



Annual Report 2003

Financial Highlights

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2003 and 2002

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------------|-----------------|----------|------------------------------|
| | 2003 | 2002 | 2003 |
| Net sales | ¥116,670 | ¥113,741 | \$970,632 |
| Operating income..... | 7,351 | 6,038 | 61,156 |
| Net income | 1,531 | 1,202 | 12,737 |
| Per share (yen and dollars): | | | |
| Net income..... | ¥7.92 | ¥6.27 | \$0.06 |
| Cash dividends | 6.00 | 6.00 | 0.04 |
| Total assets | ¥183,260 | ¥201,555 | \$1,524,626 |
| Shareholders' equity | 60,307 | 62,674 | 501,722 |

Note: The U.S. dollar amounts in this annual report have been calculated from yen amounts, for convenience only, at the exchange rate of ¥120.20 to \$1, the approximate exchange rate at March 31, 2003.

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Our Vision

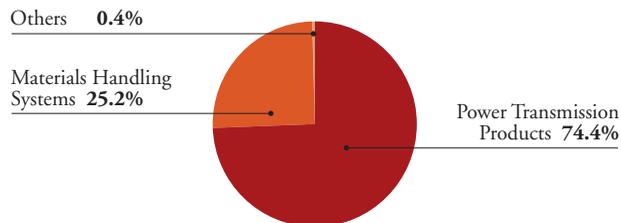
We aim to be a leading company in the global markets for power transmission products and materials handling systems.

Since its founding in 1917 as a manufacturer specializing in steel chains, Tsubakimoto Chain Co. has steadily grown into a market leader, supplying power transmission products and materials handling systems to more than 70 countries. In particular, the Tsubaki-brand has come to stand for quality and functionality in the market for high-end, industrial-use chains. Further, the Company's timing chain drive systems for automotive engines have become a key source of growth in recent years as automakers worldwide make increasing use of these products. Through its Global Best strategy, Tsubakimoto Chain seeks to build a worldwide production system whereby each product is manufactured at the most suitable location. By strengthening its international competitiveness and aggressively expanding the overseas operations of each of its businesses, Tsubakimoto Chain aims to develop into a truly global company.

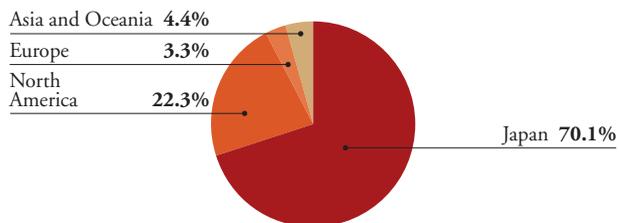
Tsubakimoto Chain at a Glance

Share of Net Sales

By Product

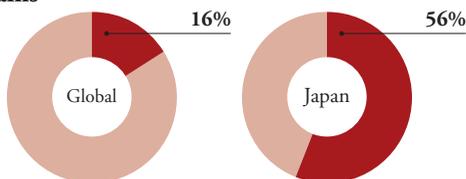


By Region

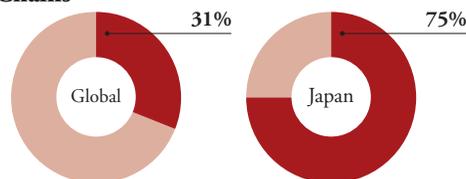


Market Position

Steel Chains



Timing Chains



■ Tsubakimoto Chain's Market Share

Major Products



Lambda Roller Chains

Chains

- Drive chains**
 - RS Roller Chain •Lambda Roller Chain •Low Noise Roller Chain
- Conveyor chains**
 - Attachment Chain •Top Chain •Free-Flow Chain •Needle Bush Chain •RF Conveyor Chain
- Plastic products**
 - Belt Top Chain •Module Conveyor Belt •Conveyor components
- Cable and hose protection and guidance products**
 - TKC Cableveyor •TKP Cableveyor •TKM Cableveyor •TKF Cableveyor



Timing Chains

Automotive Parts

- Automotive timing drive systems**
 - Timing Chain (Roller Chain, Silent Chain) •Timing Belt •Tensioner •Auto Tensioner •Lever •Guide •Sprocket •Pulley
- General industrial timing belts**
 - JIS Timing Belt •Ultra PX Belt •Urethane Timing Belt •Long Belt •Flexible 530 Belt •Lock Pulley



Reducers

Power Transmission Units and Components

- Motion control units**
 - Power Cylinder •Lini Power Jack •Shock Damper (oil-type shock absorbers) •Power Lock
- Reducers and variable speed drives**
 - Gear Motor •Hypoid Motor •Worm Reducer •Shaft-Mounted Reducer •Gear Box •DISCO Variable Speed Drive
- Couplings**
 - Coupling •Cam Clutch •Torque Limiter •Electromagnetic Clutch Brake •Torque Guard
- Electric control devices**
 - Shock Relay •Shock Monitor



Linisort

Materials Handling Systems

- Sorting systems**
 - Linisort •Navisort •Mailsort •Fashionsort •Multi-Sorter
- Conveyance systems**
 - 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
- Equipment monitoring systems**
 - Monitor Maker Mitaro 32 •J-Logger
- Maintenance operations**



Water Processing Chains

Environmental Operations

- Water processing equipment and devices**
 - Water processing equipment (including sewage collection and extraction) •Chains and sprockets for water processing devices •Units for water processing devices
- Volume reduction and packing of plastic waste systems**
 - Wracruxes
- Anti-corrosion chromium-free surface treatments**
 - Highly corrosion resistant coating systems (Progreat [water-base coating] / Disgo [solvent-base coating])

TOWARD GLOBAL BEST



Takashi Fukunaga
President and Representative Director

In the fiscal year ended March 31, 2003, amid low private-sector capital investment due to the prolonged downturn in the Japanese economy, Tsubakimoto Chain took decisive measures aimed at building a robust corporate constitution and strengthening the Tsubakimoto Chain Group's consolidated management. Thanks to these initiatives, the Company posted increased revenues and profits. In the current fiscal year, we will rapidly implement a range of operational strategies to bolster our competitiveness in international markets.

Evaluation of the Operating Environment and Year's Performance

In the fiscal year under review, despite some favorable developments in the automotive industry, private-sector capital investment remained low due to uncertainty over the economic outlook accompanying advancing deflation, instability in the financial services industry, and an across-the-board worsening of economic indicators. Against this backdrop, Tsubakimoto Chain worked to strengthen its management platform by reorganizing its Head Office—the final stage of a series of measures to comprehensively restructure the Company's operations. In conjunction with these efforts, we continued to actively promote customer-oriented operations. We also aggressively pursued our global strategy of bolstering local production and forging alliances with overseas partners.

As a result of these endeavors, the Company recorded higher revenues and profits in the year under review. Consolidated net sales increased 2.6%, to ¥116.7 billion; operating income grew 21.7%, to ¥7.4 billion; and net income was up 27.4%, to ¥1.5 billion.

By business segment, sales of power transmission products were 3.6% higher than in the previous year, at ¥86.8 billion, and operating income was up 14.7%, to ¥7.5 billion. In mainstay industrial-use chains, although we recorded brisk sales of such high-value-added products as high-strength chains and specialty chains, overall these operations were adversely affected by slumping demand. In automotive parts, reflecting the increasing use of timing chains in drive systems by automakers worldwide, demand for these products rose sharply, contributing to growth of the power transmission products segment as a whole. In April 2002, our Power Transmission Units and Components Business Unit merged with Tsubakimoto Emerson Co. to form Tsubaki Emerson Co. The synergy achieved by combining these two operations is steadily bearing fruit, with the new company posting steady sales in such areas of expertise as reducers and motion control units.

In the materials handling segment, although sales were roughly the same as in the previous year, at ¥29.5 billion, operating income rose 8.1%, to ¥2.5 billion. This improved performance reflected concerted efforts to enhance the segment's profitability by reducing fixed costs and concentrating management resources on core operations.

Tsubakimoto Chain's Global Best Strategy

In Japan, due to the prolonged economic downturn and advancing deflation, there remains little prospect of rapid recovery in private-sector capital investment. Moreover, domestic demand is continuing to weaken as companies transfer production overseas. To achieve sustained growth in this challenging environment, the management strategy that the Company must take is clear. Tsubakimoto Chain has to bolster its profitability through continued structural reforms while enhancing its international competitiveness to facilitate the expansion of its operations.

“To achieve sustained growth in this challenging environment, the management strategy that the Company must take is clear. Tsubakimoto Chain has to bolster its profitability through continued structural reforms while enhancing its international competitiveness to facilitate the expansion of its operations.”



To those ends, based on the Company's key slogan of Global Best, Tsubakimoto Chain is working to expand its operating base and enhance its performance by strengthening ties between domestic divisions and overseas Group companies. Each Group company will contribute to bolstering consolidated management through the development, manufacture, and marketing of products best suited to the needs of its particular regional market. In other words, by taking a Global Best approach, we will work to optimize each area of the Group's operations.

While the specific global initiatives for each of our operational segments are covered in more detail in the special feature section of this annual report, the following paragraphs set out the main objectives of the Group's overall global strategy.

