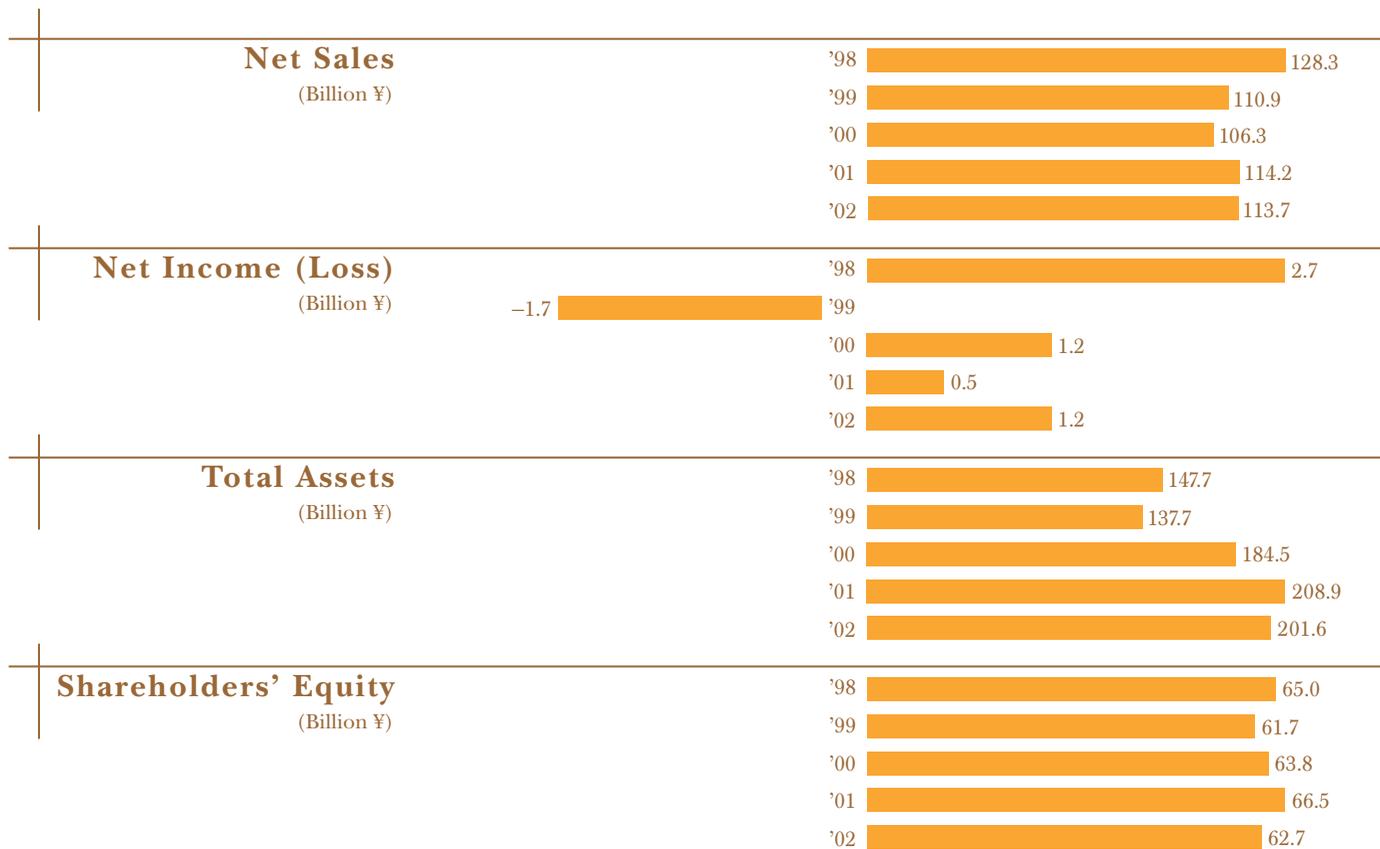


MANAGEMENT'S DISCUSSION AND ANALYSIS

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31



Summary of Business Segment Information

| | Millions of Yen | | | |
|---------------------------------|-----------------|-----------------|-----------------|--------------|
| | 2002 | 2001 | 2000 | % change |
| Net Sales to Customers: | | | | |
| Power Transmission Products: | | | | |
| Domestic Sales..... | ¥ 52,847 (63.1) | ¥ 59,755 (68.4) | ¥ 53,557 (66.3) | -11.6 |
| Overseas Sales..... | 30,913 (36.9) | 27,633 (31.6) | 27,163 (33.7) | +11.9 |
| Total | 83,760 (100.0) | 87,388 (100.0) | 80,720 (100.0) | -4.2 |
| Materials Handling Systems: | | | | |
| Domestic Sales..... | 26,295 (89.0) | 21,729 (82.5) | 19,395 (77.5) | +21.0 |
| Overseas Sales..... | 3,252 (11.0) | 4,600 (17.5) | 5,623 (22.5) | -29.3 |
| Total | 29,547 (100.0) | 26,329 (100.0) | 25,018 (100.0) | +12.2 |
| Others | 434 | 489 | 543 | -11.2 |
| TOTAL | ¥113,741 | ¥114,206 | ¥106,281 | -0.4 |
| Operating Income (Loss): | | | | |
| Power Transmission Products ... | ¥ 6,563 | ¥ 8,711 | ¥ 6,161 | -24.7 |
| Materials Handling Systems | 2,278 | 750 | (823) | +203.7 |
| Others | 163 | 230 | 257 | -29.1 |
| Corporate and eliminations | (2,966) | (2,729) | (2,890) | — |
| TOTAL | ¥ 6,038 | ¥ 6,962 | ¥ 2,705 | -13.3 |

Review of Operations

| | |
|---|---|
| POWER TRANSMISSION PRODUCTS | In the year ended March 31, 2002, sales of power transmission products declined 4.2%, to ¥83.8 billion, accounting for 73.6% of consolidated net sales. Although sales of automotive parts were strong in this segment, the overall decrease in sales was attributable to weak sales of chains for general industrial use and power transmission units and components. Operating income was down 24.7%, to ¥6.6 billion. A slumping economy in Japan created challenging operating conditions in the domestic market; however, overseas markets remained robust on the whole. |
| CHAINS | <p>A leading manufacturer of industrial-use chains, Tsubakimoto Chain supplies world markets with a wide variety of products, including durable and highly functional drive chains; conveyor chains essential to a wide range of production lines; and highly sanitary plastic chains.</p> <p>The Company's sales of chains in Japan during the year under review were sluggish due to weak capital investment resulting from the economic slowdown. This overall slump in the domestic chain market resulted in a difficult environment for sales of our mainstay industrial-use chains. Furthermore, sales of plastic chains were also down due to lower levels of plant investment in such sectors as the beverage industry, machine tools industry, and the semiconductor-manufacturing sector. On the other hand, orders for our conveyor chains for environment-related industries have been rising.</p> |
