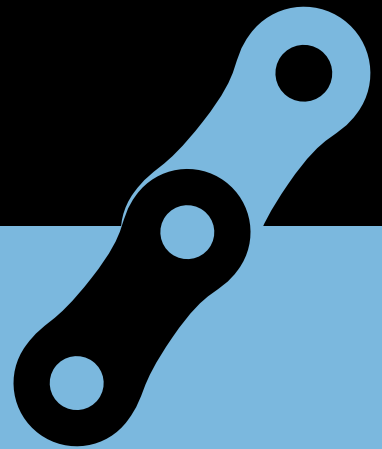


## Performance and Strategies

The Tsubaki Group is accelerating the innovation of its business in order to construct a solid operating foundation capable of ensuring growth even in a rapidly changing operating environment.





# Building a Better Tomorrow through Decisive Action

Our future will depend on our ability to act quickly.

The Tsubaki Group will not become complacent in light of its past triumphs. We will continue to accelerate the speed of our business innovation to develop the Company into a sustainable company capable of surviving even in a rapidly changing operating environment.

## Performance in Fiscal 2011

### KEY POINTS

- Consolidated operating income recovered to ¥10.0 billion and the operating income margin was 8%.
- Globalization was accelerated, focusing on Automotive Parts operations.
- Profitability recovered rapidly due to higher revenues, improved cost structures, and innovation of production systems.

### Q. First, would you please give us an overview of Tsubaki's consolidated performance in fiscal 2011?

**A.** In fiscal 2011, ended March 31, 2011, with net sales rising 23% year on year and a stunning 92% increase in net income, performance recovered significantly in comparison to fiscal 2009 and 2010, which both suffered lower performance due to the impact of the Lehman Shock. Moreover, we were able to successfully achieve higher revenues and income in all four of our business segments: Chain operations, Power Transmission Units and Components operations, Automotive Parts operations, and Materials Handling Systems operations.

On a geographical basis, while sales in Japan only increased 10%, overseas sales were up an impressive 48%, driving the percentage of net sales attributable to overseas sales up to nearly 42%. One of the factors behind this increase was the acquisition and subsequent consolidation of Germany's Kabel-Schlepp GmbH. However, this increase can also be seen as a

result of the smooth progression of the globalization of our business, particularly with regard to Automotive Parts operations. This is exemplified by the strong sales growth seen in regions other than Europe, such as Asia and Oceania.

The improved performance in fiscal 2011 is not only the result of favorable elements of the operating environment, such as the recovery of economic conditions. It is also proof of the success of the initiatives to strengthen our operating foundation that we have been implementing since the Lehman Shock. These initiatives, such as cost structure improvements and production innovation activities (*dantotsu* activities) that we have conducted in Automotive Parts operations and are currently introducing into other areas of operation, have helped fuel the rapid recovery of Tsubaki's profitability.

#### Consolidated Performance Highlights in Fiscal 2011

	Results	Change
Net sales	¥138.2 billion	+ 22.6%
Operating income	¥11.0 billion	+132.6%
Net income	¥6.0 billion	+ 91.9%

	Results	Change
Operating income margin	8.0%	+3.8% points
Equity ratio	45.3%	+1.0% points
D/E ratio (Times)	0.37 times	- 0.11 points

## Recognition of Issues

### KEY POINTS

- Accelerated innovation is necessary to respond to changes in the operating environment.
- Basic policies call for strengthening of our foundation as a manufacturer, evolution toward becoming a solutions provider, and advancement of globalization.
- The progress of key initiatives varies greatly between segments.

