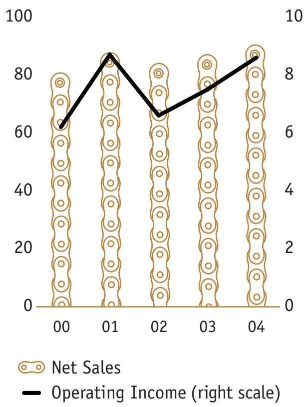
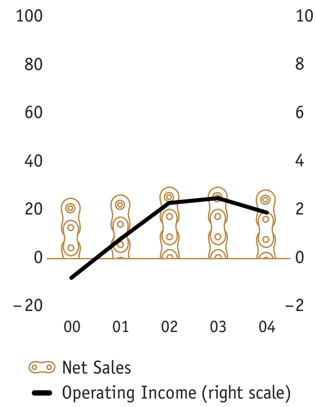
Management's Discussion and Analysis

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

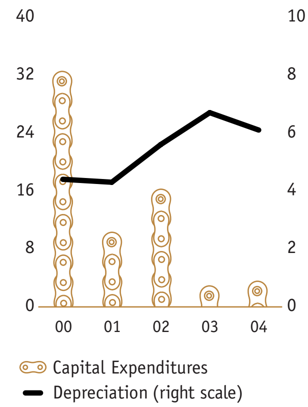
Net Sales and Operating Income
Power Transmission Products
Billion ¥



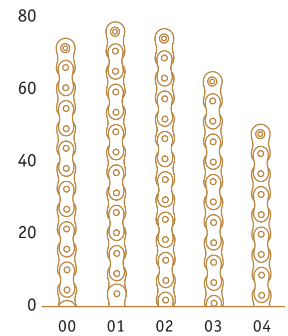
Net Sales and Operating Income
Materials Handling Systems
Billion ¥



Capital Expenditures and Depreciation
Billion ¥



Interest-Bearing Debt
Billion ¥



Summary of Business Segment Information

Years Ended March 31

	Millions of Yen						
	2004		2003		2002		% change
NET SALES TO CUSTOMERS:							
Power Transmission Products:							
Domestic Sales	**¥ 57,127**	**(63.4)**	¥ 54,244	(62.5)	¥ 52,847	(63.1)	+5.3
Overseas Sales	**32,954**	**(36.6)**	32,530	(37.5)	30,913	(36.9)	+1.3
Total	**90,081**	**(100.0)**	86,774	(100.0)	83,760	(100.0)	+3.8
Materials Handling Systems:							
Domestic Sales	**21,867**	**(76.9)**	22,605	(76.8)	26,295	(89.0)	−3.3
Overseas Sales	**6,559**	**(23.1)**	6,847	(23.2)	3,252	(11.0)	−4.2
Total	**28,426**	**(100.0)**	29,452	(100.0)	29,547	(100.0)	−3.5
Others	**634**		444		434		+42.8
TOTAL	**¥119,141**		¥116,670		¥113,741		+2.1
OPERATING INCOME (LOSS):							
Power Transmission Products	**¥ 8,630**		¥ 7,526		¥ 6,563		+14.7
Materials Handling Systems	**1,882**		2,463		2,278		−23.6
Others	**84**		13		163		+546.2
Corporate and eliminations	**(2,645)**		(2,651)		(2,966)		—
TOTAL	**¥ 7,951**		¥ 7,351		¥ 6,038		+8.2

Review of Operations

POWER TRANSMISSION PRODUCTS

In the fiscal year ended March 31, 2004, sales of automotive parts remained strong, and sales of chains and power transmission units and components were solid. As a result, sales of power transmission products rose 3.8%, to ¥90.1 billion, and accounted for 75.6% of consolidated net sales. Operating income was up 14.7%, to ¥8.6 billion. Supported by a recovery in capital investment, conditions in the domestic market were favorable in nearly all industries, but conditions in North America were challenging.

Chains

The Kyotanabe Plant, which boasts leading-edge technical development capabilities and production technologies, is the key strategic base of the Company's chain division, and the high-value-added chains made at the Kyotanabe Plant have earned Tsubakimoto Chain a position of market leadership. These products include steel chains with superior functionality and durability, environmentally friendly plastic chains that are recyclable, and cableveyors that are enjoying growing demand in the IT and automotive industries.

In chain operations, sales in Japan increased from the previous year. A recovery in private-sector capital investment led to higher orders for standard roller chains in a wide range of industries, and in the IT industry, where conditions were strong, demand was favorable for plastic cableveyors. However, conditions were sluggish in North America, as inventories in the distribution industry remained under pressure. In Europe, we made progress with market development activities, securing first-time orders from large sales agents.

The increase in orders made clear the benefits of our investment in the Kyotanabe Plant, and we achieved profitability substantially higher than the planned levels.

