Annual Report

For the Year Ended March 31, 2000

2000

TSUBAKIMOTO CHAIN CO.

Tsubakimoto Chain's Future Direction

An Interview with the President

Tsubakimoto Chain is making steady progress toward becoming a stronger, more profitable company. Although we registered a net loss in the previous fiscal year, during the year under review our aggressive restructuring and management reform measures began to take effect, and we recorded net income in line with our plans for the year. We believe that the success of our restructuring program is demonstrated by the fact that we were able to achieve a strong improvement in performance in a year when private-sector capital investment, which has a significant impact on our results, did not fully recover. We are seeing the results of the reforms that we have designed to minimize the influence of economic fluctuations on our ability to generate steady profits. In the future, we will continue to move ahead with management reforms and will accelerate our rebuilding initiatives through the development of an organization that carefully focuses our management resources in fields where we boast special strengths.

Takashi Fukunaga
President and Representative Director

How would you evaluate the past year, when Tsubakimoto Chain recorded lower sales but higher profits? Also, how was the Company's operating environment during the year?

As in the previous year, the operating environment did not improve significantly in the year under review. We think that our ability to earn a profit in this challenging environment reflects the success of our reforms. Although there were signs of a slight improvement in business conditions in the second half of the fiscal year, private-sector capital investment for the full fiscal year was sluggish. We are working, however, to build a strong corporate constitution that is not heavily influenced by the market environment, and in the past year we demonstrated the success we have had in that endeavor.

We are on course toward achieving our goals in the areas of workforce reductions and operational reforms targeting further rationalization of management, and we will continue to emphasize these reforms in the future.

The Company's flagship power transmission products operations showed signs of recovery during the past year; what are the recent operational trends in this business area?

Orders, which were weak in the first half of the fiscal year, began to gradually improve in the second half, when a number of products enjoyed increased demand. These products included roller chains and conveyor chains for the machine tool and electrical equipment industries.

The use of timing drive chains increased, and timing chains and other automotive parts recorded favorable orders and sales. In products for automobiles, we anticipate growth in orders in domestic and overseas markets, and we expect these products will support further improvement in our results.

Our performance in power transmission units and components, which had been extremely sluggish until the previous year, also began to improve during the past year. This recovery, which was due to the reevaluation of our product portfolio and the implementation of operational reorganization measures, was centered on such highly competitive products as Power Locks and Power Cylinders.

As a result of the developments I have outlined, we are confident that we can record further steady improvement in our power transmission products operations.

In materials handling systems operations, reorganization measures have been an essential part of your plans to return to profitability. What have been the recent developments in this area?

Unfortunately, the results of our materials handling systems operations during the past year were adversely affected by the difficult environment. We have aggressively moved forward with operational reorganization measures aimed at achieving a return to profitability, but we were unable to offset the difficult market conditions. We think it is likely that we will be able to return to profitability in the current year, however, due to our ongoing restructuring activities and to an improved market situation.

The operating environment is getting better. In addition to growth in orders from the automotive industry for factory automation

Sales of chains, our principal product line, were strong throughout the year, and in the second half of the year orders for chains began to increase.

> **“Tsubakimoto Chain is aggressively striving to develop a stronger profit structure that is less susceptible to changes in the market environment, and in the year under review the results of those efforts began to emerge.”**

systems, demand is picking up for products for the electronics industry, including semiconductors and LCDs, and for the newspaper industry. In the years ahead, we will bolster our market competitiveness by using our engineering strengths in the development of factory automation systems that are not single-process systems but total factory automation systems that automate the entire production process. We have achieved significant increases in production efficiency by streamlining our organization and consolidating our domestic production bases, and we are steadily building the foundation necessary for a sustained recovery in performance.

What major progress has resulted from Tsubakimoto Chain's restructuring plans?

A key goal of our restructuring activities has been to lower fixed costs through workforce reductions. We continued to make steady progress in this area during the year under review. For example, the number of employees in materials handling systems has been reduced by 200 in the past year, leaving us with a 500-person division, or about 60% of the peak level. We are also moving aggressively to raise operational efficiency by reevaluating production processes. Through these measures, we are significantly improving the division's profit structure.

We will continue to move forward with Companywide workforce reductions, and, by March 2001, we plan to be down to 2,500 employees. At that point, our labor expenses will have been reduced by about ¥4.0 billion from March 1999, when we had 3,000 employees. Thereafter, we plan to reduce labor costs as a percentage of net sales to less than 20%, in part by reducing staff department workforces

In materials handling systems, we are bolstering our marketing of the New Traverser System, a body paint shop conveyor system for the automotive industry.

Every March, a meeting is held to outline the Company's management policies to all senior executives. Here, the president explains the Company's concrete policies for improving the corporate constitution.

to one-half of their previous levels. In addition to workforce reductions, we will improve management efficiency through the consolidation of Group companies and production bases.

What are Tsubakimoto Chain's plans for growth in the years ahead, and what are the major challenges the Company faces?

An important management challenge for us now is the establishment of a corporate constitution that can continue to generate steady results without being overly influenced by changes in the operating environment. As I mentioned, our restructuring measures aimed at bolstering our profit structure are producing results in line with our plans. We are in the process of creating a foundation that facilitates the generation of profits even in sluggish business conditions. In addition, if market conditions undergo a full-fledged recovery, that would further accelerate the improvement in our performance.

We will also promote simultaneous engineering in all divisions, including development, production, and marketing, and thereby enable a more rapid response to market conditions. In this way, we will boost our market competitiveness and expand our sales through the provision of high-value-added products that make use of our strengths and through a detailed response to customer needs. The expansion of sales is a fundamental element in our future growth plans and one of our most important challenges.

Automotive parts have been positioned as a key product for Tsubakimoto Chain's growth. What are your plans for this area of business?

It has become clear that sales of timing drive systems for automotive engines, especially timing chains, are on the upswing. We cover this topic in more detail in the special section of this year's annual report, but it is true that our strength in automotive parts has been driving much of our growth. In addition to leading domestic automakers, such as Toyota and Nissan, we are also supplying products to General Motors and Ford in the United States. The industry is in the process of a switch from the

Tsubakimoto Chain's fundamental approach to marketing calls for providing prompt, high-quality customer service based on the analysis of a range of customer data.

Demand for automotive parts continues to grow, and to further strengthen our automotive parts operations we are implementing R&D activities targeting the development of advanced, high-quality products.

conventional belt timing drive systems to chain systems, and demand for chains is expanding rapidly.

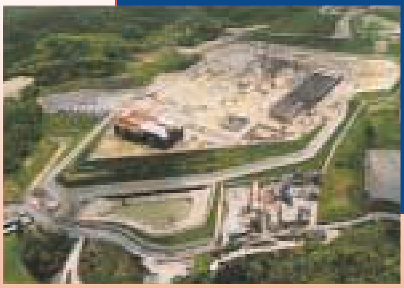
In the United States, the growth in demand has been especially strong, and in the next five years local sales of automotive parts are projected to expand threefold from the current level of US$30 million. We expect our sales of automotive parts to grow from the current level of ¥18.5 billion to about ¥30.0 billion within five years, and we plan to invest more aggressively in augmenting our production capacity for timing chains in both Japan and the United States

"It has become clear that sales of timing drive systems for automotive engines, especially timing chains, are on the upswing."

And finally, the Company's new plant, which is now under construction, will come on stream in 2002. What is the outlook for its performance over the medium to long term?

As I mentioned a moment ago, the steps that we have taken to strengthen our profit foundation are steadily taking effect, and market conditions are gradually showing signs of improvement. As a result, our outlook for our performance over the medium to long term is optimistic. The construction of our long-awaited new plant is progressing on schedule toward the opening in 2002. When it goes into operation, production efficiency in our core chain operations will increase dramatically, and our improved cost-competitiveness will further enhance our position in the market.

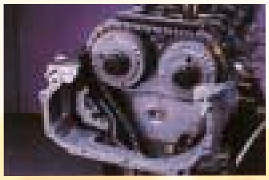
It also looks as if we will be able to offset the depreciation and amortization charges and the interest expense incurred due to the new plant with the significant fixed expense reductions that have followed our recent restructuring measures. With the increased competitiveness that the new plant will give us, we are confident that we will be on course for the achievement of steady performance gains over the medium to long term.