| AUTOMOTIVE PARTS | <p>Tsubakimoto Chain supplies automakers around the world with timing chains and other camshaft drive systems. In Japan, where we have a 70% share of the market for timing chain drive systems, we supply major automakers, such as Toyota and Nissan. Moreover, our products have a strong reputation overseas, where we provide components to leading automakers, including General Motors and Ford in the United States.</p> <p>During the year under review, Tsubakimoto Chain established a production base in Europe through the conclusion of an operational alliance agreement with Joh. Winklhofer & Sohne GmbH & Co. KG, of Germany, and a wholly owned manufacturing subsidiary in Thailand. As a result, we now have a four-point manufacturing regime, comprising Japan, North America, Europe, and Asia. We recorded higher sales of automotive parts during the year under review due to robust automobile production worldwide and automakers' growing use of chains in timing drive systems. We have received an increasing number of business inquiries both at home and abroad and anticipate a further expansion of our operations.</p> <p>Although our Ultra PX belts are well regarded for use in the electromechanical operation of injection molding machines, sluggish market conditions led to lower sales of our timing belts for general industrial use during the year. We are continuing to work to expand sales of our small Ultra PX belts, which were launched in the previous fiscal year, for use in machine tools, semiconductor equipment, robots, and automatic doors.</p> |
| POWER TRANSMISSION UNITS AND COMPONENTS | <p>Tsubakimoto Chain's extensive lineup of power transmission units and components includes reducers, such as gear motors and gear boxes, motion control units, such as Power Cylinders and Power Locks, and couplings. Tsubakimoto Chain was a pioneer in the market for Power Cylinders and currently boasts a 60% share of the domestic market for these products. During the year under review, we recorded a significant decrease in sales of our reducers, which was the unavoidable result of intensified price competition triggered by economic deflation. Sales of our Power Cylinders also declined. In April 2002, our Power Transmission Units and Components Business Unit merged with Tsubakimoto Emerson Co. to form Tsubaki Emerson Co.</p> |
| CONSOLIDATED SUBSIDIARIES | <p>In Japan, our consolidated subsidiaries faced difficult operating conditions due to lower demand for chains and power transmission units and components. On the other hand, although operating conditions in North America were challenging in the first half of the fiscal year, increased orders from automakers in the second half, along with the Company's efforts to bolster sales through major retailers, resulted in higher sales in North America in the year under review. Sales in Europe were also up due to increased demand from automakers.</p> |