In January 2004, we began introducing the cell manufacturing method in the fabrication process at the Kyotanabe Plant, and over the next year we will convert the plant's fabrication lines to this method in stages. As a result, we anticipate such benefits as increased productivity, reduced work in progress, and shorter production lead times.

With a specialization in high-added-value chains, the Company aims to reach a 20% share of chain markets worldwide. To achieve that goal, in North America we will strengthen our relationship with Rexnold Corporation, of the United States, through U.S. Tsubaki, Inc. (UST), establish a new network of sales agents, and pursue OEM supply business. In Europe, we will work to strengthen relationships with large sales agents, and in Asia we will strive to aggressively build our presence in China and to secure a dominant share of the high-end market in Japan.

Automotive Parts

With a global market share of nearly 30%, Tsubakimoto Chain is a leader in timing chain drive systems, which are automobile engine modules. The high quality of our products—including not only timing chains but also such products as tensioners, guides, and sprockets—and the functionality of our comprehensive system design capabilities have been highly evaluated.

In the year under review, the use of our products grew steadily among Japanese and overseas automakers, including Toyota, Honda, Nissan, General Motors, Ford, and Jaguar. In addition, we received our first order from DaimlerChrysler. Moreover, with the start-up of full-fledged production at subsidiary Tsubakimoto Automotive (Thailand) Co., Ltd. (TAT), we made further progress in bolstering our global production system.

As a result, sales reached a record high level. However, profits declined due to expenses associated with the transfer to Sumitomo Electric Industries, Ltd., of our sintered automotive parts operations.

The Tsubakimoto Chain Group is aiming to secure a market share of 32% in timing chain drive systems by the fiscal year ending March 2006. To achieve that goal, we will reinforce our five-point global production system, with the Saitama Plant in Japan serving as a strategic base complemented by UST, in the United States; Tsubakimoto Europe B.V. , in Europe; TAT, in Thailand; and Tsubakimoto Automotive (Shanghai) Co., Ltd., which was established in April 2004, in China.

In timing belts for general industrial applications, sluggish demand in the first half of the fiscal year was offset by improved conditions in the second half, but the achievement of profitability in timing pulleys remained challenging.

Power Transmission Units and Components

Tsubaki Emerson Co., a member of the Tsubakimoto Chain Group, was established in April 2002 through the merger of the Company's power transmission units and components operations and Tsubakimoto Emerson Co., Ltd. The company produces and markets a range of products, including speed reducers, such as gear motors; linear actuators, such as Power Cylinders; and power transmission related products, such as couplings and clutches. Tsubaki Emerson boasts the leading share of the domestic market for a number of products, including Power Cylinders, where it has a 60% share.

In the year under review, the second year of operations for Tsubaki Emerson, the effects of the merger were apparent. The company achieved profitability in all of its business units and increased sales and profits overall. In particular, the achievement of profitability in reducers, which account for a large percentage of sales, was a significant accomplishment. In the future, we will bolster operations in our fields of strength by accurately grasping market needs and making progress in development. We will place a special focus on products for which demand is expected to grow, such as Power Cylinders.

MATERIALS HANDLING SYSTEMS

In the year under review, we focused on core business fields and worked to reduce procurement costs; however, sales declined 3.5%, to ¥28.4 billion, due to lower sales in the distribution and automotive industries. Conditions were difficult in domestic and overseas markets, and operating income was down 23.6%, to ¥1.9 billion. The segment accounted for 23.9% of consolidated net sales.

In materials handling systems, Tsubakimoto Chain aims to achieve steady growth through the application of selection and concentration in its core fields of business. Furthermore, Group companies are working to enhance their presence in their fields of specialty, such as Tsubakimoto Mayfran Inc. and Tsubakimoto Bulk Systems Corporation, in Japan, and Tsubaki Conveyor of America, Inc., and Korea Conveyor Ind. Co., Ltd., overseas.

In the year under review, we made steady progress in sales of storage systems to customers in the pharmaceutical industry, earning a 70% share of the market. Moreover, the market's evaluation of our technical capabilities in this field has begun to increase. We secured an order for our Genome DNA Freezer Storage System from the Institute of Medical Science at the University of Tokyo, which is playing a central role in a project concerning genetic information and medicine supported by the Ministry of Education, Culture, Sports, Science and Technology.

We have a dominant share of the domestic market for paper feeding systems for the newspaper industry. In the year under review, demand for replacement equipment improved, and sales of these systems rose. In products for the automotive industry, where body paint shop conveyor systems are our flagship product, there was an increase in factors adversely affecting profitability, especially in China. Currently, we are developing products for fabrication lines, which will be a new field for the Company.

In the distribution industry, conditions were sluggish due to weak consumer spending. However, accompanying competition in mail delivery between Japan Post and private delivery companies, demand for our Mailsort system is growing, and we are implementing marketing activities to secure new orders.

