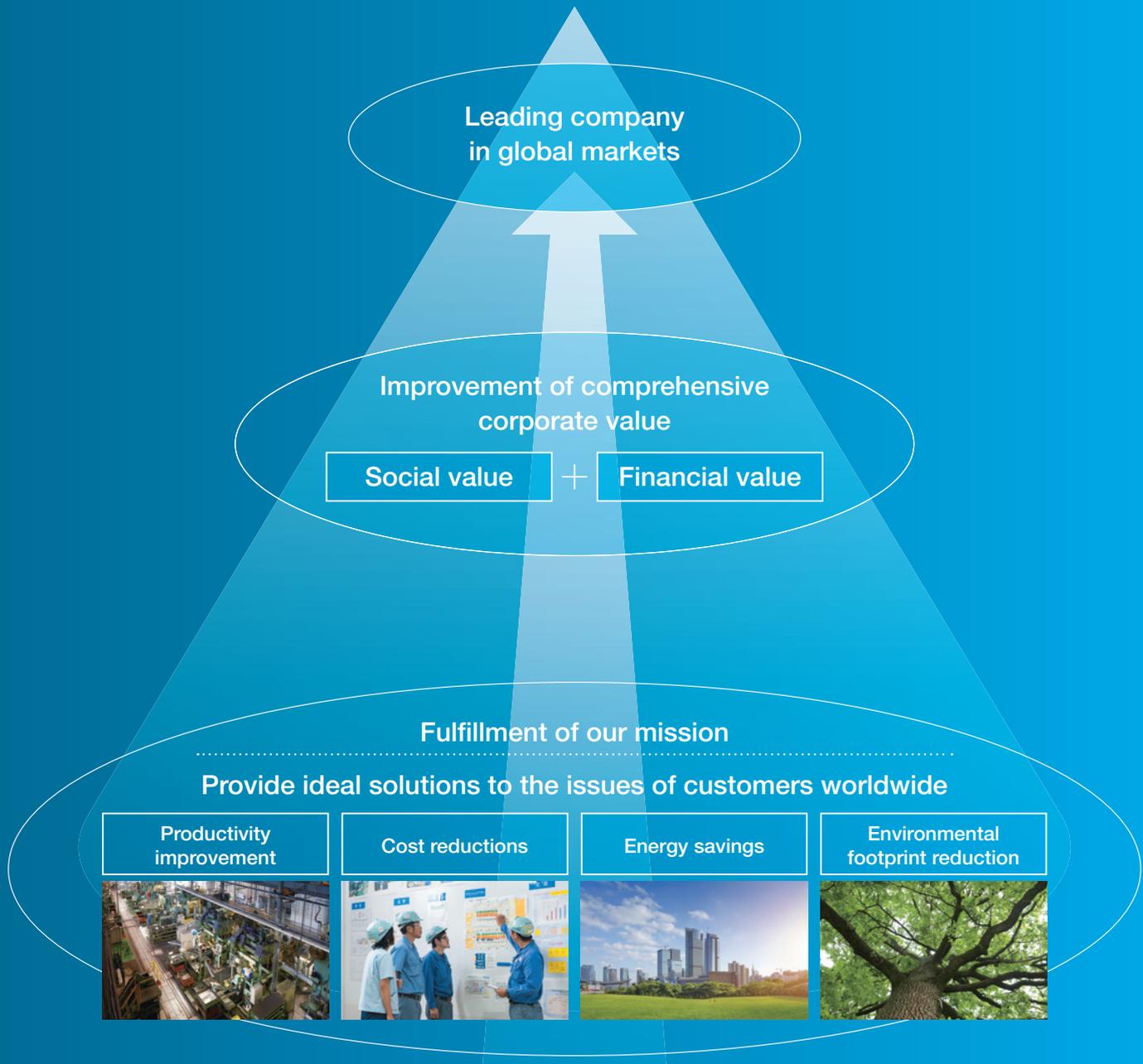


TSUBAKI  
CORPORATE REPORT  
**2016**

# Providing Customers Worldwide with the Best Value

The Tsubaki Group is a chain manufacturer that creates unrivaled products to resolve the issues faced by customers worldwide. By providing ideal solutions, the Tsubaki Group contributes to the development of society and the economy while growing sustainably.



## Main Disclosure Tools

	Financial information	Non-financial information
Reports	<b><i>TSUBAKI CORPORATE REPORT 2016</i></b> Mainly provides an overview of the Tsubaki Group and reports on the Group's business activities, environmental initiatives, and management systems	
	<b>Financial statements</b>	<b>Securities reports</b> (Only available in Japanese)
Website (latest information and more detailed information)	<b>Investor Relations section</b>  Discloses financial information for shareholders and investors and information on shareholders and shares <a href="http://tsubakimoto.com/ir/">http://tsubakimoto.com/ir/</a>	<b>Environmental Approach section</b>  Discloses details of initiatives to preserve the environment and coexist with society <a href="http://tsubakimoto.com/csr/">http://tsubakimoto.com/csr/</a>

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### Forward-Looking Statements

In certain cases, the information in this report is based on estimates and forecasts made by the Tsubaki Group. The accuracy of data from external sources, including statistics, is not guaranteed. As a general rule, figures less than one unit have been rounded down to the nearest whole number. Also, unless otherwise specifically stated all numerical values relating to Company performance and its financial position have been calculated on a consolidated basis.

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### Data Regarding Environmental and Social Initiatives

This report was prepared with reference to the Ministry of the Environment of Japan's "Environmental Reporting Guidelines 2012," the Ministry of the Environment of Japan's "Environmental Accounting Guidelines 2005," and the Global Reporting Initiative (GRI)'s "Sustainability Reporting Guidelines, Third Edition (G4)."

### Reporting Period

April 2015 to March 2016

(includes some activities after the reporting period)

### Scope of Data Collection

Tsubakimoto Chain Kyotanabe Plant and Saitama Plant, and major Tsubakimoto Chain subsidiaries and affiliates (Tsubaki E&M, Tsubakimoto Custom Chain, Tsubakimoto Sprocket, Tsubakimoto Bulk Systems, Tsubakimoto Mayfran, Tsubakimoto Iron Casting, and Tsubaki Yamakyu Chain)

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### Notes on the Production of this Report

The Company realizes that corporate value is based on a comprehensive evaluation of the operating results of a company and a variety of other factors, including its social responsibility. Based on this understanding, the Company compiled its various information transmission tools for stakeholders, including its annual report and environmental and CSR reports, into a single corporate report. This report contains explanations of Tsubaki's corporate philosophy, strategies for strengthening foundations, performance, and policies for conducting environmental and social contribution activities as well as the results of these initiatives. We believe this form of corporate report will assist stakeholders in developing a more comprehensive understanding of the Company's potential for ongoing growth.

### Creating Products that Benefit Customers and Society

“We want to heighten productivity.”

“We want to reduce maintenance costs dramatically.”

“We want to establish environment-friendly production lines.”

The Tsubaki Group painstakingly caters to a variety of requests from customers such as those above. By developing and manufacturing products that boast major technological advantages, we have enabled customers to reduce costs, heighten productivity, save energy, and lower environmental burden.

# Technological

Focusing on technological innovation

#### Industrial-Use Steel Chains

Our No. 1 share of the global market for automotive-use timing chain drive systems testifies to customer endorsement of Tsubaki products.

Since its establishment, the Tsubaki Group has been a manufacturer that has innovated technology to develop products that meet market demand precisely. By manufacturing unique products that match customer needs, we will benefit customers and society and strengthen our ability to sustain growth.



### Tsubaki Lambda® Chain

Wear resistance doubled,  
lubricant-free

Tsubaki Lambda® Chain is the industry's first drive chains with special bushings that include lubricant. Because these bushings self-lubricate, they do not require lubricant and have better wear resistance. These features help lower customers' maintenance costs. Furthermore, our latest Lambda® Chain has already earned a strong reputation in the food industry, where the adhesion of lubricant to products is an archenemy.

### Zerotech® Series Silent Chains

Wear-induced stretching down 45%,  
friction loss down 30%

Our Zerotech® Series timing chain drive systems for automobile engines have garnered a strong reputation among automotive manufacturers that are developing environment-friendly, fuel-efficient automobiles. The optimal design of Zerotech® Series silent chains lowers wear-induced stretching 45% and friction loss 30%.



# Differentiation First

to create **unique products**



### NER Series Echt-Flex® Coupling

Torque up 33%,  
mounting time reduced dramatically

Thanks to the optimized combination of an innovative disc and bolt configuration, these couplings achieve unprecedented compactness and torque, which is 33% higher than that of previous products. Also, the center unit's new proprietary structure (patent pending) eliminates the task of securing the disc and dramatically reduces the time required for mounting the coupling.

### Tsubaki Labo Stocker® 150L

Realization of ultra-low storage temperature of  $-150^{\circ}\text{C}$

Tsubaki Labo Stocker® 150L is a system for storing large quantities of frozen, microscopic samples of compounds, DNA, and other substances. The system can store up to 50,000 samples at the ultra-low temperature of  $-150^{\circ}\text{C}$ . Moreover, Tsubaki Labo Stocker® 150L is the world's first system able to automatically pick samples at  $-150^{\circ}\text{C}$  without exposing them to temperature changes. Consequently, it is contributing greatly to the life science field—in such areas as induced pluripotent stem (iPS) cell research—and the pharmaceutical development field.



## The Sources of **Quality** and **Safety**

### Products with Built-In Trust

Timing chain drive systems, for which we claim the No. 1 share of the global market, are indispensable components in automotive engines.

The malfunction of a timing chain drive system when a vehicle is running could cause a major accident.

The Tsubaki Group gives first priority to ensuring the quality and safety of the products it manufactures.

# Reliability

Ensuring **unrivaled**

We believe that enhancing quality and safety through continuous capital investment in all processes, from product development through material selection, manufacturing, and final inspections, earns customers' trust.

Our foundation is the pride in being a professional in the manufacturing industry that all of our employees share.



## Personnel

### Original training program covering basic through to specialized skills

To heighten manufacturing capabilities and ensure product quality and safety, the Tsubaki Group's original training program passes on a range of basic skills and specialized skills to young employees. (For details, please see page 27.)

## Equipment

### Critical process that dictates product durability

The most important process in determining the strength and durability of chains and other products is heat treatment, and this is the key to maintaining our products' superior quality and durability. The Tsubaki Group conducts precision heat treatment based on advanced equipment, calculations, and expertise cultivated during almost a century of manufacturing.



# First

quality and reliability



## R&D

### From basic research to proving tests

The Saitama Plant's Auto Engineering Lab researches mechanisms and materials with a view to reducing costs and enhancing environment friendliness. Furthermore, the laboratory earns trust in relation to product quality and safety by sharing with customers the details and results of performance tests that it conducts using actual engines and automobiles.

## Manufacturing Reform Initiatives

### Aiming to eliminate defective products and forced production line halts

Each business division is steadily improving operations to eliminate defective products and forced production line halts. In the fiscal year ended March 31, 2016, the Saitama Plant, which is the mother plant of Automotive Parts Operations, improved productivity by more than 30%. The plant is laterally introducing the know-how acquired through this effort to overseas manufacturing bases. Similarly, the Kyotanabe Plant's Chain Manufacturing Division is taking measures to raise productivity 30% by the fiscal year ending March 31, 2019.



# Becoming a Global Leader and



The Tsubaki Group will celebrate its centennial in 2017. The Group began as a bicycle chain manufacturer in 1917. Subsequently, we concentrated management resources on high-value-added industrial chains. Using competence in chain technologies, we extended operations to encompass materials handling systems, automotive parts, and power transmission units and components. These efforts have enabled us to grow into a comprehensive manufacturer in the fields of motion and control as well as conveyance and storage.

Since 2000, the Group's growth has been accelerating. Our share of the global market has increased steeply thanks to a rapid changeover from belts to chains in timing drive systems for automotive engines and the reputation for outstanding environmental performance and quality that our products have earned among automotive manufacturers worldwide. Automotive Parts Operations have progressed dramatically. Also, Chain, Power Transmission Units and Components, and Materials Handling Systems operations have stepped up overseas rollouts. As a result, the percentage of overseas sales increased from between 20% and 30% in the 1990s to surpass 50% in the fiscal year ended March 31, 2014, reaching 54.5% in the fiscal year ended March 31, 2016.

Setting out a target corporate profile for the fiscal year ending March 31, 2021, Long-Term Vision 2020 calls on the Group to become a global leader. As such, we have already established No. 1 shares of the global markets for industrial-use steel chains and timing chain drive systems. Similarly, for other products we aim to establish leading shares of global or niche markets. In this way, we will reach Long-Term Vision 2020's numerical targets of consolidated net sales of ¥300.0 billion, an operating income margin of 10%, and a percentage of overseas sales of 70%.

