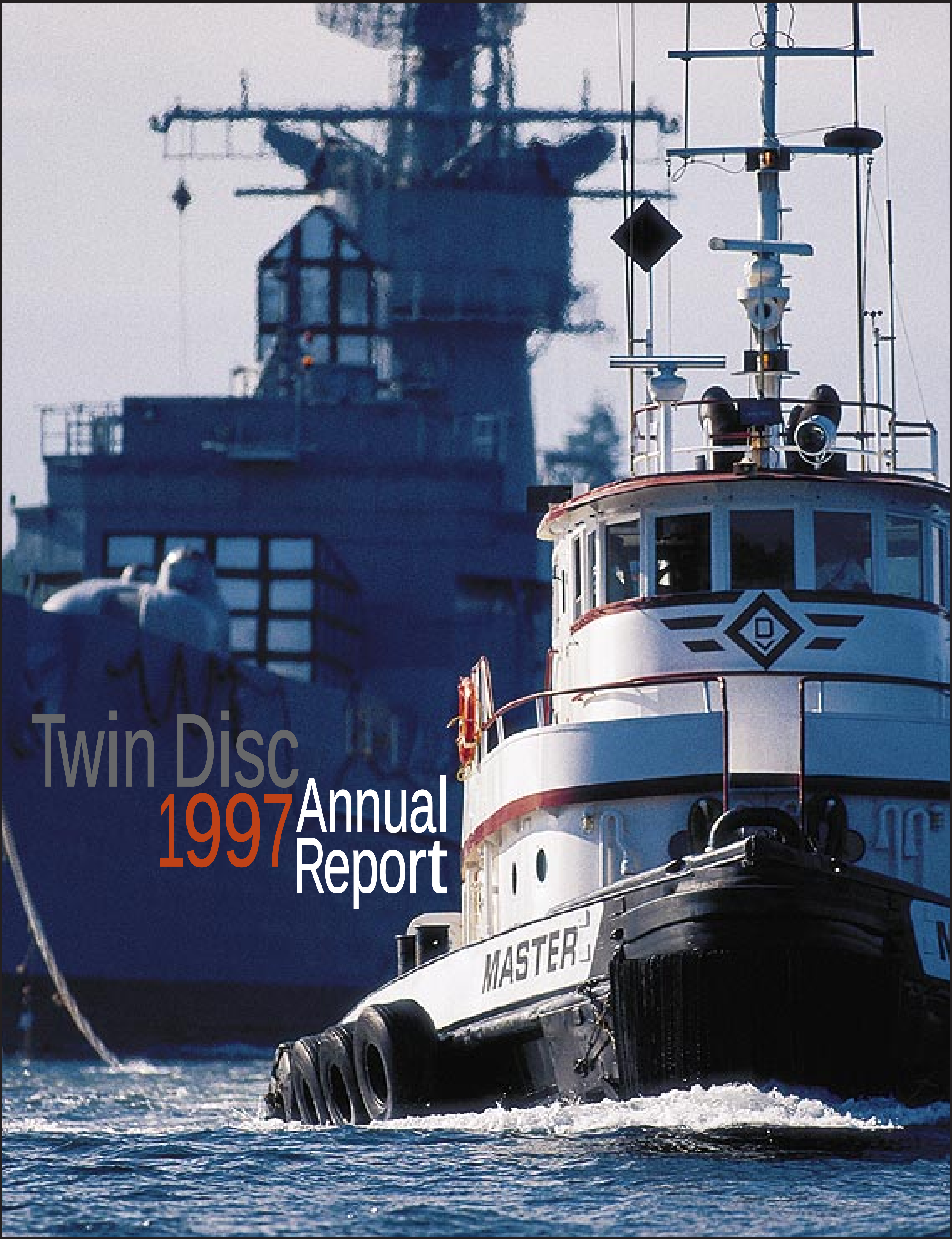
Twin Disc
1997 Annual Report



Cover: The 112' tug *Master*, with two Detroit Diesel engines generating 1400 horsepower each through Twin Disc MG-540 Marine Transmissions, deftly pulls a U.S. Navy frigate from between an aircraft carrier and the USS Missouri at the Bremerton Naval Shipyard in Bremerton, Washington, for its long haul to Mexico.

Twin Disc designs and manufactures heavy-duty off-highway power transmission equipment. Our product line consists of hydraulic torque converters; power-shift transmissions; marine transmissions, surface drives, waterjets and electronic controls; universal joints; gas turbine starting drives; power take-offs; mechanical, hydraulic and pneumatic clutches; and fluid couplings. The company is engaged in one line of business, but sells to both domestic and foreign customers in a variety of market areas: construction equipment, industrial equipment, government, marine, energy and natural resources and agricultural. The Corporation, which is a multinational organization with administrative offices in Racine, Wisconsin, currently has about 1,500 shareholders and approximately three million shares outstanding. Moreover, of Twin Disc's total shares outstanding, it is estimated that one-third is held by management, active and retired employees and other long-term investors.

Twin Disc made its global presence known and was well received at the Hannover Fair, Hannover, Germany, in April. This is the largest international industrial trade show in the world.

The trawler *Pacific Fury* out of Seattle prepares to head for the Bering Sea, powered by a Caterpillar 1500 horsepower engine driving through a Twin Disc MG-5600 Marine Transmission.

Financial Highlights

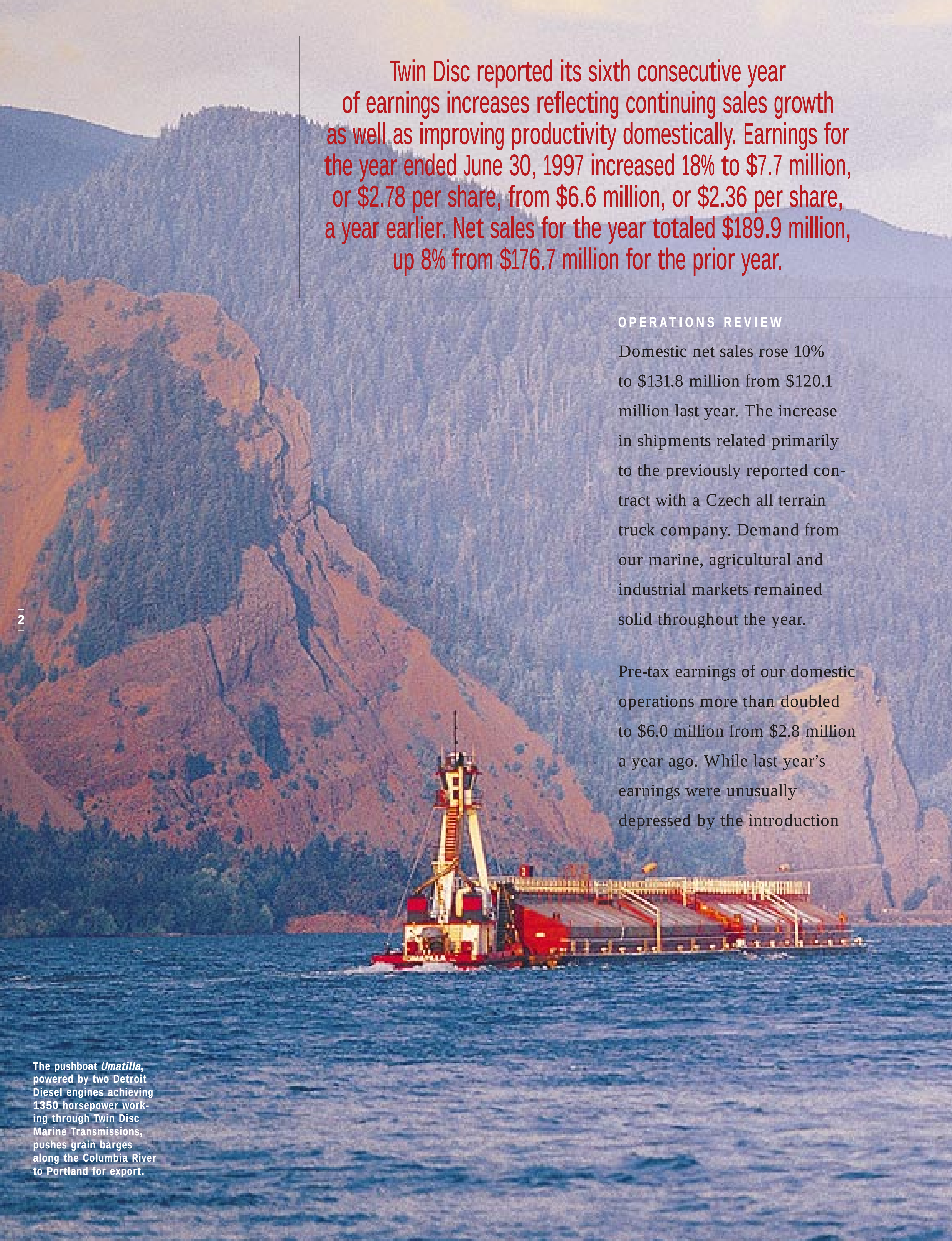
	1997	1996	1995
Net Sales	$ 189,942	$ 176,657	$ 164,232
Net Earnings	7,729	6,559	5,672
Net Earnings Per Share	2.78	2.36	2.03
Dividends Per Share	.70	.70	.70
Average Shares Outstanding For The Year	2,781,174	2,777,805	2,790,111

Sales and Earnings by Quarter

1997	**1st Qtr.**	**2nd Qtr.**	**3rd Qtr.**	**4th Qtr.**	Year
Net Sales	$40,941	$45,496	$49,204	$54,301	$189,942
Gross Profit	8,687	10,980	11,724	12,428	43,819
Net Earnings	1,132	1,742	1,916	2,939	7,729
Net Earnings Per Share	.41	.63	.69	1.05	2.78
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range (High–Low)	23 5/4–21 3/4	22 5/8–21 3/8	25 1/8–21 3/8	28 3/4–23 3/8	28 3/4–21 3/8
1996					
Net Sales	$36,775	$41,763	$47,209	$50,910	$176,657
Gross Profit	7,093	9,295	11,340	13,149	40,877
Net Earnings	221	1,263	1,808	3,267	6,559
Net Earnings Per Share	.08	.45	.65	1.18	2.36
Dividends Per Share	.175	.175	.175	.175	.70
Stock Price Range (High–Low)	25 1/4–22 1/2	23 3/4–22	23 1/4–21 3/8	25 1/2–22 1/4	25 1/2–21 3/8

Based on average shares outstanding for the period.
In thousands of dollars except per share and stock price range statistics.

To Our Shareholders



The pushboat *Umatilla*, powered by two Detroit Diesel engines achieving 1350 horsepower working through Twin Disc Marine Transmissions, pushes grain barges along the Columbia River to Portland for export.

Twin Disc reported its sixth consecutive year of earnings increases reflecting continuing sales growth as well as improving productivity domestically. Earnings for the year ended June 30, 1997 increased 18% to $7.7 million, or $2.78 per share, from $6.6 million, or $2.36 per share, a year earlier. Net sales for the year totaled $189.9 million, up 8% from $176.7 million for the prior year.

OPERATIONS REVIEW

Domestic net sales rose 10% to $131.8 million from $120.1 million last year. The increase in shipments related primarily to the previously reported contract with a Czech all terrain truck company. Demand from our marine, agricultural and industrial markets remained solid throughout the year.

Pre-tax earnings of our domestic operations more than doubled to $6.0 million from $2.8 million a year ago. While last year's earnings were unusually depressed by the introduction of our new Global Business System, this year's results reflect additional volume as well as solid improvements in productivity.