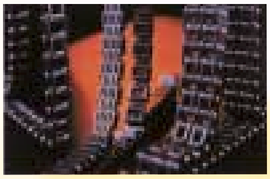


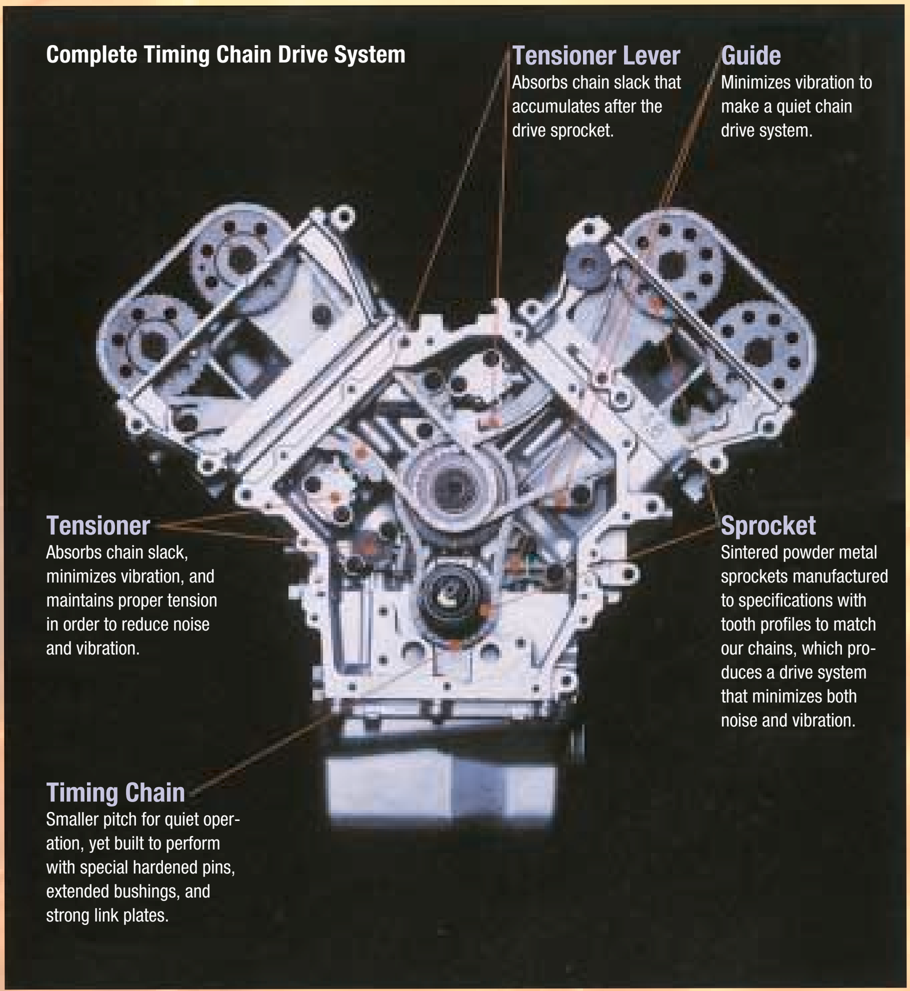
Tsubakimoto Chain has begun the construction of its new chain plant in Kyotanabe City, Kyoto Prefecture. This plant, which will boast advanced production facilities, will be one of the world's leading chain facilities when it comes on stream in 2002.

Tsubakimoto Chain's Strategy for Automotive Parts

Tsubakimoto Chain is the global leader in supplying automakers with automotive engine timing drive systems (camshaft drive systems). We are making progress with technological innovation in a wide range of related areas, and our operations in this field continue to hold significant potential for future growth. To take advantage of that potential, we are committed to bolstering our market position by pursuing an even more aggressive approach to developing our operations in the years ahead.







Market Trend

A Shift to the Use of Chains in Timing Systems

The market for automotive engine timing drives is composed principally of belt- and chain-based products, with belts currently used in the majority of engines. In recent years, however, the trend in automotive engines has been toward more reliable, lower fuel consumption models, and therefore interest in chains, which are more durable and compact, has increased.

Technological innovation has facilitated the development of new chains that are lighter, smaller, and quieter than conventional chains, and as a result automakers are increasingly choosing to use chains in new engines. Tsubakimoto Chain supplies both belt drive and chain drive systems to automakers around the world, but its market position in chain drive systems, which have higher added value and are a product line that showcases the Company's technical strengths, is being reinforced by the increased use of these products. The market share of chains is expected to surpass that of belts in the next five years, and accordingly we have decided to aggressively strengthen our chain drive operations.

Our Strengths

Meeting Customer Needs with Total Solutions

Product development capabilities backed up by advanced technological skills constitute Tsubakimoto Chain's key strengths in the market for automotive parts. Chain drive systems, for example, are made from timing chains, tensioners, tensioner levers, sprockets, and guides, and Tsubakimoto Chain develops and produces each of these parts in-house. In product development, we work together with automakers from the new engine development stage,


Timing chain testing


Product development meeting


U.S. Tsubaki's automotive products plant in Chicopee

and we have the capability to provide an integrated response from the basic design of a product to the delivery of a system. In addition, we offer roller chains and silent chains for use as timing chains, which are the core part of chain drive systems. Silent chains are used not only in timing drives; they are also widely used in power drives, which transfer engine power to the wheels. In the future, Tsubakimoto Chain will make full use of its original technology to aggressively establish a strong position in the market for silent chains for power drives.

Tsubakimoto Chain Automotive Parts

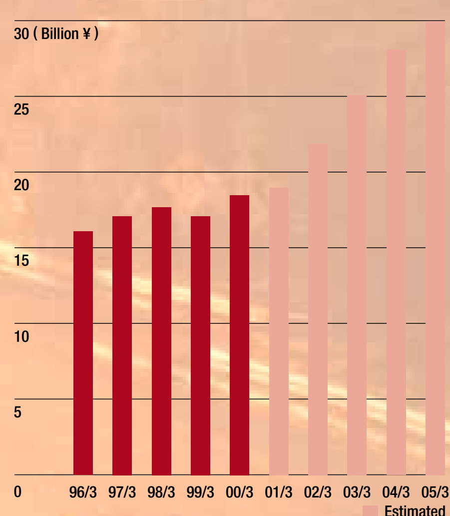
- **Timing Drive Products**
  - **Chain drive systems**
    - Timing chain (roller chain/silent chain)
    - Tensioner
    - Tensioner lever
    - Sprocket
    - Guide
  - **Belt drive systems**
    - Timing belt
    - Autotensioner
    - Pulley

- **Power Drive Products**
  - Silent chains for 4WD transfer
  - Silent chains for FFD primary drives

Future Potential
Strong Growth Expected in the Automotive Parts Market

The customers for Tsubakimoto Chain's automotive parts include the world's leading automakers, such as Toyota, Nissan, Honda, General Motors, and Ford. Consolidated automotive parts sales were about ¥18.5 billion in the year under review, accounting for 17% of Tsubakimoto Chain's net sales and 23% of sales in the power transmission operations. We are a leader in the important timing chain market, with a more than 90% share in Japan and a 10% share overseas. In the future, as automakers reappraise the strengths of chain drives, demand for our products will increase. In the North American market in particular, the use of timing roller chains, in which we boast special strengths, is still low, so significant growth can be expected in the years ahead. Sales of automotive parts by our U.S. subsidiary are expected to increase threefold over the next five years, to US$100 million, and as a result our consolidated sales of automotive parts in the fiscal year ending March 31, 2005, are projected to reach about ¥30.0 billion.

