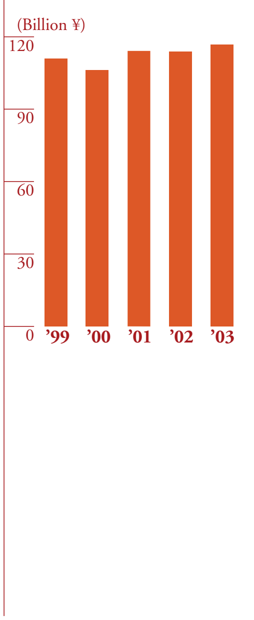
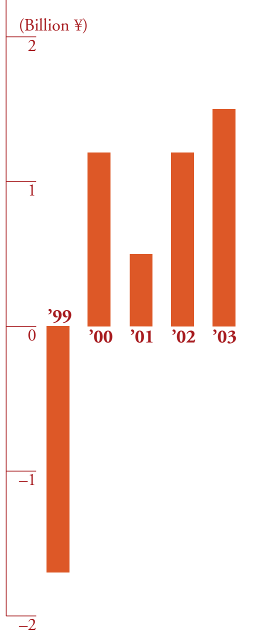
Management’s Discussion and Analysis

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

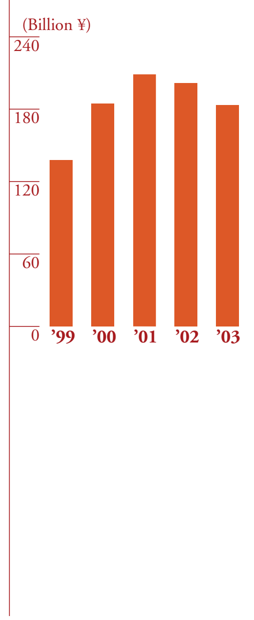
Net Sales



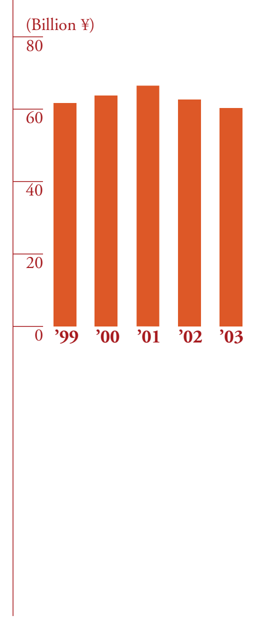
Net Income (Loss)



Total Assets



Shareholders’ Equity



Summary of Business Segment Information

Years Ended March 31

	Millions of Yen						
	2003		2002		2001		% change
Net Sales to Customers:							
Power Transmission Products:							
Domestic Sales	**¥ 54,244**	**(62.5)**	¥ 52,847	(63.1)	¥ 59,755	(68.4)	+2.6
Overseas Sales	**32,530**	**(37.5)**	30,913	(36.9)	27,633	(31.6)	+5.2
Total	**86,774**	**(100.0)**	83,760	(100.0)	87,388	(100.0)	+3.6
Materials Handling Systems:							
Domestic Sales	**22,605**	**(76.8)**	26,295	(89.0)	21,729	(82.5)	–14.0
Overseas Sales	**6,847**	**(23.2)**	3,252	(11.0)	4,600	(17.5)	+110.5
Total	**29,452**	**(100.0)**	29,547	(100.0)	26,329	(100.0)	–0.3
Others	**444**		434		489		+2.3
TOTAL	**¥116,670**		¥113,741		¥114,206		+2.6
Operating Income (Loss):							
Power Transmission Products	**¥ 7,526**		¥ 6,563		¥ 8,711		+14.7
Materials Handling Systems	**2,463**		2,278		750		+8.1
Others	**13**		163		230		–92.0
Corporate and eliminations	**(2,651)**		(2,966)		(2,729)		—
TOTAL	**¥ 7,351**		¥ 6,038		¥ 6,962		+21.7

POWER TRANSMISSION PRODUCTS

In the year ended March 31, 2003, brisk automotive parts sales offset stagnant sales of chains for general industrial applications, which resulted in a 3.6% rise in sales of power transmission products, to ¥86.8 billion. Consequently, power transmission products operations accounted for 74.4% of consolidated net sales and operating income rose 14.7%, to ¥7.5 billion. While sluggishness in the Japanese economy continued to adversely impact overall domestic operations, the segment's overseas performance was mixed, with results varying according to region and product line.

Chains

Tsubakimoto Chain manufactures and markets an extensive lineup of world-class industrial chains for a wide range of industries. These products include durable and high-performance drive chains, conveyor chains that serve a variety of conveyance functions, and highly sanitary plastic chains.

