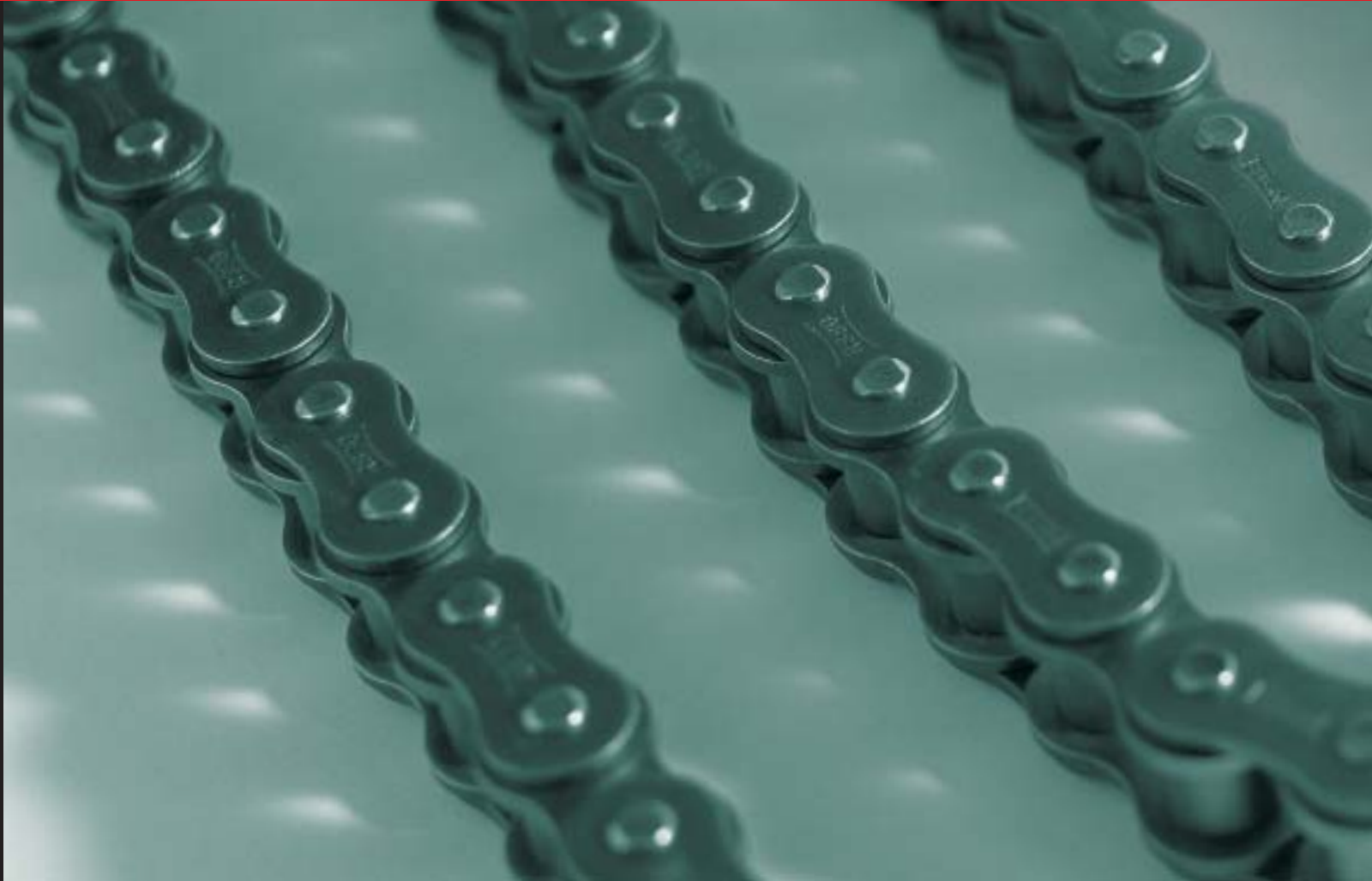




TSUBAKIMOTO CHAIN CO. ANNUAL REPORT 2004





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Our Vision


We aim to be a leading company in the global markets for power transmission products and materials handling systems.

After its founding in 1917, Tsubakimoto Chain Co. recorded steady growth as a manufacturer specializing in steel chains. Today, the Company is a market leader that supplies high-end power transmission products and materials handling systems to customers in more than 100 countries.

Tsubakimoto Chain's products are highly regarded for their quality and functionality. In particular, the Company's timing chain drive systems, which transmit the rotation of engine crank shafts to cam shafts, offer unrivaled reliability, and as a result these products have a dominant share of the domestic market and are widely used by global automakers.

The Company's Kyotanabe Plant boasts the world's most advanced production and development technologies, which are used to make high-end steel chains for general industrial applications that are sold around the world.

Targeting global markets, Tsubakimoto Chain will work to enhance its consolidated operations on a worldwide scale. This is the Company's Global Best strategy, through which Tsubakimoto Chain aims to become a global market leader.



Financial Highlights

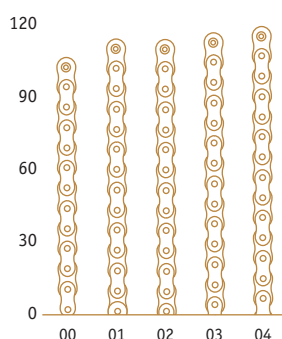
Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Net sales.....	¥119,141	¥116,670	\$1,127,268
Operating income.....	7,951	7,351	75,229
Net income.....	3,385	1,531	32,028
Per share (yen and dollars):			
Net income.....	¥17.40	¥7.92	\$0.165
Cash dividends.....	6.00	6.00	0.05
Total assets.....	¥175,432	¥183,260	\$1,659,873
Shareholders' equity.....	66,873	60,307	632,728

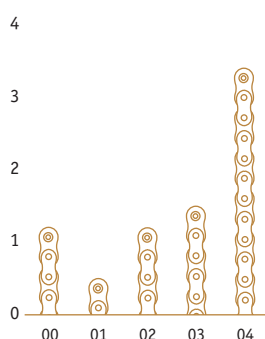
Note: The U.S. dollar amounts in this annual report have been calculated from yen amounts, for convenience only, at the exchange rate of ¥105.69 to \$1, the approximate exchange rate at March 31, 2004.



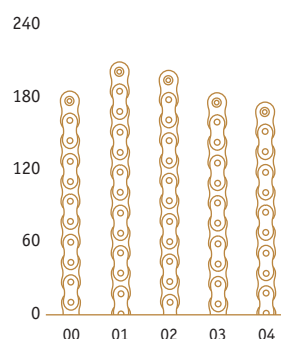
Net Sales
Billion ¥



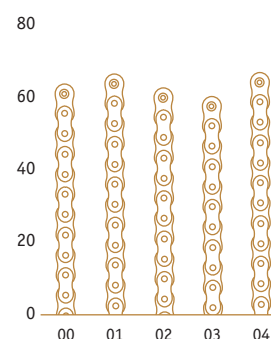
Net Income
Billion ¥



Total Assets
Billion ¥



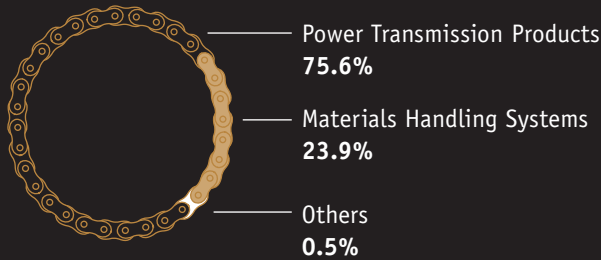
Shareholders' Equity
Billion ¥



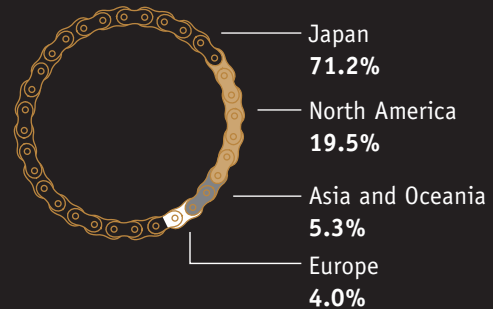
Tsubakimoto Chain at a Glance

SHARE OF NET SALES

By Product

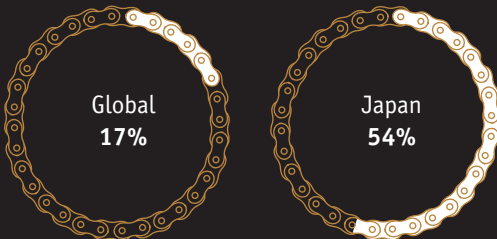


By Region



MARKET POSITION

Steel Chains



Timing Chains



CHAINS

Drive Chains

- RS Roller Chain
- Lambda Roller Chain
- Low Noise Roller Chain
- High-Tech Corrosion-Resistant Chain
- Sprocket

Conveyor Chains

- Conveyor Chain
- Attachment Chain
- Top Chain (steel, plastic)
- Free-Flow Chain
- Module Conveyor Belt
- Sprocket

Cable and Hose Protection and Guidance Products

- Steel Cableveyor
- Plastic Cableveyor

AUTOMOTIVE PARTS

Automotive Timing

- Drive Systems
- Timing Chain (Roller Chain, Silent Chain)
- Tensioner
- Lever
- Guide
- Sprocket

Timing Belts

- Timing Belt
- Pulley
- Auto Tensioner
- General Industrial
- Timing Belts
- JIS Timing Belt
- Ultra PX Belt
- Urethane Timing Belt
- Long Belt
- Flexible 530 Belt
- Pulley
- Lock Pulley

POWER TRANSMISSION UNITS AND COMPONENTS

Reducers and Variable Speed Drives

- Gear Motor
- Hypoid Motor
- Croise Motor
- Emerworm
- Helical Power Drive
- Troi Drive
- DISCO Variable Speed Drive

Motion Control Units

- Power Cylinder
- Lini Power Jack
- Shock Damper
- Clutches/Couplings/Torque Limiters
- Power Lock
- Flexible Coupling
- Rigid Coupling
- Cam Clutch
- Torque Limiter
- Torq Guard
- Shock Relay
- Shock Monitor

MATERIALS HANDLING SYSTEMS

Sorting Systems

- Linisort
- Navisort
- Mailsort
- Fashionsort
- Multi-Sorter

Conveyance Systems

- Autran
- Autran Vanguard
- AGV
- ADS (Auto Dolly Super)
- New Traverser
- Hybrid Traverser
- Free Curve

Storage and Picking Systems

- Pack-U-Veyor
- Power Column
- Labo Stocker
- Space Freezer
- Other Systems
- Factory Automation (FA) Systems
- Bulk Handling Systems
- Scrap Metal Conveyance and Coolant Processing Equipment
- Equipment Monitoring Systems
- Water Processing Equipment and Devices

Establishment of Production and Sales Subsidiaries in China

In response to the rapid progress in motorization in China, automakers are establishing bases in that market. For Tsubakimoto Chain, which is striving to expand its operations in the world market, the integration of production and sales in China is an important strategic issue. Accordingly, in January 2004 we established Tianjin Dong Chun-Taiki Metal Finishing & Conveyor System Manufacturing Co., Ltd., in Tianjin as a base for the production and sale of automotive conveyance systems, and in April 2004 we established Tsubakimoto Automotive (Shanghai) Co., Ltd., a production base for timing chain drive systems.



