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Introduction to the industry environment, the Tsubaki Group’s growth track, and strategies for the future

Top management’s message focusing on the Tsubaki Group’s strategy for tackling outstanding issues

Leveraging our competitive advantages in technology to win in an intensely competitive operating environment

Our dedicated efforts to strengthen corporate governance and the internal control system

Caution Concerning Forward-Looking Statements

In certain cases, the information in this report is based on estimates and forecasts made by the Tsubaki Group. The accuracy of numerical data, including statistics, is not guaranteed. As a general rule, figures less than a unit have been rounded up to the nearest whole number.
## Business Overview

**Tsubaki Group Brings Innovation to Motion & Control**

Since its founding, the Tsubaki Group has consistently applied differentiated technology derived from its mainstay Chain Operations to expand into a diverse range of businesses. The Group’s business scope now encompasses automotive parts, including timing chain drive systems for engines, and power transmission units and components, including reducers and motion control units. Furthermore, by exploiting technology in Motion & Control, we have extended our operations to materials handling systems for sorting, storage, and conveyance.

Our *Innovation in Motion* slogan expresses our readiness to take the initiative to transform ourselves in the field of Motion & Control. With that attitude, we will answer the individual needs of customers with optimal products based on our differentiated technology and global network. While enhancing productivity and implementing initiatives in environmental protection and energy saving, we will strive to attain sustainable growth and maximize corporate value.

## Industry Standing

**Leveraging Our Brand Power in Four Operating Segments**

### Chain Operations

In steel chains, the Group accounts for 67% of the domestic market and 23.5% of the world market. We hold a dominant position that leaves the nearest competitors well behind.

### Automotive Parts Operations

The Group boasts an overwhelming domestic market share for timing chain drive systems, its mainstay product in Automotive Parts Operations. With a 34% share of the world market, we are strongly challenging the top overseas manufacturer of timing chains.

### Power Transmission Units and Components Operations

Sales of the operating segment’s mainstay product, reducers, are growing due to aggressive marketing. In addition, the Group’s other top-selling products have secured significant shares of domestic niche markets; cam clutches have about an 80% market share and power cylinders (electro-mechanical cylinders) about a 50% market share.

### Materials Handling Systems Operations

The Group’s strength lies in the ability to tailor products to customers’ systems based on a technology solutions based marketing strategy. Core products are automotive body paint shop conveyor systems, sorting systems, and conveyance systems for the newspaper industry.
Growth Track in Relation to Operating Environment and Growth Drivers

Corporate Structure Resilient to Changes in Domestic Business Climate

Looking back at our performance, we can see a significant change in our growth track from fiscal 2002 onward. Before then, the Tsubaki Group’s business results were vulnerable to domestic economic fluctuations, particularly the level of capital investment. Since fiscal 2002, however, our results have not been impacted by economic downturns and other external factors. Moreover, our business growth has outpaced that of the domestic economy during its recovery phase.

This change in our growth track can be explained by, first, the thoroughgoing operational restructuring we have undertaken to reinforce our financial base. Second, we have energetically expanded our global operations, and, third, we have benefited from structural shifts in the operating environment, as explained below.

Growth Drivers

Successful Globalization Strategy and Structural Shifts in Operating Environment

Since the beginning of the decade, the Tsubaki Group has moved onto a strong growth track. One of the key factors in achieving this change in our growth track has been our globalization strategy. Under the motto of *Global Best*, we have aimed to maximize Groupwide competitiveness by leveraging the strength of the Tsubaki brand, which is reinforced by our technology advantage. Our efforts to expand have not been confined to markets where we are traditionally strong, like the United States; we have also worked to heighten our presence in markets in Europe and Asia/Oceania.

We have also been propelled forward by structural shifts in the operating environment. Large-scale heavy industries, such as steel and shipbuilding, have revived, and this has been accompanied by the renewal of production equipment and a brisk round of new investment. Investment in production equipment, with the aim of raising manufacturing efficiency and product competitiveness, has been particularly robust. At the same time, the requirements for higher-performance, compact, and energy-saving automotive engines have fueled a worldwide changeover from belts to chains in timing drive systems.

Changes in Tsubaki Group’s Growth Track

From dependence on domestic economy to strong, independent growth track

Widening Sphere of Tsubaki Group’s Activities

From Japan to the world

Structural Shift in Investment Style of Companies

Acceleration of investment to enhance productivity from 2000

Structural Shift in Automotive Engine Timing Drive Systems

Japanese trend to adopt chains spreading worldwide
In the past five years, net sales have increased 1.4 times and ordinary income has increased 3.6 times. Despite the fact that the interest-bearing debt increased in fiscal 2007 due to investment to increase production, it has almost halved during the five-year period. Consequently, the ratio of net interest-bearing debt to total assets has fallen steadily, to 13.0% at the end of fiscal 2007.

We are starting to see the results of our management style in maximizing net sales, performance, and capital efficiency.

---

**Operating Performance** (Millions of yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales</th>
<th>Operating income</th>
<th>EBITDA</th>
<th>Ordinary income</th>
<th>Net income</th>
<th>Depreciation and amortization</th>
<th>Net financial expenses</th>
<th>Net interest-bearing debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>¥116,670</td>
<td>7,351</td>
<td>14,086</td>
<td>4,999</td>
<td>1,531</td>
<td>6,736</td>
<td>(1,507)</td>
<td>52,513</td>
</tr>
<tr>
<td>2004</td>
<td>¥119,141</td>
<td>7,951</td>
<td>14,035</td>
<td>6,215</td>
<td>3,385</td>
<td>6,083</td>
<td>(1,181)</td>
<td>43,380</td>
</tr>
<tr>
<td>2005</td>
<td>¥129,563</td>
<td>10,448</td>
<td>15,952</td>
<td>8,888</td>
<td>4,449</td>
<td>5,504</td>
<td>(1,002)</td>
<td>43,897</td>
</tr>
<tr>
<td>2006</td>
<td>¥147,761</td>
<td>13,830</td>
<td>19,339</td>
<td>12,594</td>
<td>6,607</td>
<td>5,509</td>
<td>(642)</td>
<td>38,967</td>
</tr>
<tr>
<td>2007</td>
<td>¥155,747</td>
<td>16,008</td>
<td>21,957</td>
<td>14,545</td>
<td>8,541</td>
<td>5,948</td>
<td>(554)</td>
<td>42,313</td>
</tr>
</tbody>
</table>

---

**Balance Sheets** (Millions of yen)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Net assets</th>
<th>Interest-bearing debt</th>
<th>Net interest-bearing debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>¥183,260</td>
<td>¥60,307</td>
<td>64,930</td>
<td>52,513</td>
</tr>
<tr>
<td>2004</td>
<td>¥175,432</td>
<td>¥66,873</td>
<td>50,317</td>
<td>36,637</td>
</tr>
<tr>
<td>2005</td>
<td>¥179,263</td>
<td>¥71,634</td>
<td>43,380</td>
<td>31,818</td>
</tr>
<tr>
<td>2006</td>
<td>¥198,458</td>
<td>¥77,098</td>
<td>38,967</td>
<td>27,982</td>
</tr>
<tr>
<td>2007</td>
<td>¥212,740</td>
<td>¥81,034</td>
<td>42,313</td>
<td>27,695</td>
</tr>
</tbody>
</table>

---

1. EBITDA = operating income + depreciation and amortization
2. Net financial expenses = interest and dividend income – interest expense
3. Net interest-bearing debt = interest-bearing debt – cash and cash equivalents
Financial Soundness Continues to Improve

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows</strong></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>¥ 12,020</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(3,014)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(14,216)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>9,006</td>
</tr>
</tbody>
</table>

**Major Indicators**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income margin</td>
<td>4.3%</td>
</tr>
<tr>
<td>ROE $^5$</td>
<td>2.5%</td>
</tr>
<tr>
<td>D/E ratio (net) $^6$</td>
<td>0.87</td>
</tr>
</tbody>
</table>

**Per Share Data** (Yen)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥ 7.92</td>
</tr>
<tr>
<td>Net assets</td>
<td>319.39</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>6.00</td>
</tr>
</tbody>
</table>

---

4 Free cash flow = net cash provided by operating activities + net cash provided by (used in) investing activities
5 ROE = net income / average net assets
6 D/E ratio (net) = net interest-bearing debt / net assets
7 Includes a commemorative 90th anniversary dividend of ¥2.00
We are by no means complacent about our current performance, and we will seek to realize further improvements in profitability and to achieve sustainable growth. Our priorities are further productivity gains and enhanced product development backed by our differentiated technology. For fiscal 2010, the final year of the STEP09 medium-term management plan, we are targeting – in accordance with our policy of “commitment management” – a more than 1.2-times increase in net sales and a 1.8-point increase in the ordinary income margin compared with fiscal 2007.

Sales Targets by Business Units

<table>
<thead>
<tr>
<th>Power Transmission Products Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain Operations</td>
</tr>
<tr>
<td>Bills of yen</td>
</tr>
<tr>
<td>FY 07      08      09      10</td>
</tr>
<tr>
<td>48.6      52.2      54.4      57.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Automotive Parts Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills of yen</td>
</tr>
<tr>
<td>FY 07      08      09      10</td>
</tr>
<tr>
<td>44.5      54.0      59.0      60.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Power Transmission Units and Components Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills of yen</td>
</tr>
<tr>
<td>FY 07      08      09      10</td>
</tr>
<tr>
<td>26.9      29.4      31.4      33.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Materials Handling Systems Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills of yen</td>
</tr>
<tr>
<td>FY 07      08      09      10</td>
</tr>
<tr>
<td>32.6      31.8      34.5      33.7</td>
</tr>
</tbody>
</table>
To Our Shareholders and Investors

Our confidence has grown steadily with our positive results. We will tackle outstanding issues with determination until confidence changes into conviction that we are a truly global company.

Takahiro Kato
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director

Highest-Ever Earnings for Second Consecutive Year

In the second half of fiscal 2007, there was a slackening in the pace of economic expansion, especially in the United States and Japan. Despite this, the Tsubaki Group renewed its highest-ever net sales and ordinary income figures for the second year in a row.

Further Acceleration in Overseas Business Development

Consolidated net sales rose 5.4% year on year, to ¥155.7 billion. Overseas sales increased 8.9% year on year, driving overall growth. In its efforts to promote global development, the Tsubaki Group has focused on Europe and Asia/Oceania, which still have relatively low ratios in the overall sales composition. In fiscal 2007, we were rewarded with strong year-on-year sales growth in both regions, with sales up 24.2% in Europe and 15.7% in Asia/Oceania.

World Market Shares Continue to Expand

In our mainstay Power Transmission Products Segment, sales increased 9.6% year on year. The two core products, industrial-use steel chains and timing chain drive systems for automobiles, both expanded their global market shares. Industrial-use steel chains carved out a 23.5% share of the world market, up 1.9 points, and timing chain drive systems a 34% share, up 1.0 point.

Two Negative Factors Effectively Absorbed and Profitability Increased

In fiscal 2007, two unexpected factors led to a significant negative impact on earnings. However, these were successfully absorbed, and we achieved a 15.7% year-on-year increase in consolidated operating income, to ¥16.0 billion.

The first negative factor was in the Materials Handling Systems Segment. In the United States, installation costs related to an order from the automotive industry rose dramatically due to the effect of a major hurricane, and the segment consequently recorded a significant loss. We responded swiftly, reinforcing the number of key personnel and persevering in tough price negotiations with the installation company. By taking decisive steps to minimize the confusion in the operating situation and to restore profitability, we contained the problem. And, the Materials Handling Systems Segment’s operating income margin in fiscal 2007 decreased by only 0.1 point year on year.

The second factor was a dramatic increase in raw materials costs. In response to this situation, we implemented price increases, mainly focused on our highly competitive industrial chains. In addition to transferring a portion of these increased costs to product prices, we reduced costs in our factories through productivity enhancements.

As a result, these two factors, which in total exerted a negative effect of ¥2.6 billion on earnings, were successfully absorbed. In fact, we managed to secure a ¥2.2 billion increase in operating income in fiscal 2007.

Three Types of Confidence Stemming from Stronger Earnings Results

The Group’s response to the challenges of the past year has highlighted three types of confidence.

The first type of confidence is in our risk control system and its ability to respond effectively. In any business environment, unforeseen events will occur. The key issue is how a company responds and how it acts to maintain its external commitments. Awareness of this issue is beginning to take root across the entire Group.

The second type of confidence is in our product and manufacturing strength. Our fundamental strategy has always been to grow market share through the quality differentiation that comes from our technology development and manufacturing system. The proof that this strategy is working can be seen in the competitive products that have allowed us to transfer a portion of rising raw materials costs to product prices. In addition, we have achieved cost reductions through productivity enhancements.

The third type of confidence is in our comprehensive strength as a group. Even if an unforeseen event or situation causes business performance to deteriorate in one operating segment, the other operating segments can cover for that downturn. This is the comprehensive strength that makes for sustainable growth.
Strategy for Outstanding Issues

Recalling Previous Management Strategy
The Tsubaki Group has implemented various strategy initiatives over the years, but from the mid-1990s, the crucial points were:
1. Build a product portfolio differentiated by our technology development and manufacturing system.
2. Swiftly grasp major trends and structural changes of the era.
3. Create a corporate structure that allows us to turn those trends and structural changes into tailwinds for our business operations.

Escaping Influence of Trade Cycles and Focusing on Major Structural Trends
In the mid-1990s, we tried to define the major trends and structural changes of the era. The globalization of the economy was an obvious choice.

The manufacturing sector, and in particular the automotive industry, was accelerating the globalization of both technology development and production. In response to this trend, component manufacturers would clearly have to supply products and develop their own technology on a global basis as well. Globalization would also intensify competition among client companies and increase the demand for quality in components. Our conclusion was that we would need to move beyond the role of a components supplier and enhance our ability in development, system construction, and customization. This would enable us to provide customers with products that would contribute to their productivity, energy-saving, and environmental initiatives.

Real Results – Growth Capacity from Strong Corporate Structure and Differentiation
In order to build the base for global development, we worked diligently to strengthen our financial position and improve our management efficiency. At the same time, we energetically constructed a global production and supply system and invested in technology development.

As a result, the ratio of net interest-bearing debt to total assets fell from 29.3% in fiscal 2002 to 13.0% in fiscal 2007, signifying a much strengthened financial structure. Over the same period, the ratio of selling, general and administrative expenses to net sales decreased 4.5 points, from 22.2% to 17.7%. This indicated a remarkable increase in efficiency in our marketing and administrative divisions. Our mainstay products achieved major increases in global market share, backed by the technology advantage that differentiates them from competing products. We reinforced a global production and supply system spanning Japan, North America, Europe, China, and Asia/Oceania, and over the past five years the overseas sales ratio has risen 7.4 points, to 37.4%. The result of these endeavors is that in the past five years consolidated net sales have risen slightly less than 1.4 times while operating income has increased more than 2.6 times.

Growth Capacity Enhanced through Tackling Regional and Product Issues
The achievements detailed above belong to the past. A number of unresolved issues remain in the background, and by dealing with these issues we will forge our path to the future.

We first need to look at our marketing power and product strength, which are crucial to determining our capacity for growth. The overall ratio of overseas sales has increased greatly, but the ratios of sales in Europe and Asia/Oceania sales to total sales are still low; for Europe, the figure is 6.3%, while for Asia/Oceania it is 10.4%. In Chain Operations, we find that powerful retailers in these regions have a low Tsubaki product sales ratio. We intend to reinforce the number of our marketing personnel in order to develop initiatives targeted at these retailers. We will positively promote the technology advantage of Tsubaki products, already well-known in Japan and North America.

There are also product issues. In Chain Operations, the growth rate for sales of compact conveyance systems is relatively low compared with other product groups. To strengthen this product group, we are forming a cross-sectional organization, comprising both planning and technology functions, and we will offer solutions-based marketing that goes beyond stand-alone component sales.
Toward Greater Profitability and Sustainable Growth

The ordinary income margin increased from 3.5% in fiscal 2002 to 9.3% in fiscal 2007, and we are targeting further increases to 11.1% by fiscal 2010. As the pace of economic expansion slows worldwide, our attempt to build up resistance to economic cycles has begun in earnest.

At our domestic and overseas factories, we will further shorten production lead times and improve productivity. In Chain Operations, at the Kyotanabe Plant, our main plant for industrial-use chains, we have introduced the cell manufacturing method, which is optimal for small-lot, variable-item manufacturing. This step has already achieved cost reductions, and we are now moving onto the second stage, targeting annual productivity increases of 7% over the next three years. In Power Transmission Units and Components Operations, we are attempting to limit the impact of rising raw materials costs by increasing the overseas local procurement ratio to 17% in fiscal 2008 and to more than 20% by fiscal 2010.

On the technology front, we are aware that raising the ratio of new products with differentiating potential can contribute to enhanced profitability. In Automotive Parts Operations, we are accelerating technology development for the next generation of timing systems as well as for power-drive chains for 4WD vehicles. In Power Transmission Units and Components Operations, we are strengthening new product development through the establishment of a specialist project committee that is charged with increasing the ratio of new products from its current level of 15.7% to 25% by fiscal 2010.

Aiming to Simultaneously Raise Growth Capacity, Enhance Profitability, and Attain Sustainable Growth

Acceleration of Investment in Human Resources and Organization

In this brief outline, we have only been able to give a few examples of management strategies, and for further details we recommend turning to the Operating Segments section of this report (pages 15 to 26). Our aim is not just to raise growth capacity; we are also seeking to enhance profitability and attain sustainable growth. As such, we have set the targets of increasing net sales by more than 1.2 times, to ¥188.0 billion, and raising ordinary income by more than 1.4 times, to ¥20.9 billion, by fiscal 2010. To achieve these targets, continuous investment in human resources and organization is necessary, in addition to the strategy that we have just outlined for tackling outstanding issues. In the current fiscal year, we began the Global Management Development (GMD) training program for both domestic and overseas middle management. Through this program, we will nurture a group of executives who are able to work effectively in a global environment.

Toward Management That Truly Engages with Capital Markets and Society

In conjunction with efforts to attain sustainable growth, our priority is to enhance the transparency and flexibility of management while positively integrating the opinions of capital markets and society as a whole into our business operations. In pursuit of this, we will further strengthen our investor relations activities. As a fresh initiative, we scheduled a presentation of management strategy and reception for shareholders directly after our annual meeting of shareholders. This gives an opportunity for shareholders and management to interact and exchange opinions directly. Our intention is to implement management that prioritizes the needs and opinions of all our stakeholders, including shareholders and investors.

The Tsubaki Group will devote its best efforts to the further promotion of the Global Best strategy by focusing on the “Three Gs” – Global operational development, Group management reinforcement, and Growth continuation and enhancement. We ask for your continued support and encouragement.

