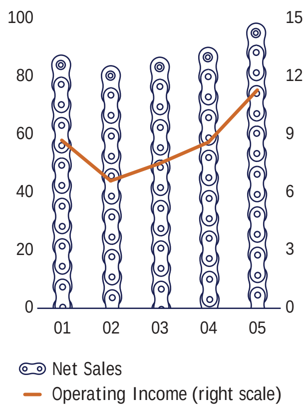
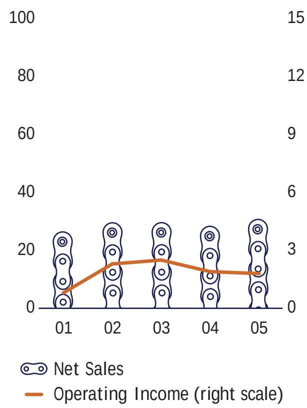
Tsubakimoto Chain Co. and Consolidated Subsidiaries

Years Ended March 31

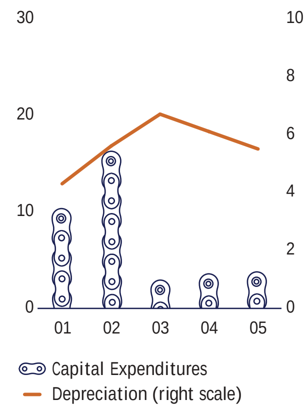
Net Sales and Operating Income
Power Transmission Products
Billion ¥



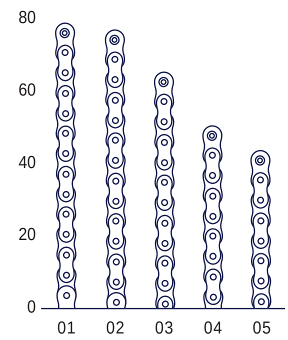
Net Sales and Operating Income
Materials Handling Systems
Billion ¥



Capital Expenditures and Depreciation
Billion ¥



Interest-Bearing Debt
Billion ¥



MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary of Business Segment Information

Years Ended March 31

	Millions of Yen						
	2005		2004		2003		% change
NET SALES TO CUSTOMERS:							
Power Transmission Products:							
Domestic Sales	**¥ 63,012**	**(64.0)**	¥ 57,127	(63.4)	¥ 54,244	(62.5)	+10.3
Overseas Sales	**35,392**	**(36.0)**	32,954	(36.6)	32,530	(37.5)	+7.4
Total	**98,404**	**(100.0)**	90,081	(100.0)	86,774	(100.0)	+9.2
Materials Handling Systems:							
Domestic Sales	**23,638**	**(77.3)**	21,867	(76.9)	22,605	(76.8)	+8.1
Overseas Sales	**6,953**	**(22.7)**	6,559	(23.1)	6,847	(23.2)	+6.0
Total	**30,591**	**(100.0)**	28,426	(100.0)	29,452	(100.0)	+7.6
Others	**568**		634		444		–10.4
TOTAL	**¥129,563**		¥119,141		¥116,670		+8.7
OPERATING INCOME:							
Power Transmission Products	**¥ 11,263**		¥ 8,630		¥ 7,526		+30.5
Materials Handling Systems	**1,800**		1,882		2,463		–4.4
Others	**101**		84		13		+20.2
Corporate and eliminations	**(2,716)**		(2,645)		(2,651)		—
TOTAL	**¥ 10,448**		¥ 7,951		¥ 7,351		+31.4

Review of Operations

POWER TRANSMISSION PRODUCTS

In the fiscal year ended March 31, 2005, with support from favorable capital investment in Japan and economic conditions in Asia, we recorded higher sales of chains, automotive parts, and power transmission units and components. As a result, sales of power transmission products rose 9.2%, to ¥98.4 billion. Each operational category also recorded higher profits, and operating income was up 30.5%, to ¥11.3 billion. On the other hand, conditions in North America remained challenging.

Chains

In chain operations, our high-value-added chains, such as steel chains for applications that require high durability and precision and plastic chains, offer world-leading quality and functionality.

In the year under review, private-sector capital investment in Japan improved in a wide range of industries, such as machine tools, shipbuilding, steel, and IT, and our operating environment was generally favorable. Especially strong sales growth was recorded by chains for the machine tools industry and lube-free, long-life Lambda® RS Roller Chains. Outside Japan, conditions were generally favorable in Asia and other regions. In North America, the high quality of Tsubakimoto Chain Group products is recognized; we received large orders from the construction machinery industry, and we expect further business from this industry in the future.

In North America, U.S. Tsubaki, Inc., was slow to recover lost orders, and increased prices for steel and other materials and the appreciation of the yen put pressure on profitability. However, in Japan we worked to offset the effects of higher steel costs by adjusting our prices and raising productivity, and we increased production at the Kyotanabe Plant. Overall, chain operations recorded higher profits. Subsidiaries, including Tsubakimoto Custom Chain Co., Tsubakimoto Machinery Co., and Tsubakimoto Europe B.V., made significant contributions to performance.