**Q. While Tsubaki has yet to recover to the levels seen before the Lehman Shock, it was successful in achieving net sales 1.2 times higher than those achieved in fiscal 2001, 10 years ago, and operating income 1.6 times higher. I believe that your business globalization efforts are one of the main factors behind this. Are you satisfied with this type of growth in terms of stability?**

**A.** I believe that we still have a number of issues we must address in order to ensure that the Company continues to grow in a sustainable manner. While the Tsubaki Group has changed significantly, the operating environment has changed to an even greater extent. For example, the economies in developed countries have become more mature, and there is notable deflation in a number of these countries. Conversely, the presence of China and other emerging nations in the global economy has been growing.

Further, concern for the global environment is rapidly increasing on a global scale. In business activities geared toward countries with mature markets, it is of the utmost importance that we revise cost structures to reflect changes in product prices. At the same time, we must increase the high-added-value nature of our operations by providing solutions made possible through the development of customer-satisfying products that respond to such needs as those for environmental preservation and energy conservation. It is also important that we develop sales systems to help us address the robust demand in emerging nations, which have been recording particularly high levels of growth. Another urgent issue is the global optimization of production systems.

Many of the Tsubaki Group's products hold strong market shares, and the Group itself has continued to grow rapidly. This was made possible by our rigorous dedication to manufacturing, which has inspired us to develop and customize products to meet rising demand, to refine our technological

capabilities, and to provide high-quality products at prices that customers can afford. Further, over the years we have continued to advance the globalization of our operations, improving our marketing capabilities based on our strong foundation of manufacturing.

However, the speed at which such elements of our operations have been improving has begun to vary between different segments. For example, Automotive Parts operations have grown very smoothly in tandem with the globalization of domestic automobile manufacturers, while the speed of advancement in Chain operations has been somewhat slower. However, there still remain some tasks to be addressed in Automotive Parts operations, including the exploration of markets in China and other emerging nations, and the development of overseas production systems, which should come before the full-fledged expansion of overseas operations.

Medium-Term Management Plan 2012, which was the first plan formulated since I was appointed as president, has defined the period from fiscal 2011 to fiscal 2013 as "three years of strengthening management foundation in response to the dramatically changing operating environment." In particular, we will focus on addressing the issues I have discussed thus far. It is essential that we avoid becoming complacent with the successes we have achieved. We must quickly address the issues I have mentioned, for if we do not the Tsubaki Group will be unable to maintain its strength and will fall into a state of weakness within the next 5—10 years.

### Medium-Term Management Plan 2012

Basic Management Policies	Targets for Fiscal 2013
1. Hone the "global best" management strategy	Net sales ¥150.0 billion
2. Strengthen foundation as a manufacturer	Operating income ¥13.5 billion
3. Become a solutions provider	Operating income margin 9.0%

## Results in the First Year of Medium-Term Management Plan 2012

### KEY POINTS

- **Great successes were achieved by innovating production through *dantotsu* activities and developing of new eco-products.**
- **Acceleration of development of global production systems and organizational reforms to expedite management decision-making processes were conducted.**
- **Grounds were laid for increasing the number of overseas sales offices and expanding into new business areas.**

### Q. Fiscal 2011 was the first year of Medium-Term Management Plan 2012. What type of results were you able to produce? Also, please explain some key points with regard to the items outlined in this plan.

**A.** With regard to efforts to enhance our manufacturing capabilities, we have begun to implement the *dantotsu* activities that we introduced into Automotive Parts operations in fiscal 2009 at manufacturing companies throughout the Company regardless of segment. The production innovation activities conducted at Tsubaki are nothing special, and include such basic tasks as eliminating the production of defective products and preventing the halting of production lines due to parts falling from the line or other disruptions. However, these simple tasks have resulted in steady improvements in yield rates and productivity of over 10%.

In fiscal 2011, our greatest success in our quest to strengthen our product lineup was the successful launch of the Zerotech Series, a new addition to our lineup of timing chain drive systems, an important product category in Automotive Parts operations. Products in the Zerotech Series have already achieved a strong reputation for such ground-breaking features as the ability to reduce friction loss by 20–30%, when compared to previous offerings, and limit stretching due to wear. We have already received orders for eight different products in this series from four world-leading automobile manufacturers.