Introduction of Cell Manufacturing for Chain Production at Kyotanabe Plant

At the Kyotanabe Plant, our global base for chain operations, we have implemented a range of reforms and have succeeded in enhancing productivity. To make further progress, in January 2004 we began to introduce the cell manufacturing method in the plant's fabrication lines. We plan to introduce this method in all of the plant's fabrication lines by the end of March 2005, thereby increasing productivity in a range of ways, such as significantly reducing production lead times, cutting inventories in half, and enhancing delivery reliability.

TOPICS

Implementation of Management Reforms Centered on Introduction of Corporate Executive Officer System

Aiming to build a system that is trusted by all stakeholders, Tsubakimoto Chain has worked to bolster its corporate governance. On June 29, 2004, the Company implemented further management reforms, introducing the corporate executive officer system, electing an outside director, and increasing the number of outside corporate auditors from one to two. Through these management reforms, we will increase transparency, compliance, and efficiency and, at the same time, strengthen our corporate governance system so that it can respond quickly to the rapid changes in our management environment.

Genome DNA Freezer Storage System Supplied to University of Tokyo's Institute of Medical Science

The Ministry of Education, Culture, Sports, Science and Technology is supporting a major national project that concerns the use of genetic information in medicine. The aim of the project is to realize individualized medicine based on a biobank containing DNA and serum samples collected from 300,000 people by the Institute of Medical Science at the University of Tokyo. Our Genome DNA Freezer Storage System was chosen for the biobank's freezer storage system, which requires an extremely high level of control technology. The system draws on the storage, picking, freezing, and refrigeration technologies that we have cultivated over many years.



President's Message

In the fiscal year ended March 31, 2004, Tsubakimoto Chain recorded increases in sales and profits for the second consecutive year. In accordance with the Company's Global Best management strategy, Group companies are working together to strengthen consolidated management, and those efforts have begun to bear fruit.



Takashi Fukunaga
President and Representative Director

The Three Gs: Global, Group, Growth

THE PATH TOWARD **GROWTH AND EXPANSION**

Performance: Second Consecutive Year of Increased Sales and Profits

In the year under review, we recorded increases in sales, operating income, and net income for the second consecutive year. In comparison with our initial plans, we exceeded our targets for operating income and net income; however, we missed our sales target by a small margin.

In the second half of the year, the number of industries in which conditions were favorable increased, centered on the automotive and machine tool industries, but the sluggish conditions in the first half adversely affected sales for the full fiscal year. The rate of growth in operating income was greater than that in sales, and we believe that this improvement is the result of the structural reforms targeting enhanced profitability that we have implemented in recent years.

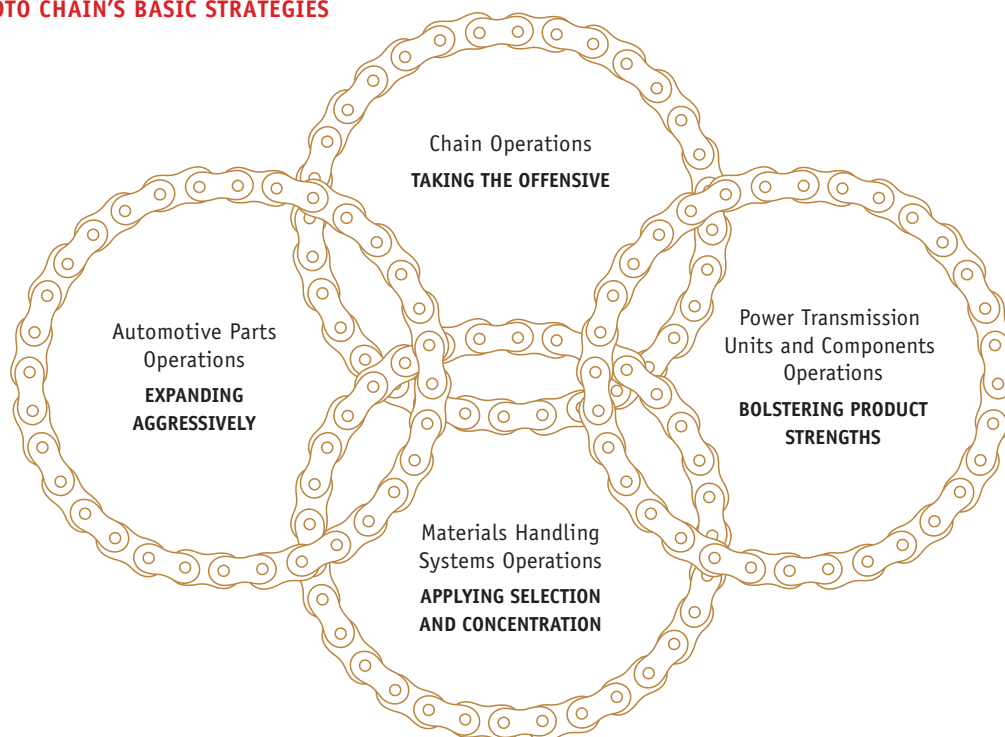
By business segment, the materials handling systems segment recorded lower sales and profits due to a downturn in orders from the automotive and distribution industries. However, this decline was offset by the strong performance of our mainstay power transmission products segment, where we recorded favorable sales of chains, automotive parts, and power transmission units and components in major markets around the world, leading to increases in sales and profits for the segment.

We recorded a substantial gain in net income, which reached 2.2 times the previous year's level. This improvement was primarily attributable to a decline in extraordinary loss and the recording of extraordinary profit, due to income accompanying pension system reform.

Management Policies: Aiming for Further Development on a Course of Growth and Expansion

For the past several years, we have aggressively implemented management rationalization and operational restructuring measures, and we have devoted ourselves to strengthening our corporate constitution to achieve increased profitability. In the year under review, we reformed our Head Office structure by rationalizing and reducing the workforce in back-office departments. Through a series of measures, we have made progress in building a management constitution that can steadily generate profits. As a result, we will now make a significant change in the direction of our management strategy, from an emphasis on "streamlining and balance" to a focus on "growth and expansion." Along with the implementation

TSUBAKIMOTO CHAIN'S BASIC STRATEGIES



“The rate of growth in operating income was greater than that in sales, and we believe that this improvement is the result of the structural reforms targeting enhanced profitability that we have implemented in recent years.”

of further management rationalization initiatives, we will focus on growth. Also, by steadily implementing our STEP '06 mid-term three-year plan, we will strive to raise our market capitalization from the current level of ¥75.0 billion to ¥100.0 billion in the fiscal year ending March 2007, the final year of the plan.

The foundation of this growth strategy is Tsubakimoto Chain's Global Best concept. To communicate the Global Best idea throughout the Company, I use the “three G” key words. The first key word is Global. We cannot discuss our future growth without including success in global markets; that is why we are working to efficiently build optimal procurement, production, and sales bases.

The second key word is Group. Group companies in markets around the world are developing, producing, and selling products that meet local market needs. In this way, we are raising our competitiveness and building a stronger management constitution.

The third key word is Growth. By promoting globalization and enhancing Group management capabilities, we will strive to make steady progress on the path to growth and expansion.

Growth Strategy: Reinforce the Superiority of the Tsubaki Brand in Each Market

In chain operations, which are the Company's profit foundation, our fundamental strategy is to maintain our world number one position with dominant functionality, quality, and price competitiveness. Chain markets are mature, but we will work to achieve further growth by expanding our worldwide share of markets for high-value-added products. To that end, Tsubakimoto Chain is taking steps to bolster alliances with overseas companies and to pursue OEM supply business, and its target is a global share of 20% in the near future.

The Kyotanabe Plant, the central base of the Company's chain operations, is a leading-edge plant that boasts a scale and facilities not available anywhere else in the chain industry. At the same time, it is a world-class technical development base. We will leverage these strengths as we cultivate new possibilities in the chain business.

We expect automotive parts to drive our growth in the years ahead. In the future, we will invest further Group management resources in this field and work to expand our operations. We will bolster our five-point global production and sales system—

in Japan, the United States, Europe, Thailand, and China—and expand our operations globally. In this way, the Company will enhance its ability to supply automakers around the world and rapidly achieve a more-than-30% share of the world market for timing chain drive systems.

In power transmission units and components operations, Tsubakimoto Chain will draw on the technical skills of subsidiary Tsubaki Emerson Co. and take steps to expand operations, centered on its reducer business.

In materials handling systems operations, we will continue to pursue our core business and focus on products and markets in which we can leverage our technical strengths. At the same time, guided by the concept of transitioning from “materials handling” to “process handling,” we will bolster our efforts to develop products for markets with good growth prospects, such as pharmaceuticals and food.

Management Challenge: Raising Production and Operational Efficiency

In putting our Global Best strategy into practice, the most important task we face is to bolster our global competitiveness. To raise production efficiency and operational efficiency, we are working to reform manufacturing and to significantly increase our inventory turnover rate.

Looking at our core chain operations, the past pattern of manufacturing large volumes of a few products has shifted; the emphasis is now on manufacturing smaller quantities of a larger range of products with short delivery schedules. Accordingly, at the Kyotanabe Plant we are moving in stages from the lot manufacturing method to the cell manufacturing method. In cell manufacturing, a small group of workers finish the fabrication of a product themselves. This method has the advantage of being readily adaptable to varying production volumes. After confirming its effectiveness, in the year ending March 2005 we plan to complete the introduction of this method in all of the plant’s fabrication lines.

These manufacturing reforms target enhanced production efficiency and streamlined inventories. Inventories reduce operational efficiency and hinder cash flow management; therefore, we have set the goals of cutting inventories in half and doubling

“The Tsubakimoto Chain Group... will shift its management strategy from an emphasis on “streamlining and balance” to a focus on “growth and expansion” and will implement more aggressive management initiatives.”

our inventory turnover rate within three years.

On the other hand, the substantial interest-bearing debt that was incurred in the construction of the Kyotanabe Plant was reduced from ¥49.8 billion at the end of March 2003 to ¥37.8 billion at the end of March 2004. The Company will continue to aggressively cut interest-bearing debt, with a target of ¥30.0 billion by the end of March 2007. In the future, we will accelerate debt reductions as much as possible while continuing to pay close attention to cash flows.

Outlook: Continued Increases in Sales and Profits while Stabilizing Growth Path

The economies in the United States, Europe, and Asia are expected to enjoy favorable conditions. In Japan, there is cause for concern, such as exchange rate trends and rising crude oil and materials prices; nonetheless, continued, gradual expansion in the economy is anticipated. Moreover, domestic companies are expected to steadily expand capital investment.

In this environment, the Tsubakimoto Chain Group, on a foundation of the results of the management constitution reforms I have just outlined, will shift its management strategy from an emphasis on “streamlining and balance” to a focus on “growth and expansion” and will implement more aggressive management initiatives. In this way, we will strive to record further increases in sales and profits and will make continued progress on our path of growth and expansion.

In the year ending March 2005, we anticipate consolidated net sales of ¥125.0 billion, operating income of ¥8.4 billion, and net income of ¥3.5 billion. I would like to ask our shareholders and other investors for their continued support in the years ahead.

