

Message from the President to Stakeholders

## Year of Completing the Strengthening of Management Foundations

Being shackled by past successes or established ideas endangers a company's continued growth. By identifying structural issues before growth weakens and reforming its structure decisively and unceasingly, the Tsubaki Group will grow into a truly global company able to withstand volatile business conditions.



Isamu Osa  
President and Representative Director

### FYE 2013 Business Results Report

#### Achieved Greater-Than-Expected Increase in Net Sales and Operating Income in an Operating Environment that Remained Tough

In the fiscal year ended March 31, 2013, our business results surpassed the revised forecast announced in November 2012, with increases of 3.5% in net sales, to ¥150,002 million; 4.1% in operating income, to ¥12,579 million; and 9.0% in net income, to ¥7,428 million.

In Japan, business conditions were challenging during the fiscal year due to lackluster exports and private-sector capital investment. The Tsubaki Group was able to achieve higher revenues and earnings amid these business conditions for two main reasons. First, Automotive Parts Operations grew markedly, posting a 34.0% year-on-year rise in operating income in the fiscal year under review. This was not simply the result of benefiting from a pickup in automobile manufacturing in Japan. Global automobile manufacturers' high evaluation of the technological

superiority of the operations' mainstay timing chain drive systems has led to a leading market share that is increasing steadily. Second, cost reductions supported the higher revenues and earnings in the fiscal year under review. Productivity continues to improve thanks to initiatives the Group has advanced throughout its operations to enhance productivity. Although unable to avoid recognizing lower net sales year on year due to flat domestic demand, Chain Operations grew operating income 3.6% year on year through cost reductions.

With regard to our financial position, interest-bearing debt rose for the first time in six fiscal years due to aggressive capital investment aimed at further growth and the implementation of mergers and acquisitions (M&A). Nevertheless, the Tsubaki Group's financial position remains robust, with the D/E ratio (net) at a sound 0.16 times and improvement in the equity ratio to 47.3%.

## Achievements and Tasks Going Forward under Medium-Term Management Plan 2012

### Quantitative Targets Largely Reached

The fiscal year ended March 31, 2013, was the final year of the three-year Medium-Term Management Plan 2012, which began in the fiscal year ended March 31, 2011. Since the adverse effect of the Lehman Shock, business results have recovered steadily, and the Group has recorded higher revenues and earnings for three fiscal years in a row since the fiscal year ended March 31, 2011. Based on Medium-Term Management Plan 2012, our achievement percentages were 100% for net sales and 93% for operating income. While operating income was somewhat below target, I believe it was an adequate result given yen appreciation that was greater than we expected when preparing Medium-Term Management Plan 2012 and the negative effect on the economy of such unexpected events as the Great East Japan Earthquake and severe flooding in Thailand.

### Medium-Term Management Plan 2012: Focused on Strengthening Management Foundations to Sustain Growth

The primary aims of Medium-Term Management Plan 2012 were to rebuild business results that had slumped following the Lehman Shock and establish management foundations less susceptible to volatile business conditions. Therefore, rather than the achievement of numerical targets, I place greater importance on whether we achieved our tasks to sustain growth.

Medium-Term Management Plan 2012 sets out four priority tasks—strengthen our foundation as a manufacturer, implement reforms to become a solutions-provision company (always place customers first), hone the “global best” management strategy, and develop human resources. In other words, we believe the keys to sustained growth are strong cost competitiveness, the ability to provide high-value-added services, global business development, and passing on skills and heightening employee motivation.

Looking at the Group as a whole, the benefits of its initiatives are emerging. For example, to strengthen our foundation as a manufacturer we are enhancing productivity throughout the Group. And, every year I have a greater sense of the tangible benefits these cost reductions are realizing. As for efforts to implement reforms to become a solutions-provision company, we have strengthened the development of new products differentiated from those of competitors in terms of both environment-friendliness and economy. Testifying to the effect of these initiatives, the presence of Tsubaki’s eco-products in the product lineup is increasing. Representing 18.1% of net sales in the fiscal year ended March 31, 2011, net sales of these products grew to account for 26.8% of net sales in the fiscal year under review. Further, higher overseas sales as a percentage of net sales reflects the success of our efforts to hone the “global best”

management strategy. This percentage rose 9.1 percentage points, to 43.6%, during the three-year period of Medium-Term Management Plan 2012, which was partly because of M&A. Meanwhile, to develop human resources, we have introduced systems for posting engineers overseas and for overseas training and have established *Kurumaza* Meetings, or roundtable meetings, in which junior employees communicate directly with the senior management team. Further, in the fiscal year under review we laid foundations for the continued passing on of skills by holding the first Tsubaki Technical Skills Olympics.