In chains, we intend to capture a 20% share of the world steel chain market by March 2006 by strengthening the marketing of core products that allow us to leverage our superior technology. Although the international market for steel chains for general industrial applications is said to have reached maturity, Tsubakimoto Chain intends to achieve continued growth by securing an overwhelming market share and, in turn, further consolidating its position as a leading company in the steel chain industry. Moreover, in the near future we will realize unrivaled productivity, technological capability, and product quality at the Kyotanabe Plant—the largest and best-equipped chain factory in the world.

In automotive parts, we will further bolster our four-point production system that spans Japan, the United States, Europe, and Asia. We have positioned our automotive parts operations, which boast a more-than-30% share of the world market for timing chain drive systems, as the key driver of the Company's future growth. Going forward, we will work to increase our share of the global market for timing chain drive systems by strengthening our international alliance with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten), of Germany, and by building a production system that can service automakers' increasingly globalized operations.

In power transmission units and components, we will work to increase our share of the Japanese market by further enhancing our customer-oriented operations. Meanwhile, plans call for the full-scale launch of marketing in China.

And in material handling systems, our mainstay operations supply customers in Japan's automotive and distribution industries. Looking ahead, we will also focus management resources on such new strategic sectors as the pharmaceutical and food industries. Overseas, the Company will continue to concentrate its efforts on marketing automotive body paint shop conveyor systems. In addition, Tsubakimoto Chain is considering the establishment of a local production base in China, where automakers are rapidly expanding their operations.

Strengthened Management Organization

In the year under review, we began reorganizing our Head Office, which is the last stage of a wide-ranging program to restructure our operations. In April 2003, we formed Tsubaki Support Center Co., Ltd., by merging two subsidiaries with some of our Head Office departments, including general affairs, personnel, and information systems. Through this restructuring initiative, the Company aims to further enhance profitability by rationalizing its back-office operations. Accordingly, we will reduce the current workforce of 220 back-office employees at the Tsubakimoto Chain Group's eight main companies in Japan to 150 by March 2006. For the Group

“Each Group company will contribute to bolstering consolidated management through the development, manufacture, and marketing of products best suited to the needs of its particular regional market.”



as a whole, this is expected to result in an approximately ¥0.5 billion decrease in costs. Moreover, we relocated our Head Office on July 1, 2003, in line with efforts to downsize this area of our operations.

Although reform of our Head Office functions brings us toward the conclusion of the current program of operational restructuring, we will continue our relentless implementation of reform measures focused on creating a robust management platform.

With respect to corporate governance, decisions on substantive management matters and compliance issues are reached at meetings of the Board of Directors. The Board also continuously supervises the Company's operations. In 2003, revisions to the Japanese Commercial Code permitted companies to adopt the “Company with Committees System.” However, Tsubakimoto Chain intends to continue using its Statutory Auditor / Board of Statutory Auditors System. Our Board of Auditors, which comprises three auditors, one of whom is from outside of Tsubakimoto Chain, audits the legal compliance of directors in the execution of their duties through such activities as attending meetings of the Company's Board of Directors. Furthermore, we have made rigorous efforts to inculcate an awareness of legal issues among our employees by establishing and promoting a code of ethical practice.

At the end of the fiscal year under review, interest-bearing debt totaled ¥64.9 billion. Tsubakimoto Chain is aggressively reducing interest-bearing debt, including loan repayments to financial institutions and bond redemptions. In the current fiscal year ending March 31, 2004, we intend to lower interest-bearing debt to ¥40.0 billion—five years ahead of schedule. In the future, the Company will front-load repayments as far as possible while paying close attention to cash flows.

Performance Outlook for the Current Fiscal Year

In the world economy, uncertain prospects for the U.S. economy and economic slowdowns in Europe and Asia are causing concern. In Japan, challenging economic conditions are expected to persist as export growth loses momentum, deflation advances, and private-sector capital investment remains depressed.

In this business climate, the Tsubakimoto Chain Group will redouble its efforts to realize customer-oriented operations and to develop products that cater to the needs of specific markets and customers around the world. In conjunction with these efforts, Tsubakimoto Chain will work to enhance its corporate value by further restructuring the Company's operations to raise competitiveness and profitability. Despite intensified competition in international markets, by adhering to our Global Best strategy we aim to achieve dramatic growth. In the current fiscal year ending March 2004, we anticipate net sales of ¥121.0 billion, operating income of ¥7.6 billion, and net income of ¥3.0 billion.

In closing, I would like to take this opportunity to ask our shareholders and other investors for their continued support.

August 2003

A handwritten signature in black ink, appearing to read 'Takashi Fukunaga'.

Takashi Fukunaga, *President and Representative Director*

Management Strategy: Toward Global Best

Power Transmission Products

CHAIN OPERATIONS

In its mainstay chain operations, the Company continues to face a challenging operating environment brought about by prolonged sluggishness in the Japanese economy, an influx of low-priced products into the domestic marketplace, and intensified competition in overseas markets. In this setting, Tsubakimoto Chain is leveraging its unmatched technology and product quality to consolidate its position as an industry leader and to capture a 20% share of the global market for steel chains.

Tadashi Ichikawa Director, Chain Division



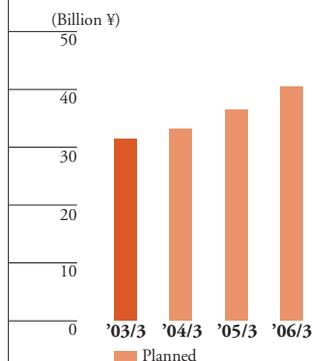
Drive chains

Market Trends and Operating Strategy

In our chain operations, slumping private-sector demand in our mainstay Japanese market had a significant impact on sales during the fiscal year under review. Meanwhile, at our new Kyotanabe Plant, which began full-scale operations in the year under review, we had difficulty raising output due to delays in reaching capacity utilization targets. Given the unlikelihood of a rapid recovery in demand or an expansion of the market in Japan, our main strategies for realizing growth in our chain operations are to secure 20% of the global market for steel chains by March 2006 and to ramp up capacity utilization at the Kyotanabe Plant.

Worldwide, the market for steel chains for general industrial applications is said to have reached maturity, while each year price competition becomes fiercer as manufacturers compete for survival. Tsubakimoto Chain continues to enhance its competitive advantage by increasing its market share and reinforcing its status as a leading company in the steel chain industry. In particular, we aim to win an overwhelming share of the mid-to-high-end market, where Tsubakimoto Chain can leverage its technological superiority. Boasting the world's best R&D and production engineering capabilities, the Company's cutting-edge chain plant in Kyotanabe will play a crucial part in realizing that goal. We will bring the world's highest-quality chains to market by positioning the Kyotanabe Plant at the strategic core of our chain operations and strengthening alliances with overseas Group companies.

Chain Operations— Projected Sales



Expanding Our Market Share

With a view to increasing our market share of the global steel chain market, we will rapidly implement a wide range of measures.

In the United States, we will strengthen ties with a major North American chain manufacturer, aiming to enhance profitability by boosting orders for core products that demonstrate our technological superiority.

In Europe, our primary task is to expand distribution channels. Accordingly, we will open up local distribution routes based on an agency agreement concluded through one of our European subsidiaries with a major machine trading company in France.

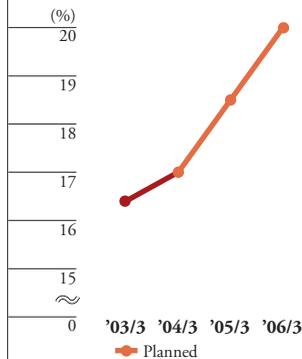


Cableveyors for automotive power slide doors and other applications



Recycled plastic chain used in a beverage processing plant

Chains—Global Market Share Targets



In China, we will position the Company to take advantage of that market's significant growth potential through the stepped-up marketing of high-end products to Japanese corporations and the oil industry. Specifically, we are working to increase the market penetration of the Tsubaki brand by concentrating on core product lines, including marine chains, oil drilling chains, conveyor chains for automobile production lines, and chains for the steel industry. The successful development of operations in the Chinese market is an extremely important part of our global strategy. We will therefore continue to strengthen our operations while examining the feasibility of establishing local marketing or production bases. As part of efforts to lay the groundwork for full-scale participation in the Chinese market, in April 2003 we established the China Business Development Section as a new department tasked with managing and advancing the Tsubakimoto Chain Group's overall strategy in China.

Although we do not anticipate any large increases in demand in our mainstay domestic market, it remains an important source of revenue. Our solid operational base in Japan—with sales accounting for more than 50% of the domestic market—enables us to pursue aggressive global strategies. While continuing to cater precisely to growing demand among customers for the rapid delivery of high-quality products, Tsubakimoto Chain will work to create new demand by developing products for such fields as environment-related business.

Positioning the Kyotanabe Plant as a Strategic Base

Full-scale operations at our world-class Kyotanabe Plant commenced in the year under review. The new plant not only forms the core of our domestic operations, it is central to the implementation of our global strategy. Accordingly, we are developing plant operations with global markets in mind and positioning the facility as our R&D and manufacturing hub for high-end, Tsubaki-brand products that leverage our engineering expertise.