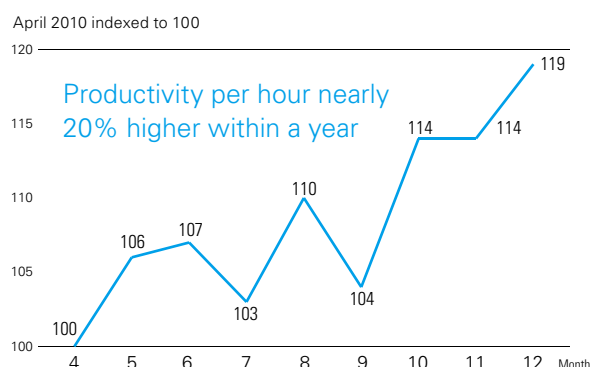
In working to hone the “global best” management strategy, we established a new automotive parts production base in Korea, which was constructed in June 2011 and is scheduled to begin operation in November 2011. After our production bases in Japan, North America, Europe, Thailand, and China, this will be our sixth production base. Further, we split U.S. subsidiary U.S. Tsubaki, Inc. (UST) into separate companies that will handle its individual business segments. Through this split, we hope to establish a system through which the development and advancement of business strategies in the United States can be conducted quickly and precisely. (Please refer to “Topics” on page 19 for more details.)

Additionally, we founded a sales company in India in June 2010 and another in Germany in October 2010, with the aim of increasing our share of the global market in Chain operations and Power Transmission Units and Components operations. The sales company in Germany not only sells chain and power transmission units and components products but also serves as a strategic base for Automotive Parts operations. Utilizing this base, we are stepping up our approach toward German automobile manufacturers, efforts that have already generated results in the form of newly acquired orders. (Please refer to “Topics” on page 19 for more details.)

Further, we developed the Module Business Unit as one facet of our initiatives to explore new business areas. The Company has traditionally centered its business on the two areas of parts as well as units and systems. However, we are now venturing into the field of modules, which are positioned between the two, with the hopes of creating a third source of revenues.

### Successes of *Dantotsu* Activities

Process of opening holes in link plates with a press



## Initiatives in the Second Year of Medium-Term Management Plan 2012

### KEY POINTS

- Capturing demand in “volume zone” will be pursued.
- Sales of environmentally friendly, economically sound, differentiated products will be promoted.
- Online sales tools will be provided and new business areas will be explored.

### Q. While your initiatives have begun to produce results, I believe that there are still some issues left for Tsubaki to address. In fiscal 2012, what areas in particular do you plan to address?

A. Going forward, we will aggressively lay the foundations that we will use to advance into the Chinese market, which represents the “volume zone” of the global market. In Chain operations, we are steadily undertaking the construction of conveyor chains production bases. I believe that we will be able to unveil a more detailed plan regarding this sometime during this fiscal year. In Materials Handling Systems operations, we anticipate a rise in demand for automatic sorting systems in China, and plan to establish an engineering subsidiary to address this demand. Meanwhile in Automotive Parts operations, we are accelerating our efforts to address the needs of foreign automobile manufacturers that are increasingly producing automobiles in China. At the same time, we are approaching Chinese automobile manufacturers, which are endeavoring to develop their own automobile engines with the hopes of raising the standard of living in China. For this reason, we have already established a specialized project team in China that is currently undertaking the development of low-cost timing chain drive systems. This team has already formulated plans on how to drastically reduce the cost of such systems through careful selection of the materials and parts used.

We also aim to bolster our lineup of environmentally friendly products. Tsubaki has always been strong in terms of providing environmentally friendly products that features such characteristics as low energy consumption, long wear life, and low noise pollution. However, in order to expand sales of these products, it is important that we effectively communicate their significant environmental and economic benefits to customers. To this end, we have designated such products that are superior from an Eco & Eco (Ecology and Economy) standpoint as eco-products. We are aggressively promoting the operational benefits of these products. In fiscal 2012, we plan to introduce 13 eco-products into the market, which we believe will also help boost sales. (Please refer to page 31 for more details.)