August 2007

Takashi Fukunaga
Chairman and Representative Director

Tatsuhiko Mimoto
President and Representative Director
Special Feature: Tsubaki Group’s Competitive Advantage

- Advantages in Production and Supply  page 14
Advantages in Technology, Product Development, and Manufacturing Know-How

Proactive Investment for Sustainable Growth
As a company with a strong manufacturing culture, our lifelines are excellent technology, product development, and manufacturing know-how. Combined with a highly efficient sales network, these are the keys to sustainable growth. Since our foundation, we have aggressively invested in R&D, resulting in a distinct technology advantage in each of our operating segments.

Fundamental Technology
Founded 90 years ago, the Tsubaki Group’s business has been built around core technology for industrial-use chains. From this base, we have expanded and diversified into automotive parts, power transmission units and components, and materials handling systems. Taking chains, which form the base for all our product groups, as an example, we continue to lead the industry in the following ways.

Our mainstay roller chain is composed of just 5 main parts: an outer plate, an inner plate, a pin, a bush, and a roller. Such a simple structure gives the appearance of a low-tech product. Despite this simplicity, it is not so widely known that our chains have an absolute technology advantage over the chains of other major global makers in such crucial quality areas as durability (wear-resistance characteristics and fatigue strengths), quiet operation, and lightness.

This technology gap has been built on two main strengths. First, we have diligently developed basic materials and heat treatment technologies as well as related application technologies. Second, we have cultivated the manufacturing skills and experience to sustain small-lot, variable-item manufacturing.

The global chain industry comprises a small number of powerful makers and a larger number of companies with a comparatively modest scale. In this context, for the past five years, the Tsubaki Group has grown its business on the world stage, with net sales from its Chain Operations rising 1.5 times and global market share increasing to 23.5%. The quality advantages just described are based on our continuing capital and technology development investment, which is focused on strengthening R&D. This approach is further widening the gap between ourselves and competitors.

Basic Structure of Roller Chain

An Example of Our Advantage Backed by Differentiated Technology

Achieving superior fatigue strengths
Comparison of Joint Plate Fatigue Strengths

Tsubaki chains 100
Domestic and overseas competitors’ products 23～45

Source: Comparison is based on tests conducted by Tsubakimoto Chain. The figures for competitors’ products show the comparison with Tsubaki chains, which represent 100.

Net Sales, R&D Expenditures, and Capital Expenditures
Sustained, aggressive investment to create technological competitive advantage

 Consolidated net sales (left) R&D expenditures to net sales (right)
Capital expenditures to net sales (right)
New Products Emerge from Application of Technological Expertise

By quickly and accurately assessing the needs of the era, we offer new products that match market requirements based on superior fundamental technology. In this way, we build a win-win relationship, whereby customers achieve greater satisfaction with products and our market share expands. The result is continuing growth in our main product sectors, including chains and automotive parts.

Steady Refinement in Technology: New G7 RS Roller Chain

“We want to cut costs through adopting long-life chains with excellent drive performance.” “We need components that will contribute to reducing CO₂ emissions, which society is increasingly demanding.” In response to such customer requests, we launched the next-generation G7 RS Roller Chain in May 2006. This chain features the newly developed seamless-structure LD solid bush technology (patent pending), with a lube dimple that enhances the lubricant’s retentive performance. The result is wear life double that of our previous RS Roller Chain products. The improvement in drive performance also means that smaller chain sizes can be used.

In addition, the LCA Inventory Analysis, which evaluates the entire product life cycle from materials procurement to scrapping, concludes that the G7’s CO₂ emissions are 49% less than previous products, a major lowering of the environmental burden.

Tailored to Suit Customers’ Systems: Timing Chain Drive Systems

For automakers, lowering exhaust gas emissions and improving fuel efficiency are more than a matter of complying with regulations and environmental requirements. These factors have now become crucial to determining product competitiveness. In timing chain drive systems, the mainstay product of our Automotive Parts Operations, we strive to meet industry needs by making each part in the system – chain, tensioner, lever, and guide – quieter, more compact, and less prone to friction. At the same time, we work to enhance our system technology to optimize our timing drive systems for individual engine types. Thanks to those efforts, our global market share in timing chain drive systems climbed to 34% in fiscal 2007.

Differentiated Technology in Timing Chain Drive Systems

<table>
<thead>
<tr>
<th>Parts</th>
<th>Market needs</th>
<th>Tsubaki’s solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chain</td>
<td>Lighter weight</td>
<td>8mm pitch, high-strength chain</td>
</tr>
<tr>
<td></td>
<td>Lower friction</td>
<td>Chains with treated link plate edge</td>
</tr>
<tr>
<td></td>
<td>Quieter operation</td>
<td>Super silent chains</td>
</tr>
<tr>
<td></td>
<td>Longer life</td>
<td>Chains with reduced wear elongation</td>
</tr>
<tr>
<td>Tensioner</td>
<td>Lighter weight</td>
<td>Aluminum body</td>
</tr>
<tr>
<td></td>
<td>Lower friction</td>
<td>Low oil-consumption structure</td>
</tr>
<tr>
<td>Lever</td>
<td>Lighter weight &amp; recyclable materials</td>
<td>Application of plastic</td>
</tr>
<tr>
<td></td>
<td>Lower friction</td>
<td>Application of friction-reducing materials</td>
</tr>
</tbody>
</table>
Advantages in Production and Supply

Comprehensive System Strength beyond Individual Products

Differentiation through technology development – this is the most important element for any manufacturer. However, differentiation alone is not enough to win in the current tough business environment. We must not only create high-quality products; we must also ensure timely delivery and a solid after-sales support system. In addition, we should make proactive and appropriate proposals for comprehensive systems that enhance our customers’ competitiveness. In these areas too, the Tsubaki Group is exercising its advantage.

Global Production and Supply System
As our customers globalize their operations, it is imperative that they are supplied with components of identical quality and price worldwide. We have established a global network that optimizes regional production and supply and that fits our customers’ needs exactly at every stage, from product development to maintenance. This ability to respond on a global basis is one of our greatest Group strengths. In automotive parts, we have a five-point production, sales, and technology support system for timing chain drive systems that spans Japan, North America, Europe, Thailand, and China. This system allows us to respond to customer needs promptly and flexibly.

Comprehensive Strength in Power Transmission Products and Materials Handling Systems
The strength of the Tsubaki Group lies in its diverse power transmission product lineup – for example, parts like chains and sprockets and devices like power transmission units – as well as in the system solutions capacity of its Materials Handling Systems Segment. By developing and offering modular products that exploit these strengths, we are contributing to the enhancement of customers’ productivity.

Production, Sales, and Technology Support System Spanning the Globe
Segment Overview

Business Environment and Tsubaki Group
Performance in Figures

Operating Segments

Main Product Lineups
1. Business Segments

**Power Transmission Products Segment**

**Driving Sales Higher**

**Percentage of Overall Results**
(Fiscal 2007 Results)
- Net sales: 78.9%
- Operating income: 89.1%
- Total assets: 82.0%

**Three-Year Performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales (Billions of yen)</th>
<th>Operating income margin (%)</th>
<th>ROA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>07</td>
<td>124.6</td>
<td>13.9</td>
<td>14.3</td>
</tr>
<tr>
<td>06</td>
<td>113.7</td>
<td>13.1</td>
<td>13.9</td>
</tr>
<tr>
<td>05</td>
<td>99.8</td>
<td>11.1</td>
<td>11.3</td>
</tr>
</tbody>
</table>

**Chain Operations**

**Standing and Features**

An industry leader, accounting for 67% of domestic market for steel chains and 23.5% of world market. Also, realizes advantages in plastic chains, cableveyors, and other products. Differentiated in world market by technological superiority based on quality and development of high-value-added products.

**Main Lineups**

- Drive chains
- Small pitch conveyor chains
- Large pitch conveyor chains
- Top chains
- Cable and hose protection and guidance products

**Automotive Parts Operations**

**Standing and Features**

Closing in on leading overseas manufacturer rapidly, with overwhelming share of domestic market and 34% of overseas market for automotive engine timing chains. Tensioners also leveraging superiority. Differentiated by quality – durability and low-noise – adaptability of systems, and five-point global production and supply system.

**Main Lineups**

- Timing chain drive systems
  - (roller chains, silent chains, tensioners, levers, guides, sprockets)
- Auto tensioners
- General industrial timing belts and pulleys

2. Breakdown by Region

**Japan Present Hub**

**Percentage of Overall Results**
(Fiscal 2007 Results)
- Net sales: 71.5%
- Operating income: 82.9%
- Total assets: 78.5%

**Principal Companies**

- Tsubakimoto Chain Co.
- Tsubaki Emerson Co.

**North America Stable Growth Track**

**Percentage of Overall Results**
(Fiscal 2007 Results)
- Net sales: 18.2%
- Operating income: 6.9%
- Total assets: 13.2%

**Principal Companies**

- U.S. Tsubaki, Inc.
- Tsubaki of Canada Limited

**Note:** Percentage of overall results have been calculated using denominator figures that have not been adjusted for internal transactions among divisions or for items related to headquarters.
Power Transmission Units and Components Operations

Standing and Features
Aggressively leveraging mainstay reducers to grow sales. Enjoys advantages in domestic niche markets for clutches, electro-mechanical cylinders, couplings, and other products. Differentiated by ability to draw on diverse product lineups to provide one-stop Motion & Control solutions.

Main Lineups
Reducers/Variable speed drives
Locking devices
Shaft couplings
Linear actuators
Clutches
Overload protectors
Sprockets

Materials Handling Systems Segment

Stable Growth with Focus on Profitability

Percentage of Overall Results
(Fiscal 2007 Results)
Net sales: 20.7%
Operating income: 9.7%
Total assets: 16.2%

Three-Year Performance

Standing and Features
Boasts long track record in delivery of automotive body paint shop conveyor systems, conveyance systems for newspaper industry, sorting systems, and bulk conveyance systems. While focusing management resources on mainstay lineups, markets new products for drug development and other emerging fields. Strength lies in ability to customize systems and realize technology solutions based marketing.

Main Lineups
Sorting systems
Conveyance systems
Storage and picking systems
Bulk conveyance systems
Scrap metal conveyance and coolant processing equipment

Europe
Growing Market Share

Percentage of Overall Results
(Fiscal 2007 Results)
Net sales: 5.9%
Operating income: 4.4%
Total assets: 3.7%

Principal Companies
Tsubakimoto Europe B.V.
Tsubakimoto U.K. Ltd.

Three-Year Performance

In the calculation of ROA, operating income for the numerator and average total assets (before adjustments) for the denominator have been used.
Business Environment and Tsubaki Group Performance in Figures

Key Figures

Tsubaki Group’s high growth continues to surpass improvement in business environment

Over the past five years, the ratio of overseas sales to consolidated net sales has risen 7.4 points, to reach 37.4%. Our Global Best strategy has made steady progress, evidenced by sales growth of 2.9 times in Europe and 1.4 times in Asia/Oceania over the past five years. These were regions that we had targeted for market expansion. We have strengthened our marketing capacity and enhanced product strength through differentiated technology. The result has been an expansion in global market shares for our core Chain, Automotive Parts, and other operations.

Statistics relating to operating environment

I. Capital investment related statistics in Japan

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery orders</td>
<td>¥10,266</td>
<td>¥11,108</td>
<td>¥11,829</td>
<td>¥12,490</td>
<td>¥12,741</td>
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<tr>
<td>Capital investment</td>
<td>37,280</td>
<td>39,399</td>
<td>42,603</td>
<td>46,958</td>
<td>54,154</td>
</tr>
</tbody>
</table>

II. Automotive industry related statistics

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cars produced</td>
<td>10,257</td>
<td>10,286</td>
<td>10,511</td>
<td>10,799</td>
</tr>
<tr>
<td>United States –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cars sold</td>
<td>16,816</td>
<td>16,639</td>
<td>16,867</td>
<td>16,945</td>
</tr>
<tr>
<td>Japan’s automakers</td>
<td>4,528</td>
<td>4,715</td>
<td>5,053</td>
<td>5,377</td>
</tr>
<tr>
<td>Their shares</td>
<td>26.9%</td>
<td>28.3%</td>
<td>30.0%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Europe –</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of cars sold</td>
<td>14,399</td>
<td>14,181</td>
<td>14,427</td>
<td>14,529</td>
</tr>
<tr>
<td>Japan’s automakers</td>
<td>1,649</td>
<td>1,803</td>
<td>1,838</td>
<td>1,888</td>
</tr>
<tr>
<td>Their shares</td>
<td>11.5%</td>
<td>12.7%</td>
<td>12.7%</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

Tsubaki Group data

I. Net sales by segment and operations

<table>
<thead>
<tr>
<th>Segment and Operations</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Transmission Products Segment total</td>
<td>¥88,157</td>
<td>¥91,453</td>
<td>¥99,787</td>
<td>¥113,657</td>
<td>¥124,550</td>
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<tr>
<td>Chain Operations</td>
<td>–</td>
<td>36,000</td>
<td>39,300</td>
<td>44,400</td>
<td>48,600</td>
</tr>
<tr>
<td>Automotive Parts Operations</td>
<td>–</td>
<td>31,700</td>
<td>34,600</td>
<td>39,600</td>
<td>44,500</td>
</tr>
<tr>
<td>Power Transmission Units and Components Operations</td>
<td>–</td>
<td>20,300</td>
<td>22,200</td>
<td>25,000</td>
<td>26,900</td>
</tr>
<tr>
<td>Materials Handling Systems Segment total</td>
<td>29,563</td>
<td>28,549</td>
<td>30,674</td>
<td>35,484</td>
<td>32,318</td>
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</table>

II. Operating income by segment

<table>
<thead>
<tr>
<th>Segment and Operations</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Transmission Products Segment total</td>
<td>7,526</td>
<td>8,630</td>
<td>11,263</td>
<td>14,889</td>
<td>17,367</td>
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<tr>
<td>Materials Handling Systems Segment total</td>
<td>2,463</td>
<td>1,882</td>
<td>1,800</td>
<td>2,106</td>
<td>1,889</td>
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III. Operating income margin by segment

<table>
<thead>
<tr>
<th>Segment and Operations</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Transmission Products Segment total</td>
<td>8.5%</td>
<td>9.4%</td>
<td>11.3%</td>
<td>13.1%</td>
<td>13.9%</td>
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<tr>
<td>Materials Handling Systems Segment total</td>
<td>8.3%</td>
<td>6.6%</td>
<td>5.9%</td>
<td>5.9%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

1. All quarterly results are seasonally adjusted.
2. Source: Cabinet Office; private-sector demand excluding electric power companies and orders for ships
3. Source: Ministry of Finance; all industries excluding software
4. Source: Daiwa Institute of Research Ltd.
### OVERSEAS SALES BY REGION

**Billions of yen**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY 2006 1Q</th>
<th>FY 2006 2Q</th>
<th>FY 2006 3Q</th>
<th>FY 2006 4Q</th>
<th>FY 2007 1Q</th>
<th>FY 2007 2Q</th>
<th>FY 2007 3Q</th>
<th>FY 2007 4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>¥ 9,732</td>
<td>¥ 11,680</td>
<td>¥ 11,195</td>
<td>¥ 14,351</td>
<td>¥ 11,523</td>
<td>¥ 13,068</td>
<td>¥ 13,170</td>
<td>¥ 16,393</td>
</tr>
<tr>
<td>Asia/Oceania</td>
<td>¥ 2,875</td>
<td>¥ 2,609</td>
<td>¥ 2,579</td>
<td>¥ 2,735</td>
<td>¥ 2,969</td>
<td>¥ 2,738</td>
<td>¥ 2,791</td>
<td>¥ 2,984</td>
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<tr>
<td>Other</td>
<td>¥ 3,884</td>
<td>¥ 4,669</td>
<td>¥ 4,608</td>
<td>¥ 3,784</td>
<td>¥ 3,924</td>
<td>¥ 4,427</td>
<td>¥ 4,323</td>
<td>¥ 3,831</td>
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<td></td>
<td>¥ 1,223</td>
<td>¥ 1,420</td>
<td>¥ 1,462</td>
<td>¥ 1,272</td>
<td>¥ 1,280</td>
<td>¥ 1,492</td>
<td>¥ 1,543</td>
<td>¥ 1,346</td>
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<tr>
<td></td>
<td>31.5%</td>
<td>30.4%</td>
<td>31.7%</td>
<td>33.6%</td>
<td>32.6%</td>
<td>33.7%</td>
<td>35.7%</td>
<td>35.1%</td>
</tr>
<tr>
<td></td>
<td>¥ 3,830</td>
<td>¥ 4,014</td>
<td>¥ 3,449</td>
<td>¥ 3,237</td>
<td>¥ 3,980</td>
<td>¥ 3,979</td>
<td>¥ 3,343</td>
<td>¥ 3,312</td>
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<tr>
<td></td>
<td>¥ 519</td>
<td>¥ 508</td>
<td>¥ 472</td>
<td>¥ 389</td>
<td>¥ 543</td>
<td>¥ 518</td>
<td>¥ 472</td>
<td>¥ 420</td>
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<tr>
<td></td>
<td>13.6%</td>
<td>12.7%</td>
<td>13.7%</td>
<td>12.0%</td>
<td>13.6%</td>
<td>13.0%</td>
<td>14.1%</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

### OVERSEAS SALES RATIO

**%**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY 2006 1Q</th>
<th>FY 2006 2Q</th>
<th>FY 2006 3Q</th>
<th>FY 2006 4Q</th>
<th>FY 2007 1Q</th>
<th>FY 2007 2Q</th>
<th>FY 2007 3Q</th>
<th>FY 2007 4Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>22.9%</td>
<td>13.9%</td>
<td>16.1%</td>
<td>13.9%</td>
<td>32.7%</td>
<td>36.2%</td>
<td>37.4%</td>
<td>35.1%</td>
</tr>
<tr>
<td>Europe</td>
<td>11.7%</td>
<td>7.9%</td>
<td>9.9%</td>
<td>7.9%</td>
<td>30.4%</td>
<td>35.7%</td>
<td>35.1%</td>
<td>35.7%</td>
</tr>
<tr>
<td>Asia/Oceania</td>
<td>31.1%</td>
<td>31.1%</td>
<td>28.8%</td>
<td>31.1%</td>
<td>30.4%</td>
<td>31.7%</td>
<td>33.6%</td>
<td>31.7%</td>
</tr>
<tr>
<td>Other</td>
<td>30.5%</td>
<td>30.5%</td>
<td>28.8%</td>
<td>30.5%</td>
<td>32.6%</td>
<td>33.7%</td>
<td>35.7%</td>
<td>35.1%</td>
</tr>
</tbody>
</table>

### NOTES

5. Passenger cars and compact trucks
6. Passenger cars
7. Consolidated business segment data before eliminations and corporate
8. Simple aggregates of global base figures for each operating division. The figures have not been subject to audit and are not official financial results.
Our Competitive Advantages

Chains are highly important products that form a vital part of the drive components powering many kinds of industrial machinery. Chains have a simple structure but are in fact created from an accumulation of advanced mechanical engineering technology, in such fields as materials and heat treatment, as well as production technology. The degree of expertise in these technologies can lead to significant quality differences in terms of strength, durability, and precision. By leveraging our quality advantage to differentiate our products, we are accelerating global development and widening the gap between ourselves and major competitors. We find ourselves in a “virtuous cycle,” where our dominant position gives us surplus investment power for technology development and production facilities, and this in turn leads to further advantages in quality (please see the Special Feature section on pages 11 to 14).