In addition, we are pursuing increased cost competitiveness at the plant through the introduction of a new production management system that greatly improves productivity. Although we were unable to achieve the production efficiency levels that we initially projected due to decreased orders and start-up problems, we intend to quickly overcome these difficulties to realize a 20% improvement in production efficiency in the near future.

Moreover, we will take full advantage of the functions of the Technical Center within the Kyotanabe Plant to create business opportunities. In doing so, we will develop new products for growth industries, such as cableveyors for automotive power slide doors, and energetically expand operations in such new business areas as plastic recycling.

AUTOMOTIVE PARTS OPERATIONS

Tsubakimoto Chain has positioned its automotive parts operations as the key driver of the Company's future growth. In the fiscal year under review, sales of our timing chain drive systems continued to grow strongly as increasing numbers of automakers worldwide chose to use our products. We aim to gain a 33% share of the world market for timing chain drive systems by aggressively expanding our operations based on four production sites in Japan, the United States, Europe, and Asia.

Yoshinobu Miyazaki Managing Director, Automotive Parts Division



Timing chain drive system for V6 engines

Market Trends and Operating Strategy

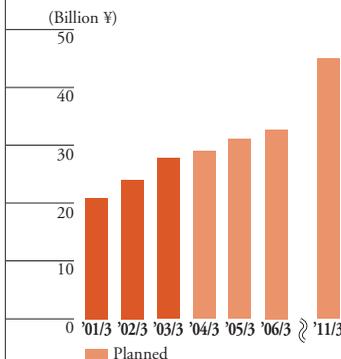
Timing chain drive systems are a core component of automotive engines. Today, the changeover from timing belts to timing chains is gathering pace in the automotive industry worldwide. This shift reflects growing demand for durable components as automakers strive to develop engines with enhanced compactness and performance. Improvements in the performance of timing chain drive systems themselves have contributed to the development of engines with reduced size, weight, and operating noise.

In the year under review, our automotive parts operations posted record sales as domestic and overseas automakers increasingly used our timing chain drive systems. Moreover, we significantly raised profitability through cost reduction efforts that enhanced the cost competitiveness of the Automotive Parts Division.

Anticipating the expanded use of timing chain drive systems, we aim to capture an even larger share of the market by further bolstering our marketing activities. Overseas, large potential markets still remain. In Europe, for example, the shift to timing chain drive systems has yet to begin in earnest. Meanwhile in China, the automotive industry is recording rapid growth and the Company is considering establishing local production capabilities.

Through efforts to raise our share of the world market for timing chain drive systems from 30% to 33%, we plan to increase annual sales of these products from the current level of approximately ¥28.0 billion to ¥33.0 billion by March 2006. Our long-term target is to realize annual sales of ¥45.0 billion by the year ending March 2011.

Automotive Parts Operations— Projected Sales



Bolstering Our Global Four-Production-Site System

In recent years, aiming to become a global supplier of the world's number one brand, we have built a production system for automotive parts that spans the four key areas of Japan, the United States, Europe, and Asia. In the year under review, we completed this system by commencing a strategic alliance in Europe with Joh. Winklhofer & Söhne GmbH & Co. KG (iwis ketten), of Germany. Also, in Asia, we began operations at a manufacturing subsidiary in Thailand. Meanwhile, we continue to strengthen our established automotive parts production bases in



Timing chain drive system components



Silent chains

Saitama, Japan, and Chicopee, Massachusetts, in the United States. Looking ahead, we plan to steadily boost the overall production capacity of the four-point system.

In the medium-to-long term, we will position the Saitama Plant at the core of our global production system, take measures to standardize product quality and pricing worldwide, and enhance cost competitiveness. In addition, the Saitama Plant will implement our global strategy of achieving overall optimization in automotive parts operations by functioning as a base tasked with developing new products and allocating them to the most suitable manufacturing sites. As part of this initiative, we have begun using indexes at the plant to evaluate the production and investment efficiency of operations at our four production sites in Japan and overseas. At the Saitama Plant, we are also actively developing promising products other than timing drive systems, including oil pump drive chains for continuously variable transmissions.

Strengthening Customer-Oriented Operations

At present, the customer base of our automotive parts operations comprises the automotive industry's major players. We supply products to Toyota, Nissan, Suzuki, Honda, and others in Japan; General Motors and Ford in the United States; and Jaguar in Europe. And, Tsubakimoto Chain is developing its operations in step with the heightened pace of corporate reorganization and globalization among automaker groups.

In April 2003, for example, we introduced a global account manager system. Instead of managing customers on a regional basis, we now offer a globally integrated, comprehensive range of services to automaker groups. Our aim is to address customer needs more accurately by consolidating the management of every aspect of the products we offer each group.

Also, in October 2002, we introduced a project manager system. In this initiative, when an automaker is sourcing for the launch of a new engine project, we task one of our managers to oversee the entire process from development to procurement, production, and delivery. As well as allowing us to build closer ties with customers, the project manager system helps us shorten lead times to manufacturers in the process of developing new engines for globally marketed vehicles.

POWER TRANSMISSION UNITS AND COMPONENTS OPERATIONS

In April 2002, we merged Tsubakimoto Chain's power transmission operations with subsidiary Tsubakimoto Emerson Co. to form Tsubaki Emerson Co., which produces and markets power transmission units and components, including Power Cylinders, reducers, and cam clutches. By maximizing the synergy created through this joining of forces, the new company is strengthening its mainstay products and technologies while aggressively expanding its business in such overseas markets as China.

Takehiro Ueda President and Representative Director, Tsubaki Emerson Co.



Cam clutches



Tsubaki Emerson's Power Cylinders are used in cutting-edge medical equipment, such as MRIs.

Market Trends and Operating Strategy

With many of its core lineups boasting leading market shares, the new company is successfully establishing a solid operating base. However, we must also take new measures to address emerging market trends. While the Japanese market for power transmission products has been contracting in recent years as major corporations accelerate the transfer of their production overseas, the market has also been characterized by growing demand among customers for smaller, lighter products and increased product diversity.

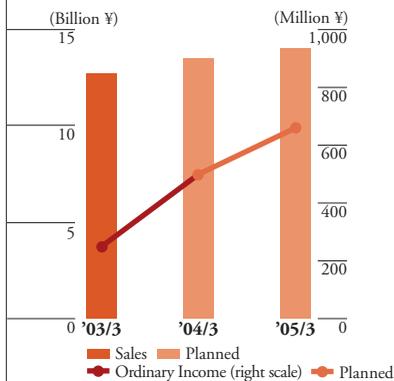
Tsubaki Emerson will achieve sustained growth by reinforcing domestic operations, which account for 90% of its sales, and stepping up the pace of its advance into overseas markets. To bolster operations at home, we will hone core technologies and strengthen the targeted marketing of our most competitive products. In the development of overseas operations, we will work to increase sales of high-end products, particularly in the Chinese market. By positioning our local subsidiary in Tianjin as a strategic base, we aim to expand our procurement, marketing, and service systems in China.

Strengthening Market Competitiveness

Our goal is to construct a highly profitable operational structure in each of Tsubaki Emerson's five business units, which handle reducers and variable speed drives, linear actuators, cam clutches, couplings, and mechatronics products. Each unit is currently rethinking its business model and bolstering its technological base by identifying those products that allow Tsubaki Emerson to fully realize its competitive advantage. At the same time, the business units are continuing to raise cost competitiveness by standardizing product specifications and streamlining production processes. Meanwhile, for general-purpose products that present limited opportunities to leverage our technological strengths we are shifting production overseas.

A great deal of scope remains for generating new demand in the market for power transmission products by catering to customer needs with even greater precision. By taking on the conflicting challenges of creating products that are both standardized and customized, Tsubaki Emerson will actively pursue the possibilities for creating new demand for its power transmission products.

Tsubaki Emerson's Operating Plan



Materials Handling Systems

MATERIALS HANDLING OPERATIONS

In materials handling operations, we are enhancing the competitiveness of mainstay products by continuing to allocate our management resources to areas of expertise. At the same time, looking to future growth, we are successfully developing products aimed at cultivating new markets. We will continue to seek significant growth by promoting global operations and leveraging our technological capabilities to create unique products.

Akira Morikiyo Managing Director, Materials Handling Division



Labo Stocker



Hybrid Traverser

Market Trends and Operating Strategy

The Company restructured materials handling operations and created a strategy that enables these operations to generate stable profits without being unduly affected by fluctuations in the economic climate. As a result, we posted higher profits in the year under review despite a year-on-year decrease in sales.

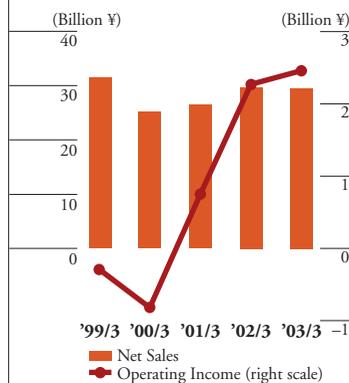
Our central strategy in materials handling operations is to concentrate on mainstay products. In other words, we make maximum use of Tsubakimoto Chain's technological expertise to create high-value-added products for target markets. Examples of such products are the Hybrid Traverser body paint shop conveyor system for the automotive industry; the AGV automatic roll paper feeding system for the newspaper industry; and the Linisort linear motor actuated sorting system for the distribution industry. Our customers have highly evaluated the unique functionality and performance of such core products, which ensures that these products continue to enjoy firm demand and a dominant share of their respective markets. Plans call for raising sales of core products incrementally to account for more than 50% of total sales in the materials handling segment, compared with approximately 40% at present.