MATERIALS HANDLING SYSTEMS Sales of materials handling systems rose 12.2% during the year under review, to ¥29.5 billion, accounting for 26.0% of consolidated net sales. Operating income recorded a substantial increase of 203.7%, to ¥2.3 billion. Our enhanced performance in this segment was attributable to favorable sales in the domestic market and to the success of organizational restructuring measures aimed at improving profitability.

Tsubakimoto Chain supplies advanced materials handling systems that cater to the diverse requirements of its customers. These systems include automotive body paint shop conveyor systems for the automotive industry, automatic roll paper feeding systems for the newspaper and paper manufacturing industries, and linear motor actuated tilt sorting systems for the distribution industry. The significant improvement in sales and operating income in the materials handling systems segment during the year under review was the result of organizational restructuring, including such measures as the consolidation of production bases and workforce reductions, and of efforts to strengthen the Company's operational base through the focused marketing of core products in this segment.

NEWSPAPER AND PAPER MANUFACTURING INDUSTRIES Tsubakimoto Chain has a more than 90% share of the market for automatic roll paper feeding systems, and sales in this segment increased substantially during the year. Although sales of our AGV paper feeding system were brisk due to a surge in capital investment in related industries, considering such factors as the end of the soccer World Cup, we anticipate that demand has passed its peak.

AUTOMOTIVE INDUSTRY Conditions in the domestic automotive industry remained challenging due to reduced new plant investment during the year under review. Overseas, while U.S. automakers undertook plant consolidation and workforce reductions, plant investment by Japanese automakers seeking to expand their market shares supported an expansion in sales. Tsubakimoto Chain has made its New Traverser system, an automotive body paint shop conveyor system, the focus of intensive marketing efforts. The Company is also bolstering its market competitiveness through the establishment of a regime that integrates every stage of product marketing, from the receipt of an order to final delivery.

DISTRIBUTION INDUSTRY Our mainstay tilt-style Linisort continued to perform well and sales expanded. As a result of focusing our efforts on multi-sorting systems, one of our areas of strength, Linisort has earned an excellent reputation in the distribution industry as a highly functional, low-priced sorting system. We are also working to expand sales of Linisort 3DR, which was recently introduced into the market and can operate on vertical as well as horizontal planes.

PACKAGED EQUIPMENT Due to sluggish plant investment, we recorded lower sales of packaged equipment, where we sell combinations of materials handling systems optimized for specific applications. However, in anticipation of sales growth, we have introduced new strategic products, such as library compound storage systems for the pharmaceutical industry.