As part of our efforts toward becoming a solutions provider, we have been steadily developing online sales tools for the Power Transmission Products segment (chains and power transmission units and components). Through these efforts, we hope to support the sales activities of our agents and retailers by providing them with helpful Internet-based services, such as those that enable customers to choose specifications and receive quotes online. In addition, these solutions allow our engineers to establish a firm understanding of the needs of end-users by gaining information directly through network connections. Accordingly, we anticipate that these initiatives will fuel the further advancement of our solutions provision efforts.

Further, in order to boost sales of the FlexLink System, a 3-D conveyor with an aluminum frame, we established Tsubaki FlexLink Co., a joint-venture with FlexLink of Sweden, which is the developer of this product. Going forward, the Company's Module Business Unit and Tsubaki FlexLink will continue to explore new business opportunities in the field of modules by conducting flexible sales activities based on the characteristics of their respective products. (Please refer to “Topics” on page 19 for more details.)



## Future Forecasts and Policies for Raising Corporate Value

### KEY POINTS

- Regardless of the unclear operating environment, positive occurrences, such as increased market shares, will occur.
- Efforts will be focused on achieving operating income margin and other targets for fiscal 2013.
- Improving sustainability will directly raise corporate value.

**Q. Amidst the rising sense of uncertainty following factors such as the Great East Japan Earthquake of March 2011, what are your forecasts for fiscal 2012? Also, what do you feel is necessary to meet the current targets for fiscal 2013, the final year of Medium-Term Management Plan 2012, and raise corporate value?**

**A.** In fiscal 2012, we are anticipating year-on-year increases of 1.3% for net sales and 1.7% for net income. While the residual effects of the Great East Japan Earthquake will cause slight decreases in net income during the first half of the fiscal year, we expect that net income will increase 19.3% year on year during the second half of the fiscal year. Although the current economic climate is riddled with uncertainty, it is not completely without hope for the Tsubaki Group in its quest to achieve sustainability. In Automotive Parts operations, our share of business with major automobile manufacturers around the world has been increasing. In Chain and Power Transmission Units and Components operations, we are currently seeing robust demand stemming from efforts to restart thermal power plants and other recovery efforts. Also, new businesses in growth fields, such as smartphones and lithium-ion batteries, have begun to produce results. I believe that these factors represent hope for the future sustainability of Tsubaki's operations.

However, for the time being we have no plan to revise the targets set out in Medium-Term Management Plan 2012. We aim to develop a strong foundation of profitability that is resilient to changes in the operating environment. To this end, we

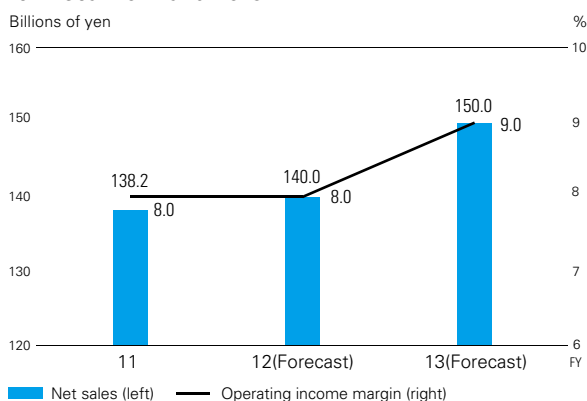
have decided to leave the current medium-term management plan unchanged for the three-year period, rather than revise it every year as had been done with other three-year plans. This will allow us to take a medium- to long-term perspective in steadily implementing strategies geared toward boosting profitability. Even if the economy were to plunge into an unpredicted state of depression, or some other crisis to occur, making it impossible for the Company to meet its targets for net sales, we would still endeavor to meet our goal of returning the operating income margin to 9.0%. I believe that improving sustainability in this manner will also help raise corporate value.