Expanding Sales of Core Products and Advancing Globalization

In materials handling operations, we intend to focus product development on profitable growth sectors and areas where we can leverage our unique engineering expertise. For example, we will aggressively market Labo Stocker, our library compound storage system for the pharmaceutical industry; and Space Freezer, our flash-freezing system for the food industry. We have already received orders for Labo Stocker from several major pharmaceutical companies and prospects are good for increased orders.

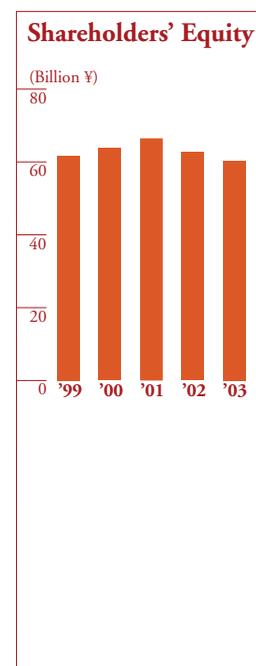
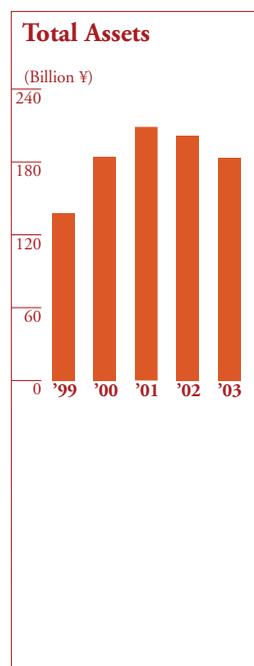
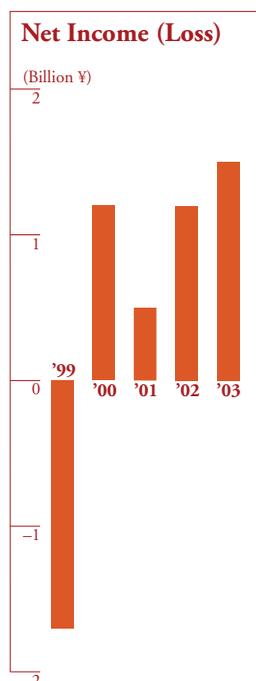
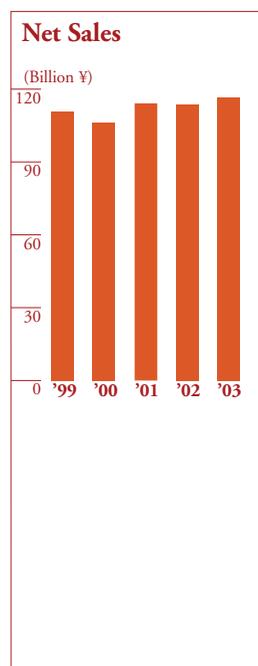
The main pillar of our global strategy is our range of body paint shop conveyor systems for the automotive industry. In recent years, automakers have been turning their attention to the development and expansion of operations in China. In response, we are considering the establishment of a local production base to enhance the products and services we deliver to those customers entering the Chinese market. Furthermore, as the standardization of system specifications advances, we will work to develop products with the quality and performance to make the Tsubaki brand the industry's de facto standard for automotive body paint shop conveyor systems.

Materials Handling Operations—Performance



Management's Discussion and Analysis

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31



Summary of Business Segment Information

Years Ended March 31

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

Review of Operations

POWER TRANSMISSION PRODUCTS

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

Chains

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

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

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

Automotive Parts

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

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

Power Transmission Units and Components

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

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

MATERIALS HANDLING SYSTEMS

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

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

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

Automotive Industry

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

Newspaper Industry

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

Distribution Industry

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

Information and Communications Industry

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

Pharmaceutical Industry

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

Maintenance Operations

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

Financial Review

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

Income and Expenses

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

Eleven-Year Financial Summary

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31

| | 2003 | 2002 | 2001 | 2000 |
|--|-----------------|----------|----------|----------|
| Net sales | ¥116,670 | ¥113,741 | ¥114,206 | ¥106,281 |
| Operating income | 7,351 | 6,038 | 6,962 | 2,705 |
| Income (loss) before income taxes and minority interests | 2,800 | 2,661 | 226 | 2,725 |
| Net income (loss)..... | 1,531 | 1,202 | 465 | 1,218 |
| Net income (loss) per share (yen and dollars) | ¥7.92 | ¥6.27 | ¥2.42 | ¥6.36 |
| Interest expense: | | | | |
| Net | ¥ 1,636 | ¥ 1,585 | ¥ 1,666 | ¥ 1,577 |
| Gross: Interest received | 103 | 223 | 284 | 162 |
| Interest paid | 1,739 | 1,808 | 1,950 | 1,739 |
| Capital expenditures | 2,942 | 16,194 | 10,251 | 32,487 |
| Depreciation | 6,736 | 5,611 | 4,321 | 4,444 |
| Total current assets | 83,074 | 90,750 | 93,984 | 83,143 |
| Total current liabilities | 52,062 | 58,125 | 65,374 | 50,080 |
| Property, plant and equipment, net | 80,416 | 85,381 | 82,179 | 76,352 |
| Total noncurrent liabilities | 67,638 | 77,676 | 74,066 | 67,474 |
| Total assets | 183,260 | 201,555 | 208,877 | 184,468 |
| Common stock | 17,077 | 17,077 | 17,077 | 17,077 |
| Retained earnings | 33,975 | 33,500 | 33,480 | 34,020 |
| Total shareholders' equity..... | 60,307 | 62,674 | 66,463 | 63,750 |
| Equity ratio (%)..... | 32.9 | 31.1 | 31.8 | 34.6 |
| Return on equity (%)..... | 2.5 | 1.9 | 0.7 | 1.9 |
| Debt-to-equity ratio (times)..... | 1.08 | 1.22 | 1.18 | 1.16 |
| Net cash provided by operating activities | ¥ 12,020 | ¥ 7,709 | ¥ 5,968 | ¥ 3,268 |
| Net cash used in investing activities | 3,014 | 10,718 | 10,834 | 28,755 |
| Net cash provided by (used in) financing activities | (14,216) | (4,243) | 2,026 | 27,166 |
| Cash and cash equivalents at the end of the year | 12,417 | 17,679 | 24,853 | 27,586 |
| Number of shares outstanding at year-end (thousands) | 188,722 | 191,386 | 191,406 | 191,406 |
| Number of employees..... | 4,871 | 4,916 | 5,237 | 5,440 |

| Millions of Yen Except Per Share Data | | | | | | | Thousands of U.S. Dollars |
|---------------------------------------|----------|----------|----------|----------|----------|----------|------------------------------|
| 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 2003 |
| ¥110,919 | ¥128,298 | ¥127,231 | ¥110,424 | ¥101,670 | ¥109,014 | ¥120,867 | \$970,632 |
| 2,358 | 6,435 | 6,374 | 4,329 | 234 | 636 | 5,317 | 61,156 |
| (1,018) | 5,508 | 5,931 | 3,649 | 179 | 1,750 | 5,131 | 23,295 |
| (1,715) | 2,709 | 3,280 | 1,796 | (634) | 1,148 | 2,539 | 12,737 |
| ¥(8.92) | ¥14.08 | ¥17.04 | ¥9.33 | ¥(3.29) | ¥5.96 | ¥13.20 | \$0.06 |
| ¥ 1,163 | ¥ 1,172 | ¥ 1,073 | ¥ 1,063 | ¥ 951 | ¥ 1,041 | ¥ 1,248 | \$ 13,610 |
| 263 | 323 | 385 | 492 | 835 | 982 | 1,247 | 857 |
| 1,426 | 1,495 | 1,458 | 1,555 | 1,786 | 2,023 | 2,495 | 14,467 |
| 5,157 | 15,050 | 5,680 | 4,759 | 4,290 | 4,221 | 8,489 | 24,476 |
| 4,620 | 4,790 | 4,783 | 4,837 | 5,165 | 5,432 | 5,216 | 56,040 |
| 72,541 | 81,622 | 80,929 | 77,995 | 63,452 | 63,319 | 75,028 | 691,132 |
| 47,256 | 62,224 | 58,349 | 62,312 | 45,902 | 45,625 | 56,937 | 433,128 |
| 48,249 | 48,837 | 38,331 | 36,904 | 37,709 | 39,221 | 40,629 | 669,018 |
| 27,397 | 18,710 | 21,847 | 16,849 | 19,966 | 19,818 | 20,320 | 562,712 |
| 137,691 | 147,668 | 145,268 | 141,863 | 127,893 | 129,020 | 141,759 | 1,524,626 |
| 17,077 | 17,077 | 17,075 | 17,068 | 17,066 | 17,066 | 17,058 | 142,071 |
| 31,943 | 35,260 | 33,791 | 31,682 | 31,060 | 32,675 | 33,398 | 282,654 |
| 61,673 | 64,989 | 63,516 | 61,392 | 60,768 | 62,382 | 63,091 | 501,722 |
| 44.8 | 44.0 | 43.7 | 43.3 | 47.5 | 48.4 | 44.5 | |
| — | 4.2 | 5.2 | 2.9 | — | 1.8 | 4.0 | |
| 0.73 | 0.64 | 0.62 | 0.60 | 0.57 | 0.55 | 0.61 | |
| ¥ 6,951 | ¥ 2,740 | ¥ 4,028 | ¥ 5,456 | ¥ 6,099 | ¥ 9,791 | ¥ 7,381 | \$ 100,000 |
| 4,527 | 4,475 | 4,663 | 4,245 | 3,975 | 4,926 | 9,021 | 25,075 |
| 2,427 | 1,021 | 955 | 1,246 | (1,196) | (5,859) | 5,496 | (118,270) |
| 24,879 | 20,029 | 21,999 | 21,679 | 19,222 | 18,294 | 19,288 | 103,303 |
| 191,406 | 192,406 | 192,399 | 192,377 | 192,374 | 192,372 | 192,354 | |
| 5,368 | 5,720 | 5,789 | 5,844 | 5,829 | 5,652 | 5,649 | |