In steel chains, our global market share has steadily grown, from 18.5% in fiscal 2004 to 19.9% in fiscal 2005, 21.6% in fiscal 2006, and 23.5% in fiscal 2007. In plastic chains, which we have sold primarily in the domestic market, we made Yamakyu Chain Co., Ltd., Japan’s largest plastic chains manufacturer with a 37% domestic market share, a consolidated subsidiary in April 2006. We thereby enhanced our product lineup in this area, and we are ready to compete in the global market.

Growth Drivers

1. Expansion in Domestic Corporate Capital Investment Continues

After bottoming in fiscal 2003, private-sector capital investment in Japan has increased for four consecutive years and is expected to remain steady in fiscal 2008. The average age of production equipment in Japan’s manufacturing industry was 9.6 years in the 1980s, and an aging trend continued until fiscal 2007. In fiscal 2007, the trend finally reversed and the average age started to go down, but the level is still 12.9 years. With long-lasting economic expansion, we expect that companies will continue to renew their production equipment in order to improve productivity.

Net Sales – Results and Plan

<table>
<thead>
<tr>
<th>Bills of yen</th>
<th>Results</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>57.7</td>
</tr>
<tr>
<td>12</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>64</td>
<td></td>
</tr>
</tbody>
</table>

Market Share of Tsubaki Group Steel Chains

Increasing in all regions

- Global
- Japan
- Asia (excluding Japan)
- North America
- Europe/Africa

<table>
<thead>
<tr>
<th>%</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
<th>09</th>
<th>10 FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>16</td>
<td>32</td>
<td>48</td>
<td>64</td>
<td>80</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>08</th>
<th>09</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>12</td>
<td>24</td>
<td>36</td>
<td>48</td>
<td>60</td>
<td>60</td>
</tr>
</tbody>
</table>

(Projected)
2. Dynamic Capital Investment in Asia, Centered on China
As Asia becomes the manufacturing center of the world, investment to increase production and to rationalize production facilities is as strong as ever. China, in particular, is experiencing a rush in the construction sector as the country prepares for the Olympic Games and the World Expo. This boom is creating strong demand not just for production facilities but also for construction and materials handling equipment.

■ Issues and Strategies

1. Growing Our Business in Compact Conveyance Systems through Solutions-Based Marketing
Within our comprehensive product lineup, in compact conveyance systems, which includes such products as compact conveyor chains and plastic chains, sales growth is comparatively low. We will take active measures to improve this situation.

Our sales system will be strengthened through the formation of a cross-sectional, dedicated organization that spans marketing, technology, and planning. Also, we will concentrate on more than just component sales. We believe that solutions-based marketing – offering complete conveyance systems to enhance the productivity of customers – will be effective in increasing sales.

2. Promoting Further Development of Overseas Markets
Compared with Japan and North America, our market shares in Europe and Asia, especially China, are relatively low. We will therefore accelerate our efforts to grow share in these markets. In Europe, we will be more active in approaching key local retailers to ensure that we attain top brand status in each store and thus increase sales. In China, we will capitalize on our technological superiority to strengthen chain sales, particularly in the steel sector where production is growing rapidly.

3. Implementing Global Initiatives for Further Improvements in Profitability
In Japan, we introduced the cell manufacturing method, which is optimal for small-lot, variable-item production. As a result, we saw an improvement in the gross profit ratio as well as a shortening of lead times for production schedules. We will further enhance this manufacturing method and aim for annual productivity increases of 7%.

Overseas, the gross profit ratio is also trending upward, particularly in North America. We will continue to optimize our production systems in accordance with local conditions and work to close the gap between domestic and overseas profitability.

■ Business Results in Fiscal 2007 and Plans
In fiscal 2007, net sales grew 9.5% from the previous fiscal year, to ¥48.6 billion, and the operating income margin rose almost 2.0 points. The major engines of growth were drive chains, including the new G7 RS Roller Chain, large pitch conveyor chains, and cableveyors. Through the implementation of the previously mentioned strategies, we forecast average annual net sales growth of 5.9% and operating income growth of 8.1% in the three years to fiscal 2010.
Our Competitive Advantages

Our advantages lie in three key areas: differentiated product quality, such as strength, quietness, and lightness; a global supply system based on manufacturing bases at five points around the world; and our ability to deliver complete systems comprising chains, sprockets, and tensioners. Our world market share in timing chain drive systems, which are used to drive camshafts in automotive engines, rose one point from 33% in fiscal 2006 to 34% in fiscal 2007. We are now one of two major players in the market, alongside a leading overseas manufacturer.

Growth Drivers

1. Replacement of Belts with Chains in Timing Drive Systems

Automotive engines are increasingly high-performance and compact, and this trend is fueling a changeover from belts to chains in timing drive systems. In fiscal 2001, roughly 43% of systems used chains; by fiscal 2007, this figure had risen to almost 50%. The shift toward chains is likely to accelerate, especially in Europe and China, where chain usage is still comparatively low.

2. Globalization of Automakers

The globalization of automakers is accelerating not only in production but in engineering, development, and parts procurement. The ability of component suppliers to globalize in response will be the key factor that determines their survival in the ensuing competition.

3. Heightened Awareness of Environmental Protection and Energy Saving

As crude oil prices remain high, the response of automakers in the fields of environmental protection and energy saving will be a crucial competitive factor. Japanese automakers have taken the lead in these areas and their global market share is rising. Automakers in the United States and Europe are also intensifying their efforts to improve the performance of engines and components.
I Issues and Strategies

1. Expanding Orders from Overseas Automakers
We will strengthen our efforts to obtain orders for new projects from overseas automakers by drawing on our differentiated product quality, which is already well recognized by Japanese automakers. In automotive parts, we forecast an increase in the percentage of net sales to overseas automakers from 14% in fiscal 2007 to 20% in fiscal 2010.

2. Increasing Production Capacity and Strengthening Maintenance System for Facilities
Our manufacturing lines are already at full capacity, and we are taking urgent steps to increase capacity. Domestically, we will raise annual production capacity from its current level of 7.0 million units to 8.7 million units through the reconfiguration of processing lines and other measures. We are studying the feasibility of constructing a new factory in eastern Europe to accommodate a further rise in European sales. We are expanding our factory in Thailand and thereby localizing heat treatment and forming processes. In China, we plan to transfer a manufacturing line to a new factory, and we envisage annual production of 1 million units. As we increase production both domestically and overseas, efforts to reduce sudden breakdowns to zero on our high-load manufacturing lines are being strengthened. For example, we are building a global maintenance structure, whereby regular maintenance will be reinforced and specialist maintenance staff allocated to factories.

3. Realizing Early Development of Next-Generation Core Products
We will pursue technology development to ensure that our existing products continue to excel in terms of compactness, lightness, quietness, cost, and system reliability. At the same time, we must nurture a next generation of products that will meet the needs of an era where restrictions on fuel consumption are being reinforced and new fuels, like bioethanol, are emerging. We will enhance both technology and marketing with a view to making power-drive chains for 4WD vehicles our second core product, alongside timing chains.

II Business Results in Fiscal 2007 and Plans
In fiscal 2007, net sales were up 12.4% from the previous fiscal year, to ¥44.5 billion, and the operating income margin rose 1.5 points. Through the implementation of the previously mentioned strategies, we forecast average annual net sales growth and operating income growth of approximately 10.0% in the three years to fiscal 2010.

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Timming chain drive system applied to V8 engine

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Five-Point Global Production System for Automotive Parts
Responding to automakers’ globalization

- Tsubakimoto Europe B.V.
- U.S. Tsubaki, Inc.
- Tsubakimoto Chain Co.
- Tsubakimoto Automotive (Shanghai) Co., Ltd.
- Tsubakimoto Automotive (Thailand) Co., Ltd.
Operating Segments

Power Transmission Products Segment

Power Transmission Units and Components Operations

Our Commitment

■ To attain sustainable growth based on three core strategies:
  raising the new product ratio, developing overseas markets,
  and promoting local procurement

■ Our Competitive Advantages

Our extensive product lineup includes reducers, electro-mechanical cylinders, and cam clutches, giving us the comprehensive strength to meet a wide range of customer needs. In the domestic market, we have about half the market share in electro-mechanical cylinders and the majority in cam clutches.

■ Growth Drivers

Domestically, the trend to renew production equipment has just taken hold. Customers are increasingly looking for combined unit products that will enhance productivity, rather than the provision of stand-alone components. With our wide product lineup, the increasing need for combined unit products is proving a growth driver.

■ Issues and Strategies

1. Actively Developing Overseas Markets and Increasing the Export Ratio

Our brand is acquiring a stronger presence both domestically and in Asia. In China, we have become a major supplier in the reducer market for escalators, where high performance is required.

By leveraging our growing brand presence, we intend to strengthen our marketing activities in the European market. Focusing on our core product, cam clutches, our aim is to increase the overall export ratio from 10% in fiscal 2007 to 12% in fiscal 2008 and to 20% in the medium term.

2. Raising the New Product Ratio and Promoting Procurement from LCC

We are increasing the ratio of new products that have a relatively higher profit margin. In fiscal 2007, we exceeded our target of 15.0% to reach 15.7%. With the establishment of a specialist project committee, activities in this area will be strengthened. Our current targets are 17% in fiscal 2008 and more than 25% in the medium term. To counter the rise in raw materials prices, we plan to increase the ratio of procurement from leading competitive countries (LCC) to 17% in fiscal 2008, from 13% in fiscal 2007.

■ Business Results in Fiscal 2007 and Plans

In fiscal 2007, net sales rose 7.6% from the previous fiscal year, to ¥26.9 billion, driven by brisk sales of power cylinders and couplings for the machine tool, injection molding equipment, automotive, and shipbuilding industries. However, the operating income margin decreased slightly, impacted by rising raw materials prices. Through the implementation of the previously mentioned strategies, we forecast average annual net sales growth of 7.2% and operating income growth of more than 15.0% in the three years to fiscal 2010.
Our Competitive Advantages
Our share of the materials handling systems market is not large. However, through the development of new technology in line with customer needs and technology solutions based marketing, we have built up strengths in core products and specific fields. In automotive body paint shop conveyor systems, we claim between 30% and 40% of the domestic market. Other examples of our strengths include automatic roll paper feeding systems for the newspaper industry, which account for approximately 80% of the domestic market, and chip conveyors.

Growth Drivers
As is the case with Automotive Parts Operations (see pages 22 and 23), a high ratio of our net sales is taken up by Japanese automakers, and their rising global market share is propelling us forward. Our automotive body paint shop conveyor systems have contributed greatly to the improvement of paint coating quality and are now accepted as a global standard by top automakers. We are striving for sustainable growth as we actively apply our technology solutions based marketing to the automobile and other sectors.

Issues and Strategies
1. Accelerating New Product Development and Overseas Business Expansion in Non-Automotive Sectors
After a certain period, even new technology loses its edge, and profitability can decline through excessive competition. Over a time frame of three to five years, we will refine our existing products to improve their competitiveness and profitability as well as introduce new products to replace them.

2. Globalizing Maintenance Business
In order to provide fuller services to customers and to expand our maintenance business, we plan to develop a global after-sales service for our end-users in China, Southeast Asia, North America, Europe, and other regions. This service will be developed through cooperation with overseas affiliates and regional partner companies.

Business Results in Fiscal 2007 and Plans
In fiscal 2007, net sales fell 7.1% from the previous fiscal year, to ¥32.6 billion. Although sales of conveyance systems to the IT sector were brisk, delivery dates for certain major orders were postponed to the current fiscal year. In the United States, the impact of a major hurricane caused an increase in installation costs associated with an order for the automotive industry and the recording of a loss. As a result, operating income was down 20.0% from the previous fiscal year. Under the medium-term management plan to fiscal 2010, we forecast net sales to remain at approximately the same level as in the year under review and the operating income margin to rise to 10.0%. These forecasts are in line with our objective of realizing growth that emphasizes profitability rather than volume increases.
Main Product Lineups

Power Transmission Products Segment

Chain Operations

Main Lineups
Drive chains
Small pitch conveyor chains
Large pitch conveyor chains
Top chains
Cable and hose protection and guidance products

The Tsubaki Group supplies chains that precisely match the needs of a variety of industrial sectors, including industrial machinery, machine tools, shipbuilding, steel, and IT. Our drive chains command the top global market share. We also supply conveyor chains for production lines, plastic chains mainly for the food industry, and cable and hose protection and guidance products. Further, to meet growing environmental needs, we have introduced “eco-chains,” such as recyclable plastic chains. The base for the Group’s chain business is the Kyotanabe Plant, which boasts the most advanced equipment and top-class productivity, making it the world’s leading chain manufacturing facility.

Automotive Parts Operations

Main Lineups
Timing chain drive systems (roller chains, silent chains, tensioners, levers, guides, sprockets)
Auto tensioners
General industrial timing belts and pulleys

The Tsubaki Group has an overwhelming domestic market share in timing chains for automotive engines. In timing chain drive systems (composed of roller chains, silent chains, tensioners, levers, guides, and sprockets), which support high performance in automotive engines, we are a leading system supplier to the automakers of the world. Our five-point global production and supply system, spanning Japan, North America, Europe, Thailand, and China, as well as timely technology development and strict quality control allow us to fully meet the demanding quality requirements of automakers. By applying the technology we have developed in timing chains, we also supply timing belts and pulleys.

Power Transmission Units and Components Operations

Main Lineups
Reducers/Variable speed drives
Locking devices
Shaft couplings
Linear actuators
Clutches
Overload protectors
Sprockets

The Tsubaki Group’s Power Transmission Units and Components Operations provide comprehensive and diverse lineups of products for the power transmission sector. Products include power cylinders (motion control units), where we have the top domestic market share, cam clutches, and power locks as well as abundant lineups of reducers and variable speed drives, clutch devices, and overload protectors that meet industry needs. Responding to the needs for high-precision operation and control at even faster speeds, we will continue to supply our customers with the best possible power transmission solutions through our rich product lineups and related combined technology.

Materials Handling Systems Segment

Main Lineups
Sorting systems
Conveyance systems
Storage and picking systems
Bulk conveyance systems
Scrap metal conveyance and coolant processing equipment

The Tsubaki Group provides competitive production and distribution systems that adapt to the movement of goods and that minimize waste and time. Our product lineups include automotive body paint shop conveyor systems, linear motor high-speed automatic sorting systems for the distribution sector, automatic roll paper feeding systems for the newspaper industry, and storage and picking systems for the drug development sector. We also exploit our unique technological strength in scrap metal conveyors for machine tools and bulk conveyors for industrial waste and incinerator ash. In every sector, we are able to propose innovative solutions.
**Management System of Tsubaki Group**

The Tsubaki Group also aims to be the *Global Best* in its management practice.

### Board of Directors, Corporate Auditors, and Executive Officers

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Takashi Fukunaga</td>
<td>Chairman and Representative Director</td>
</tr>
<tr>
<td>Tatsuhiko Mimoto</td>
<td>President and Representative Director</td>
</tr>
<tr>
<td>Makoto Kanehira</td>
<td>Director and Senior Managing Executive Officer</td>
</tr>
<tr>
<td>Tadashi Ichikawa</td>
<td>Director and Senior Managing Executive Officer</td>
</tr>
<tr>
<td>Toru Fujiwara</td>
<td>Director and Managing Executive Officer</td>
</tr>
<tr>
<td>Nobuhiko Miki</td>
<td>Director and Managing Executive Officer</td>
</tr>
<tr>
<td>Isamu Osa</td>
<td>Director and Managing Executive Officer</td>
</tr>
<tr>
<td>Tamio Miyamoto</td>
<td>Director and Executive Officer</td>
</tr>
<tr>
<td>Hidetoshi Yajima</td>
<td>Outside Director</td>
</tr>
</tbody>
</table>

**Development and Technology / Management of Technology (MOT) / Tsubaki Techno School / Chief Engineer**

**Chain Division / Global Best Development / Kyotanabe Plant**

**Automotive Parts Division / Global Best Development / Saitama Plant**

**Corporate Social Responsibility Development / Internal Auditing Department**

**Materials Handling Systems Division / Materials Handling Sales Operations / Global Best Development**

(As of June 28, 2007)
Corporate Governance

In corporate governance, our philosophy is to continually improve our organization and operational methods in order to achieve the ideal posture: swift decision making, smooth implementation, and management characterized by objectivity, transparency, and flexibility.

Organization and Process for Decision Making and Strategy Formulation

Small Decision-Making Body
The Board of Directors is responsible for fundamental decisions on management policy and strategy formulation. As of June 28, 2007, we have nine directors, of whom six are also executive officers. This small body enables us to respond quickly to changes in the business environment and to make appropriate decisions. We have appointed one outside director to give an external perspective and to heighten management transparency and objectivity.

Organization and Process for Implementation of Operations

Large Operational Implementation Body
The Tsubaki Group introduced an executive officer system in June 2004. Executive officers are charged with the smooth implementation of the management strategy laid out by the Board of Directors. To that end, the executive officer system is larger than our decision-making body. As of June 28, 2007, we have 16 executive officers.

System and Process for Supervision

Corporate Auditors and Board of Corporate Auditors
The Board of Corporate Auditors supervises management and the implementation of operations. Two of our four corporate auditors are outside auditors, to enhance management transparency and objectivity further.

Initiatives to Maintain Management Objectivity and Improve Transparency

Management That Prioritizes the Needs of Shareholders
The Tsubaki Group is proactively developing its investor relations activities. For analysts and investors, the president gives twice-yearly presentations on financial results and management strategies. These presentations are attended by the chief operating officers of the main operating divisions: Chains, Automotive Parts, Power Transmission Units and Components, and Materials Handling Systems. In addition, we arrange factory tours and small meetings as necessary.