Net sales of our overseas operations increased 3% to $58.1 million from $56.5 million the previous year. Our international markets were mixed during the year. Demand from the commercial marine, construction equipment and environmental equipment markets remained strong, while orders from the pleasure craft marine market moderated temporarily during the middle of the year.

Pre-tax earnings of our overseas operations declined 17% to $6.7 million from $8.1 million last year. After enjoying the benefits of strong shipments of lower horsepower marine transmissions last year, our Belgian operation experienced some margin deterioration during the second half of the year as a result of shorter work weeks and reduced productivity.

Cash from operating activities rose strongly to $20.5 million compared to a deficit of $4.1 million last year due to higher earnings and depreciation along with improved working capital management.

During the year, cash was applied to capital expenditures amounting to $4.7 million, up slightly from last year, to the reduction of short term debt by $7.2 million and to the payment of dividends totaling $1.9 million. Our debt-to-equity ratio improved from 36% to 27% last year.

With the restructuring of our facilities complete, capital expenditures are expected to increase in the years ahead. However, Twin Disc intends to maintain its strong financial condition and its ability to finance its growth opportunities as well.

Strategic Initiatives

GROWTH

As previously reported, the Company has set a growth challenge to attain revenues of $200 million by the year 2000. With net sales approaching $190 million this past year, we will surpass this target. Contributing to our growth in the past year, we entered production on a two-year $25 million transmission contract with a Czech truck manufacturer. Shipments will continue into next year, and there are excellent possibilities of additional business in the all terrain specialty truck market in the future.

Also, during the year, we introduced the new MG-6000 series marine transmission. This model series was developed jointly with our Japanese affiliate, Niigata Converter Co. Ltd. (NICO), to Twin Disc design specifications and represents the latest technology in electronically actuated transmissions. Shipments of production models will add volume in the year ahead and the prospects for this transmission series are excellent in the future.

Our engineering, marketing and corporate development staff continues to work on several projects that total over $100 million in incremental volume.

PEOPLE

Recognizing the importance of having competent and skilled people to conduct the affairs of the Company, our initial people challenge has been to have a minimum of 80% of our employees meet or exceed their job standards for the year 2000 by fiscal year 1997. We are pleased to report that we have achieved that objective.

All of our salaried associates have been appraised and most of the required training or development has been accomplished. To a significant extent, the training has been in our new business system, but other development programs relating specifically to engineering, manufacturing, marketing and administration has been introduced as well.

Previously, we have reported that our domestic operations introduced a "pay for skills" program for our hourly personnel. The resulting incentive for cross training, along with improved volumes during the year, has had a very positive impact on productivity.

QUALITY

Our commitment to quality goes beyond having a world class product. Twin Disc and its employees are striving to achieve total customer satisfaction.

Without a doubt, Twin Disc has an excellent product reputation around the world. Our designs are known for their reliable ratings and durability. All of our manufacturing facilities around the world, including our Japanese affiliate, NICO, are certified ISO 9001 which allows us to meet the stringent standards of our worldwide customer base. In addition, most of our marketing subsidiaries have qualified for ISO 9002 status.

Our major challenge to attaining total customer satisfaction remains providing predictable and timely delivery to customer expectations. Our objective is to achieve 95% on-time delivery by fiscal year 1998. This challenge is made more difficult by the fact that we design and manufacture highly technical products in relatively low volumes for niche markets. However, with the implementation of cellular manufacturing, the introduction of new scheduling systems and the development of a more flexible work force, we expect to achieve our challenge.

PERFORMANCE

To enhance shareholder value, our performance challenge is to provide consistently improving earnings per share as well as returns in excess of our cost of capital. More specifically, we seek to grow earnings per share by a minimum of 10% annually and to generate a minimum return on net assets employed (RONAE) of 18%—which equates to our cost of capital.

Over the past five years, earnings per share increased at a 48% compound rate. Last year earnings per share rose 18% to $2.78 from $2.36. During the same period our average RONAE has experienced an improving trend to 11.6%.

In pursuit of our performance challenge, we continue to be guided by three strategies. First, we are seeking to grow our revenues and benefit from the resulting increase in volume. Second, our efforts are targeted at improving margins as well as reducing assets employed in the business, primarily inventories. Third, we are increasing our exposure to our aftermarket through the expansion of our global distribution network.

DIRECTOR RETIREMENT AND ELECTION

In accordance with the terms of our director retirement policy, Jerome K. Green, Former Group Vice President, The Marmon Group, will not stand for re-election at the 1997 Annual Shareholders' Meeting. During the nine years that Jerry has served Twin Disc, he has bought strong financial and management skills to our Board. He will be missed by his fellow directors and management.

In anticipation of Mr. Green's retirement, the board elected Mr. George W. Wardeberg, President and CEO of WICOR, Inc., as a director at the June 20, 1997 Board meeting. George brings a solid background in managing manufacturing operations to Twin Disc.

SOREN SORENSON

We were saddened by the death of Soren Sorenson on July 9, 1997 at the age of 101. A retired Vice President of Manufacturing and a former director of the Company, Soren began his career as a machinist in 1919 as our twenty-first employee. Rising steadily through the manufacturing organization, he exhibited a natural leadership style along with a very practical mechanical ability which earned him the respect of all those who knew and worked with him. Although he retired in 1964, Soren continued to consult with the Company until just a few years ago. He was an inspiration to all of our employees, and we shall miss him.

OUTLOOK

At the end of June 1997 our backlog to be shipped within the next six months stood at $76 million, up 15% from the same month a year earlier. While demand in certain of our markets softened during the middle of last year, orders have strengthened in recent months. In addition, the continuing transmission contract and anticipated new business add to our prospects for the coming year.

Michael E. Batten
Chairman, Chief Executive Officer

Michael H. Joyce
President, Chief Operating Officer

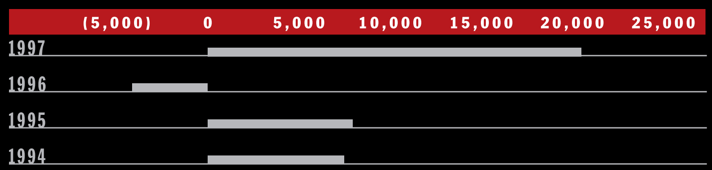
Michael E. Batten, Chairman/CEO (right); Michael H. Joyce, President/COO

Net Sales ($ millions)

Net Earnings ($ per share)
Dividends

Capital Expenditures ($ thousands)

Net cash Provided (used) by operating activities ($ thousands)



TWIN DISC'S SUCCESS THIS YEAR CAN BE ATTRIBUTED DIRECTLY TO THE MARKETING GROUNDWORK LAID THE PAST SEVERAL YEARS. We've sought broader applications for our transmission technologies. The search has yielded solid market opportunities and increased sales.

Twin Disc has become a transmission technology resource to equipment manufacturers of all kinds of stationary and mobile equipment. From stationary equipment such as wood chippers, rock crushers, logging machines and irrigation pumps. To mobile equipment including commercial and pleasure boats, crash-fire-rescue vehicles, construction and earth moving equipment, farm tractors, and large military transport trucks. Original equipment manufacturers are finding that Twin Disc products enhance their existing designs or make new designs feasible. Our products supply propulsion and productivity.

The redesigned Twin Disc Power Commander® Marine Electronic Control boasts a new ergonomic, weatherproof control head with the most advanced, customer-driven features in the industry.

Imaginative transmission technology leads to solid market opportunities.

The 42′ sport fisher *Desiderada* is always a fishing tournament contender with its two 425 horsepower Yanmars driving Twin Disc/Arneson Surface Drives through Twin Disc MG-5061 Marine Transmissions controlled by Twin Disc Power Commander® Electronic Controls.

We've developed new products to meet new equipment needs. We've recognized customers' changing requirements and expanded our offerings within existing lines. We've acquired products to complement our family of products. And we've entered into strategic relationships with engine manufacturers and OEMs in order to achieve a strong niche presence in specific types of equipment. The military transport vehicle project mentioned in last year's report has resulted in our delivering, thus far, 700 transmissions. And, it has led to additional orders for transmissions for other Tatra vehicles.

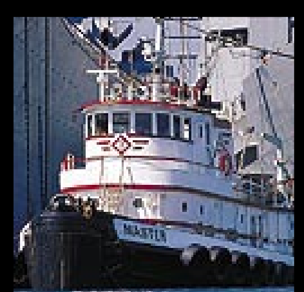
The building blocks for deeper and broader market penetration are in place. The demand for Twin Disc products and technologies is expanding. Our increasing application diversity not only enhanced our growth this year, it will help offset future down cycles in traditional market segments.

Twin Disc has shipped more than 700 TD-61-1175 Automatic Transmission Systems to Tatra for installation on all-wheel drive transport vehicles.

The demand for Twin Disc products this year created a backlog nearly $10-million higher than the previous year. But the years of effort and expense of restructuring our manufacturing floor and retraining our people have paid off. We've achieved a degree of performance thus far that allowed us to accommodate the significantly greater demand than was anticipated.

The changeover to manufacturing cells throughout our facilities has resulted in faster production and more consistent quality. Our people have embraced our new manufacturing culture, something that's not always easy. They've sought the training, adopted a spirit of competitiveness and assumed the skills that will continue our global growth.

While taking care of present business, we've worked diligently and arduously to establish performance standards and core competencies that will be needed to be a world-class company in the next millennium.



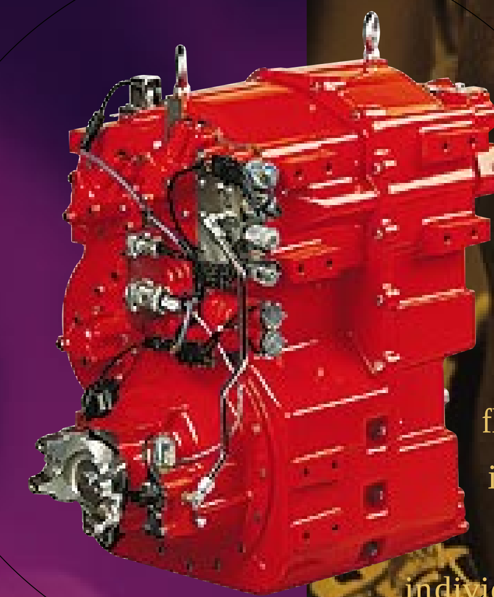
Both salaried and hourly employees have worked to meet newer, higher standards. The incorporation of cells on the manufacturing floor has created a greater interrelationship of manufacturing functions and individual responsibilities. This, in turn, has led to new job descriptions and a process of periodic review and competency checks. Within a six month period, a cell worker is required to demonstrate that he or she can set up and operate a machine or group of machines within the performance criteria of the cell.

