and other regions. In North America, the high quality of Tsubakimoto Chain Group products is recognized; we received large orders from the construction machinery industry, and we expect further business from this industry in the future.

In North America, U.S. Tsubaki, Inc., was slow to recover lost orders, and increased prices for steel and other materials and the appreciation of the yen put pressure on profitability. However, in Japan we worked to offset the effects of higher steel costs by adjusting our prices and raising productivity, and we increased production at the Kyotanabe Plant. Overall, chain operations recorded higher profits. Subsidiaries, including Tsubakimoto Custom Chain Co., Tsubakimoto Machinery Co., and Tsubakimoto Europe B.V., made significant contributions to performance.

At the Kyotanabe Plant, which is our chief plant for industrial-use chains, in the year under review we introduced the cell manufacturing method to all 76 assembly lines. Through the synchronization of the assembly lines with component processing, we expect dramatic increases in productivity and reductions in inventories.

Automotive Parts

In the supply of timing chain drive systems and components, the Tsubakimoto Chain Group is a world leader as a result of the functionality and quality of its products as well as its complete system for backing up the rapid product development efforts of automakers.

In the year under review, with Japanese automakers rapidly increasing production overseas, Tsubakimoto Automotive (Shanghai) Co., Ltd., which we established in China in April 2004, began to supply products to Japanese automakers. With the addition of China to our Saitama Plant, in Japan, U.S. Tsubaki, in North America, Tsubakimoto Europe, in Europe, and Tsubakimoto Automotive (Thailand) Co., Ltd., in Thailand, we completed our five-point production system for timing chain drive systems, and we worked to bolster our production system at each of these sites. In the year under review, we supplied parts for the new engines of Japanese automakers and other major automakers around the world, and for the second consecutive year sales were a record high.

We also registered record high profits on a consolidated basis, but improving profitability at the four production sites outside of Japan was challenging. In response to this issue, we will bolster our efforts in construction equipment and improve production efficiency.

Power Transmission Units and Components

In power transmission units and components, Tsubaki Emerson Co. recorded higher sales of such products as reducers and linear actuators to the domestic machine tools, LCD-related equipment, and injection molding equipment industries, and sales of power transmission units and components recorded double-digit growth. We also achieved higher profits in all business units – reducers, motion control units, and clutches. The merger of Tsubakimoto Chain's power transmission units

and components operations and Tsubakimoto Emerson Co., Ltd., resulted in cost reductions and significant profit growth. Group companies, such as Tsubakimoto Sprocket Co. and Tsubaki Emerson Gear (Tianjin) Co., Ltd., also recorded higher sales and profits. Overseas, we were on track with clutch knockdown production in Europe and recorded favorable sales growth. In North America, we worked to rationalize our sprocket production and supply systems.

MATERIALS HANDLING SYSTEMS

In the year under review, solid results from a consolidated subsidiary offset a sluggish performance by parent company Tsubakimoto Chain, and sales rose 7.6%, to ¥30.6 billion. Achieving a profit in products for the automotive industry was challenging, and operating income was down 4.3%, to ¥1.8 billion.

In materials handling systems, Tsubakimoto Chain's core fields are the automotive, distribution, pharmaceutical, and newspaper industries. By concentrating our investment of resources on these fields, we have built solid market positions. In particular, our linear motor high-speed sorting systems for the distribution industry have garnered the top share of the domestic market, and our automotive body paint shop conveyor systems have also been highly evaluated. We have implemented fundamental restructuring measures in this business segment, and we are now building a flexible profit structure that can respond to changing trends in orders.

In the year under review, automatic roll paper feeding systems for the newspaper industry, one of our strengths, faced difficult conditions due to a decline in capital investment in that industry. However, we received large orders for high-speed automatic sorting systems for the distribution industry, for body paint shop conveyor systems for the automotive industry, and for book distribution products. In addition, contributions were made by chip conveyor systems for the machine tools industry and bulk conveyance systems for such materials as grain and feed. Sales increased on a consolidated basis.

A decline in orders from the newspaper industry and pressure on profits with products for the automotive industry resulted in lower operating income on both a consolidated basis and a nonconsolidated basis.