July 2004



Takashi Fukunaga
President and Representative Director

Corporate Governance

Tsubakimoto Chain's fundamental management policy is to "create value for customers and contribute to society." The establishment of a system and framework for implementing that policy and initiatives targeting the achievement of its goals are among our most important management issues. Moreover, through information disclosure, the strengthening of accountability, and the strict observance of laws and regulations, we will work to enhance management transparency and risk management and will build a system that is trusted by shareholders and all other stakeholders.

Bolstering Corporate Governance to Achieve Growth and Expansion

On June 29, 2004, we instituted management reforms, centered on the introduction of the corporate executive officer system. As we took steps to switch to a course of growth and expansion, we responded to the dramatic changes in the operating environment with the introduction of the corporate executive officer system to separate management decision making and supervision from operational execution, to speed up management processes, and to further increase efficiency. With the introduction of this system, the number of directors has been reduced from 13 to 9, and we eliminated the use of the executive managing director and managing director titles. To clarify responsibility and authority in operational decision making, we elected 16 executive officers and established the titles of senior managing executive officer, managing executive officer, and executive officer. This original Tsubakimoto Chain system combines our existing corporate governance framework with the corporate executive officer system.

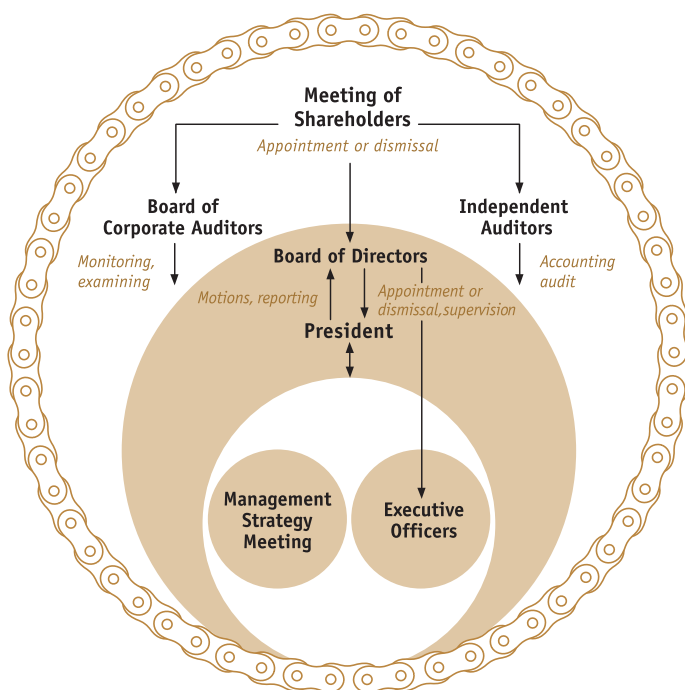
Accompanying the introduction of these management system reforms, we elected one outside director, who will serve to activate management by providing access to specialized knowledge not available within the Company and a third-party viewpoint.

Fundamental Corporate Governance Policies

"CREATE VALUE FOR CUSTOMERS AND CONTRIBUTE TO SOCIETY"

At the same time, we elected two outside corporate auditors, and by strengthening the monitoring function through a third party we will further enhance management transparency.

CORPORATE GOVERNANCE SYSTEM



With the revision of the Japanese Commercial Code, from April 2003 companies can choose to use the company with committees system of corporate governance, but we have chosen to further enhance our existing system by bolstering the monitoring function of the board of corporate auditors.

Ensuring Strict Compliance with Laws and Regulations by All Group Employees

Tsubakimoto Chain has formulated ethics principles that call for strict compliance with laws and regulations and the establishment of the Tsubaki brand. These principles have been communicated to all Group employees as a code of ethical practices. To fulfill our responsibility as a corporate citizen, we are working to thoroughly implement risk management. And, as one facet of our efforts to strengthen corporate governance, we established an internal auditing division in the Compliance Center, which was established in April 2004. On a strong foundation of corporate ethics, we will strive to ensure proper operational execution and the sound preservation of corporate assets.

The Path toward Growth and Expansion



In our chain operations, in recent years we have implemented a range of measures targeting improved productivity and a stronger profit structure, and as a result of such efforts we have succeeded in enhancing profitability. Now, the Company will switch to an offensive strategy to establish an insurmountable position as the world's foremost manufacturer of high-quality chains. Moreover, we will strive to make the Kyotanabe Plant the number one chain plant in the world while maintaining a high level of productivity.

Market Trends and Operating Strategy

To build a stronger profit structure for its chain operations, the Company has implemented a range of initiatives centered on the Kyotanabe Plant. Supported by a recovery in domestic capital investment, we achieved a significant increase in revenues in the year under review. In addition, the depreciation burden at the Kyotanabe Plant has declined, and our initiatives targeting improved productivity have been successful. In the year under review, our operations were profitable and our performance exceeded planned levels by a substantial margin. In the future, we will make aggressive advances in global markets, with the Kyotanabe Plant as our strategic base for chain operations.

Chain Operations

TAKING THE OFFENSIVE

Tadashi Ichikawa
 Director and Managing
 Executive Officer,
 Chain Division

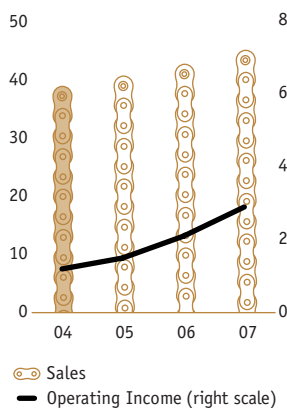
Currently, two key trends are accelerating on a global scale—the maturation of the market for chains for general industrial applications and the influx of low-end products from China and other markets. In this environment, we must follow a strategy of establishing a solid brand identity and increasing our share in the world market.

In overseas markets, our presence is increasing, and we have a 20% share in North America. In Europe, however, our market share is only 5%. This means that we have substantial room for further growth, and in the future, by working to expand sales of high-value-added chains, we will strive to achieve a world market share of 20% and to establish a position as the world's leading supplier of high-quality chains.



Roller Chains

Chain Operations
 Operating Plan
 Billion ¥ (Consolidated)



Building a Presence in Global Markets with Carefully Selected Targets

To achieve our goal of a 20% share of the world market, at each of our bases we will move ahead with a strategy based on carefully selected targets. In North America, we will continue to strengthen the relationship between subsidiary U.S. Tsubaki and Rexnold Corporation, of the United States, and at the same time we will focus on the challenge of expanding sales of core products and raising profitability.

In Europe, we will work to increase sales of European-standard BS chains. We have already had concrete results, with our active use of sales engineers leading to our first orders from large European sales agents.

In the Chinese market, where significant growth is expected, we have selected as principal targets Japanese companies and companies in resource industries. We will work to expand sales of high-value-added chains that meet the needs of those companies, such as oil drilling chains and conveyor chains for automobile production lines. Also, in the year ending March 2005, we plan to establish a sales subsidiary with the objective of strengthening sales expansion efforts in the Chinese market.

And in the domestic market, accompanying the influx of products from China in recent years, low-end products have faced intense price competition. The market continues to polarize into low-end and high-end sectors. Tsubakimoto Chain has chosen to focus on high-end markets that are less susceptible to competition from China and to establish dominant technological superiority in those markets. Products for which we have high expectations include lube-free lambda roller chains and other environmentally friendly chains and cableveyors for automotive power sliding doors.



Cableveyors

“ In the year under review, our operations were profitable and our performance exceeded planned levels by a substantial margin. In the future, we will make aggressive advances in global markets, with the Kyotanabe Plant as our strategic base for chain operations.”

Introduction of Cell Manufacturing Method

At the Kyotanabe Plant, where we boast the world’s most advanced technical development capabilities and production technologies, we have emphasized EBITDA as a management objective and worked to raise productivity. In the year under review, an increase in orders led to higher production, and the results of our past efforts became apparent in one stroke. With manufacturing companies moving production overseas, in order to retain manufacturing in Japan it will be necessary to raise productivity to extremely high levels. Based on that belief, in January 2004 we began moving to the use of cells in fabrication lines.

The goals of the introduction of the cell manufacturing method are to reduce lead times, cut inventories, and develop the ability to produce different products in varying amounts with short delivery periods. In other words, producing what is needed when it is needed in the amount in which it is needed. In the year ending March 2005, we will introduce this method in all of the Kyotanabe Plant’s fabrication lines, move ahead with the synchronization of component processing and fabrication lines, and establish “Tsubaki Style Cell Manufacturing.” And then, in the year ending March 2006, we will work to reform production at the plant level—increasing productivity 30%, cutting inventories in half, and reducing production lead times from 18 days to 7.



Kyotanabe Plant



Automotive parts operations are the key driver of the Tsubakimoto Chain Group's growth. The quality and functionality of our timing chain drive systems have been highly evaluated, and as a result the use of these systems by leading automakers around the world continues to grow. With our five-point manufacturing system—in Japan, North America, Europe, Thailand, and, most recently, China—we will implement aggressive expansion measures targeting the achievement of our mid-term objective of a 32% share of the world market.

Market Trends and Operating Strategy

In engines, worldwide trends are toward higher performance, smaller size, and quieter operation. In this setting, the performance of our timing chain drive systems has been highly evaluated, and their use in new engines by automakers around the world has grown. In addition, with the start-up of full-fledged production at Tsubakimoto Automotive (Thailand), we can leverage our four-point production system—Japan, North America, Europe, and Thailand—to provide an enhanced response to engine development worldwide by manufacturing each product at the most suitable location. And, sales of automotive parts set a new record high in the year under review. Nonetheless, operating

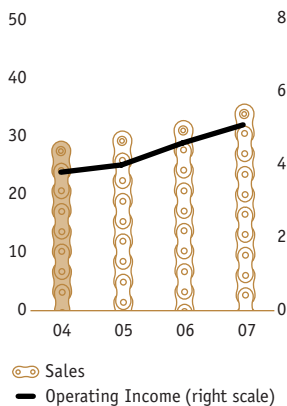
Automotive Parts Operations EXPANDING AGGRESSIVELY

Toru Fujiwara
Director and Executive Officer,
Automotive Parts Division

income declined slightly from the previous year, due to expenses associated with the transfer of sintered automotive parts operations to Sumitomo Electric Industries. This transfer was a strategic move that we believe will pay off in the years ahead; the space freed up as a result of the transfer is being used to increase the Saitama Plant's production capacity for automotive chains. In the year ending March 2005 and thereafter, we anticipate growth in sales and profits.

The transition in timing drive systems from the belt drive method to the chain drive method is accelerating on a global scale. In this environment, our goal is to achieve a 32% share of the world market by the fiscal year ending March 2006. To reach that target, we are moving in step with the world's automakers as they develop global operations by bolstering our own overseas production system. Another strategic challenge that we face is to acquire business from new overseas customers. Through aggressive marketing measures, we will obtain new business not only in North America but also in Europe, where the belt drive system is still predominant.

Automotive Parts Operations
Operating Plan
Billion ¥ (Consolidated)



Timing Chains (left: silent chains, right: roller chains)

Establishment of a Five-Point Global Production System

In recent years, accompanying rising wage levels, motorization in China has progressed rapidly, and automakers from around the world have shifted production to that market. Tsubakimoto Chain has also followed that trend, and to secure and expand market share in China, in April 2004, the Company established timing chain drive system production subsidiary Tsubakimoto Automotive (Shanghai).

This production subsidiary was established in Shanghai because of the many bases that automakers have located there. In the future, as the market expands, automakers are expected to set up bases in many regions of China, and accordingly Tsubakimoto Chain will consider the establishment of additional bases.

