

November 15, 2006

## CONSOLIDATED FINANCIAL STATEMENTS

6 Months Ended September 30, 2006

**Name of the Company:** Tsubakimoto Chain Co.  
**Code number:** 6371  
**Stock exchange listings:** Tokyo, Osaka, Nagoya  
**Location of the head office:** Osaka Prefecture  
**URL:** <http://tsubakimoto.com/>  
**Representative:** Tatsuhiko Mimoto, President and Representative Director  
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Board of Directors meeting to approve announcement of operating results: November 15, 2006

Adoption of U.S. GAAP: No

### 1. Consolidated Operating Results for the Six Months Ended September 30, 2006

(1) RESULTS OF CONSOLIDATED OPERATIONS \* Amounts less than ¥1 million rounded down

	Net sales		Operating income		Ordinary income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
For 6 months ended September 30, 2006	77,474	10.5	5,695	-6.8	5,304	-5.3	1,714	-38.1
For 6 months ended September 30, 2005	70,108	11.9	6,109	34.1	5,602	43.5	2,770	50.9
For Year ended March 31, 2006	147,761		13,830		12,594		6,606	

	Net income per share	Net income per share (Diluted)
	Yen	Yen
For 6 months ended September 30, 2006	9.14	-
For 6 months ended September 30, 2005	14.76	-
For Year ended March 31, 2006	34.78	-

(Notes)

(1) Investment profit under equity method: ¥5 million in six months ended September 30, 2006; ¥8 million in six months ended September 30, 2005; ¥7 million in 12 months ended March 31, 2006

(2) Average number of outstanding shares (consolidated): 187,532,641 in six months ended September 30, 2006; 187,599,287 in six months ended September 30, 2005; 187,578,259 in 12 months ended March 31, 2006

(3) Changes to accounting policies in the most-recent consolidated fiscal year: Non

(4) Percentage figures for net sales, operating income, and other items indicate increases or decreases compared with the same period of the previous fiscal year.

### (2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
September 30, 2006	202,386	80,606	37.5	404.58
September 30, 2005	189,906	77,305	40.7	412.11

March 31, 2006	198,458	77,098	38.8	410.66
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(Note) Shares outstanding at end of terms: 187,522,929 as of September 30, 2006; 187,584,106 as of September 30, 2005; 187,541,141 as of March 31, 2006

### (3) CONSOLIDATED CASH FLOWS

	Net cash provided by operating activities	Net cash provided by (used in) investing activities	Net cash used in financial activities	Cash and cash equivalents at end of period / year
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
For 6 months ended September 30, 2006	4,571	(3,229)	(1,999)	10,340
For 6 months ended September 30, 2005	1,077	(2,101)	(1,055)	9,591
For Year ended March 31, 2006	10,680	(5,595)	(5,595)	10,984

### (4) SCOPE OF CONSOLIDATED ACCOUNTS AND APPLICATION OF EQUITY METHOD

Consolidated subsidiaries: 23; Non-consolidated subsidiaries accounted for under equity method: 0; Affiliates accounted for under equity method: 2

### (5) CHANGES IN SCOPE OF CONSOLIDATED ACCOUNTS AND APPLICATION OF EQUITY METHOD

Companies newly added to consolidated accounts: 1; Companies subtracted from consolidated accounts: 0; Companies newly added under equity method: 0; Companies subtracted under equity method: 0

## 2. Outlook for Consolidated Operating Results in the Year Ending March 31, 2007

	Net sales	Ordinary income	Net income
	Millions of Yen	Millions of Yen	Millions of Yen
Full year	157,000	13,300	6,100

Projected net income per share: ¥32.53

\* The above projections are based on assumptions and judgments made by Tsubakimoto Chain in light of information available at the present juncture. However, Tsubakimoto Chain's actual performance may differ materially from those projections due to changes in the operating environment.

### **3. Business Results and Financial Position**

#### **(1) Business Results**

##### **1) Qualitative data regarding consolidated operating results for April 2006—September 2006**

In the first half of the fiscal year, global economic trends were generally positive. U.S. economic growth leveled off due to high oil prices and slower housing investment. In Europe, while there was some disparity in growth throughout the region, overall capital investment in the private sector and building investment buoyed the EU economy. Asia continued to experience an economic surge, led by China and a number of other nations reporting strong construction investment and growing exports.

In Japan, the economy continued to expand based on a rise in consumer spending and higher private-sector capital investment driven by improved profitability.

Industries closely connected with the TSUBAKI Group fared well in the first half. The automotive and machine tools industries in Japan experienced continued growth, while overseas, though there were concerns about oil prices and the outlook for the U.S. economy, overall the trends were positive.

Under these economic conditions, the TSUBAKI Group made strides to increase orders by promoting a *Global Best* strategy aimed at optimizing the business of the entire group and pursuing the maximum corporate value for each business unit and consolidated subsidiary.

The result of our efforts for the first half of the current fiscal year was a 10.5% year-on-year increase in net sales, to ¥77.47 billion, while orders received in the period fell 2.7% to ¥74.17 billion.

Profitability suffered, however, due to a significant loss in the materials handling division in North America. Operating income totaled ¥5.69 billion, down 6.8% from the same period a year previous, ordinary income declined 5.3% from the same period a year previous to ¥5.34 billion, and net income fell 38.1% to ¥1.71 billion.