### Growing Disparity in Progress of Operations toward Overcoming Issues

Although as a whole the Group is realizing benefits, differences are emerging between operations in their degree of progress. In Automotive Parts Operations, our new Zerotech Series of timing chain drive systems, which contributes significantly to improving automobile engines’ environmental performance, has earned strong client endorsement and is growing market share as a consequence. Further, these operations have made significant headway toward globalization by establishing a worldwide production system that includes seven countries: Japan, the United States, China, Thailand, the United Kingdom, South Korea, and Mexico. Regarding productivity improvement, these operations consistently surpassed numerical targets for net sales and operating income by a substantial margin during the period of Medium-Term Management Plan 2012.

By contrast, although Chain Operations, the Power Transmission Units and Components Operations, and Materials Handling Systems Operations successfully got their business results on track for recovery during the period of Medium-Term Management Plan 2012, each of these operations fell short of numerical targets. To continue growing, we have to concentrate on capturing overseas demand more actively.

### Breaking Away from Past Successes and Established Ideas

Strengths in particular areas had diminished the appetite of Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations for taking on new challenges. In Chain Operations, for example, there was complacency that the operations could continue growing without rushing to develop new markets. This was because they have a large share of the market for high-end timing chain drive systems and have established a solid network of sales agencies in the domestic market. Further, shackled by the established idea that the many different types of chains manufactured in small lots are not suited to mass production, the operations had

## Financial Section: Aiming to Strengthen Competitiveness Even Further

never embarked on bold manufacturing reform. Similarly, Power Transmission Units and Components Operations' establishment of an unshakable position in the original equipment manufacturer (OEM) area was slowing the pace of efforts to develop businesses and roll out products in new markets. Meanwhile, Materials Handling Systems Operations has relied on major orders from automobile plants for its conveyance systems for automobile painting lines. In some respects, this bias encouraged complacency and led to a reluctance to enter the markets for highly versatile products or overseas markets.

### Laying the Foundations for Bold Structural Reform

For Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations, which did not reach the numerical targets of Medium-Term Management Plan 2012, we have made significant progress toward establishing strategic foundations aimed at overcoming their structural issues and strengthening their ability to sustain growth.

For example, in Chain Operations we have established a new plant in Tianjin, China, and begun local manufacturing. By capitalizing on the advantages of local manufacturing and, in the future, localizing design and reforming materials purchasing, we will pursue German manufacturers and major local manufacturers that have already established positions in the Chinese market. Also, overturning the established idea that lot production is best for chains, at the Kyotanabe Plant we introduced an innovative integrated mass production line for chains for special applications that we manufacture

in comparatively large volumes and verified the production line's cost reduction benefits. Now that we have confidence in its effectiveness, we will transfer this groundbreaking mass production line to our new plant in Tianjin and market competitive products in China.

In Power Transmission Units and Components Operations, we have changed over the manufacturing of hypoid motors, more commonly known as reducers, from domestic manufacturing to intensive manufacturing in China to strengthen cost competitiveness. As for Materials Handling Systems Operations, we have established a manufacturing company in Indonesia, which began operations in February 2013. In relation to demand development, the benefits are already beginning to emerge as the new company wins new orders from local Japanese automobile manufacturers.

Further, as part of efforts to strengthen Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations, we acquired two overseas companies during the period of Medium-Term Management Plan 2012. In addition to acquiring Kabelschlepp GmbH, now Tsubaki Kabelschlepp GmbH, which is a major manufacturer of cable and hose protection and guidance products, we acquired all of the operations of Mayfran Holdings, Inc., a major manufacturer of chip conveyors and slag conveyors. These acquisitions are helping our efforts to transform into a solutions provider because, as well as significantly increasing our sales channels, they have strengthened our product lineups, which is increasing our ability to deliver a comprehensive range of chains and power transmission units and components.

