

CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended June 30, 2006

Company name: Tsubakimoto Chain Co.
Code number: 6371
Stock exchange listings: Tokyo, Osaka, Nagoya
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1. Significant Accounting Policies in the Preparation of First-Quarter Operating Results

- (1) Adoption of the simplified method of accounting: Yes
 The simplified method is applied to the computation of income taxes.
- (2) Changes to accounting policies from the most-recent consolidated fiscal year: No
- (3) Changes in the scope of consolidation and application of the equity method: Yes
 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. Consolidated Operating Results for the Three Months Ended June 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	%
3 months ended June 30, 2006	37,134	20.5	2,358	-7.2	2,335	-9.0	824	-25.7
3 months ended June 30, 2005	30,818	8.6	2,541	66.6	2,565	82.7	1,109	198.4
Year ended March 31, 2006	147,761		13,830		12,594		6,606	

	Net income per share		Net income per share (Diluted)	
	Yen		Yen	
3 months ended June 30, 2006	4.40		—	
3 months ended June 30, 2005	5.91		—	
Year ended March 31, 2006	34.78		—	

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

[Qualitative Data Regarding Consolidated First-Quarter Operation Results (Fiscal Year Ending March 31, 2007)]

Surveying the world economy in the first quarter of the fiscal year, the U.S. economy remained firm despite high crude oil prices. Asian economic growth was buttressed by the surging Chinese economy. In Europe, a gradual economic recovery continued.

In Japan, the rise in oil prices and other factors has clouded the economic outlook. In general, however, moderate growth has been achieved thanks to growing capital spending by companies and steady personal consumption.

Under these economic conditions, the Tsubakimoto Chain Group has been 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 Group company. The execution of this strategy is the basis of our efforts to increase orders for our products.

The result of our efforts for the first quarter of the current fiscal year was a 20.5% increase in net sales, to ¥37.13 billion. Profitability suffered, however from higher costs, with operating income totaling ¥2.36 billion, down 7.2% from the same period a year previous, and ordinary income decreasing 9.0% to ¥2.34 billion. Orders, meanwhile, declined 3.1% to ¥36.04 billion due largely to a reduction in business in the materials handling system division.

The quarterly results for each division were as follows:

In the power transmission division, chain sales to the domestic automotive, steel, machine tool and various other industries

were firm, thanks to new models of the RS roller chain and robust demand for other products. The addition of Tsubaki Yamakyu Chain Co., Ltd. to the consolidated accounts also bolstered sales. For automotive parts, demand for timing chain drive systems from domestic auto makers was strong, while overseas sales through subsidiaries also grew. Power transmission and components sales expanded, thanks to growing demand for Power Cylinders, friction fastening devices, couplings and other products to various industries, including machine tools, extrusion molding, IT, automotive and shipbuilding.

Overall, the power transmission division reported net sales of ¥29.72 billion, an increase of 12.8%, with operating income of ¥3.58 billion, up 10.8%, and orders of ¥30.35 billion, up 9.9%.

In the materials handling systems division, sales rose strongly thanks to large conveyance systems orders from automotive companies and higher demand for the same from IT firms, along with growing demand for bulk conveyor systems and metalworking chips handling systems. Profitability suffered both in Japan and abroad, however, from higher subcontracting, materials, and human resources costs.

As a result, net sales in the materials handling systems division rose 69.9% to ¥7.27 billion, while an operating loss of ¥346 million was logged compared with operating income of ¥84 million in the same term a year previous. Orders fell 40.7% to ¥5.69 billion.

(2) CONSOLIDATED FINANCIAL POSITION

	Total assets	Shareholders' equity	Equity ratio	Equity per share
	Millions of Yen	Millions of Yen	%	Yen
June 30, 2006	199,172	80,107	37.8	401.80
June 30, 2005	177,650	72,020	40.5	383.89
March 31, 2006	198,458	77,098	38.8	410.66

(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
3 months ended June 30, 2006	186	(2,313)	2,242	11,106
3 months ended June 30, 2005	(357)	(572)	(2,643)	8,022
Year ended March 31, 2006	10,680	(5,595)	(5,595)	10,984

[Qualitative Data Regarding Changes in Consolidated Financial Position]

Total assets rose ¥714 million from the same period in the previous fiscal year-end, to ¥199.17 billion. The value of investment securities declined in the period, but this decline was offset by the addition of Tsubaki Yamakyu Chain to the consolidated accounts, which led to an increase in tangible assets, inventories and other types of assets.

Cash and cash equivalents increased by ¥121 million to ¥11.11 billion. Net cash provided by operating activities in the first quarter totaled ¥186 million. Although income before income taxes and minority interests was ¥2.36 billion, and depreciation and amortization totaled ¥1.39 billion, corporate taxes and other items offset the gains by ¥3.34 billion.

Net cash used in investing activities totaled ¥2.31 billion, due to investments in production equipment for automobile parts and other capital spending totaling ¥1.94 billion. Net cash used in financing activities increased ¥2.24 billion. The Company made dividend payments worth ¥1.13 billion, but this outflow was more than offset by new financing of ¥3.65 billion from financial institutions.

1. 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
First half of year	77,000	5,700	2,700
Full year	157,000	13,500	6,800

Projected net income per share (full year): ¥36.26

2. Outlook for Non-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

First half of year	44,000	3,500	2,200
Full year	88,000	7,100	4,300

Projected net income per share (full year): ¥22.93

[Qualitative Data Regarding Outlook for Operating Results]

In the first quarter, the power transmission division performed as expected, while the materials handling system division experienced worsened profitability. Overall, performance was not as positive as expected when the Company announced its first-half projections on May 16, 2006. However, the Company expects to meet the initial projections for both the first half and full year, and therefore has not at this time revised the forecasts.

* 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.