In chain operations, sales in the mainstay Japanese market edged down due to slumping private-sector capital investment associated with the prolonged slump in the domestic economy. In global operations, while we posted solid chains sales in Europe and Asia, sales in the mainstay U.S. market were down from the previous year due to the adverse effect of the economic downturn in the United States.

Although sales of such high-value-added products as heavy duty RS roller chains, step chains, and BS chains grew, plastic chains, RF conveyor chains, and ATC chains faced a challenging market environment. Looking ahead, the Company will continue working to increase sales of high-value-added products while developing new markets by expanding the applications for cableveyors and other products. Cableveyors for automotive power slide doors and ATMs continue to sell briskly.

Automotive Parts

We supply timing chain drive systems to automakers around the world. These systems comprise timing chains that drive automotive engine camshafts, tensioners, guides, and sprockets. Tsubakimoto Chain is currently the world's leading manufacturer of timing chain drive systems, boasting a 75% share of the domestic market and a more-than-30% share of the overseas market.

In the year under review, sales of timing chain drive systems were robust as automakers at home and abroad, including Toyota, Nissan, Honda, General Motors, Ford, and Jaguar, increasingly used these products in newly developed automotive engines. In addition, we began operations at our manufacturing subsidiary in Thailand and launched production in Europe through our strategic alliance with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten). Along with our existing operations at Chicopee in the United States and at Saitama in Japan, these two new operations complete a four-point manufacturing system that will be able to respond quickly to rising demand going forward. Worldwide, the shift to timing chain drive systems is accelerating as automakers develop increasingly high-powered automotive engines. We are confident that our outstanding product quality will ensure further strong sales growth in this area.

Power Transmission Units and Components

Tsubakimoto Chain manufactures and markets power transmission related products through its subsidiary Tsubaki Emerson Co. Such products include speed reducers, such as gear motors; linear actuators, such as Power Cylinders; and clutches and couplings, such as cam clutches. Tsubaki Emerson is the leading manufacturer of Power Cylinders, boasting a 60% share of the domestic market for these products.

The year under review was the first year of operations for Tsubaki Emerson, which the Company formed in 2002 by merging the Company's Power Transmission Units and Components Business Unit with its subsidiary Tsubakimoto Emerson Co. Although only in its first year of operations, Tsubaki Emerson took full advantage of the synergy created by the merger to achieve increased sales of its hypoid motor reducers and motion control units. Going forward, we will continue to focus corporate resources on Tsubaki Emerson's areas of expertise while taking steps to rationalize its management.

MATERIALS HANDLING SYSTEMS

Although we worked hard to develop new markets in materials handling operations, sales edged down 0.3%, to ¥29.5 billion, due to the negative impact of depressed private-sector capital investment. As a result, the segment accounted for 25.2% of consolidated net sales. However, operating income rose 8.1% compared with the previous year, to ¥2.5 billion, thanks to concerted efforts to reduce procurement costs as well as fixed costs and to concentrate management resources on core businesses. While these operations faced difficult business conditions in the domestic market, our U.S. subsidiary recorded strong sales to automakers.

Tsubakimoto Chain produces body paint shop conveyor systems for the automotive industry, sorting systems for the distribution industry, and automatic roll paper feeding systems for the newspaper and paper manufacturing industries. In addition to those areas of core competence, in recent years we have also been working to establish solid operational bases in such new business areas as the pharmaceutical industry and the food industry.

Overseas sales to the automotive industry grew, while sales to the distribution and newspaper industries remained firm. However, weak private-sector capital investment led to a slight decrease in overall segment sales. Nevertheless, operating income rose from the previous fiscal year as a result of the restructuring measures we have implemented to date. The segment's improved profitability was also attributable to efforts to focus on core business areas where we have a technological advantage and to stringently manage costs through such initiatives as heightening the accuracy of our price estimates.

Automotive Industry

Overseas sales of our Hybrid Traverser system were brisk, due to stepped-up overseas production by Japanese automakers. Tsubakimoto Chain is continuing to work to expand its automotive parts business by developing products that match customer needs and by strengthening cost competitiveness. Given that the focus of automakers' efforts to expand their overseas operations is expected to shift increasingly from the United States and Europe to China, Tsubakimoto Chain is considering the establishment of production capabilities in China. We anticipate that our operations for the automotive industry will continue to grow significantly.

Newspaper Industry

In the year under review, sales of our AGV and ADS automatic roll paper feeding systems were steady due to equipment upgrades in the newspaper industry necessitated by the increased number of color pages. Tsubakimoto Chain, which enjoys an overwhelming 90% share of the market for paper feeding systems, expects stable demand for its products to continue in this market.

Distribution Industry

On the back of expansion in the third party logistics business sector, sales to distribution centers of our mainstay linear motor actuated sorting system, Linisort, grew. We anticipate that demand for this system will grow steadily as competition to increase efficiency intensifies in the distribution industry. Plans also call for increased efforts to expand sales of our mail sorting systems in response to the privatization of postal services in Japan.