With this new company, we have in place a five-point production system, with China joining Japan, North America, Europe, and Thailand. Under this new system, we will pursue overall optimization, with the Saitama Plant positioned as the control base for allocating products to the most suitable manufacturing sites and as the source of new technologies. At the same time, we will work to bolster production capacity, cost competitiveness, and marketing capabilities at each of our bases and will implement our Global Best strategy for automotive parts.



Timing Chain Drive System

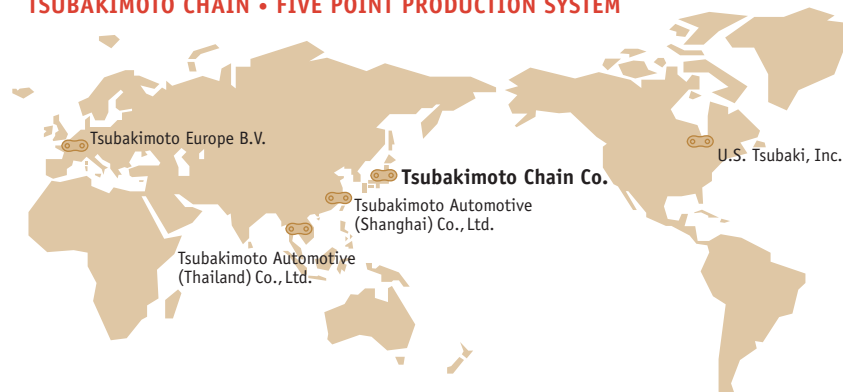
“...we are moving in step with the world’s automakers as they develop global operations by bolstering our own overseas production system.”

Bolstering Offense and Defense

We have formulated specific strategies for each market. In North America, we will follow an offensive strategy of obtaining new business through local subsidiary U.S. Tsubaki as well as a defensive strategy of reinforcing our close ties with Japanese automakers and by achieving differentiation through such measures as the provision of prediction technology at the design stage. In Europe, we are working aggressively to expand market share, which is still low. Specifically, by strengthening our cooperative relationship with Joh. Winkhofer & Söhne, of Germany, we will intensify our development of new customers and new markets, and at the same time, through local subsidiary Tsubakimoto Europe, we will move forward with efforts on the new engines of our existing customers.

In Japan, Thailand, and China, we will also follow offensive and defensive strategies. In the domestic market, we will aggressively pursue an offensive strategy for the use of chains in non-timing-drive system parts, such as oil drive systems and balancer systems.

TSUBAKIMOTO CHAIN • FIVE POINT PRODUCTION SYSTEM



In the fiscal year ended March 2004, the effects of the merger that created Tsubaki Emerson two years ago became apparent. All of our business units were profitable, and, overall, we recorded increases in sales and profits. In the future, we will work to achieve further growth by developing products that meet market needs in each of our product lines.

Market Trends and Operating Strategy

The year under review was the second for Tsubaki Emerson since the merger of Tsubakimoto Chain's power transmission units and components operations and Tsubakimoto Emerson Co. For such products as reducers, linear actuators, couplings, and cam clutches, we implemented a product strategy that accurately matched increasingly diverse and subdivided market needs. As a result, we achieved profitability in our reducer operations and recorded significantly higher sales of Power Locks for LCD production lines. Our performance considerably exceeded planned levels, with increases in both sales and profits.

The domestic operating environment is marked by the manufacturing industry's ongoing shift of production overseas and by growing demand for products that are more advanced and more compact. In this setting, we will continue to carefully select target markets for each product line and to provide products that meet the needs of those target markets.

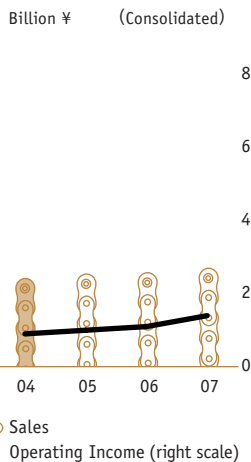
By product line, in reducers, which are one of our core products, we will use the just-fit model to create a series of products that meet the needs of market subdivisions, such as stage equipment and waste processing equipment. In addition, we will provide a precise response to



Power Transmission Units and Components Operations BOLSTERING PRODUCT STRENGTHS

Takehiro Ueda
Chairman and Representative
Director, Tsubaki Emerson Co.

**Power Transmission Units
and Components Operations
Operating Plan**



market needs with the launch of a global series of products for use in industrial equipment that is exported. These products will meet international safety standards in such markets as Europe, North America, and China. Moreover, in linear actuators, environmental issues have resulted in a trend away from the hydraulic and air methods and toward electromechanical Power Cylinders. We will emphasize Power Cylinders as we work to develop products that meet needs for higher precision and greater environmental friendliness.



Reducers

High-End Products in the Global Market

The domestic market accounts for about 90% of sales, and to achieve further growth in the years ahead we must enhance our overseas presence. In the future, we will center our product strategy on high-end products and aggressively expand sales to such markets as China, South Korea, and Taiwan. Sales in Asia account for 30% of our production of clutches, and we will

focus on those products as the driver of our global expansion. Also, in China, in addition to subsidiary Tsubaki Emerson Gear (Tianjin), in the year ending March 2005 we plan to establish a local sales and production subsidiary that will provide us with a local supply system with which to meet the needs of manufacturers that have operations in China.



Lini Power Jack and
Power Cylinder

Tsubakimoto Chain's fundamental strategy in materials handling systems is to achieve steady growth through the application of the principles of selection and concentration to growth fields. With production processes trending toward high-variety, small-lot production, we will add more value by providing not materials handling systems but process handling systems that play a greater role in the production process. At the same time, we will work to aggressively expand our presence in global markets.

Market Trends and Operating Strategy

In materials handling systems operations, the Company is aiming to achieve steady improvement in profitability through the implementation of the principles of selection and concentration in growth fields, such as the automotive, newspaper, distribution, IT, pharmaceutical, and food industries. In the year under review, sales of products for the distribution and automotive industries decreased, leading to declines in sales and profits for the materials handling division. However, we recorded favorable sales results in the pharmaceutical and food industries, which we have positioned as new growth fields and to which we are devoting resources. In particular, in the pharmaceutical industry we have a 70% share of the market for library compound storage systems, such as our Labo Stocker. With this foothold in the drug discovery field, we will launch new products for genome analysis, thereby



Genome DNA Freezer Storage System

further heightening our market presence. In addition, accompanying competition in mail delivery between private delivery companies and Japan Post, demand for mail sorting equipment has increased, and we will use our product strengths and maintenance and other services as points of differentiation, thereby leading to steady growth in orders.

Under the theme of a transition from materials handling to process handling, we must respond to diversifying needs while striving to add even more value. Examples of these efforts include our development of a large-scale version of Vanguard, our unmanned monorail system that is compatible with the trend toward larger LCDs, and, in a new field, our pallet conveyance module for automobile fabrication processes.

Aggressive Approach to Global Markets

The development of global markets is an important theme in materials handling systems operations. In the United States, we plan to strengthen the marketing of our AGV automatic roll paper feeding system for the newspaper industry and of maintenance services at automotive plants. In recent years, an expanding number of automakers have established operations in China, which is enjoying strong economic growth. Accordingly, we will strengthen our marketing of the Hybrid Traverser body paint shop conveyor system and other systems for automotive plants. Moreover, in other growth fields, such as products for the machine tools industry, we will mount an aggressive challenge by drawing on the strengths of Group companies. And in China, we plan to add to our production subsidiary with the establishment of an engineering joint venture. In the future, we will reinforce our presence in the Chinese market with integrated production and sales initiatives.



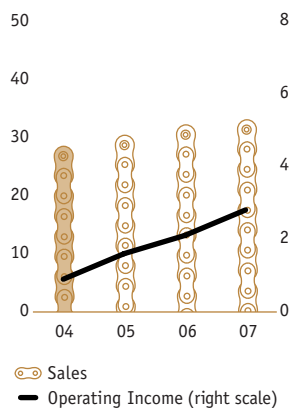
Mailsort

Materials Handling Systems Operations APPLYING SELECTION AND CONCENTRATION

Akira Morikiyo
Director and Managing
Executive Officer,
Materials Handling Division

Materials Handling Systems Operations Operating Plan

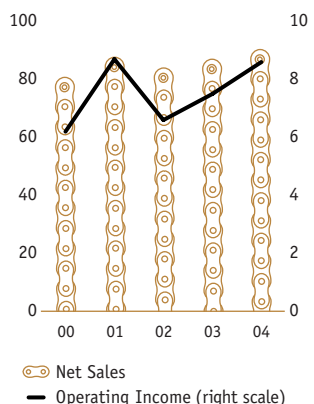
Billion ¥ (Consolidated)



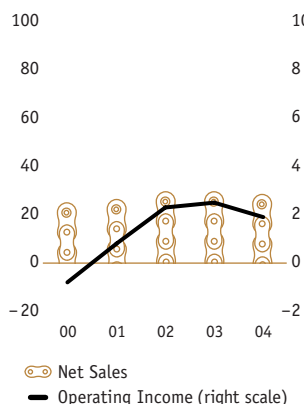
Management's Discussion and Analysis

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

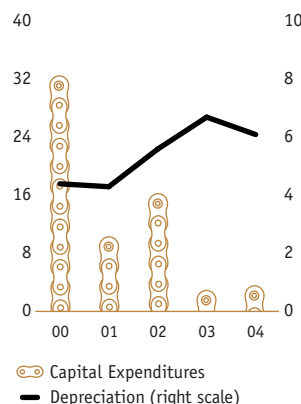
Net Sales and Operating Income
Power Transmission Products
Billion ¥



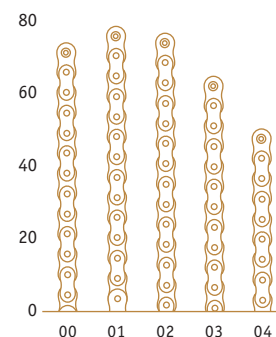
Net Sales and Operating Income
Materials Handling Systems
Billion ¥



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.