In regard to dividend payments, the Company has the basic policy of maintaining stable dividend payments of ¥6 per share, while also adjusting these payments to reflect consolidated performance. Looking ahead, we will continue the steady advancement of the strategies outlined in Medium-Term Management Plan 2012, and raise the level of net sales and income. At the same time, we will build a strong foundation of profitability that is resilient to changes in the economy. In these ways, we will grow Tsubaki into a company that can continue to increase dividend payments into the future.

In closing, I would like to ask our shareholders and other investors for their continued support.

August 2011

Performance in Fiscal 2011 and Forecasts for Fiscal 2012 and 2013



Isamu Osa  
President and Representative Director

## Reorganization of U.S. Subsidiary

Tsubaki's U.S. subsidiary, U.S. Tsubaki, Inc. (UST), is the Company's largest overseas subsidiary that possesses manufacturing facilities. Previously, this subsidiary suffered from confusion-related reporting due to the presence of two lines for reporting, one to the president of UST, responsible for chain, power transmission units and components, automotive parts, and materials handling systems in the Americas; and one to the Chief Business Officer (CBO) in Japan, who is responsible for the global development of these businesses. This confusion limited the subsidiary's ability to respond flexibly to changes in demand in the markets in which it operated.

In order to address this issue, in November 2010, the Company split UST into three different companies: a holding company to house headquarter functions, including the management of materials handling systems operations; a company specializing in

power transmission products; and a company specializing in automotive parts products. The split has enabled the three companies to quickly implement production and marketing initiatives from a global standpoint based on the characteristics of their specific businesses. Further, following the split, the CBO and representatives from the operating companies have been holding discussions regarding production technologies, market trends, and other such issues on a daily basis. These efforts have already generated notable results, including a substantial increase in the Company's share of sales in the United States in its Chain and Power Transmission Units and Components operations.



U.S. TSUBAKI HOLDINGS, INC.

## Establishment of Fourth European Sales Office in Germany

Advancing into emerging markets and capturing a greater share of the European market are issues of great importance for the Tsubaki Group. In Europe, Germany is of particular importance as it is home to a number of world-leading machinery and heavy industrial equipment manufacturers. It is also a region in which there is significant latent demand in the form of companies to which Tsubaki can supply its chain and power transmission products as well as companies with which it can conduct OEM operations. To bolster its ability to take advantage of this demand, Tsubaki established Tsubaki Deutschland GmbH (TDEG), located in the suburbs of Munich, as a wholly owned subsidiary of Holland-based subsidiary Tsubakimoto Europe B.V. The newly established TDEG began operations in October 2010. This

company will help us capture demand from possible customers for OEM operations in Germany while also strengthening our sales network in this area. At the same time, TDEG will work together with KabelSchlepp GmbH, which was acquired in April 2010 and subsequently consolidated, to increase orders from the machine tool and mining industries.

Further, technological and sales representatives from Automotive Parts operations are stationed at TDEG, making it an important strategic base for approaching major German automobile manufacturers. Utilizing this base, in February 2011 we were able to capture our first order from Volkswagen AG, demonstrating the smooth start of these sales activities.



Sales Meeting in Germany

## Establish Joint-Venture Company to Explore New Business Areas

The Tsubaki Group has traditionally centered its business on the two areas of parts and units as well as systems. However, it is now venturing into the field of modules, which are positioned between the two, in order to create a third source of revenues. As the first step of this new venture, Tsubaki established its new Module Business Unit, and began selling the Zip Chain Lifter, an ultra-high-speed elevator, and the Direflex Modular Unit, a conveyor unit—both developed by Tsubaki—as well as the FlexLink System, a 3-D conveyor developed by FlexLink of Sweden. However, while the Zip Chain Lifter and the Direflex Modular Unit are both engineering products that our technicians design to customer specification, the FlexLink System is a product that is customized through the

use of computers. As such, the sales approaches used to sell these products vary greatly. For this reason, Tsubaki established Tsubaki FlexLink Co., a joint venture with FlexLink of Sweden that began operations in June 2011, to specialize in sales of the FlexLink System. The establishment of this joint-venture company has enabled Tsubaki to develop a two organization system, consisting of Tsubaki FlexLink and the Module Business Unit, for pursuing new opportunities in the field of modules.