# Looking to New Horizons

Until now, the Tsubaki Group has grown by extending business fields and globalizing. However, we want to grow by transcending the boundaries of manufacturing that caters to business customers and by using manufacturing to benefit society. Through exploitation of our technological and manufacturing capabilities to provide products that address such environment-related issues as food shortages and energy saving, we aim to be a company society needs. One example of these efforts is our development of agribusiness systems. In the fiscal year ended March 31, 2015, the Group developed the world's first automated seedling selection system, which increases plant factories' productivity by selecting superior vegetable seedlings at an early stage. In another initiative, we developed a connector that allows electric vehicles (EVs) to be used as emergency power supplies in the event of a disaster. Tsubaki eLINK is an EV power system that bidirectionally connects EVs with the power grids of public facilities, buildings, factories, and other facilities via a quick charging connector.

As a global corporate group, we believe further enhancing business management capabilities is important. Therefore, we have begun reforming our human resources system steadily to establish a new system with a greater emphasis on diversity and job satisfaction. In Japan, we need to empower our female employees. In addition, we want to heighten the transparency of business management even further through sincere efforts to strengthen governance. The Tsubaki Group will not only sustain growth but also evolve into a global corporate group that earns the absolute trust of society as a whole.

As we evolve, I would like to ask our stakeholders for their continued support and understanding.



**Isamu Osa**

Chairman and CEO,  
Representative Director

## Globalization Rapidly Boosts Business Results



## Examples of Benefiting Society through Manufacturing



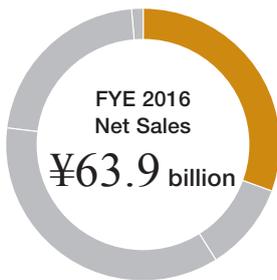
The Tsubaki Group will continue evolving to become a solutions provider that transcends

Since its foundation in 1917 as a chain manufacturer, the Tsubaki Group has increased its business lines to include Materials Handling Systems, Automotive Parts, and Power Transmission Units and Components operations. As a result, we have become a comprehensive manufacturer in the motion and control field providing a diverse range of machinery parts and units as well as systems comprising these items.

### Chain Operations



We provide various industries, such as the machine tool, shipbuilding, steel, and LCD/semiconductor industries, with diverse drive chains, conveyor chains, and other chains optimized for their needs.



Share of net sales  
(FYE 2016)  
**30.6%**

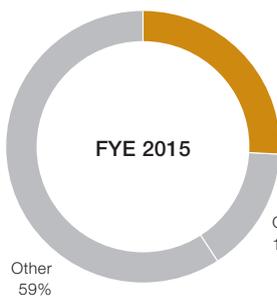


Share of operating income  
(FYE 2016)  
**28.6%**

#### Market Shares for Major Products (Source: Tsubakimoto Chain Co.)

##### Industrial-Use Steel Chains

Global Market Share



Tsubaki's share  
**26%**  
(No. 1 share of global market)

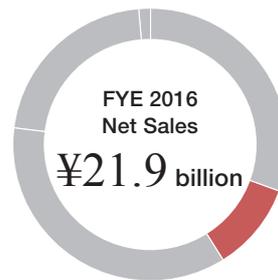
Company A (U.K.)  
15%

Other  
59%

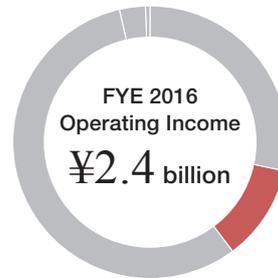
### Power Transmission Units and Components Operations



We provide optimal power transmission products by utilizing a diverse lineup of reducers, actuators, clutches, and other products in the motion and control field and by combining the technologies related to these products.



Share of net sales  
(FYE 2016)  
**10.6%**

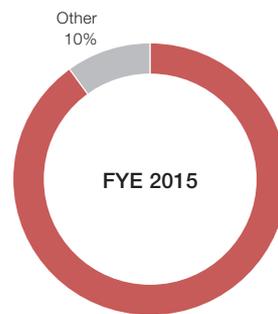


Share of operating income  
(FYE 2016)  
**11.2%**

#### Market Shares for Major Products (Source: Tsubakimoto Chain Co.)

##### Cam Clutches

Domestic Market Share



Tsubaki's share  
**90%**  
(No. 1 share of niche market)

Other  
10%

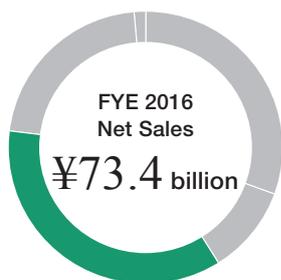
the boundaries of traditional manufacturing and a global leader with No. 1 market shares.

To cement its foundations as a manufacturer, the Group has been increasing its competence in product development and production technology. At the same time, we have been enhancing our ability to provide customers with solutions and respond to their needs globally. Through these efforts, we have established No. 1 shares in markets for many products, including industrial-use steel chains and timing chain drive systems.

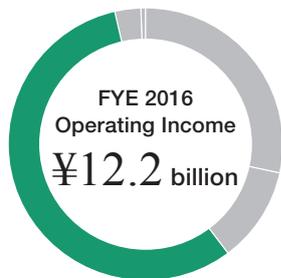
### Automotive Parts Operations



These operations provide automobile manufacturers around the world with timing chain drive systems that heighten the performance of automobile engines and help make them lighter and more environment-friendly.



Share of net sales  
(FYE 2016)  
**36.0%**

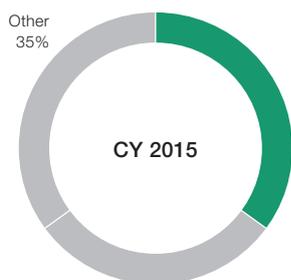


Share of operating income  
(FYE 2016)  
**56.7%**

Market Shares for Major Products (Source: Tsubakimoto Chain Co.)

#### Timing Chain Drive Systems

Global Market Share

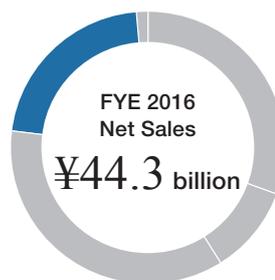


Company B (U.S.)  
30%

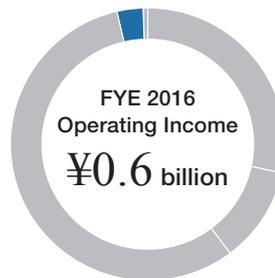
### Materials Handling Systems Operations



Our Materials Handling Systems Operations provide sophisticated solutions that improve customer productivity by controlling the flow of objects and information through sorting, conveyance, and storage systems.



Share of net sales  
(FYE 2016)  
**21.6%**

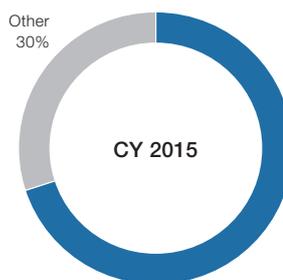


Share of operating income  
(FYE 2016)  
**3.1%**

Market Shares for Major Products (Source: Tsubakimoto Chain Co.)

#### Paper Feeding Systems

Domestic Market Share



Our strengths are an extensive lineup of products with superior durability, environment-friendliness, and quality in the fields of power transmission units (drive systems) and materials handling systems (conveyance, sorting, and storage) and our ability to supply products that match customer needs.

### Chain Operations

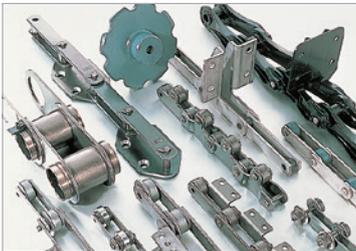
▶ See pages 46-47 for details



Drive chains



Small-size conveyor chains



Large-size conveyor chains



Plastic top chains



Support and guidance systems for cables and hoses (Cableveyor®)



Chain meshing type actuators (Zip Chain Actuator®)

### Power Transmission Units and Components Operations

▶ See pages 46-47 for details



Reducers / Variable speed drives



Linear actuators (Electric cylinders / jacks)



Clutches



Locking devices (Power-Lock®)



Shaft couplings



Overload protectors

### Automotive Parts Operations

See pages 48-49 for details



Timing chain drive systems



Timing chain drive system parts



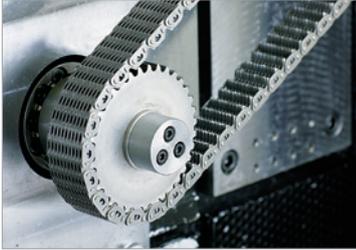
Roller chains



Silent chains



Tensioners



Power drive chains

### Materials Handling Systems Operations

See pages 50-51 for details



Conveyance system for automobile manufacturing line



Automatic sorting equipment (Linisort)



Life science field system (Tsubaki Labo Stocker®)



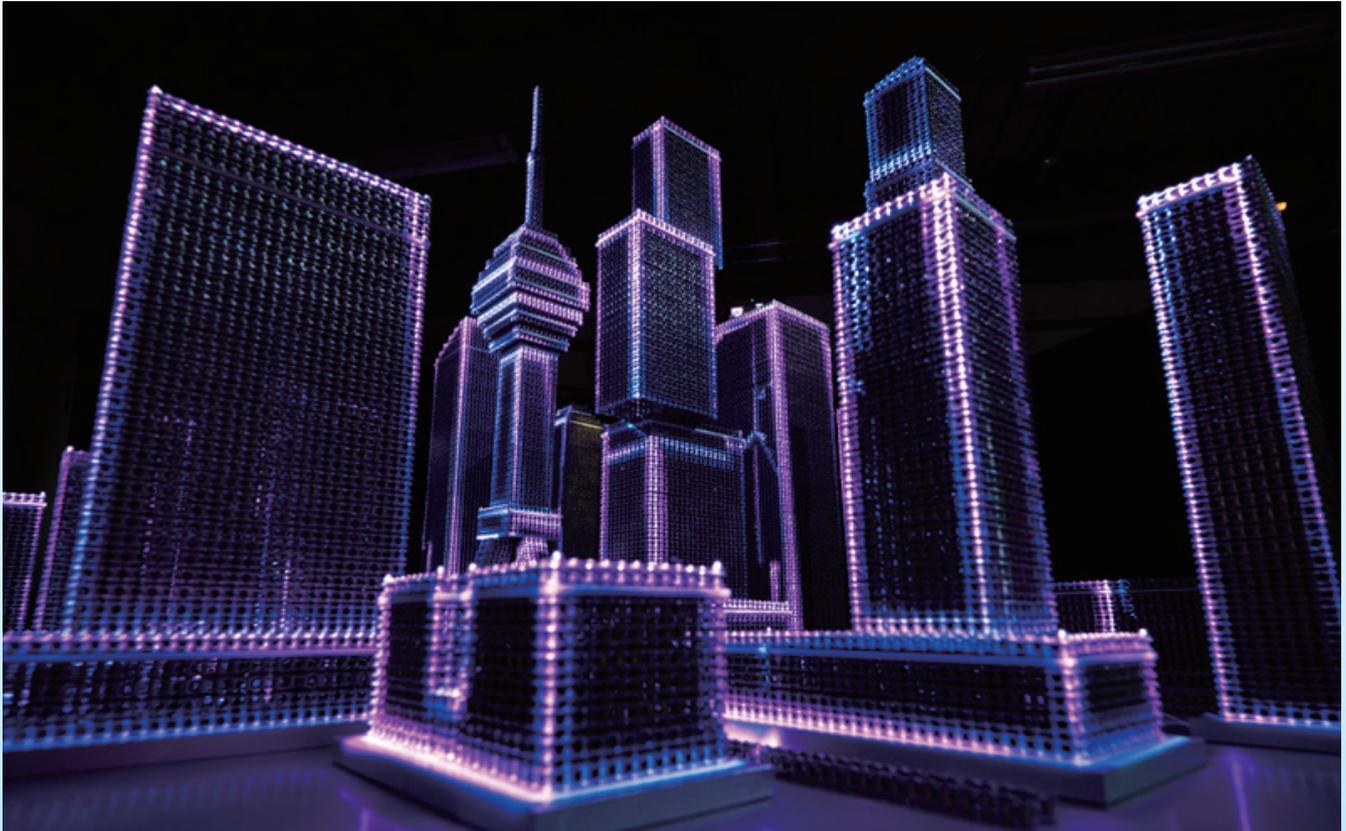
High-speed lifters (Zip Chain Lifter®)



Bulk handling systems



Metalworking chip handling / coolant processing systems (Chip conveyors)



A model of an imaginary city made of chains

“CHAINS FORM THE WORLD” is a slogan used in the copy of the Tsubaki Group’s corporate advertising.

While the above slogan may be a slight exaggeration, the Tsubaki Group’s products have been used in all sorts of places and support the global economy. For example, Tsubaki chains, power transmission units and components, automotive parts, and materials handling systems are used in the manufacturing field for production lines and production robots as well as in such everyday machines as automobiles and escalators to enable smoother, safer transportation of people and goods.

We have created an array of impressive products that enrich day-to-day life.

Since its establishment in 1917, the Tsubaki Group has evolved in the field of motion and control. “CHAINS FORM THE WORLD” expresses our pride.

\* In 2016, the front cover of this report and an advertising poster featuring a model of an imaginary city made of chains (shown above) won the highest commendation of the 37th Japan BtoB Advertising Awards: The Minister of Economy, Trade and Industry Award.