In the IT industry, where the recovery in business conditions has been notable, orders are increasing. In line with the trend toward larger LCDs, we plan to boost sales with an improved version of our unmanned monorail system.

Tsubakimoto Chain is also working to expand its business in the provision of after-sales maintenance services, a field which benefits from synergies with system equipment sales. In particular, we are striving to bolster sales of maintenance services at automotive plants in North America.

Financial Review

In the fiscal year ended March 31, 2004, the Tsubakimoto Chain Group recorded increased sales and profits, with support from a market environment in which basic conditions improved. With higher operating income, a decline in interest payments due to a reduction in interest-bearing debt, and the recording of extraordinary profit accompanying the transition from a tax qualified pension system to a defined contribution pension system, the Company posted its highest profits in more than 10 years.

Income and Expenses

In the year under review, increased sales of power transmission products offset a decrease in sales of materials handling systems, and consolidated net sales rose 2.1%, to ¥119.1 billion.

Due to the transfer to Sumitomo Electric Industries, Ltd., of sintered automotive parts operations and to price declines in materials handling systems operations stemming from intense competition, the cost of sales ratio edged up 0.5 percentage points, to 73.4%. Gross profit rose 0.2%, to ¥31.7 billion.

Selling, general and administrative (SG&A) expenses decreased 2.2%, to ¥23.7 billion, due to lower fixed expenses, such as personnel costs. As a result, the ratio of SG&A expenses to net sales declined 0.9 percentage points, to 19.9%.

Operating income was up 8.2%, to ¥8.0 billion, while the operating profit margin rose from 6.3% to 6.7%.

Net other expenses declined from ¥2.4 billion to ¥1.7 billion, due primarily to lower interest payments following the reduction in interest-bearing debt.

Net extraordinary profit was ¥0.3 billion, compared with net extraordinary loss of ¥2.2 billion in the previous year. A loss on disposal of inventories was recorded, but there was no large extraordinary loss like the loss on devaluation of investment securities that was booked in the previous year. In addition, extraordinary profit was recorded from the transition from a tax qualified pension plan to a defined contribution pension plan. These were the principal reasons for the improvement in net extraordinary items.

As a result of the above factors, income before income taxes and minority interests rose 133.5%, to ¥6.5 billion, and net income increased 121.1%, to ¥3.4 billion. Net income as a percentage of net sales was up 1.5 percentage points, to 2.8%.

Net income per share grew from ¥7.92 to ¥17.40, and return on equity (ROE) rose from 2.5% to 5.3%. Cash dividends per share were unchanged at ¥6.00.

Liquidity and Capital Resources

Net cash provided by operating activities was down 33.5%, to ¥8.0 billion, due primarily to an increase in trade notes and accounts receivable. Depreciation was ¥6.1 billion.

Net cash provided by investing activities was ¥9.1 billion, compared with net cash used in investing activities of ¥3.0 billion in the previous year. This improvement was the result of cash generated by the disposal of the site of the former headquarters roller chain plant and proceeds from sales of investments in securities.

Net cash used in financing activities for the year under review was ¥15.5 billion, compared with ¥14.2 billion in the previous year. This increase was principally attributable to the aggressive repayment of long-term loans from financial institutions. Consequently, cash and cash equivalents at fiscal year-end were up 10.2%, to ¥13.7 billion.

Total assets at year-end were down 4.3%, to ¥175.4 billion.

Receivables declined due to the receipt of the remaining balance from the sale of the former site of the headquarters roller chain factory, and short-term investments decreased due to the sale of securities. As a result, current assets declined 16.0%, to ¥69.7 billion.

Property, plant and equipment, net of accumulated depreciation, declined due to depreciation on the Kyotanabe Plant in its second year of operations, and investments and other assets increased due to a gain on valuation of investment in securities stemming from the favorable stock market conditions. As a result, fixed assets increased 5.5%, to ¥105.7 billion.

Due to the aggressive repayment of long-term loans from financial institutions, interest-bearing debt declined substantially, and total current liabilities decreased 7.0%, to ¥48.4 billion. Noncurrent liabilities were down 16.1%, to ¥56.8 billion, due to the transfer to current liabilities of the current maturities of bonds and long-term loans. As a result, working capital was ¥21.3 billion, compared with ¥31.0 billion a year earlier. The current ratio was 1.44, compared with 1.60 at the end of the previous year. The year-end balance of interest-bearing debt was ¥50.3 billion, a decline of ¥14.6 billion from the previous year-end.

Total shareholders' equity climbed 10.9%, to ¥66.9 billion, due primarily to an increase in net unrealized holding gains on securities resulting from favorable stock market conditions. As a result, the equity ratio rose to 38.1%, from 32.9%, and the debt-to-equity ratio improved significantly, from 1.08 to 0.75.