FlexLink System

## Chain and Power Transmission Units and Components Operations

### Major Challenges

- Improving cost competitiveness to withstand the effects of deflation in Japan
- Increasing orders from local automobile manufacturers in China and other emerging nations
- Expanding share in European markets and bolstering product lineup



Tadashi Ichikawa  
Chain and Power Transmission Operations

### Business Characteristics

Tsubaki has conducted chain operations since its founding. Leveraging the strengths of its superior products, which beat out the competition in terms of quality, and solid sales network, the Company has captured the No.1 share of the Japanese market. It also holds an impressive share in North America of over 20%. Meanwhile, Tsubaki's Power Transmission Units and Components operations, which are conducted by subsidiary Tsubaki Emerson Co, have earned a strong reputation for their OEM operations by utilizing their highly differentiated products, such as cam clutches and power cylinders. Of particular interest in these operations is Chinese subsidiary Tsubaki Everbest Gear (Tianjin) Co., Ltd. (TEGT), which has recently been growing at an astonishing rate.

### Initiatives to Overcome Challenges

In Japan, Tsubaki has a strong share of the market for high-end products and has developed operating structures that allow it to avoid price competition. We are reducing manufacturing costs through *dantotsu* and other activities, and bolstering our product lineup. In fiscal 2012, we will introduce four chain products and two power transmission products that are eco-products with superior Eco & Eco (Ecology and Economy) characteristics. We will communicate the appeal of these products' environmental and economic benefits to customers.

In North America, we greatly expanded our share for the RS roller chain G7-EX Series. This was a result of our pursuit of higher performance and quality, which boosted the cost competitiveness and technological differentiation of these products.

In the previous fiscal year, we released our GT4 WINNER line of high-performance roller chains. This chain lineup meets the European BS and DIN standards and is a new addition to the RS roller chain series, consisting of such strong performers as the G7-EX Series, which is compliant with U.S. and Japanese standards. We will work to expand our share in Europe by utilizing this new lineup and the support and guidance systems for cables and hoses (cableveyors) handled by KabelSchlepp GmbH, a company that was acquired in April 2010 and subsequently consolidated.

In China, Tsubaki will construct new product bases with a focus on those for conveyor chains, which are in high demand.

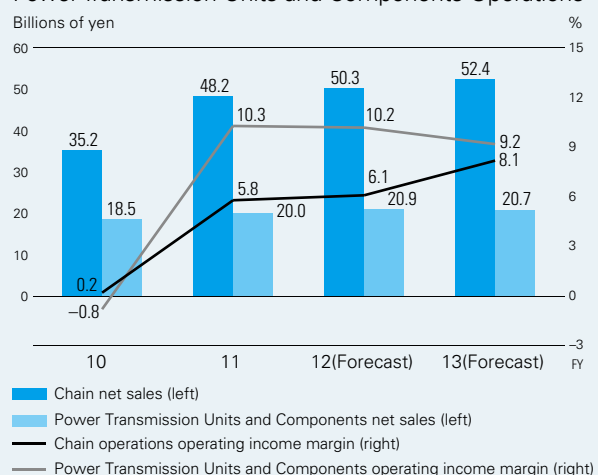
These bases will help Tsubaki capture the robust demand in China and further the optimization of global manufacturing systems.