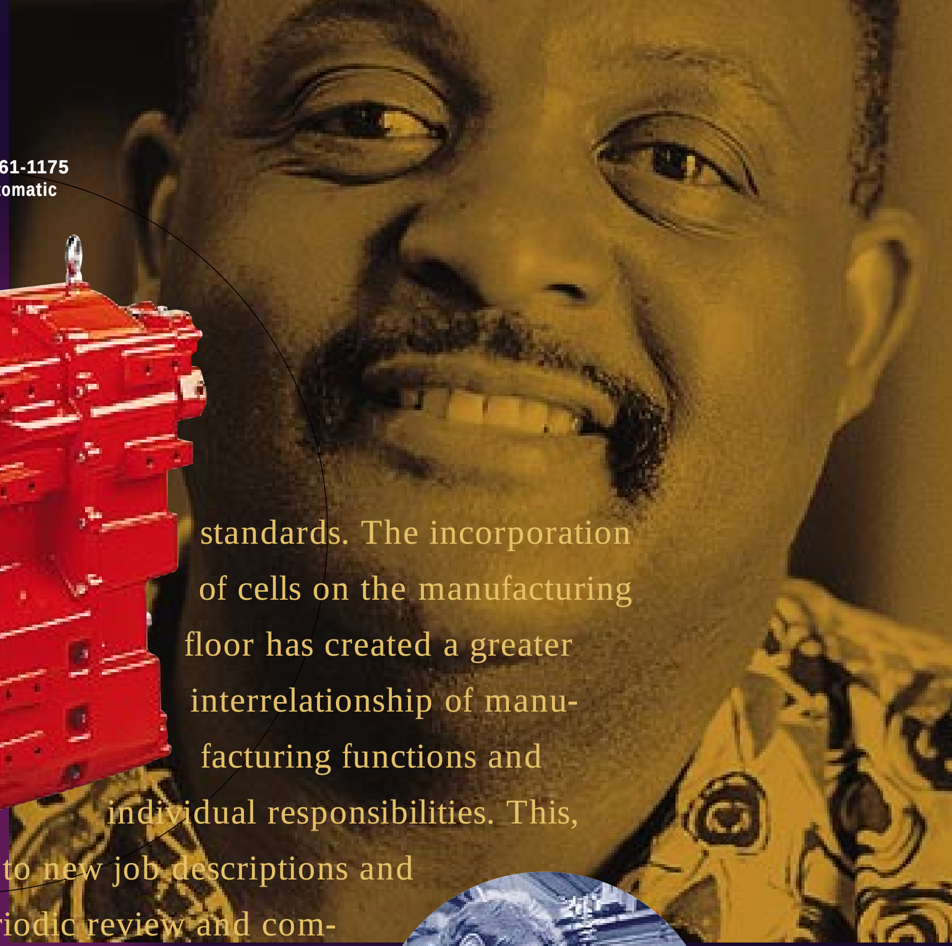
Salaried employees are evaluated in a formal process intended to assure the company possesses the skills to compete in a global marketplace.

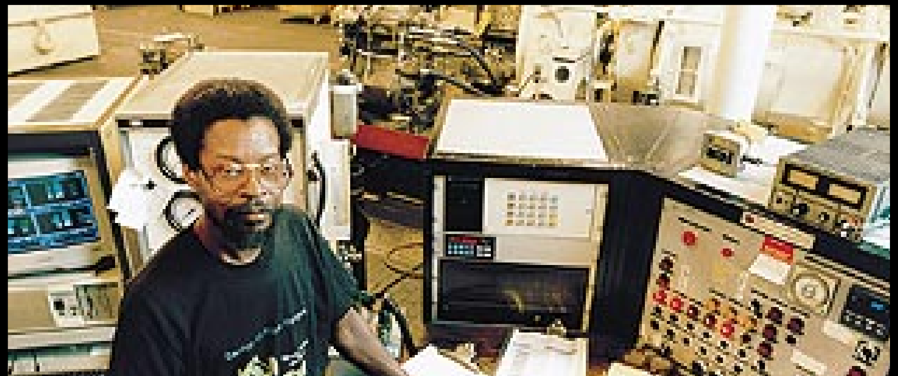
While the improved physical plants and systems made our success this year possible, our people made it happen.

Our investment in people and systems produced impressive returns.

Twin Disc TD-61-1175
Six-Speed Automatic
Transmission







Our global business plan recognizes our world-class responsibilities.

To be world-class means you subject yourself to world scrutiny. You'd better be prepared, in organization, product quality and delivery.

Because our products are critical to the productivity and reliability of a vehicle or machine, customers hold high expectations for the quality and availability of Twin Disc products.

We've met increasing volume demands through our ability to manufacture our products on three continents. And a concerted effort on the part of our manufacturing people has resulted in greater responsiveness to our customers' delivery requirements.

Our international market penetrations can be attributed significantly to our excellent relationships with major OEMs and engine manufacturers all over the world. Their global access and demand for their products and machines carry Twin Disc into new geographic regions and application opportunities.

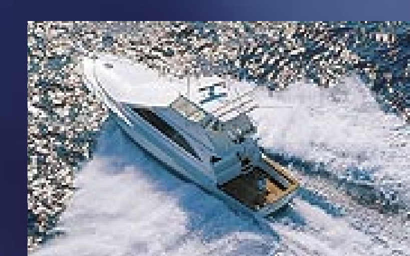
Transporting cars and people across the very narrow "sloe" between Nieuw Beijerland and Hekerlingen in the South Holland Islands, this ferry obtains critical maneuverability via four MAN diesel engines driving rudder propellers controlled through Twin Disc model 140 HPTOs.

But our success also is intimately tied to our ability to distribute and service our products virtually anywhere they are used. Because our international and domestic distributors are often in a more immediate position to serve the customer, we encourage them to maintain both extensive original equipment and service parts inventories from which to expedite sales and service.

The Twin Disc 6000 Series "Global Transmission"

We expect our distributors around the world to share similar performance standards as we do, to rate selling and service skills of their people and then do whatever it takes to get the job done. To that purpose, we've used our own business plan as a template for our company-owned and some independent distributors

With intensifying global demand for our products, our worldwide reputation is at stake. Our quest for performance and quality throughout our organization must be perpetual.



Ocean Yachts, a builder of upscale 40′ to 66′ pleasure craft, uses Caterpillar/Twin Disc engine/transmission packages to make performance as attractive as their boat designs.

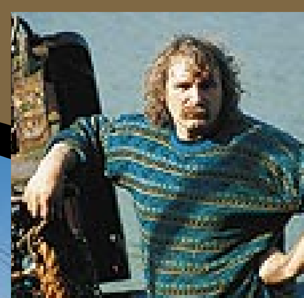
Product Activity

Off the San Juan Islands, the Ocean Alexander 52′ *Windstar* easily makes way with its twin Detroit Diesel engines generating 400 horsepower each through Twin Disc MG-507-1 Marine Transmissions.

Marine Propulsion Products

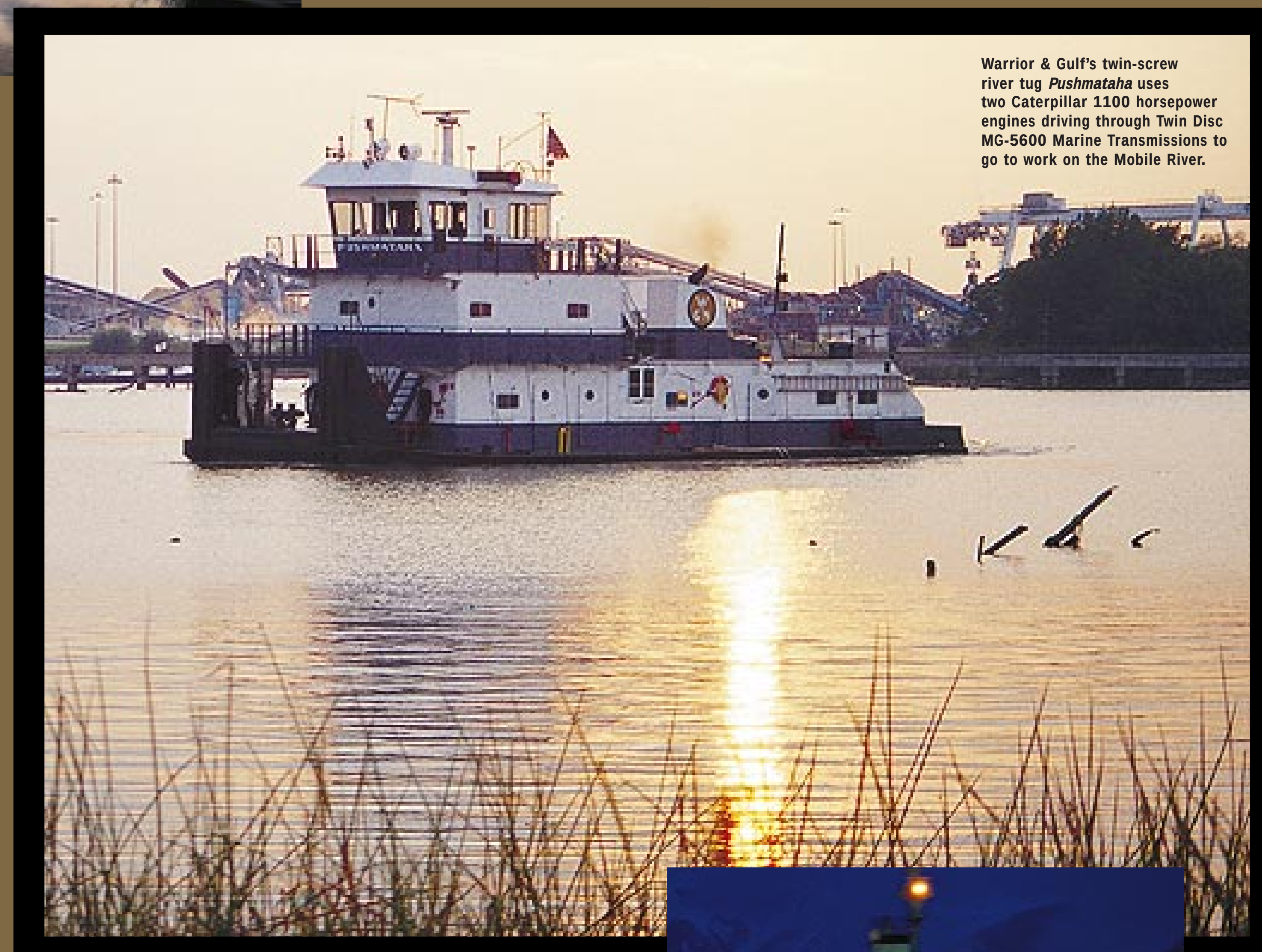
MARINE TRANSMISSIONS

The domestic and international marine markets continued their growth. Both commercial and pleasure craft segments were active, with steady shipments of Marine Transmissions from U.S. and Belgian manufacturing operations.



This 40-year old fishing boat out of Oostende, Belgium, continues its weekly treks to the North Sea, repowered by a Scania 300 horsepower engine and a Twin Disc MG-5111DC Marine Transmission with hydraulic PTO.

The Twin Disc 6000 Series “Global Transmission” was introduced, driven by requirements of customers all over the world as well as a major engine manufacturer. To meet international demand, it will be manufactured in three world sectors. Initial orders for this product are very encouraging and we expect the 6000 series to become well established in the market.



Warrior & Gulf’s twin-screw river tug *Pushmataha* uses two Caterpillar 1100 horsepower engines driving through Twin Disc MG-5600 Marine Transmissions to go to work on the Mobile River.

The MG-5600 heavy-duty commercial transmission introduced in 1996 has gained excellent acceptance in fishing and workboat applications. In addition, MG-5114 and MG-5301 transmissions were introduced during the year. All these new products reflect the increasing demand by boat designers, builders, and operators for weight reductions, increased horsepower capacities and competitive pricing. These advanced marine transmissions represent Twin Disc’s ability and commitment to listen and respond to the marine marketplace. Our half-century of marine experience and our unique command of transmission technology continue to provide us with a leadership position in propulsion systems.

Eria, powered by two DAF engines working through two Twin Disc MG-5085 Marine Transmissions with trolling valves and Twin Disc Power Commander® Electronic Control System, heads out for a day of sport fishing.

ARNESON SURFACE DRIVES

Worldwide, the popularity for surface drives is increasing. Navies and governments around the world utilize Arneson Surface Drives. They offer rapid acceleration, high-speed cruising, and agile maneuvering. These attributes required for patrol boats and interdiction vessels also are desirable for high performance

The Swiftships-built 145′ *Candy Dancer* is one of many Diamond Services crew/supply boats working the offshore rigs in the Gulf of Mexico. It has four Cummins turbocharged and aftercooled engines, rated at 700 horsepower, driving through Twin Disc MG-5202 Marine Transmissions.