Consolidated Balance Sheets

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2003 and 2002

| Assets | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------------|------------------------------|
| | 2003 | 2002 | 2003 |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 12,417 | ¥ 17,679 | \$ 103,303 |
| Short-term investments | 7,257 | 5,040 | 60,374 |
| Trade notes and accounts receivable: | | | |
| Unconsolidated subsidiaries and affiliates | 71 | 28 | 591 |
| Other | 29,363 | 31,020 | 244,285 |
| Inventories | 23,306 | 24,278 | 193,893 |
| Deferred tax assets | 1,724 | 1,670 | 14,343 |
| Other receivables: | | | |
| Unconsolidated subsidiaries and affiliates | 54 | 89 | 449 |
| Other current assets | 9,164 | 11,275 | 76,240 |
| Allowance for doubtful receivables | (282) | (329) | (2,346) |
| Total current assets | 83,074 | 90,750 | 691,132 |
| Property, plant and equipment (Note 7): | | | |
| Land | 36,105 | 36,223 | 300,374 |
| Buildings and structures | 41,747 | 42,680 | 347,313 |
| Machinery and equipment | 75,640 | 73,402 | 629,285 |
| Construction in progress | 655 | 3,051 | 5,449 |
| Less accumulated depreciation | (73,731) | (69,975) | (613,403) |
| Property, plant and equipment, net | 80,416 | 85,381 | 669,018 |
| Investments and other assets: | | | |
| Investment securities: | | | |
| Unconsolidated subsidiaries and affiliates | 497 | 438 | 4,135 |
| Other | 8,546 | 15,526 | 71,098 |
| Long-term loans receivable | 103 | 22 | 857 |
| Deferred tax assets | 1,958 | 1,085 | 16,290 |
| Deferred tax assets on revaluation of land | 2,108 | 2,183 | 17,537 |
| Other assets (Note 7) | 7,096 | 6,761 | 59,035 |
| Allowance for doubtful receivables | (538) | (591) | (4,476) |
| Total investments and long-term loans receivable | 19,770 | 25,424 | 164,476 |
| Total assets | ¥183,260 | ¥201,555 | \$1,524,626 |

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

| Liabilities and Shareholders' Equity | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|-----------------|------------------------------|
| | 2003 | 2002 | 2003 |
| Current liabilities: | | | |
| Short-term bank loans and current portion of long-term debt | ¥ 20,979 | ¥ 22,731 | \$ 174,534 |
| Trade notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | 479 | 977 | 3,985 |
| Other | 16,727 | 21,450 | 139,160 |
| Income taxes payable | 996 | 349 | 8,286 |
| Accrued expenses | 2,817 | 2,142 | 23,436 |
| Deferred tax liabilities | 0 | 17 | 0 |
| Other | 10,064 | 10,459 | 83,727 |
| Total current liabilities | 52,062 | 58,125 | 433,128 |
| Noncurrent liabilities: | | | |
| Bonds | 8,800 | 11,200 | 73,211 |
| Long-term loans, less current maturities | 35,151 | 42,803 | 292,438 |
| Retirement benefits (Note 13) | 17,692 | 17,535 | 147,188 |
| Deferred tax liabilities | 2,718 | 2,746 | 22,612 |
| Other | 3,277 | 3,392 | 27,263 |
| Total noncurrent liabilities | 67,638 | 77,676 | 562,712 |
| Minority interests | 3,253 | 3,080 | 27,064 |
| Shareholders' equity: | | | |
| Common stock | 17,077 | 17,077 | 142,071 |
| Capital surplus | 12,653 | 12,653 | 105,266 |
| Revaluation surplus (Note 9) | (3,097) | (3,015) | (25,765) |
| Retained earnings | 33,975 | 33,500 | 282,654 |
| Net unrealized holding gains on securities | 1,529 | 2,319 | 12,720 |
| Currency translation adjustments | (865) | 146 | (7,196) |
| | 61,272 | 62,680 | 509,750 |
| Treasury stock | (965) | (6) | (8,028) |
| Total shareholders' equity | 60,307 | 62,674 | 501,722 |
| Total liabilities and shareholders' equity | ¥183,260 | ¥201,555 | \$1,524,626 |

Consolidated Statements of Income

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2003, 2002 and 2001

| | Millions of Yen | | | Thousands of U.S. Dollars |
|--|-----------------|----------|----------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Net sales | ¥116,670 | ¥113,741 | ¥114,206 | \$970,632 |
| Cost of sales | 85,064 | 82,399 | 82,683 | 707,687 |
| Gross profit | 31,606 | 31,342 | 31,523 | 262,945 |
| Selling, general and administrative expenses..... | 24,255 | 25,304 | 24,561 | 201,789 |
| Operating income | 7,351 | 6,038 | 6,962 | 61,156 |
| Other income (expenses): | | | | |
| Interest and dividend income | 232 | 382 | 477 | 1,930 |
| Interest expense | (1,739) | (1,808) | (1,950) | (14,467) |
| Equity in earnings of an affiliate..... | 36 | — | — | 300 |
| Foreign exchange gains (losses)..... | (265) | (68) | 49 | (2,205) |
| Other, net | (616) | (522) | (423) | (5,125) |
| Ordinary income..... | 4,999 | 4,022 | 5,115 | 41,589 |
| Extraordinary profit (loss): | | | | |
| Loss on valuation of investment securities | (1,908) | (1,933) | — | (15,873) |
| Difference caused by changing standards for retirement benefits | — | — | (6,654) | — |
| Other, net | (291) | 572 | 1,765 | (2,421) |
| Income before income taxes and minority interests | 2,800 | 2,661 | 226 | 23,295 |
| Income taxes: | | | | |
| Current | 1,389 | 490 | 2,311 | 11,556 |
| Deferred | (301) | 799 | (2,587) | (2,504) |
| Minority interests | (181) | (170) | (37) | (1,506) |
| Net income | ¥ 1,531 | ¥ 1,202 | ¥ 465 | \$ 12,737 |

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

Consolidated Statements of Shareholders' Equity

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2003, 2002 and 2001

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|------------------|-----------|---------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Common stock: | | | | |
| Balance at beginning of the year | | | | |
| 2003—191,406,969 shares; | | | | |
| 2002—191,406,969 shares; | | | | |
| 2001—191,406,969 shares | ¥17,077 | ¥17,077 | ¥17,077 | \$142,071 |
| Balance at end of the year | | | | |
| 2003—191,406,969 shares; | | | | |
| 2002—191,406,969 shares; | | | | |
| 2001—191,406,969 shares | ¥17,077 | ¥17,077 | ¥17,077 | \$142,071 |
| Capital surplus: | | | | |
| Balance at beginning of the year..... | ¥12,653 | ¥12,653 | ¥12,653 | \$105,266 |
| Balance at end of the year..... | ¥12,653 | ¥12,653 | ¥12,653 | \$105,266 |
| Revaluation surplus: | | | | |
| Balance at beginning of the year..... | ¥ (3,015) | ¥ — | ¥ — | \$(25,083) |
| Net changes during the year | (82) | (3,015) | — | (682) |
| Balance at beginning of the year..... | ¥ (3,097) | ¥ (3,015) | ¥ — | \$(25,765) |
| Retained earnings: | | | | |
| Balance at beginning of the year..... | ¥33,500 | ¥33,480 | ¥34,020 | \$278,702 |
| Increase in retained earnings, resulting from consolidation of additional subsidiaries | 45 | — | — | 374 |
| Increase in retained earnings, resulting from application of the equity method..... | 58 | — | — | 483 |
| Increase in retained earnings, resulting from merger of an unconsolidated subsidiary..... | — | — | 164 | — |
| Net income | 1,531 | 1,202 | 465 | 12,737 |
| Cash dividends paid | (1,141) | (1,148) | (1,149) | (9,493) |
| Bonuses to directors and statutory auditors | (22) | (34) | (21) | (183) |
| Reversal of revaluation surplus..... | 4 | — | — | 33 |
| Balance at end of the year..... | ¥33,975 | ¥33,500 | ¥33,480 | \$282,654 |
| Unrealized holding gains (losses) on securities: | | | | |
| Balance at beginning of the year..... | ¥ 2,319 | ¥ 4,031 | ¥ — | \$ 19,293 |
| Net changes during the year | (790) | (1,712) | 4,031 | (6,573) |
| Balance at end of the year..... | ¥ 1,529 | ¥ 2,319 | ¥ 4,031 | \$ 12,720 |
| Currency translation adjustments: | | | | |
| Balance at beginning of the year..... | ¥ 146 | ¥ (777) | ¥ — | \$ 1,215 |
| Net changes during the year | (1,011) | 923 | (777) | (8,411) |
| Balance at end of the year..... | ¥ (865) | ¥ 146 | ¥ (777) | \$ (7,196) |

