



Ultra PX Belts

in the special section of this annual report.

Timing belts for general industrial applications are one of our key products in this division, and during the year under review we recorded double digit increases in both orders and sales of these products. In June 1999, we began sales of high-strength Ultra PX Belts, which meet customer needs for the electro-

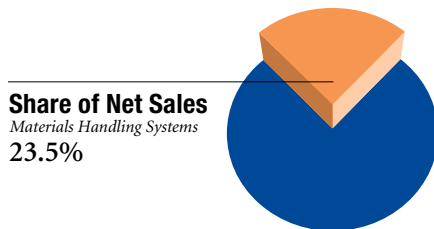
mechanical operation of injection molding machines. This product, which boasts superior noise emission characteristics, has already been selected for use by six large customers. In addition, office automation equipment is a key source of demand for timing belts, and sales for these applications increased during the past year. Favorable demand from manufacturers of semiconduc-

tor production robots and financial equipment, such as ATMs, also made a contribution to the improved performance.

Materials Handling Systems

Sales of materials handling systems declined 20.3% during the year under review, to ¥25.0 billion (US\$236.0 million), accounting for 23.5% of consolidated net sales. Overseas sales were down 48.4%, to ¥5.6 billion (US\$53.0 million), representing 22.5% of our sales of materials handling systems. The division's operating loss increased from ¥292 million in the previous year to ¥823 million (US\$7.8 million) in the year under review.

Domestic sales were significantly affected by continued weakness in private-sector capital investment. In overseas markets, orders were down during the year under review following the receipt of several large-scale orders from Japanese companies in the previous fiscal year. These factors were the principal reasons for the decline in the division's performance during the past year.



Sales Breakdown	Millions of Yen			% Change 2000/1999
	2000	1999	1998	
Domestic Sales	¥19,395 (77.5)	¥20,502 (65.3)	¥29,349 (75.9)	-5.4
Overseas Sales	5,623 (22.5)	10,901 (34.7)	9,321 (24.1)	-48.4
Total Sales	¥25,018 (100.0)	¥31,403 (100.0)	¥38,670 (100.0)	-20.3
Operating (Loss) Income	¥(823)	¥(292)	¥1,068	-

The Materials Handling Systems Division has registered declining revenues in recent years, and to return the division to profitability we are moving forward with operational rationalization measures. In April 1999, the Company merged with two consolidated subsidiaries, Tsubakimoto Tech, Inc., and Tsubakimoto Koki Industry Co., Ltd. In addition, at the end of 1999, we reduced fixed costs further through the consolidation of production bases by transferring the operations of our Hyogo Plant to our Saitama

Plant. As a result, we have reduced the number of domestic production bases from four at the beginning of the previous fiscal year to one, the Saitama Plant, at the end of the year under review. We have also made progress with workforce reductions, and by the end of March 2000 the number of employees in the division was down by nearly 40% from its peak of 800, to 500.

New Traverser System, an automotive body paint shop conveyor system



Factory Automation and Physical Distribution Systems

Tsubakimoto Chain provides advanced factory automation systems to a wide range of industries, such as automobiles, electrical and electronic equipment, paper manufacturing, newspaper, and steel, and the technical strength of the Company's products is highly regarded. The Company also offers a complete lineup of advanced physical distribution systems to logistics centers in a

wide range of industries, including publishing, shipping, apparel, sundries, and retail. Through these products, the Company is making a significant contribution to rationalization in the distribution industry.

Paint shop conveyor systems are among our most important factory automation systems for the automotive industry. In response to environmental problems in the painting process, automakers have begun to step up capital investment. The key trend in paint shop conveyor systems, however, is toward simpler, lower-priced models. In this setting, we developed new light dolly and friction models and secured orders by making detailed responses to customer needs. Nonetheless, we were unable to avoid a decline in orders. In the United States, demand for large systems slackened, and our consolidated subsidiary's sales declined significantly. We were able to earn a profit, however, due to concerted efforts to reduce the costs incurred in fulfilling each order and to increased sales of component products.

In factory automation systems for the newspaper industry, our principal products are the AGV and ADS automatic roll paper feeding systems. With these products, we have a competitive edge in both function and price, but market conditions were difficult in the past year due to low replacement demand in the newspaper industry. In the future, we expect an increase in capital investment as customers take steps to introduce color capabilities and to boost capacity in advance of the 2002 World Cup. We believe

AGV automatic roll paper feeding system



that demand bottomed out in the year under review and should begin to improve hereafter.



Roll paper storage system for the newspaper industry

During the year, we secured orders for large systems for use in the mechatronics field. These included LCD stockers, demand for which increased as information technology companies bolstered their facilities, and large CRT conveyance equipment, which benefited from the growth of digital television. In conjunction with the introduction of the HACCP (hazard analysis critical control point) food safety system, companies in the meat processing industry stepped up investment in new facilities, and demand for overhead conveyors increased.

In distribution systems, our operating environment was marked



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by declining investment in distribution in all industries and by continued intense price competition. As a result, orders and sales declined from the previous year.

Maintenance

As materials handling systems become more advanced and



CoKanDo inspection tool for determining the lifespan of photoelectric sensors

computerized, a higher level of maintenance is required. In the previous fiscal year, Tsubakimoto Chain took the lead in the industry with the establishment of a maintenance services business.

In the year under review, our long-term maintenance contracts proved popular, especially in the newspaper industry. Due to higher orders from the mechatronics industry, we were able to increase sales from the previous year. In the first half of 2000, we began sales over the Internet of two new maintenance tools. TASCAL is nonscatter maintenance oil, and CoKanDo is an inspection tool for determining the lifespan of photoelectric sensors.

Subsidiaries

Sales at Tsubakimoto Bulk Systems Corporation were down during the year under review due to sluggish conditions in the cement industry, an important source of demand. However, the company earned a profit by reducing fixed expenses and thoroughly controlling costs for each order. Tsubakimoto Mayfran Inc., which is newly consolidated for the year under review, supplies chip conveyors, principally for the machine tool industry, and recorded an increase in orders in the second half of the fiscal year. Korea Conveyor Ind. Co., Ltd., which is also newly consolidated from the year under review, strengthened its marketing in an environment marked by ongoing management rationalization programs at Korea's automakers, and as a result sales increased slightly. Due to lower profitability on orders, however, the company did not earn a profit.