

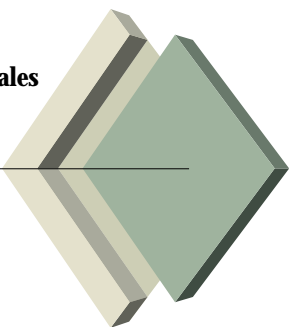


During the year ended March 31, 1998, sales of power transmission products increased 1.9%, to ¥89.1 billion (US\$674.6 million), accounting for 69.4% of Tsubakimoto Chain's net sales. Overseas sales rose 7.6%, to ¥28.8 billion (US\$218.2 million), representing 32.3% of sales of power transmission products, compared with 30.6% in the previous year.

Products for the machine tool and automobile industries registered increased sales in Japan. Overseas, demand remained strong in the key North American market, but conditions in Southeast Asia were adversely affected by the currency crisis in that region.

Share of Net Sales

Power Transmission Products
69.4%

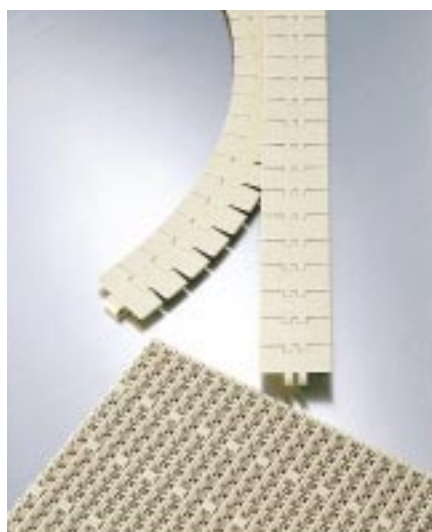


Sales Breakdown

(Millions of yen, %)

	1998	1997	% Change
Domestic Sales	¥60,249 (67.7)	¥60,587 (69.4)	-0.6%
Overseas Sales	28,804 (32.3)	26,773 (30.6)	+7.6%
Total	¥89,053 (100.0)	¥87,360 (100.0)	+1.9%

Power Transmission Products



Antibacterial chains

■ Chains

As one of the world's leading chain makers, Tsubakimoto Chain supplies a wide range of industries with advanced, high-performance products.

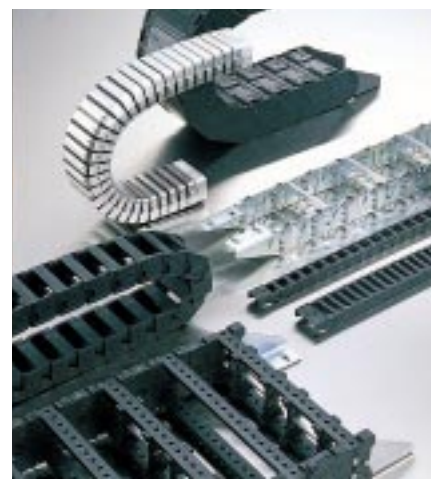
We continue working to expand the scope of the chain market by using new technologies and materials in product development.

In Japan, sales of products for use in food processing and conveyance were weak during the year under review; however, those for machine tools and other general machinery were comparatively favorable. Especially strong sales were recorded by Automatic Tool Changer (ATC) chains for machining centers and other machine tools and by plastic Cableveyor chains.

Domestic private-sector capital investment was strong in the first half of the year under review, but in the second half the operating environment became more difficult as business conditions worsened and com-

panies in all industries reduced capital investment. In this environment, we worked to bolster our marketing capabilities by linking our domestic sales organization even more closely with customers and regions and by promoting integrated engineering sales. We also worked to create new demand during the year with the introduction of a new engineered

Cableveyors



plastic chain. This product, which is targeted at the food processing industry, features antibacterial and antimold functions.

Overseas, sales of roller chains in the mainstay North American market continued to increase, but sales in Southeast Asia declined due to the adverse effects of the currency crisis.

■ Power Transmission Units and Components

Tsubakimoto Chain is a market leader in a wide range of power transmission units and components. Our major products include Power Cylinders and other motion control units, Cam Clutches, and couplings. During the year under review, sales of couplings for machine tools were favorable and demand for integrated mechatronics products, which



Cam Clutches

incorporate Power Cylinders and servo motors, was robust. In addition, Power Locks, for which we have the top market share, continued to enjoy growing demand.

In 1996, we began full-fledged marketing activities in health care, a new field of business for Tsubakimoto Chain. One focus of our activities is the use of original



Power Locks

technology and specialized know-how to develop and market nursing assistance products that will help meet the needs of Japan's rapidly aging society. We have developed units that convert hand-operated adjustable beds to electric operation and, for people in wheelchairs, kitchen equipment that allows easy, electrically powered adjustment of the height of sinks. We are currently conducting marketing activities targeting health care facilities and individuals.

■ Automotive Parts

Tsubakimoto Chain has built a solid position as one of the leading manufacturers of timing drive systems, which include automotive timing chains and timing belts. Each year, we continue to bolster that strong market presence. The reliability and quality of our products, especially timing roller chains, have been highly evaluated by domestic and overseas automakers, and we have a 90% share of the Japanese market and the top

share of the market in the United States.