The 60′ tug *Junior* with its Caterpillar engines driving through Twin Disc MG 5202DC Marine Transmissions helps a coal freighter to the open sea out of Seward, Alaska.

The Super Dvora patrol boat uses Arneson Surface Drives driven by MTU engines to achieve high speed and optimum maneuverability under various water conditions required for stealth military operations.

The Sunseeker Predator 80 skims the surface at 42 knots, driven by three Twin Disc/Arneson ASD-14 Surface Drives behind MTU engines generating 1150 horsepower.

pleasure boats and some commercial craft. Twin Disc offers a comprehensive line of Arneson Drives to meet a wide array of applications. A number of domestic and European pleasure boat manufacturers offer Arnesons as part of their propulsion line-up.

This 36′ Stebercraft dive boat with a Cummins turbo-charged diesel engine connected to a TDJ130 Waterjet has the power and maneuverability to navigate the difficult and shallow Wooli River to quickly reach dive sites off New South Wales, Australia.

WATERJETS

Waterjets showed increased demand internationally for an array of commercial vessels such as crew boats, dive boats, and patrol boats. The jets provide good speed and responsive maneuvering as well as shallow draft capabilities. This benefit is especially attractive to boats negotiating coastal shallows and reefs.

Twin Disc offers 12 models of waterjets, ranging from 200 to more than 2,000 horsepower. This broad range of waterjet sizes offers boat builders optimum choices for performance and efficiency.

ELECTRONIC CONTROLS

Twin Disc marine electronic controls continue to garner acceptance among commercial and pleasure craft boat manufacturers for all sizes and types of boats. The installation versatility and ease of use of the Twin Disc electronic controls make them suitable for installation on pleasure craft, sportfishers, commercial fishing vessels, workboats and inland lake houseboats.

The precise control is augmented by multi-station options as well as a new hand-held remote that allows the user to control a boat's speed and direction while literally walking around the boat. This is especially handy in maneuvering a large boat in tight circumstances, where you need to place yourself at various locations to observe the positioning process.

Also new this year is a new multi-feature control head with a weatherproof housing. The more customers appreciate the advantages of electronic controls, the more they expect in terms of features and benefits. Twin Disc designed this new control head in response to customer demands.

Twin Disc Waterjets, with no propeller to endanger swimmers or hang up in shallow water, are ideal for surf rescue craft requiring quick acceleration, high speed, and precise maneuvering. *The Spirit of Kiama*, operating in New South Wales, Australia, is powered by a 230 horsepower Yanmar engine with a TDJ85 Waterjet.

The barge *Sankara* with its Detroit Diesel engine and Twin Disc MG-5202DC marine transmission works its way along an inland shipping canal near Antwerp.

The 150-passenger *Alaskan Explorer*, equipped with Twin Disc Power Commander® Marine Electronic Controls, makes the most of limited daylight hours so sightseers can marvel at the frigid landscape.

MARINE PROPULSION SYSTEMS GROUP

Twin Disc recently launched its Marine Propulsion Systems Group, located in Jacksonville, Florida, central to a high percentage of American boating activity. This self-contained group is comprised of highly trained and experienced personnel familiar with the complete line and synergistic possibilities of Twin Disc propulsion products. Their expertise and accessibility will create market pull-through by encouraging marine architects, boat builders and engine packagers to "design-in" Twin Disc products and systems.

With product offerings including Marine Transmissions, Arneson Surface Drives, Water Jets and Power Commander® Electronic Controls, Twin Disc can now offer complete propulsion systems extending from the engine flywheel to the water.

The SeaRay 540 Sundancer blends power and control with a choice of Detroit Diesel or Caterpillar engines driving through Twin Disc MG-5090A or MG-5114A Marine Transmissions offering Twin Disc Power Commander® Marine Electronic Controls with electronic engine interface and electronic solenoid shifting.

A large shipment of Twin Disc-equipped Tatra vehicles is loaded on a train in Koprivnice, Czech Republic, headed for Abu Dhabi in the Arab Emirates.

VEHICLE TRANSMISSIONS

Twin Disc's specialty vehicle business continued to expand in 1997. Worldwide, the company is becoming recognized as a designer and manufacturer of heavy-duty, high-quality automatic transmission systems adaptable to a wide variety of demanding applications.

A Twin Disc TD-61-2601 Transmission with 8FLWB-1801 Torque Converter makes the heavy loads of the Payhauler 350C easier to handle.

ALL-WHEEL DRIVE TRUCKS

Our contract with a manufacturer of rugged all-wheel drive vehicles led to increased production of 1175 transmissions for use in a line of military tactical vehicles. Because its success, this program has expanded the application of Twin Disc transmissions into other heavy-duty specialty vehicles.

These Catco tractor/trailers powered by Caterpillar engines and Twin Disc TD-44-1130 Transmissions carry payloads of up to 45-tons of oil rig equipment and achieve a maximum speed of 16 mph across the permafrost in Prudhoe Bay, Alaska.

CRASH-FIRE-RESCUE VEHICLES

A Simon Access Crash-Fire-Rescue (CFR) vehicle equipped with a 6V-92 DDC 475 horsepower engine and a Twin Disc TD-61-1175 Automatic Transmission System performs a "pump and roll" test run at Staverton Airport in Gloucester, England.

Twin Disc continues to be the supplier of choice for transmissions for crash-fire-rescue (CFR) vehicle manufacturers all over the world. One of the most impressive applications is a new CFR vehicle. The vehicle has a 1000 hp V-12 engine working through a Twin Disc 2619 automatic transmission system. This 96,000-lb. GVW vehicle is capable of attaining 50 miles per hour in under 30 seconds, fully loaded. This is expected to be the largest and fastest truck of its type.

A Sides 2000 13R CFR delivers lifesaving performance fast with its Twin Disc TD-61-2619 Automatic Transmission System with 8-MLW-1856 Torque Converter turning the 750 horsepower from the Detroit Diesel engine into propulsion and pumping.

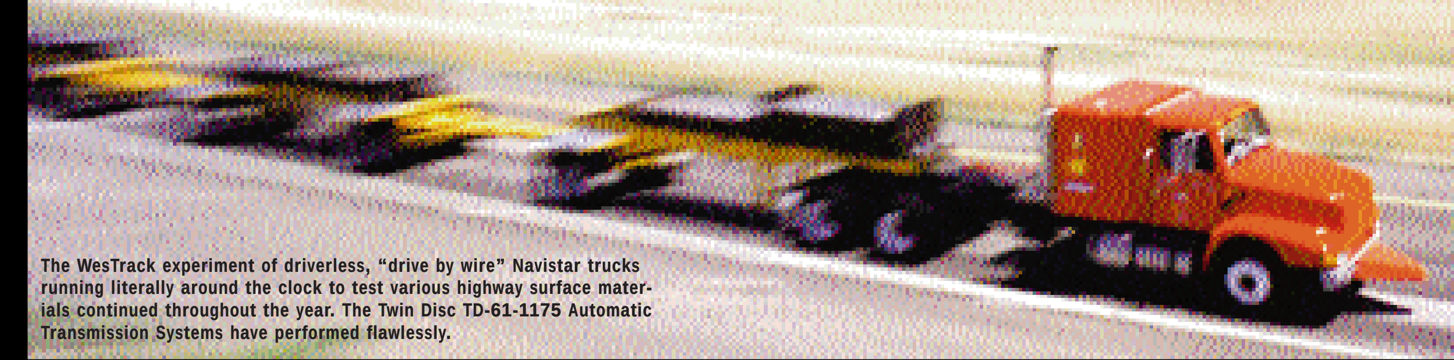
Twin Disc automatic transmissions are not only attractive for their acceleration performance in CFRs but also their power-splitting capability which allows a fire vehicle to "pump and roll." This same power-splitting principle is a very desirable technology in other specialty vehicles–street sweepers, airplane de-icing vehicles, tunnel washers–where traditionally a second engine would be required to power the ancillary equipment. With a Twin Disc transmission system, a vehicle manufacturer can reduce costs yet sustain performance by eliminating the second engine.

The unique propulsion system includes low pressure tires driven by outside-wheel drive arms.

Emergency One's Titan HPR™ 8x8 with its 1000 hp Detroit Diesel engine and Twin Disc TD-61-1175 automatic transmission system can carry up to 4,227 gallons of water and 405 gallons of foam concentrate and still achieve 50 mph in under 30 seconds.

The international specialty vehicle market continues to show excellent potential for Twin Disc transmissions.

EXPERIMENTAL VEHICLES



The WesTrack experiment of driverless, "drive by wire" Navistar trucks running literally around the clock to test various highway surface materials continued throughout the year. The Twin Disc TD-61-1175 Automatic Transmission Systems have performed flawlessly.

Last year's report mentioned Twin Disc's participation in WesTrack, an experiment using on-highway long-haul trucks excessively loaded to test various pavement compounds over extended use. The 76-ton GVW trucks have been running around the clock for more than a year on the 1.8 mile test oval at the Nevada Automotive Testing Center. Because these trucks are driverless–computer controlled driving by wire–they require extremely durable automatic transmissions. The Twin Disc 1175 automatic transmissions have performed flawlessly to date.

FARM AND CONSTRUCTION VEHICLES

The new John Deere 9400 four-wheel drive tractor covers a lot of ground with a Twin Disc TD-122-1404 Transmission.

Domestic agricultural markets showed improvement during the past year, stimulating significantly improved farm tractor sales. Several major implement manufacturers introduced new models of four-wheel-drive tractors equipped with Twin Disc power-shift transmissions. These transmissions enhance productivity by allowing fingertip control of the tractor's speed under virtually any load or terrain conditions.

The Caterpillar 938F front loader moves the earth with the help of a Twin Disc 13″ Torque Converter.

This Komorany power station in the Czech Republic received its first Twin Disc UCD-1000 in 1995 and now has a total of five units providing precise generator speed control.

A Twin Disc CL-308 Clutch on a dump wagon helps gather the hay on a Belgium farm.

CLUTCHES & PTOS

Clutch and PTO business was up over last year. A healthy economy stimulated sales of machinery such as wood chippers, tub grinders, rock crushers and irrigation pumps.

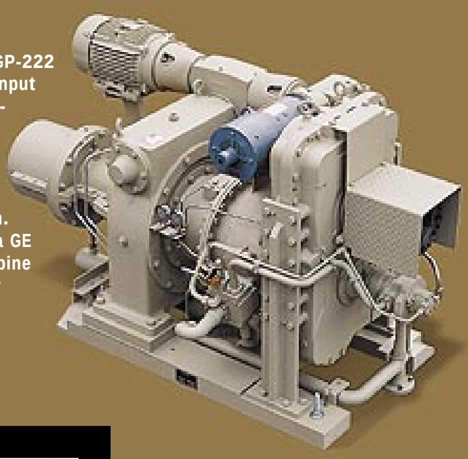
Twin Disc's comprehensive and ever-increasing product line of clutches and PTOs has offered customers new choices of products to meet their changing needs. In many cases, our products are engineered into the basic design. This is a tribute to our product's reliability under extremely rigorous working conditions, since the machine's productivity is dependent on the Twin Disc clutch or PTO.

In addition to the reliability of the Twin Disc product, there is the reliability of the Twin Disc distributor network to supply genuine replacement parts and service.

Duratek HD-12 tub grinder, powered by a Caterpillar 3408 engine working through a Twin Disc Inline PTO, makes mulch of brush, tree trimmings and wood trash.