Eleven-Year Financial Summary

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

	2004	2003	2002	2001
Net sales	¥119,141	¥116,670	¥113,741	¥114,206
Operating income	7,951	7,351	6,038	6,962
Income (loss) before income taxes and minority interests	6,537	2,800	2,661	226
Net income (loss).....	3,385	1,531	1,202	465
Net income (loss) per share (yen and dollars)	¥17.40	¥7.92	¥6.27	¥2.42
Interest expense:				
Net	¥ 1,363	¥ 1,636	¥ 1,585	¥ 1,666
Gross: Interest received	68	103	223	284
Interest paid	1,431	1,739	1,808	1,950
Capital expenditures	3,506	2,942	16,194	10,251
Depreciation	6,083	6,736	5,611	4,321
Total current assets	69,735	83,074	90,750	93,984
Total current liabilities	48,395	52,062	58,125	65,374
Property, plant and equipment, net	76,307	80,416	85,381	82,179
Total noncurrent liabilities	56,758	67,638	77,676	74,066
Total assets	175,432	183,260	201,555	208,877
Common stock	17,077	17,077	17,077	17,077
Retained earnings	36,199	33,975	33,500	33,480
Total shareholders' equity.....	66,873	60,307	62,674	66,463
Equity ratio (%).....	38.1	32.9	31.1	31.8
Return on equity (%)	5.3	2.5	1.9	0.7
Debt-to-equity ratio (times)	0.75	1.08	1.22	1.18
Net cash provided by operating activities	¥ 7,995	¥ 12,020	¥ 7,709	¥ 5,968
Net cash used in investing activities	9,068	3,014	10,718	10,834
Net cash provided by (used in) financing activities	(15,538)	(14,216)	(4,243)	2,026
Cash and cash equivalents at the end of the year.....	13,681	12,417	17,679	24,853
Number of shares outstanding at year-end (thousands)	188,543	188,722	191,386	191,406
Number of employees	4,709	4,871	4,916	5,237

Millions of Yen Except Per Share Data							Thousands of U.S. Dollars
2000	1999	1998	1997	1996	1995	1994	2004
¥106,281	¥110,919	¥128,298	¥127,231	¥110,424	¥101,670	¥109,014	\$1,127,268
2,705	2,358	6,435	6,374	4,329	234	636	75,229
2,725	(1,018)	5,508	5,931	3,649	179	1,750	61,851
1,218	(1,715)	2,709	3,280	1,796	(634)	1,148	32,028
¥6.36	¥(8.92)	¥14.08	¥17.04	¥9.33	¥(3.29)	¥5.96	\$0.165
¥ 1,577	¥ 1,163	¥ 1,172	¥ 1,073	¥ 1,063	¥ 951	¥ 1,041	\$ 12,896
162	263	323	385	492	835	982	643
1,739	1,426	1,495	1,458	1,555	1,786	2,023	13,539
32,487	5,157	15,050	5,680	4,759	4,290	4,221	33,172
4,444	4,620	4,790	4,783	4,837	5,165	5,432	57,555
83,143	72,541	81,622	80,929	77,995	63,452	63,319	659,807
50,080	47,256	62,224	58,349	62,312	45,902	45,625	457,896
76,352	48,249	48,837	38,331	36,904	37,709	39,221	721,989
67,474	27,397	18,710	21,847	16,849	19,966	19,818	537,023
184,468	137,691	147,668	145,268	141,863	127,893	129,020	1,659,873
17,077	17,077	17,077	17,075	17,068	17,066	17,066	161,576
34,020	31,943	35,260	33,791	31,682	31,060	32,675	342,502
63,750	61,673	64,989	63,516	61,392	60,768	62,382	632,728
34.6	44.8	44.0	43.7	43.3	47.5	48.4	
1.9	—	4.2	5.2	2.9	—	1.8	
1.16	0.73	0.64	0.62	0.60	0.57	0.55	
¥ 3,268	¥ 6,951	¥ 2,740	¥ 4,028	¥ 5,456	¥ 6,099	¥ 9,791	\$ 75,646
28,755	4,527	4,475	4,663	4,245	3,975	4,926	85,798
27,166	2,427	1,021	955	1,246	(1,196)	(5,859)	(147,015)
27,586	24,879	20,029	21,999	21,679	19,222	18,294	129,445
191,406	191,406	192,406	192,399	192,377	192,374	192,372	
5,440	5,368	5,720	5,789	5,844	5,829	5,652	

Consolidated Balance Sheets

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current assets:			
Cash and cash equivalents	¥ 13,681	¥ 12,417	\$ 129,445
Short-term investments	97	7,257	918
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	50	71	473
Other	32,911	29,363	311,391
Inventories	20,193	23,306	191,059
Deferred tax assets	1,830	1,724	17,315
Other receivables:			
Unconsolidated subsidiaries and affiliates	141	54	1,334
Other current assets	1,129	9,164	10,682
Allowance for doubtful receivables	(297)	(282)	(2,810)
Total current assets	69,735	83,074	659,807
Property, plant and equipment (Note 7):			
Land	35,938	36,105	340,032
Buildings and structures	41,583	41,747	393,443
Machinery and equipment	72,653	75,640	687,416
Construction in progress	907	655	8,582
Less accumulated depreciation	(74,774)	(73,731)	(707,484)
Property, plant and equipment, net	76,307	80,416	721,989
Investments and other assets:			
Investment in securities:			
Unconsolidated subsidiaries and affiliates	459	497	4,342
Other	18,640	8,546	176,365
Long-term loans receivable	64	103	606
Deferred tax assets	1,883	1,958	17,816
Deferred tax assets on revaluation of land	2,113	2,108	19,992
Other assets (Note 7)	6,524	7,096	61,728
Allowance for doubtful receivables	(293)	(538)	(2,772)
Total investments and long-term loans receivable	29,390	19,770	278,077
Total assets	¥175,432	¥183,260	\$1,659,873

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current liabilities:			
Short-term bank loans and current portion of long-term debt.....	¥ 18,991	¥ 20,979	\$ 179,686
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	489	479	4,627
Other	17,395	16,727	164,585
Income taxes payable	1,697	996	16,056
Accrued expenses	3,763	2,817	35,604
Deferred tax liabilities	—	0	—
Other	6,060	10,064	57,338
Total current liabilities.....	48,395	52,062	457,896
Noncurrent liabilities:			
Bonds	2,700	8,800	25,546
Long-term loans, less current maturities	28,625	35,151	270,839
Retirement benefits (Note 13).....	11,554	17,692	109,320
Deferred tax liabilities	6,709	2,718	63,478
Other	7,170	3,277	67,840
Total noncurrent liabilities	56,758	67,638	537,023
Minority interests	3,406	3,253	32,226
Shareholders' equity:			
Common stock	17,077	17,077	161,576
Capital surplus	12,653	12,653	119,718
Revaluation surplus (Note 9).....	(3,091)	(3,097)	(29,246)
Retained earnings	36,199	33,975	342,502
Net unrealized holding gains on securities	7,066	1,529	66,855
Currency translation adjustments	(2,003)	(865)	(18,951)
Total shareholders' equity	67,901	61,272	642,454
Treasury stock	(1,028)	(965)	(9,726)
Total shareholders' equity	66,873	60,307	632,728
Total liabilities and shareholders' equity	¥175,432	¥183,260	\$1,659,873

Consolidated Statements of Income

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Net sales	¥119,141	¥116,670	¥113,741	\$1,127,268
Cost of sales	87,477	85,064	82,399	827,675
Gross profit	31,664	31,606	31,342	299,593
Selling, general and administrative expenses	23,713	24,255	25,304	224,364
Operating income	7,951	7,351	6,038	75,229
Other income (expenses):				
Interest and dividend income	250	232	382	2,366
Interest expense	(1,431)	(1,739)	(1,808)	(13,539)
Equity in earnings of an affiliate	42	36	—	397
Foreign exchange loss	(284)	(265)	(68)	(2,687)
Other, net	(312)	(616)	(522)	(2,952)
Ordinary income	6,216	4,999	4,022	58,814
Extraordinary profit (loss):				
Loss on devaluation of investment securities	(42)	(1,908)	(1,933)	(397)
Net gain on the modification of retirement benefit plan	1,116	—	—	10,559
Loss on disposal of inventories	(664)	—	—	(6,283)
Other, net	(89)	(291)	572	(842)
Income before income taxes and minority interests	6,537	2,800	2,661	61,851
Income taxes:				
Current	2,553	1,389	490	24,156
Deferred	237	(301)	799	2,242
Minority interests	(362)	(181)	(170)	(3,425)
Net income	¥ 3,385	¥ 1,531	¥ 1,202	\$ 32,028

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Common stock:				
Balance at beginning of the year				
2004—191,406,969 shares;				
2003—191,406,969 shares;				
2002—191,406,969 shares	¥17,077	¥17,077	¥17,077	\$161,576
Balance at end of the year				
2004—191,406,969 shares;				
2003—191,406,969 shares;				
2002—191,406,969 shares	¥17,077	¥17,077	¥17,077	\$161,576
Capital surplus:				
Balance at beginning of the year.....	¥12,653	¥12,653	¥12,653	\$119,718
Profit on sale of treasury stock.....	0	—	—	0
Balance at end of the year	¥12,653	¥12,653	¥12,653	\$119,718
Revaluation surplus:				
Balance at beginning of the year.....	¥(3,097)	¥ (3,015)	¥ —	\$(29,303)
Net changes during the year	6	(82)	(3,015)	57
Balance at beginning of the year.....	¥(3,091)	¥ (3,097)	¥ (3,015)	\$(29,246)
Retained earnings:				
Balance at beginning of the year.....	¥33,975	¥33,500	¥33,480	\$321,459
Increase in retained earnings, resulting from consolidation of additional subsidiaries	—	45	—	—
Increase in retained earnings, resulting from application of the equity method	—	58	—	—
Net income	3,385	1,531	1,202	32,028
Cash dividends paid.....	(1,132)	(1,141)	(1,148)	(10,711)
Bonuses to directors and statutory auditors	(29)	(22)	(34)	(274)
Reversal of revaluation surplus.....	—	4	—	—
Balance at end of the year	¥36,199	¥33,975	¥33,500	\$342,502
Unrealized holding gains (losses) on securities:				
Balance at beginning of the year.....	¥ 1,529	¥ 2,319	¥ 4,031	\$ 14,466
Net changes during the year	5,537	(790)	(1,712)	52,389
Balance at end of the year	¥ 7,066	¥ 1,529	¥ 2,319	\$ 66,855
Currency translation adjustments:				
Balance at beginning of the year.....	¥ (865)	¥ 146	¥ (777)	\$ (8,184)
Net changes during the year	(1,138)	(1,011)	923	(10,767)
Balance at end of the year	¥ (2,003)	¥ (865)	¥ 146	\$(18,951)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