### Performance and Forecasts

In fiscal 2011, net sales in Chain operations were up 26% year on year and operating income was about 9 times higher. This was due to the effect of the consolidation of KabelSchlepp GmbH on sales in Europe as well as the expansion of our share of sales from retail agents in the United States. In Power Transmission Units and Components operations, net sales increased 30% and operating income was approximately 16 times higher. In Japan, sales of products for the machine tools, LCD/semiconductor, and shipbuilding industries were strong.

In fiscal 2012, we are projecting year-on-year increases in net sales of 4% and operating income of 10% in Chain operations, and in Power Transmission Units and Components operations we expect net sales to be 4% higher and operating income to increase 3%. In fiscal 2013, the final year of Medium-Term Management Plan 2012, we are targeting net sales of ¥52.4 billion and an operating income margin of 8.1% in Chain operations, and net sales of ¥20.7 billion and an operating income margin of 9.2% in Power Transmission Units and Components operations.

### Results and Forecasts for Chain and Power Transmission Units and Components Operations





## Automotive Parts Operations

### Major Challenges

- Raising share of deliveries to the world's top 5 automobile manufacturers
- Strengthening connections with local automobile manufacturers in China and other emerging nations
- Accelerating production expansion at overseas production bases



Toru Fujiwara  
Automotive Parts Division

### Business Characteristics

Tsubaki's timing chain drive systems, a flagship product of the Company, hold an impressive share of over 70% in the Japan market and 35% in the global market, making Tsubaki the leading supplier of these products. These and other Tsubaki products are born out of Tsubaki's technological superiority, which is the key factor behind their exceptional quietness and durability as well as their light weight. These characteristics have earned them a strong reputation among global automobile manufacturers, who are in constant pursuit of high-performance engines that are remarkable in terms of environmental friendliness and other characteristics. This strong reputation is reflected in Tsubaki's dominating market share.

### Initiatives to Overcome Challenges

Tsubaki's share of deliveries to the world's top five automobile manufacturers steadily increases with each year, and the Company has received a number of large-scale orders from major manufacturers in the United States and South Korea. However, the Tsubaki Group continues to be faced by some challenges in these operations, including the need to steadily develop systems to respond to principal customers' production operations in emerging nations and the need to approach German automobile manufacturers, which the Group has yet to capture a significant share with. Accordingly, we have been aggressively implementing initiatives to overcome these challenges, and the results of these initiatives have already become notable. For example, in February 2011 we managed to acquire our first order from a particular major German automobile manufacturer. Going forward, we plan to utilize the new Zerotech Series, which boasts significant reductions in friction loss, to further expand our share of deliveries to the world's top five automobile manufacturers.

Further, we aim to increase the amount of orders received from local Chinese automobile manufacturers, which are expected to show impressive growth. To this end, the Company is working to develop low-cost products for use in inexpensive automobiles, and has succeeded in reducing the costs of certain products by revising the parts used in these products. Further, June 2011 marked the completion of the construction of a new production base in South Korea. Added

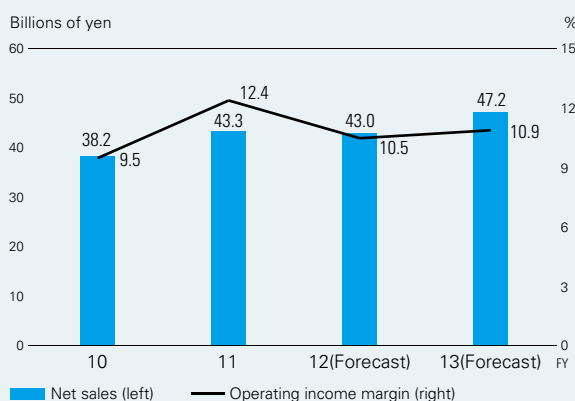
to Japan, the United States, Europe, Thailand, and China, this will be the sixth region to house a Tsubaki production base. Utilizing this more complete global production network, we will optimize our production systems on a global scale going forward and will accelerate the expansion of production capacities at overseas production bases for purposes such as mitigating risks.