A Twin Disc PTO actuates a mobile corn mill in Aalter, Belgium.

Parts from our most popular PTOs can be shipped or delivered from stocking distributors within 24 hours of order receipt. This total Twin Disc commitment to user productivity has been a major contributor to our increased customer support in this market segment.



A Twin Disc Model 4LUGP-222 Torque Converter with Input Gear Box provides starting functions for this General Electric Frame MS 7001EA Gas Turbine (80MW) Starting/Turning System. The unit is headed for a GE Power Systems Gas Turbine which will drive Dresser Rand Compressors at a LNG plant in Nigeria.

Engines Inc., a major producer of irrigation power in the bean and rice country of Arkansas, puts a submersible pump to work with a high horsepower John Deere engine working through a Twin Disc SP211 PTO.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Net Sales, New Orders and Backlog

Sales for 1997 were up over the previous year continuing a five-year trend of revenue growth. Shipments into our traditional markets generally remained stable during the year with new business providing for the second consecutive year of 8 percent sales growth. Although order rates fluctuated during the year, there was a positive trend which provided a $10 million increase in backlog by year-end.

Net sales for 1997 were $190 million, an increase of 8 percent over the $177 million reported in 1996, and 16 percent above the $164 million in 1995. All of our operations around the world contributed to the 8 percent sales increase in 1996, but the strongest showing came from our manufacturing operations and the domestic marketing subsidiaries. Demand from the marine and construction equipment markets continued, and there was new interest in modulating clutches for marine and environmental applications. There was an 8 percent sales increase again in 1997 with almost all of the improvement provided by shipments of power-shift transmissions for a major vehicle contract. Though some softness occurred in demand for the lower horsepower marine transmissions at mid-year, shipments for the twelve months to our principal markets again provided a solid base of sales comparable to the previous year.

Shipments from our overseas marketing subsidiaries showed continued improvement throughout the period rising by about 10 percent in each of the past two fiscal years. Sales improvements in both years were largely related to boat building activity in the Pacific Rim with additional incremental business obtained in 1997 for Arneson surface drives in Europe.

During the period, foreign currency exchange rates had little impact on reported sales. The dollar, which had weakened against European currencies in 1995, stabilized in 1996 and became stronger in 1997, but did not significantly impact reported sales in either year. Price increases, which were implemented selectively in each year, had the overall effect of increasing revenues by less than the rate of inflation.

The backlog of orders scheduled for shipment during the next six months increased in the third quarter of fiscal 1996 on the strength of a large order for power-shift transmissions. However, by June of that year backlog was down by 9 percent from a year earlier primarily due to strong year-end shipments and a reduction in past due orders. Order rates improved early in 1997 and, although there was some modest softening in selected markets by mid-year, year-end backlog was up 16 percent over the prior year.

Margins, Costs and Expenses

Since the late 1980's we have been rearranging and restructuring our manufacturing operations. In this continuous improvement effort, portions of both domestic and overseas manufacturing facilities have been changed several times. The most recent changes have been in our domestic plants. The clutch, PTO, and drive line business unit completed its rearrangement in late 1995, and the marine and custom transmission business units cellularization program was completed in 1996. The benefits of those changes have been improved productivity and product delivery. Our Belgian plant, which has a more homogeneous production volume than in the U.S., has been realizing benefits of its cellularization program for the past several years.

The consolidated gross margin increased by 1 percentage point in 1996, primarily as a result of improved productivity in Europe and a favorable product mix at our Belgian operation. Domestic margins increased in the last quarter of that fiscal year as we began to realize the benefits of the manufacturing improvements. However, domestic margins were down slightly for the year due to a first quarter voluntary separation program charge and inefficiencies at mid-year related to a change in computer hardware and business systems.

In 1997, the gross margin continued to improve during the first two quarters but declined during the second half of the year, and by year-end the consolidated margin was even with a year ago. Domestic margins showed year-to-year improvement throughout the year, but margins in Belgium declined in the second half. That decline was caused by a temporary drop in orders and resultant short work-weeks with reduced productivity.

Marketing, engineering and administrative (MEA) expenses increased by 8 percent in 1996, about the same percent as the sales growth. Increases were due primarily to the addition of marketing and engineering personnel, higher computer-related expense, additional product promotion and other marketing expense.

In 1997, MEA expenses rose by almost 9 percent and increased slightly as a percent of sales. The increase occurred at our domestic location with expense of the full year of salaries for prior year marketing and engineering personnel additions, a one-time expense of an accelerated product development program, and a salaried employee bonus payment not made in the previous year. A propulsion products marketing group also was established in 1997 to focus on development of markets for our full line of marine propulsion products—transmissions, Arneson drives and water jets.

Interest, Taxes and Net Earnings

The increase in interest income of $1.2 million in 1997 over 1996 is attributed to interest received on an income tax refund.

The substantial increase in interest expense in 1996 was generated about equally by higher domestic debt and payment of interest related to the audit of prior years' tax returns. As discussed in more detail below, additional debt was required to finance the working capital increase. Virtually all of the short-term debt was repaid by the end of fiscal year 1997 and interest expense declined by about 8 percent in that year.

The effective income tax rate in 1995 was slightly lower than the composite of our various statutory tax rates as we were able to utilize the remaining small amount of foreign tax credit carryforwards. The tax rate rose in 1996 and 1997 due primarily to the proportionately greater foreign earnings on which a higher tax rate is applied.

As a result of the sales growth and other improvements discussed above, net earnings for 1997 were $7.7 million, an increase of 18 percent over the $6.6 million in 1996, and 36 percent over the $5.7 million in 1995.

Liquidity and Capital Resources

The net cash from operating activities in 1996 was a deficit of $4.1 million, down sharply from the positive cash flows of a year earlier. Despite the improved profitability in 1996, working capital increases more than offset the positive cash flows from earnings and depreciation. Inventory increased in line with the higher sales; but, as a percent of net sales, receivables rose by 2 percentage points during the year. Also, current liabilities were down from the prior year. In 1997, the positive cash flows from higher earnings and depreciation were supplemented by reductions in accounts receivable and inventory, and the net cash flow from operating activities was a record $20.5 million. Receivable days outstanding and inventory turnover ended the year at their best rates since 1990. After fixing the interest rate on most of our debt with a private placement in 1996, we focused on improving cash flow and reducing short-term debt. Borrowings, primarily domestic, declined by $7 million in 1997.

Fixed asset purchases in recent years have been less than depreciation as we generally have rearranged existing machinery into cells. With that program completed, we are in a better position to identify critical equipment needs; and we expect future spending will exceed depreciation somewhat as individual cell structures are refined.

Working capital and the current ratio have risen in each of the past two years. The working capital increase of $9 million in 1996 primarily provided the funds required to support the higher sales volume. A further increase of $5.7 million this past year reflected an increase in cash and short-term investments and a reduction in short-term borrowings. The current ratio at June 30, 1997, rose to 3.3, up from 2.8 at the previous year-end.

The Company is involved in various stages of investigation relative to hazardous waste sites on the United States EPA National Priorities List. It is not possible at this time to determine the ultimate outcome of those matters; but, as discussed further in Footnote N to the consolidated financial statements, they are not expected to materially affect the Company's operations, financial position or cash flows. The Company believes the capital resources available in the form of existing cash, lines of credit and funds provided by operations will be adequate to meet anticipated requirements for capital expenditures and other foreseeable business requirements in the future.

Recent Financial Reporting Pronouncements

The Financial Accounting Standards Board issued Statements of Accounting Standards No. 128, "Earnings Per Share", and No. 131, "Disclosure about Segments of an Enterprise and Related Information", which are addressed in Footnotes H and I, respectively, to the consolidated financial statements.

Consolidated Balance Sheets

JUNE 30, 1997 AND 1996

(In thousands)	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,983**	$ 2,043
Trade accounts receivable, net	**32,428**	34,917
Inventories	**47,844**	51,083
Deferred income taxes	**3,491**	2,710
Other	**5,216**	5,887
Total current assets	**97,962**	96,640
Property, plant and equipment, net	**34,249**	35,715
Investments in affiliates	**10,880**	12,079
Deferred income taxes	**4,559**	3,758
Intangible pension asset	**4,779**	8,079
Other assets	**6,326**	6,428
	$158,755	$162,699
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable	**$ 169**	$ 7,360
Accounts payable	**12,834**	8,806
Accrued liabilities	**16,618**	17,836
Total current liabilities	**29,621**	34,002
Long-term debt	**19,944**	19,938
Accrued retirement benefits	**35,393**	33,578
	84,958	87,518
Shareholders' equity:		
Common shares authorized: 15,000,000; issued: 3,643,630; no par value	**11,653**	11,653
Retained earnings	**77,424**	71,658
Foreign currency translation adjustment	**6,060**	10,326
Minimum pension liability adjustment	**(3,708)**	(620)
	91,429	93,017
Less treasury stock, at cost	**17,632**	17,836
Total shareholders' equity	**73,797**	75,181
	$158,755	$162,699

The notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Operations

FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

(In thousands, except per share data)	1997	1996	1995
Net sales	**$189,942**	$176,657	$164,232
Cost of goods sold	**146,123**	135,780	127,886
Gross profit	**43,819**	40,877	36,346
Marketing, engineering and administrative expenses	**31,219**	28,706	26,461
Earnings from operations	**12,600**	12,171	9,885
Other income (expense):			
Interest income	**1,335**	121	186
Interest expense	**(1,781)**	(1,942)	(1,281)
Equity in earnings of affiliates	**307**	45	186
Other, net	**219**	512	(392)
	80	(1,264)	(1,301)
Earnings before income taxes	**12,680**	10,907	8,584
Income taxes	**4,951**	4,348	2,912
Net earnings	**$ 7,729**	$ 6,559	$ 5,672
Earnings per common share, based on weighted average shares outstanding	**$ 2.78**	$ 2.36	$ 2.03
Weighted average shares outstanding	**2,781**	2,777	2,790

The notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

(In thousands)	**1997**	1996	1995
Cash flows from operating activities:			
Net earnings	**$ 7,729**	$ 6,559	$ 5,672
Adjustments to reconcile to net cash provided (used) by operating activities:			
Depreciation and amortization	**5,489**	5,233	4,847
(Gain) loss on sale of fixed assets	**(127)**	(26)	65
Equity in earnings of affiliates	**(307)**	(45)	(186)
Provision for deferred income taxes	**1,481**	1,646	1,038
Dividends received from affiliate	**300**	548	371
Changes in operating assets and liabilities:			
Trade accounts receivable, net	**1,267**	(6,055)	(2,266)
Inventories	**2,882**	(3,926)	(3,259)
Other assets	**(954)**	(987)	(3,608)
Accounts payable	**3,463**	(3,513)	3,765
Accrued liabilities	**(391)**	(3,982)	2,823
Deferred retirement plan	**(345)**	415	(1,316)
Net cash provided (used) by operating activities	**20,487**	(4,133)	7,946
Cash flows from investing activities:			
Proceeds from sale of plant assets	**501**	18	39
Acquisitions of plant assets	**(4,734)**	(4,140)	(4,290)
Investment in affiliate	**–**	–	(3,000)
Payment for license agreement	**–**	(2,402)	–
Other	**–**	–	(172)
Net cash used by investing activities	**(4,233)**	(6,524)	(7,423)
Cash flows from financing activities:			
Increases (decreases) in notes payable, net	**(7,182)**	5,076	(1,113)
Proceeds from long-term debt	**4**	19,914	2,500
Principal payments on long-term debt	**–**	(14,000)	–
Acquisition of treasury stock	**–**	–	(586)
Proceeds from exercise of stock options	**188**	35	71
Dividends paid	**(1,947)**	(1,943)	(1,951)
Net cash provided (used) by financing activities	**(8,937)**	9,082	(1,079)
Effect of exchange rate changes on cash	**(377)**	(123)	131
Net change in cash and cash equivalents	**6,940**	(1,698)	(425)
Cash and cash equivalents:			
Beginning of year	**2,043**	3,741	4,166
End of year	**$ 8,983**	$ 2,043	$ 3,741
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	**$ 1,822**	$ 1,802	$ 1,288
Income taxes	**3,318**	4,946	2,698

The notes to consolidated financial statements are an integral part of these statements.