At the Kyotanabe Plant, which is our chief plant for industrial-use chains, in the year under review we introduced the cell manufacturing method to all 76 assembly lines. Through the synchronization of the assembly lines with component processing, we expect dramatic increases in productivity and reductions in inventories.

Automotive Parts

In the supply of timing chain drive systems and components, the Tsubakimoto Chain Group is a world leader as a result of the functionality and quality of its products as well as its complete system for backing up the rapid product development efforts of automakers.

In the year under review, with Japanese automakers rapidly increasing production overseas, Tsubakimoto Automotive (Shanghai) Co., Ltd., which we established in China in April 2004, began to supply products to Japanese automakers. With the addition of China to our Saitama Plant, in Japan, U.S. Tsubaki, in North America, Tsubakimoto Europe, in Europe, and Tsubakimoto Automotive (Thailand) Co., Ltd., in Thailand, we completed our five-point production system for timing chain drive systems, and we worked to bolster our production system at each of these sites. In the year under review, we supplied parts for the new engines of Japanese automakers and other major automakers around the world, and for the second consecutive year sales were a record high.

We also registered record high profits on a consolidated basis, but improving profitability at the four production sites outside of Japan was challenging. In response to this issue, we will bolster our efforts in construction equipment and improve production efficiency.

Power Transmission Units and Components

In power transmission units and components, Tsubaki Emerson Co. recorded higher sales of such products as reducers and linear actuators to the domestic machine tools, LCD-related equipment, and injection molding equipment industries, and sales of power transmission units and components recorded double-digit growth. We also achieved higher profits in all business units – reducers, motion control units, and clutches. The merger of Tsubakimoto Chain's power transmission units and components operations and Tsubakimoto Emerson Co., Ltd., resulted in cost reductions and significant profit growth. Group companies, such as Tsubakimoto Sprocket Co. and Tsubaki Emerson Gear (Tianjin) Co., Ltd., also recorded higher sales and profits. Overseas, we were on track with clutch knockdown production in Europe and recorded favorable sales growth. In North America, we worked to rationalize our sprocket production and supply systems.

MATERIALS HANDLING SYSTEMS

In the year under review, solid results from a consolidated subsidiary offset a sluggish performance by parent company Tsubakimoto Chain, and sales rose 7.6%, to ¥30.6 billion. Achieving a profit in products for the automotive industry was challenging, and operating income was down 4.3%, to ¥1.8 billion.

In materials handling systems, Tsubakimoto Chain's core fields are the automotive, distribution, pharmaceutical, and newspaper industries. By concentrating our investment of resources on these fields, we have built solid market positions. In particular, our linear motor high-speed sorting systems for the distribution industry have garnered the top share of the domestic market, and our automotive body paint shop conveyor systems have also been highly evaluated. We have implemented fundamental restructuring measures in this business segment, and we are now building a flexible profit structure that can respond to changing trends in orders.

In the year under review, automatic roll paper feeding systems for the newspaper industry, one of our strengths, faced difficult conditions due to a decline in capital investment in that industry. However, we received large orders for high-speed automatic sorting systems for the distribution industry, for body paint shop conveyor systems for the automotive industry, and for book distribution products. In addition, contributions were made by chip conveyor systems for the machine tools industry and bulk conveyance systems for such materials as grain and feed. Sales increased on a consolidated basis.

A decline in orders from the newspaper industry and pressure on profits with products for the automotive industry resulted in lower operating income on both a consolidated basis and a nonconsolidated basis.

Financial Review

In the fiscal year ended March 31, 2005, the Tsubakimoto Chain Group recorded increased sales and profits for the third consecutive year. In addition to external factors, such as favorable economic conditions in Asia and robust capital investment in Japan, these results were also attributable to the Group's efforts to improve profitability with cost reductions and other measures and to reinforce the Company's financial position with reductions in interest-bearing debt.

Operating Environment

In the year under review, the Tsubakimoto Chain Group's operating environment was marked by strong exports and a high level of capital investment in a wide range of industries, such as the domestic automotive, machine tools, and IT industries. On the other hand, raw materials prices rose and there was cause for concern about the future course of the U.S. economy.

Income and Expenses

In the year under review, we recorded increases in net sales and profits for the third consecutive year.

Higher sales were recorded by chain, automotive parts, and power transmission units and components operations in the power transmission products business segment and by the materials handling systems business segment, and consolidated net sales increased 8.7%, to ¥129.6 billion.

The cost of sales rose 8.2%, to ¥94.6 billion. Higher raw materials costs and unprofitable orders in materials handling systems were offset by Groupwide price adjustments, and the cost of sales ratio declined 0.4 percentage points, to 73.0%. Gross profit was up 10.3%, to ¥34.9 billion.

Selling, general and administrative (SG&A) expenses rose 3.3%, to ¥24.5 billion, but due to the success of measures to improve productivity the ratio of SG&A expenses to net sales declined 1.0 percentage points, to 18.9%.

Operating income was up 31.4%, to ¥10.4 billion, while the operating margin rose 1.4 percentage points, to 8.1%.