## Automotive Fields

In automobile engines, timing chain drive systems are responsible for transmitting the rotation energy from crankshafts to camshafts and maintaining the precise timing of air injection and release. The Tsubaki Group boasts a 35% share of the global market for timing chain drive systems. We also provide a variety of other products to the automobile industry, including conveyance systems for automobile production lines, small- and large-size conveyor chains, Cableveyors®, reducers, linear actuators, and cam clutches.



## LCD and IT Fields

For the LCD and IT industries, we offer Cableveyors® and timing belts as well as conveyance systems for LCD panels. For clean rooms, we provide the Cleanveyor® cable system, which produces no dust, and lubricant-free Lambda chains. Other products include power cylinders and Power-Lock®.

## Industrial Fields

Machine tools and robots support the global economy as the so-called "mother of all machines." Tsubaki's Cableveyors® are used to protect the critical signal relays and electric wiring that make the delicate motions of these machines possible. Furthermore, for the automatic tool changer (ATC) systems used in machining centers and other locations, we provide ATC chains. We also offer reducers and other power transmission products and conveyance systems for metalworking chips and coolant to customers worldwide.



## Energy and Resource Fields

The Tsubaki Group provides large-size conveyor chains with the world's highest level of pitch (1.2 m) that provide an average tensile strength of 1,600 tons, endowing these chains with the durability necessary to transport extremely heavy materials such as iron ore. Also for the steelmaking industry, we offer conveyance systems capable of moving coiled steel sheets. Other products for energy and resource fields include specialty roller chains for drive systems and Cableveyors® supplied for use in oil drilling facilities.

## Food Fields

Our plastic chains are put to good use in the food industry, where the lubricant or rust that accompany conventional chain usage can be disastrous to products. In addition, these plastic chains boast superior heat resistance, capable of being operated continually at temperatures of 250°C. We supply plastic chains and other chains for food and beverage product manufacturing lines in various sizes as well as other products including small-size conveyor chain reducers and couplings.

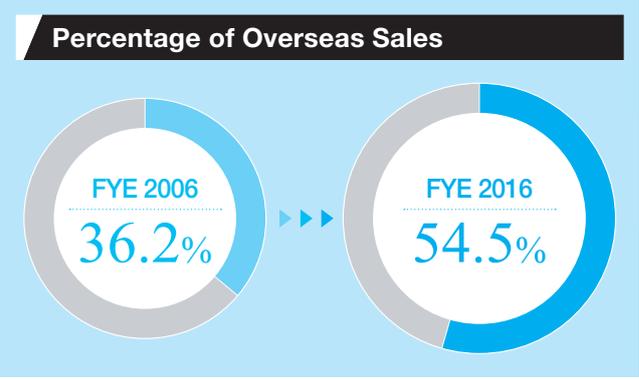


Another strength of the Tsubaki Group can be found in its global network, which consists of 41 manufacturing subsidiaries and 33 sales companies in 24 countries across the globe. This network enables us to maintain an accurate understanding of customer needs while promptly developing and providing products based on these needs.

In the fiscal year ended March 31, 2016, 54.5% of total net sales came from overseas while 42.7% of production was conducted outside of Japan.

\* Number of Group companies by region are as of March 31, 2016.





Taiwan Tsubakimoto Co.



Tsubakimoto Automotive Korea Co., Ltd.



U.S. Tsubaki Holdings, Inc.



Mayfran International, Inc.



Tsubaki of Canada Limited



Kyotanabe Plant



Saitama Plant



Tsubaki E&M Co.



Hyogo Plant

Since its founding, the Tsubaki Group has continued to reinforce its competitiveness by bolstering its technological and production foundations, developing its human resources and techniques and passing these techniques on to the next generation, and strengthening its management foundation and enhancing corporate social responsibility (CSR) management. While pursuing improvements in these areas, the Company has also worked to expand its business scope and the range of regions of operation.

## 1917~

1917

- Established in Nishinari-gun, Osaka (currently Kita-ku, Osaka), began manufacturing bicycle chains

1928

- Ceased bicycle chain production to concentrate management resources on manufacturing high-value-added industrial-use chains



1937

- Delivered first large-scale conveyor plant

1940

- Completed Tsubakimoto Chain plant in Asahi-ku, Osaka (currently Tsurumi-ku, Osaka)

1951

- Exported roller chains to the United States for the first time, began global expansion in Europe, Asia, and other regions

1958

- Began mass production of automobile timing chains, commenced Automotive Parts Operations

## 1960~

1960

- Developed chain motors, commenced Power Transmission Units and Components Operations

1962

- Completed Saitama Plant (currently principal factory for Materials Handling Systems Operations and Automotive Parts Operations)



Photograph is of current Saitama Plant

1966

- Began sales of power cylinders and Gear Motor S Series

1968

- Da Tseng Chain Co. (now Taiwan Tsubakimoto Co.) established in Taiwan

1971

- Completed Kyoto Plant (currently, principal factory for Power Transmission Units and Components Operations)

- Tsubakimoto USA, Inc. (now U.S. Tsubaki Holdings, Inc.), established in the United States

1982

- Completed Hyogo Plant

1986

- Acquired Union Chain Co., Ltd., and ACME Chain Co., Ltd., of the United States, began local production of chains in North America

1998

- Opened the Tsubaki Techno School to cultivate young engineers and pass on techniques

1999

- Formulated Tsubaki Mission Statement to define code of conduct for the Tsubaki Group

## 2000~

2000

- Formulated the Tsubaki Group's Fundamental Environmental Policy

2001

- Completed Kyotanabe Plant  
Transferred all chain production operations to the Kyotanabe Plant, realizing a substantial improvement in productivity



2004

- All Tsubaki Group operating sites in Japan certified ISO 14001
- Introduced the executive officer system to expedite operational execution
- Appointed first outside directors with the aim of ensuring management transparency and utilizing the insight of external experts in management

2006

- Converted Yamakyu Chain Co., Ltd., a major domestic manufacturer of plastic chains at the time, into a consolidated subsidiary

- ▶ Bolster technological and production foundations
- ▶ Expand business scope and range of regions of operation
- ▶ Develop human resources and techniques and pass techniques on to next generation
- ▶ Strengthen management foundation and enhance CSR management

## 2010~2016

### 2009

- ▶ Established the Auto Engineering Lab within the Saitama Plant as a site for researching next-generation automotive parts' technologies and products



### 2010

- ▶ Introduced overseas trainee system to cultivate employees capable of competing on the global stage



- ▶ Acquired and converted into a consolidated subsidiary Kabelschlepp GmbH, a German manufacturer of support and guidance systems for cables and hoses (Cableveyor®)



### 2012

- ▶ Established industrial-use chain manufacturing company in Tianjin, China



- ▶ Consolidated U.S. company Mayfran Holdings, Inc., a major global manufacturer of slag conveyors and chip conveyors, and acquired all of its businesses



- ▶ Established manufacturing company PT. Tsubaki Indonesia Manufacturing and sales company PT. Tsubaki Indonesia Trading

- ▶ Began holding the Tsubaki Technical Skills Olympics to improve employee technical skills, techniques, and motivation



### 2013

- ▶ Constructed new assembly factory building in the Saitama Plant to create substantial productivity improvements in Automotive Parts Operations



- ▶ Converted Tsubaki E&M Co. (previously Tsubaki Emerson Co.), into a wholly owned subsidiary to promote globalization and reinforce the collective strengths of the Group

### 2014

- ▶ Launched Long-Term Vision 2020, which calls for securing solid shares in target markets and striving to become a global leader, and accompanying practical action plan Mid-Term Management Plan 2016, and undertook structural reorganization to shift to a regional marketing-oriented structure

- ▶ Entered agribusiness in earnest and jointly developed world's first automated seedling selection system for plant factories with Osaka Prefecture University

### 2015

- ▶ Established automotive parts manufacturing company in the Czech Republic, thereby creating an automotive parts production network that spans eight regions (Japan, the United States, the United Kingdom, Thailand, China, South Korea, Mexico, and the Czech Republic)

## Numerical Overview of Six Years

Fiscal years from April 1 to March 31

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
<b>For the year</b> (Millions of yen)						
Net sales	138,243	144,896	150,002	178,022	196,738	203,976
Chain Operations*1	48,262	51,692	50,250	55,828	61,721	63,998
Power Transmission Units and Components Operations*1	20,061	21,364	19,664	21,612	22,557	21,975
Automotive Parts Operations*1	43,303	43,509	49,397	60,674	66,978	73,473
Materials Handling Systems Operations*1	26,340	27,977	30,246	39,565	45,169	44,354
Others*1	2,689	2,911	2,846	2,719	2,968	3,186
Operating income	11,022	12,081	12,579	17,354	21,427	21,570
Chain Operations	2,780	3,462	3,586	3,763	5,002	6,172
Power Transmission Units and Components Operations	2,065	2,512	1,955	2,273	2,400	2,428
Automotive Parts Operations	5,382	4,846	6,494	10,119	11,916	12,258
Materials Handling Systems Operations	215	878	531	1,192	1,940	659
Others	173	170	143	63	123	84
Ordinary income	11,111	12,140	12,813	17,993	22,263	22,109
Profit attributable to owners of parent	6,093	6,814	7,428	10,213	14,153	12,766
Net cash provided by operating activities	16,293	11,626	15,350	19,761	22,189	19,090
Net cash used in investing activities	(8,281)	(10,487)	(18,401)	(17,166)	(14,306)	(13,593)
Free cash flow	8,012	1,138	(3,050)	2,594	7,882	5,496
Capital expenditures	5,807	9,518	11,833	11,372	10,466	15,677
Depreciation and amortization	7,544	7,403	7,360	8,745	9,476	10,402
R&D costs	4,144	4,231	4,319	4,061	4,048	4,300
<b>At year-end</b> (Millions of yen)						
Total assets	184,206	191,766	215,837	228,840	258,742	254,106
Shareholders' equity	83,413	89,923	102,019	118,433	140,439	142,041
Interest-bearing debt	31,240	27,405	36,507	36,538	36,907	34,817
Net interest-bearing debt	13,931	13,488	16,312	15,246	9,547	8,394
<b>Indexes</b>						
Operating income margin (%)	8.0	8.3	8.4	9.7	10.9	10.6
ROE*2 (%)	7.4	7.9	7.7	9.3	10.9	9.0
Equity ratio*3 (%)	45.3	46.9	47.3	51.8	54.3	55.9
D/E ratio (net)*4 (Times)	0.17	0.15	0.16	0.13	0.07	0.06
Profit attributable to owners of parent per share (Yen)	32.76	36.60	39.69	54.58	75.65	68.24
Net assets per share (Yen)	448.43	480.46	545.14	632.94	750.63	759.27
Dividends per share (Yen)	7.0	7.0	7.0	10.0	16.0	20.0
Payout ratio (%)	21.4	19.1	17.6	18.3	21.2	29.3
CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Per million yen of output)*5	0.701	0.670	0.665	0.670	0.642	0.629
Employees*6	5,891	6,160	6,792	7,068	7,398	7,579

Amounts less than one million yen have been truncated.

\*1. Net sales includes intersegment sales and transfers.

\*2. ROE = Profit attributable to owners of parent ÷ Average shareholders' equity

\*3. Equity ratio = Shareholders' equity ÷ Total assets

\*4. D/E ratio (net) = Net interest-bearing debt ÷ Shareholders' equity

\*5. The scope of the calculation is the Group's nine manufacturing bases in Japan.

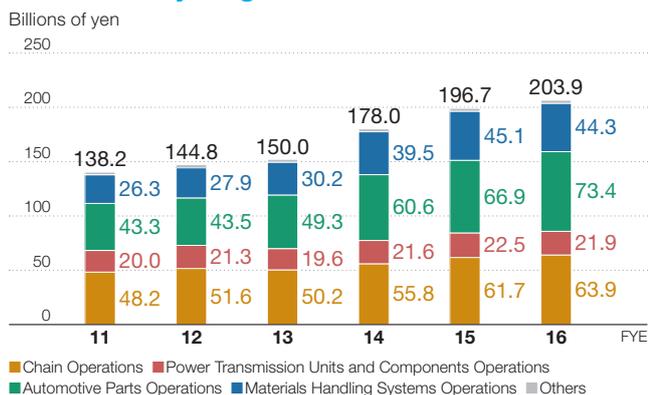
\*6. Including contracted staff, temporary staff, etc.