### Business Results and Performance versus Numerical Targets of Medium-Term Management Plan 2012 (FYE 2011–2013) by Business



## Toward a Global Company Capable of Strong Sustained Growth

### Changing over to Market-Driven Business Management, Embarking on Even Bolder Reform

Restructuring of Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations sought to transform the operations from plant-driven manufacturing—a format manufacturers are prone to lapse into—to market-driven manufacturing. To realize this paradigm shift, vertically divided business management based on existing business segments is inadequate. Therefore, adding lateral functions for preparing strategic plans for each market as well as lateral business management functions is important. This change in business management approach calls for fundamental reform, including reform of organizations and their governance. With this in mind, we have decided to begin our next medium-term management plan from the fiscal year ending March 31, 2015. In the current fiscal year, which ends March 31, 2014, we intend to complete the strengthening of business management foundations to ensure we sustain growth going forward.

### Aiming for a Clearly Stated Dividend Policy

For the fiscal year ended March 31, 2013, we paid a cash dividend of ¥7.00 per share, unchanged from that of the previous fiscal year. As a result, our consolidated dividend payout ratio has been below 20% for two consecutive fiscal years. For the fiscal year ending March 31, 2014, we plan to increase the cash dividend by ¥1.00 per share. However, we expect this will only give a consolidated dividend payout ratio of 18.5%. Although capital requirements are increasing due to the continuing growth of Automotive Parts Operations and the overseas development of

Main Structural Reforms in Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations

### Realize paradigm shift from plant-driven to market-driven manufacturing

Prepare strategies based on positioning and begin reorganization and other fundamental reforms to enable them



Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations, I feel that having the consolidated dividend payout ratio continuously below 20% for a long period is regrettable for our shareholders. Accordingly, I think establishing a clearly stated basic policy for dividends is a pressing task. We intend to make a formal announcement in this regard in our next medium-term management plan. Therefore, I would like to ask shareholders for their understanding.

### Restructuring Tirelessly to Increase Corporate Value Continuously

The Tsubaki Group's consolidated return on equity (ROE) is on the road to recovery, rising from 4.0% in the fiscal year ended March 31, 2010, to 7.7% in the fiscal year under review. However, if we consider that consolidated ROE was 12.8% in the fiscal year ended March 31, 2008, the current level is still not satisfactory. Mindful of this, the Tsubaki Group will advance reforms proactively. Through these efforts we will grow into a truly global company that can withstand volatile business conditions and continue growing vigorously.

As we take on these challenges, I would like to ask our stakeholders for their continued support.

August 2013

Isamu Osa  
President and Representative Director

**FOCUS ON**

# Laying Strategic Foundations to Strengthen Growth Potential

## Pursuing M&A Actively

### Key Points

1. Acquire synergy benefits in sales, design, and manufacturing
2. Strengthen ability to provide solutions by expanding product lineup

During the period of Medium-Term Management Plan 2012, the Tsubaki Group implemented two overseas M&A.

The first was the acquisition of Kabelschlepp GmbH, now Tsubaki Kabelschlepp GmbH, in the fiscal year ended March 31, 2011. With operations around the world including in Asia and the United States, Tsubaki Kabelschlepp is a pioneering company that manufactures cable and hose protection and guidance products, which the Tsubaki Group markets under the product name Cableveyor, used in machine tools and a range of other industrial machinery. In Europe alone, the company has more than 7,000 business clients. In particular, it has built a robust system for direct sales to leading manufacturers in the machine tool and automobile industries.

Our second M&A assumed all of the operations of Mayfran Holdings, Inc., of the United States in the fiscal year under review. Mayfran Holdings is a major manufacturer of chip conveyors—equipment that conveys or sorts metalworking chips and processes coolant—for the machine tool and metalworking industries and slag conveyors, which convey solid waste for general industries. The company's mainstay markets are North America and Europe.

Through mutual exploitation of Tsubaki's strong sales channels and the strength in direct sales of Tsubaki Kabelschlepp and Mayfran Holdings, the Group will boost its overall marketing capabilities.

The aim of these two overseas M&A is to bolster our ability to provide solutions. For example, machine tool manufacturers purchase a variety of components and systems externally, including cable and hose protection and guidance products, such as power transmission units and components as power cylinders, and conveyance systems for chips that are a byproduct of metalworking. Our recent M&A have dramatically increased our product lineup. Consequently, the Tsubaki Group can now draw on multiple products to offer customers one-stop solutions.

While capitalizing on the Kabelschlepp and Mayfran brands, the Tsubaki Group intends to use its new subsidiaries to increase net sales even further and strengthen its potential for sustained growth.



Tsubaki Kabelschlepp GmbH



Mayfran International, Inc.