In other income and expenses, fund efficiency was improved through the introduction of a cash management system, and interest-bearing debt was reduced. As a result, interest expense decreased to ¥1.2 billion, from ¥1.4 billion in the fiscal year ended March 2004. In the previous year, extraordinary profit was recorded from the transition from a tax qualified pension plan to a defined contribution pension plan, but in the year under review there were no major extraordinary items. As a result, net extraordinary loss in the year under review was ¥0.3 billion, compared with net extraordinary profit of ¥0.3 billion in the previous year.

Income before income taxes and minority interests grew 31.5%, to ¥8.6 billion, and net income was up 31.5%, to ¥4.4 billion. The net margin was up to 3.4%, from 2.8% in the previous year.

Net income per share was up from ¥17.40 to ¥22.77, and return on equity (ROE) increased from 5.3% to 6.4%.

Cash Flows

Net cash provided by operating activities rose ¥1.7 billion, to ¥9.7 billion, due primarily to increases in income before income taxes and minority interests and trade notes and accounts payable. Depreciation was ¥5.5 billion, compared with ¥6.1 billion in the previous year.

Net cash used in investing activities was ¥2.5 billion, compared with net cash provided by investing activities of ¥9.1 billion in the previous year. Declines were recorded in payments for purchase of investments in securities and payments for purchase of property, plant and equipment. On the other hand, a decline was also recorded in proceeds from sales of property, plant and equipment.

Net cash used in financing activities for the year under review was ¥9.4 billion, compared with ¥15.5 billion in the previous year. We worked to reduce interest-bearing debt through continued repayment of loans from financial institutions and redemption of bonds.

Cash and cash equivalents at fiscal year-end were down ¥2.1 billion, to ¥11.6 billion.

Financial Position

Total assets at year-end were up ¥3.8 billion, to ¥179.3 billion.

Trade notes and accounts receivable increased due to higher sales, and as a result total current assets rose ¥2.4 billion, to ¥72.1 billion.

Mainly due to the gain on valuation of investment in securities, investments and other assets increased ¥2.4 billion, to ¥31.7 billion.

Total current liabilities rose ¥5.4 billion, to ¥53.8 billion, due to higher trade notes and accounts payable and to higher short-term bank loans. The current ratio was 1.34, compared with 1.44 at the previous year-end. We continued to repay interest-bearing debt, which was down ¥6.9 billion at year-end, to ¥43.4 billion.

Total debt decreased ¥1.5 billion from the previous year-end, to ¥103.7 billion.

Total shareholders' equity climbed ¥4.8 billion, to ¥71.6 billion, due primarily to an increase in net unrealized holding gains on securities resulting from favorable stock market conditions and to an increase in net income in the year under review. As a result, the equity ratio rose to 40.0%, from 38.1%.

Dividend Policy

Tsubakimoto Chain considers the provision of a return to shareholders to be one of its most important management issues. The Company's policy has been to provide stable dividend payments. However, from the year under review, in addition to the stable dividends, the Company will use a dividend policy that also gives consideration to consolidated performance. In accordance with that policy, the Company raised the year-end dividend by ¥1.00 per share, to ¥4.00, which, combined with the interim dividend, resulted in an annual dividend of ¥7.00 per share.

Operating Risks

As of June 30, 2005, the matters that could affect the judgment of investors include those outlined below.

(1) The Tsubakimoto Chain Group, which is conducting aggressive global development, works to reduce the influence of foreign exchange rate fluctuations to a minimal level by using foreign exchange forward agreements distributed among the time an order is received, the time the sale is recorded, and the time payment is received in the foreign currency. However, short-term, dramatic fluctuations in exchange rates could affect management performance.

(2) In chains for general industrial applications, accompanying the marketing in Japan of chains made in China, the Group may face price competition in the market for low-value-added products. Also, in materials handling systems, where competition for orders is intense, it may not be possible for the Company to avoid low-profitability orders, which could affect management performance.

(3) The Tsubakimoto Chain Group supplies parts for engines, such as timing chains and tensioners, to automakers in Japan and overseas. In the unlikely event of a natural disaster or man-made disaster at the Saitama Plant, the Company's main production base in Japan, it is possible that the Group would be unable to provide a stable supply of products to automakers. In response to this type of risk, the Group has developed countermeasures, such as supplying products from an overseas production base in place of output from the Saitama Plant.

(4) Accompanying the global economic recovery, the price of steel has increased markedly, and the Group has been unable to avoid rising prices for the raw materials for its products and demand-supply pressure. In response to these cost increases, the Group is working to reduce the cost of sales by enhancing productivity and to revise selling prices. However, in the event that the price of steel continues to rise for a long period, the Group may be unable to offset the increased costs, and management performance could be affected.

(5) To expand sales in the Chinese market, which continues to grow, the Tsubakimoto Chain Group is accelerating operational expansion in China. However, due to political and economic factors in China, there is the possibility of temporary disorder or stagnation in the economy. In that event, certain operational problems may arise, such as delays in the production of the Group's products and difficulties in procuring parts or operating plants, and management performance could be affected.