# Trends as Seen by Graphs

## 1 Sales Growth Capacity

Sales growth capacity increasing, centered on Automotive Parts Operations

### Net Sales by Segment



## 2 Profitability and Capital Efficiency

New record for operating income

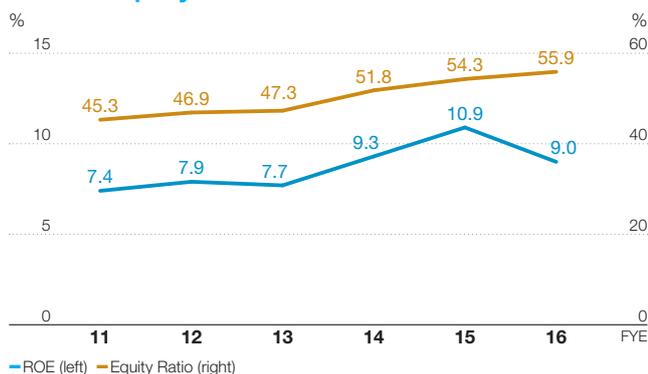
### Operating Income / Operating Income Margin



## 3 Capital Efficiency

Maintenance of high ROE and equity ratio

### ROE / Equity Ratio



## 4 Financial Soundness

Ongoing reduction in D/E ratio (net)

### D/E Ratio (Net)



## 5 Shareholder Returns

Dividends up despite increased capital investment

### Dividends per Share / Payout Ratio



## 6 Environmental Footprint

Steady improvement in emissions intensity

### CO<sub>2</sub> Emissions per Million Yen of Output



# The Tsubaki Group's Growth Mechanism

The Tsubaki Group heightens corporate value by strengthening its management foundations to sustain growth while reinvesting earnings and returning them to stakeholders.

# 1

## Basic Policies for

Our mission is to provide the best value to customers around the world by capitalizing on our technical strengths in power transmission products and materials handling systems.

To realize this mission, we invest continuously to reinforce three management foundations: technologies, or technology capital; human resources, or human capital; and production facilities, or production capital. At the same time, we actively return earnings to such stakeholders as local communities, shareholders, and investors.

Thanks to these efforts, since the turn of the millennium we have increased our growth potential and reduced the volatility of business results.

The Tsubaki Group has established a virtuous cycle. We reinvest capital in a modulated manner and allocate it to stakeholders, thereby increasing our ability to sustain growth. This growth produces further benefits, which we reinvest and allocate to stakeholders.



# Sustainable Growth

## Tsubaki Mission Statement

### Our Mission

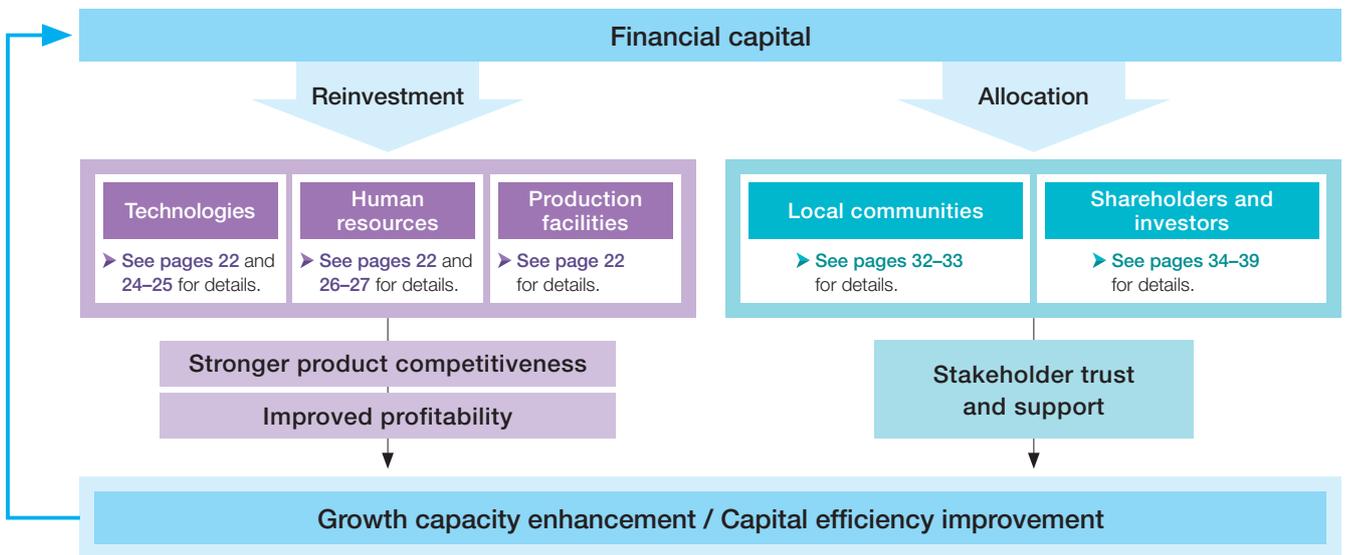
—Excellence in Manufacturing for Customers around the World—

We will provide the best value to customers around the world by capitalizing on our technical strengths in power transmission products and materials handling systems.

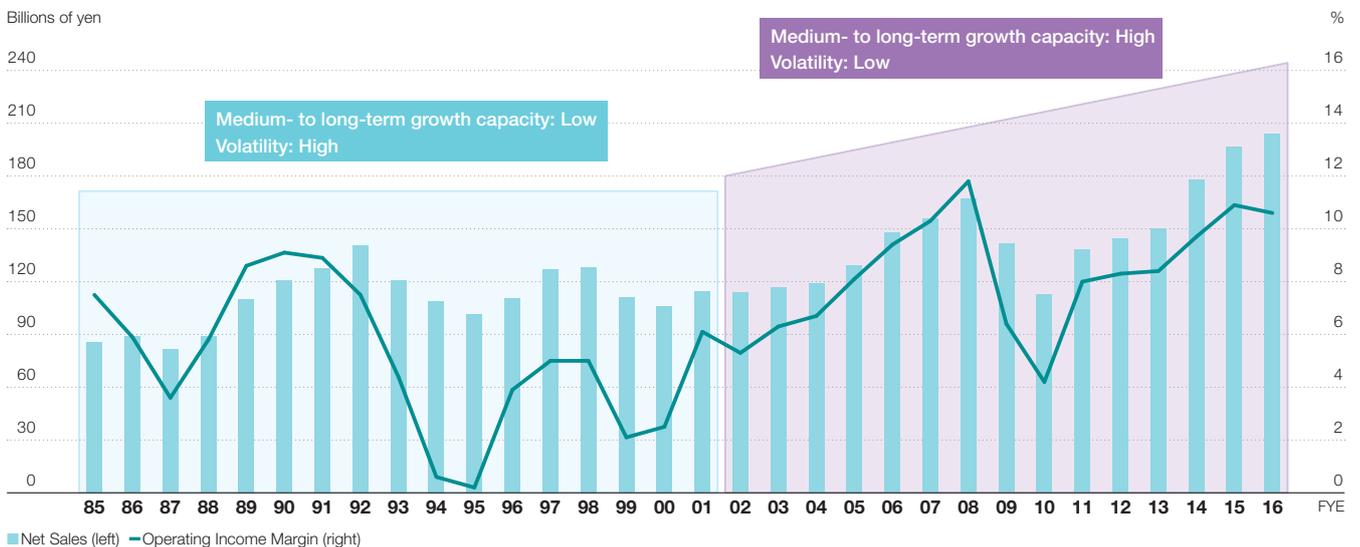
### Our Vision

We aim to be a leading company in the global markets for our products.

## Reinvestment of Capital to Create Virtuous Cycle



## Operating Results of the Group with Increased Growth Potential from the 2000s and on



## Allocation of Capital and Benefits Over the Past Decade

The Tsubaki Group has concentrated financial capital allocation on the strengthening of technologies, human resources, and production facilities, and has thereby been successful in improving growth potential, profitability, and capital efficiency while simultaneously reinforcing its financial base.

### INPUT

Usage of Capital  
for Growth

### Strengthening of Technologies, Human Resources, and Production Facilities

#### Technology Capital

R&D Costs **1.3** times

FYE 2006

FYE 2016

¥3.42 billion → ¥4.30 billion

#### Production Capital

Capital Expenditures **2.1** times

FYE 2006

FYE 2016

¥7.48 billion → ¥15.67 billion

#### Human Capital

Number of Employees **1.6** times

FYE 2006

FYE 2016

4,675 → 7,579

#### Distribution of Employees by Region

(As of March 31, 2016)

Japan .....	50%
The Americas .....	17%
Europe .....	13%
Indian Ocean Rim .....	6%
China .....	11%
South Korea and Taiwan .....	3%

### Limiting Increases in Total Assets and Reducing Interest-Bearing Debt

#### Financial Capital

Total Assets **1.3** times

FYE 2006

FYE 2016

¥198.4 billion → ¥254.1 billion

#### Financial Capital

Net Interest-Bearing Debt  
Down **70%**

FYE 2006

FYE 2016

¥27.98 billion → ¥8.39 billion

# OUTPUT

Resulting Growth

Rate of Performance Growth that Exceeds Rate of Increase in Total Assets

## Performance

Net Sales **1.4** times

FYE 2006

FYE 2016

¥147.7 billion → ¥**203.9** billion

## Performance

Operating Income **1.6** times

FYE 2006

FYE 2016

¥13.83 billion → ¥**21.57** billion

Improved Profitability and Capital Efficiency and More Robust Financial Capital

## Profitability

Operating Income Margin Improved  
**1.2** percentage points

FYE 2006

FYE 2016

9.4% → **10.6%**

## Financial Capital Efficiency

ROE Improved  
**0.1** percentage point

FYE 2006

FYE 2016

8.9% → **9.0%**

## Financial Soundness

D/E Ratio (Net)\*<sup>1</sup> Improved  
**0.30** point

FYE 2006

FYE 2016

0.36 times → **0.06** times

## Energy Efficiency (improvement in emissions intensity)

CO<sub>2</sub> Emissions per Million Yen of Output  
Improved **9.8** percentage points  
in ten years\*<sup>2</sup>

FYE 2006

FYE 2016

0.697 t-CO<sub>2</sub> → **0.629** t-CO<sub>2</sub>

\*1 D/E ratio (net) = Net interest-bearing debt ÷ Shareholders' equity

\*2 The scope of the calculation is the Group's nine manufacturing bases in Japan.

# Tsubaki's Technologies (Technology Capital) and



By continually enhancing its technologies (technology capital), the Tsubaki Group has maintained a strong product lineup capable of winning out against fierce global competition.

## Ongoing Strengthening of Technological Foundations from a Medium- to Long-Term Perspective

Technologies (technology capital) are one of the most important management foundations for manufacturers and a major factor underpinning competitiveness. To further enhance competitiveness and sustain growth, the Tsubaki Group has continued to strengthen its technologies without being influenced by short-term economic fluctuations.

For example, in the fiscal years ended March 31, 2009 and 2010, revenues and earnings dropped due to the global recession triggered by the collapse of Lehman Brothers. Nonetheless, we took a medium- to long-term perspective and continued investing in R&D.

## Proactive and Ongoing Investment in R&D Uninfluenced by Operating Environment Changes



## Accelerated Product Development and Manufacturing Reforms

Under direct control of the president, the Development & Technology Center leads efforts to strengthen Groupwide technological capabilities. The center enhances foundation technologies, which comprise surface treatment, processing, lubricant, evaluation, electrical, and control technologies. In addition, the center coordinates with the technology departments of business divisions to develop new products matching market needs and to reinforce production technologies with a view to improving productivity.

In recent years, major successes in the field of product development include Tsubaki Zip Chain® and Tsubaki Labo Stocker®. Furthermore, since the fiscal year ended March 31, 2016, we have been accelerating the marketing of products that we have created by adding value to existing products. For example, Chain Operations have launched a surface treated roller chain (NEP) and a lubricant-free Tsubaki Lambda® Chain, while Power Transmission Units and Components Operations have brought to market a new power cylinder, the Worm Series LPWB.

In the field of manufacturing reform, in recent years the Development & Technology Center has made several major contributions. For example, it has helped such achievements as a substantial improvement in productivity in Automotive Parts Operations as well as a large reduction in product defect recurrences and complaints from outside the Group in Power Transmission Units and Components Operations.



# Measures for Bolstering this Capital

## Global Advancement of Aggressive Intellectual Property Strategies

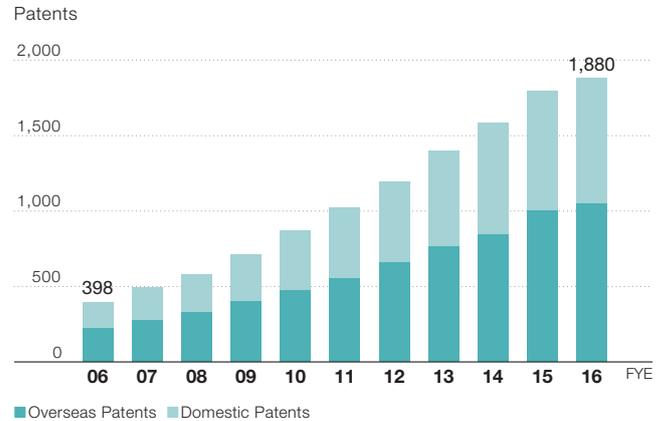
The Tsubaki Group is globally advancing aggressive intellectual property strategies by accelerating patent application and acquisition of industrial property rights in Japan and overseas through an approach aimed at strengthening product competitiveness. As a result of this strategy, the number of patents held by the Group around the world has been increasing rapidly in recent years. As of March 31, 2016, we held a total of 830 patents in Japan and 1,050 overseas. As the Group has been promoting the swift expansion of its business in emerging countries, there is an urgent need to step up patent application efforts and implement measures to prevent violation of intellectual property rights in these countries. For this reason, we applied for 38 patents in emerging countries during the fiscal year ended March 31, 2016, and increased our coordination with overseas patent offices.