Tsubakimoto Chain Co. and Consolidated Subsidiaries
For the years ended March 31, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Cash flows from operating activities:				
Income before income taxes and minority interests.....	¥ 6,537	¥ 2,800	¥ 2,661	\$ 61,851
Adjustments for:				
Depreciation.....	6,083	6,736	5,611	57,555
Loss (gain) on sales of property, plant and equipment.....	243	93	(1,757)	2,299
Loss on devaluation of investment securities.....	42	1,908	1,933	397
Allowance for doubtful receivables, net.....	(216)	(134)	124	(2,044)
Retirement benefits, net.....	(6,087)	156	(242)	(57,593)
Transfer to defined contribution pension plan.....	4,692	—	—	44,394
Decrease (increase) in trade notes and accounts receivable.....	(4,132)	1,531	4,895	(39,095)
Decrease (increase) in inventories.....	2,223	325	(863)	21,033
Increase (decrease) in trade notes and accounts payable.....	1,052	(3,980)	(2,055)	9,954
Other.....	118	4,472	1,553	1,117
Sub total.....	10,555	13,907	11,860	99,868
Interest and dividend income received.....	311	225	415	2,943
Interest expenses paid.....	(1,440)	(1,748)	(1,909)	(13,625)
Income taxes paid.....	(1,431)	(364)	(2,657)	(13,540)
Net cash provided by operating activities.....	7,995	12,020	7,709	75,646
Cash flows from investing activities:				
Increase of time deposits (due after 3 months).....	(9)	(108)	(144)	(85)
Decrease of time deposits (due after 3 months).....	119	86	158	1,126
Payments for purchase of investments in securities.....	(2,049)	(7,827)	(8,464)	(19,387)
Proceeds from sales of investments in securities.....	8,107	9,557	8,847	76,705
Payments for purchase of investments in subsidiaries.....	(10)	(0)	(227)	(94)
Increase in long-term loans receivable.....	(36)	(111)	(13)	(340)
Decrease in long-term loans receivable.....	55	14	14	520
Payments for purchase of property, plant and equipment.....	(5,307)	(5,379)	(12,771)	(50,213)
Proceeds from sales of property, plant and equipment.....	8,104	754	1,882	76,677
Other.....	94	—	—	889
Net cash provided by (used in) investing activities.....	9,068	(3,014)	(10,718)	85,798
Cash flows from financing activities:				
Decrease in short-term bank loans, net.....	(6,463)	(8,499)	(3,311)	(61,151)
Proceeds from long-term loans.....	430	473	10,607	4,068
Repayment of long-term loans.....	(7,707)	(1,050)	(7,343)	(72,920)
Issuance of bonds.....	98	99	100	927
Payments on redemption of bonds.....	(100)	(2,585)	(2,792)	(946)
Payments on installment purchases.....	(527)	(412)	(223)	(4,986)
Cash dividends.....	(1,132)	(1,141)	(1,148)	(10,711)
Cash dividends for minority shareholders.....	(74)	(142)	(127)	(700)
Payments for purchase of treasury stock.....	(69)	(959)	—	(653)
Proceeds from sales of treasury stock.....	6	—	—	57
Other.....	—	—	(6)	—
Net cash used in financing activities.....	(15,538)	(14,216)	(4,243)	(147,015)
Effect of exchange rate changes on cash and cash equivalents.....				
Increase (decrease) in cash and cash equivalents.....	1,264	(5,314)	(7,174)	11,960
Cash and cash equivalents at the beginning of the year.....	12,417	17,679	24,853	117,485
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation.....	—	52	—	—
Cash and cash equivalents at the end of the year.....	¥ 13,681	¥ 12,417	¥ 17,679	\$ 129,445

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Tsubakimoto Chain Co. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

(a) Accounting principles of consolidation

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 are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain modifications in format have been made to facilitate understanding by readers outside Japan.

In addition, the notes to the consolidated financial statements include additional information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Consolidated subsidiaries

The consolidated financial statements include the accounts of the parent company and its significant domestic and foreign subsidiaries (the "Companies").

Consolidated subsidiaries are:

Tsubaki Emerson Co.
Tsubakimoto Custom Chain Co.
Tsubakimoto Sprocket Co.
Tsubakimoto Mayfran Inc.
Tsubakimoto Bulk Systems Corporation
Tsubakimoto Machinery Co.
Tsubakimoto Nishinohon Co., Ltd.
Hokkaido Tsubakimoto Chain Co., Ltd.
Tsubakimoto Iron Casting Co., Ltd.
Tsubaki Support Center Co.
U.S. Tsubaki, Inc. (U.S.A.)
Ballantine, Inc. (U.S.A.)
Tsubaki of Canada Limited (Canada)
Tsubakimoto Europe B.V. (Netherlands)
Tsubakimoto UK Ltd. (U.K.)
P. Koning B.V. (Netherlands)
Taiwan Tsubakimoto Co. (Taiwan)
Tsubakimoto Singapore Pte. Ltd. (Singapore)
Tsubakimoto Thailand Co., Ltd. (Thailand)
Tsubaki Australia Pty. Limited (Australia)
Tsubaki Emerson Gear (Tianjin) Co., Ltd. (China)
Tsubaki Conveyor of America, Inc. (U.S.A.)
Korea Conveyor Ind. Co., Ltd. (Republic of Korea)

(c) Unconsolidated subsidiaries and affiliates

Investments in the affiliates over which the Company has the ability to exercise significant influence are accounted for using the equity method.

One affiliate, Tianjin Tsubakimoto Conveyor Systems Co., Ltd., has been included in the consolidated financial statements.

Investments in 5 insignificant subsidiaries and 4 affiliated companies are stated at cost because the Company's equity in the income or losses of these companies is not significant.

(d) Translation into U.S. dollars

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥105.69=\$1, the approximate exchange rate prevailing on March 31, 2004.

(e) Cash and cash equivalents

For the purposes of cash flows statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with original maturities of three months or less.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Short-term investments and investments in securities

Held-to-maturity debt securities are stated at their amortized cost adjusted for the amortization of premiums and the accretion of discount to maturity.

Marketable securities classified as other securities are carried at fair value as of the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. The cost of securities sold is primarily calculated by the moving-average method.

Non-marketable securities classified as other securities are stated at cost primarily determined by the moving-average method.

(b) Inventories

Inventories are stated principally at cost, which is determined by the first-in, first-out (FIFO) method, by the specific identification method or by the moving-average cost method, except for the inventories of 8 subsidiaries, which are valued at the lower of cost or market.

(c) Property, plant and equipment

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is computed mainly by the declining-balance method except for buildings for which the straight-line method is applied.

The principal estimated useful lives are as follows:

Buildings and structures 3 to 50 years

Machinery and equipment 4 to 13 years

(d) Computer software

Expenditure relating to computer software developed for internal use is charged to income when incurred, except if it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is computed based on the actual ratio of bad debts in the past and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(f) Bonuses for employees

Accrued bonuses for employees are calculated based on an estimation of future bonus payments.

(g) Retirement benefits

Effective April 1, 2000, the Companies adopted the Accounting Standards for Retirement Benefits which was issued by the Business Accounting Deliberation Council for Small Business Entity. In accordance with the new standards, accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the annual period.

Prior service cost is charged to income as incurred.

Actuarial gain or loss is proportionally amortized in each year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

Also, the Company and consolidated domestic subsidiaries record the unfunded retirement benefits for directors and statutory auditors on the accrual basis, which is included in other noncurrent liabilities.

(h) Translation of balances denominated in foreign currencies in domestic financial statements

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on the balance sheet date except for amounts fixed by forward exchange contracts.

All gains and losses resulting from the translation of foreign currency balances are included in net income for the year.

(i) Accounting for leases

Finance leases, except for those in which ownership is deemed to be transferred to the lessee, are accounted for by the same method as operating leases.

3. DIFFERENCE BETWEEN COST AND NET EQUITY OF CONSOLIDATED SUBSIDIARIES

The difference between the cost and the underlying net equity in investments in consolidated subsidiaries and affiliates accounted for on an equity basis is allocated to identifiable assets based on their fair value at respective dates of acquisition. Unallocated costs are deferred and amortized by the straight-line method for less than 5 years.

4. INTERCOMPANY TRANSACTIONS

All material intercompany balances and transactions, including unrealized profit in inventories and property, plant and equipment, have been eliminated on consolidation.

5. TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing on the respective balance sheet dates. Revenue and expenses are translated at the average rates of exchange for the respective years. Translation adjustments of foreign currency financial statements are reflected in shareholders' equity and minority interests in the consolidated balance sheets.

6. APPROPRIATIONS OF RETAINED EARNINGS

Appropriations of retained earnings are recorded at the date they are approved at the annual shareholders' meeting.

7. PLEDGED ASSETS

At March 31, 2004 and 2003, the following assets were pledged as collateral for bank loans and long-term debt:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Property, plant and equipment	¥57,803	¥60,250	\$546,911
Other noncurrent items	63	63	596
	<u>¥57,866</u>	<u>¥60,313</u>	<u>\$547,507</u>

8. CONTINGENT LIABILITIES

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥2,847 million (\$26,937 thousand) and ¥6,101 million at March 31, 2004 and 2003, respectively.

9. REVALUATION OF LAND

At March 31, 2002, the land owned by the Company was revaluated under the Land Reappraisal Law, and unrealized losses resulting from the revaluation were debited directly from shareholders' equity as a revaluation surplus after offsetting the related deferred tax assets as stipulated by the law. The revaluation surplus will be credited to gain or loss to be incurred when the related land is sold.

The difference between the fair value at March 31, 2004 and the book value after the revaluation at March 31, 2004, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2004	2004
Fair value at March 31, 2004	¥24,274	\$229,672
Book value after the revaluation at March 31, 2004	31,494	297,985
Difference	¥ 7,220	\$ 68,313

10. PER SHARE AMOUNTS

	Yen		U.S. Dollars
	2004	2003	2004
Shareholders' equity per share	¥354.14	¥319.39	\$ 3.35
Net income per share	17.40	7.92	0.165

The basic financial data for the computation of basic net income per share for the year ended March 31, 2004, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Information on basic net income:		
Net income	¥3,385	\$32,028
Deduction from net income:		
Bonuses to directors and statutory auditors...	101	956
Adjusted net income allocated in common stock ...	3,284	31,072
Weighted average number of shares of common stock outstanding during 2004.....	188,657,512 shares	

11. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") requires the Company to transfer an amount equal to at least 10% of appropriations paid in cash to legal reserve. Under the revised Code, effective on October 1, 2001, the Company may not appropriate retained earnings to the legal reserve when the total balance of the legal reserve and additional paid-in capital equals to 25% of common stock. Amounts of the legal reserve and capital surplus in excess of 25% of common stock, subject to shareholders' approval, may be used for dividend distributions.

12. RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to income as incurred. Research and development costs charged to income for the years ended March 31, 2004 and 2003 are ¥1,092 million (\$10,332 thousand) and ¥1,151 million, respectively.

13. RETIREMENT BENEFITS

The following table sets forth the details of benefit obligation, plan assets and funded status of the Companies at March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Benefit obligation at end of year	¥(17,652)	¥(28,567)	\$(167,017)
Fair value of plan assets at end of year ...	4,640	6,931	43,902
Funded status:			
Benefit obligation in excess of plan assets	(13,012)	(21,636)	(123,115)
Unrecognized actuarial loss	1,458	3,944	13,795
Accrued pension liability recognized in the consolidated balance sheets...	(11,554)	(17,692)	(109,320)

Note: Domestic subsidiaries have adopted allowed alternative treatment of the Accounting Standards for Retirement Benefits for Small Business Entities.

On April 1, 2004, the Company introduced a point system under which a set sum is added every year, reflecting the individual employee's performance over that year, and adopted a defined contribution pension plan.

The impact of the transfer of projected benefit obligation and pension assets under the tax qualified non-contributory defined benefit plan to a point system and the defined contribution pension plan at March 31, 2004, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Decrease in benefit obligation	¥ 9,751	\$ 92,260
Plan assets transferred to the defined contribution pension plan	(2,679)	(25,348)
Unrecognized actuarial loss	(420)	(3,974)
Unrecognized prior service cost	(844)	(7,985)
Decrease in retirement benefit	5,808	54,853
Amount not yet transferred to the defined contribution pension plan	(4,692)	(44,394)
Net gain on the modification of retirement benefit plan	¥(1,116)	\$(10,559)

The total amounts to be transferred to the defined contribution pension plan within eight years is ¥7,371 million (\$69,742 thousand), of which ¥587 million (\$5,554 thousand) is in other of current liabilities and ¥4,105 million (\$38,840 thousand) is included in other of noncurrent liabilities.

The Company adopted Financial Accounting Standards Implementation Guidance No. 1 "Accounting for Transfers between Retirement Benefit Plans" issued by the Accounting Standards Board of Japan on January 31, 2002.

