Financial Review

In the fiscal year ended March 31, 2005, the Tsubakimoto Chain Group recorded increased sales and profits for the third consecutive year. In addition to external factors, such as favorable economic conditions in Asia and robust capital investment in Japan, these results were also attributable to the Group's efforts to improve profitability with cost reductions and other measures and to reinforce the Company's financial position with reductions in interest-bearing debt.

Operating Environment

In the year under review, the Tsubakimoto Chain Group's operating environment was marked by strong exports and a high level of capital investment in a wide range of industries, such as the domestic automotive, machine tools, and IT industries. On the other hand, raw materials prices rose and there was cause for concern about the future course of the U.S. economy.

Income and Expenses

In the year under review, we recorded increases in net sales and profits for the third consecutive year.

Higher sales were recorded by chain, automotive parts, and power transmission units and components operations in the power transmission products business segment and by the materials handling systems business segment, and consolidated net sales increased 8.7%, to ¥129.6 billion.

The cost of sales rose 8.2%, to ¥94.6 billion. Higher raw materials costs and unprofitable orders in materials handling systems were offset by Groupwide price adjustments, and the cost of sales ratio declined 0.4 percentage points, to 73.0%. Gross profit was up 10.3%, to ¥34.9 billion.

Selling, general and administrative (SG&A) expenses rose 3.3%, to ¥24.5 billion, but due to the success of measures to improve productivity the ratio of SG&A expenses to net sales declined 1.0 percentage points, to 18.9%.

Operating income was up 31.4%, to ¥10.4 billion, while the operating margin rose 1.4 percentage points, to 8.1%.

In other income and expenses, fund efficiency was improved through the introduction of a cash management system, and interest-bearing debt was reduced. As a result, interest expense decreased to ¥1.2 billion, from ¥1.4 billion in the fiscal year ended March 2004. In the previous year, extraordinary profit was recorded from the transition from a tax qualified pension plan to a defined contribution pension plan, but in the year under review there were no major extraordinary items. As a result, net extraordinary loss in the year under review was ¥0.3 billion, compared with net extraordinary profit of ¥0.3 billion in the previous year.

Income before income taxes and minority interests grew 31.5%, to ¥8.6 billion, and net income was up 31.5%, to ¥4.4 billion. The net margin was up to 3.4%, from 2.8% in the previous year.

Net income per share was up from ¥17.40 to ¥22.77, and return on equity (ROE) increased from 5.3% to 6.4%.

Cash Flows

Net cash provided by operating activities rose ¥1.7 billion, to ¥9.7 billion, due primarily to increases in income before income taxes and minority interests and trade notes and accounts payable. Depreciation was ¥5.5 billion, compared with ¥6.1 billion in the previous year.

Net cash used in investing activities was ¥2.5 billion, compared with net cash provided by investing activities of ¥9.1 billion in the previous year. Declines were recorded in payments for purchase of investments in securities and payments for purchase of property, plant and equipment. On the other hand, a decline was also recorded in proceeds from sales of property, plant and equipment.

Net cash used in financing activities for the year under review was ¥9.4 billion, compared with ¥15.5 billion in the previous year. We worked to reduce interest-bearing debt through continued repayment of loans from financial institutions and redemption of bonds.

Cash and cash equivalents at fiscal year-end were down ¥2.1 billion, to ¥11.6 billion.