At the June 2007 annual meeting of shareholders, we introduced certain changes to achieve better communication with shareholders. After the meeting, there is now a presentation on medium-term management strategy and a reception to provide shareholders with an opportunity to speak directly to executives. From fiscal 2007, we published a Japanese-language version, in addition to an English version, of our annual report, and since fiscal 2006 we have held overseas IR meetings. These initiatives form part of our efforts to close the gap between domestic and overseas disclosure of information.
Compliance and Corporate Social Responsibility (CSR)

Compliance with the law is an essential factor to achieve sustainable growth, but more is required. We must have a broader concept of management that is concerned with our obligations to society, in other words CSR. Accordingly, we will emphasize our relationship with all stakeholders, including capital markets, customers, society, and employees, and respond with cross-sectional initiatives. To those ends, we established the CSR Advancement Center in April 2006, integrating the functions of internal inspection, environmental management, legal, public relations, and investor relations. The center is working to promote the following cross-sectional and comprehensive initiatives.

Compliance Initiatives

Devoting Our Efforts to Prevent Compliance Violations
In December 2002, we established our Corporate Work Ethics/Guidelines for Ethical Conduct. In conjunction with these guiding principles, we set up an ethics helpline, whereby employees are able to bypass their immediate superiors to report on or seek advice about ethical issues. But ethical conduct does not end with setting rules; the degree to which the rules penetrate the Company and the awareness of employees is a key issue. From 2006, we designated each February as “Strengthening Corporate Ethics Month.” During this month, we work to ensure that all domestic Group company employees are fully aware of our guiding principles.

Implementing Internal Control to Enhance Management Transparency
From November 2006, we began internal control activities for all Group companies, both domestic and overseas. Our starting point is the following principle from the Tsubaki Mission Statement: “We will conduct our business in an open, transparent manner and work for the benefit of our shareholders.” Through the strict application of the internal control system, we will enhance management soundness and transparency.

Sharing of Management Issues
“Our management aims at sustainable growth, and CSR is indispensable for achieving that goal.” If these management issues are shared not just by our executives but by all employees, then we can avoid the occurrence of misconduct and other violations. With this in mind, the Company holds presentations on the business situation twice a year for all employees. The presentations allow all employees to share information not only on business results and financial figures but on management issues as well.

Continuing Implementation of Risk Management
In September 2003, we established our Risk Management Basic Strategy. Under the Legal Affairs Committee, we continually examine risk factors and implement risk management measures. In April 2005, we established our Policy for Protecting Personal Information and Regulations for Handling of Personal Information. In December 2005, we revised our Regulations for Electronic Information Security. We are thus fully engaged in strengthening our approach to the protection of personal information as well as information security. In conjunction with these efforts, we conduct regular in-house training sessions to ensure that all employees are fully aware of these rules and guidelines.
Environmental Management Activities
We have established the Tsubaki Group Environmental Management Committee, which reports directly to the president. The administrative office for the committee is the Environmental Compliance Department, and this department acts as the center for our positive approach to environmental management. Major initiatives pursued to date are set out below.

1. Thirteen domestic Tsubaki Group facilities and five overseas facilities have received ISO 14001 certification and operate in compliance with the standard.
2. We are switching the boiler fuel used in our Automotive Parts Operations at the Saitama Plant from heavy fuel oil to city gas. At the same time, the Kyotanabe Plant has greatly reduced CO₂ emissions through the introduction of a cogeneration system and water-storage and ice-storage thermal power systems.
3. With regard to the reduction of hazardous chemicals used in the manufacture of our products, the Chain Division has completed compliance for products subject to RoHS directives and the Automotive Parts Division has completed compliance for products subject to ELV directives.
4. We have implemented various initiatives to develop more environment-friendly products. Such products include the new G7 RS Roller Chain, which is introduced in the Special Feature section of this report (see page 13); the bearing roller conveyer chain, whose CO₂ emissions are 23% lower than previous products; and recyclable plastic chains, the first industrial machinery components in Japan to be registered as EcoLeaf environmental label products. Through the development and sale of these products, we aim to both improve our business results and contribute to environmental protection.
5. At our Kyotanabe Plant, we convert the leftovers from canteen meals into compost, which is then used in a “kitchen garden corner” set up by volunteers on the plant premises. This is an activity that helps environmental protection and contributes to the welfare of employees.

Reductions in CO₂ Emissions and Waste Materials

<table>
<thead>
<tr>
<th>Item</th>
<th>FY 2005</th>
<th>FY 2006</th>
<th>FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emissions</td>
<td>60,727 tons</td>
<td>59,317 tons</td>
<td>58,261 tons</td>
</tr>
<tr>
<td>Total amount of waste</td>
<td>4,782 tons</td>
<td>5,840 tons</td>
<td>6,685 tons</td>
</tr>
<tr>
<td>materials per ¥1 million</td>
<td>0.0452 tons</td>
<td>0.0489 tons</td>
<td>0.0539 tons</td>
</tr>
<tr>
<td>sales</td>
<td>~ %</td>
<td>76%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Other CSR Activities
The Tsubaki Group is developing various activities to deepen its relationships of trust with shareholders and investors as well as with customers, suppliers, and local communities.
For example, Tsubaki engineers from the Kyotanabe Plant are dispatched to a local high school to teach students the techniques of using a lathe. This instruction deepens the interest of the younger generation in Japan’s manufacturing culture. Also, during the summer holiday period, we hold an open day at the Kyotanabe Plant for primary school children and their parents living in Kyotanabe City. This event is an opportunity to develop stronger ties with the community around the Kyotanabe Plant. Tsubaki employees engage energetically in these activities to make them a success.
## Financial Section

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- **Risk Factors and Countermeasures**  
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- **Consolidated Financial Statements**  
  page 38

- **Notes to Consolidated Financial Statements**  
  page 43

- **Report of Independent Auditors**  
  page 55
### Eleven-Year Financial Summary

**TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries**  
Years ended March 31

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>¥155,747</td>
<td>¥147,761</td>
<td>¥129,563</td>
<td>¥119,141</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>16,008</td>
<td>13,830</td>
<td>10,448</td>
<td>7,951</td>
</tr>
<tr>
<td><strong>Income (loss) before income taxes and minority interests</strong></td>
<td>17,635</td>
<td>12,609</td>
<td>8,598</td>
<td>6,537</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>8,541</td>
<td>6,607</td>
<td>4,449</td>
<td>3,385</td>
</tr>
<tr>
<td><strong>Net income (loss) per share (yen and dollars)</strong></td>
<td>¥ 45.55</td>
<td>¥ 34.78</td>
<td>¥ 22.77</td>
<td>¥ 17.40</td>
</tr>
<tr>
<td><strong>Diluted net income (loss) (yen and dollars)</strong></td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

**Interest expense:**

- **Net**
  - ¥ 951
  - ¥ 909
  - ¥ 1,161
  - ¥ 1,363
- **Gross: Interest received**
  - 73
  - 85
  - 34
  - 68
- **Interest paid**
  - 1,024
  - 994
  - 1,195
  - 1,431

**Capital expenditures**

- 10,894

**Depreciation and amortization**

- 5,948

**Total current assets**

- 92,961

**Total current liabilities**

- 58,106

**Property, plant and equipment, net**

- 81,796

**Total long-term liabilities**

- 68,465

**Total assets**

- 212,740

**Paid-in capital**

- 17,077

**Retained earnings**

- 51,279

**Total shareholders’ equity**

- 81,034

**Equity ratio (%)**

- 38.1

**ROE (%)**

- 10.8

**D/E ratio**

- 0.52

**Net cash provided by operating activities**

- ¥10,107

**Net cash provided by (used in) investing activities**

- (5,879)

**Net cash provided by (used in) financing activities**

- (647)

**Cash and cash equivalents at end of the year**

- 14,618

**Number of shares outstanding at end of the year* (thousands)**

- 187,492

**Number of employees**

- 5,114

*Excluding treasury stock
<table>
<thead>
<tr>
<th>Millions of Yen unless Noted Otherwise</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$116,670</td>
<td>$113,741</td>
</tr>
<tr>
<td>7,351</td>
<td>6,038</td>
</tr>
<tr>
<td>2,800</td>
<td>2,661</td>
</tr>
<tr>
<td>1,531</td>
<td>1,202</td>
</tr>
<tr>
<td>¥ 7.92</td>
<td>¥ 6.27</td>
</tr>
</tbody>
</table>

| ¥ 1,636 | ¥ 1,585 | ¥ 1,666 | ¥ 1,577 | ¥ 1,163 | ¥ 1,172 | ¥ 1,073 | $ 8,053 |
| 103 | 223 | 284 | 162 | 263 | 323 | 385 | 618 |
| 1,739 | 1,808 | 1,950 | 1,739 | 1,426 | 1,495 | 1,458 | 8,671 |
| 2,942 | 16,194 | 10,251 | 32,487 | 5,157 | 15,050 | 5,680 | 92,252 |
| 6,736 | 5,611 | 4,321 | 4,444 | 4,620 | 4,790 | 4,783 | 50,368 |
| 83,074 | 90,750 | 93,984 | 83,143 | 72,541 | 81,622 | 80,929 | 787,205 |
| 52,062 | 58,125 | 65,374 | 50,080 | 47,256 | 62,224 | 58,349 | 492,048 |
| 80,416 | 85,381 | 82,179 | 76,352 | 48,249 | 48,837 | 38,331 | 692,658 |
| 67,638 | 77,676 | 74,066 | 67,474 | 27,397 | 18,710 | 21,847 | 579,770 |
| 183,260 | 201,555 | 208,877 | 184,468 | 137,691 | 147,668 | 145,268 | 1,801,507 |
| 17,077 | 17,077 | 17,077 | 17,077 | 17,077 | 17,077 | 17,075 | 144,610 |
| 33,975 | 33,500 | 33,480 | 34,020 | 31,943 | 35,260 | 33,791 | 434,236 |
| 60,307 | 62,674 | 66,463 | 63,750 | 61,673 | 64,989 | 63,516 | 686,205 |
| 32.9 | 31.1 | 31.8 | 34.6 | 44.8 | 44.0 | 43.7 | 198,723 |
| 2.5 | 1.9 | 0.7 | 1.9 | – | 4.2 | 5.2 | 4,871 |
| 1.08 | 1.22 | 1.18 | 1.16 | 0.73 | 0.64 | 0.62 | 191,386 |
| ¥ 12,020 | ¥ 7,709 | ¥ 5,968 | ¥ 3,268 | ¥ 6,951 | ¥ 2,740 | ¥ 4,028 | $ 85,587 |
| (3,014) | (10,718) | (10,834) | (28,755) | (4,527) | (4,475) | (4,663) | (49,784) |
| (14,216) | (4,243) | 2,026 | 27,166 | 2,427 | 1,021 | 955 | (5,479) |
| 12,417 | 17,679 | 24,853 | 27,586 | 24,879 | 20,029 | 21,999 | 123,787 |
Report and Analysis of Financial Condition and Results of Operations for Fiscal 2007 (Consolidated)

I. Operating Environment
Despite Variations in Pace, Economic Expansion Continues in Japan and Overseas
Japan’s GDP marked its fifth continuous year of positive growth. Private-sector capital investment, which has a significant influence on the Tsubaki Group’s business operations, showed a robust 7% increase from the previous year. In addition, automobile exports grew, supported by a lower yen exchange rate compared with the previous year, and Japanese automakers’ increased overseas market share. As the domestic automotive industry accounts for a high proportion of the Tsubaki Group’s customer sales, such industry trends propelled the Group forward.

The pace of economic expansion slowed somewhat in the United States, particularly in the second half of the fiscal year. However, the U.S. economy remained firm overall, buoyed by strong consumer spending. The European economy expanded, centered on Germany, and Asia maintained high economic growth, driven by China.

II. Analysis of Results
I. Summary – Highest-Ever Earnings for Second Consecutive Year
Despite some regional variations in pace, the global economy maintained its expansionary trend. In this environment, the Tsubaki Group recorded its highest-ever earnings for the second consecutive year. Consolidated net sales rose 5.4%, operating income grew 15.7%, and net income was up 29.3% from the previous fiscal year.

II. Net Sales – Further Globalization and Ratio of Overseas Sales Continues to Increase
Consolidated net sales increased ¥8.0 billion, or 5.4%, from the previous fiscal year, to ¥155.7 billion. Domestic sales rose steadily, at 3.4%, but this was outpaced by an 8.9% increase in overseas sales. The development of markets in Europe and Asia/Oceania has been a major management issue for the Tsubaki Group, and there was significant growth in these regions. Sales were up 24.2% in Europe and 15.7% in Asia/Oceania. This expansion can be seen as a major achievement for the Global Best strategy. The ratio of overseas sales to total sales was 37.4%, an increase of 1.2 points from the previous fiscal year and a 7.4-point increase from the level in fiscal 2002.

The consolidated net sales result was marginally off, at less than 0.8%, the target set for fiscal 2007, mainly due to the postponement of delivery dates to the current fiscal year for certain orders in the Materials Handling Systems Segment.

III. Operating Income – Double-Digit Growth as Strategy Realized
Operating income increased ¥2.2 billion, or 15.7%, from the previous fiscal year, to ¥16.0 billion. The rate of growth in operating income therefore exceeded that of net sales. During the fiscal year, there were two main factors that adversely affected operating income. A rise in raw materials costs had a negative impact of approximately ¥1.9 billion. In Materials Handling Systems Operations in North America, a major hurricane caused an unexpected increase in installation costs, which had a negative impact of about ¥0.7 billion. However, these negative factors were fully offset by factors that contributed to a ¥4.8 billion increase in operating income. The lower yen exchange rate pushed income up, but...
the influence of this was comparatively weak. The major factors were a transfer of rising costs to product prices, mainly in Chain Operations, where we have a high industry share; increased global market share, especially in Chain and Automotive Parts operations; and cost reductions achieved through productivity enhancements. These results derived from the Group’s ongoing strategy to improve product competitiveness, strengthen marketing, and rationalize production.

Analysis of Income Trends in Fiscal 2007
Increase in operating income from fiscal 2006 to fiscal 2007: approx. ¥2.2 billion

<table>
<thead>
<tr>
<th>Increase Factors</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From volume increases, rationalization, and lower yen exchange rate</td>
<td>¥3.2 billion</td>
</tr>
<tr>
<td>From price increases</td>
<td>¥1.6 billion</td>
</tr>
</tbody>
</table>

Decrease Factors

- From rise in raw materials costs: ¥1.9 billion
- From temporary installation costs in Materials Handling Systems Segment (North America): ¥0.7 billion

IV. Net Income – Steady Improvement in Balance of Interest Income and Interest Expense

The balance of interest income and interest expense (interest and dividends received minus interest paid) yielded a net expense for the year of ¥0.6 billion, down ¥88 million from the previous year, or a 61% improvement over the past five years.

In fiscal 2007, the Company recorded an extraordinary gain of ¥3.4 billion on sales of investments in securities, which accompanied the response to a tender offer bid for Tsubaki Nakashima, in which we held stock. As a result of the above, net income for the fiscal year under review increased ¥1.9 billion, or a sharp 29.3%, from the previous year, to ¥8.5 billion.

Analysis of Results by Business Segment

I. Power Transmission Products Segment – Increased Sales and Enhanced Profitability

Net sales amounted to ¥124.6 billion, an increase of ¥10.9 billion, or 9.6%, from the previous fiscal year. Chain, Automotive Parts, and Power Transmission Units and Components operations all recorded sales increases.

Sales growth in Chain Operations was driven by sales to the steel and machine tool industries. The new G7 RS Roller Chain was introduced successfully. Automotive Parts Operations also displayed high growth as market share expanded in North America and Japan. In Power Transmission Units and Components Operations, sales of reducers remained at about the same level, but sales of motion control units and clutches stayed firm.

The operating income margin for the segment increased from 13.1% in fiscal 2006 to 13.9%. This improvement was due to the mentioned increases in sales volume as well as to cost reductions and a contribution from the lower yen exchange rate.

II. Materials Handling Systems Segment – Declines in Sales and Income Due to Postponed Delivery

Net sales were ¥32.3 billion, a decrease of ¥3.2 billion, or 8.9%, from the previous fiscal year. Sales to the IT industry of hard disk conveyance systems expanded greatly. On the other hand, as previously explained, certain order delivery dates were postponed to the current fiscal year, and as a consequence sales of automotive body paint shop conveyor systems to the automotive industry declined. On the expenses front, as also previously explained, the effect of a major hurricane in the United States caused an increase in installation costs. Combined with the decline in sales, higher operating expenses led to a 10.3% decrease in operating income from the previous fiscal year. However, the operating income margin was 5.8%, only a slight 0.1-point decline from the previous year.

![Capital Expenditures and Depreciation and Amortization](chart1.png)

![Interest-Bearing Debt](chart2.png)
I. Assets
Total assets at the end of fiscal 2007 were ¥212.7 billion, an increase of ¥14.3 billion from the previous year-end. This rise was mainly due to a ¥14.1 billion increase in current assets. The major contributing factors to higher current assets were an increase in trade notes and accounts receivable of ¥9.0 billion and an increase in cash and deposits of ¥3.7 billion. Both of these factors are attributable to the increase in sales and orders received. Property, plant and equipment, net, rose ¥5.5 billion, mainly in response to increased production in Automotive Parts Operations. However, investment in securities declined ¥6.0 billion, principally due to the previously mentioned sale of Tsubaki Nakashima stock.

II. Liabilities and Net Assets
Current liabilities rose, primarily due to a ¥5.0 billion increase in trade notes and accounts payable. However, this increase can be characterized as complementary to the rise in trade notes and accounts receivable and concomitant with the expansion in business capacity.

Interest-bearing debt almost halved between fiscal 2002 and fiscal 2006, but in fiscal 2007 there was an increase of ¥3.3 billion. This rise in debt was a consequence of higher capital investment, primarily in Chain and Automotive Parts operations, accompanying the Group’s shift to aggressive business. Further, the ratio of net interest-bearing debt to total assets fell from 14.1% in fiscal 2006 to 13.0%.

As a result of these factors, net assets at the end of fiscal 2007 stood at ¥86.2 billion, an increase of ¥9.1 billion from the previous year-end.

Analysis of Cash Flows
Net cash from operating activities was ¥10.1 billion, compared with ¥10.7 billion in the previous fiscal year. Income before income taxes and minority interests was ¥17.6 billion. Depreciation amounted to ¥5.9 billion, and there was an increase of ¥2.8 billion in trade notes and accounts payable due to the expansion in business capacity. These were the main factors positively affecting growth. The main factors negatively affecting growth included an increase in trade notes and accounts receivable of ¥7.2 billion.

Net cash used in investing activities totaled ¥5.9 billion, compared with ¥5.6 billion in the previous year. The major source of cash outflow was purchases of plant, property and equipment of ¥10.3 billion. These payments were related to the boosting of production capacity, mainly in Automotive Parts Operations, and represent a significant increase from ¥6.8 billion in the previous year. Proceeds from sales of investments in securities were also comparatively large, at ¥3.9 billion. Therefore, net cash used in investing activities was about the same level as in fiscal 2006.