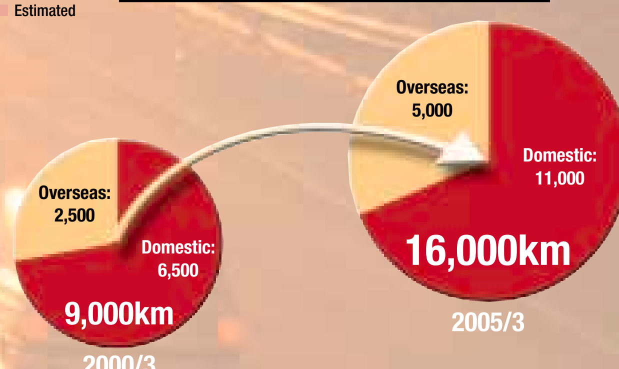
Consolidated Sales of Automotive Parts



Strategic Response
Adding More Value and Boosting Production Capacity

Demand for chain drive products is expanding around the world, and Tsubakimoto Chain is working to raise its production capacity in Japan and the United States. The Company's automotive products are manufactured at two plants: the Saitama Plant in Japan and the Chicopee Plant in the United States (Massachusetts). We are working to boost production capacity at each plant, with capacity for our mainstay timing chains slated to rise from the current 9,000 kilometers a year to 16,000 kilometers by 2005. In the future, as demand grows in Europe and Asia, we will bolster our production system globally. In addition, by strengthening our development of high-value-added products that meet the varied technical requirements of automakers, we will further solidify the already strong presence of the Tsubaki brand in the industry. For each of the past six years, we have been named a Supplier of the Year by General Motors, an indication of the high regard in which our customers hold our products. In the years ahead, we will continue to use our technical strengths and reliable quality to aggressively expand our automotive parts operations.

Increasing Our Annual Production Capacity for Timing Chains



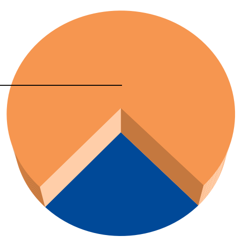
Power Transmission Products

Sales of power transmission products in the year ended March 31, 2000, rose 2.3%, to ¥80.7 billion (US$761.5 million), accounting for 75.9% of consolidated net sales. Overseas sales decreased 4.5%, to ¥27.2 billion (US$256.3 million), representing 33.7% of sales of power transmission products. The division's consolidated operating income was up 15.1%, to ¥6.2 billion (US$58.1 million).

The Japanese economy was sluggish during the past year, with no recovery in consumer spending and continued weakness in private-sector capital investment. In this setting, Tsubakimoto Chain succeeded in increasing sales and profits by instituting projects designed to strengthen relationships with existing customers and attract new customers.

Overseas, our subsidiaries in Asia recorded strong recoveries, with sales rising by large margins. Although the appreciation of the yen against the euro led to an unfavorable market environment in Europe, European subsidiary Tsubakimoto Europe B.V. was able to earn a profit despite a decline in sales. In the important North American market, we recorded higher sales of timing chains to automakers, but sales of chains to general industrial customers declined, and overall sales decreased from the previous year.

Share of Net Sales
Power Transmission Products
75.9%



Sales Breakdown

	Millions of Yen						% Change
	2000		1999		1998		2000/1999
Domestic Sales	**¥53,557**	**(66.3)**	¥50,429	(63.9)	¥60,250	(67.7)	+6.2
Overseas Sales	**27,163**	**(33.7)**	28,446	(36.1)	28,804	(32.3)	–4.5
Total Sales	**¥80,720**	**(100.0)**	¥78,875	(100.0)	¥89,054	(100.0)	+2.3
Operating Income	**¥6,161**		¥5,353		¥8,532		+15.1

During the fiscal year, Tsubakimoto Chain made further progress in reorganizing its domestic operations. In November 1999, we combined six consolidated subsidiaries and affiliates into Tsubakimoto Machinery Co. We also closed eight domestic sales offices and consolidated their operations into a branch office and a marketing office. As a result, we succeeded in raising the efficiency of our sales activities and strengthening our corporate constitution.

Chains

As one of the world's leading chain makers, Tsubakimoto Chain supplies a broad range of industries with advanced, high-performance chain products. The quality of our products and our technical development capabilities are highly regarded by customers.

Our sales of chains in Japan for the full fiscal year were unchanged from the previous year. In contrast to the sluggish demand in the first half of the year, conditions in the second half turned toward recovery. In the second half of the year, orders increased 7% from the first half and sales rose 10%. This improvement was due primarily to higher sales of such products as small conveyor chains and plastic Cableveyors to the information technology, machine tool, and food processing industries. In particular, sales of plastic Cableveyors (support and protection products for cables and hoses, made with engineering plastic) for use in ATMs and other information processing equipment were strong. Sales of these products in the year under review increased 20% from the previous year, and in the second half of the year under review they rose at an even faster pace, 32% year on year. Sales of small conveyor chains rose 10% from the previous year, supported by strong demand from the food processing, light electrical, and semiconductor industries. Sales of Auto Tool Changer (ATC) chains for machine tools recovered, up 39% year on year in the second half.

Sales of medium- and large-size conveyor chains declined. Demand was favorable in some applications, such as incinerators, where investment has been spurred by the dioxin issue, and automobile production lines. Nonetheless,

Clip top chains

Plastic chains for conveying PET bottles

conditions remained sluggish in key industries, such as steel and cement, and market prices came under growing pressure from imports.

In North America, demand for chains for general industrial applications was weak. In South America, however, we secured large orders for conveyor chains from the steel and cement industries. In Asia, economic recovery led to growth in sales of smaller products.

Power Transmission Units and Components

In addition to chains, Tsubakimoto Chain provides a wide range of other highly regarded power transmission products, including reducers, such as gear motors and gear boxes; motion control units, such as Power Cylinders; couplings; and Cam Clutches.

There were several bright spots during the past year. Sales of motion control units, for example, increased 9% from the previous year, and sales of variable-speed drives were up 8%. In addition, we took steps to strengthen Tsubakimoto Sprocket Mfg., Ltd. In April 1999, a sales division was established at the company, which had previously operated as a Tsubakimoto Chain's production subsidiary. Tsubakimoto Sprocket subsequently began to market its products directly to customers as a specialized sprocket manufacturer, and as a result orders and sales in the second half of the year increased significantly.

In motion control units, we secured large orders for electromechanical actuators, such as Power Cylinders and Lini Power Jacks, for use in event halls and other public facilities in Japan and elsewhere in Asia. These products were highly evaluated for their low environmental impact, which results from the use of electromechanical technology, and for their contribution to reducing energy consumption in facilities with low utilization rates. In addition, reflecting the growing investment in information technology, we recorded increased orders for products used in LCD and semiconductor manufacturing equipment as well as higher exports.

In variable-speed drives, sales of shaft-mounted Hypoid Motors rose 31% from the previous year. This increase was due primarily to their ease of installation and to the manner in which they facilitate layout selection. With monthly sales in excess of ¥50 million, shaft-mounted Hypoid Motors have become one of our key products. Sales of these products for use in distribution and food processing equipment were strong, and their use in stairway ascent/descent equipment and chip conveyors increased. In addition, the range of applications for these products is expanding to include such areas as waste processing equipment made by large electrical equipment manufacturers.

In the five years since we entered the market for health care products, our units for converting hand-operated adjustable beds to electric operation have become a key product, with cumulative sales surpassing 16,000 during the past year. In April 2000, we began sales of a low electric bed that is better suited for use in Japanese-style rooms. We also launched a product that makes it easier for those with physical disabilities to take off and put on their shoes when entering or leaving the house and an adjustable-height sink designed for use by people in wheelchairs and small children. In Japan, a home care insurance system has been established, and in the years ahead we will work to further expand our health care operations by making full use of our power transmission and materials handling technologies.

Lini Power Jacks

Electrically operated reclining bed for senior citizens

Automotive Parts

Tsubakimoto Chain is one of the leading manufacturers of timing drive systems for automotive engines, and the Company provides products to leading automakers in Japan and overseas. For timing chains, we have a market share of more than 90% in Japan and of 10% in the United States. In recent years, automakers have made increasing use of steel chains, an area in which we have particular strengths. As a result, we are recording strong sales of timing chains and other camshaft drive systems in Japan and the United States, and we expect these products to play a key role in our growth over the medium to long term. We provide a more detailed operational overview and outlook for our timing drive systems and timing chains 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 semiconductor production robots and financial equipment, such as ATMs, also made a contribution to the improved performance.

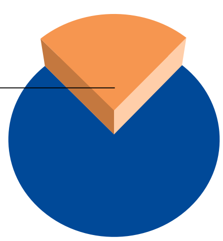
Ultra PX Belts

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.

