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

(b) Consolidated subsidiaries

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

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 Corp.
Tsubaki Osaka Service Co.
Tsubakimoto Emerson Co.
Tsubakimoto Sprocket Mfg., Ltd.
Tsubaki Conveyor of America, Inc. (U.S.A.)
Tsubaki Chugoku Sales, Co.
Taiwan Tsubakimoto Co. (Taiwan)
Harry James Company Ltd. (Taiwan)
Ballantine, Inc. (U.S.A.)
Tsubakimoto Koki Industry Co., Ltd.
Tsubaki Arcs Co.
Tsubakimoto Europe B.V. (Netherlands)
P. Koning B.V. (Netherlands)
Tsubakimoto U.K. Ltd. (U.K.)
Technische Handelsonderneming Bergsma B.V. (Netherlands)
Tsubakimoto Tech Inc.
Tsubakimoto Higashinihon Co.
Tsubakimoto Singapore Pte. Ltd. (Singapore)
Tsubaki Australia Pty. Limited (Australia)

(c) Unconsolidated subsidiaries and affiliates

Investments in 5 insignificant subsidiaries and 11 affiliated companies (20% to 50% owned) 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 ¥132=$1, the approximate exchange rate prevailing on March 31, 1998.

2. Significant Accounting Policies

(a) Inventories

Inventories are valued substantially 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 six subsidiaries, which are valued at the lower of cost or market.

(b) Marketable and investment securities

Marketable and investment securities quoted are valued at the lower of moving-average cost or market. Other securities are stated at cost.

(c) Property, plant and equipment

Property, plant and equipment are carried at cost. In specific cases, these are carried at cost less a reserve permitted under Japanese tax laws in respect of certain gains deferred on the sale of fixed assets. Depreciation of property, plant and equipment is computed mainly by the declining-balance method.

(d) Bonuses for employees

Accrued bonuses for employees are calculated on the basis prescribed by Japanese tax laws.

(e) Retirement benefits

The Company and its consolidated domestic subsidiaries have unfunded employees' retirement benefit plans. The annual accruals under such plans are provided mainly at the maximum amounts deductible for income tax purposes for each fiscal period.

In addition, the Company and certain consolidated subsidiaries have funded pension plans. The annual contributions to such funds are charged to income and include normal costs and amortization of past service costs.

Also, the Company records the unfunded retirement benefits for directors and statutory auditors on the accrual basis.

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

Current 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.

Noncurrent receivables and payables denominated in foreign currencies are translated at historical rates or at the forward contract rate, except when significant unrealized exchange losses are incurred.

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

(g) 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 of an investment in a subsidiary and the underlying book value of the acquired interest is, if material, allocated to a specific asset. However, minor differences are charged or credited to income for the year of acquisition.

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

The financial statements of consolidated foreign subsidiaries are translated into yen in accordance with the Financial Accounting Standard for Foreign Currency Transactions in Japan.

This standard requires that assets and liabilities are translated into yen at year-end rates and income and expense accounts are translated at average rates. Foreign currency translation adjustments are reflected in the balance sheets as suspense accounts (currency translation adjustments).

6. Appropriations of Retained Earnings

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

7. Tax Effect of Timing Differences

The consolidated financial statements do not reflect the tax effect of timing differences between income as reported for tax and financial statement purposes.

8. Pledged Assets

At March 31, 1998 and 1997, the following assets were pledged as collateral for bank loans and long-term debt.

	Millions of Yen		Thousands of U.S. Dollars
	1998	1997	**1998**
Current assets	**¥ 484**	¥ 1,094	**$ 3,667**
Property, plant and equipment	**21,556**	24,174	**163,303**
	¥22,040	¥25,268	**$166,970**

9. Contingent Liabilities

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥11,907 million ($90,205 thousand) and ¥12,578 million at March 31, 1998 and 1997, respectively.

10. Per Share Amounts

	Yen		U.S. Dollars
At March 31	**1998**	1997	**1998**
Shareholders' equity per share	**¥337.77**	¥330.12	**$2.559**
Net income per share	**14.08**	17.04	**0.107**