Net cash used in financing activities totaled ¥0.6 billion, compared with ¥5.6 billion in the previous year. This significant decrease in fiscal 2007 reflects the Group’s shift to an aggressive strategy and the associated increased demand for working capital.

ROE

<table>
<thead>
<tr>
<th>%</th>
<th>03</th>
<th>04</th>
<th>05</th>
<th>06</th>
<th>07</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.5</td>
<td>5.3</td>
<td>6.4</td>
<td>8.9</td>
<td>10.8</td>
<td></td>
</tr>
</tbody>
</table>

- 2.5 03
- 5.3 04
- 6.4 05
- 8.9 06
- 10.8 07
- FY
1. Risks Related to Raw Materials Price Hikes
Marked increases in crude oil prices have accompanied worldwide economic recovery. As a result, hikes in the prices of raw materials for the Group’s products have become unavoidable. From May 2005, the Group revised product prices. Further, the Group worked to reduce costs by enhancing productivity. However, if the Group is unable to offset increases in costs due to prolonged price hikes, its business performance could be affected.

2. Risks Related to Disasters
The Group supplies such engine parts as timing chains and tensioners to automakers in Japan and overseas. In the unlikely event of a natural disaster or a man-made disaster at the Saitama Plant, the Company’s main production base in Japan, the Group may be unable to provide a stable supply of products to automakers. In response to this type of risk, the Group has developed countermeasures, such as supplying products from overseas production bases to replace output from the Saitama Plant.

3. Risks Related to Overseas Operational Activities
The Group is increasing parts procurement and product sales in the Chinese market, which continues to see economic growth. However, due to political and economic factors in China, there is the possibility of temporary disorder or stagnation in the economy. In that event, certain operational problems may arise, such as delays in the production of the Group’s products and difficulties in procuring parts or operating plants, which could affect business performance.

4. Risks Related to Price Competition
In Materials Handling Systems Operations, which face intense competition for orders, the Company may not be able to avoid low-profit orders, which could affect business performance.

5. Risks Related to Currency Exchange Rates
The Group, which is conducting aggressive global development, works to minimize the influence of foreign exchange rate fluctuations by hedging foreign exchange forward contracts across the time of settlements of payments for exports, the time orders are received, the time the sales are recorded, and the time payments are received. However, short-term, dramatic fluctuations in exchange rates could affect business performance.

6. Risks Related to Changes in Interest Rates
The Group secures loans from financial institutions, mainly for the purpose of working capital or investment capital. The Group regards the strengthening of its financial position, through the reduction of interest-bearing debt and other means, as a central management issue. However, it may become necessary to procure funds to invest in production facilities, and in this case higher interest payable resulting from increases in interest rates could affect business performance.
Consolidated Balance Sheets
TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries
March 31, 2007 and 2006

<table>
<thead>
<tr>
<th>Assets</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Cash and cash equivalents (Notes 2(b) and 6)</td>
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<td>¥10,984</td>
<td>$123,787</td>
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<tr>
<td>Time deposits</td>
<td>526</td>
<td>500</td>
<td>4,454</td>
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<td>Trade notes and accounts receivable</td>
<td>48,943</td>
<td>39,975</td>
<td>414,455</td>
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<td>Inventories (Note 5)</td>
<td>24,631</td>
<td>23,875</td>
<td>208,578</td>
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<td>Deferred tax assets (Note 7)</td>
<td>3,466</td>
<td>2,436</td>
<td>29,351</td>
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<td>Other current assets</td>
<td>1,072</td>
<td>1,358</td>
<td>9,078</td>
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<tr>
<td>Allowance for doubtful accounts</td>
<td>(295)</td>
<td>(272)</td>
<td>(2,498)</td>
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<td><strong>Total current assets</strong></td>
<td><strong>92,961</strong></td>
<td><strong>78,856</strong></td>
<td><strong>787,205</strong></td>
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<td>Property, plant and equipment, at cost (Note 6):</td>
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<td></td>
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<td>Land (Note 14)</td>
<td>36,535</td>
<td>35,306</td>
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<td>Buildings and structures (Note 14)</td>
<td>43,557</td>
<td>41,967</td>
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<td>Machinery, equipment and vehicles</td>
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<td>62,606</td>
<td>576,662</td>
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<td>Tools, furniture and fixtures</td>
<td>16,073</td>
<td>15,465</td>
<td>136,108</td>
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<td>Construction in progress</td>
<td>4,876</td>
<td>3,156</td>
<td>41,290</td>
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<td>Less accumulated depreciation</td>
<td>(87,343)</td>
<td>(82,237)</td>
<td>(739,631)</td>
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<tr>
<td>Property, plant and equipment, net</td>
<td>81,796</td>
<td>76,263</td>
<td>692,658</td>
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<td>Investments and other assets:</td>
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<td>Investment in securities (Notes 4 and 6)</td>
<td>28,851</td>
<td>34,881</td>
<td>244,314</td>
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<td>Investments in unconsolidated subsidiaries and affiliates</td>
<td>1,656</td>
<td>1,501</td>
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<td>Long-term loans receivable</td>
<td>121</td>
<td>38</td>
<td>1,025</td>
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<td>Deferred tax assets (Note 7)</td>
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<td>1,815</td>
<td>13,811</td>
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<td>Other assets (Note 6)</td>
<td>5,869</td>
<td>5,279</td>
<td>49,699</td>
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<tr>
<td>Allowance for doubtful accounts</td>
<td>(145)</td>
<td>(175)</td>
<td>(1,228)</td>
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<td><strong>Total investments and other assets</strong></td>
<td><strong>37,983</strong></td>
<td><strong>43,339</strong></td>
<td><strong>321,644</strong></td>
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<tr>
<td><strong>Total assets</strong></td>
<td><strong>¥212,740</strong></td>
<td><strong>¥198,458</strong></td>
<td><strong>$1,801,507</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
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<tr>
<td><strong>Current liabilities:</strong></td>
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<td>Short-term loans (Note 6)</td>
<td>¥ 8,077</td>
<td>¥ 7,413</td>
<td>$68,397</td>
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<td>Current portion of long-term debt (Note 6)</td>
<td>2,411</td>
<td>7,955</td>
<td>20,417</td>
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<td>Trade notes and accounts payable</td>
<td>30,457</td>
<td>25,444</td>
<td>257,913</td>
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<td>Accrued income taxes</td>
<td>4,319</td>
<td>3,461</td>
<td>36,574</td>
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<td>Accrued expenses</td>
<td>4,546</td>
<td>4,179</td>
<td>38,496</td>
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<td>Other current liabilities (Note 6)</td>
<td>8,296</td>
<td>7,885</td>
<td>70,251</td>
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<td><strong>Total current liabilities</strong></td>
<td><strong>58,106</strong></td>
<td><strong>56,337</strong></td>
<td><strong>492,048</strong></td>
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<td><strong>Long-term liabilities:</strong></td>
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<td>Long-term debt (Note 6)</td>
<td>31,825</td>
<td>23,598</td>
<td>269,498</td>
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<td>Accrued retirement benefits to employees (Note 8)</td>
<td>10,215</td>
<td>9,916</td>
<td>86,502</td>
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<td>Accrued retirement benefits to directors and corporate auditors</td>
<td>466</td>
<td>364</td>
<td>3,946</td>
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<td>Deferred tax liabilities (Note 7)</td>
<td>14,203</td>
<td>14,148</td>
<td>120,273</td>
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<td>Deferred tax liabilities on land revaluation (Note 10)</td>
<td>6,773</td>
<td>6,773</td>
<td>57,354</td>
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<td>Other long-term liabilities (Note 6)</td>
<td>4,983</td>
<td>6,119</td>
<td>42,197</td>
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<td><strong>Total long-term liabilities</strong></td>
<td><strong>68,465</strong></td>
<td><strong>60,918</strong></td>
<td><strong>579,770</strong></td>
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<td><strong>Contingent liabilities (Note 9)</strong></td>
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<td><strong>Net assets (Note 3):</strong></td>
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<td>Shareholders’ equity (Note 11):</td>
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<tr>
<td>Common stock:</td>
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<tr>
<td>Authorized – 299,000,000 shares in 2007 and 2006</td>
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<tr>
<td>Issued – 191,406,969 shares in 2007 and 2006</td>
<td>17,077</td>
<td>17,077</td>
<td>144,610</td>
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<td>Capital surplus</td>
<td>12,656</td>
<td>12,654</td>
<td>107,172</td>
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<tr>
<td>Retained earnings (Notes 12 and 20)</td>
<td>51,279</td>
<td>44,509</td>
<td>434,236</td>
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<td>Treasury stock at cost (Note 12):</td>
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<tr>
<td>3,914,760 shares in 2007 and 3,865,828 shares in 2006</td>
<td>(1,451)</td>
<td>(1,415)</td>
<td>(12,287)</td>
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<tr>
<td>Total shareholders’ equity</td>
<td>79,561</td>
<td>72,825</td>
<td>673,731</td>
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<tr>
<td><strong>Valuation and translation adjustments:</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Net unrealized holding gain on securities</td>
<td>13,473</td>
<td>16,749</td>
<td>114,091</td>
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<td>Unrealized loss on derivative instruments</td>
<td>(99)</td>
<td>—</td>
<td>(838)</td>
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<tr>
<td>Net unrealized loss on land revaluation (Note 10)</td>
<td>(12,047)</td>
<td>(12,047)</td>
<td>(102,015)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>146</td>
<td>(429)</td>
<td>1,236</td>
</tr>
<tr>
<td>Total valuation and translation adjustments</td>
<td>1,473</td>
<td>4,273</td>
<td>12,474</td>
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<td>Minority interests</td>
<td>5,135</td>
<td>4,105</td>
<td>43,484</td>
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<td>Total net assets</td>
<td>86,169</td>
<td>81,203</td>
<td>729,689</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>¥212,740</td>
<td>¥198,458</td>
<td>$1,801,507</td>
</tr>
</tbody>
</table>
## Consolidated Statements of Income

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2006

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
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<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Net sales (Note 19)</td>
<td>¥155,747</td>
<td>$1,318,884</td>
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<td>Cost of sales (Notes 13 and 19)</td>
<td>112,159</td>
<td>949,776</td>
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<td></td>
<td>43,588</td>
<td>369,108</td>
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<td>Selling, general and administrative expenses (Notes 13 and 19)</td>
<td>27,580</td>
<td>233,550</td>
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<td></td>
<td>16,008</td>
<td>135,558</td>
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<td>Operating income (Note 19)</td>
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<td>Other income (expenses):</td>
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<tr>
<td>Interest and dividend income</td>
<td>470</td>
<td>3,980</td>
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<tr>
<td>Interest expense</td>
<td>(1,024)</td>
<td>(8,671)</td>
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<td>Equity in (loss) earnings of affiliates</td>
<td>(4)</td>
<td>(34)</td>
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<td>Foreign exchange loss</td>
<td>(551)</td>
<td>(4,666)</td>
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<tr>
<td>Gain on sales of investments in securities</td>
<td>3,414</td>
<td>28,910</td>
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<td>Gain (loss) on amendment to retirement benefit plans (Note 8)</td>
<td>124</td>
<td>1,050</td>
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<tr>
<td>Loss on impairment of fixed assets (Note 14)</td>
<td>(307)</td>
<td>(2,600)</td>
</tr>
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<td>Other, net</td>
<td>(495)</td>
<td>(4,192)</td>
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<td>Income before income taxes and minority interests</td>
<td>17,635</td>
<td>149,335</td>
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<td>Income taxes (Note 7):</td>
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<td>Current</td>
<td>7,094</td>
<td>60,073</td>
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<td>Deferred</td>
<td>1,496</td>
<td>12,668</td>
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<tr>
<td></td>
<td>8,590</td>
<td>72,741</td>
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<tr>
<td>Income before minority interests</td>
<td>9,045</td>
<td>76,594</td>
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<tr>
<td>Minority interests</td>
<td>(504)</td>
<td>(4,268)</td>
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<tr>
<td>Net income</td>
<td>¥ 8,541</td>
<td>$ 72,326</td>
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See accompanying notes to consolidated financial statements.
## Consolidated Statements of Changes in Net Assets

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2006

### Millions of Yen

<table>
<thead>
<tr>
<th>Number of shares in issue</th>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury stock, at cost</th>
<th>Unrealized gain on derivative instruments</th>
<th>Net unrealized loss on land revaluation</th>
<th>Translation adjustments</th>
<th>Minority interests</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at March 31, 2005</strong></td>
<td>191,406,969</td>
<td>¥17,077</td>
<td>¥12,653</td>
<td>¥39,344</td>
<td>¥(1,365)</td>
<td>¥8,591</td>
<td>¥(3,091)</td>
<td>¥(1,575)</td>
<td>¥3,978</td>
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<tr>
<td>Cash dividends paid</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(1,313)</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<td>(1,313)</td>
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<td>Bonuses to directors and corporate auditors</td>
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<td>—</td>
<td>(170)</td>
<td>—</td>
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<td>6,607</td>
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<td>—</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
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<tr>
<td>Net unrealized loss on land revaluation reserve</td>
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<td>—</td>
<td>41</td>
<td>—</td>
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<td>(8,956)</td>
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<td>(51)</td>
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<td>—</td>
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<td>Sales of treasury stock</td>
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<td>—</td>
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<tr>
<td>Other changes</td>
<td>—</td>
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<td>—</td>
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<td>—</td>
<td>8,158</td>
<td>—</td>
<td>—</td>
<td>1,146</td>
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<tr>
<td><strong>Balance at March 31, 2006</strong></td>
<td>191,406,969</td>
<td>17,077</td>
<td>12,654</td>
<td>44,509</td>
<td>(1,415)</td>
<td>16,749</td>
<td>(12,047)</td>
<td>4,105</td>
<td>81,203</td>
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<tr>
<td>Cash dividends paid</td>
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<td>—</td>
<td>(1,688)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(1,688)</td>
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<tr>
<td>Bonuses to directors and corporate auditors</td>
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<td>—</td>
<td>(83)</td>
<td>—</td>
<td>—</td>
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<td>(39)</td>
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<td>—</td>
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</tr>
<tr>
<td>Sales of treasury stock</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other changes</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>25</td>
<td>—</td>
<td>—</td>
<td>575</td>
</tr>
<tr>
<td><strong>Balance at March 31, 2007</strong></td>
<td>191,406,969</td>
<td>17,077</td>
<td>12,654</td>
<td>48,509</td>
<td>(2,415)</td>
<td>18,749</td>
<td>(12,047)</td>
<td>4,105</td>
<td>86,169</td>
</tr>
</tbody>
</table>

### Thousands of U.S. Dollars

<table>
<thead>
<tr>
<th>Common stock</th>
<th>Capital surplus</th>
<th>Retained earnings</th>
<th>Treasury stock, at cost</th>
<th>Unrealized gain on derivative instruments</th>
<th>Net unrealized loss on land revaluation</th>
<th>Translation adjustments</th>
<th>Minority interests</th>
<th>Total net assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at March 31, 2006</strong></td>
<td>$144,610</td>
<td>$107,155</td>
<td>$376,907</td>
<td>$(11,982)</td>
<td>$141,833</td>
<td>$(102,015)</td>
<td>$(3,633)</td>
<td>$34,762</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>—</td>
<td>—</td>
<td>(14,294)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(14,294)</td>
</tr>
<tr>
<td>Bonuses to directors and corporate auditors</td>
<td>—</td>
<td>—</td>
<td>(703)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(703)</td>
</tr>
<tr>
<td>Net income</td>
<td>—</td>
<td>—</td>
<td>72,326</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gain on sales of treasury stock</td>
<td>—</td>
<td>—</td>
<td>17</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>—</td>
<td>—</td>
<td>(330)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other changes</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(27,742)</td>
<td>(838)</td>
<td>—</td>
<td>4,869</td>
<td>8,722</td>
</tr>
<tr>
<td><strong>Balance at March 31, 2007</strong></td>
<td>$144,610</td>
<td>$107,172</td>
<td>$434,236</td>
<td>$(12,287)</td>
<td>$114,091</td>
<td>$(102,015)</td>
<td>$(1,236)</td>
<td>$43,484</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### Consolidated Statements of Cash Flows

**TSUBAKIMOTO CHAIN CO. ANNUAL REPORT 2007**

Consolidated Statements of Cash Flows

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries

For the years ended March 31, 2007 and 2006

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
</tbody>
</table>

**Cash flows from operating activities:**

<table>
<thead>
<tr>
<th>Item</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income taxes and minority interests</td>
<td>¥17,635</td>
<td>¥12,609</td>
<td>$149,335</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,948</td>
<td>5,509</td>
<td>50,368</td>
</tr>
<tr>
<td>Loss on impairment of fixed assets</td>
<td>307</td>
<td>32</td>
<td>2,600</td>
</tr>
<tr>
<td>Loss (gain) on sales of property, plant and equipment</td>
<td>154 (305)</td>
<td>1,304</td>
<td></td>
</tr>
<tr>
<td>Gain on sales of investments in securities</td>
<td>(3,414)</td>
<td>(15)</td>
<td>(28,910)</td>
</tr>
<tr>
<td>Allowance for doubtful accounts, net</td>
<td>(31)</td>
<td>(43)</td>
<td>(263)</td>
</tr>
<tr>
<td>Increase (decrease) in accrued retirement benefits</td>
<td>93 (763)</td>
<td>788</td>
<td></td>
</tr>
<tr>
<td>(Decrease) increase in obligation on transfer to defined contribution pension plans</td>
<td>(894)</td>
<td>488</td>
<td>(7,570)</td>
</tr>
<tr>
<td>Increase in trade notes and accounts receivable</td>
<td>(7,228)</td>
<td>(4,194)</td>
<td>(61,208)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>231</td>
<td>(3,147)</td>
<td>1,956</td>
</tr>
<tr>
<td>Increase in trade notes and accounts payable</td>
<td>2,755</td>
<td>4,441</td>
<td>23,330</td>
</tr>
<tr>
<td>Other</td>
<td>1,393</td>
<td>973</td>
<td>11,796</td>
</tr>
<tr>
<td>Subtotal</td>
<td>16,949</td>
<td>15,585</td>
<td>143,526</td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>477</td>
<td>359</td>
<td>4,039</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(1,007)</td>
<td>(990)</td>
<td>(8,527)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(6,312)</td>
<td>(4,273)</td>
<td>(53,451)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>10,107</td>
<td>10,681</td>
<td>85,587</td>
</tr>
</tbody>
</table>