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
Service cost.....	¥ 1,355	¥1,438	\$ 12,820
Interest cost.....	645	642	6,103
Expected return on plan assets.....	(157)	(158)	(1,485)
Net gain on the modification of retirement benefit plan.....	(1,116)	—	(10,559)
Amortization:			
Actuarial losses.....	434	335	4,106
Other.....	—	121	—
Net periodic benefit cost.....	¥ 1,161	¥2,378	\$ 10,985

Assumptions used in the accounting for the defined benefit plan for the year ended March 31, 2004, are as follows:

Method of attributing benefits to period of service	straight-line basis
Discount rate	2.5%
Expected rate of return on plan assets	2.5%
Amortization period for actuarial losses	10 years
Amortization period of prior service cost	1 year

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 42.0% for the years ended March 31, 2004 and 2003. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective tax rate for the year ended March 31, 2003 differs from the Company's statutory tax rate for the following reason.

	2003
Statutory tax rate.....	42.0%
Lower tax rates of overseas subsidiaries.....	(12.0)
Expenses not deductible for income tax purposes.....	2.4
Surplus not additional for income tax purposes.....	(0.6)
Cash dividends from overseas subsidiaries.....	4.5
Per capita levy.....	1.8
Other.....	0.8
Effective tax rate.....	38.9%

Differences between the statutory tax rate and the effective tax

rate for the year ended March 31, 2004 are insignificant and not presented.

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.0% to 40.5% effective for fiscal years beginning after March 31, 2004.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2004 and 2003, are presented below:

	Millions of Yen		Thousands of
	2004	2003	U.S. Dollars
Deferred tax assets:			
Provision for retirement benefits ...	¥ 4,075	¥ 6,248	\$ 38,556
Transfer to defined contribution pension plan.....	1,905	—	18,025
Accrued bonuses.....	801	680	7,579
Allowance for doubtful accounts....	131	215	1,239
Tax loss carryforwards.....	58	145	549
Loss on valuation of investment securities.....	329	332	3,113
Impairment loss on deposits for golf club membership.....	159	164	1,504
Other.....	1,258	1,236	11,902
Total gross deferred tax assets....	8,716	9,020	82,467

Deferred tax liabilities:

Reserve for deduction entry of property replaced by purchase.....	(5,182)	(5,210)	(49,030)
Profit from valuation for the consolidation of capital account....	(372)	(372)	(3,520)
Other.....	(6,158)	(2,474)	(58,264)
Total gross deferred tax liabilities....	(11,712)	(8,056)	(110,814)
Net deferred tax assets.....	¥ (2,996)	¥ 964	\$ (28,347)

15. SEGMENT INFORMATION

Information by business segment and geographical segment for the years ended March 31, 2004, 2003 and 2002, is as follows:

(A) BUSINESS SEGMENT	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Net sales:				
Power transmission products:				
Customers	¥ 90,081	¥ 86,774	¥ 83,760	\$ 852,313
Intersegment	1,371	1,383	1,484	12,972
Total	<u>91,452</u>	<u>88,157</u>	<u>85,244</u>	<u>865,285</u>
Materials handling systems:				
Customers	28,426	29,452	29,547	268,956
Intersegment	123	111	201	1,164
Total	<u>28,549</u>	<u>29,563</u>	<u>29,748</u>	<u>270,120</u>
Others:				
Customers	634	444	434	5,999
Intersegment	1,836	847	1,227	17,371
Total	<u>2,470</u>	<u>1,291</u>	<u>1,661</u>	<u>23,370</u>
Eliminations	<u>(3,330)</u>	<u>(2,341)</u>	<u>(2,912)</u>	<u>(31,507)</u>
Consolidated total	<u>¥119,141</u>	<u>¥116,670</u>	<u>¥113,741</u>	<u>\$1,127,268</u>
Operating income (loss):				
Power transmission products	¥ 8,630	¥ 7,526	¥ 6,563	\$ 81,654
Materials handling systems	1,882	2,463	2,278	17,807
Others	84	13	163	794
Corporate and eliminations	<u>(2,645)</u>	<u>(2,651)</u>	<u>(2,966)</u>	<u>(25,026)</u>
Consolidated total	<u>¥ 7,951</u>	<u>¥ 7,351</u>	<u>¥ 6,038</u>	<u>\$ 75,229</u>
Total assets:				
Power transmission products.....	¥115,011	¥124,213	¥127,378	\$1,088,192
Materials handling systems	21,955	23,986	26,183	207,730
Others	2,393	2,216	2,748	22,642
Corporate and eliminations.....	<u>36,073</u>	<u>32,845</u>	<u>45,246</u>	<u>341,309</u>
Consolidated total	<u>¥175,432</u>	<u>¥183,260</u>	<u>¥201,555</u>	<u>\$1,659,873</u>
Depreciation:				
Power transmission products.....	¥ 5,324	¥ 5,891	¥ 4,824	\$ 50,374
Materials handling systems	409	456	432	3,870
Others	6	12	12	56
Corporate and eliminations.....	<u>344</u>	<u>377</u>	<u>343</u>	<u>3,255</u>
Consolidated total	<u>¥ 6,083</u>	<u>¥ 6,736</u>	<u>¥ 5,611</u>	<u>\$ 57,555</u>
Capital expenditures:				
Power transmission products.....	¥ 3,148	¥ 2,635	¥ 13,573	\$ 29,785
Materials handling systems	182	222	290	1,722
Others	14	8	7	132
Corporate and eliminations.....	<u>162</u>	<u>77</u>	<u>2,324</u>	<u>1,533</u>
Consolidated total	<u>¥ 3,506</u>	<u>¥ 2,942</u>	<u>¥ 16,194</u>	<u>\$ 33,172</u>

(B) GEOGRAPHICAL SEGMENT	Millions of Yen			Thousands of U.S. Dollars
	2004	2003	2002	2004
Net sales:				
Japan:				
Customers	¥ 84,840	¥ 81,768	¥ 83,267	\$ 802,725
Intersegment	9,608	9,921	9,223	90,907
Total	94,448	91,689	92,490	893,632
North America:				
Customers	23,291	25,965	22,617	220,370
Intersegment	253	213	271	2,394
Total	23,544	26,178	22,888	222,764
Europe:				
Customers	4,719	3,811	3,178	44,649
Intersegment	4	4	6	38
Total	4,723	3,815	3,184	44,687
Asia and Oceania:				
Customers	6,292	5,126	4,679	59,533
Intersegment	526	685	657	4,977
Total	6,818	5,811	5,336	64,510
Eliminations	(10,392)	(10,823)	(10,157)	(98,325)
Consolidated total	¥119,141	¥116,670	¥113,741	\$1,127,268
Operating income:				
Japan	¥ 8,385	¥ 7,938	¥ 7,903	\$ 79,336
North America	865	951	813	8,184
Europe	340	329	189	3,217
Asia and Oceania	795	479	374	7,522
Corporate and eliminations	(2,434)	(2,346)	(3,241)	(23,030)
Consolidated total	¥ 7,951	¥ 7,351	¥ 6,038	\$ 75,229
Total assets:				
Japan	¥113,927	¥122,001	¥125,790	\$1,077,935
North America	18,085	22,351	24,572	171,114
Europe	4,103	3,505	3,341	38,821
Asia and Oceania	6,585	6,491	6,406	62,305
Corporate and eliminations	32,732	28,912	41,446	309,698
Consolidated total	¥175,432	¥183,260	¥201,555	\$1,659,873

Independent Auditors' Report

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the three years ended March 31, 2004, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2004, 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, 2004 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 (d).

Shin Nihon & Co.

Shin Nihon & Co.

Osaka, Japan
June 29, 2004

Tsubakimoto Chain Group Companies

As of March 31, 2004

* Consolidated Subsidiary

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees	Date of Establishment	Principal Business
JAPAN					
TSUBAKI EMERSON CO.*	¥460.0 million	70.6%	583	April 2002	Manufacture and sales of power transmission products
TSUBAKIMOTO SPROCKET CO.*	¥126.0 million	99.0%	123	October 1968	Manufacture and sales of sprockets
TSUBAKIMOTO CUSTOM CHAIN CO.*	¥125.0 million	99.6%	183	October 1951	Manufacture of power transmission chains
SHINKO MACHINERY CO.	¥ 50.0 million	50.0%	37	March 1971	Manufacture of conveyor chains
TSUBAKIMOTO IRON CASTING CO., LTD.*	¥ 20.0 million	100.0%	51	October 1968	Manufacture and sales of casting products
HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.*	¥ 30.0 million	100.0%	13	October 1961	Sales of Tsubakimoto Chain products
TSUBAKIMOTO MACHINERY CO.*	¥139.0 million	68.2%	137	April 1971	Sales of Tsubakimoto Chain products
TSUBAKIMOTO NISHINIHON CO., LTD.*	¥ 90.0 million	50.0%	53	October 1993	Sales of Tsubakimoto Chain products
TSUBAKIMOTO BULK SYSTEMS CORPORATION*	¥150.0 million	100.0%	145	April 1981	Manufacture and sales of bulk materials handling systems
ONISHI MFG. CO., LTD.	¥ 46.0 million	45.7%	30	September 1959	Manufacture of conveying equipment
TSUBAKIMOTO MAYFRAN INC.*	¥ 90.0 million	50.0%	107	November 1973	Manufacture and sales of chip conveyors
TSUBAKI SUPPORT CENTER CO.*	¥ 80.0 million	100.0%	115	October 1970	Back-office services
KATO MANUFACTORY CO., LTD.	¥ 30.0 million	20.0%	16	July 1968	Manufacture of tire chains
NORTH AMERICA					
U.S. TSUBAKI, INC.* 301 E. Marquardt Drive, Wheeling, IL 60090-6497, U.S.A. Telephone: (847) 459-9500 Facsimile: (847) 459-9515	US\$33,500,000	100.0%	763	February 1971	Manufacture and sales of power transmission products
Roller Chain Division, Holyoke Plant 821 Main Street, Holyoke, MA 01040-5312, U.S.A. Telephone: (413) 536-1576 Facsimile: (413) 534-8239	—	—	174	—	Manufacture of roller chains
Automotive Division, Chicopee Plant 106 Lonczak Drive, Chicopee, MA 01022-1305, U.S.A. Telephone: (413) 593-1100 Facsimile: (413) 593-9999	—	—	238	—	Manufacture of automotive parts
Engineering Chain Division, Sandusky Plant 1010 Edgewater Drive, Sandusky, OH 44870-1601, U.S.A. Telephone: (419) 626-4560 Facsimile: (419) 626-5194	—	—	140	—	Manufacture of engineering chains
BALLANTINE, INC.* 840 McKinley Street, Anoka, MN 55303-1146, U.S.A. Telephone: (612) 427-3959 Facsimile: (612) 427-2277	US\$50,000	U.S. Tsubaki 100.0%	43	March 1988	Sales of trencher parts
TSUBAKI OF CANADA LIMITED* 1630 Drew Road, Mississauga, Ontario, L5S 1J6 Canada Telephone: (905) 676-0400 Facsimile: (905) 676-0904	C\$6,295,955	100.0%	104	July 1973	Manufacture and sales of power transmission products
TSUBAKI CONVEYOR OF AMERICA, INC.* 138 Davis Street, P.O. Box 710, Portland, TN 37148-0710, U.S.A. Telephone: (615) 325-9221 Facsimile: (615) 325-2442	US\$900,000	100.0%	58	July 1983	Manufacture and sales of materials handling systems