## Establishing New Bases Overseas

### Key Points

1. Strengthen potential for sustained growth by accelerating efforts to capture demand in high-volume markets overseas
2. Realize further cost reductions by leveraging merits of local manufacturing
3. Provide high-value-added services by building customer-driven sales and manufacturing systems

### Established Manufacturing Company for Industrial Chains in China

In response to the continuing sluggishness of domestic demand, we sought to unearth overseas demand more rapidly and increase the top line growth potential of Chain Operations by establishing Tsubakimoto Chain (Tianjin) Co., Ltd. (TCT), which manufactures industrial chains in Tianjin, China. The company started up local manufacturing in the second half of the fiscal year under review. While Chain Operations have previously acquired overseas manufacturing bases through M&A, this is the first time we have built a plant for these operations from scratch overseas. TCT will perform all processes locally, from material purchasing through molding, heat treatment, and assembly. At the same time, by reviewing designs continuously, it will heighten cost competitiveness and thereby help open up China's market.

China has significant demand centered on conveyor chains for the steel and infrastructure-related industries. The market for large-size conveyor chains is expected to be worth approximately ¥17 billion by 2016. We plan to carve out a 20% share of this market as soon as possible by providing our conveyor chains—which boast unrivalled technological advantages in terms of quality and performance—at prices acceptable to customers.



Tsubakimoto Chain (Tianjin) Co., Ltd.

### Establishment of New Sales and Manufacturing Base in Indonesia

Japanese companies, mainly automobile manufacturers and companies in related industries, are stepping up the pace of their entry into Indonesia. Seeing this trend as a major opportunity, we have established a sales company in the country, PT. Tsubaki Indonesia Trading, which carries all of our products, from chains through industrial machinery and parts and materials handling systems. Further, among Japanese automobile manufacturers' local plants there is a strong need for a materials handling systems manufacturer that can provide customer-driven comprehensive solutions. To cater to these market needs, we decided that establishing a manufacturing base adjacent to the sales base would enhance the effectiveness of our operations. Accordingly, we established a materials handling systems manufacturing company, PT. Tsubaki Indonesia Manufacturing.

These two new subsidiaries in Indonesia are already producing concrete benefits. We have won three new orders, including one from a Japanese automobile manufacturer in Jakarta for an overhead conveyor system for automobile doors. Moreover, we are receiving numerous inquiries from other companies.



PT. Tsubaki Indonesia Manufacturing



PT. Tsubaki Indonesia Trading

# Review of Operations

## Chain and Power Transmission Units and Components Operations

### Operating Environment and Performance

Tsubakimoto Chain boasts a share of nearly 60% in the domestic market for industrial-use steel chains, which we have won by leveraging the strengths of our solid sales network and the products we have differentiated in terms of performance and quality. However, private-sector capital investment in Japan is declining. This has the potential to greatly impact domestic sales in our Chain Operations. In fact, since the fiscal year ended March 31, 2011, investment has remained at a low 81–83% of the level seen in the fiscal year ended March 31, 2008. Future domestic chain demand will be heavily influenced by the extent to which the depreciation of the yen helps capital investment recover from its prolonged slump. In our Power Transmission Units and Components Operations, we provide cam clutches and power cylinders, which command dominating shares of 85% and 70%, respectively, in the domestic market, among other products. Leveraging such high-share products, we have cemented our position in the OEM field. Similar to Chain Operations, Power Transmission Units and Components Operations are expected to suffer from prolonged depression in domestic demand. For this reason, we are actively developing operations in overseas markets.

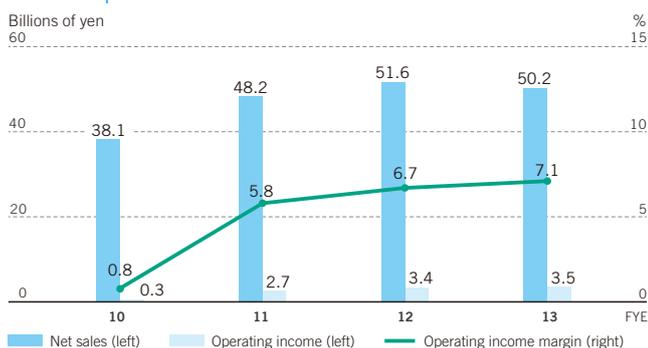
In our Chain Operations, overseas expansion began in the early 1970s when we commenced operations in the United States. Later, in the mid-1980s, we began acquiring U.S. chain manufacturers and commenced local production. Today, Chain Operations are performing impressively in the U.S. market, particularly over the past three years. During this period, our share of shelf space in the country's three major retail chains rose to 40–50% in conjunction with economic recovery, and we have now secured a strong share of over 20% in this market. In the future, we intend to accelerate expansion in European and Asian markets, where our share is relatively low in comparison to Japan and the United States.