Also, to establish operational conditions conducive to the strategic utilization of intellectual properties in our global businesses, we prepared three sets of guidelines and began following them in operations. The new guidelines summarize how to file global patents and prevent imitation and set out basic requirements for creating, protecting, and utilizing intellectual properties.

Furthermore, the intellectual property department within the Development & Technology Center is in charge of all aspects of managing patent applications and violation prevention of industrial property rights, which it does in an integrated manner.

Meanwhile, acting in accordance with internal regulations on managing confidential business information, Tsubakimoto Chain's legal affairs divisions prevent leakage by spearheading Groupwide management of confidential business information and information on technologies.

## Upward Trend in Number of Patents Held by the Group



## THE VOICE

### First In-House Development of Lubricant in Our 100-Year History G8 Series RS Roller Chain: 20% Increase in Wear Resistance

Every 10 years, we create a new-model RS Roller Chain, which is a core product. Aiming to surpass the performance of previous G7 products, we interviewed customers about their needs. Our findings led us to focus on developing a less-sticky lubricant. Because we were committed to achieving this in-house, we had to start lubricant development from scratch. Unlike machinery development, lubricant development requires chemistry. Many events are invisible to the naked eye, making the approach to development completely different. We collected raw materials and additives and proceeded through a lengthy process of trial and error. Although it is unusual for a machinery manufacturer to develop lubricant, the conviction that we were the only ones capable of developing this particular lubricant motivated us.

Development was a lot of work. For example, lubricants that we created would quickly change color, and we would have to begin again from scratch. Finally, however, we created a lubricant that curbed stickiness and realized a 20% increase in wear resistance compared with existing products. Less stickiness will make chains easier to handle, while increased wear resistance will help reduce customers' maintenance costs.

The G8 Series RS Roller Chain combines an enhanced appearance with higher quality. We want to use the know-how acquired through this development effort in the development of new products.



Yuji Fukuike (left)  
Yuya Tobitsuka (right)  
Development & Technology Center

## Cultivation and Strengthening of Tsubaki's Human Resources



The Tsubaki Group recognizes that the cultivation and strengthening of human resources is paramount to the enhancement of sustainable growth capacity as is the invigoration of the organization. For this reason, we remain earnestly committed to developing a comfortable workplace environment and improving employee motivation.

### Safety Measures and Health Management at Manufacturing Sites

As a manufacturer, we view safety as our highest priority and take measures to prevent work-related accidents. In February 2009, the Group established the Tsubaki Group Safety Committee, which focuses on risk assessment and occupational health and safety education and advances activities aimed at enhancing occupational health and safety throughout the Group.

Also, in August 2012, the president began visiting the sites of previous accidents in Japan to confirm safety measures.

In the fiscal year ended March 31, 2016, the Group established a flow chart for Groupwide responses in the event of accidents and strengthened preventive measures for various types of contingencies. In addition, we are focusing on danger prediction activities. For example, we encourage all employees to keep in mind and make a habit of safety confirmation. This entails enforcing the use of a defined set of hand gestures and calls at domestic manufacturing sites to ensure that employees always act with composure.

Also, helping employees improve their physical and mental health is important. In the fiscal year ended March 31, 2016, we began stress checks and expanded and improved mental

health care activities in response to an amendment to the Industrial Safety and Health Act. Our initiatives to promote good physical health include the holding of walking events.



Enforcing the use of a defined set of hand gestures and calls



Conducting rigorous safety education at a chain plant in China

### Improvement of Employee Motivation Transitioning to a New Personnel System

The Group's operations are expanding due to globalization, and labor laws are becoming stricter. Mindful of these changes, in the fiscal year ended March 31, 2016, we began reforming our personnel system with our sights set on securing our work force through diversified employment formats as well as improving job satisfaction. Moreover, these reforms will incorporate our traditional emphasis on capabilities and results. In the fiscal year ending March 31, 2017, we will begin transitioning to the new personnel system in stages.

The four main aims of personnel system reforms are to diversify employment formats, enhance the understandability of employee evaluations and compensation, develop personnel in a planned manner, and empower female employees. Increasing employees' fulfillment and motivation with respect to their jobs will strengthen employee capabilities, boost the

capabilities of the Group as an organization, and contribute to its expansion. Furthermore, as part of efforts to develop personnel in a planned manner, we will step up education for general managers and managers.



**Ongoing Strengthening of Manufacturing Capabilities and Passing On Technical Skills and Expertise to Young Engineers**

Tsubaki's manufacturing capabilities are exemplified by its proficiency at developing and customizing products as well as its production and foundation technologies. We aim to strengthen these capabilities while also steadily passing on Tsubaki's superb technical skills and expertise to the next generation of young engineers. Initiatives to this end will be explained in the sections that follow.

**1. Tsubaki Techno School**

The Tsubaki Techno School is an education program launched in 1998 to cultivate young engineers and bestow upon them Tsubaki's superb technical skills and expertise. This program has a robust curriculum that includes courses for specific job types and ranks. Courses range from those for beginners, which teach foundation and processing technologies, to intermediate courses, where engineers learn material, control, and information engineering. The program also offers technical courses developed to improve monitoring capabilities and employees' ability to transmit technical expertise. Since the start of the program, approximately 8,400 employees have completed courses. In their



respective jobs, employees make good use of the skills they have acquired.

Tsubaki Techno School

**2. Tsubaki Technical Skills Olympics**

The Tsubaki Technical Skills Olympics is a unique technical competition consisting of a total of eight events that test employees' technical skills in areas that underpin the Group's manufacturing operations. Events include engine lathe operation, welding, and injection molding. Elite employees from domestic Group companies are selected to compete in this event, with awards presented to those with the best performance. The Tsubaki Technical Skills Olympics are designed to facilitate the improvement of employees' technical skills and to help these skills be passed on, as well as encourage techniques to be shared between different business divisions. In



this manner, the event is helping to invigorate the organization.

Engine lathe operation competition at the Tsubaki Technical Skills Olympics

**Strengthening and Cultivation of Human Resources Compatible with Globalization**

In the fiscal year ended March 31, 2016, 54.5% of the Group's total net sales came from overseas, a substantial increase from 36.2% in the fiscal year ended March 31, 2006, demonstrating the rapid globalization of our operations. In addition, the number of Group employees positioned overseas has increased greatly; on March 31, 2016, 50.0% of the Group's 7,579 employees (consolidated basis) were at overseas subsidiaries.

This situation has made the cultivation and strengthening of human resources compatible with globalization a task of extreme

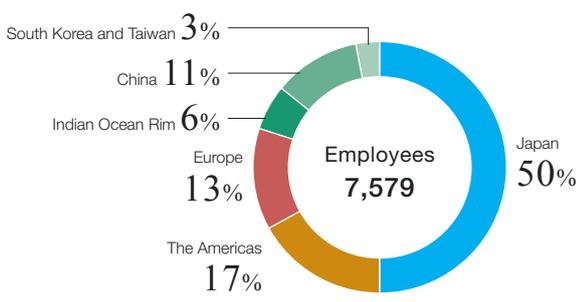
importance for the Group. For this reason, we introduced the global trainee system in the fiscal year ended March 31, 2011.

This system allows young employees to be dispatched to overseas subsidiaries for training, and is designed to teach them foreign languages and international business manners as well as help them to better understand other cultures.

In addition to dispatching domestic employees overseas, we have also begun inviting employees from overseas subsidiaries to undergo training in Japan.

**Distribution of Employees by Region**

(As of March 31, 2016)



Personnel at our automotive parts plant in Mexico share information thoroughly at meetings held every morning

# Tsubaki's Financial Capital and Measures for Bolstering It



To become a truly global corporate group, the Tsubaki Group will enhance returns to shareholders and strengthen its financial base while continuing to expand operations.

Reflecting favorable business results, net cash provided by operating activities averaged approximately ¥20.3 billion between the fiscal year ended March 31, 2014, and the fiscal year ended March 31, 2016. Given that net cash provided by operating activities averaged approximately ¥14.4 billion between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2013, the steady strengthening of the Tsubaki Group's cash generation capabilities is clear.

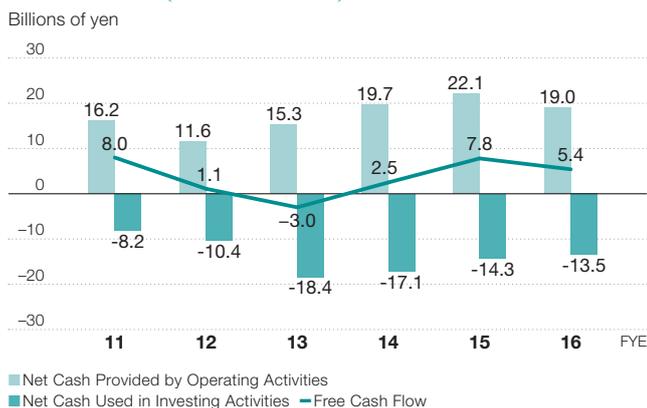
Meanwhile, due to stepped-up investment, net cash used in investing activities has been trending upward. Nonetheless, because we have followed a selection and concentration strategy and invested in fields that contribute directly to growth in revenues and earnings, we have generated a cumulative cash surplus, or free cash flow, of ¥22.1 billion over the past six fiscal years.

The Tsubaki Group is using this cash surplus to increase returns to shareholders and strengthen its financial base even further.

## Proactive Shareholder Returns

We have increased dividends for three consecutive fiscal years, paying dividends per share of ¥7.0 in the fiscal year ended March 31, 2013, and ¥20.0 in the fiscal year ended March 31, 2016. As a result, the consolidated dividend payout ratio has risen steeply, from 17.6% in the fiscal year ended March 31, 2013, to 29.3% in the fiscal year ended March 31, 2016.

## Cash Flows (Consolidated)



During the period of Mid-Term Management Plan 2016, we are targeting a consolidated dividend payout ratio of 30.0%. In the fiscal year ending March 31, 2017, we plan to pay dividends per share of ¥22.0, giving a consolidated dividend payout ratio of 30.7%.

## Strengthening Financial Base Further

The Group's financial base has become even stronger. We have more than halved net interest-bearing debt, reducing it from ¥18.5 billion on March 31, 2010, to ¥8.3 billion on March 31, 2016. Consequently, the D/E ratio (net) has improved significantly from 0.21 times on March 31, 2010, to 0.06 times on March 31, 2016.

The Tsubaki Group will continue proactive investment in operational foundations that are indispensable for sustained growth in order to grow revenues, enhance profitability, and maintain a robust financial base and thereby enhance corporate value. Moreover, we intend to actively return the benefits of this enhanced corporate value to shareholders.

## Dividends per Share / Payout Ratio (Consolidated)



## 1 Contributions to Society through Manufacturing Operations



For the Tsubaki Group, corporate social responsibility (CSR) means taking on the challenge of simultaneously creating social and financial value to create shared value.

### Masahiko Yamamoto

Senior Executive Officer  
Manager, Social Responsibility Development Office

We believe that manufacturers should meet their corporate social responsibilities through manufacturing. By developing high-value-added products and innovating technology to provide customers worldwide with optimal solutions, the Tsubaki Group will continue to contribute to the advancement of international society, energy saving, and environmental preservation while sustaining growth.

#### The Tsubaki Group's Basic Stance toward CSR Activities

The Tsubaki Group defines CSR activities as initiatives to facilitate ongoing management that emphasizes both social contributions and corporate profits. Moreover, we believe that corporate profits can be generated by faithfully advancing CSR activities related to the promotion of good corporate ethics and strict legal compliance, contributions to society through manufacturing operations, risk management, and social contribution and environmental activities.

For example, we are working to make contributions to society through manufacturing operations by developing eco-products and by reforming manufacturing processes to reduce the amount of energy consumed by production lines. These efforts are helping cut costs for both the Group and its stakeholders while preventing damage to the environment and at the same time aiding in the generation of corporate profits. As well, we offer the Tsubaki Labo Stocker® line of systems for storing frozen microbe and pathogen samples through our Materials Handling Systems Operations. Able to maintain ultra-low temperatures in its storage area and move stored samples at high speeds, Tsubaki Labo Stocker® helps prevent the risk of deteriorations in sample quality, and has developed a strong reputation among customers as a result. This system is furthering medical progress in the life science field, which has created such innovations as iPS cells. In this way, we are making real contributions to society through manufacturing.

#### The Tsubaki Group's CSR Promotion System and Examples of Activities

In 2006, the Company established the Social Responsibility Development Office, which contains the Legal Affairs Department, the Administrative Affairs Department, and the Occupational Health and Safety Department. Group environmental

activity promotion representatives are also affiliated with this office. The foundation for our CSR activities is formed when each of these departments and individuals effectively fulfill their duties.