INFORMATION AND COMMUNICATIONS INDUSTRY As a result of the downturn in the IT and semiconductor sectors, sales to related industries decreased significantly. Given that difficult market conditions are expected to continue for some time, we will focus our marketing efforts on core products in this segment.

MAINTENANCE OPERATIONS Sales of long-term maintenance contracts, centered on the newspaper industry, continued to increase and overall conditions were favorable. Tsubakimoto Chain is working to expand sales by creating synergies between its system equipment sales activities and after-sales maintenance services. Maintenance-related sales have already grown to account for 10% of sales in the materials handling systems segment.

Financial Review

INCOME AND EXPENSES

In the fiscal year ended March 31, 2002, we faced challenging conditions in the markets for our power transmissions products; however, increased sales of materials handling systems led to consolidated net sales remaining at approximately the same level as in the previous fiscal year, at ¥113.7 billion, a 0.4% decrease.

Due to this slight decrease in sales, the cost of sales declined 0.3%, to ¥82.4 billion, and the cost of sales ratio remained the same, at 72.4%. Selling, general and administrative (SG&A) expenses rose 3.0%, to ¥25.3 billion, and the ratio of SG&A expenses to net sales increased to 22.2%, from 21.5% in the previous year.

As a result, operating income was down 13.3%, to ¥6.0 billion, and the operating profit margin decreased to 5.3%, compared with 6.1% a year earlier.

In other income and expenses, both interest and dividend income and interest expense declined. Other expenses rose to ¥2.0 billion, from ¥1.8 billion in the previous year.

In extraordinary profit and loss, ¥1.9 billion was accounted for as loss on valuation of investment securities. However, net extraordinary loss in the year under review decreased significantly, to ¥1.4 billion, due to the recording of a special loss of ¥6.7 billion in the previous year because of a change in accounting standards for retirement benefits.

Against this backdrop, income before income taxes and minority interests rose substantially, to ¥2.7 billion, compared with ¥0.2 billion in the previous year, and net income rose 158.5%, to ¥1.2 billion. Net income per share was up 159.1%, to ¥6.27. Return on equity (ROE) rose to 1.9%, from 0.7% in the previous year. Cash dividends per share were unchanged at ¥6.00.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was up 29.2%, to ¥7.7 billion. This increase was mainly attributable to the rise in income before income taxes and minority interests and a decrease in trade notes and accounts receivable. Adjustments for depreciation rose 29.9%, to ¥5.6 billion.

Net cash used in investing activities decreased 1.1%, to ¥10.7 billion. Although capital investment, principally for the construction of the Company's new plant in Japan, rose to ¥12.8 billion, from ¥10.1 billion in the previous year, and proceeds from sales of property, plant and equipment were down, proceeds from sales of investments in securities recorded a substantial rise.

Net cash used in financing activities for the year under review was ¥4.2 billion, compared with ¥2.0 billion in net cash provided by financing activities in the previous year. This reversal was principally due to higher payments on redemption of bonds.

As a result of the above activities, at the end of the year under review, cash and cash equivalents were down 28.9%, to ¥17.7 billion.

Although other current assets increased, this was offset by decreases in cash and cash equivalents and short-term investments, which resulted in a 3.4% decline in total current assets, to ¥90.8 billion. Meanwhile, total current liabilities were down 11.1%, to ¥58.1 billion, mainly due to decreases in short-term bank loans and current portion of long-term debt and in trade notes and accounts payable. Consequently, working capital rose 14.0%, to ¥32.6 billion, and the current ratio at year-end improved to 1.56, compared with 1.44 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, rose 3.9% from the previous year-end, to ¥85.4 billion.

Total shareholders' equity declined 5.7%, to ¥62.7 billion, primarily as a result of a decrease in net unrealized holding gains on securities, from ¥4.0 billion to ¥2.3 billion, and ¥3.0 billion recorded as a land revaluation deficit. Total assets at fiscal year-end were down 3.5%, to ¥201.6 billion. The equity ratio was 31.1%, approximately the same as at the previous year-end. The Company's debt-to-equity ratio rose to 1.22, compared with 1.18 at the previous year-end.