In Power Transmission Units and Components Operations, meanwhile, consolidated subsidiary Tsubaki Everbest Gear (Tianjin) Co., Ltd., has been highly successful in capturing demand for elevator-use reducers as well as other items in the Chinese market. As such, the subsidiary has made significant contributions toward recovering performance after the Lehman Shock. In these operations, we have also begun stepping up the supply of cam clutches to Japanese motorcycle manufacturers, which are increasingly conducting production overseas.

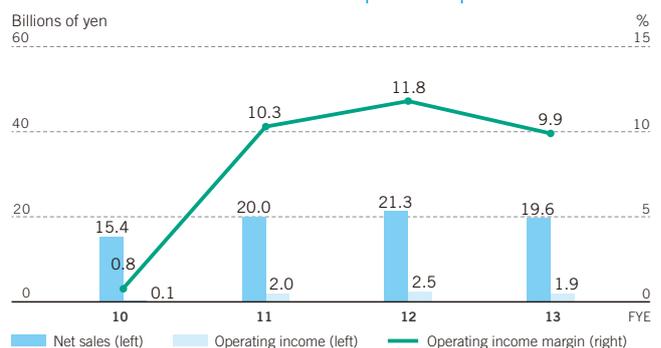
Over the three-year period beginning with the fiscal year ended March 31, 2011, overseas demand has sufficiently compensated for sluggish domestic demand, enabling our Chain Operations to achieve average yearly growth in net sales of 9.6%. This solid overseas demand has also helped the operating income margin recover to 7.1% in the fiscal year ended March 31, 2013, a substantial improvement compared to the level of 0.8% seen in the fiscal year ended March 31, 2010. Going forward, we will advance manufacturing reform initiatives on a global scale as we strive to further cut costs.

In regard to Power Transmission Units and Components Operations, net sales grew by an average of 8.4% over the three-year period from the fiscal year ended March 31, 2011, and the operating income margin recovered from 0.8% in the fiscal year ended March 31, 2010, to 9.9% in the fiscal year ended March 31, 2013. We have integrated domestic sales efforts in this business with those of Chain Operations. In the future, we will work to further leverage the benefits of this integration to capture higher levels of overseas demand, while also lowering costs through such means as consolidating production of certain general-purpose products at overseas sites.

#### Chain Operations



#### Power Transmission Units and Components Operations



## ■ Basic Strategies

### Advancement in the Chinese Market

The Chinese conveyor chain market has traditionally been dominated by two major manufacturers: one a Chinese company and the other a German company with production bases in China. However, as the level of quality and performance expected by end users increases, it is expected that a number of significant business opportunities will appear for the Tsubaki Group, especially in consideration of its ability to provide superior durability and environmental performance. To better take advantage of these opportunities, we chose to establish a factory in Tianjin, China. This was done out of realization of the advantage in terms of price that competing companies with local factories would have over the Group if we continued to only offer exports from Japan. This factory commenced operations during the second half of the fiscal year ended March 31, 2013. Taking advantage of this factory, we will quickly work to realize a price range that is appropriate for the Chinese market. To this end, product designs and material provision routes will be revised, and we will also introduce an integrated production line system for use with chains that can be mass produced.

Another area of focus will be restructuring the Group's sales companies. Previously, we had separate sales companies for our Chain Operations and our Power Transmission Units and Components Operations in China. By integrating these companies, we aim to realize reductions in operating costs while also enabling sales activities to exploit economies of scale.

### Expansion in Asian and European markets

Asian markets other than China are also ripe with latent demand. For example, there is significant need for businesses to support the construction of the airport boarding bridges that passengers use to board aircraft. As Asian economies continue to grow, low-cost carriers are springing up across the region, resulting in the rapid development of airport infrastructure



Diverse product lineup

coupled with increases in flight numbers, subsequently driving a rise in boarding bridge demand. These bridges contain a number of conveyance components, such as power cylinders, Cableveyors, roller chains, and sprockets. The Tsubaki Group is one of the few manufacturers capable of providing all of these items, and we plan to take advantage of this strength to rapidly advance our business.