Share of Net Sales
Materials Handling Systems
23.5%

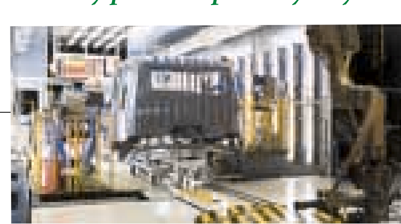


Sales Breakdown

	Millions of Yen						% Change
	2000		1999		1998		2000/1999
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 that demand bottomed out in the year under review and should begin to improve hereafter.

AGV automatic roll paper feeding system

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 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.

Linisort

Maintenance

As materials handling systems become more advanced and 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.

CoKanDo inspection tool for determining the lifespan of photoelectric sensors

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.

Board of Directors *(As of June 29, 2000)*

Takashi Fukunaga
President

Kunio Hirayama
Executive Managing Director
(Power Transmission Operations)

Toru Miyamoto
Managing Director
(Operational Affairs)

Tadashi Arimitsu
Managing Director
(Power Transmission Production Operations)

Kimio Takakura
Managing Director
(North American Operations)

Hideo Miyazaki
Director
(Power Transmission Global Business Development and Osaka Office)

Eiji Fujita
Director
(General Affairs, Asset Management, and Hyogo Plant)

Nobuhide Noguchi
Director
(Strategic Business and New Business Development)

Eishi Haga
Director
(Materials Handling Production Division and Saitama Plant)

Kenji Ohara
Director
(North American Operations)

Norikazu Ohno
Director
(Business Administration and Finance)

Kohei Hashimoto
Director
(Materials Handling Operations, Tokyo Office, and Nagoya Office)

Makoto Kanehira
Director
(Research & Development and Kyoto Plant)

Tadachi Yokoyama
Corporate Auditor

Tomoo Ito
Corporate Auditor

Masaru Tokuda
Corporate Auditor

Takashi Fukunaga
President

Kunio Hirayama
Executive Managing Director

Toru Miyamoto
Managing Director

Tadashi Arimitsu
Managing Director

Kimio Takakura
Managing Director

PROFILE

Founded in 1917, Tsubakimoto Chain Co. supplies power transmission products to industrial companies around the world. The Company's Tsubaki-brand steel chains, which hold the largest share of the global steel chain market, have been highly evaluated in the marketplace for their high quality and the breadth of their lineup. In recent years, Tsubakimoto Chain has worked to strengthen its automotive product operations, and the Company is now supplying advanced automotive engine timing drive systems to major automakers.

Tsubakimoto Chain is also a leader in materials handling systems, such as factory automation and physical distribution systems. These products, which include automatic conveyance systems used in manufacturing and sorting systems used in logistics centers, feature advanced mechatronics technology and are contributing to the rationalization of production and distribution in a wide range of industrial fields.

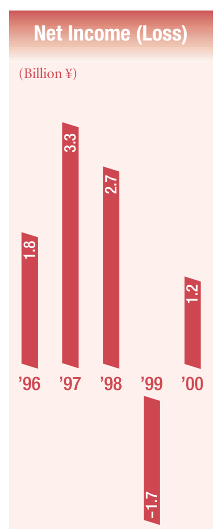
Guided by its mission to "provide the best value to customers around the world," Tsubakimoto Chain supplies its products to customers in more than 70 countries from 10 production subsidiaries and affiliates in Japan and 9 plants overseas. In the years ahead, the Company will work to further strengthen its position as a leader in global markets.

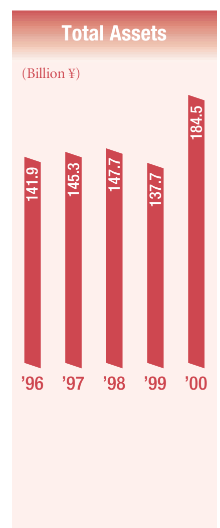
Financial Highlights

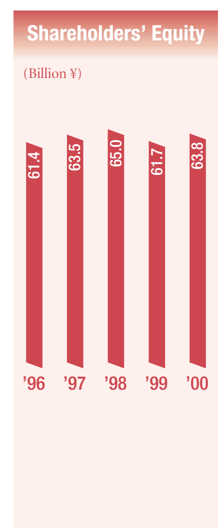
Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	**2000**
Net sales	**¥106,281**	¥110,919	**$1,002,651**
Operating income	**2,705**	2,358	**25,519**
Net income (loss)	**1,218**	(1,715)	**11,491**
Per share* (yen and dollars):			
Net income (loss)	**¥6.36**	¥(8.92)	**$0.060**
Cash dividends	**6.00**	6.00	**0.057**
Total assets	**¥184,468**	¥137,691	**$1,740,264**
Shareholders' equity	**63,750**	61,673	**601,415**

Note: The U.S. dollar amounts in this annual report have been calculated from yen amounts, for convenience only, at the exchange rate of ¥106 to $1, the approximate exchange rate at March 31, 2000.
*The effective par value per share is ¥50.







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Results of Operations

In the fiscal year ended March 31, 2000, steady sales of power transmission products were offset by difficult conditions in the markets for materials handling systems, and consolidated net sales declined 4.2%, to ¥106.3 billion (US$1,002.7 million). The cost of sales declined 6.3%, to ¥78.5 billion (US$740.4 million), as a result of lower personnel expenses. The cost of sales ratio improved to 73.8%, from 75.5% in the previous year. Selling, general and administrative expenses rose slightly, to ¥25.1 billion (US$236.7 million). Operating income was up 14.7%, to ¥2.7 billion (US$25.5 million), and the operating profit margin improved to 2.5%, compared with 2.1% in the previous year.

Net interest expense increased 78.0%, to ¥1.3 billion (US$12.7 million), due to a rise in long-term debt. Ordinary income was up 120.1%, to ¥1.9 billion (US$17.7 million). In extraordinary profit, we recorded a special gain of ¥850 million (US$8.0 million) from the sale of fixed assets. As a result, income before income taxes and minority interests was ¥2.7 billion (US$25.7 million), compared with a loss of ¥1.0 billion in the previous year, and net income reached ¥1.2 billion (US$11.5 million), compared with a net loss of ¥1.7 billion a year earlier. Net income per share was ¥6.36 (US$0.060), compared with a net loss per share of ¥8.92 in the previous year.

Return on equity (ROE) was 1.9%, compared with -2.7% in the previous year. Cash dividends per share were left unchanged at ¥6.00 (US$0.057).

Liquidity and Capital Resources

Net cash provided by operating activities decreased 53.0%, to ¥3.3 billion (US$30.8 million). Depreciation and amortization was down 3.8% from the previous year, at ¥4.4 billion (US$41.9 million).

Net cash used in investing activities increased from ¥4.5 billion in the previous year to ¥28.8 billion (US$271.3 million) in the year under review. This increase was due to capital expenditures of ¥32.5 billion (US$306.5 million), mainly in new plant construction. Proceeds from sales of property, plant, and equipment totaled ¥6.5 billion (US$61.6 million).

Net cash provided by financing activities totaled ¥27.2 billion (US$256.3 million), up from ¥2.4 billion in the previous year. This increase was due to new long-term borrowings and the issuance of bonds to finance new plant construction.

At the end of the year under review, cash and cash equivalents were up 10.9%, to ¥27.6 billion (US$260.2 million).

Current assets at year-end were up 14.6%, to ¥83.1 billion (US$784.4 million), and current liabilities increased 6.0%, to ¥50.1 billion (US$472.5 million). The current ratio was 1.66, compared with 1.54 at the end of the previous year. Property, plant and equipment, net of accumulated depreciation, increased 58.2% from the previous year-end, to ¥76.4 billion (US$720.3 million).

Shareholders' equity rose 3.4%, to ¥63.8 billion (US$601.4 million), as a result of increased retained earnings. Total assets at fiscal year-end were up 34.0%, to ¥184.5 billion (US$1,740.3 million). The ratio of shareholders' equity to total assets at fiscal year-end was 34.6%, down from 44.8% at the end of the previous year. Tsubakimoto Chain's debt-to-equity ratio at fiscal year-end was 1.16, compared with 0.73 at the previous year-end, as a result of the increase in long-term debt.