**Cash flows from investing activities:**

<table>
<thead>
<tr>
<th>Item</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in time deposits, net</td>
<td>546</td>
<td>4</td>
<td>4,624</td>
</tr>
<tr>
<td>Increase in investments in securities</td>
<td>(12)</td>
<td>(20)</td>
<td>(102)</td>
</tr>
<tr>
<td>Proceeds from sales of investments in securities</td>
<td>3,861</td>
<td>142</td>
<td>32,695</td>
</tr>
<tr>
<td>Increase in investments in affiliates</td>
<td>— (155)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition of subsidiaries’ stock resulting in change in scope of consolidation (Note 15)</td>
<td>(516)</td>
<td>— (4,369)</td>
<td></td>
</tr>
<tr>
<td>Increase in long-term loans receivable</td>
<td>(76)</td>
<td>(66)</td>
<td>(644)</td>
</tr>
<tr>
<td>Collection of long-term loans receivable</td>
<td>115</td>
<td>68</td>
<td>974</td>
</tr>
<tr>
<td>Purchases of property, plant and equipment</td>
<td>(10,269)</td>
<td>(6,786)</td>
<td>(86,959)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>472 (1,218)</td>
<td>3,997</td>
<td></td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(5,879)</td>
<td>(5,595)</td>
<td>(49,784)</td>
</tr>
</tbody>
</table>

**Cash flows from financing activities:**

<table>
<thead>
<tr>
<th>Item</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in short-term loans, net</td>
<td>(40)</td>
<td>(1,694)</td>
<td>(399)</td>
</tr>
<tr>
<td>Proceeds from long-term loans</td>
<td>10,233</td>
<td>1,000</td>
<td>86,654</td>
</tr>
<tr>
<td>Repayment of long-term loans</td>
<td>(7,556)</td>
<td>(8,183)</td>
<td>(63,985)</td>
</tr>
<tr>
<td>Issuance of bonds</td>
<td>— (6,955)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>(960)</td>
<td>(1,700)</td>
<td>(8,129)</td>
</tr>
<tr>
<td>Payments on installment payables</td>
<td>(393)</td>
<td>(451)</td>
<td>(3,328)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(1,688)</td>
<td>(1,313)</td>
<td>(14,294)</td>
</tr>
<tr>
<td>Cash dividends paid to minority interests</td>
<td>(209)</td>
<td>(160)</td>
<td>(1,770)</td>
</tr>
<tr>
<td>Purchases of treasury stock</td>
<td>(39)</td>
<td>(51)</td>
<td>(330)</td>
</tr>
<tr>
<td>Proceeds from sales of treasury stock</td>
<td>5</td>
<td>1</td>
<td>42</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(647)</td>
<td>(5,596)</td>
<td>(5,479)</td>
</tr>
</tbody>
</table>

**Effect of exchange rate changes on cash and cash equivalents**

<table>
<thead>
<tr>
<th>Item</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>53</td>
<td>205</td>
<td>449</td>
<td></td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>3,634</td>
<td>(305)</td>
<td>30,773</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of the year</td>
<td>10,984</td>
<td>11,562</td>
<td>93,014</td>
</tr>
<tr>
<td>Decrease in cash and cash equivalents resulting from initial inclusion in or exclusion from consolidation</td>
<td>—</td>
<td>(273)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at end of the year</td>
<td>¥14,618</td>
<td>¥10,984</td>
<td>$123,787</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS
The accompanying consolidated financial statements of TSUBAKIMOTO CHAIN CO. (the “Company”) and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders’ equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders’ equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥118.09 = U.S.$1.00, the exchange rate prevailing on March 31, 2007. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2006 to the 2007 presentation. These reclassifications had no effect on consolidated net income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions have been eliminated in consolidation.

The assets and liabilities of the consolidated subsidiaries are revalued at fair value by the full value method as of their respective dates of acquisition. The difference, not significant in amount, between the cost of investments in such subsidiaries and the equity in their net assets at their respective dates of acquisition is amortized over a period of five years on a straight-line basis.

The balance sheet dates of certain consolidated subsidiaries are December 31 and January 31. Any significant differences in their intercompany accounts and transactions arising from intercompany transactions during the periods from January 1 through March 31 and February 1 through March 31 have been adjusted, if necessary.

The number of consolidated subsidiaries and affiliated companies for the years ended March 31, 2007 and 2006 is summarized below:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated subsidiaries</td>
<td>23</td>
<td>22</td>
</tr>
<tr>
<td>Affiliated companies</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

(b) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

Cash and cash equivalents at March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and in banks</td>
<td>¥13,568</td>
<td>¥9,867</td>
<td>$114,895</td>
</tr>
<tr>
<td>Less: Time deposits with over three months maturity</td>
<td>(526)</td>
<td>(500)</td>
<td>(4,454)</td>
</tr>
<tr>
<td>Securities regarded as cash equivalents</td>
<td>1,576</td>
<td>1,617</td>
<td>13,346</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥14,618</td>
<td>$10,984</td>
<td>$123,787</td>
</tr>
</tbody>
</table>

(c) Allowance for doubtful receivables
The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(d) Marketable securities and investment in securities
 Marketable securities and investment in securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(e) Derivatives
Derivatives are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Interest-rate swaps which meet certain conditions are
(f) Inventories
Inventories except for those of certain overseas subsidiaries are principally stated at cost determined by the first-in, first-out method, the individual identification method or the moving average cost method. Those of certain overseas subsidiaries are stated at the lower of cost or market.

(g) Property, plant and equipment
Property, plant and equipment is stated at cost. Depreciation is calculated by the declining-balance method over the useful lives of the respective assets. Depreciation of buildings, except for structures attached to the buildings, is calculated by the straight-line method.

The principal estimated useful lives are summarized as follows:
- Buildings and structures: 3 to 50 years
- Machinery, equipment and vehicles: 4 to 13 years

(h) Leases
Finance leases other than those which transfer ownership of the leased property to the lessees are accounted for as operating leases.

(i) Income taxes
Deferred income taxes have been recognized with respect to the differences between financial reporting and the tax bases of the assets and liabilities. Deferred taxes are measured at the rates which are expected to apply to the period when each asset or liability is realized, based on the tax rates which have been enacted as of the balance sheet date or are subsequently enacted.

(j) Accrued retirement benefits to employees
Accrued retirement benefits for employees are provided at the retirement benefit obligation less the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated remaining years of service of the eligible employees.

Prior service cost is credited or charged to income in the year in which the gain or loss is recognized.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method over a certain period (10 years) which is shorter than the average estimated remaining years of service of the eligible employees.

(k) Accrued retirement benefits to directors and corporate auditors
Directors and corporate auditors of the Company and its domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and corporate auditors has been made at an estimated amount based on the internal regulations.

(l) Revenue recognition
The Company and its consolidated subsidiaries recognize revenue and the related costs of long-term construction contracts by applying the completed-contract method, except for those of certain overseas subsidiaries in the Materials Handling Systems business to which the percentage-of-completion method is applied.

(m) Research and development costs and computer software
Research and development costs are charged to income when incurred.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful lives (5 years).

(n) Foreign currency translation
Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Revenues and expenses are translated at the rates of exchange prevailing when the transactions were made.

The assets, liabilities and minority interests of overseas subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, and the components of net assets excluding minority interests are translated at their respective historical rates. Revenue and expenses are translated at the average rates of exchange for the respective years. Differences arising from translation are reflected in net assets (presented as “Translation adjustments” and “Minority interests”) in the accompanying consolidated balance sheets.

(o) Appropriation of retained earnings
Under the new Corporation Law of Japan (the “Law”), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period and the accounts for that period do not, therefore, reflect such appropriations. (Refer to Note 20.)

3. CHANGES IN METHOD OF ACCOUNTING
Presentation of net assets in the balance sheet
Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted “Accounting Standard for Presentation of Net Assets in the Balance Sheet” (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and “Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet” (ASBJ Guidance No. 8 issued on December 9, 2005).
4. SECURITIES
(a) Marketable securities classified as held-to-maturity debt securities at March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of Yen</td>
<td>Thousands of U.S. Dollars</td>
<td></td>
</tr>
<tr>
<td>Carrying value</td>
<td>Estimated fair value</td>
<td>Unrealized gain</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Securities whose estimated fair value exceeds their carrying value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>¥ —</td>
<td>¥ —</td>
</tr>
<tr>
<td>Securities whose estimated fair value does not exceed their carrying value:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>¥ —</td>
<td>¥ —</td>
</tr>
</tbody>
</table>

(b) Marketable securities classified as other securities at March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of Yen</td>
<td>Thousands of U.S. Dollars</td>
<td></td>
</tr>
<tr>
<td>Acquisition costs</td>
<td>Carrying value</td>
<td>Unrealized gain (loss)</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Securities whose carrying value exceeds their acquisition costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥5,848</td>
<td>¥28,384</td>
</tr>
<tr>
<td>Other</td>
<td>49</td>
<td>58</td>
</tr>
<tr>
<td>Subtotal</td>
<td>5,897</td>
<td>28,442</td>
</tr>
<tr>
<td>Securities whose carrying value does not exceed their acquisition costs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>¥5,933</td>
<td>¥28,475</td>
</tr>
</tbody>
</table>

(c) Sales of other securities for the years ended March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of Yen</td>
<td>Thousands of U.S. Dollars</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>¥3,754</td>
<td>¥75</td>
</tr>
<tr>
<td>Gross realized gain</td>
<td>3,414</td>
<td>15</td>
</tr>
<tr>
<td>Gross realized loss</td>
<td>(43)</td>
<td>—</td>
</tr>
</tbody>
</table>

The carrying value of securities without determinable market value at March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of Yen</td>
<td>Thousands of U.S. Dollars</td>
<td></td>
</tr>
<tr>
<td>Other securities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Management fund unlisted debt securities</td>
<td>¥376</td>
<td>¥369</td>
</tr>
</tbody>
</table>

5. INVENTORIES
Inventories at March 31, 2007 and 2006 consisted of the following:

<table>
<thead>
<tr>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions of Yen</td>
<td>Thousands of U.S. Dollars</td>
<td></td>
</tr>
<tr>
<td>Finished goods</td>
<td>¥11,376</td>
<td>¥ 9,515</td>
</tr>
<tr>
<td>Raw materials</td>
<td>3,175</td>
<td>2,903</td>
</tr>
<tr>
<td>Work in process</td>
<td>9,359</td>
<td>10,623</td>
</tr>
<tr>
<td>Supplies</td>
<td>721</td>
<td>834</td>
</tr>
<tr>
<td>Total</td>
<td>¥24,631</td>
<td>¥23,875</td>
</tr>
</tbody>
</table>
6. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at March 31, 2007 and 2006 consisted principally of loans from banks and insurance companies at weighted average interest rates of 2.0% and 1.3% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

<table>
<thead>
<tr>
<th>Loans, principally from banks and insurance companies, due through 2014 at an average annual interest rate of 2.7%:</th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured</td>
<td>¥ 9,198</td>
<td>¥13,079</td>
<td>$ 77,890</td>
</tr>
<tr>
<td>Unsecured</td>
<td>17,788</td>
<td>10,474</td>
<td>150,631</td>
</tr>
<tr>
<td>0.38% unsecured bonds due 2006</td>
<td>—</td>
<td>100</td>
<td>—</td>
</tr>
<tr>
<td>2.30% secured bonds due 2007</td>
<td>—</td>
<td>800</td>
<td>—</td>
</tr>
<tr>
<td>0.44% unsecured bonds due 2007</td>
<td>100</td>
<td>100</td>
<td>847</td>
</tr>
<tr>
<td>0.41% unsecured bonds due 2008</td>
<td>30</td>
<td>—</td>
<td>254</td>
</tr>
<tr>
<td>0.88% unsecured bonds due 2009</td>
<td>50</td>
<td>—</td>
<td>423</td>
</tr>
<tr>
<td>0.56% unsecured bonds due 2010</td>
<td>70</td>
<td>—</td>
<td>593</td>
</tr>
<tr>
<td>0.83% unsecured bonds due 2010</td>
<td>7,000</td>
<td>7,000</td>
<td>59,277</td>
</tr>
<tr>
<td>Less current portion</td>
<td>2,411</td>
<td>7,955</td>
<td>20,417</td>
</tr>
<tr>
<td>Total</td>
<td>¥31,825</td>
<td>¥23,598</td>
<td>$269,498</td>
</tr>
</tbody>
</table>

Other interest-bearing liabilities included in other current and long-term liabilities represented installment payables at an average annual interest rate of 3.2% at March 31, 2007 and 2006.

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

<table>
<thead>
<tr>
<th>Year ending March 31,</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>¥ 2,411</td>
<td>$ 20,417</td>
</tr>
<tr>
<td>2009</td>
<td>3,187</td>
<td>26,988</td>
</tr>
<tr>
<td>2010</td>
<td>1,562</td>
<td>89,440</td>
</tr>
<tr>
<td>2011</td>
<td>9,063</td>
<td>76,747</td>
</tr>
<tr>
<td>2012</td>
<td>6,307</td>
<td>53,408</td>
</tr>
<tr>
<td>2013 and thereafter</td>
<td>2,706</td>
<td>22,915</td>
</tr>
<tr>
<td>Total</td>
<td>¥34,236</td>
<td>$289,915</td>
</tr>
</tbody>
</table>

The aggregate annual maturities of other interest-bearing liabilities included in other current and long-term liabilities subsequent to March 31, 2007 are summarized as follows:

<table>
<thead>
<tr>
<th>Year ending March 31,</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>¥ 349</td>
<td>$ 2,955</td>
</tr>
<tr>
<td>2009</td>
<td>337</td>
<td>2,854</td>
</tr>
<tr>
<td>2010</td>
<td>319</td>
<td>2,701</td>
</tr>
<tr>
<td>2011</td>
<td>329</td>
<td>2,786</td>
</tr>
<tr>
<td>2012</td>
<td>170</td>
<td>1,440</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,504</td>
<td>$12,736</td>
</tr>
</tbody>
</table>

Assets pledged as collateral for short-term bank loans of ¥530 million ($4,488 thousand), the current portion of long-term debt of ¥2,248 million ($19,036 thousand), and long-term debt of ¥7,040 million ($59,616 thousand) at March 31, 2007 were composed of the following:

<table>
<thead>
<tr>
<th>Assets pledged as collateral</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>¥30,868</td>
<td>$261,398</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>14,446</td>
<td>122,330</td>
</tr>
<tr>
<td>Machinery, equipment and vehicles</td>
<td>8,906</td>
<td>75,400</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>980</td>
<td>8,299</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>428</td>
<td>3,624</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>230</td>
<td>1,948</td>
</tr>
<tr>
<td>Investments in securities</td>
<td>123</td>
<td>1,042</td>
</tr>
<tr>
<td>Other assets</td>
<td>63</td>
<td>533</td>
</tr>
<tr>
<td>Total</td>
<td>¥56,042</td>
<td>$474,570</td>
</tr>
</tbody>
</table>

The Company has concluded lines-of-credit agreements with certain banks to achieve efficient financing. The status of these lines of credit at March 31, 2007 was as follows:

<table>
<thead>
<tr>
<th>Lines of credit</th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines of credit</td>
<td>¥15,000</td>
<td>$127,022</td>
</tr>
<tr>
<td>Credit utilized</td>
<td>2,000</td>
<td>16,936</td>
</tr>
<tr>
<td>Available credit</td>
<td>¥13,000</td>
<td>$110,086</td>
</tr>
</tbody>
</table>
7. INCOME TAXES

Income taxes applicable to the Company and its consolidated subsidiaries comprise corporation, inhabitants’ and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2007 and 2006.

A reconciliation of the statutory and effective tax rates for the years ended March 31, 2007 is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory tax rate</td>
<td>40.6%</td>
</tr>
<tr>
<td>Permanent difference such as entertainment expenses</td>
<td>0.4</td>
</tr>
<tr>
<td>Undistributed earnings of foreign subsidiaries</td>
<td>6.1</td>
</tr>
<tr>
<td>Valuation allowance for deferred tax assets</td>
<td>1.7</td>
</tr>
<tr>
<td>Other</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>48.7%</td>
</tr>
</tbody>
</table>

Disclosure of reconciliation between statutory and effective tax rate for the year ended March 31, 2006 has been omitted as such difference was immaterial.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued retirement benefits</td>
<td>¥ 4,102</td>
<td>¥ 4,241</td>
<td>$ 34,736</td>
</tr>
<tr>
<td>Obligation on transfer to defined contribution pension plans</td>
<td>1,560</td>
<td>1,893</td>
<td>13,210</td>
</tr>
<tr>
<td>Accrued bonuses</td>
<td>1,081</td>
<td>1,038</td>
<td>9,154</td>
</tr>
<tr>
<td>Unrealized gains and losses on inventories</td>
<td>524</td>
<td>483</td>
<td>4,437</td>
</tr>
<tr>
<td>Accrued enterprise tax</td>
<td>319</td>
<td>271</td>
<td>2,702</td>
</tr>
<tr>
<td>Other</td>
<td>2,353</td>
<td>1,002</td>
<td>19,926</td>
</tr>
<tr>
<td>Gross deferred tax assets</td>
<td>9,939</td>
<td>8,926</td>
<td>84,165</td>
</tr>
<tr>
<td>Less: valuation allowance</td>
<td>(861)</td>
<td>(357)</td>
<td>(7,291)</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>9,078</td>
<td>8,571</td>
<td>76,874</td>
</tr>
</tbody>
</table>

Deferred tax liabilities:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred gain on replacement of property</td>
<td>(5,391)</td>
<td>(5,377)</td>
<td>(45,652)</td>
</tr>
<tr>
<td>Undistributed earnings of foreign subsidiaries</td>
<td>(1,664)</td>
<td>—</td>
<td>(14,091)</td>
</tr>
<tr>
<td>Net unrealized gain on revaluation of assets and liabilities of subsidiaries</td>
<td>(757)</td>
<td>(269)</td>
<td>(6,411)</td>
</tr>
<tr>
<td>Unrealized holding gain on securities</td>
<td>(9,006)</td>
<td>(11,475)</td>
<td>(76,264)</td>
</tr>
<tr>
<td>Other</td>
<td>(1,366)</td>
<td>(1,347)</td>
<td>(11,567)</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>(18,184)</td>
<td>(18,468)</td>
<td>(153,985)</td>
</tr>
<tr>
<td>Net deferred tax liabilities</td>
<td>¥ (9,106)</td>
<td>¥ (9,897)</td>
<td>$ (77,111)</td>
</tr>
</tbody>
</table>

8. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, defined contribution pension plans and advance payment schemes for retirement benefits. In addition to the retirement benefit plans described above, the Company and its domestic subsidiaries pay additional retirement benefits under certain conditions. Certain overseas subsidiaries also have defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company’s and the consolidated subsidiaries’ defined benefit plans:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefit obligation</td>
<td>¥ (13,491)</td>
<td>¥ (14,108)</td>
</tr>
<tr>
<td>Plan assets at fair value</td>
<td>2,312</td>
<td>3,123</td>
</tr>
<tr>
<td>Unfunded retirement benefit obligation</td>
<td>(11,179)</td>
<td>(10,985)</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>964</td>
<td>1,069</td>
</tr>
<tr>
<td>Accrued retirement benefits</td>
<td>¥ (10,215)</td>
<td>¥ (9,916)</td>
</tr>
</tbody>
</table>
As permitted under the accounting standard for retirement benefits, certain domestic subsidiaries calculate their retirement benefit obligation for their employees by simplified methods.