European markets are saturated by German manufacturers. Also, while there is strong latent demand for Tsubaki's industrial machine parts, we have previously been unable to sufficiently respond to European specification standards. These factors have prevented the Tsubaki Group from realizing significant growth in market shares in this region. However, this changed with the acquisition and consolidation of Kabelschlepp GmbH in 2010. We are now able to call upon this company's European customer base and integrate its product lineup into ours while we accelerate the development of our own products that address the needs of these regions. To further facilitate these efforts, we have established a new Global Marketing Division. This division operates under the direct supervision of the president and is responsible for promoting marketing and product development efforts that are fine-tuned for the regions for which they are intended. In addition, an operating base has been established in Germany.

### Establishment of General Technical Information Website

The Group is working to enhance the IT-powered services it provides for its customers. One such service is the recently established general technical information website known as Tsubaki Technical Net (TT-Net). This website makes it easy for customers to obtain product and usage information that has been listed by customer technicians as well as computer-aided design data with regard to the Tsubaki Group's robust lineup of power transmission products, consisting of approximately 250,000 roller chains, reducers, variable speed drives, and other products. Tsubaki Technical Net was designed with the aim of enabling customers to select products right down to the model number entirely from the website with no need for an on-hand catalog. Moreover, the website has been made available in three languages: Japanese, English, and Chinese.

In our Chain and Power Transmission Units and Components Operations, we are moving away from the traditional mindset of simply offering products and are enhancing our sales efforts by strengthening their customer- and market-centered elements. We believe this will help increase customer retention as well as accelerate customer acquisition.

## Automotive Parts Operations

### Operating Environment and Performance

Over the three-year period beginning with the fiscal year ended March 31, 2011, our Automotive Parts Operations have realized impressive growth, with average growth rates of 8.9% for net sales and 21.1% for operating income throughout the period. The strong performance of this business has made great contributions to the Company's ability to realize consecutive increases in both sales and income in each of the three years in this period.

There are two major factors behind the impressive growth seen in Automotive Parts Operations. One is the rapid recovery in global automobile production seen after the Lehman Shock. The other is the ever stronger position of Tsubaki's timing chain drive systems for automobiles. In 2009, our timing chain drive systems held a 34.5% share of the global market. In 2012, this share had risen to 36.0%. Tsubaki's products have always had a strong reputation for their exceptional quietness, durability, and light weight. However, we believe that it was the launch of the Zerotech Series in the fiscal year ended March 31, 2012, that made the strongest contribution to the expansion of this share, especially considering its ability to improve the environmental performance of engines while reducing friction loss to

### Basic Strategies

#### Further Differentiation of Quality and Performance

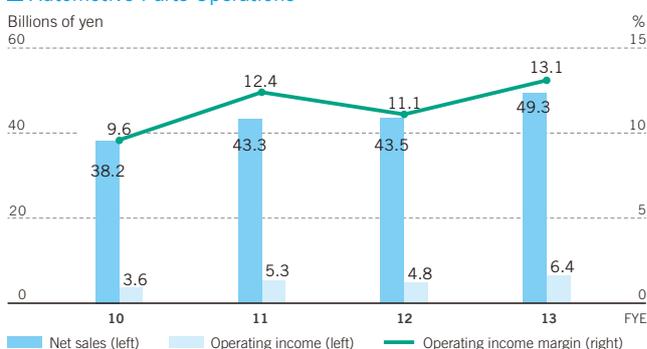
The ability of Tsubaki's timing chain drive systems to maintain a high market share can largely be attributed to two factors: the fact that they have been differentiated in terms of both quality and performance and the Company's global production and supply systems. Our products realize high levels of quality and performance and also boast long lifespans. These strengths have led to a rise in delivery volumes to Japanese automobile manufacturers as well as to major manufacturers from the United States, South Korea, and other parts of the world. Going forward, we will expand the range of models available for Zerotech Series chains and other products while also innovating technologies used in tensioners and other peripheral items to realize lower weight and noise production. Through such ongoing efforts, we aim to win even higher levels of customer satisfaction.

Recently, we have noticed a shift among automobile manufacturers in emerging nations from low-priced vehicles toward those with higher quality and performance. This means that Tsubaki's strategy of leveraging its technological prowess to drive business expansion will not only help it serve major automobile manufacturers from developed nations, which expect products with high quality and performance, but will also be effective in boosting deliveries to manufacturers in emerging nations.

unparalleled levels.