The Occupational Health and Safety Department is taking steps to prevent the recurrence of work-related accidents by spreading industrial accident countermeasures throughout the Group and strengthening follow-up activities. The department is also enhancing the management of employee's physical and mental health by conducting stress checks. As part of these activities, the department increased the number of counselors and began holding mental health seminars since April 2015. Employees are essential for generating corporate profits. We therefore recognize that preventing employees from being forced to take extended leave due to physical or mental health issues is crucial to making social contributions while also creating corporate profits.

Each division and the Social Responsibility Development Office promote the abovementioned initiatives in unison. This cross-divisional advancement ensures reliable implementation of the CSR activities.

#### Future Tasks

As the Tsubaki Group's business becomes more global, we are faced with the urgent need to advance our CSR activities in a global, Groupwide manner. In the fiscal year ending March 31, 2017, in Japan and overseas we will review our management of important contracts and address such issues as inconsistency or obsolescence in the relationships between important contracts and current systems and organizations. At the same time, we will further strengthen governance.

As for overseas bases, we will focus on Asia and advance measures to advance legal affairs, health and safety, and environmental activities.

Furthermore, we will continue strengthening support for Group companies with a view to promoting risk management globally. Over the medium to long term, we will advance risk management and business operation initiatives that are ideally suited to the characteristics of specific countries and regions and take measures to ensure that social contribution activities are rooted in local communities.

# 6 Acceleration of CSR Activities

## 2 Environmental Preservation

Preservation of the environment is recognized as one of the most important issues shared by humanity, and the Tsubaki Group is well aware of the impact that its operations, products, and services have on the environment. With this in mind, the Group is actively undertaking efforts to reduce its environmental impact from a medium- to long-term perspective.

### ▶ Environmental Philosophy

The Tsubaki Group believes that environmental conservation is a critical challenge facing humanity. We will remain mindful of the environment in all our operations and contribute to it through our workmanship.

▶ **Long-Term Objectives:** Reduce CO<sub>2</sub> emissions by 15% by FYE 2021 (Benchmark year: FYE 2006)

## Environmental Preservation Activities

### Reducing CO<sub>2</sub> Emissions

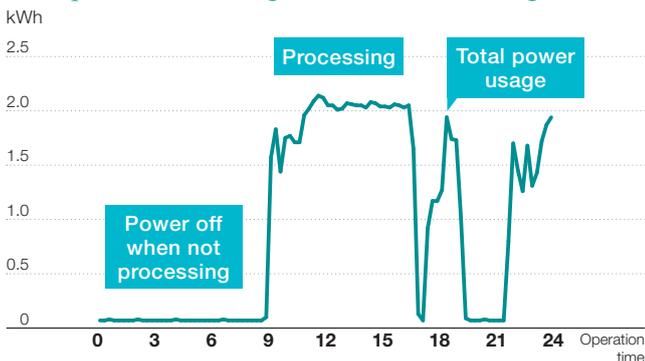
The headquarters plant of Tsubaki E&M Co. has taken a range of different measures to reduce CO<sub>2</sub> emissions in accordance with the Kyoto Protocol on greenhouse gas emission prevention measures and Japan's Act on the Rational Use of Energy. Since the fiscal year ended March 31, 2015, the plant has been taking measures to reduce the wasting of power in relation to production machinery. These measures include visualizing power usage by attaching voltmeters to production machinery, ensuring that power is always turned off after the completion of work, and shortening warm-up operations.

The plant reduced CO<sub>2</sub> emissions by approximately 20 tons in the fiscal year ended March 31, 2016. However, we expect to reduce CO<sub>2</sub> emissions even further by applying the above measures to more equipment.



A grinding machine

### Example of Power-Usage Data from a Grinding Machine



### Improving the Drying Method in the Barrel Finishing Process

Tsubakimoto Custom Chain Co. changed its component drying method in the heat treatment process from thermal drying to centrifugal separation drying and reduced the power usage of this process a significant 99.3% in the fiscal year ended March 31, 2016.

Previously, the belt conveyor system that we used to dry components wasted energy and caused bottlenecks. Regardless of whether or not components were being dried, the power was on permanently. In addition, thermal drying processes take time to complete.

In recent years, the company has been processing components in smaller lots. Consequently, the waiting time that thermal drying entails had become a bigger problem. Aiming to adapt to the smaller lots of components being processed and increase the efficiency of capacity utilization by eliminating the bottlenecks arising from drying processes, we changed from thermal drying based on a belt conveyor system to centrifugal separation drying that uses rotating drums.

As a result, it has become possible to only operate equipment when there are components to process, thereby reducing power consumption dramatically. An added benefit has been the elimination of instances when the wrong type of components are included in the process.



Before improvement



After improvement

### Comparison of the Drying Method in the Barrel Finishing Process Before and After Improvement to Save Energy

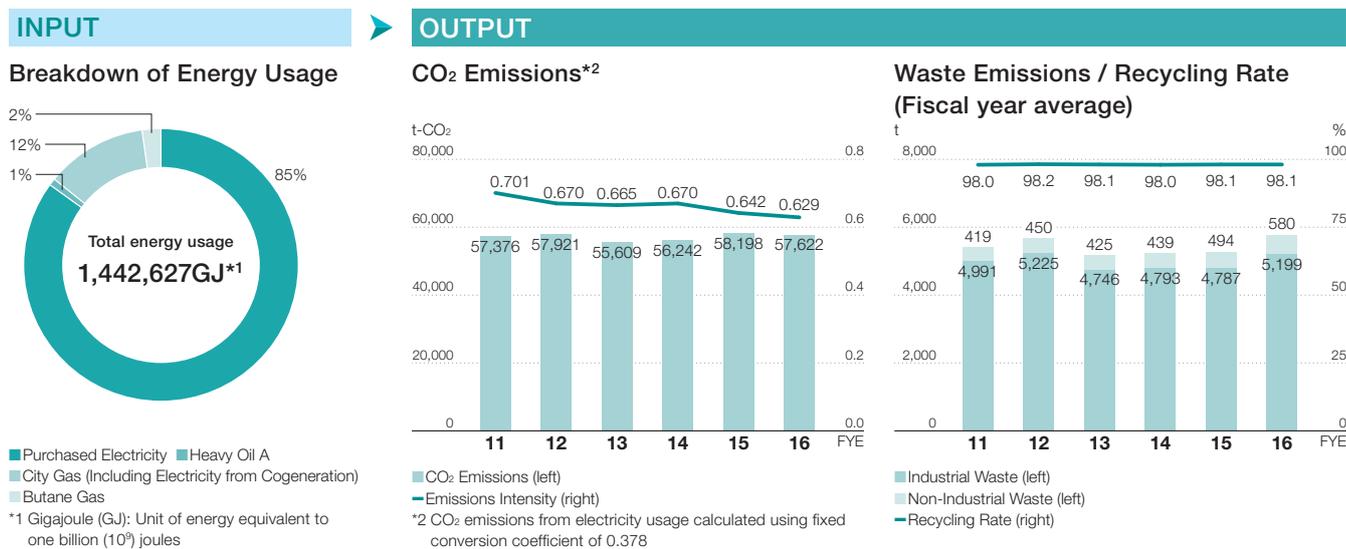
(conducted in May 2015, single processing unit)

	Before improvement	After improvement
Method	<ul style="list-style-type: none"> <li>Thermal drying</li> <li>24-hour operation</li> </ul>	<ul style="list-style-type: none"> <li>Centrifugal separation drying</li> <li>Operated as needed</li> </ul>
Power consumption	<ul style="list-style-type: none"> <li>146,800 kWh per year</li> </ul>	<ul style="list-style-type: none"> <li>1,000 kWh per year</li> <li>Benefits</li> <li>Reduction in power usage = 99.3% per year</li> <li>Reduction in CO<sub>2</sub> emissions = 55.1 t-CO<sub>2</sub> per year</li> </ul>

## Environmental Data

### Flow of Energy and Materials

INPUT		OUTPUT		
<b>Raw materials</b>		<b>Total product manufacturing</b>		
	69,405 t		¥91,670 million	
Energy	Electricity	121,450,000/kWh	<b>Valuables</b>	
	Heavy oil	470 kL	22,902 t	
	Gasoline	97 kL	<b>Industrial waste</b> 5,199t	
	Kerosene	16 kL		Recycle 5,668 t
	Diesel oil	28 kL	Other 111 t	
	City gas (excluding cogeneration)	3,428,000 m <sup>3</sup>	<b>Non-industrial waste</b> 580t	
	City gas (for cogeneration)	565,000 m <sup>3</sup>	<b>Hazardous chemical substances under the PRTR Law</b>	
	Butane gas	562 t	Release / transfer 140 t	
	Propane gas	79,000 m <sup>3</sup>	<b>Release into the atmosphere</b>	
<b>Water</b>		<b>Release into the water</b>		
	457,000 m <sup>3</sup>	CO <sub>2</sub>	57,622 t-CO <sub>2</sub>	
			457,000 m <sup>3</sup>	



### Environmental Preservation Costs (Business Activity Classification)

Thousands of yen

Classification	Details of major initiatives	FYE 2016	
		Amount invested	Costs
(1) Business area costs		127,537	438,829
Breakdown	(1) - 1 Pollution prevention costs	55,133	108,901
	(1) - 2 Global environmental preservation costs	72,025	160,834
	(1) - 3 Resource recycling costs	379	169,094
(2) Upstream / downstream costs	Outsourcing analysis costs, such as for substances with environmental impact	0	529
(3) Administration costs	Establishment and operation of environmental management systems (EMSs), worksite greening and maintenance, installation of air and water measurement equipment	1,500	284,157
(4) R&D costs	R&D of environment-friendly products (reduction of environmental burden during product use)	10,482	113,451
(5) Social activity costs	Regional environmental preservation initiatives	0	0
(6) Environmental remediation costs	Groundwater purification measures, etc.	0	0
<b>Total</b>		<b>139,518</b>	<b>836,966</b>



For environmental data from the fiscal year ended March 31, 2016, such as information on energy expenditures and the benefits of environmental preservation activities, please refer to the Company's website.

<http://tsubakimoto.com/csr/>

# 6 Acceleration of CSR Activities

## 3 Coexistence with Local Communities and Pursuit of Mutual Growth

Acting as a member of local communities, the Tsubaki Group is working to build trusting relationships with the communities in which it operates by conducting social contribution and environmental preservation activities, tailoring these activities to meet the needs of each individual community.

### Basic Policy

The Tsubaki Group's Mission Statement inspires us to act as a good corporate citizen based on an accurate understanding of the customs in the regions and countries in which we operate. In accordance with this mission, we are working to build trusting relationships with the communities through social contribution activities matched to their needs. In the future, we will incorporate creating shared value concepts into our CSR initiatives as we conduct ongoing social contribution activities.

### Initiatives in Japan

The Tsubaki Group does not limit itself simply to complying with laws and social rules. Rather, we go a step further, working to build strong partnerships with local communities. Tertiary industries account for more than 70% of Japan's working population. In recognition of this fact, we are promoting understanding of the manufacturing industry by providing factory tours as well as work experience programs for elementary and junior high school students. In addition, we are forging bonds by acting as a member of local communities, opening factory grounds for local residents during seasonal events and otherwise reaching out to the community.

### Opening a Famous Cherry Blossom Viewing Site to the Public—the Kyotanabe Plant's One Thousand Cherry Blossom Trees

Since April 2013, we have opened the grounds of the Kyotanabe Plant to the public so that the local community can enjoy viewing our cherry blossoms. At the fourth such event in 2016, for the first time we opened the plant entrance to the public and held presentations on the Tsubaki Group's history and businesses and enabled participants to touch and experience many of our chain products. These presentations proved popular. Thanks to good weather and the cooperation of the city of Kyotanabe, roughly 660 visitors came to the plant and enjoyed viewing cherry blossoms in full bloom. We will continue opening our famous cherry blossom viewing site to the public and inviting local stores to set out stalls at the event.



Cherry blossom viewing event

### Showing Local Residents the Activities of the Saitama Plant

Since 2015, the Saitama Plant has been participating in the "Environment Festa" that the city of Hanno and Hanno Citizens' Environmental Council hold jointly in June as part of the Strengthening Environmental Education Month. In 2016, we used panel displays and videos to show local residents the activities of the Saitama Plant and provided an overview of our business. We used exhibits to further understanding of the type of corporation that we are, the products that the Saitama Plant manufactures, and the environmental activities we conduct.

In collaboration with the local community, we intend to continue efforts to introduce our business activities to even more people.



Exhibits at the Tsubaki booth

### Conducting Summer Vacation Child and Parent Factory Tours

As a plant that is open to the local community, the Kyotanabe Plant conducts many different activities aimed at heightening local residents' interest in the Tsubaki Group. These activities include our annual summer vacation factory tours for local elementary school students and their parents, for which we receive many applications every year.

The plant held factory tours for the eighth time in the fiscal year ended March 31, 2016. During two days, 100 elementary school students and their parents took part in the factory tours. Experienced with all five senses, the factory tour includes chain assembly competitions and opportunities to try manufacturing work, and participants even have lunch at the factory canteen.