Eleven-Year Financial Summary

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years ended March 31

	2000	1999	1998	1997
Net sales	**¥106,281**	¥110,919	¥128,298	¥127,231
Income (loss) before income taxes and minority interests	**2,725**	(1,018)	5,508	5,931
Net income (loss)	**1,218**	(1,715)	2,709	3,280
Net income (loss) per share* (yen and dollars)	**6.36**	(8.92)	14.08	17.04
Interest expense:				
Net	**1,577**	1,163	1,172	1,073
Gross: Interest received	**162**	263	323	385
Interest paid	**1,739**	1,426	1,495	1,458
Capital expenditures	**32,487**	5,157	15,050	5,680
Current assets	**83,143**	72,541	81,622	80,929
Current liabilities	**50,080**	47,256	62,224	58,349
Net property, plant and equipment	**76,352**	48,249	48,837	38,331
Noncurrent liabilities	**67,474**	27,397	18,710	21,847
Total assets	**184,468**	137,691	147,668	145,268
Common stock	**17,077**	17,077	17,077	17,075
Retained earnings	**34,020**	31,943	35,260	33,791
Shareholders' equity	**63,750**	61,673	64,989	63,516
Number of shares outstanding at year-end (thousands)	**191,406**	191,406	192,406	192,399
Number of employees	**5,440**	5,368	5,720	5,789

* The effective par value per share is ¥50.

Millions of Yen Except Per Share Data							Thousands of U.S. Dollars
1996	1995	1994	1993	1992	1991	1990	**2000**
¥110,424	¥101,670	¥109,014	¥120,867	¥140,316	¥127,851	¥120,741	**$1,002,651**
3,649	179	1,750	5,131	10,291	11,139	10,027	**25,708**
1,796	(634)	1,148	2,539	5,216	5,393	5,060	**11,491**
9.33	(3.29)	5.96	13.20	27.14	28.15	27.00	**0.060**
1,063	951	1,041	1,248	1,160	1,115	749	**14,878**
492	835	982	1,247	1,655	1,299	861	**1,528**
1,555	1,786	2,023	2,495	2,815	2,414	1,610	**16,406**
4,759	4,290	4,221	8,489	8,586	11,060	6,996	**306,481**
77,995	63,452	63,319	75,028	73,549	89,110	76,553	**784,368**
62,312	45,902	45,625	56,937	54,978	71,273	50,165	**472,453**
36,904	37,709	39,221	40,629	37,490	33,985	27,130	**720,302**
16,849	19,966	19,818	20,320	18,261	11,196	10,381	**636,547**
141,863	127,893	129,020	141,759	137,355	142,883	117,038	**1,740,264**
17,068	17,066	17,066	17,058	17,057	16,809	16,629	**161,104**
31,682	31,060	32,675	33,398	33,049	29,987	26,465	**320,943**
61,392	60,768	62,382	63,091	62,739	59,180	55,298	**601,415**
192,377	192,374	192,372	192,354	192,349	191,639	191,045	
5,844	5,829	5,652	5,649	5,591	5,401	5,393	

Consolidated Balance Sheets

Tsubakimoto Chain Co. and Consolidated Subsidiaries
March 31, 2000 and 1999

Assets	Millions of Yen 2000	Millions of Yen 1999	Thousands of U.S. Dollars 2000
Current assets (Note 7):			
Cash and cash equivalents	¥ 27,586	¥ 24,879	$ 260,245
Short-term investments	5,061	2,154	47,745
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	14	1,950	132
Other	27,367	20,238	258,179
Inventories	20,700	21,991	195,283
Deferred tax assets	1,043	–	9,840
Other receivables:			
Unconsolidated subsidiaries and affiliates	28	39	264
Other current assets	1,619	1,573	15,274
Allowance for doubtful receivables	(275)	(283)	(2,594)
Total current assets	83,143	72,541	784,368
Property, plant and equipment (Note 7):			
Land	41,916	6,155	395,434
Buildings and structures	32,906	31,615	310,434
Machinery and equipment	67,416	65,629	636,000
Construction in progress	3,910	12,098	36,887
Accumulated depreciation	(69,796)	(67,248)	(658,453)
Net property, plant and equipment	76,352	48,249	720,302
Investments and long-term loans receivable:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	285	590	2,689
Other	7,932	8,353	74,830
Long-term loans receivable	34	35	321
Deferred tax assets	96	–	906
Other noncurrent items (Note 7)	14,959	7,678	141,122
Allowance for doubtful receivables	(588)	(462)	(5,547)
Total investments and long-term loans receivable	22,718	16,194	214,321
Currency translation adjustments	2,255	707	21,273
Total assets	¥184,468	¥137,691	$1,740,264

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

Liabilities and Shareholders' Equity

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current liabilities:			
Short-term bank loans and current portion of long-term debt	¥ 23,279	¥ 23,400	$ 219,613
Trade notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	802	705	7,566
Other	16,733	15,122	157,859
Income taxes payable	376	305	3,547
Accrued expenses	2,887	4,163	27,236
Deferred tax liabilities	104	–	981
Other	5,899	3,561	55,651
Total current liabilities	50,080	47,256	472,453
Noncurrent liabilities:			
Bonds	13,692	6,308	129,170
Long-term loans, less current maturities	37,166	15,370	350,622
Retirement benefits	12,065	5,719	113,821
Deferred tax liabilities	999	–	9,425
Other	3,552	–	33,509
Total noncurrent liabilities	67,474	27,397	636,547
Minority interests	3,164	1,365	29,849
Shareholders' equity:			
Common stock	17,077	17,077	161,104
Capital surplus	12,653	12,653	119,368
Retained earnings	34,020	31,943	320,943
	63,750	61,673	601,415
Treasury stock	(0)	(0)	(0)
Total shareholders' equity	63,750	61,673	601,415
Total liabilities and shareholders' equity	¥184,468	¥137,691	$1,740,264

Consolidated Statements of Income

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Net sales	¥106,281	¥110,919	¥128,298	$1,002,651
Cost of sales	78,481	83,714	94,025	740,387
Gross profit	27,800	27,205	34,273	262,264
Selling, general and administrative expenses	25,095	24,847	27,838	236,745
Operating income	2,705	2,358	6,435	25,519
Other income (expenses):				
Interest and dividend income	393	670	637	3,708
Interest expense	(1,739)	(1,426)	(1,495)	(16,406)
Equity in loss of affiliated company	–	(231)	–	–
Foreign exchange losses	(227)	(114)	(21)	(2,141)
Other, net	743	(405)	(45)	7,009
Ordinary income	1,875	852	5,511	17,689
Extraordinary profit (loss):				
Profit on disposal of fixed assets, and other, net	850	(1,870)	(3)	8,019
Income (loss) before income taxes and minority interests	2,725	(1,018)	5,508	25,708
Income taxes				
Current	925	696	2,671	8,726
Deferred	550	–	–	5,189
Minority interests	(32)	(1)	(128)	(302)
Net income (loss)	¥ 1,218	¥ (1,715)	¥ 2,709	$1,011,491

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

Consolidated Statements of Retained Earnings

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Retained earnings at the beginning of the year	¥31,943	¥35,260	¥33,791	$301,349
Increase in retained earnings, resulting from consolidation of additional subsidiaries	1,180	–	–	11,132
Prior years' tax effect	840	–	–	7,924
Appropriations:				
Cash dividends	(1,148)	(1,154)	(1,154)	(10,830)
Bonuses to directors and statutory auditors	(13)	(89)	(86)	(123)
Retirement of treasury shares	–	(249)	–	–
Decrease in retained earnings, resulting from application of the equity method	–	(110)	–	–
Net income (loss) for the year	1,218	(1,715)	2,709	11,491
Retained earnings at the end of the year	¥34,020	¥31,943	¥35,260	$320,943

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

Consolidated Statements of Cash Flows

Tsubakimoto Chain Co. and Consolidated Subsidiaries
Years Ended March 31, 2000, 1999 and 1998