Information and Communications Industry

Sales to this sector were down, as capital investment remained subdued following the collapse of the IT bubble. As difficult market conditions are expected to continue, we will focus these operations on core products and customers.

Pharmaceutical Industry

The Company views the pharmaceutical industry as an area of new growth. Accordingly, we have developed Labo Stocker, a compact freeze storage system for compounds used in pharmaceutical laboratories. Our customers have favorably evaluated the performance and functionality of this system. Several major pharmaceutical companies have placed orders for the product, which promises to generate solid sales growth.

Maintenance Operations

Tsubakimoto Chain is working to expand sales by leveraging synergies between its system equipment sales and after-sales maintenance services. Maintenance-related sales have already grown to account for 12% of sales in this segment. We are working particularly hard to increase sales of long-term maintenance contracts to the newspaper industry.

Financial Review

In the fiscal year ended March 31, 2003, the Tsubakimoto Chain Group posted an increase in net sales despite adverse operating conditions characterized by slumping private-sector capital investment and deflation. Furthermore, thanks to structural reforms that reduced fixed costs and enhanced profitability, the Company achieved double-digit growth in operating income and net income.

Income and Expenses

In the year under review, increased sales of power transmission products compensated for a slight decrease in sales of materials handling systems. Consequently, consolidated net sales rose 2.6%, to ¥116.7 billion.

The cost of sales increased 3.2%, to ¥85.1 billion, and the cost of sales ratio edged up 0.5 percentage points, to 72.9%. Gross profit rose 0.8%, to ¥31.6 billion.

Selling, general and administrative (SG&A) expenses decreased 4.2%, to ¥24.3 billion, as a result of steps taken to rationalize operations, including the reduction of personnel costs. Due to these efforts, the ratio of SG&A expenses to net sales improved from 22.3% in the previous year to 20.8%.

Operating income climbed 21.7%, to ¥7.4 billion, while the operating profit margin rose from 5.3% to 6.3%.

Net other expenses grew from ¥2.0 billion to ¥2.4 billion, attributable to lower other income and higher other expenses than in the previous year. The increase in other expenses was primarily associated with foreign exchange losses.

Net extraordinary loss increased from ¥1.4 billion to ¥2.2 billion. Although ¥1.0 billion was recorded in extraordinary profit from the sale of investment securities, substantial gains on the sale of fixed assets in the previous year did not arise in the year under review. Meanwhile, an extraordinary loss on valuation of investment securities of ¥1.9 billion, approximately the same as in the previous year, was recorded.

As a result of the above factors, income before income taxes and minority interests rose 5.2%, to ¥2.8 billion, and net income increased 27.4%, to ¥1.5 billion. Net income per share grew 26.3 %, to ¥7.92, while return on equity (ROE) edged up from 1.9% to 2.5%. Cash dividends per share were unchanged at ¥6.00.

Liquidity and Capital Resources

Net cash provided by operating activities was up 55.9%, to ¥12.0 billion. This amount included a 20.0% increase in depreciation, to ¥6.7 billion.

Net cash used in investing activities declined from ¥10.7 billion to ¥3.0 billion. This decrease was mainly because capital investments in facilities for the Company's Kyotanabe Plant peaked, which led to a substantial reduction in payments for purchase of property, plant and equipment from ¥12.8 billion in the previous year to ¥5.4 billion.

Net cash used in financing activities for the year under review rose significantly from ¥4.2 billion to ¥14.2 billion, principally because the Company actively repaid loans and did not undertake any substantial new long-term debt.

Consequently, cash and cash equivalents at fiscal year-end were down 29.8%, to ¥12.4 billion.

Due to the lower cash and cash equivalents, total current assets decreased 8.5%, to ¥83.1 billion. Total current liabilities were down 10.4%, to ¥52.1 billion, thanks to decreases in short-term bank loans and trade notes and accounts payable. As a result, working capital declined 4.9%, to ¥31.0 billion. The current ratio edged up from 1.56 at the end of the previous year to 1.60. Property, plant and equipment, net of accumulated depreciation, was 5.8% lower than at the previous year-end, at ¥80.4 billion.

Total shareholders' equity decreased 3.8%, to ¥60.3 billion, due to a decrease in net unrealized holding gains on securities, from ¥2.3 billion at the previous year-end to ¥1.5 billion, and a ¥0.9 billion loss recorded in currency translation adjustments. In addition, the Company raised treasury stock from ¥6.0 million to ¥1.0 billion. The equity ratio rose 1.8 percentage points, to 32.9%, while the debt-to-equity ratio edged down from 1.22 to 1.08. Total assets at fiscal year-end declined 9.1%, to ¥183.3 billion.