Automotive Parts Operations continue to benefit from a favorable demand situation. However, automobile manufacturers are increasingly seeking out lower levels of costs, fueling the ongoing intensification of competition. In consideration of this, we realize that Tsubaki must maintain its vigil and advance initiatives in a number of areas. Specifically, we must further sharpen our technological edge, accelerate manufacturing reforms, and continually pursue cost reductions.

#### Automotive Parts Operations



#### Pursuit of Further Cost Reductions

In addition to reinforcing our strengths in terms of quality and performance, it is also essential that we boost cost competitiveness by pursuing further cost reductions. In our Automotive Parts Operations, we are advancing manufacturing reform initiatives on a global scale to improve productivity, and the results of these activities are already clearly noticeable. Still, we are not satisfied and remain committed to achieving higher levels of productivity. At our flagship Saitama Plant, we are targeting a 15% improvement in productivity to be realized within the fiscal year ending March 31, 2014. To accomplish this goal, we will standardize processes, innovate manufacturing technologies, and install automated and high-speed production lines.

From the fiscal year ending March 31, 2014, a production base in Mexico will be included into our network, which includes sites in Japan (Saitama), the United States, China, Thailand, South Korea, and the United Kingdom. Through this addition, the ratio of production conducted overseas in Automotive Parts Operations is expected to climb to more than 70% in 2016. However, the flagship Saitama Plant will retain its central position, functioning as a nerve center for spreading manufacturing expertise to overseas bases and thereby helping our Automotive Parts Operations expand in size while achieving higher levels of profitability.



Zerotech® Series

## Materials Handling Systems Operations

### Operating Environment and Performance

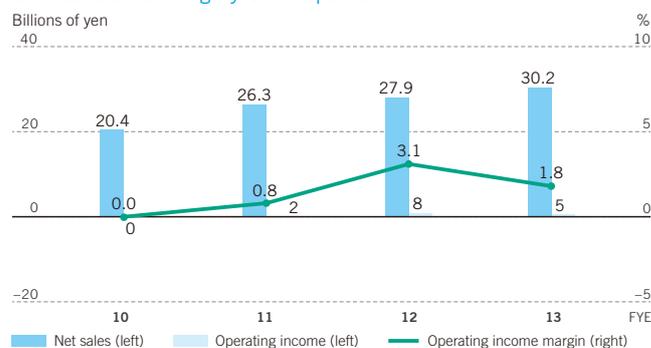
In our Materials Handling Systems Operations, we have developed a strong reputation for our technical proposal capabilities with regard to special-use conveyance systems including high-speed automatic sorting systems and paper feeding systems for the newspaper industry. We also have operations in fields related to bulk handling systems, used for the transportation of substances such as cement, and conveyance systems for metal scraps. These operations are conducted by two consolidated subsidiaries and are top class in the industry in terms of track record.

Large-scale orders for conveyance systems in the automotive industry were previously brisk, but have returned to normal levels. This resulted in net sales for Materials Handling Systems Operations dropping to ¥20.4 billion during the fiscal year ended March 31, 2010. Since that time, sales have recovered, reaching ¥30.2 billion in the fiscal year ended March 31, 2013, but this recovery is primarily attributable to the development of subsidiaries' operations and the contributions from sales of bulk handling systems and metal scrap conveyance systems, which are benefiting from expanding markets overseas. Meanwhile, the Company's Materials Handling Division is facing a contracting domestic market, which is heavily impacting performance and is therefore one of the main causes for the segment's decline in profitability (average operating income margin of 1.9%

over the three-year period encompassing the fiscal years ended March 31, 2011, 2012, and 2013).

Previously, the Company's Materials Handling Division had focused on niche markets where it was able to leverage its technical proposal capabilities, but it is now clear that the potential scale of these markets is limited. Accordingly, we are now faced with the pressing task of expanding the range of markets we serve. In other words, we need to branch out from domestic markets to those overseas and from conveyance systems for automobile painting lines—an area of strength—to conveyance systems for other processes.

### Materials Handling Systems Operations



### Basic Strategies

#### Expansion into Asian Markets

In the fiscal year ended March 31, 2012, we established an engineering subsidiary in Shanghai that conducts sales activities focused on automated sales systems. This company is gradually capturing orders and generating results. Further, we founded a manufacturing subsidiary in Indonesia during the fiscal year ended March 31, 2013. This company was created to respond to the needs of Japanese companies with production bases in this country, particularly their needs for installing new conveyance systems and upgrading existing ones. Moreover, leveraging this subsidiary, we are able to conduct both sales and manufacturing activities in the Indonesian market, and have thus begun accelerating sales efforts in this region. This Indonesian manufacturing subsidiary has already acquired three orders for ceiling-run conveyors from Japanese automobile manufacturers, demonstrating its success in quickly capturing latent local demand.