A summer vacation child and parent factory tour

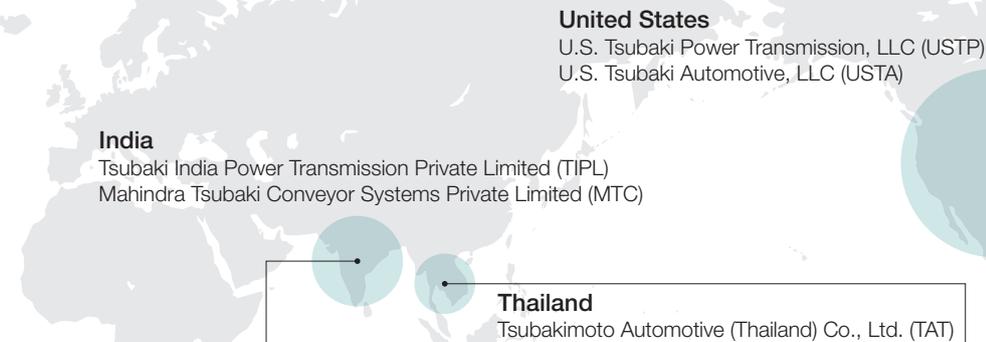
## Overseas Initiatives

The Group has defined its mission of contributing to the development of local societies, and is therefore conducting various charity activities through overseas Group companies in addition to initiatives in Japan.

### Supporting Charity Activities and Economic Activities in the United States

At USTP, employees conduct a variety of environmental preservation activities and charity activities. In partnership with the municipal authority's public works department, the company has improved recycling processes, supported the introduction of new recycling methods, and sponsored an initiative to heighten awareness of the need to stand up to violence.

Furthermore, at USTA employees participate in the activities of several charities that help homeless and other disadvantaged people. As well, employees make donations to organizations that support patients with cancer or heart disease. We intend to continue contributing proactively to the development of the local community.



### Advancing Social Contribution Activities in India

In December 2015, Chennai, in India, experienced rain of a severity that might be expected to occur once a century. Large-scale flooding damaged the city, forcing its residents to live in evacuation centers. In the area, TIPL is working with a local nongovernmental organization (NGO), and the company's employees are distributing hot meals and essential items for daily life.

Also, viewing working with local communities as a priority, MTC participates in environmental preservation, advances preventive measures for health, and supports disadvantaged people in the region around the plant. In addition, as part of efforts to promote improvement of health and hygiene in the local community, we gave children who come to school from distant regions where clean drinking water is unavailable access to safe, clean drinking water by installing purifiers at six local schools in January 2016.



School personnel and local residents receiving a purifier

### Implementing Global Warming Prevention Activities in Thailand

Every year, volunteers from among the employees of TAT plant trees in forests to lower CO<sub>2</sub>, a cause of global warming. In conjunction with these activities, we add a mineral-based "salt soil" to strengthen or help the recovery of the ecosystems and the natural habitat and build weirs to slow the movement of flood water from hills to plains.

To aid in the prevention of global warming, the Tsubaki Group will continue to focus efforts on increasing greenery and helping the recovery of forest ecosystems.



For more information on CSR activities, please refer to the Company's website.

<http://tsubakimoto.com/csr/>

#### 4 Strengthening of Investor Relations Activities

By pursuing steady earnings growth, the Tsubaki Group aims to maximize shareholder value and maintain stable dividend payments. At the same time, we place great value on reciprocal communication with shareholders and investors, and therefore strive to provide robust information disclosures with an emphasis on both quality and frequency.

##### Basic Policy

The Tsubaki Group aims to fulfill its mission of creating value for customers and contributing to society. To accomplish this aim and achieve sustained growth, it is essential that we deepen mutual understanding between members of the Company, such as our senior management team and employees, and stakeholders, such as shareholders and investors, in order to create strong bonds of trust. From this perspective, we work to practice sincere and transparent management that is flexible enough to incorporate outside opinions. In addition, we endeavor to improve the quality and frequency of information disclosures and other communications.

##### Disclosure Policy

One of the values defined in the Tsubaki Group's Mission Statement is "We will gain the trust and meet the expectations of society through compliance with laws and corporate ethics and through active information disclosure." Acting in accordance with this value, we have defined our basic disclosure policy as providing our shareholders, investors, and other stakeholders with timely, impartial, accurate, and continuous disclosure of information. This policy can be viewed on the Company's website.

##### Investor Relations Activities

Presentations for institutional investors and securities analysts are held twice a year following interim and full-year earnings announcements, and the materials used in these presentations are posted to the Company's website. In addition, financial statements, press releases, and other materials that contain information crucial to making investment decisions are disclosed on the Company's website in a timely and fair manner. Furthermore, we actively disclose information in English and Chinese in addition to Japanese.

In addition, the Company's website includes a "Tsubaki at a Glance" section for private investors. We are enhancing the content of this section, which provides easy-to-understand explanations of the Tsubaki Group's vision, business, and strengths.

##### General Meeting of Shareholders

At the General Meeting of Shareholders, information is not merely transmitted from the Company in a one-sided manner. Rather, we regard these meetings as an opportunity for reciprocal communication. Accordingly, we mail convocation notices for these meetings as early as possible to give attendees ample time to consider the matters to be discussed. We also choose the site for the meeting in consideration of attendee convenience. In addition, we hold shareholders' discussions after the conclusion of meetings so that opinions may be exchanged between Company officers and shareholders. Moreover, we set up a display that introduces the Group's products at the meeting site and take other steps to foster an enhanced understanding of the Company's manufacturing endeavors.



Shareholders' discussion

# Corporate Governance System

The Tsubaki Group recognizes that corporate governance must form the foundation based on which it strives to accomplish its mission. For this reason, we position strengthening corporate governance among our top management priorities.

## Board of Directors, Audit & Supervisory Board Members, and Executive Officers (As of June 29, 2016)



**1 Isamu Osa**  
Chairman and CEO  
Representative Director

**2 Yasushi Ohara**  
President and COO  
Representative Director  
Europe Sales Management

**3 Tetsufumi Matsuura**  
Director & Senior Managing Executive Officer  
Global Power Transmission Operations /  
President, Tsubakimoto Custom Chain Co.

**4 Tadasu Suzuki**  
Director & Senior Managing Executive Officer  
Global Automotive Parts Operations /  
Automotive Parts Division /  
Engineering Management

**5 Hideaki Haruna**  
Director & Senior Managing Executive Officer  
Global Materials Handling Operations / Materials Handling Division

**6 Tetsuya Yamamoto**  
Director & Managing Executive Officer  
Headquarters Operations / President, Tsubaki E&M Co. /  
President, U.S. Tsubaki Holdings, Inc.

**7 Hiromasa Kawaguchi**  
Director & Senior Executive Officer  
East Asia Sales, Global Power Transmission Operations

**8 Hidetoshi Yajima**  
Outside Director

**9 Shuji Abe**  
Outside Director



Audit & Supervisory Board Members  
(Standing)

Kikuo Tomita  
Hitoshi Kobayashi

Audit & Supervisory Board Members  
(Outside)

Takafumi Watanabe  
Shozo Seki

Senior Executive Officers

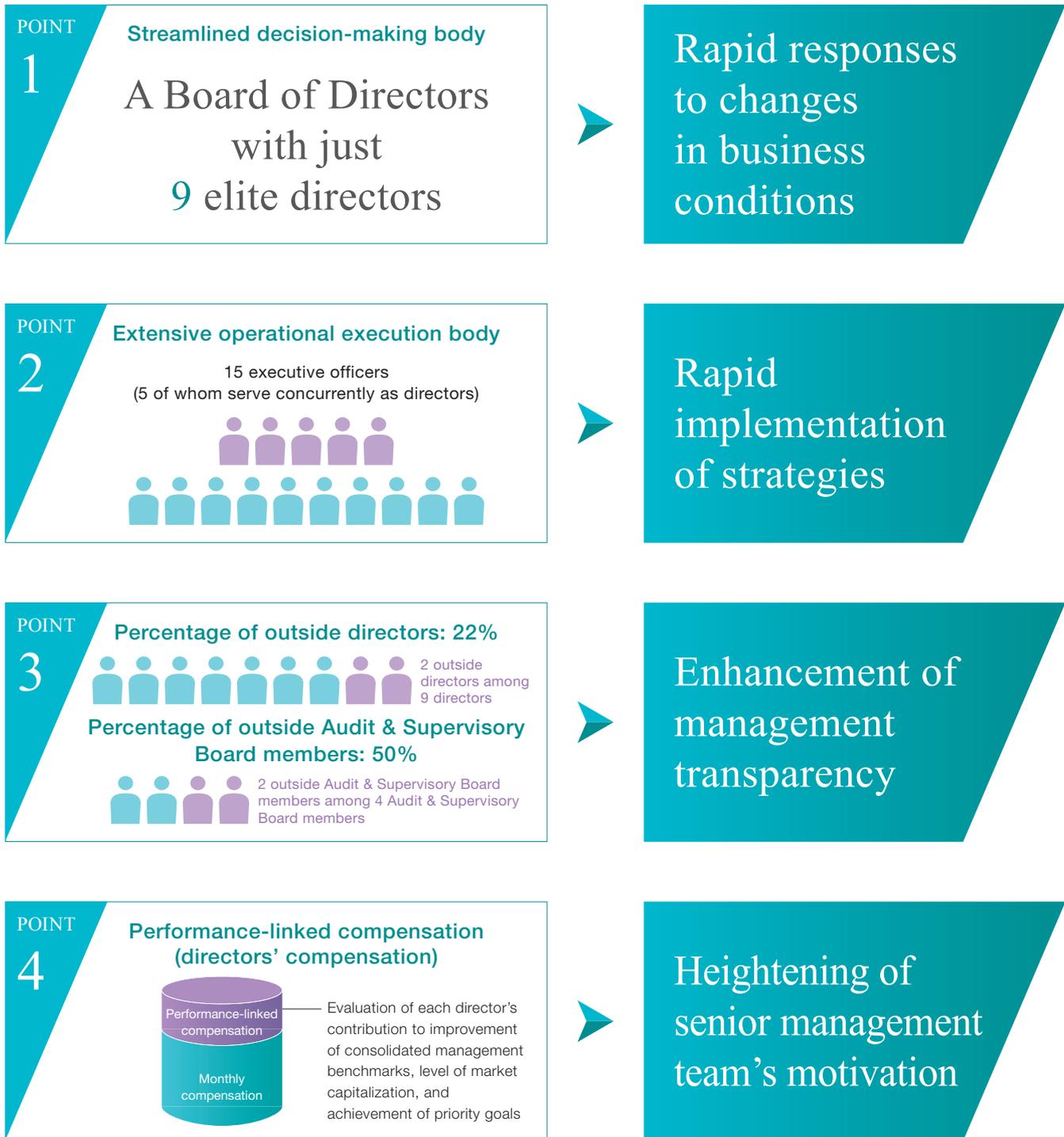
Kenji Kose  
Masahiko Yamamoto

Executive Officers

Nobuaki Haga  
Yukihiko Fujii  
Masatoshi Okada  
Atsushi Kumakura  
Takatoshi Kimura  
Kevin Richard Powers  
Toshihiro Ageta  
Masaki Miyaji

The Tsubaki Group's Governance System—Status and Tasks

The Tsubaki Group's Governance System: Main Points



## Decision Making and Strategy Advancement

At the Tsubaki Group, managerial decisions are conducted by the Board of Directors. In addition, we employ an executive officer system to ensure that measures approved by the Board of Directors are quickly and effectively put into action. Furthermore, in the fiscal year ended March 31, 2016, we undertook a management reform that separated the functions of the CEO and the COO.

While the number of members of the Board of Directors can be changed based on business conditions, the Company maintains the policy of operating with a small number of elite directors, and the Board of Directors had nine members in the fiscal year ended March 31, 2015. The compactness of the Board of Directors is intended to enable rapid responses to dramatic changes in business conditions.

The Strategy Committee has been positioned as the second highest authority in the Company after the Board of Directors. This committee deliberates on and makes decisions regarding important Groupwide business strategies and management policies.