	Millions of Yen			Thousands of U.S. Dollars
	2000	1999	1998	2000
Cash flows from operating activities:				
Net income (loss) before income taxes and minority interests	¥ 2,725	¥ 1,018	¥ 5,508	$ 25,708
Adjustments for:				
Depreciation and amortization	4,444	4,620	4,790	41,924
Loss (gain) on sales of property, plant and equipment	(8,837)	121	173	(83,368)
Provision for (reversal of) allowance for doubtful receivables	59	(131)	195	557
Provision for (reversal of) retirement benefits	5,859	(104)	(71)	55,274
Other income (expenses)	(237)	36	491	(2,236)
(Increase) decrease in trade notes and accounts receivable	(99)	8,762	(336)	(934)
Decrease in inventories	946	4,989	181	8,924
Decrease in trade notes and accounts payable	(2,410)	(3,620)	(819)	(22,736)
Other	3,008	(5,522)	(3,339)	28,377
Sub total	5,458	10,169	6,773	51,490
Interest and dividend income received	396	638	555	3,736
Interest expenses paid	(1,719)	(1,449)	(1,498)	(16,217)
Income taxes paid	(867)	(2,407)	(3,090)	(8,179)
Net cash provided by operating activities	3,268	6,951	2,740	30,830
Cash flows from investing activities:				
Increase of time deposits (due after 3 months)	(666)	–	–	(6,283)
Payments for purchase of investments in securities	(4,213)	(1,577)	(725)	(39,745)
Proceeds from sales of investments in securities	2,287	2,052	1,164	21,575
Payments for purchase of investments in subsidiaries	(222)	–	–	(2,094)
Increase of long-term loans receivable	(25)	–	–	(236)
Decrease of long-term loans receivable	39	18	10,024	368
Payments for purchase of property, plant and equipment	(32,487)	(5,157)	(15,050)	(306,481)
Proceeds from sales of property, plant and equipment	6,532	137	112	61,623
Net cash used in investing activities	(28,755)	(4,527)	(4,475)	(271,273)
Cash flows from financing activities:				
Increase (decrease) in short-term bank loans, net	517	(2,458)	1,683	4,877
Proceeds from long-term loans	21,413	6,906	1,540	202,009
Repayment from long-term loans	(864)	(807)	(988)	(8,151)
Proceeds from issue of bonds	8,000	4,000	–	75,472
Payments on redemption of bonds	(700)	(4,000)	–	(6,604)
Cash dividends	(1,149)	(1,154)	(1,154)	(10,839)
Cash dividends for minority shareholders	(51)	(60)	(60)	(481)
Net cash provided by financing activities	27,166	2,427	1,021	256,283
Effect of exchange rate changes on cash and cash equivalents	(52)	(1)	(53)	(491)
Net increase (decrease) in cash and cash equivalents	1,627	4,850	(767)	15,349
Cash and cash equivalents at the beginning of the year	24,879	20,029	20,796	234,707
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	1,080	–	–	10,189
Cash and cash equivalents at the end of the year	¥ 27,586	¥ 24,879	¥ 20,029	$260,245

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

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").

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.
Tsubakimoto Emerson Co.
Tsubakimoto Sprocket Mfg., Ltd.
Tsubaki Conveyor of America, Inc. (U.S.A.)
Taiwan Tsubakimoto Co. (Taiwan)
Harry James Company Ltd. (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)
Tsubaki Australia Pty. Limited (Australia)
Tsubakimoto Nishinihon Co., Ltd.
Tsubakimoto Mayfran Inc.
Korea Conveyor Ind. Co., Ltd. (Korea)
Tsubaki Emerson Gear (Tianjin) Co., Ltd. (China)

The Company and Tsubakimoto Machinery Co., which changed the name from Tsubaki Osaka Service Co. on October 1, 1999, acquired all of shares of 4 subsidiaries (Tsubakimoto Tech Inc. etc.).

(c) Unconsolidated subsidiaries and affiliates

Investments in 6 insignificant subsidiaries and 4 affiliated companies are stated at cost because the Company's equity in the income or losses of these companies is not significant.

(d) Translation into U.S. dollars

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥106= $1, the approximate exchange rate prevailing on March 31, 2000.

(e) Consolidated statement of cash flows

In 2000, the Companies adopted the Accounting Standards for Consolidated Statements of Cash Flows, etc. which was issued by the Business Accounting Deliberation Council.

Restated statements of cash flows for the years ended March 31, 1999 and 1998 have been provided for comparative purposes.

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) 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 8 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) 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.

Effective April 1, 1999, the Companies adopted the Accounting Standards for Research and Development Cost, etc. which was issued by the Business Accounting Deliberation Council.

(e) Bonuses for employees

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

(f) Retirement benefits

The Company and its consolidated domestic subsidiaries have unfunded employees' retirement benefit plans. Prior to April 1999, the annual accruals under such plans were equal to 40% of the amount which would be required if all employees voluntarily retired on the balance sheet date. Effective April 1, 1999, the Company changed the accrual for employees to equal to 100% of the amount which would be required if all employees voluntarily retired on the balance sheet date. The effect of the change was to increase retirement benefits by ¥6,091 million ($57,462 thousand) and decrease income before income taxes by ¥6,142 million ($57,943 thousand).

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.

(g) Translation of balances denominated in foreign currencies in (g) 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.

(h) 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.

(i) Income taxes

The Companies recorded income taxes payable based upon taxable income determined for each group company in accordance with applicable tax laws. The Company and its domestic subsidiaries did not recognize deferred income taxes arising from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements at March 31, 1999.

Effective April 1, 1999, the Companies adopted the Financial Accounting Standard on Accounting for Effects of Income Taxes which was issued by the Financial Accounting Deliberation Council.

This standard requires that income taxes be accounted for under the asset and liability method. The effect of the initial application of this policy for the year ended March 31, 2000 was to decrease net income by ¥550 million ($5,189 thousand). The cumulative effect up to the beginning of the current year of ¥840 million ($7,925 thousand) has been reported as a prior years' tax effect from initial application of accounting for income taxes in the consolidated statement of retained earnings. As a result of the above, total assets and total liabilities increased by ¥1,139 million ($10,746 thousand) and ¥1,103 million ($10,406 thousand) respectively and retained earnings increased by ¥36 million ($340 thousand).

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, amortized for less than 20 years. 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. Pledged Assets

At March 31, 2000 and 1999, the following assets were pledged as collateral for bank loans and long-term debt.

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current assets	¥ –	¥ 531	$ –
Property, plant and equipment	49,625	22,329	468,160
Other noncurrent items	63	–	594
	¥49,688	¥22,860	$468,754

8. Contingent Liabilities

Contingent liabilities with respect to trade notes discounted and loans guaranteed amounted to ¥9,087 million ($85,726 thousand) and ¥12,606 million at March 31, 2000 and 1999, respectively.

9. Per Share Amounts

	Yen		U.S. Dollars
	2000	1999	2000
Shareholders' equity per share	¥333.06	¥322.20	$3.142
Net income (loss) per share	6.36	(8.92)	0.060

10. Research and Development

Research and development expenditure charged to income was ¥1,444 million ($13,623 thousand) for the year ended March 31, 2000.

11. Segment Information

Information by business segment and geographical segment for the years ended March 31, 2000 and 1999 is as follows:

(a) Business segment

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Net sales:			
Power transmission products:			
Customers	¥ 80,720	¥ 78,875	$ 761,510
Intersegment	1,077	2,160	10,160
Total	¥ 81,797	¥ 81,035	$ 771,670
Materials handling systems:			
Customers	¥ 25,018	¥ 31,403	$ 236,019
Intersegment	214	124	2,019
Total	¥ 25,232	¥ 31,527	$ 238,038
Others:			
Customers	¥ 543	¥ 641	$ 5,123
Intersegment	1,183	1,094	11,160
Total	¥ 1,726	¥ 1,735	$ 16,283
Eliminations	(2,474)	(3,378)	(23,340)
Consolidated total	¥106,281	¥110,919	$1,002,651
Operating income (loss):			
Power transmission products	¥ 6,161	¥ 5,353	$ 58,123
Materials handling systems	(823)	(292)	(7,764)
Others	257	217	2,424
Corporate and eliminations	(2,890)	(2,920)	(27,264)
Consolidated total	¥ 2,705	¥ 2,358	$ 25,519
Total assets:			
Power transmission products	¥116,039	¥ 83,914	$1,094,707
Materials handling systems	23,082	19,841	217,755
Others	2,382	2,322	22,472
Corporate and eliminations	42,965	31,614	405,330
Consolidated total	¥184,468	¥137,691	$1,740,264
Depreciation:			
Power transmission products	¥ 3,729	¥ 3,863	$ 35,179
Materials handling systems	553	583	5,217
Others	17	19	160
Corporate and eliminations	145	155	1,368
Consolidated total	¥ 4,444	¥ 4,620	$ 41,924
Capital expenditures:			
Power transmission products	¥ 28,940	¥ 4,457	$ 273,019
Materials handling systems	125	476	1,179
Others	5	9	47
Corporate and eliminations	3,417	215	32,236
Consolidated total	¥ 32,487	¥ 5,157	$ 306,481