TWIN DISC, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

FOR THE YEARS ENDED JUNE 30, 1997, 1996 AND 1995

(In thousands)	**1997**	1996	1995
Common stock			
Balance, June 30	**$ 11,653**	$ 11,653	$ 11,653
Retained earnings			
Balance, July 1	**71,658**	67,054	63,353
Net earnings	**7,729**	6,559	5,672
Cash dividends	**(1,947)**	(1,943)	(1,951)
Stock options exercised	**(16)**	(12)	(20)
Balance, June 30	**77,424**	71,658	67,054
Foreign currency translation adjustment			
Balance, July 1	**10,326**	14,081	8,729
Current adjustment	**(4,266)**	(3,755)	5,352
Balance, June 30	**6,060**	10,326	14,081
Minimum pension liability adjustment, net			
Balance, July 1	**(620)**	(284)	(951)
Current adjustment, net of related income taxes ($1,975 in 1997, $215 in 1996 and $(426) in 1995)	**(3,088)**	(336)	667
Balance, June 30	**(3,708)**	(620)	(284)
Treasury stock, at cost			
Balance, July 1	**(17,836)**	(17,882)	(17,387)
Shares acquired	**–**	–	(586)
Stock options exercised	**204**	46	91
Balance, June 30	**(17,632)**	(17,836)	(17,882)
Shareholders' equity balance, June 30	**$ 73,797**	$ 75,181	$ 74,622

The notes to consolidated financial statements are an integral part of these statements.

A. Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of these financial statements:

CONSOLIDATION PRINCIPLES–The consolidated financial statements include the accounts of Twin Disc, Incorporated and its subsidiaries, all of which are wholly owned. Certain foreign subsidiaries are included based on fiscal years ending May 31, to facilitate prompt reporting of consolidated accounts. All significant intercompany transactions have been eliminated.

TRANSLATION OF FOREIGN CURRENCIES–Substantially all foreign currency balance sheet accounts are translated into United States dollars at the rates of exchange prevailing at year-end. Revenues and expenses are translated at average rates of exchange in effect during the year. Foreign currency translation adjustments are recorded as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in earnings.

CASH EQUIVALENTS–The Company considers all highly liquid marketable securities purchased with a maturity date of three months or less to be cash equivalents.

RECEIVABLES–Trade accounts receivable are stated net of an allowance for doubtful accounts of $538,000 and $372,000 at June 30, 1997 and 1996, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS–The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximates fair value because of the immediate short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value because the underlying instrument bears interest at a current market rate.

DERIVATIVE FINANCIAL INSTRUMENTS–Derivative financial instruments (primarily forward foreign exchange contracts) may be utilized by the Company to hedge foreign exchange rate risk. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes. For financial reporting purposes, forward foreign exchange contracts used to hedge the currency fluctuations on transactions denominated in foreign currencies are marked-to-market and the resulting gains and losses, together with the offsetting losses and gains on hedged transactions, are recorded in the "Other income (expense)" caption in the statement of operations.

INVENTORIES–Inventories are valued at the lower of cost or market. Cost has been determined by the last-in, first-out (LIFO) method for parent company inventories, and by the first-in, first-out (FIFO) method for other inventories.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION–Assets are stated at cost. Expenditures for maintenance, repairs and minor renewals are charged against earnings as incurred. Expenditures for major renewals and betterments are capitalized and amortized by depreciation charges. Depreciation is provided on the straight-line method over the estimated useful lives of the assets for financial reporting and on accelerated methods for income tax purposes. The lives assigned to buildings and related improvements range from 10 to 40 years, and the lives assigned to machinery and equipment range from 5 to 15 years. Upon disposal of property, plant and equipment, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings. Fully depreciated assets are not removed from the accounts until physical disposition.

INVESTMENTS IN AFFILIATES–The Company's 25% investments in affiliates are stated at cost, adjusted for equity in undistributed earnings since acquisition.

REVENUE RECOGNITION–Revenues are recognized when products are shipped.

INCOME TAXES–The Company recognizes deferred tax liabilities and assets for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

The Company does not provide for taxes which would be payable if undistributed earnings of its foreign subsidiaries or its foreign affiliate were remitted because the Company either considers these earnings to be invested for an indefinite period or anticipates that if such earnings were distributed, the U. S. income taxes payable would be substantially offset by foreign tax credits.

MANAGEMENT ESTIMATES–The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates.

RECLASSIFICATION–Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the 1997 presentation.

B. Inventories

The major classes of inventories at June 30 were as follows:

(In thousands)	**1997**	1996
Finished parts	**$ 38,713**	$ 41,535
Work-in-process	**5,997**	5,429
Raw materials	**3,134**	4,119
	$ 47,844	$ 51,083

Inventories stated on a LIFO basis represent approximately 42% and 36% of total inventories at June 30, 1997 and 1996, respectively. The approximate current cost of the LIFO inventories exceeded the LIFO cost by $17,526,000 and $17,171,000 at June 30, 1997 and 1996, respectively.

C. Property, Plant and Equipment

Property, plant and equipment at June 30 were as follows:

(In thousands)	**1997**	1996
Land	**$ 1,335**	$ 1,399
Buildings	**18,708**	19,082
Machinery and equipment	**87,832**	88,182
	107,875	108,663
Less accumulated depreciation	**73,626**	72,948
	$ 34,249	$ 35,715

D. Investments in Affiliates

The Company's investments in affiliates consists of 25% interests in Niigata Converter Company, Ltd., Japan and Palmer Johnson Distributors, LLC, a domestic distributor of Twin Disc products. The Company acquired the interest in Palmer Johnson Distributors, LLC, in July 1994.

Undistributed earnings of the affiliates included in consolidated retained earnings approximated $3,127,000 and $3,120,000 at June 30, 1997 and 1996, respectively.

Combined condensed financial data of the above-listed affiliates are summarized in U.S. dollars as follows:

(In thousands)	**1997**	1996
Current assets	**$ 87,375**	$104,949
Other assets	**43,582**	51,263
	$130,957	$ 156,212
Current liabilities	**$ 85,479**	$ 100,153
Other liabilities	**8,479**	14,622
Shareholders' equity	**36,999**	41,437
	$130,957	$ 156,212

	1997	1996	1995
Net sales	**$166,171**	$183,487	$169,256
Gross profit	**19,911**	23,436	26,173
Net earnings	**1,228**	181	742

E. Accrued Liabilities

Accrued liabilities at June 30 were as follows:

(In thousands)	**1997**	1996
Salaries and wages	**$ 5,983**	$ 5,756
Retirement plans	**2,150**	4,122
Other	**8,485**	7,958
	$ 16,618	$ 17,836

F. Debt

Short-term notes payable consists of amounts borrowed under unsecured line of credit agreements. Unused lines of credit total $18,700,000 at June 30, 1997. These lines of credit are available predominately at the LIBOR interest rate and may be withdrawn at the option of the banks. The weighted average interest rate of short-term lines outstanding at June 30, 1997 and 1996 was 7.3% and 8.4%, respectively.

Included in long-term debt is $20 million of 7.37% ten-year unsecured notes, net of $77,000 unamortized debt issuance costs at June 30, 1997. These notes contain certain covenants, including the maintenance of a current ratio of not less than 1.5. Principal payments of $2,857,000 are due in the years 2000 through 2005, with the remaining balance due on June 1, 2006. Also included in long-term debt is $21,000 of debt related to a foreign subsidiary.

G. Lease Commitments

Approximate future minimum rental commitments under noncancellable operating leases are as follows:

Fiscal Year	(In thousands)
1998	$ 2,062
1999	1,543
2000	884
2001	479
2002	345
Thereafter	187
	$ 5,500

Total rent expense for operating leases approximated $2,254,000, $2,109,000 and $1,939,000 in 1997, 1996 and 1995, respectively.

H. Shareholders' Equity

At June 30, 1997 and 1996, treasury stock consisted of 856,456 and 866,356 shares of common stock, respectively. The Company issued 9,900 shares of treasury stock in 1996 to fulfill its obligations under the stock option plans. The difference between the cost of treasury shares issued and the option price is charged to retained earnings.

Cash dividends per share were $.70 in 1997, 1996 and 1995.

In 1988, the Company's Board of Directors established a Shareholder Rights Plan and distributed to shareholders one preferred stock purchase right for each outstanding share of common stock. Under certain circumstances, a right may be exercised to purchase one one-hundredth of a share of Series A Junior Preferred Stock at an exercise price of $80, subject to certain anti-dilution adjustments. The rights become exercisable ten (10) days after a public announcement that a party or group has either acquired at least 20%, (or at least 30% in the case of existing holders who currently own 20% or more of the common stock), or commenced a tender offer for at least 30%, of the Company's common stock. Generally, after the rights become exercisable, if the Company is a party to certain merger or business combination transactions, or transfers 50% or more of its assets or earnings power, or certain other events occur, each right will entitle its holders, other than the acquiring person, to buy a number of shares of common stock of the Company, or of the other party to the transaction, having a value of twice the exercise price of the right. The rights expire June 30, 1998, and may be redeemed by the Company for $.05 per right at any time until ten (10) days following the stock acquisition date. The Company is authorized to issue 200,000 shares of preferred stock, none of which have been issued. The Company has designated 50,000 shares of the preferred stock for the purpose of the Shareholder Rights Plan.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (FAS) 128 "Earnings Per Share", which becomes effective for the Company's 1998 fiscal year and establishes new standards for reporting earnings per share. FAS 128 is not expected to have a significant effect on the Company's earnings per share computations.

I. Business Segments and Foreign Operations

The Company and its subsidiaries are engaged in one line of business, the manufacture and sale of power transmission equipment. Transfers among geographic areas are made at established intercompany selling prices. Principal products include industrial clutches, hydraulic torque converters, fluid couplings, power-shift transmissions, marine transmissions, universal joints, power take-offs, and reduction gears. The Company sells to both domestic and foreign customers in a variety of market areas, principally construction, industrial, marine, energy and natural resources and agricultural.

One customer accounted for approximately 11%, 10% and 12% of consolidated net sales in 1997, 1996 and 1995, respectively.