### Performance and Forecasts

In fiscal 2011, performance in Automotive Parts operations recovered substantially with net sales increasing 13% year on year and operating income up 47%. While automobile production in Japan declined during the second half of the fiscal year due to the end of government grants for the purchase of environmentally friendly automobiles, sales of products overseas, particularly in Asia, grew significantly.

In fiscal 2012, we are anticipating year-on-year decreases of 1% in net sales and 16% in operating income. These decreases will primarily be attributable to the slump in domestic automobile production experienced during the first quarter of fiscal 2012 as a result of the Great East Japan Earthquake. However, we anticipate that performance will see rapid recovery in the second half of fiscal 2012 stemming from the renewal of automobile production and the continuation of strong sales overseas. In fiscal 2013, the final year of Medium-Term Management Plan 2012, we are targeting net sales of ¥47.2 billion and an operating income margin of 10.9%.

#### Results and Forecasts for Automotive Parts Operations



## Materials Handling Systems Operations

### Major Challenges

- Developing environmentally friendly products (energy-saving products, compact products, etc.)
- Promoting standardization to substantially reduce costs
- Expanding overseas, particularly in China, and exploring new business areas



Yohei Kataoka  
Materials Handling Division

### Business Characteristics

The scale of sales in Tsubaki's Materials Handling Systems operations is not particularly large when compared to the rest of the industry. However, these operations have been highly evaluated for their solutions, such as high-speed automatic sorting systems, paper feeding systems for the newspaper industry, and production line conveyance systems for the automobile industry, which have gained a strong following from certain industries. This following has earned these operations a solid position in the market. In the past, Materials Handling Systems operations faced difficulty in improving profitability, even in light of increased net sales; however, these operations have recently been switched to a business model that focuses on acquiring orders that produce sufficient profit.

### Initiatives to Overcome Challenges

The development and subsequent introduction of differentiated products that take advantage of the unique characteristics of these operations is of the utmost importance to the survival of the business. Accordingly, we are currently advancing the development of products that help customers reduce energy and space usage, and intend to launch three eco-products in fiscal 2012. In addition, we are drastically revising cost structures, starting from the design phase, and promoting standardization in order to better respond to the price-based needs of our customers. Further, within the year we plan to establish an engineering subsidiary in Shanghai, China, with the aim of bolstering our ability to capture the robust demand in China related to improving social infrastructure and capital investment.

Another challenge faced by the Company's Materials Handling Systems operations is the need to expand into new business areas. One specific area in which the Company is pursuing expansion is the field of slightly miniaturized conveyance modules, which is an extension of the Company's current systems operations. In the module field, we have developed a strong lineup of unique products, such as the Zip Chain Lifter, which features two chains that interlock in a zip-like fashion and can lift objects quickly and precisely, and the Direflex Modular Unit, a compact conveyor unit that is capable of

smoothly paying out and rotating objects. To handle these products, the new Module Business Unit was developed in fiscal 2011. Going forward, we will work to strengthen this new business in fiscal 2012 and on into the future.

### Performance and Forecasts

In fiscal 2011, net sales increased 29% year on year and the segment was able to move into the black on the operating level due to the higher net sales. While the operating income margin was fairly low at 0.8%, this was primarily due to the fact that a previously acquired unprofitable order was recorded in the first quarter of the fiscal year. On a quarterly basis, the operating income margin in the fourth quarter of the fiscal year had recovered to the 5% level.

In fiscal 2012, we are anticipating a 2% year-on-year decrease in net sales, but we believe the operating margin will show improvement, reaching 3.2%. In fiscal 2013, the final year of Medium-Term Management Plan 2012, we are targeting net sales of ¥29.4 billion and an operating income margin of 6.5%.

Results and Forecasts for Materials Handling Systems Operations