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees	Date of Establishment	Principal Business
EUROPE					
TSUBAKIMOTO EUROPE B.V.* Belder 1, 4704 RK, Roosendaal, The Netherlands Telephone: (165) 594800 Facsimile: (165) 549450	EUR2,722,000	100.0%	40	April 1972	Sales of power transmission products
P. KONING B.V.* Waalhaven Z/Z 42, 3088 HJ Rotterdam, The Netherlands Telephone: (10) 4941818 Facsimile: (10) 4294906	EUR23,000	Tsubakimoto Europe 100.0%	33	June 1918	Sales of power transmission products
TSUBAKIMOTO UK LTD.* Osier Drive, Sherwood Park, Annesley, Nottingham, NG15 ODX, United Kingdom Telephone: (1623) 688700 Facsimile: (1623) 688789	£150,000	Tsubakimoto Europe 100.0%	46	March 1985	Sales of power transmission products
T.E.E.U. LIMITED 55 Kedleston Court, Norbury Close, Allestree, Derby, DE22 2QF, United Kingdom Telephone: (1332) 551277 Facsimile: (1332) 551277	£30,000	100.0%	1	March 1990	Sales and maintenance of materials handling systems
ASIA & OCEANIA					
TAIWAN TSUBAKIMOTO CO.* No. 7 Feng Sun Keng, Kuei Shan-Hsiang, Taoyuan-Hsien, Taiwan, R.O.C. Telephone: (33) 293827-9 Facsimile: (33) 293065	NT\$70,000,000	99.9%	94	January 1970	Manufacture and sales of power transmission products
TSUBAKIMOTO SINGAPORE PTE. LTD.* 25 Gul Lane, Jurong, Singapore 629419 Telephone: 6861 0422 (6 lines) Facsimile: 6861 7035	SG\$3,000,000	100.0%	22	January 1981	Sales of power transmission products
TSUBAKI AUSTRALIA PTY. LIMITED* Unit E, 95-101 Silverwater Road, Silverwater, N.S.W. 2128, Australia Telephone: (2) 9648-5269 Facsimile: (2) 9648-3115	AU\$300,000	100.0%	28	May 1987	Sales of power transmission products
TSUBAKIMOTO AUTOMOTIVE (THAILAND) CO., LTD. 700-467 Moo 7, Amata Nakorn Industrial Estate, Tambol Don Hua Roh, Amphur Muang, Chonburi 20000, Thailand Telephone: (38) 454021-4 Facsimile: (38) 454025	BAHT60,000,000	100.0%	36	March 2002	Manufacture, sales, and exports and imports of timing drive systems and other power transmission products
TSUBAKIMOTO THAILAND CO., LTD.* 159 Soi Asoke, Sukhumvit Road, North-Klongtoey Wattana, Bangkok 10110, Thailand Telephone: (662) 261-9991 Facsimile: (662) 261-9993	BAHT2,000,000	Tsubakimoto Singapore 95.1%	5	March 2002	Sales of power transmission products
TSUBAKI KABELSCHLEPP SHANGHAI CO., LTD. Suite B, South, 2 FL., 209, Taigu Road, Waigaoqiao FreeTrade Zone, Shanghai, 200131, People's Republic of China Telephone: (21) 5064-0155 Facsimile: (21) 5868-0190	US\$200,000	60.0%	7	November 2000	Imports and sales of cableveyors
TSUBAKI EMERSON GEAR (TIANJIN) CO., LTD.* 135 Dong Ting Road, Teda, Tianjin, 300457, People's Republic of China Telephone: (22) 2532-6410 Facsimile: (22) 2532-6421	US\$3,802,000	Tsubaki Emerson 52.2%	124	June 1990	Manufacture of power transmission products
TIANJIN DONG CHUN-TAIKI METAL FINISHING & CONVEYOR SYSTEM MANUFACTURING CO., LTD. Yang Cheng Zhuang Bridge 4, Southwest Side, Jinghai, Tianjin, 301617, People's Republic of China Telephone: (22) 6864-5848 Facsimile: (22) 6864-5849	US\$900,000	20.0%	71	January 2004	Manufacture and sales of materials handling systems
TIANJIN TSUBAKIMOTO CONVEYOR SYSTEMS CO., LTD. Beichen District, Tianjin, 300400, People's Republic of China Telephone: (22) 2532-6410	RMB8,314,833	Tsubakimoto Bulk Systems 47.0%	38	August 1995	Manufacture of bulk materials handling systems
KOREA CONVEYOR IND. CO., LTD.* 68B 7L, Namdong Industrial Estate, 627-3, Gojan-dong, Namdong-gu, Incheon, Republic of Korea Telephone: (32) 817-0160 Facsimile: (32) 819-9168	KRW1,200,000,000	49.0%	133	January 1970	Manufacture and sales of materials handling systems and conveyor chains
KOREA MAYFRAN CO., LTD. 72-1, Onsoo-dong, Kuro-ku, Seoul, Republic of Korea Telephone: (2) 2611-5886 Facsimile: (2) 686-2521	KRW300,000,000	Korea Conveyor Tsubakimoto Mayfran 62.5%	25	October 1990	Manufacture of chip conveyors

Board of Directors, Corporate Auditors / Executive Officers

As of June 29, 2004



BOARD OF DIRECTORS

President and Representative Director

Takashi Fukunaga

Representative Director and
Senior Managing Executive Officer

Kimio Takakura

Operations

Overall Support to the President

Director and Senior Managing
Executive Officer

Norikazu Ohno

Headquarters Operations

Corporate Compliance

Director and Managing Executive Officers

Makoto Kanehira

Development & Technology

Corporate Quality Assurance

Chief Engineer

Akira Morikiyo

Materials Handling Division

New Products Development

Chief Engineer

Tatsuhiko Mimoto

Management Planning

Finance and Human Resources

Tadashi Ichikawa

Chain Division

Kyotanabe Plant

Director and Executive Officer

Toru Fujiwara

Automotive Parts Division

Saitama Plant

Director

Hidetoshi Yajima

Corporate Auditors

Tadachi Yokoyama

Tatsuo Komatsu

Masaru Tokuda

Takafumi Watanabe

Managing Executive Officers

Hideo Miyazaki

PTS Development

Kyoto Plant, Hyogo Plant

President, Tsubaki Emerson Co.

Yoshinobu Miyazaki

ATS Global Development

President, U.S. Tsubaki, Inc.

Nobuhiko Miki

Compliance Administration

Executive Officers

Hiroshi Yanagase

Sales Department

Global Development of

Materials Handling Division

Tokyo Office

Tadasu Suzuki

Global Marketing Department

Products Engineering Department

Manufacturing Engineering of

Automotive Parts Division

Shigeya Tsubakimoto

Business Development

Medicine, Food & Eco-Tech Equipment

Planning & Administration of

Materials Handling Division

Isamu Osa

Human Resources Department

Management Planning

Environmental Management of

Management Planning

Masato Kondo

Chain Sales Department

Global Marketing

Planning & Administration of

Chain Division

Osaka Office, Nagoya Office

Yoshikazu Kitayama

President, Tsubakimoto Europe B.V.

Corporate Data

As of March 31, 2004

DATE OF FOUNDING

December 1917

DATE OF INCORPORATION

January 1941

NUMBER OF EMPLOYEES

1,706 (parent company only)

PAID-IN CAPITAL

¥17,077 million

SHAREHOLDERS' EQUITY

¥66,873 million

INDEPENDENT AUDITORS

Shin Nihon & Co.

INVESTOR INFORMATION

Common Stock

Authorized: 299,000 thousand shares

Issued: 188,544 thousand shares

Stock Listings

Tokyo, Osaka, and Nagoya

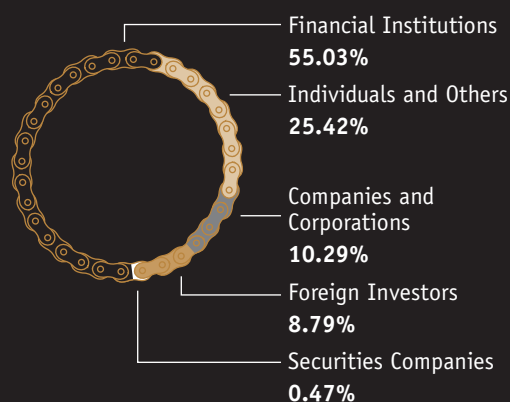
Major Shareholders

1 The Master Trust Bank of Japan, Ltd.	9.4%
2 Taiyo Life Insurance Company	8.6
3 Nippon Life Insurance Company	7.1
4 Japan Trustee Services Bank, Ltd.	6.4
5 Toyota Motor Corporation	4.1
6 Sumitomo Mitsui Banking Corporation	3.6
7 Kyoekai Employee Stock Ownership Association	2.3
8 The Chuo Mitsui Trust and Banking Company, Limited	2.3
9 Meiji Yasuda Life Insurance Company	1.9
10 Group Employee Stock Ownership Association	1.9

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Limited
2-21, Kitahama 2-chome, Chuo-ku,
Osaka 541-0041, Japan

Composition of Shareholders



TSUBAKIMOTO CHAIN CO.

OFFICES AND PLANTS

Head Office

Osaka Fukokuseimei Building,
2-4, Komatsubara-cho,
Kita-ku, Osaka 530-0018,
Japan

Telephone: (06) 6313-3131

Facsimile: (06) 6313-3198

URL: www.tsubakimoto.jp

Tokyo Office

Medical Friend Building,
2-4, Kudan-Kita 3-chome,
Chiyoda-ku, Tokyo 102-8186,
Japan

Telephone: (03) 3221-5611

Facsimile: (03) 3221-5639

Nagoya Office

Daisho Building,
26-25, Meieki 4-chome,
Nakamura-ku,
Nagoya 450-0002,
Japan

Telephone: (052) 571-8181

Facsimile: (052) 571-0915

Osaka Office

Osaka Fukokuseimei Building,
2-4, Komatsubara-cho,
Kita-ku, Osaka 530-0018,
Japan

Telephone: (06) 6313-3131

Facsimile: (06) 6315-6657

Kyotanabe Plant

1-3, Kannanbidai 1-chome,
Kyotanabe, Kyoto 610-0380,
Japan

Telephone: (0774) 64-5001

Facsimile: (0774) 64-5201

Major products:

Power transmission chains
and conveyor chains

Number of employees: 722

Saitama Plant

20, Shinko, Hanno,
Saitama 357-0022,
Japan

Telephone: (042) 973-1131

Facsimile: (042) 973-4252

Major products:

Automotive parts and
materials handling systems

Number of employees: 817

Kyoto Plant

1-1, Kotari-Kuresumi,
Nagaokakyo, Kyoto 617-0833,
Japan

Telephone: (075) 954-1111

Facsimile: (075) 956-8456

Major products:

Power transmission
units and components

Number of employees: 38

(Parent company only)

Hyogo Plant

1140, Asazuma-cho, Kasai,
Hyogo 679-0181,
Japan

Telephone: (0790) 47-1515

Facsimile: (0790) 47-1513

Major products:

Materials handling equipment

Number of employees: 12

(Parent company only)

SALES OFFICES

Sendai, Omiya, Yokohama,
Shizuoka, Toyota, Hokuriku
(Kanazawa), Hiroshima, Kyushu
(Fukuoka), and 9 other regional
sales offices

www.tsubakimoto.jp