Certain domestic consolidated subsidiaries amended a portion of their lump-sum payment plans and adopted defined contribution pension plans and advance payment schemes for retirement benefits at March 31, 2005 and April 1, 2006. An overseas consolidated subsidiary amended a portion of its defined benefit pension plan and adopted defined contribution pension plan at January 1, 2007. The effects of these amendments to the retirement benefit plans as of March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in retirement benefit obligation</td>
<td>¥958</td>
<td>$8,112</td>
</tr>
<tr>
<td>Decrease in plan assets</td>
<td>(834)</td>
<td>(7,062)</td>
</tr>
<tr>
<td>Plan assets transferred from tax-qualified pension plans</td>
<td>—</td>
<td>(1,455)</td>
</tr>
<tr>
<td>Unrecognized actuarial loss</td>
<td>(472)</td>
<td></td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>(173)</td>
<td></td>
</tr>
<tr>
<td>Decrease in accrued retirement benefits</td>
<td>124</td>
<td>1,088</td>
</tr>
<tr>
<td>Plan assets not to be transferred to defined contribution pension plans</td>
<td>—</td>
<td>(1,361)</td>
</tr>
<tr>
<td>Net gain (loss) on amendments to retirement benefit plans</td>
<td>¥124</td>
<td>(273)</td>
</tr>
</tbody>
</table>

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>¥663</td>
<td>$5,614</td>
</tr>
<tr>
<td>Interest cost</td>
<td>282</td>
<td>2,388</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(67)</td>
<td>(567)</td>
</tr>
<tr>
<td>Net (gain) loss on amendments to retirement benefit plans</td>
<td>(124)</td>
<td>273</td>
</tr>
<tr>
<td>Contributions to defined contribution pension plans</td>
<td>515</td>
<td>440</td>
</tr>
<tr>
<td>Amortization of unrecognized actuarial loss</td>
<td>214</td>
<td>147</td>
</tr>
<tr>
<td>Retirement benefit expenses</td>
<td>¥1,483</td>
<td>$12,558</td>
</tr>
</tbody>
</table>

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2007 and 2006 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rates</td>
<td>Principally 2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Expected rates of return on plan assets</td>
<td>Principally 2.5%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

9. CONTINGENT LIABILITIES

At March 31, 2007, the Company and its consolidated subsidiaries were contingently liable for the following items:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes receivable discounted</td>
<td>¥193</td>
<td>$1,635</td>
</tr>
<tr>
<td>Guarantees of home mortgage loans by employees</td>
<td>319</td>
<td>2,701</td>
</tr>
<tr>
<td>Guarantees of loans made by affiliates</td>
<td>267</td>
<td>2,261</td>
</tr>
<tr>
<td>Total</td>
<td>¥779</td>
<td>$6,597</td>
</tr>
</tbody>
</table>

10. NET UNREALIZED LOSS ON LAND REVALUATION

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the “Law on Land Revaluation.” Differences on land revaluation have been accounted for as “Net unrealized loss on land revaluation” under net assets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the “Enforcement Act Concerning Land Revaluation.” The carrying value of this land exceeded its corresponding fair value by ¥10,500 million ($88,915 thousand) and ¥10,435 million at March 31, 2007 and 2006, respectively.

11. SHAREHOLDERS’ EQUITY

The new Corporation Law of Japan (the “Law”), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital sock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met. The Company’s legal reserve amounted to ¥3,376 million ($28,588 thousand) at March 31, 2007.
12. NOTE TO THE CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(a) Movements in treasury stock during the year ended March 31, 2007 are summarized as follows:

<table>
<thead>
<tr>
<th>Type of treasury stock</th>
<th>Common stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of treasury stock as of March 31, 2006</td>
<td>3,865,828</td>
</tr>
<tr>
<td>Increase in number treasury stock</td>
<td>56,188</td>
</tr>
<tr>
<td>Decrease in number of treasury stock</td>
<td>(7,256)</td>
</tr>
<tr>
<td>Number of treasury stock as of March 31, 2007</td>
<td>3,914,760</td>
</tr>
</tbody>
</table>

(b) Matters related to dividends

1. Dividend payment
Details of a resolution for dividend payment approved at an annual general meeting of shareholders held on June 29, 2006 are summarized as follows:

Dividends on common stock
(1) Total dividend amount ¥1,125 million ($9,527 thousand)
(2) Dividends per share ¥6.0
(3) Record date March 31, 2006
(4) Effective date June 30, 2006

Details of a resolution for dividend payment approved at a Board of Directors’ meeting on November 15, 2006 are summarized as follows:

Dividends on common stock
(1) Total dividend amount ¥562 million ($4,759 thousand)
(2) Dividends per share ¥3.0
(3) Record date September 30, 2006
(4) Effective date December 8, 2006

2. Dividends whose record date is attributable to the accounting period ended March 31, 2007 but whose effective date is subsequent to the end of the said accounting period.

The Company approved a resolution for dividend payment at the annual general meeting of shareholders held on June 28, 2007 as follows:

Dividends on common stock
(1) Total dividend amount ¥750 million ($6,351 thousand)
(2) Source of dividend payment Retained earnings
(3) Dividends per share ¥4.0
(4) Record date March 31, 2007
(5) Effective date June 29, 2007

13. RESEARCH AND DEVELOPMENT COSTS
Research and development costs included in manufacturing costs, and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥3,595 million ($30,443 thousand) and ¥3,422 million, respectively.

Research and development costs are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power transmission products</td>
<td>2,391</td>
<td>20,247</td>
</tr>
<tr>
<td>Materials handling systems</td>
<td>1,204</td>
<td>10,196</td>
</tr>
<tr>
<td>Total</td>
<td>3,595</td>
<td>30,443</td>
</tr>
</tbody>
</table>

14. LOSS ON IMPAIRMENT OF FIXED ASSETS
The Company and its consolidated subsidiaries group their fixed assets relating to Power transmission products, Materials handling systems and other businesses primarily at each business which manages receipts and payments separately. They also group their fixed assets which they have determined to dispose of, and idle assets primarily at each asset. Consequently, the Company and its consolidated subsidiaries wrote down the following items to their respective recoverable amounts and recorded the related loss on impairment of fixed assets of ¥307 million ($2,600 thousand) and ¥32 million in the consolidated statements of income for the years ended March 31, 2007 and 2006:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>217</td>
<td>1,838</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>90</td>
<td>762</td>
</tr>
<tr>
<td>Total</td>
<td>307</td>
<td>2,600</td>
</tr>
</tbody>
</table>

The carrying amounts of the above fixed assets were written down to their respective recoverable amounts and were measured using their respective net selling prices principally based on appraisal valuations.

15. SUPPLEMENTAL INFORMATION ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS
In April 2006, the Company acquired 51% of the shares of TSUBAKI YAMAKYU CHAIN Co., Ltd. whose assets and liabilities, and the related cost of acquired shares and payments for acquisition of shares are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>2,904</td>
<td>24,591</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>2,436</td>
<td>20,628</td>
</tr>
<tr>
<td>Goodwill</td>
<td>38</td>
<td>322</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>(2,618)</td>
<td>(22,170)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>(1,285)</td>
<td>(10,882)</td>
</tr>
<tr>
<td>Minority interests</td>
<td>(704)</td>
<td>(5,961)</td>
</tr>
<tr>
<td>Cost of acquired shares</td>
<td>771</td>
<td>6,528</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>(255)</td>
<td>(2,159)</td>
</tr>
<tr>
<td>Payments for acquisition of shares</td>
<td>(516)</td>
<td>(4,369)</td>
</tr>
</tbody>
</table>
16. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases under which the Company and its consolidated subsidiaries are lessees and which are currently accounted for as operating leases:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquisition cost</td>
<td>Accumulated</td>
<td>Net book value</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>depreciation</td>
<td></td>
</tr>
<tr>
<td>Machinery, equipment and vehicles</td>
<td>¥ 296</td>
<td>¥132</td>
<td>¥164</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>765</td>
<td>387</td>
<td>378</td>
</tr>
<tr>
<td>Other assets</td>
<td>400</td>
<td>221</td>
<td>179</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,461</td>
<td>¥740</td>
<td>¥721</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquisition cost</td>
<td>Accumulated</td>
<td>Net book value</td>
</tr>
<tr>
<td></td>
<td>2006</td>
<td>depreciation</td>
<td></td>
</tr>
<tr>
<td>Machinery, equipment and vehicles</td>
<td>¥ 143</td>
<td>¥52</td>
<td>¥91</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>1,119</td>
<td>801</td>
<td>318</td>
</tr>
<tr>
<td>Other assets</td>
<td>378</td>
<td>205</td>
<td>173</td>
</tr>
<tr>
<td>Total</td>
<td>¥1,640</td>
<td>¥1,058</td>
<td>¥582</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Thousands of U.S. Dollars</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acquisition cost</td>
<td>Accumulated</td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>depreciation</td>
</tr>
<tr>
<td>Machinery, equipment and vehicles</td>
<td>$ 2,507</td>
<td>$1,118</td>
</tr>
<tr>
<td>Tools, furniture and fixtures</td>
<td>6,478</td>
<td>3,277</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,387</td>
<td>1,871</td>
</tr>
<tr>
<td>Total</td>
<td>$12,372</td>
<td>$6,266</td>
</tr>
</tbody>
</table>

Lease payments related to finance leases accounted for as operating leases and depreciation which have not been reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease payments</td>
<td>¥310  2007</td>
<td>$2,625</td>
</tr>
<tr>
<td></td>
<td>¥369  2006</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>310  2007</td>
<td>2,625</td>
</tr>
<tr>
<td></td>
<td>369  2006</td>
<td></td>
</tr>
</tbody>
</table>

Future minimum lease payments subsequent to March 31, 2007 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ending March 31,</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>¥269</td>
<td>$2,278</td>
</tr>
<tr>
<td>2009 and thereafter</td>
<td>452</td>
<td>3,828</td>
</tr>
<tr>
<td></td>
<td>¥721</td>
<td>$6,106</td>
</tr>
</tbody>
</table>

The acquisition cost and future minimum lease payments under finance leases presented in the above tables include the imputed interest expense.

Future minimum lease payments subsequent to March 31, 2007 for non-cancelable operating leases are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year ending March 31,</td>
<td>2008</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>¥ 81</td>
<td>686</td>
</tr>
<tr>
<td>2009 and thereafter</td>
<td>64</td>
<td>542</td>
</tr>
<tr>
<td></td>
<td>¥145</td>
<td>$1,228</td>
</tr>
</tbody>
</table>

17. DERIVATIVES

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk. The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to ensure stable profit by hedging the risk of exchange rate fluctuation which impacts their assets and liabilities denominated in foreign currencies. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the effect of any fluctuation in interest rates on their borrowings. The Company and these consolidated subsidiaries do not enter into derivatives contracts for speculative trading purposes.

The Company and certain consolidated subsidiaries are exposed to certain market risk arising from their forward foreign exchange contracts and interest-rate swap agreements. They are also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to such forward foreign exchange contracts and interest-rate swap agreements; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Each business department determines the appropriate amount of forward foreign exchange contracts within predetermined limits and the financial sections of each department execute and manage these positions. In addition, the Finance Department of the Company enters into and manages interest-rate swap positions as an integral part of the process of entering into loan agreements.
At March 31, 2007 and 2006, the outstanding forward foreign exchange contracts were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notional amount</td>
<td>Fair value</td>
<td>Unrealized gain(loss)</td>
</tr>
<tr>
<td><strong>Forward foreign exchange contracts:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sell:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>¥2,164</td>
<td>¥2,187</td>
<td>(23)</td>
</tr>
<tr>
<td>Canadian dollars</td>
<td>142</td>
<td>142</td>
<td>0</td>
</tr>
<tr>
<td>Australian dollars</td>
<td>65</td>
<td>67</td>
<td>(2)</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>15</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td><strong>Buy:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese yen</td>
<td>1,230</td>
<td>1,200</td>
<td>(30)</td>
</tr>
<tr>
<td>U.S. dollars</td>
<td>16</td>
<td>16</td>
<td>(0)</td>
</tr>
<tr>
<td>Pounds sterling</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥(55)</td>
<td>¥ (81)</td>
<td>(466)</td>
</tr>
</tbody>
</table>

At March 31, 2007, the outstanding interest rate swap positions were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notional amount</td>
<td>Fair value</td>
<td>Unrealized loss</td>
</tr>
<tr>
<td><strong>Interest-rate swap agreements:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Floating paid/fixed received</td>
<td>¥150</td>
<td>¥(10)</td>
<td>¥(10)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>¥(10)</td>
<td>¥ —</td>
<td>¥(85)</td>
</tr>
</tbody>
</table>

18. AMOUNTS PER SHARE

Amounts per share at March 31, 2007 and 2006 and for the years then ended were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Net assets</td>
<td>¥432.20</td>
<td>¥410.66</td>
</tr>
<tr>
<td>Net income</td>
<td>45.55</td>
<td>34.78</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>7.00</td>
<td>9.00</td>
</tr>
</tbody>
</table>

The amounts per share of net assets are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each year end.

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

Information used in the calculation of basic net income per share is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Net income</td>
<td>¥8,541</td>
<td>¥6,606</td>
</tr>
<tr>
<td>Net income not for distribution to shareholders of common stock:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriation for directors’ bonuses</td>
<td>—</td>
<td>(82)</td>
</tr>
<tr>
<td>Net income on which basic net income per share is calculated</td>
<td>¥8,541</td>
<td>¥6,524</td>
</tr>
</tbody>
</table>

Weighted-average number of shares of common stock on which basic net income per share is calculated:

<table>
<thead>
<tr>
<th></th>
<th>Thousands of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td></td>
<td>187,519</td>
</tr>
</tbody>
</table>

Diluted net income per share for the years ended March 31, 2007 and 2006 has not been presented because no potentially dilutive shares of common stock were outstanding.
19. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of power transmission products and material handling systems. The Company and its consolidated subsidiaries also engage in certain other activities such as building maintenance, insurance brokerage, sales of health care equipment, and so forth.

The business segments of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 are outlined as follows:

### Business Segments

#### 2007

<table>
<thead>
<tr>
<th>Power transmission products</th>
<th>Materials handling systems</th>
<th>Other</th>
<th>Total</th>
<th>Eliminations and general corporate assets</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to third parties</td>
<td>¥122,981</td>
<td>¥32,172</td>
<td>¥ 594</td>
<td>¥155,747</td>
<td>¥155,747</td>
</tr>
<tr>
<td>Intergroup sales and transfers</td>
<td>1,570</td>
<td>146</td>
<td>1,918</td>
<td>3,634</td>
<td>(3,634)</td>
</tr>
<tr>
<td>Net sales</td>
<td>124,551</td>
<td>32,318</td>
<td>2,512</td>
<td>159,381</td>
<td>(3,634)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>107,184</td>
<td>30,429</td>
<td>2,284</td>
<td>139,897</td>
<td>(158)</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥ 17,367</td>
<td>¥ 1,889</td>
<td>¥ 228</td>
<td>¥ 19,484</td>
<td>(3,476)</td>
</tr>
<tr>
<td><strong>II. Total assets, depreciation, impairment loss and capital expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥128,457</td>
<td>¥25,303</td>
<td>¥2,884</td>
<td>¥156,644</td>
<td>¥56,096</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,278</td>
<td>279</td>
<td>5</td>
<td>5,562</td>
<td>386</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>247</td>
<td>60</td>
<td>—</td>
<td>307</td>
<td>—</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>9,817</td>
<td>294</td>
<td>2</td>
<td>10,113</td>
<td>781</td>
</tr>
</tbody>
</table>

#### 2006

<table>
<thead>
<tr>
<th>Power transmission products</th>
<th>Materials handling systems</th>
<th>Other</th>
<th>Total</th>
<th>Eliminations and general corporate assets</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to third parties</td>
<td>¥111,865</td>
<td>¥35,309</td>
<td>¥ 587</td>
<td>¥147,761</td>
<td>¥147,761</td>
</tr>
<tr>
<td>Intergroup sales and transfers</td>
<td>1,791</td>
<td>175</td>
<td>1,836</td>
<td>3,802</td>
<td>(3,802)</td>
</tr>
<tr>
<td>Net sales</td>
<td>113,656</td>
<td>35,484</td>
<td>2,423</td>
<td>151,563</td>
<td>147,761</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>98,767</td>
<td>33,378</td>
<td>2,260</td>
<td>134,405</td>
<td>(474)</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥ 14,889</td>
<td>¥ 2,106</td>
<td>¥ 163</td>
<td>¥ 17,158</td>
<td>(3,328)</td>
</tr>
<tr>
<td><strong>II. Total assets, depreciation and capital expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>¥115,031</td>
<td>¥26,670</td>
<td>¥2,235</td>
<td>¥143,926</td>
<td>¥54,522</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,836</td>
<td>320</td>
<td>5</td>
<td>5,161</td>
<td>348</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>5,756</td>
<td>292</td>
<td>768</td>
<td>6,816</td>
<td>673</td>
</tr>
</tbody>
</table>

#### Thousands of U.S. Dollars

<table>
<thead>
<tr>
<th>Power transmission products</th>
<th>Materials handling systems</th>
<th>Other</th>
<th>Total</th>
<th>Eliminations and general corporate assets</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Sales and operating income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to third parties</td>
<td>$1,041,418</td>
<td>$272,436</td>
<td>$ 5,030</td>
<td>$1,318,884</td>
<td>$1,318,884</td>
</tr>
<tr>
<td>Intergroup sales and transfers</td>
<td>13,295</td>
<td>1,236</td>
<td>16,424</td>
<td>30,773</td>
<td>(30,773)</td>
</tr>
<tr>
<td>Net sales</td>
<td>$1,054,713</td>
<td>$273,672</td>
<td>$21,272</td>
<td>$1,349,657</td>
<td>(30,773)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>907,647</td>
<td>257,676</td>
<td>19,341</td>
<td>1,184,664</td>
<td>(1,338)</td>
</tr>
<tr>
<td>Operating income</td>
<td>$ 147,066</td>
<td>$ 15,996</td>
<td>$ 1,931</td>
<td>$ 164,993</td>
<td>(29,435)</td>
</tr>
<tr>
<td><strong>II. Total assets, depreciation, Impairment loss and capital expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,087,789</td>
<td>$214,269</td>
<td>$24,422</td>
<td>$1,326,480</td>
<td>$475,027</td>
</tr>
<tr>
<td>Depreciation</td>
<td>44,695</td>
<td>2,363</td>
<td>42</td>
<td>47,100</td>
<td>3,268</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>83,131</td>
<td>2,490</td>
<td>17</td>
<td>85,638</td>
<td>6,614</td>
</tr>
</tbody>
</table>
**Geographic Segment Information**