Information about the Company's operations in different geographic areas is summarized as follows:

(In thousands)	**1997**	1996	1995
Sales to unaffiliated customers:			
United States	**$131,844**	$ 120,137	$108,607
Foreign:			
Europe	**34,332**	34,206	35,572
Other	**23,766**	22,314	20,053
Total	**$189,942**	$ 176,657	$164,232
Transfers between geographic areas:			
United States	**$ 28,716**	$ 30,230	$ 26,167
Foreign:			
Europe	**16,398**	23,130	15,024
Other	**415**	322	361
Total	**$ 45,529**	$ 53,682	$ 41,552
Net sales:			
United States	**$160,560**	$ 150,367	$ 134,774
Foreign:			
Europe	**50,730**	57,336	50,596
Other	**24,181**	22,636	20,414
Eliminations	**(45,529)**	(53,682)	(41,552)
Total	**$189,942**	$ 176,657	$164,232
Earnings before income taxes:			
United States	**$ 6,009**	$ 2,821	$ 4,332
Foreign:			
Europe	**4,378**	6,126	2,635
Other	**2,293**	1,960	1,617
Total	**$ 12,680**	$ 10,907	$ 8,584
Identifiable assets at June 30:			
United States	**$115,973**	$ 117,552	$106,971
Foreign:			
Europe	**33,329**	36,356	39,537
Other	**12,947**	12,794	10,269
Eliminations	**(3,494)**	(4,003)	1,524
Total	**$158,755**	$162,699	$158,301

Net earnings of the foreign subsidiaries were $3,840,000, $4,758,000 and $2,480,000 in 1997, 1996 and 1995, respectively. The net assets of the foreign subsidiaries were $26,341,000 and $32,085,000 at June 30, 1997 and 1996, respectively. Undistributed earnings of foreign subsidiaries, on which no provisions for United States income taxes have been made, aggregated approximately $20,500,000 (including $2,022,000 translation component) at June 30, 1997. Included in earnings are foreign currency transaction gains (losses) of $334,000, $409,000 and $(248,000) in 1997, 1996 and 1995, respectively.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (FAS) 131 "Disclosure about Segments of an Enterprise and Related Information", which becomes effective for the Company's 1999 fiscal year. FAS 131 establishes new standards for reporting information about operating segments in financial statements. The Company is evaluating the extent to which its segment reporting may be affected by FAS 131.

J. Stock Option Plans

The Company has a non-qualified stock option plan for officers, key employees and directors to purchase up to 125,000 shares of common stock, and an incentive stock option plan for officers and key employees to purchase up to 225,000 shares of common stock. The plans are administered by the Executive Selection and Compensation Committee of the Board of Directors which has the authority to determine which officers and key employees will be granted options. The grant of options to non-employee directors is fixed and based on such directors' seniority. Except as described in the following sentence, all options allow for exercise prices not less than the grant date fair market value, immediate vesting and expire ten years after the date of grant. For options under the incentive stock option plan, if the optionee owns more than 10% of the total combined voting power of all classes of the Company's stock, the price will be not less than 110% of the grant date fair market value and the options expire five years after the grant date.

Shares available for future options as of June 30 were as follows:

	1997	1996
Non-qualified stock option plan	**23,950**	28,650
Incentive stock option plan	**53,400**	67,500

Stock option transactions under the plans during 1997 and 1996 were as follows:

	1997	**Weighted Average Price**	1996	Weighted Average Price
Non-qualified stock option plan:				
Options outstanding at beginning of year	**95,350**	**$ 21.69**	81,450	$ 21.21
Granted	**15,100**	**21.88**	13,900	24.50
Cancelled	**(10,400)**	**23.32**	–	
Exercised ($17.88–$19.50 per share)	**(5,900)**	**19.03**	–	
Options outstanding at June 30	**94,150**	**$ 21.71**	95,350	$ 21.69

Options price range ($14.00–$20.00)	
Number of shares	**42,500**
Weighted average price	**$18.82**
Weighted average remaining life	**6.74 years**
Options price range ($20.01–$29.63)	
Number of shares	**51,650**
Weighted average price	**$24.09**
Weighted average remaining life	**6.09 years**

	1997	**Weighted Average Price**	1996	Weighted Average Price
Incentive stock option plan:				
Options outstanding at beginning of year	**151,450**	**$ 21.52**	132,050	$ 20.78
Granted	**24,250**	**22.05**	25,050	24.89
Cancelled	**(10,150)**	**22.57**	(3,400)	23.60
Exercised ($14.00–$19.50 per share)	**(4,000)**	**18.81**	(2,250)	15.29
Options outstanding at June 30	**161,550**	**$ 21.60**	151,450	$ 21.52
Options price range ($14.00–$20.00)				
Number of shares		**71,100**		
Weighted average price		**$18.44**		
Weighted average remaining life		**6.32 years**		
Options price range ($20.01–$29.63)				
Number of shares		**90,450**		
Weighted average price		**$24.08**		
Weighted average remaining life		**6.23 years**		

The Company has elected to continue to account for its stock option plans under the guidelines of Accounting Principles Board Opinion No. 25. Accordingly, no compensation cost has been recognized in the statement of operations. Had the Company recognized compensation expense based on the fair value at the grant date for awards under the plans, consistent with the method prescribed by FASB Statement 123, the net earnings and earnings per share would have been as follows (in thousands, except per share amounts):

	1997	1996
Net earnings		
As reported	**$7,729**	$6,559
Pro forma	**7,554**	6,365
Earnings per share		
As reported	**$ 2.78**	$ 2.36
Pro forma	**2.72**	2.29

The above pro forma net earnings and earnings per share were computed using the fair value of options at the date of grant (for options granted after June 1995) as calculated by the Black-Scholes option-pricing method and the following assumptions: 20% volatility, 3% annual dividend yield, interest rates based on expected terms and grant dates, 3-year term for the Non-Qualified Plan and 5-year term for the Incentive Plan and exercise price equal to the fair market value on grant date for the Non-Qualified Plan and 110% of the fair market value on grant date for the Incentive Plan.

K. Engineering and Development Costs

Engineering and development costs include research and development expenses for new products, development and major improvements to existing products, and other charges for ongoing efforts to refine existing products. Research and development costs charged to operations totalled $3,517,000, $2,564,000 and $2,718,000 in 1997, 1996 and 1995, respectively. Total engineering and development costs were $8,288,000, $6,998,000 and $7,411,000 in 1997, 1996 and 1995, respectively.

L. Retirement Plans

The Company has noncontributory, qualified defined benefit pension plans covering substantially all domestic employees and contributory plans covering certain foreign employees. Domestic plan benefits are based on years of service, and for salaried employees on final average compensation. The Company's funding policy for the plans covering domestic employees is to contribute an actuarially determined amount which falls between the minimum and maximum amount that can be contributed for federal income tax purposes. Domestic plan assets consist principally of listed equity and fixed income securities.

In addition, the Company has unfunded, non-qualified retirement plans for certain management employees and directors. Benefits are based on final average compensation and do not vest until such management employee reaches normal retirement with the Company.

Net pension expense for the Company's domestic defined benefit plans consists of the following components:

(In thousands)	**1997**	1996	1995
Service cost-benefits earned during the year	**$ 1,636**	$ 1,529	$ 1,585
Interest cost on projected benefit obligation	**7,056**	6,823	6,643
Actual return on plan assets	**(5,198)**	(9,956)	(3,835)
Net amortization and deferral	**(188)**	5,304	(588)
Net pension cost	**$ 3,306**	$ 3,700	$ 3,805

The following table sets forth the Company's domestic defined benefit plans' funded status and the amounts recognized in the Company's balance sheets as of June 30:

(In thousands)	1997	1996
Actuarial present value of benefit obligations:		
Vested benefit obligation	**$ 76,030**	$ 70,042
Non-vested benefit obligation	**12,451**	15,683
Accumulated benefit obligation	**88,481**	85,725
Effect of projected future compensation levels	**552**	4,622
Projected benefit obligation	**89,033**	90,347
Plan assets at fair value	**(76,097)**	(73,422)
Deficiency of plan assets compared to projected benefit obligation	**12,936**	16,925
Unrecognized net loss	**(7,012)**	(4,042)
Unrecognized prior service cost	**(3,427)**	(8,656)
Unrecognized transitional net liability	**(535)**	(667)
Adjustment required to recognize additional minimum liability	**10,858**	9,095
Accrued retirement cost at June 30	**$ 12,820**	$ 12,655

Assumptions used in accounting for the retirement plans are as follows:

	1997	1996
Discount rate	**8.0%**	7.8%
Rate of increase in compensation levels	**4.5%**	4.5%
Expected long-term rate of return on plan assets	**9.0%**	9.0%

Total accrued retirement costs at June 30 are summarized as follows:

(In thousands)	1997	1996
Current:		
Domestic defined benefit plans	**$ (493)**	$ 1,156
Foreign contributory benefit plans	**446**	673
	(47)	1,829
Long-term:		
Domestic defined benefit plans	**13,313**	11,499
	$ 13,266	$ 13,328

Effective as of January 1, 1997, the Twin Disc, Incorporated Retirement Plan for Salaried Employees was amended to freeze the benefit formula in effect prior to January 1, 1997, and to change the formula for benefit accruals to a cash balance pension plan. The effect of this change was to decrease the unrecognized prior service cost by $4.2 million.

Retirement plan expense for the Company's foreign plans was $325,000, $597,000 and $307,000 in 1997, 1996 and 1995, respectively.

The Company sponsors defined contribution plans covering substantially all domestic employees. These plans provide for employer contributions based primarily on employee participation. The total expense under the plans was $1,281,000, $1,056,000 and $906,000 in 1997, 1996 and 1995, respectively.

In addition to providing pension benefits, the Company provides health care and life insurance benefits for certain domestic retirees. All employees retiring after December 31, 1992, and electing to continue coverage through the Company's group plan, are required to pay 100% of the premium cost.

The Company recognized $2,293,000, $2,680,000 and $2,841,000 in non-pension postretirement benefit expense in 1997, 1996 and 1995, respectively, which consists primarily of interest cost.

The following table sets forth the status of the postretirement benefit programs (other than pensions) and amounts recognized in the Company's consolidated balance sheet at June 30:

(In thousands)	1997	1996
Accumulated postretirement benefit obligation:		
Retirees	**$25,998**	$28,077
Fully eligible active plan participants	**440**	433
Other active participants	**504**	471
	26,942	28,981
Unamortized net amount resulting from changes in plan experience and actuarial assumptions	**(2,665)**	(4,279)
Accrued postretirement benefit obligation	**$24,277**	$24,702

The current portion of the accumulated postretirement benefit obligation of $2,197,000 and $2,293,000 is included in accrued liabilities at June 30, 1997 and 1996, respectively.

The assumed weighted average discount rate used in determining the actuarial present value of the accumulated postretirement benefit obligation was 8.00% and 7.75% at June 30, 1997 and 1996, respectively. The assumed weighted average health care cost trend rate was 9% in fiscal year 1997, decreasing by 1% each year thereafter until it reaches 7% in fiscal year 1999, and remains constant thereafter. A 1% increase in the assumed health care trend would increase the accumulated postretirement benefit obligation by approximately $1.8 million and the interest cost by approximately $142,000.

M. Income Taxes

United States and foreign earnings before income taxes were as follows:

(In thousands)	1997	1996	1995
United States	**$ 6,009**	**$ 2,821**	$4,332
Foreign	**6,671**	**8,086**	4,252
	$12,680	**$10,907**	$8,584

The provision (credit) for income taxes is comprised of the following:

(In thousands)	1997	1996	1995
Currently payable:			
Federal	**$ 913**	$ 829	$ 782
State	**100**	78	12
Foreign	**2,457**	1,925	1,007
	3,470	2,832	1,801
Deferred:			
Federal	**1,559**	388	452
State	**(51)**	(54)	12
Foreign	**(27)**	1,182	647
	1,481	1,516	1,111
	$ 4,951	$ 4,348	$ 2,912

The components of the net deferred tax asset as of June 30, were as follows:

(In thousands)	1997	1996
Deferred tax assets:		
Retirement plans and employer benefits	**$ 11,605**	$ 9,971
Research and development expenses	**553**	926
Other	**2,525**	1,550
Alternative minimum tax credit carryforwards	**1,143**	1,223
Foreign net operating loss and tax credit carryforwards	**–**	672
R&E tax credit carryforwards	**–**	335
	15,826	14,677
Deferred tax liabilities:		
Fixed assets	**5,634**	6,368
Other	**2,142**	1,841
	7,776	8,209
Total net deferred tax assets	**$ 8,050**	$ 6,468

Following is a reconciliation of the applicable U.S. federal income tax rate to the effective tax rates reflected in the statements of operations:

	1997	1996	1995
U.S. federal income tax rate	**34.0%**	34.0%	34.0%
Increases (reductions) in tax rate resulting from:			
Utilization of net operating loss carryforwards	**–**	–	(1.6)
Foreign tax items	**.2**	4.2	(1.8)
Employee benefits–foreign	**–**	–	1.8
Accrual for prior years	**3.7**	–	–
Other, net	**1.1**	1.7	1.5
	39.0%	39.9%	33.9%

N. CONTINGENCIES

The Company is involved in various stages of investigation relative to hazardous waste sites, two of which are on the United States EPA National Priorities List (Superfund sites). The Company's assigned responsibility at each of the Superfund sites is less than 2%. The Company has also been requested to provide administrative information related to two other potential Superfund sites but has not yet been identified as a potentially responsible party. Additionally, the Company is subject to certain product liability matters.