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

Consolidated Statements of Cash Flows

Tsubakimoto Chain Co. and Consolidated Subsidiaries
As of March 31, 2003, 2002 and 2001

| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|-----------------|----------|----------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Cash flows from operating activities: | | | | |
| Income before income taxes and minority interests..... | ¥ 2,800 | ¥ 2,661 | ¥ 226 | \$ 23,295 |
| Adjustments for: | | | | |
| Depreciation..... | 6,736 | 5,611 | 4,321 | 56,040 |
| (Gain) loss on sales of property, plant and equipment..... | 93 | (1,757) | (3,380) | 774 |
| Loss on valuation of deposits for golf club membership | — | — | 450 | — |
| Loss on valuation of investment securities | 1,908 | 1,933 | — | 15,873 |
| Allowance for doubtful receivables, net | (134) | 124 | (91) | (1,115) |
| Retirement benefits, net | 156 | (242) | 6,007 | 1,298 |
| Other | — | — | (242) | — |
| Decrease (increase) in trade notes and accounts receivable | 1,531 | 4,895 | (7,212) | 12,737 |
| Decrease (increase) in inventories | 325 | (863) | (847) | 2,704 |
| Increase (decrease) in trade notes and accounts payable | (3,980) | (2,055) | 4,891 | (33,112) |
| Other | 4,472 | 1,553 | 4,502 | 37,205 |
| Sub total | 13,907 | 11,860 | 8,625 | 115,699 |
| Interest and dividend income received..... | 225 | 415 | 474 | 1,872 |
| Interest expenses paid | (1,748) | (1,909) | (2,033) | (14,543) |
| Income taxes paid..... | (364) | (2,657) | (1,098) | (3,028) |
| Net cash provided by operating activities | 12,020 | 7,709 | 5,968 | 100,000 |
| Cash flows from investing activities: | | | | |
| Increase of time deposits (due after 3 months)..... | (108) | (144) | (10) | (899) |
| Decrease of time deposits (due after 3 months)..... | 86 | 158 | 8 | 715 |
| Payments for purchase of investments in securities | (7,827) | (8,464) | (7,258) | (65,116) |
| Proceeds from sales of investments in securities | 9,557 | 8,847 | 1,832 | 79,509 |
| Payments for purchase of investments in subsidiaries..... | (0) | (227) | (15) | (0) |
| Increase in long-term loans receivable..... | (111) | (13) | (19) | (923) |
| Decrease in long-term loans receivable..... | 14 | 14 | 31 | 116 |
| Payments for purchase of property, plant and equipment | (5,379) | (12,771) | (10,072) | (44,750) |
| Proceeds from sales of property, plant and equipment | 754 | 1,882 | 4,669 | 6,273 |
| Net cash used in investing activities | (3,014) | (10,718) | (10,834) | (25,075) |
| Cash flows from financing activities: | | | | |
| Increase (decrease) in short-term bank loans, net | (8,499) | (3,311) | 1,667 | (70,707) |
| Proceeds from long-term loans | 473 | 10,607 | 2,615 | 3,935 |
| Repayment of long-term loans..... | (1,050) | (7,343) | (725) | (8,736) |
| Issuance of bonds..... | 99 | 100 | — | 824 |
| Payments on redemption of bonds | (2,585) | (2,792) | (300) | (21,506) |
| Payments on installment purchases..... | (412) | (223) | — | (3,428) |
| Cash dividends | (1,141) | (1,148) | (1,149) | (9,493) |
| Cash dividends for minority shareholders..... | (142) | (127) | (82) | (1,181) |
| Payments for purchase of treasury stock..... | (959) | — | — | (7,978) |
| Other | — | (6) | — | (45) |
| Net cash provided by (used in) financing activities..... | (14,216) | (4,243) | 2,026 | (118,270) |
| Effect of exchange rate changes on cash and cash equivalents..... | | | | |
| Net decrease in cash and cash equivalents..... | (5,314) | (7,174) | (2,776) | (44,210) |
| Cash and cash equivalents at the beginning of the year..... | 17,679 | 24,853 | 27,586 | 147,080 |
| Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation..... | 52 | — | — | 433 |
| Increase in cash and cash equivalents due to merger of an unconsolidated subsidiary..... | — | — | 43 | — |
| Cash and cash equivalents at the end of the year | ¥ 12,417 | ¥ 17,679 | ¥ 24,853 | \$ 103,303 |

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 Company has prepared its consolidated financial statements in accordance with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than 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 and practices 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").

Due to growing significance, beginning with the year ended March 31, 2003, two subsidiaries have been included in the consolidated financial statements.

Consolidated subsidiaries are:

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

(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.

Due to growing significance, beginning with the year ended March 31, 2003, one affiliate has been included in the consolidated financial statements.

Investments in 6 insignificant subsidiaries and 3 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 ¥120.20 = \$1, the approximate exchange rate prevailing on March 31, 2003.

(e) Cash and cash equivalents

For the purposes of cash flows statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts, and all highly liquid investments with 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 accumulated-cost 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.

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.

Effective April 1, 2002, Tsubaki Emerson Co. and Tsubakimoto Custom Chain Co. changed the method of calculation for retirement benefits obligation from the simplified method, accrual for 100% of the amount required if all employees were to voluntarily terminate their employment as of the balance sheet date, to actuarial calculation which is prescribed by the accounting standards as the principle method.

The effect of the change was to increase income before income taxes and minority interests for the year ended March 31, 2003 by ¥15 million (\$124,792 thousand) from the amount which would have been recorded under the method applied in the previous year.

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, 2003 and 2002, the following assets were pledged as collateral for bank loans and long-term debt:

| | Millions of Yen | | Thousands of |
|-------------------------------------|-----------------|---------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Property, plant and equipment | ¥60,250 | ¥45,397 | \$501,248 |
| Other noncurrent items | 63 | 63 | 524 |
| | ¥60,313 | ¥45,460 | \$501,772 |

8. CONTINGENT LIABILITIES

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥6,101 million (\$50,757 thousand) and ¥7,866 million at March 31, 2003 and 2002, 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, 2003 and the book value after the revaluation at March 31, 2002, is as follows:

| | Millions of Yen | | Thousands of |
|------------------------------------|-----------------|------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Fair value at March 31, 2003 | ¥28,094 | | \$233,727 |
| Book value after the revaluation | | | |
| at March 31, 2003..... | 31,494 | | 262,013 |
| Difference..... | ¥ 3,400 | | \$ 28,286 |

10. PER SHARE AMOUNTS

| | Millions of Yen | | Thousands of |
|--------------------------------------|-----------------|---------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Shareholders' equity per share | ¥319.39 | ¥327.47 | \$2.65 |
| Net income per share | 7.92 | 6.27 | 0.06 |

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted Financial Accounting Standard No. 2, "Accounting Standards for Earnings per Share" and Financial Accounting Standards Implementation Guidance No. 4: "Implementation Guidance for Accounting Standards for Earnings per Share," which were issued by the Accounting Standards Board of Japan.

The basic financial data for the computation of basic net income per share based on the new aforementioned standards for the year ended March 31, 2003, is as follows:

| | Millions of Yen | | Thousands of |
|--|-----------------|-------------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Information on basic net income: | | | |
| Net income | ¥1,531 | | \$12,737 |
| Deduction from net income: | | | |
| Bonuses to directors and statutory auditors..... | 29 | | 241 |
| Adjusted net income allocated in common stock | 1,502 | | 12,496 |
| Weighted average number of shares of | | | |
| common stock outstanding during 2003 | | 189,504,012 | 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 charged to income was ¥1,151 million (\$9,576 thousand) and ¥1,273 million for the years ended March 31, 2003 and 2002, respectively.