Segment information by geographic area for the years ended March 31, 2007 and 2006 is summarized as follows:

<table>
<thead>
<tr>
<th>2007</th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia and Oceania</th>
<th>Total</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales</td>
<td>¥111,466</td>
<td>¥28,288</td>
<td>¥9,126</td>
<td>¥6,867</td>
<td>¥155,747</td>
<td>¥ —</td>
<td>¥155,747</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>14,933</td>
<td>582</td>
<td>16</td>
<td>674</td>
<td>16,205</td>
<td>(16,205)</td>
<td>—</td>
</tr>
<tr>
<td>Net sales</td>
<td>126,399</td>
<td>28,870</td>
<td>9,142</td>
<td>7,541</td>
<td>171,952</td>
<td>(16,205)</td>
<td>155,747</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>110,620</td>
<td>27,569</td>
<td>8,296</td>
<td>6,431</td>
<td>152,916</td>
<td>(13,177)</td>
<td>139,739</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥ 15,779</td>
<td>¥ 1,301</td>
<td>¥ 846</td>
<td>¥ 1,110</td>
<td>¥ 19,036</td>
<td>(3,028)</td>
<td>¥ 16,008</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥127,777</td>
<td>¥21,475</td>
<td>¥6,053</td>
<td>¥7,493</td>
<td>¥162,798</td>
<td>¥49,942</td>
<td>¥212,740</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2006</th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia and Oceania</th>
<th>Total</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales</td>
<td>¥102,330</td>
<td>¥30,245</td>
<td>¥7,275</td>
<td>¥7,911</td>
<td>¥147,761</td>
<td>¥ —</td>
<td>¥147,761</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>15,080</td>
<td>687</td>
<td>13</td>
<td>557</td>
<td>16,337</td>
<td>(16,337)</td>
<td>—</td>
</tr>
<tr>
<td>Net sales</td>
<td>117,410</td>
<td>30,932</td>
<td>7,288</td>
<td>8,468</td>
<td>164,098</td>
<td>(16,337)</td>
<td>147,761</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>102,982</td>
<td>29,953</td>
<td>6,750</td>
<td>7,512</td>
<td>147,197</td>
<td>(13,266)</td>
<td>133,931</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥ 14,428</td>
<td>¥ 979</td>
<td>¥ 538</td>
<td>¥ 956</td>
<td>¥ 16,901</td>
<td>(3,071)</td>
<td>¥ 13,830</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥117,956</td>
<td>¥20,404</td>
<td>¥4,904</td>
<td>¥6,975</td>
<td>¥149,238</td>
<td>¥49,220</td>
<td>¥198,458</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2007</th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia and Oceania</th>
<th>Total</th>
<th>Eliminations</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>External sales</td>
<td>$ 943,907</td>
<td>$239,546</td>
<td>$77,280</td>
<td>$58,151</td>
<td>$1,318,884</td>
<td>$ —</td>
<td>$1,318,884</td>
</tr>
<tr>
<td>Intersegment sales</td>
<td>126,454</td>
<td>4,929</td>
<td>136</td>
<td>5,707</td>
<td>137,226</td>
<td>(137,226)</td>
<td>—</td>
</tr>
<tr>
<td>Net sales</td>
<td>1,070,361</td>
<td>244,475</td>
<td>77,416</td>
<td>63,858</td>
<td>1,456,110</td>
<td>(137,226)</td>
<td>1,318,884</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>936,743</td>
<td>233,458</td>
<td>70,252</td>
<td>54,458</td>
<td>1,294,911</td>
<td>(111,585)</td>
<td>1,183,326</td>
</tr>
<tr>
<td>Operating income</td>
<td>$ 133,618</td>
<td>$ 11,017</td>
<td>$ 7,164</td>
<td>$ 9,400</td>
<td>$ 161,199</td>
<td>(25,641)</td>
<td>$ 135,558</td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,082,031</td>
<td>$181,853</td>
<td>$51,257</td>
<td>$63,452</td>
<td>$1,378,593</td>
<td>$422,914</td>
<td>$1,801,507</td>
</tr>
</tbody>
</table>

Each segment principally covers the following countries or regions:

- **North America:** U.S.A. and Canada
- **Europe:** The Netherlands and U.K.
- **Asia and Oceania:** Taiwan, People’s Republic of China, Singapore, Thailand and Australia
Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>¥28,830</td>
<td>$244,136</td>
</tr>
<tr>
<td>Europe</td>
<td>¥9,866</td>
<td>$83,546</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>¥16,119</td>
<td>$136,498</td>
</tr>
<tr>
<td>Other</td>
<td>¥3,443</td>
<td>$29,156</td>
</tr>
<tr>
<td>Total</td>
<td>¥58,258</td>
<td>$493,336</td>
</tr>
</tbody>
</table>

- Overseas sales as a percentage of consolidated net sales: 37.4%
- Consolidated net sales: ¥155,747

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>¥31,148</td>
<td>$273,504</td>
</tr>
<tr>
<td>Europe</td>
<td>¥7,944</td>
<td>$63,546</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>¥13,927</td>
<td>$106,498</td>
</tr>
<tr>
<td>Other</td>
<td>¥491</td>
<td>$3,816</td>
</tr>
<tr>
<td>Total</td>
<td>¥53,510</td>
<td>$38,366</td>
</tr>
</tbody>
</table>

- Overseas sales as a percentage of consolidated net sales: 36.2%
- Consolidated net sales: ¥147,761

20. SUBSEQUENT EVENT

(a) The following appropriation of retained earnings of the Company, which has not been reflected in the consolidated financial statements for the year ended March 31, 2007, was approved at the annual general meeting of the shareholders held on June 28, 2007:

<table>
<thead>
<tr>
<th></th>
<th>Millions of Yen</th>
<th>Thousands of U.S. Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends (¥4.0 = U.S.$0.03 per share)</td>
<td>¥750</td>
<td>$6,351</td>
</tr>
</tbody>
</table>

(b) At a meeting of the Board of Directors held on May 14, 2007, pursuant to the provision of Article 156 of the Corporation Law of Japan, a resolution for the acquisition of treasury stock was approved. Such acquisition was resolved and implemented as follows:

The reason for the acquisition of treasury stock was to have flexible management in order to adapt to changes in the Company’s business environment.

1. Details of resolution
   (1) Type of shares to be acquired: Common stock
   (2) Number of shares to be acquired: 1,400,000 shares
   (3) Total amount of shares to be acquired: ¥1,200 million

2. Details of acquisition
   (1) Acquisition date: May 16, 2007
   (2) Number of shares acquired: 1,361,000 shares
   (3) Amount of shares acquired: ¥1,032 millions
Report of Independent Auditors

The Board of Directors
TSUBAKIMOTO CHAIN CO.

We have audited the accompanying consolidated balance sheets of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TSUBAKIMOTO CHAIN CO. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 28, 2007

Ernst & Young ShinNihon
## Tsubaki Group Companies

As of March 31, 2007  
* Consolidated Subsidiary

<table>
<thead>
<tr>
<th>JAPAN</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TSUBAKI EMERSON CO.</strong></td>
<td>¥460.0 million</td>
<td>70.6%</td>
<td>April 2002</td>
<td>Manufacture and sales of reducers, variable speed drives, and their related products</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO CUSTOM CHAIN CO.</strong></td>
<td>¥125.0 million</td>
<td>99.6%</td>
<td>October 1951</td>
<td>Manufacture of compact conveyor chains and special chains</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO SPROCKET CO.</strong></td>
<td>¥126.0 million</td>
<td>99.9%</td>
<td>October 1968</td>
<td>Manufacture and sales of sprockets and couplings</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO IRON CASTING CO., LTD.</strong></td>
<td>¥50.0 million</td>
<td>100.0%</td>
<td>October 1968</td>
<td>Manufacture, processing, and sales of casting products</td>
</tr>
<tr>
<td><strong>TSUBAKI YAMAKYU CHAIN CO.</strong></td>
<td>¥126.0 million</td>
<td>51.0%</td>
<td>September 1939</td>
<td>Manufacture and sales of various types of plastic chain and automated equipment</td>
</tr>
<tr>
<td><strong>SHINKO MACHINERY CO.</strong></td>
<td>¥50.0 million</td>
<td>50.0%</td>
<td>March 1991</td>
<td>Manufacture of conveyor chains</td>
</tr>
<tr>
<td><strong>KATO MAFUORRY CO., LTD.</strong></td>
<td>¥30.0 million</td>
<td>20.0%</td>
<td>July 1968</td>
<td>Manufacture of tire chains</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO MAYPRAN INC.</strong></td>
<td>¥90.0 million</td>
<td>50.0%</td>
<td>November 1973</td>
<td>Design, manufacture, and sales of chip/scrap conveyors</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO BULK SYSTEMS CORP.</strong></td>
<td>¥150.0 million</td>
<td>100.0%</td>
<td>April 1981</td>
<td>Manufacture and sales of bulk materials handling systems</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO MACHINERY CO.</strong></td>
<td>¥139.0 million</td>
<td>68.2%</td>
<td>April 1971</td>
<td>Domestic sales of Tsubakimoto Chain products</td>
</tr>
<tr>
<td><strong>HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.</strong></td>
<td>¥30.0 million</td>
<td>100.0%</td>
<td>October 1961</td>
<td>Domestic sales of Tsubakimoto Chain products</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO NISHINIHON CO., LTD.</strong></td>
<td>¥90.0 million</td>
<td>50.0%</td>
<td>October 1993</td>
<td>Domestic sales of Tsubakimoto Chain products</td>
</tr>
<tr>
<td><strong>TSUBAKI SUPPORT CENTER CO.</strong></td>
<td>¥80.0 million</td>
<td>100.0%</td>
<td>October 1970</td>
<td>Building maintenance service, insurance agency, and sales of healthcare equipment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NORTH AMERICA</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. TSUBAKI, INC.</strong></td>
<td>US$33,500,000</td>
<td>100.0%</td>
<td>February 1971</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td><strong>BALLANTINE, INC.</strong></td>
<td>US$50,000</td>
<td>100.0%</td>
<td>March 1988</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td><strong>TSUBAKI OF CANADA LIMITED</strong></td>
<td>C$6,295,955</td>
<td>100.0%</td>
<td>July 1973</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td><strong>TSUBAKI CONVEYOR OF AMERICA, INC.</strong> (Note)</td>
<td>US$900,000</td>
<td>100.0%</td>
<td>July 1983</td>
<td>Import, sales, and local production of materials handling systems</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EUROPE</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TSUBAKIMOTO EUROPE B.V.</strong></td>
<td>EUR2,722,681</td>
<td>100.0%</td>
<td>April 1972</td>
<td>Import and sales of power transmission products</td>
</tr>
<tr>
<td><strong>TSUBAKIMOTO U.K. LTD.</strong></td>
<td>£550,000</td>
<td>Tsubakimoto Europe 100.0%</td>
<td>March 1985</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td><strong>T.E.E.U. LIMITED</strong></td>
<td>£30,000</td>
<td>100.0%</td>
<td>March 1990</td>
<td>Import and sales of materials handling systems</td>
</tr>
</tbody>
</table>

Note: In order to further strengthen the Group’s operations in the United States, the company was dissolved on March 31, 2007, and all operations were transferred to U.S. Tsubaki, Inc., a wholly owned subsidiary, on April 1, 2007.
## ASIA & OCEANIA

<table>
<thead>
<tr>
<th>Name</th>
<th>Paid-in Capital</th>
<th>Equity Owned by Tsubakimoto Chain Co.</th>
<th>Date of Establishment</th>
<th>Principal Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAIWAN TSUBAKIMOTO CO.*</td>
<td>NT$70,000,000</td>
<td>99.9%</td>
<td>January 1970</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td>TSUBAKIMOTO SINGAPORE PTE. LTD.*</td>
<td>¥271.1 million</td>
<td>100.0%</td>
<td>January 1981</td>
<td>Import and sales of power transmission products</td>
</tr>
<tr>
<td>TSUBAKIMOTO AUTOMOTIVE (THAILAND) CO., LTD.*</td>
<td>THB100,000,000</td>
<td>100.0%</td>
<td>March 2002</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td>TSUBAKIMOTO AUTOMOTIVE (SHANGHAI) CO., LTD.*</td>
<td>US$2,500,000</td>
<td>100.0%</td>
<td>April 2004</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td>TSUBAKIMOTO CHAIN TRADING (SHANGHAI) CO., LTD.*</td>
<td>US$400,000</td>
<td>100.0%</td>
<td>June 2004</td>
<td>Import and sales of power transmission products</td>
</tr>
<tr>
<td>TSUBAKI KABELSCHLEPP SHANGHAI CO., LTD.*</td>
<td>US$200,000</td>
<td>60.0%</td>
<td>November 2000</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td>TSUBAKI EMERSON GEAR (TIANJIN) CO., LTD.*</td>
<td>RMB48,334,923</td>
<td>Tsubaki Emerson 52.2%</td>
<td>June 1990</td>
<td>Import, sales, and local production of reducers, variable speed drives, and their related products</td>
</tr>
<tr>
<td>TSUBAKI EMERSON MACHINERY (SHANGHAI) CO., LTD.*</td>
<td>US$1,200,000</td>
<td>Tsubaki Emerson 100.0%</td>
<td>July 2004</td>
<td>Import, sales, and local production of power transmission products</td>
</tr>
<tr>
<td>TIANJIN DONGCHUN-TAIKI METAL FINISHING &amp; CONVEYOR SYSTEM MANUFACTURING CO., LTD.*</td>
<td>US$500,000</td>
<td>20.0%</td>
<td>January 2004</td>
<td>Import, sales, and local production of materials handling systems</td>
</tr>
<tr>
<td>SHANGHAI DONGBO-TAIKI CONVEYOR SYSTEM MANUFACTURING CO., LTD.*</td>
<td>US$900,000</td>
<td>20.0%</td>
<td>March 2005</td>
<td>Import, sales, and local production of materials handling systems</td>
</tr>
<tr>
<td>TIANJIN TSUBAKIMOTO CONVEYOR SYSTEMS CO., LTD.*</td>
<td>RMB8,314,833</td>
<td>Tsubakimoto Bulk Systems 47.0%</td>
<td>August 1995</td>
<td>Import, sales, and local production of bulk materials handling systems</td>
</tr>
<tr>
<td>KOREA CONVEYOR IND. CO., LTD.*</td>
<td>KRW1,200,000,000</td>
<td>49.0%</td>
<td>January 1970</td>
<td>Import, sales, and local production of materials handling systems</td>
</tr>
<tr>
<td>KOREA MAYFRAN CO., LTD.*</td>
<td>KRW600,000,000</td>
<td>Tsubakimoto Mayfran 37.5% Korea Converyor 25.0%</td>
<td>October 1990</td>
<td>Import, sales, and local production of chip/scrap conveyors</td>
</tr>
<tr>
<td>TSUBAKIMOTO MAYFRAN CONVEYOR (SHANGHAI) CO., LTD.*</td>
<td>US$1,200,000</td>
<td>Tsubakimoto Mayfran 100.0%</td>
<td>June 2005</td>
<td>Import, sales, and local production of chip/scrap conveyors</td>
</tr>
</tbody>
</table>
Corporate Data and Stock Information
As of March 31, 2007

Corporate Data

- **Company Name**: TSUBAKIMOTO CHAIN CO.
- **Date of Incorporation**: January 31, 1941
- **Paid-in Capital**: ¥17,076 million
- **Headquarters**: 3-3-3, Nakanoshima, Kita-ku, Osaka 530-0005, Japan
- **Telephone**: +81-6-6441-0011
- **Fiscal Year-End**: March 31

Stock Information

- **Shareholder Register**: The Chuo Mitsui Trust and Banking Company, Limited
- **Stock Listings**: Tokyo, Osaka, and Nagoya
- **Authorized Stock**: 299,000,000 shares
- **Issued Stock**: 191,406,969 shares
- **Number of Shareholders**: 14,821

Major Shareholders

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of shares held (thousands)</th>
<th>Percentage of total shares issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiyo Life Insurance Company</td>
<td>18,398</td>
<td>9.8</td>
</tr>
<tr>
<td>The Bear Steams Companies Inc.</td>
<td>15,667</td>
<td>8.3</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd.</td>
<td>13,588</td>
<td>7.2</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>12,029</td>
<td>6.4</td>
</tr>
<tr>
<td>Toyota Motor Corporation</td>
<td>7,722</td>
<td>4.1</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd.</td>
<td>6,843</td>
<td>3.6</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>6,689</td>
<td>3.5</td>
</tr>
<tr>
<td>Kyoeikai Employee Stock Ownership Association</td>
<td>4,464</td>
<td>2.3</td>
</tr>
<tr>
<td>The Chuo Mitsui Trust and Banking Company, Limited</td>
<td>4,245</td>
<td>2.2</td>
</tr>
<tr>
<td>The Bank of Tokyo-Mitsubishi UFJ, Ltd.</td>
<td>3,563</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Notes:
1. Number of shares held less than 1,000 has been rounded off.
2. The company owns treasury stock of 3,914,760 shares; however, these shares are not included in the above list of major shareholders.
3. Percentage of total shares issued has been calculated excluding the treasury stock of 3,914,760 shares.
Tsubaki Mission Statement

Underpinning all management activities, this Mission Statement clearly and concisely expresses the Tsubaki Group’s aim of becoming one of the world’s foremost manufacturers through the continued pursuit of manufacturing excellence and ambitious goals guided by a basic commitment to doing the utmost for customers through concerted effort.

OUR MISSION
Excellence in Manufacturing for Customers around the World
We will provide the best value to customers around the world by capitalizing on our technical strengths in power transmission products and materials handling systems.

OUR VISION
We aim to be a leading company in the global markets for our products.

OUR VALUES
- We will contribute to society through the pursuit of customer satisfaction.
- We value the creativity of employees and eagerly accept the challenges posed by new fields of business.
- We will conduct our business in an open, transparent manner and work for the benefit of our shareholders.
- We will make decisions and take action promptly.
- We will strengthen the competitiveness of Tsubaki Group companies in Japan and overseas.