At June 30, 1997, the Company has accrued approximately $1,320,000, which represents management's best estimate available for possible losses related to these contingencies. This amount has been provided over the past several years. Based on the information available, the Company does not expect that any unrecorded liability related to these matters would materially affect the consolidated financial position, results of operations or cash flows.

Report of Independent Accountants

To the Shareholders
Twin Disc, Incorporated
Racine, Wisconsin

We have audited the accompanying consolidated balance sheets of Twin Disc, Incorporated and Subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1997. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Twin Disc, Incorporated and Subsidiaries as of June 30, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Milwaukee, Wisconsin
July 18, 1997

Ten Year Financial Summary

(In thousands of dollars, except where noted)	**1997**	1996	1995	1994	1993	1992	1991	1990	1989	1988
STATEMENT OF OPERATIONS										
Net sales	**$189,942**	$176,657	$164,232	$141,193	$139,403	$136,255	$152,990	$163,021	$187,347	$162,397
Costs and expenses, including marketing, engineering and administrative	**177,342**	164,486	154,347	136,244	135,284	134,242	155,395	159,178	172,014	150,569
Earnings (loss) from operations	**12,600**	12,171	9,885	4,949	4,119	2,013	(2,405)	3,843	15,333	11,828
Other income (expense)	**80**	(1,264)	(1,301)	18	(95)	(162)	(721)	511	1,868	1,761
Earnings (loss) before income taxes	**12,680**	10,907	8,584	4,967	4,024	1,851	(3,126)	4,354	17,201	13,589
Income taxes (credits)	**4,951**	4,348	2,912	578	1,362	810	(711)	1,679	6,574	5,279
Net earnings (loss)	**7,729**	6,559	5,672	4,389	2,662	1,041	(2,415)	2,675	10,627	8,310
Overseas operations										
Net sales	**58,098**	56,520	55,625	45,862	44,766	45,668	54,200	52,814	53,904	49,504
Net earnings (loss)	**3,840**	4,758	2,480	2,365	1,673	(478)	(1,514)	2,248	5,574	4,090
BALANCE SHEET										
ASSETS										
Cash and cash equivalents	**8,983**	2,043	3,741	4,166	2,903	2,987	2,288	4,159	1,614	1,998
Receivables, net	**32,428**	34,917	29,247	25,682	25,106	26,026	24,567	27,107	31,288	28,748
Inventories	**47,844**	51,083	47,157	41,569	42,562	36,686	40,913	38,268	44,030	40,576
Other current assets	**8,707**	8,597	10,345	8,993	6,961	4,521	5,886	3,662	2,765	4,325
Total current assets	**97,962**	96,640	90,490	80,410	77,532	70,220	73,654	73,196	79,697	75,647
Investments and other assets	**26,544**	30,344	30,463	26,830	21,813	10,554	9,648	10,142	9,318	10,220
Fixed assets less accumulated depreciation	**34,249**	35,715	37,348	36,676	37,560	38,724	42,877	40,119	32,946	29,361
Total assets	**158,755**	162,699	158,301	143,916	136,905	119,498	126,179	123,457	121,961	115,228
Net assets overseas	**26,341**	32,085	32,368	29,580	28,059	30,477	32,063	36,104	28,246	25,445
LIABILITIES AND SHAREHOLDERS' EQUITY										
Current liabilities	**29,621**	34,002	36,852	32,710	31,252	35,694	38,785	28,188	32,342	31,413
Long-term debt	**19,944**	19,938	14,000	11,500	13,000	–	4,309	5,251	–	–
Deferred liabilities	**35,393**	33,578	32,827	34,309	31,244	7,365	8,463	10,137	8,377	8,445
Shareholders' equity	**73,797**	75,181	74,622	65,397	61,409	76,439	74,622	79,881	81,242	75,370
Total liabilities and shareholders' equity	**158,755**	162,699	158,301	143,916	136,905	119,498	126,179	123,457	121,961	115,228
COMPARATIVE FINANCIAL INFORMATION										
Per share statistics:										
Net earnings (loss)	**2.78**	2.36	2.03	1.57	.95	.37	(.85)	.93	3.57	2.74
Dividends	**.70**	.70	.70	.70	.70	.70	.85	.90	.80	.70
Shareholders' equity	**26.48**	27.07	26.75	23.36	21.93	27.10	26.42	27.89	27.32	24.83
Return on equity	**10.5%**	8.7%	7.6%	6.7%	4.3%	1.4%	(3.2)%	3.3%	13.1%	11.0%
Return on assets	**4.9%**	4.0%	3.6%	3.0%	1.9%	.9%	(1.9)%	2.2%	8.7%	7.2%
Return on sales	**4.1%**	3.7%	3.5%	3.1%	1.9%	.8%	(1.6)%	1.6%	5.7%	5.1%
Average shares outstanding	**2,781,174**	2,776,805	2,790,111	2,799,390	2,799,603	2,820,513	2,824,815	2,864,526	2,973,950	3,035,057
Number of shareholder accounts	**845**	913	996	1,058	1,139	1,214	1,271	1,349	1,441	1,524
Number of employees	**1,081**	1,080	1,097	1,099	1,114	1,221	1,483	1,676	1,651	1,589
Additions to plant and equipment	**4,734**	4,140	4,290	4,216	4,684	4,390	8,218	7,084	9,440	5,999
Depreciation	**5,141**	5,071	4,792	4,670	4,958	5,452	5,568	5,207	4,628	4,650
Net working capital	**68,341**	62,638	53,638	47,700	46,280	34,526	34,869	45,008	47,355	44,234

1993 Net Earnings data and Return percentages reflect operating earnings before the effect of adopting Financial Accounting Standards 106 and 109. The cumulative effect of their adoption was a net loss of $14.44 million or $5.16 per share.

Directors

MICHAEL E. BATTEN
Chairman, Chief Executive Officer

JEROME K. GREEN
Former Group Vice President
The Marmon Group
(A Diversified Manufacturer)
Chicago, Illinois

MICHAEL H. JOYCE
President, Chief Operating Officer

JAMES O. PARRISH
Vice President-Finance & Treasurer

PAUL J. POWERS
Chairman, President-Chief Executive Officer
Commercial Intertech Corp.
(Manufacturer of Hydraulic Components, Fluid Purification Products, Pre-Engineered Buildings and Stamped Metal Products)
Youngstown, Ohio

RICHARD T. SAVAGE
President-Chief Executive Officer
Modine Manufacturing Company
(Manufacturer of Heat Exchange Equipment)
Racine, Wisconsin

DAVID L. SWIFT
Retired Chairman, President-Chief Executive Officer
Acme-Cleveland Corporation
(Manufacturer of Diversified Industrial Products)
Pepper Pike, Ohio

STUART W. TISDALE
Retired Chairman-Chief Executive Officer
WICOR, Inc.
(Parent Company of Wisconsin Gas Company, Sta-Rite Industries, Incorporated and Wexco of Delaware, Incorporated)
Milwaukee, Wisconsin

GEORGE E. WARDEBERG
President-Chief Executive Officer
WICOR, Inc.
(Parent Company of Wisconsin Gas Company, Sta-Rite Industries, Incorporated and Wexco of Delaware, Incorporated)
Milwaukee, Wisconsin

DAVID R. ZIMMER
Executive Vice President
United Dominion Industries
(Manufacturer of proprietary engineered products)
Charlotte, North Carolina

Officers

MICHAEL E. BATTEN
Chairman, Chief Executive Officer

MICHAEL HABLEWITZ
Vice President–Quality Assurance

MICHAEL H. JOYCE
President, Chief Operating Officer

JAMES O. PARRISH
Vice President–Finance & Treasurer

PHILIPPE PECRIAUX
Vice President–Europe

JAMES MCINDOE
Vice President–International Marketing

LANCE J. MELIK
Vice President–Corporate Development

FRED H. TIMM
Corporate Controller & Secretary

PAUL A. PELLIGRINO
Vice President–Engineering

JOHN W. SPANO
Vice President–Sales & Marketing

Corporate Data

ANNUAL MEETING
Corporate Offices,
2:00 P.M.
October 17, 1997

SHARES TRADED
New York Stock Exchange: Symbol TDI

ANNUAL REPORT ON SECURITIES AND EXCHANGE COMMISSION FORM 10-K
Single copies of the Company's 1997 Annual Report on Securities and Exchange Commission Form 10-K will be provided without charge to shareholders after September 30, 1997, upon written request directed to the Secretary, Twin Disc, Incorporated, 1328 Racine Street, Racine, Wisconsin 53403.

TRANSFER AGENT & REGISTRAR
Firstar Trust Company
Milwaukee, Wisconsin

INDEPENDENT ACCOUNTANTS
Coopers & Lybrand L.L.P.
Milwaukee, Wisconsin

GENERAL COUNSEL
von Briesen, Purtell, & Roper, s.c.
Milwaukee, Wisconsin

CORPORATE OFFICES
Twin Disc, Incorporated
Racine, Wisconsin 53403
Telephone: (414) 638-4100

WHOLLY-OWNED SUBSIDIARIES
Twin Disc International S.A.
Nivelles, Belgium
Twin Disc Spain, S.A.
Madrid, Spain
Twin Disc Italia S.R.L.
Viareggio, Italy
Twin Disc (Pacific) Pty. Ltd.
Brisbane, Queensland, Australia
Twin Disc (Far East) Ltd.
Singapore
Twin Disc (South Africa) Pty. Ltd.
Johannesburg, South Africa
Mill-Log Equipment Co., Inc.
Coburg, Oregon
Southern Diesel Systems Inc.
Miami, Florida
TD Electronics, Inc.
Loves Park, Illinois

PARTIALLY-OWNED AFFILIATE COMPANY
Niigata Converter Company, Ltd.
Kamo, Omiya and Tokyo, Japan
Palmer Johnson Distributors, LLC
Sturgeon Bay, Wisconsin

MANUFACTURING FACILITIES
Racine, Wisconsin
Nivelles, Belgium
Kamo and Omiya, Japan

SALES OFFICES
DOMESTIC
Racine, Wisconsin
Coburg, Oregon
Seattle, Washington
Miami, Florida
Jacksonville, Florida
OVERSEAS
Nivelles, Belgium
Brisbane and Perth, Australia
Singapore
Johannesburg, South Africa
Madrid, Spain
Viareggio, Italy
AFFILIATE COMPANY
Tokyo, Japan
Sturgeon Bay, Wisconsin

MANUFACTURING LICENSES
Niigata Converter Company, Ltd.
Tokyo, Japan
Transfluid S.R.L.
Milan, Italy
Nakamura Jico Co. Ltd.
Tokyo, Japan
Hindustan Motors, Ltd.
Madras, India

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