13. RETIREMENT BENEFITS

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2003 and 2002, respectively:

| | Millions of Yen | | Thousands of |
|--|-----------------|---------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Benefit obligation at end of year..... | ¥28,567 | ¥28,219 | \$237,662 |
| Fair value of plan assets at end of year | 6,931 | 7,393 | 57,662 |
| Funded status: | | | |
| Benefit obligation in excess of | | | |
| plan assets..... | 21,636 | 20,826 | 180,000 |
| Unrecognized actuarial loss..... | 3,944 | 3,291 | 32,812 |
| Accrued pension liability recognized | | | |
| in the consolidated balance sheets..... | 17,692 | 17,535 | 147,188 |

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

Severance and pension costs of the Companies included the following components for the years ended March 31, 2003 and 2002, respectively:

| | Millions of Yen | | Thousands of |
|--------------------------------------|-----------------|--------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Service cost | ¥1,438 | ¥1,417 | \$11,963 |
| Interest cost..... | 642 | 726 | 5,341 |
| Expected return on plan assets | (158) | (211) | (1,314) |
| Amortization: | | | |
| Actuarial losses | 335 | 57 | 2,787 |
| Other..... | 121 | — | 1,007 |
| Net periodic benefit cost | ¥2,378 | ¥1,989 | \$19,784 |

Assumptions used in the accounting for the defined benefit plan for the year ended March 31, 2003, are as follows:

| | |
|--|---------------------|
| Method of attributing benefits to periods of service | straight-line basis |
| Discount rate | 2.5% |
| Long-term rate of return on fund assets | 2.5% |
| Amortization period for actuarial losses | 10 years |

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, 2003 and 2002. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The effective rate for the two years ended March 31, 2003, differs from the Company's statutory tax rate for the following reasons:

| | 2003 | 2002 |
|--|--------|-------|
| Statutory tax rate..... | 42.0% | 42.0% |
| Lower tax rates of overseas subsidiaries..... | (12.0) | (2.8) |
| Expenses not deductible for income | | |
| tax purposes..... | 2.4 | 2.7 |
| Surplus not additional for income | | |
| tax purposes..... | (0.6) | (1.4) |
| Cash dividends from overseas subsidiaries..... | 4.5 | 4.8 |
| Per capita levy..... | 1.8 | 2.0 |
| Other..... | 0.8 | 1.2 |
| Effective tax rate..... | 38.9% | 48.5% |

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 effect of this tax rate change was to decrease deferred tax liabilities (net of deferred tax assets) by ¥0 million (\$0 thousand) at March 31, 2003 and to increase income taxes—deferred by ¥38 million (\$316 thousand) for the year ended March 31, 2003.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at March 31, 2003 and 2002, are presented below:

| | Millions of Yen | | Thousands of |
|---|-----------------|---------|--------------|
| | 2003 | 2002 | U.S. Dollars |
| Deferred tax assets: | | | |
| Provision for retirement benefits..... | ¥ 6,248 | ¥ 5,952 | \$ 51,980 |
| Accrued bonuses..... | 680 | 367 | 5,657 |
| Allowance for doubtful accounts | 215 | 247 | 1,789 |
| Tax loss carryforwards | 145 | 561 | 1,206 |
| Loss on valuation of investment securities..... | 332 | 526 | 2,762 |
| Impairment loss on deposits for golf club membership..... | 164 | 203 | 1,365 |
| Other | 1,236 | 1,195 | 10,283 |
| Total gross deferred tax assets..... | 9,020 | 9,051 | 75,042 |
| Less valuation allowance | — | (166) | — |
| Net deferred tax assets..... | 9,020 | 8,885 | 75,042 |
| Deferred tax liabilities: | | | |
| Reserve for deduction entry of property replaced by purchase | (5,210) | (5,410) | (43,345) |
| Profit from valuation for the consolidation of capital account..... | (372) | (372) | (3,095) |
| Other | (2,474) | (3,111) | (20,581) |
| Total gross deferred tax liabilities | (8,056) | (8,893) | (67,021) |
| Net deferred tax assets..... | ¥ 964 | ¥ (8) | \$ 8,021 |

15. SEGMENT INFORMATION

Information by business segment and geographical segment for the years ended March 31, 2003, 2002 and 2001, is as follows:

| (a) Business segment | Millions of Yen | | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|-----------------|-----------------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Net sales: | | | | |
| Power transmission products: | | | | |
| Customers | ¥ 86,774 | ¥ 83,760 | ¥ 87,388 | \$ 721,913 |
| Intersegment | 1,383 | 1,484 | 1,298 | 11,506 |
| Total | <u>88,157</u> | <u>85,244</u> | <u>88,686</u> | <u>733,419</u> |
| Materials handling systems: | | | | |
| Customers | 29,452 | 29,547 | 26,329 | 245,025 |
| Intersegment | 111 | 201 | 184 | 923 |
| Total | <u>29,563</u> | <u>29,748</u> | <u>26,513</u> | <u>245,948</u> |
| Others: | | | | |
| Customers | 444 | 434 | 489 | 3,694 |
| Intersegment | 847 | 1,227 | 1,147 | 7,047 |
| Total | <u>1,291</u> | <u>1,661</u> | <u>1,636</u> | <u>10,741</u> |
| Eliminations | (2,341) | (2,912) | (2,629) | (19,476) |
| Consolidated total | <u>¥116,670</u> | <u>¥113,741</u> | <u>¥114,206</u> | <u>\$ 970,632</u> |
| Operating income (loss): | | | | |
| Power transmission products | ¥ 7,526 | ¥ 6,563 | ¥ 8,711 | \$ 62,612 |
| Materials handling systems | 2,463 | 2,278 | 750 | 20,491 |
| Others | 13 | 163 | 230 | 108 |
| Corporate and eliminations | (2,651) | (2,966) | (2,729) | (22,055) |
| Consolidated total | <u>¥ 7,351</u> | <u>¥ 6,038</u> | <u>¥ 6,962</u> | <u>\$ 61,156</u> |
| Total assets: | | | | |
| Power transmission products..... | ¥124,213 | ¥127,378 | ¥129,295 | \$1,033,386 |
| Materials handling systems..... | 23,986 | 26,183 | 21,189 | 199,551 |
| Others | 2,216 | 2,748 | 2,733 | 18,436 |
| Corporate and eliminations..... | 32,845 | 45,246 | 55,660 | 273,253 |
| Consolidated total | <u>¥183,260</u> | <u>¥201,555</u> | <u>¥208,877</u> | <u>\$1,524,626</u> |
| Depreciation: | | | | |
| Power transmission products..... | ¥ 5,891 | ¥ 4,824 | ¥ 3,719 | \$ 49,010 |
| Materials handling systems..... | 456 | 432 | 407 | 3,794 |
| Others | 12 | 12 | 17 | 100 |
| Corporate and eliminations..... | 377 | 343 | 178 | 3,136 |
| Consolidated total | <u>¥ 6,736</u> | <u>¥ 5,611</u> | <u>¥ 4,321</u> | <u>\$ 56,040</u> |
| Capital expenditures: | | | | |
| Power transmission products..... | ¥ 2,635 | ¥ 13,573 | ¥ 8,573 | \$ 21,922 |
| Materials handling systems..... | 222 | 290 | 295 | 1,847 |
| Others | 8 | 7 | 6 | 66 |
| Corporate and eliminations..... | 77 | 2,324 | 1,377 | 641 |
| Consolidated total | <u>¥ 2,942</u> | <u>¥ 16,194</u> | <u>¥ 10,251</u> | <u>\$ 24,476</u> |

| (b) Geographical segment | Millions of Yen | | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|----------|----------|------------------------------|
| | 2003 | 2002 | 2001 | 2003 |
| Net sales: | | | | |
| Japan: | | | | |
| Customers | ¥ 81,768 | ¥ 83,267 | ¥ 86,394 | \$ 680,266 |
| Intersegment | 9,921 | 9,223 | 7,047 | 82,537 |
| Total | 91,689 | 92,490 | 93,441 | 762,803 |
| North America: | | | | |
| Customers | 25,965 | 22,617 | 20,497 | 216,015 |
| Intersegment | 213 | 271 | 246 | 1,772 |
| Total | 26,178 | 22,888 | 20,743 | 217,787 |
| Europe: | | | | |
| Customers | 3,811 | 3,178 | 2,807 | 31,705 |
| Intersegment | 4 | 6 | 3 | 33 |
| Total | 3,815 | 3,184 | 2,810 | 31,738 |
| Asia and Oceania: | | | | |
| Customers | 5,126 | 4,679 | 4,508 | 42,646 |
| Intersegment | 685 | 657 | 658 | 5,699 |
| Total | 5,811 | 5,336 | 5,166 | 48,345 |
| Eliminations | (10,823) | (10,157) | (7,954) | (90,041) |
| Consolidated total | ¥116,670 | ¥113,741 | ¥114,206 | \$ 970,632 |
| Operating income: | | | | |
| Japan | ¥ 7,938 | ¥ 7,903 | ¥ 8,239 | \$ 66,040 |
| North America..... | 951 | 813 | 981 | 7,912 |
| Europe | 329 | 189 | 57 | 2,737 |
| Asia and Oceania | 479 | 374 | 398 | 3,985 |
| Corporate and eliminations | (2,346) | (3,241) | (2,713) | (19,518) |
| Consolidated total | ¥ 7,351 | ¥ 6,038 | ¥ 6,962 | \$ 61,156 |
| Total assets: | | | | |
| Japan | ¥122,001 | ¥125,790 | ¥127,131 | \$1,014,983 |
| North America | 22,351 | 24,572 | 20,042 | 185,948 |
| Europe..... | 3,505 | 3,341 | 2,835 | 29,160 |
| Asia and Oceania | 6,491 | 6,406 | 5,851 | 54,002 |
| Corporate and eliminations | 28,912 | 41,446 | 53,018 | 240,533 |
| Consolidated total | ¥183,260 | ¥201,555 | ¥208,877 | \$1,524,626 |

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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for the three years ended March 31, 2003, 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, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the three years ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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) to the consolidated financial statements.