##### **2) The interim results for each division were as follows**

[Power Transmission Products Division]

In the power transmission division, chain sales to the domestic automotive, steel, machine tool and various other industries were higher, thanks to higher demand for new models of the RS roller chain and large-sized conveyor chains, cableveyors, and other products.

For automotive parts, demand for timing chain drive systems grew steadily thanks to higher orders from domestic automakers, while overseas sales at various subsidiaries surged.

Power Transmission Units and Components sales expanded as a result of higher demand for power cylinders, friction fastening devices, couplings and other products to the machine tool, extrusion molding, IT, automotive, shipbuilding and other industries.

Overall, the power transmission products division reported net sales of ¥59.02 billion, an

increase of 10.6% over the previous year, with operating income of ¥7.27 billion, up 3.7%, and orders of ¥59.48 billion, up 9.5%.

[Materials Handling Systems Division]

In the materials handling systems division, domestic sales grew well thanks to higher demand for paint shop conveyor systems and other conveyor systems to the auto industry. In addition, both domestic and overseas IT companies showed strong demand for conveyor facilities, while machine tools companies were heavy buyers of conveyors and other equipment. However, the North American subsidiary TSUBAKI CONVEYOR OF AMERICA, INC. (Tennessee, the United States, wholly owned by Tsubakimoto Chain Co.) recorded a major loss related to added costs of installing a paint shop conveyor system for an automotive customer.

As a result, net sales in the materials handling systems division rose 10.6% to ¥18.18 billion, while operating income declined 97.4% below a year previous to ¥17 million. Orders fell 33.1% to ¥14.69 billion.

## (2) Financial Position

Total assets rose ¥3.93 billion from the end of the previous fiscal year, to ¥202.39 billion. Since the final day of the interim period was a bank holiday, certain notes receivable and notes and accounts payable could not be settled at the end of the month. This increased assets by ¥4.77 billion.

Without this effect, total assets at the end of the period would have totaled ¥197.62 billion, down ¥839 million from the previous year-end. Tangible assets were boosted by the inclusion of assets of the newly consolidated subsidiary Tsubaki Yamakyu Chain Co., Ltd. along with capital spending, but the increase was more than offset by a decrease in the value of equity holdings and a major inventory decrease in the material handling systems division.

Net cash provided by operating activities in the first half totaled ¥4.57 billion. Income before income tax and minority interest totaled ¥5.28 billion and amortization totaled ¥2.82 billion, while income taxes and other items offset the gains by ¥3.67 billion.

The decline in net cash used in investing activities totaled ¥3.23 billion, due to investments in production equipment for automobile parts and other capital spending totaling ¥3.54 billion.

The decline in net cash used in financing activities totaled ¥2.00 billion. Outflows included the repayment of long-term debt and an increase in dividend payments by ¥2 a share to reflect a special one-time commemorative dividend.

Cash and cash equivalents decreased by ¥643 million to ¥10.34 billion.

## Cash Flow Indicators for the Group

	As of March	As of September	As of March	As of September
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	2005	2005	2006	2006
Equity ratio	40.0	40.7	38.8	37.5
Market-based equity ratio	51.4	63.3	83.3	50.3
Debt redemption ratio	4.5	--	3.7	--
Interest coverage ratio	8.0	2.0	10.8	9.1

Equity ratio: Shareholder equity/Total assets

Market-based equity ratio: Total market capitalization/Total assets

Debt redemption ratio: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest

\* Each indicator was calculated based on consolidated results.

\* Total market capitalization was calculated as the stock price at the end of the term x the number of shares outstanding at the end of the term (after excluding Treasury Stock owned by the Company).

\* The operating cash flow is the cash flow from operations on the consolidated cash flow statement. The interest-bearing debt represents all liabilities on the consolidated balance sheet for which interest is being paid. In addition, interest means the interest paid shown on the consolidated cash flow statement.

### (3) Outlook for Full Year

The Japanese economy and global economy as a whole may continue to expand through the end of the fiscal year. Considering the high oil prices, slowdown in the U.S. economy, and other factors, however, the outlook is uncertain.

Under these conditions, the TSUBAKI Group is committed to maximizing the value of the entire Group, each product division and each Group company on the basis of the *Global Best* strategy. To ensure future growth, the Group will continue to emphasize its “close-to-the-customer” sales model, while at the same time promoting optimum sales, production, and procurement on a worldwide basis as a way to expand the entire Group.

In addition, the Group will promote a reduction in interest-bearing debt and other initiatives to strengthen the financial position.

### Projections for the Full Year ending March 2007

#### 1. Consolidated Projections

Net Sales	¥157.0 billion (up 6.3% from previous year)
Ordinary Income	¥13.3 billion (up 5.6%)
Net Income	¥6.1 billion (down 7.7%)

#### 2. Nonconsolidated Projections

Net Sales	¥89.0 billion (up 6.6% from previous year)
Ordinary Income	¥8.1 billion (up 9.5%)
Net Income	¥3.8 billion (down 11.0%)

\* The above projections are based on assumptions and judgments made by Tsubakimoto Chain in light of information available at the present juncture. The projections do not reflect risks and other uncertainties. Tsubakimoto Chain's actual performance may differ materially from those projections due to changes in the operating environment.