#### Effective Utilization of Intellectual Properties

The core strength of Tsubaki's Materials Handling Systems Operations lies in its ability to develop products and provide solutions, such as conveyance systems for automobile painting lines and paper feeding and conveyance systems for the newspaper industry, that meet the needs of specialized niche

markets. If these operations are to realize improvements in sales and earnings going forward, it will be necessary for these niche-oriented technical development and solution capabilities to be adapted for use in more widely applicable areas. One key example of a product with the potential for such adaption is our Zip Chain Lifter\*. This groundbreaking product could be used in place of the lines used to hang automobile bodies and other heavy items from ceilings, thereby helping customers limit capital investment while simultaneously bringing productivity to a new level. By effectively communicating such benefits that can be created using Tsubaki's differentiated technologies, we hope to fundamentally reconstruct the earnings base for our Materials Handling Systems Operations.

\* The Zip Chain Lifter has received the Ministry of Economy, Trade and Industry Minister's Award, the highest honor in the Energy Conservation Prize awards program.



Zip Chain Lifter® capable of elevation speeds and operation frequency 3 to 10 times higher than conventional hydraulic lifts

## TOPICS

### Establishment of Automotive Parts Manufacturing Subsidiary in Mexico

In October 2012, the Company established Tsubakimoto Automotive Mexico S.A. de C.V.—the Tsubaki Group's first manufacturing subsidiary in Latin America and the seventh overseas production base for the Group's Automotive Parts Operations. Construction of the subsidiary's factory is scheduled for completion in January 2014, after which it will begin mass production of automobile engine timing chain drive systems. This base will be initially utilized to strengthen our production and supply systems for the Mexican market. In the future, this company will also serve as a production hub for the South American market and as a parts procurement base to be used for driving global business growth.



Mexican automotive parts production base (conceptual drawing)

### Establishment of Materials Handling Systems Manufacturing Subsidiary in Indonesia

The Company established a materials handling systems manufacturing subsidiary in Jakarta, Indonesia, to serve Japanese automobile manufacturers and other companies that have been increasingly developing operations in this area. This subsidiary's factory is slated to be completed and operational by February 2015, but the company will conduct business at a temporary location in Indonesia prior to the factory's construction. This will be done to enable the subsidiary to reap the benefits for locally based production and maintenance activities immediately. We expect that this subsidiary will help accelerate business expansion in the Indonesian market, where significant economic growth is projected.



Indonesian materials handling systems manufacturing subsidiary

### Commencement of Operations at Conveyor Chain Factory in Tianjin, China

In October 2012, construction was completed at the factory of Tianjin-based industrial-use chain manufacturing subsidiary Tsubakimoto Chain (Tianjin) Co., Ltd. Production processes, including assembly, molding, and heat treatment were commenced sequentially, and the factory was operating all processes in May 2013. This company has already served many Japanese customers, and in the future we will work to supply products that meet the needs of local companies in the rapidly growing Chinese market. To this end, we will pursue higher levels of competitiveness in terms of both quality and price as we target a 20% share of the Chinese market for conveyor chains by the fiscal year ending March 31, 2017.



Ceremony commemorating start of operations held on May 13, 2013

### Expanded Deliveries of Chain and Power Transmission Units and Components Product Sets

We are expanding deliveries of product sets consisting of power cylinders, cableveyors, and other items, with a particular emphasis on chains. Through our attempts to provide solutions that address customer issues on a deeper level, customers have been encouraged to place batch orders for multiple products, as opposed to only ordering single items. Specifically, we have seen a rise in set orders bundling such products as power cylinders and cableveyors to be employed in airport boarding bridges in Singapore. We have also delivered similar sets for use in palm oil plants in Malaysia and oil drilling facilities in the United States. These successes can be attributed in part to the Tsubaki Group's shift toward sales activities that are more closely linked to the regions in which they are conducted. In the future, we will further custom-tailor our sales activities to individual regions to better respond to customer needs in our never-ending quest to provide optimal solutions.



Airport boarding bridge containing power cylinders and several other Tsubaki products