(b) Geographical segment

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Net sales:			
Japan:			
Customers	¥ 78,338	¥ 77,164	$ 739,038
Intersegment	7,374	7,295	69,566
Total	¥ 85,712	¥ 84,459	$ 808,604
North America:			
Customers	¥ 20,978	¥ 28,240	$ 197,906
Intersegment	89	96	839
Total	¥ 21,067	¥ 28,336	$ 198,745
Europe:			
Customers	¥ 2,781	¥ 3,146	$ 26,236
Intersegment	6	15	57
Total	¥ 2,787	¥ 3,161	$ 26,293
Asia and Oceania:			
Customers	¥ 4,183	¥ 2,370	$ 39,462
Intersegment	523	426	4,934
Total	¥ 4,706	¥ 2,796	$ 44,396
Eliminations	(7,991)	(7,833)	(75,387)
Consolidated total	¥106,281	¥110,919	$1,002,651
Operating income:			
Japan	¥ 3,702	¥ 2,553	$ 34,924
North America	1,481	1,861	13,972
Europe	218	287	2,057
Asia and Oceania	138	211	1,302
Corporate and eliminations	(2,834)	(2,554)	(26,736)
Consolidated total	¥ 2,705	¥ 2,358	$ 25,519
Total assets:			
Japan	¥117,216	¥ 84,311	$1,105,811
North America	17,015	19,199	160,519
Europe	2,705	2,371	25,519
Asia and Oceania	5,350	2,261	50,472
Corporate and eliminations	42,182	29,549	397,943
Consolidated total	¥184,468	¥137,691	$1,740,264

The Board of Directors
Tsubakimoto Chain Co.

We have audited the accompanying consolidated balance sheets of Tsubakimoto Chain Co. and its consolidated subsidiaries (the "Companies") as of March 31, 2000 and 1999, and the related consolidated statements of income, retained earnings and cash flows for each of the three years ended March 31, 2000, expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, procedures and practices in Japan and, accordingly, our audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Companies as of March 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years ended March 31, 2000 in accordance with accounting principles generally accepted in Japan applied on a consistent basis, except for the change, with which we concur, in the method of estimation for retirement benefits to employees, which was made in the year ended March 31, 2000, as described in Note 2(f) to the consolidated financial statements.

As described in Notes 1 and 2 to the consolidated financial statements, the Companies have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The accompanying consolidated financial statements as of March 31, 2000 and for the year ended March 31, 2000 have been translated into United States dollars solely for the convenience of the reader. We have reviewed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note 1(d) to the consolidated financial statements.

Century Ota Showa & Co.

Century Ota Showa & Co.

Osaka, Japan
June 29, 2000

See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of the Companies under Japanese accounting principles and practices.

Principal Tsubakimoto Chain Group Companies

(As of April 1, 2000)

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees (As of March 31, 2000)	Establishment	Principal Business
JAPAN					
TSUBAKIMOTO EMERSON CO.*	¥390.0 million	60.0%	285	October 1984	Manufacture of power transmission products
TSUBAKIMOTO SPROCKET MFG., LTD.*	¥96.0 million	98.8%	94	October 1968	Manufacture of sprockets
TSUBAKIMOTO CUSTOM CHAIN CO.*	¥125.0 million	98.6%	198	October 1951	Manufacture of power transmission chains
SHOWA CHAIN INDUSTRIAL CO.	¥30.0 million	97.0%	30	October 1950	Manufacture of conveyor chains
SHINKO MACHINERY CO.	¥50.0 million	50.0%	37	March 1971	Manufacture of conveyor chains
TSUBAKIMOTO IRON CASTING CO., LTD.	¥20.0 million	100.0%	46	October 1968	Casting
KYOWA CAM CO.	¥30.0 million	100.0%	9	August 1991	Manufacture of power transmission products
HOKKAIDO TSUBAKIMOTO CHAIN CO., LTD.*	¥30.0 million	100.0%	18	October 1961	Sales of Tsubakimoto Chain products
TSUBAKIMOTO MACHINERY CO.*	¥139.0 million	68.3%	160	April 1971	Sales of Tsubakimoto Chain products
TSUBAKIMOTO NISHINIHON CO., LTD.*	¥90.0 million	50.0%	58	October 1993	Sales of Tsubakimoto Chain products
TSUBAKIMOTO BULK SYSTEMS CORPORATION*	¥150.0 million	100.0%	162	April 1981	Manufacture of bulk materials handling systems
ONISHI MFG. CO., LTD.	¥46.0 million	45.7%	31	September 1959	Manufacture of conveying equipment
TSUBAKIMOTO MAYFRAN INC.*	¥90.0 million	50.0%	122	November 1973	Manufacture of chip conveyors
TSUBAKI ARCS CO.*	¥461.0 million	100.0%	118	October 1970	Real estate leasing and maintenance and insurance agency services
TSUBAKIMOTO STAFF SERVICE CO-OP.	¥22.5 million	66.7%	41	January 1982	Employee welfare services

Note: As of November 1, 1999, six subsidiaries and affiliates—Tsubakimoto Higashinihon Co., Tsubaki Osaka Service Co., Tsubaki Chugoku Sales, Co., Tsubaki Izumi Sales Co., Ltd., Tsubaki Mecs Co., Ltd., and Tsubaki Shikoku Sales Co., Ltd.—were combined into a new company, Tsubakimoto Machinery Co.

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees	Establishment	Principal Business
NORTH AMERICA					
U.S. TSUBAKI, INC.* 301 E. Marquart Drive, Wheeling,IL 60090-6431, U.S.A. Telephone: (847)459-9500 Facsimile: (847)459-9515	US$33,500,000	100.0%	1,001	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	—	—	210	—	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	—	—	190	—	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	—	—	163	—	Manufacture of engineering chains
Sprocket Division, Bennington Plant 222 Bowen Road, Bennington, VT 05201-2017, U.S.A. Telephone: (802)447-7561 Facsimile: (802)447-0755	—	—	143	—	Manufacture of sprockets and power locks
BALLANTINE, INC.* 840 Mckinley Street, Anoka, MN 55303-1162, 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

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Number of Employees (As of March 31, 2000)	Establishment	Principal Business
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%	87	July 1973	Manufacture and sales of power transmission products
TSUBAKI CONVEYOR OF AMERICA, INC.* 138 Davis Street, P.O.Box 710, Portland, TN 37148-0710, U.S.A. Telephone: (615)325-9221 Facsimile: (615)325-2442	US$900,000	100.0%	63	July 1983	Manufacture and sales of materials handling systems
EUROPE					
TSUBAKIMOTO EUROPE B.V.* Belder 1,4704 RK, Roosendaal, The Netherlands Telephone:165-594800 Facsimile:165-549450	NLG6,000,000	100.0%	41	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	NLG51,200	T.E.U. 100%	32	June 1918	Sales of power transmission products
TSUBAKIMOTO U.K. LTD.* Osier Drive, Sherwood Park, Annesley, Nottingham, NG150DX, United Kingdom Telephone: (1623)688700 Facsimile: (1623)688789	£150,000	T.E.U. 100%	26	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%	2	March 1990	Sales and maintenance of materials handling systems
ASIA					
TSUBAKIMOTO SINGAPORE PTE. LTD.* 25 Gul Lane, Jurong, Singapore 629419 Telephone: 8610422(6 lines) Facsimile: 8617035	SG$3,000,000	100.0%	26	January 1981	Manufacture and sales of power transmission products
TAIWAN TSUBAKIMOTO CO.* No.7 Feng Sun Keng, Kuei Shan-Hsiang, Taoyuan-Hsien, Taiwan, R.O.C. Telephone: (3)3293827~9 Facsimile: (3)3293065	NT$70,000,000	96.1%	88	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%	29	May 1987	Sales of power transmission products
KOREA CONVEYOR IND. CO., LTD.* 72-1,Onsoo-doing, Kuro-ku, Seoul, Republic of Korea Telephone: (2)2613-0151 Facsimile: (2)684-9166	KRW1,200,000,000	49.0%	188	January 1970	Manufacture and sales of materials handling systems and conveyor chains
TSUBAKI EMERSON GEAR (TIANJIN) CO., LTD. 135 Dong Ting Road, Teda, Tianjin, PRC 300457 Telephone: (022)2532-6410 Facsimile: (022)2532-6421	RMB27,734,922	Tsubakimoto Emerson 52.17%	127	June 1990	Manufacture of power transmission products

Note: As of August 5, 1999, Tsubakimoto Chain sold its equity shares in Hangzhou Tsubaki Dunpai Chain Co., Ltd.

