

February 9, 2007

## CONSOLIDATED FINANCIAL STATEMENTS

9 Months Ended December 31, 2006

**Name of the Company:** Tsubakimoto Chain Co.  
**Code number:** 6371  
**Stock exchange listings:** Tokyo, Osaka, Nagoya  
**URL:** <http://tsubakimoto.com/>  
**Representative:** Tatsuhiko Mimoto, President and Representative Director  
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### 1. Significant Accounting Policies in the Preparation of Third-Quarter Operating Results

- (1) Adoption of the simplified method of accounting: Yes  
 A simplified method is applied to the computation of income taxes.
- (2) Changes to accounting policies in 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 Nine Months Ended December 31, 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 9 months ended December 31, 2006 | 112,72          | 28.4 | 9,630            | 4.9  | 8,991           | 5.8  | 3,739           | (15.5) |
| For 9 months ended December 31, 2005 | 103,950         | 13.3 | 9,180            | 34.8 | 8,500           | 49.3 | 4,423           | 63.1   |
| 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 9 months ended December 31, 2006 | 19.94                |  |                                |  |
| For 9 months ended December 31, 2005 | 23.58                |  |                                |  |
| For Year ended March 31, 2006        | 34.78                |  |                                |  |

(Notes)

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                  |
| December 31, 2006 | 209,932         | 83,093          | 37.2         | 416.56               |
| December 31, 2005 | 197,734         | 81,978          | 41.5         | 437.07               |
| March 31, 2006    | 198,458         | 77,098          | 38.8         | 410.66               |

## CONSOLIDATED CASH FLOWS

|                                      | Net cash provided by operating activities | Net cash used in investing activities | Net cash provided by (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 9 months ended December 31, 2006 | 4,053                                     | (6,058)                               | 2,777   | 11,803  |
| For 9 months ended December 31, 2005 | 6,521                                     | (3,449)                               | (3,361)   | 11,240  |
| For Year ended March 31, 2006        | 10,680                                    | (5,595)                               | (5,595)   | 10,984  |

## **Business Results and Financial Position**

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

#### **1) Overview of Operating Results**

(Unless otherwise stated, all comparisons are with operating results in the period from April 1 to December 31, 2005.)

In the nine-month period under review, from April 1, 2006 to December 31, 2006, the global economy performed steadily overall. The U.S. economy remained firm on the back of brisk consumer spending, which counteracted softening growth trends associated with hikes in crude oil prices and lackluster housing investment. The European economy performed robustly as a whole thanks to favorable capital investment, although there were differences among countries within the region. Further, Asia's economy continued to grow strongly centered on China, which saw vigorous construction investment and exports.

Meanwhile, Japan's economy continued recovering as solid capital investment and an upturn in consumer spending offset weakening exports.

Regarding the Tsubaki Group's market environment, in the domestic market the automotive and machine tool industries continued to perform strongly. Further, overseas markets remained solid overall despite concerns about hikes in crude oil prices and U.S. business climate trends.

Amid those conditions, the Tsubaki Group actively pursued the *Global Best* strategy that it has put forward as a medium-to-long term vision and worked to increase orders with a view to optimizing the Group as a whole and maximizing corporate value.

As a result, in the period under review the Group posted increases of 2.0% in orders received, to ¥111,162 million; 8.4% in net sales, to ¥112,722 million; 4.9% in operating income, to ¥9,630 million; and 5.8% in ordinary income, to ¥8,991 million. Net income decreased 15.5%, to ¥3,739 million.

#### **2) Results by Operational Segment**

##### **[Power Transmission Products Segment]**

The Power Transmission Products segment performed steadily due to brisk shipments of new-model RS Roller Chain and other drive chains, large-type conveyor chains, and cableveyors primarily for the automotive, steel, and machine tool industries.

In the automotive parts division, shipments of timing chain drive systems were robust on steady deliveries to domestic automakers. In addition, sales at overseas bases grew steadily.

Power transmission units and components operations recorded brisk sales of electro-mechanical cylinders, friction fastening devices, and couplings, mainly for the machine tool, injection molding, automotive, and shipbuilding industries.