Shin Nihon & Co.

Shin Nihon & Co.

June 27, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Tsubakimoto Chain Co. and consolidated subsidiaries under Japanese accounting principles and practices.

Tsubakimoto Chain Group Companies

As of March 31, 2003

* 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% | 598 | April 2002 | Manufacture of power transmission products |
| TSUBAKIMOTO SPROCKET CO.* | ¥126.0 million | 99.0% | 123 | April 2002 | Manufacture of sprockets |
| TSUBAKIMOTO CUSTOM CHAIN CO.* | ¥125.0 million | 99.3% | 185 | October 1951 | Manufacture of power transmission chains |
| SHINKO MACHINERY CO. | ¥ 50.0 million | 50.0% | 36 | March 1971 | Manufacture of conveyor chains |
| TSUBAKIMOTO IRON CASTING CO., LTD.* | ¥ 20.0 million | 100.0% | 39 | October 1968 | Casting |
| TSUBAKI KYOWA CAM CO. | ¥ 40.0 million | 100.0% | 15 | August 1991 | Manufacture of power transmission products |
| HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.* | ¥ 30.0 million | 100.0% | 12 | October 1961 | Sales of Tsubakimoto Chain products |
| TSUBAKIMOTO MACHINERY CO.* | ¥139.0 million | 68.2% | 140 | April 1971 | Sales of Tsubakimoto Chain products |
| TSUBAKIMOTO NISHINIHON CO., LTD.* | ¥ 90.0 million | 50.0% | 60 | October 1993 | Sales of Tsubakimoto Chain products |
| TSUBAKIMOTO BULK SYSTEMS CORPORATION* | ¥150.0 million | 100.0% | 149 | April 1981 | Manufacture of bulk materials handling systems |
| ONISHI MFG. CO., LTD. | ¥ 46.0 million | 45.7% | 34 | September 1959 | Manufacture of conveying equipment |
| TSUBAKIMOTO MAYFRAN INC.* | ¥ 90.0 million | 50.0% | 112 | November 1973 | Manufacture of chip conveyors |
| TSUBAKI ARCS CO.* | ¥ 80.0 million | 100.0% | 72 | October 1970 | Real estate leasing and maintenance and insurance agency services |
| TSUBAKIMOTO STAFF SERVICE CO-OP. | ¥ 22.5 million | 66.7% | 10 | January 1982 | Employee welfare services |
| KATO MANUFACTORY CO., LTD. | ¥ 30.0 million | 20.0% | 20 | July 1968 | Manufacture of tire chains |

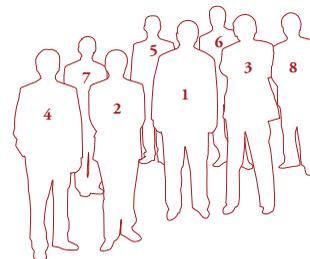
NORTH AMERICA

| | | | | | |
|---|----------------|-------------|-----|---------------|--|
| 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% | 797 | 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 | — | — | 161 | — | 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 | — | — | 237 | — | 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 | — | — | 141 | — | Manufacture of engineering chains |
| PT Components Division, Bennington Plant 222 Bowen Road, Bennington, VT 05201-3201, U.S.A. Telephone: (802) 447-7561 Facsimile: (802) 447-0755 | — | — | 69 | — | Manufacture of sprockets and Power Locks |
| 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.T. 100% | 42 | 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\$3,000,000 | 100.0% | 82 | July 1973 | Manufacture and sales of power transmission products |
| TSUBAKI CONVEYOR OF AMERICA, INC.* 138 Davis Street, P.O. Box 710, Portland, TN 37148-2000, 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% | 39 | 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 | TEU.100% | 31 | June 1918 | Sales of power transmission products |
| TSUBAKIMOTO U.K. LTD.* Osier Drive, Sherwood Park, Annesley, Nottingham, NG15 ODX United Kingdom Telephone: (1623) 688700 Facsimile: (1623) 688789 | £150,000 | TEU.100% | 40 | 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 | | | | | |
| TSUBAKIMOTO SINGAPORE PTE. LTD.* 25 Gul Lane, Jurong Singapore 629419 Telephone: 6861 0422 (6 lines) Facsimile: 6861 7035 | SG\$3,000,000 | 100.0% | 19 | January 1981 | Sales of power transmission products |
| 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% | 36 | August 1995 | Manufacture of bulk materials handling systems |
| 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% | 95 | January 1970 | Manufacture and 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 |
| KOREA CONVEYOR IND. CO., LTD.* 72-1, Onsoo-dong, Kuro-ku, Seoul, Republic of Korea Telephone: (2) 2613-0151 Facsimile: (2) 684-9166 | KRW1,200,000,000 | 49.0% | 139 | January 1970 | Manufacture and sales of materials handling systems and conveyor chains |
| 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% | 126 | June 1990 | Manufacture of power transmission products |
| TSUBAKI KABELSCHLEPP SHANGHAI CO., LTD. Suite B, South, 2F1, 209, Taigu Road, Waigaoqiao Free Trade Zone, Shanghai, 200131, People's Republic of China Telephone: (21) 5064-0155 Facsimile: (21) 5868-0190 | US\$200,000 | 60.0% | 5 | November 2000 | Imports and sales of Cableveyors |
| TSUBAKIMOTO (THAILAND) CO., LTD. 159 Soi Asoke, Sukhumvit Road, North-Klongroey Wattana, Bangkok 10110 Thailand Telephone: (662) 261-9991 Facsimile: (662) 261-9993 | BAHT2,000,000 | Tsubakimoto Singapore 95.1% | 2 | March 2002 | Sales of power transmission products |
| 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% | 22 | October 1990 | Manufacture of chip conveyors |
| 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% | 24 | March 2002 | Manufacture, sales, and exports and imports of timing drive systems and other power transmission products |

Board of Directors

(As of June 27, 2003)



- 1 Takashi Fukunaga
- 2 Kimio Takakura
- 3 Norikazu Ohno
- 4 Hideo Miyazaki
- 5 Makoto Kanehira
- 6 Akira Morikiyo
- 7 Tatsuhiko Mimoto
- 8 Yoshinobu Miyazaki

Takashi Fukunaga

President and Representative Director

Kimio Takakura

Executive Managing Director
and Representative Director
Power Transmission Operations
Chief Advisor to President

Norikazu Ohno

Executive Managing Director
Headquarters Operations
Organizational Structure Development
Compliance

Hideo Miyazaki

Managing Director
Management Planning
Kyoto Plant
Hyogo Plant

Makoto Kanehira

Managing Director
Development & Technology
Corporate Quality Assurance
Tsubaki Techno School
Director of Engineering

Akira Morikiyo

Managing Director
Materials Handling Operations
Materials Handling Division
Corporate Quality Assurance
Director of Engineering

Tatsuhiko Mimoto

Managing Director
Power Transmission Development
(China Business Development)
Osaka Office
Nagoya Office

Yoshinobu Miyazaki

Managing Director
Automotive Parts Division
AMD Global Development
Saitama Plant

Tadashi Ichikawa

Director
Chain Division
Kyotanabe Plant

Hiroshi Yanagase

Director
Deputy General Manager, Materials
Handling Division
(Sales Department, Global Development)
Tokyo Office

Toru Fujiwara

Director
Deputy General Manager, Automotive
Parts Division
(Planning & Administration Department,
Quality Assurance)

Tadasu Suzuki

Director
(Products Engineering Department,
Manufacturing Engineering
Global Marketing of Automotive
Parts Division)

Shigeya Tsubakimoto

Director
Eco-Business Development Division

Tadachi Yokoyama

Corporate Auditor

Nobuhiko Miki

Corporate Auditor

Masaru Tokuda

Corporate Auditor

Corporate Data

(As of March 31, 2003)

TSUBAKIMOTO CHAIN CO.

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

* As of July 1, 2003

DATE OF FOUNDING

December 1917

DATE OF INCORPORATION

January 1941

SHAREHOLDERS' EQUITY

¥60,307 million

COMMON STOCK

Authorized: 299,000 thousand shares
Issued: 188,723 thousand shares

STOCK LISTINGS

Tokyo, Osaka, and Nagoya

TRANSFER AGENT

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

NUMBER OF EMPLOYEES

1,883 (Parent company only)

OFFICES AND PLANTS

Tokyo Office

Medical Friend Building,
2-4, Kudan-Kita 3-chome,
Chiyoda-ku, Tokyo 102-8186, Japan
Telephone: (03) 3221-5612
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) 6313-3190
Facsimile: (06) 6315-6657

Kyotanabe Plant

1-3, Kannanbidai 1-chome,
Kyotanabe, Kyoto 540-6136, 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 357-8510, Japan
Telephone: (0429) 73-1131
Facsimile: (0429) 73-4252
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