** Consolidated subsidiary*

Corporate Data *(As of March 31, 2000)*

TSUBAKIMOTO CHAIN CO.

HEAD OFFICE
17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686, Japan
(P.O. Box 11, Joto Osaka)
Telephone: (06) 6911-1221
Facsimile: (06) 6913-5315

DATE OF FOUNDING
December 1917

DATE OF INCORPORATION
January 1941

SHAREHOLDERS' EQUITY
¥63,750 million

COMMON STOCK
Authorized: 299,000 thousand shares
Issued: 191,406 thousand shares

STOCK LISTINGS
Tokyo, Osaka, Nagoya, and Kyoto

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

NUMBER OF EMPLOYEES
2,706 (Parent company only)

OFFICES AND PLANTS

Tokyo Office
Medical Friend Building,
2-4, Kudan-Kita 3-chome,
Chiyoda-ku, Tokyo 102-8186
Telephone: (03) 3221-5612
Facsimile: (03) 3221-5639

Nagoya Office
Daisho Building,
26-25, Meieki 4-chome,
Nakamura-ku, Nagoya 450-0002
Telephone: (052) 571-8181
Facsimile: (052) 571-0915

Osaka Office
Fukokuseimei Building,
2-4, Komatsubara-cho,
Kita-ku, Osaka 530-0018
Telephone: (06) 6313-3190
Facsimile: (06) 6315-6657

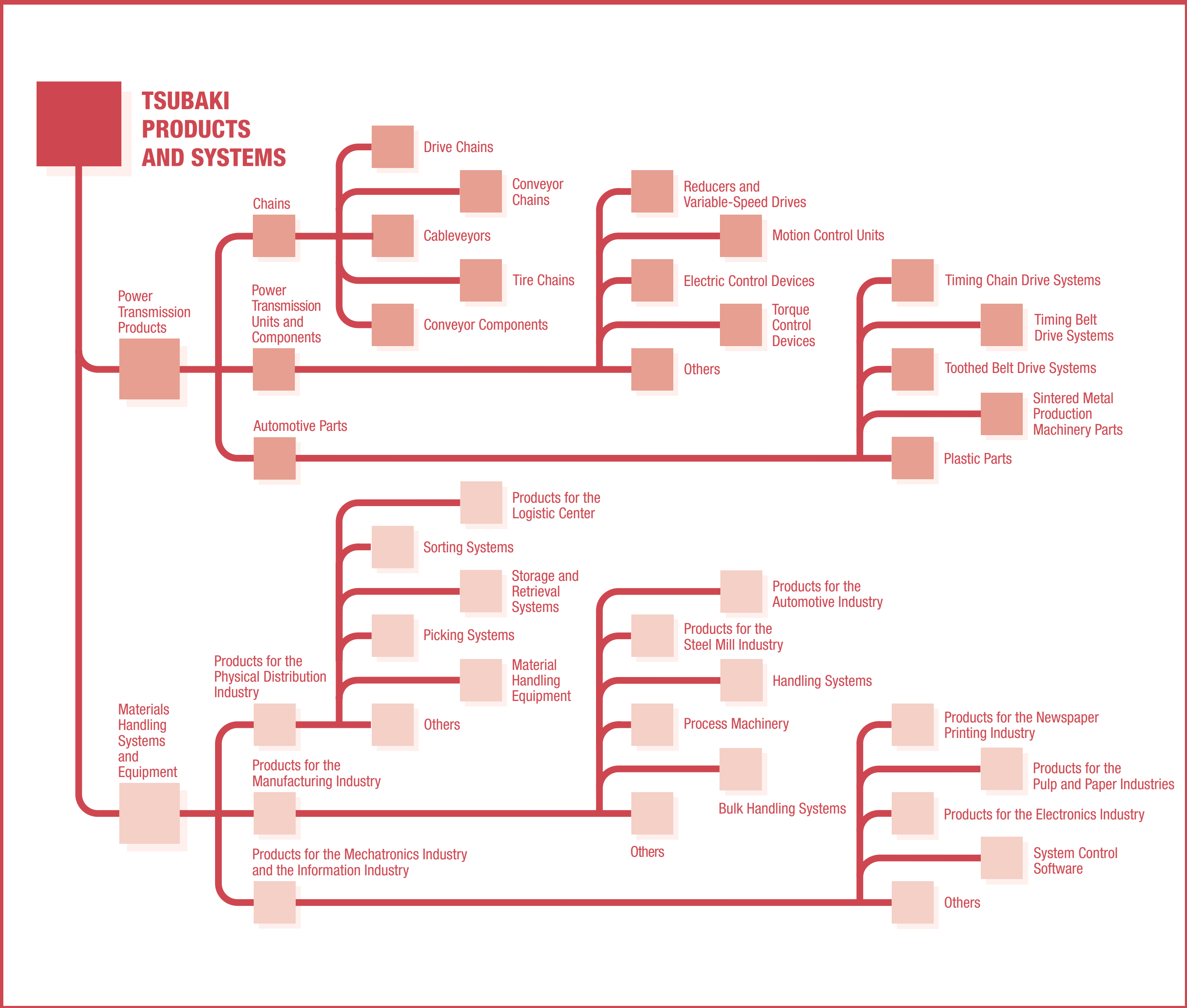
Osaka Plant
17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686
Telephone: (06) 6911-1221
Facsimile: (06) 6913-5315
Major products: Power transmission chains and conveyor chains
Number of employees: 953

Saitama Plant
20, Shinko, Hanno,
Saitama 357-8510
Telephone: (0429) 73-1131
Facsimile: (0429) 73-4252
Major products: Automotive parts and materials handling systems
Number of employees: 922

Kyoto Plant
1-1, Kotari-Kuresumi,
Nagaokakyo, Kyoto 617-0833
Telephone: (075) 954-1111
Facsimile: (075) 956-8456
Major products: Power transmission units and components
Number of employees: 435

Hyogo Plant
1140, Asazuma-cho,
Kasai, Hyogo 679-0181
Telephone: (0790) 47-1518
Facsimile: (0790) 47-1513
Major products: Materials handling equipment
Number of employees: 9

SALES OFFICES
Sendai, Omiya, Yokohama, Shizuoka, Toyota, Okazaki, Hokuriku (Kanazawa), Keiji (Kusatsu), Hiroshima, Kyushu (Fukuoka), and 10 other regional sales offices


TSUBAKI
PRODUCTS
AND SYSTEMS
Power Transmission Products
Chains
Drive Chains
Conveyor Chains
Cableveyors
Tire Chains
Conveyor Components
Power Transmission Units and Components
Reducers and Variable-Speed Drives
Motion Control Units
Electric Control Devices
Torque Control Devices
Others
Automotive Parts
Timing Chain Drive Systems
Timing Belt Drive Systems
Toothed Belt Drive Systems
Sintered Metal Production Machinery Parts
Plastic Parts
Materials Handling Systems and Equipment
Products for the Physical Distribution Industry
Products for the Logistic Center
Sorting Systems
Storage and Retrieval Systems
Picking Systems
Material Handling Equipment
Others
Products for the Manufacturing Industry
Products for the Automotive Industry
Products for the Steel Mill Industry
Handling Systems
Process Machinery
Bulk Handling Systems
Others
Products for the Mechatronics Industry and the Information Industry
Products for the Newspaper Printing Industry
Products for the Pulp and Paper Industries
Products for the Electronics Industry
System Control Software
Others

TSUBAKIMOTO CHAIN CO.
17-96, Tsurumi 4-chome,
Tsurumi-ku, Osaka 538-8686, Japan

Printed in Japan