As a result of the above, the Power Transmission Products segment achieved increases of 9.8% in orders received, to ¥91,653 million; 10.5% in net sales, to ¥90,095 million; and 12.4% in operating income, to ¥11,904 million.

##### **[Materials Handling Systems Segment]**

The Materials Handling Systems segment recorded favorable sales of conveyor systems for the automotive industry—mainly paint shop conveyor systems—conveyor systems for domestic IT-related industries, and conveyors for the machine tool industry. However, in the first half of the

current fiscal year, ending March 2007, consolidated subsidiary Tsubaki Conveyor of America, Inc., (Tennessee, the United States, wholly owned by Tsubakimoto Chain Co.) incurred a large loss for additional installation costs related to the installation of paint shop conveyor systems for the automotive industry.

As a result of the above, in the Materials Handling Systems segment orders received decreased 23.5%, to ¥19,508 million; net sales edged up 0.9%, to ¥22,186 million; and operating income declined 65.4%, to ¥360 million.

## (2) Financial Position

Total assets at the end of the period under review amounted to ¥209,932 million, up ¥11,474 million from the end of the previous fiscal year. That increase included a ¥5,670 million increase in assets that occurred because the final day of the period was a bank holiday, which resulted in the non-settlement of certain trade notes and accounts receivable with due dates on the final day of the period and trade notes and accounts payable with settlement dates on the final day of the period.

Excluding the effect of the bank holiday, total assets at the end of the period under review stood at ¥204,262 million, up ¥5,804 million from the end of the previous fiscal year. That increase was primarily due to an increase in property, plant and equipment associated with the acquisition of the assets of the new consolidated subsidiary Tsubaki Yamakyu Chain Co., Ltd., and stepped-up capital investment centered on automotive parts production facilities.

Cash and cash equivalents at the end of the period were up ¥819 million from the end of the previous fiscal year.

Net cash provided by operating activities was ¥4,053 million. This was mainly related to income before income taxes and minority interests of ¥8,974 million and depreciation of ¥4,340 million, which offset the income taxes paid of ¥5,969 million and an increase in trade notes and accounts receivable of ¥2,882 million that included the effect of the bank holiday.

Net cash used in investing activities was ¥6,058 million, which was mainly attributable to capital investment of ¥6,407 million for automotive parts production facilities and other items.

Net cash provided by financing activities amounted to ¥2,777 million, which mainly comprised the repayment of long-term loans and new long-term loans entered into in preparation for the payment of capital investments going forward.

## <Reference>

### Operating Results Outlook

(1) Outlook for Consolidated Operating Results in the Year Ending March 2007 (April 1, 2006 to 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           |

(Reference) Projected net income per share (full year): ¥32.53

(2) Outlook for Nonconsolidated Operating Results in the Year Ending March 2007 (April 1, 2006 to March 31, 2007)

|           | Net sales       | Ordinary income | Net income      |
|-----------|-----------------|-----------------|-----------------|
|           | Millions of yen | Millions of yen | Millions of yen |
| Full year | 89,000          | 8,100           | 3,800           |

(Reference) Projected net income per share (full year): ¥20.26

[Qualitative Information Regarding Outlooks for Operating Results]

Because the operating results in the period under review were largely in accordance with targets, the Group has not revised the full-year consolidated and nonconsolidated outlooks for operating results that it issued on November 15, 2006.

Further, today a meeting of the Board of Directors of Tsubakimoto Chain decided to respond to a tender offer conducted by TNN Investment Co., Ltd., with respect Tsubaki Nakashima Co., Ltd. If the said tender offer is successful, it will affect the operating results of Tsubakimoto Chain. Accordingly, Tsubakimoto Chain plans to disclose related information promptly.

(For details please refer to the Notification Regarding Response to Tender Offer Bid for Tsubaki Nakashima, issued today.)

\* The above projections have been prepared in light of information available as of this document's issuance date. Actual operating performance may differ from projected figures due to a variety of factors going forward.