In Japan, our sales of timing drive systems increased during the year as automakers began to replace belts with chains, one of our traditional strengths. We anticipate further sales gains in the years ahead. In the past, belt-driven camshafts were more common because the belts offered light weight and low cost. However, new engine models feature high output and high-RPM operation, and as a result the use of chains, which offer superior durability and reliability, is increasing.

Overseas, demand for timing chains and timing drive systems is expected to remain strong in the key North American market. Accordingly, we are conducting aggressive capital investment to expand our local production capacity. In the previous fiscal year, we opened a new plant in Chicopee, Massachusetts, that is dedicated to the production of automotive parts. Full-scale operations at the plant began during the year under review. We will continue to expand our global operations in the years ahead, and plans call for the opening of marketing and production bases in Europe and Asia.

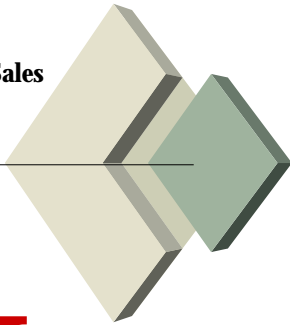
Timing drive parts



Sales of materials handling systems declined 1.6% during the year under review, to ¥38.7 billion (US\$293.0 million), accounting for 30.1% of the Company's net sales. Overseas sales declined 3.1%, to ¥9.3 billion (US\$70.6 million), representing 24.1% of our sales of materials handling systems.

Domestically, sales of physical distribution systems increased, but those of factory automation systems declined. Our overseas business was significantly affected by the Southeast Asian currency crisis.

Share of Net Sales
Materials Handling
Systems
30.1%



Sales Breakdown

	(Millions of yen, %)		
	1998	1997	% Change
Domestic Sales	¥29,349 (75.9)	¥29,680 (75.5)	-1.1%
Overseas Sales	9,321 (24.1)	9,617 (24.5)	-3.1%
	¥38,670 (100.0)	¥39,297 (100.0)	-1.6%

Materials Handling Systems

■ Factory Automation Systems

Tsubakimoto Chain is contributing to the rationalization of production activities by providing the automobile, paper manufacturing, newspaper, steel, mechatronics and other industries with advanced factory automation systems. With leading-edge mechatronics technology and engineering services tailored to the

Handling system for cathode ray tubes



specific needs of each industry, our factory automation systems are highly regarded in the markets we serve.

In the domestic market during the year under review, we continued to record steady deliveries of factory automation systems for the automobile industry, a major customer, as well as for the electrical and electronic equipment, paper manufacturing, and newspaper industries. Demand remained firm for several products, including the Traverser System series of body paint shop conveyor systems for the automobile industry; a CRT handling system for the electrical and electronic equipment industries; and our AGV and ADS automatic roll paper feeding systems for the newspaper industry.



Hard disk conveyance system

During the previous year, we launched conveyor systems for hard disk production lines in the electronics industry, and during the year under review we sold a number of these systems to customers. We expect growing demand for this product, which is used to link separate production processes and is composed principally of dollies that run on tracks.

In overseas business, sales during the year under review were less than the previous year, due to the adverse impact of the currency crisis in Southeast Asia. Although we fared comparatively well in Taiwan, in our major markets of South Korea and Malaysia sales fell sharply. Our key products in the Asian market are CRT handling systems for the mechatronics industry, body paint shop conveyor systems for the automobile industry, and coil handling systems for the steel industry. In North America and Great Britain meanwhile, sales increased from the previous year. A key product in these markets is our body paint shop conveyor systems for Japanese automakers.

Physical Distribution Systems

Tsubakimoto Chain offers a wide variety of physical distribution systems, which help customers to rationalize the sorting of goods in the publishing, apparel, and retail industries. Our systems are developed to meet the specific needs of different industries, and they offer advanced functionality in the accurate and rapid sorting of products of any form. The systems also facilitate

Multi-Sorter



Lini Sort

higher speed and reduced costs in distribution operations. During the year under review, sales of physical distribution systems increased from the previous year.

Our flagship products in this field include Multi-Sorter, a printed materials sorting system for the publishing industry; Lini Sort, a high-speed, multi-directional sorting system for the retail industry and distribution centers; and Fashion Sort, which enables clothing to be distributed on hangers for the apparel industry. Each of these systems showcases our original technology and know-how and has been highly evaluated in its target industry.

During the year under review, our results were supported by the sale to a book retailer of the largest Multi-Sorter we have ever built.

Products launched during the year under review included Lini Sort V, which offers significant improvements in cost and size, and Lini Sort S, which is designed for use with small objects weighing less than five

kilograms. Each system is tailored to small lot sorting needs and is contributing to the expansion of our customer base.

Other Materials Handling Equipment

Three of our key products in this business group are Pak-U-Veyor, Power Column, and Aufran Vanguard. During the year under review, we introduced a new version of our Power Column vertical shelves that offers a reduction in access time of more than 30%, and Power Column orders increased by a large margin. Aufran Vanguard, which is suitable for use in small and medium-sized distribution facilities as well as in offices, continues to strengthen its market presence, and during the year under review it en-

Aufran Vanguard



joyed solid demand in new markets, such as the food processing industry. In addition, our New WIPS, a high-speed, high-precision automatic stocking system for use in clean rooms, was the focus of aggressive marketing activities, and it is recording steady results in LCD production lines of the electronics industry.