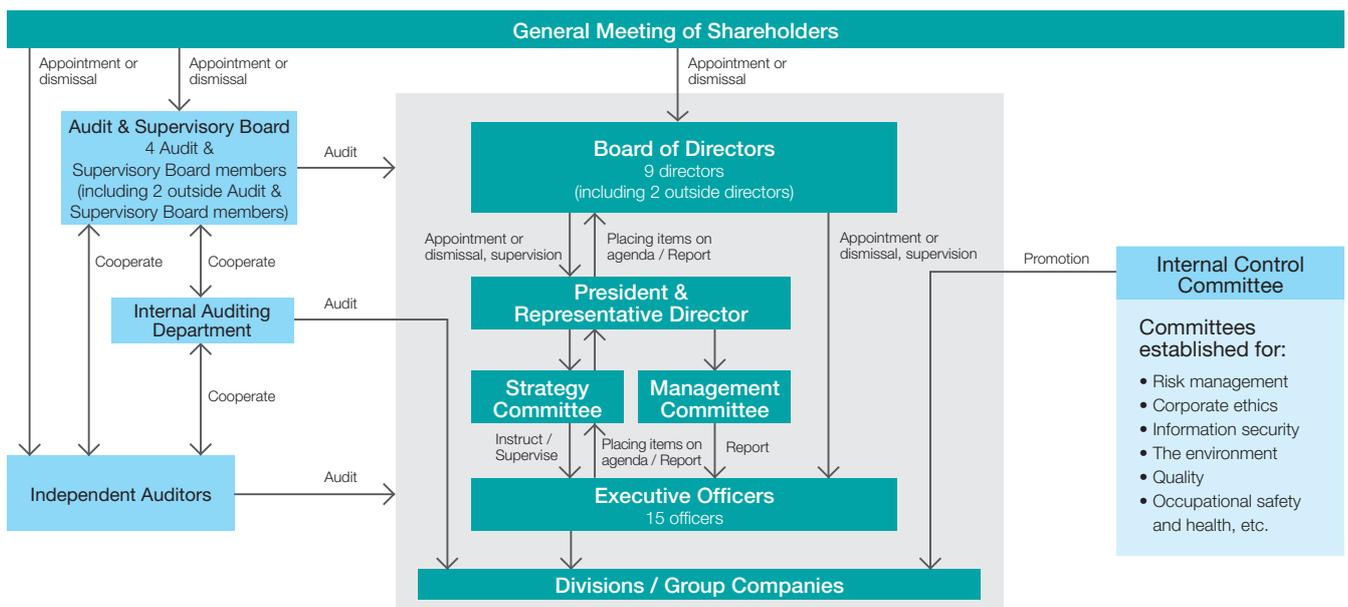
The Company has appointed 15 executive officers, five of which serve concurrently as directors and all of whom possess extensive insight into their respective business field. The extensiveness of the operational execution body compared with the decision-making body is intended to enable executive officers to utilize their expertise in respective fields to quickly and appropriately execute the strategies formulated by the Board of Directors.

## Overview of Corporate Governance System

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	9 (of which 2 are outside directors)
Number of Audit & Supervisory Board members	4 (of which 2 are outside Audit & Supervisory Board members)
Independent officers	2 outside directors and 2 outside Audit & Supervisory Board members
Meetings of the Board of Directors in the fiscal year ended March 31, 2016	16
Meetings of the Audit & Supervisory Board in the fiscal year ended March 31, 2016	23
Total compensation paid to directors in the fiscal year ended March 31, 2016 (excluding outside directors)	¥329 million paid to 9 directors
Total compensation paid to Audit & Supervisory Board members in the fiscal year ended March 31, 2016 (excluding outside Audit & Supervisory Board members)	¥71 million paid to 5 Audit & Supervisory Board members* (decided by the Audit & Supervisory Board)
Total compensation paid to outside directors and outside Audit & Supervisory Board members in the fiscal year ended March 31, 2016	¥35 million paid to 4 individuals

\* The abovementioned compensation includes compensation paid to an Audit & Supervisory Board member who retired following completion of his term of service at the conclusion of the 106th General Meeting of Shareholders held on June 26, 2015.

## Corporate Governance System (As of June 30, 2016)



### Systems to Ensure Management Transparency and Flexibility

Systems to ensure management transparency and flexibility include appointing two of nine directors as outside directors. The Tsubaki Group added one of these outside directors in 2013. The Group's outside directors meet the requirements for outside directors pursuant to the Companies Act of Japan as well as the independence criteria for outside directors (independent officers) that a financial instruments exchange stipulates.

Furthermore, two of the Group's four Audit & Supervisory Board members are outside Audit & Supervisory Board members (independent officers). Both outside Audit & Supervisory Board members possess a high degree of specialized expertise based on their experience, one as an attorney and the other as a certified public accountant.

#### Reasons for appointing outside directors (independent officers) and their attendance at meetings of the Board of Directors

Name	Reason for appointment	Attendance at meetings of the Board of Directors in the fiscal year ended March 31, 2016
Hidetoshi Yajima	The Group appointed Mr. Yajima to receive objective advice concerning its focus on technologies, development, and manufacturing as three core areas based on his wealth of insight and experience as the manager of a manufacturing company.	Attended 14 of 16 meetings
Shuji Abe	The Group appointed Mr. Abe to receive objective advice concerning its focus on technologies, development, and manufacturing as three core areas based on his wealth of insight and experience as the manager of a manufacturing company.	Attended all 16 meetings

#### Reasons for appointing outside Audit & Supervisory Board members (independent officers) and their attendance at meetings of the Board of Directors and the Audit & Supervisory Board

Name	Reason for appointment	Attendance at meetings of the Board of Directors and the Audit & Supervisory Board in the fiscal year ended March 31, 2016	
Takafumi Watanabe	The Group appointed Mr. Watanabe so that its audit system could benefit from his independent perspective as well as his expertise and knowledge as an attorney and certified public accountant.	Board of Directors Attended all 16 meetings	Audit & Supervisory Board Attended all 23 meetings
Shozo Seki	The Group appointed Mr. Seki so that its audit system could benefit from his independent perspective as well as his expertise and knowledge as an attorney.	Not applicable because assumed position on June 26, 2016	

### System for Heightening the Motivation of Directors

The Group has strengthened linkage between the compensation of directors and corporate performance to heighten directors' motivation to improve it. Under this system, we evaluate the contribution of each director to the improvement of consolidated

management benchmarks, the level of market capitalization, and the achievement of priority goals. In addition, the Group abolished bonuses for directors on June 29, 2006, and abolished retirement benefits for directors on June 27, 2008.

### Effective Audits

Directors and executive officers make reports to Audit & Supervisory Board members whenever deemed necessary. Reports are issued on matters that can seriously impact the Company or Group companies and the status of internal audits in addition to issues that are legally required to be reported. Furthermore, employees are encouraged to quickly submit reports on the execution of their business duties to Audit &

Supervisory Board members when requested. In addition to participating in meetings of the Board of Directors, Audit & Supervisory Board members attend meetings of the Strategy Committee and Management Committee when appropriate to maintain an understanding of the status of operational execution and supervise proceedings in order to ensure sound and proper management.

## Internal Control System

For the Company and Group companies, we have formulated internal control regulations and established the Internal Control Committee in accordance with basic policies on internal control. Under the guidance of the president and representative director, the Internal Control Committee is responsible for advancing ongoing initiatives in the following areas that are inclusive of the entire organization and participated in by all employees.

- (1) Internal control initiatives stipulated by the Companies Act
- (2) Internal control initiatives described in the Financial Instruments and Exchange Act
- (3) Internal control initiatives conducted by the Group on a voluntary basis

Through these initiatives, we promote legal compliance, corporate ethics, and risk management, while also working to ensure reliable disclosure in financial statements and other releases. In addition, such activities are used to improve operational efficiency.

## Tsubaki's Corporate Work Ethics

We have formulated the Corporate Work Ethics, which are a clearly defined set of ethical guidelines and a code of conduct for all directors, executive officers, and employees. Based on these guidelines, we are working to raise the awareness of corporate ethics throughout the Group by means of training and other initiatives. The progress of these initiatives is periodically reported to the Board of Directors. The Ethics Committee has been established to develop and institute measures to prevent violations of the Corporate Work Ethics. This committee also administers penalties to violators as appropriate, and is thus helping strengthen compliance systems. Furthermore, we have established the Corporate Ethics Hotline to be used for reporting violations of the Corporate Work Ethics. This hotline can be used to receive consultation from or report issues to either an internal consultant or an outside lawyer.



Tsubaki Corporate Ethics Handbook translated into five languages

## Risk Management

In accordance with the Risk Management Basic Strategy, the Tsubaki Group has established several committees in relation to such matters as risk management, corporate ethics, information security, the environment, quality, and occupational safety and health. These committees are managed by the Internal Control Committee. They coordinate among one another to advance various ongoing measures geared toward identifying and evaluating risks as well as preventing the actualization of these risks, and are thereby raising Groupwide risk management awareness. Should a risk materialize, we will respond by strengthening risk management through the development of systems for reducing the related losses and the conducting of initial response training for the relevant staff members.



Participants in a meeting on global automotive quality assurance held in China (Automotive Parts Operations)

# The Tsubaki Group's Challenges and Strategies

In this section, we explain the challenges faced by the Tsubaki Group as well as the initiatives and growth strategies that will be instituted to overcome these challenges and achieve sustainable growth.

## Striving to Become

### Policies of Medium-Term Management Plan 2012

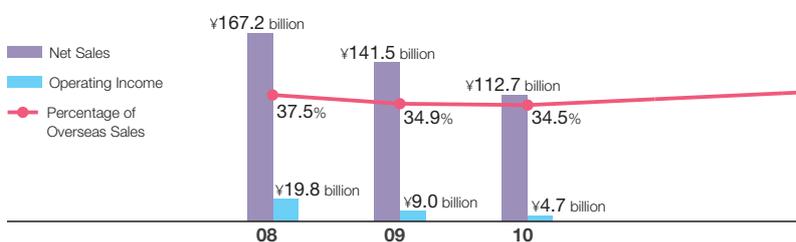
- 1 Strengthen our foundation as a manufacturer
- 2 Implement reforms to become a solutions-provider company
- 3 Always place customers first
- 4 Hone the “global best” management strategy
- 5 Develop human resources

### Key Points of Medium-Term Management Plan 2012

Due to the impacts of the Lehman Shock, sales and income dropped for two consecutive years starting with the fiscal year ended March 31, 2009. In response to this situation, under Medium-Term Management Plan 2012 (for the fiscal years ended March 31, 2011–2013) we worked to strengthen our foundations to ensure adaptability toward the rapidly changing operating environment. Specifically, we achieved a substantial improvement in productivity through production reform activities while simultaneously stepping up development of products designed to realize superior levels of energy efficiency and environmental performance. In Chain Operations and Materials Handling Systems Operations, we conducted two overseas mergers and acquisitions (M&A) transactions. At the same time, we advanced the globalization of our operations by establishing a chain manufacturing base in China and a materials handling systems manufacturing base in Indonesia.

In developing human resources, we introduced the overseas trainee system and launched new initiatives including Tsubaki Technical Skills Olympics, innovation workshops, and *Kurumaza* Meetings (roundtable meetings). These initiatives help improve employee awareness and motivation and create a shared sense of urgency throughout the organization.

### Numerical Targets and Performance



## Long-Term Vision 2020

Aim to become a leading global company with an unshakable position (share) in target markets

### Global Leader

Aim to develop products that will win the leading share of the global market

### Niche Leader

Aim to develop products that will win the leading share of specific fields and regions

## Policies of Mid-Term Management Plan 2016

- 1 Transition to a market-oriented corporate culture
- 3 Enhancement of earning power

- 2 Expansion of businesses that leverage the collective strengths of the Group
- 4 Development and utilization of human resources

## Key Points of Long-Term Vision 2020 and Mid-Term Management Plan 2016

Long-Term Vision 2020 illustrates our grand design for the Tsubaki Group in 2020, shortly after we celebrate the 100th anniversary of our founding in 2017. The vision calls on us to establish an unshakable position (share) in target markets and thereby become a global leader with net sales of ¥300.0 billion, 70% of which is to come from overseas, and an operating income margin of 10%. As a practical action plan to pursue the realization of this grand design, we commenced Mid-Term Management Plan 2016 (for the fiscal years ending March 31, 2015–2017) in the fiscal year ending March 31, 2015. Mid-Term Management Plan 2016 has four basic policies, the first of which is to “transition to a market-oriented corporate culture.”

To advance this transition, we have divided the global market into five regions: America, Europe, China, the Indian Ocean Rim, and East Asia, which includes Japan. By quickly developing and manufacturing products that match the market needs of each region, we will realize the further globalization of our

operations. The second basic policy is to pursue the “expansion of businesses that leverage the collective strengths of the Group.” In this pursuit, we will create horizontal organizational links between vertically integrated business lines to maximize synergies. As the third policy, we will target the “enhancement of earning power.” In accomplishing this, the Company will promote globally optimal production and accelerate innovation with regard to production facilities and technologies. We anticipate that these efforts will help us improve production efficiency while reducing environment impacts. The fourth and final basic policy is to advance the “development and utilization of human resources.” In this area, we are educating young employees and fostering employees capable of competing on the global stage while also empowering female employees. At the same time, we are endeavoring to develop a workplace environment in which all employees will feel motivated in their work and exercise their full potential.



## An Interview with the COO

We are progressing steadily with the implementation of strategies aimed at realizing Long-Term Vision 2020. By leveraging our collective strengths, we will heighten corporate value even further.

**Yasushi Ohara**  
President and COO,  
Representative Director



### Question

Could you give an overview of the Group's achievements in your first fiscal year as chief operations officer (COO)?

**A** We overcame worsening business conditions to achieve record operating income for the second consecutive fiscal year.

In the fiscal year ended March 31, 2016, despite a deterioration in business conditions due to the rapid slowdown of China's

economy and second-half exchange rate volatility, the Tsubaki Group grew consolidated net sales for the sixth straight fiscal year and achieved record operating income for the second consecutive fiscal year.

As we actively globalize, fixed costs, mainly arising from depreciation and amortization, are increasing. However, I believe enhanced productivity is reducing costs and strengthening our earnings base steadily.

### Highlights of Consolidated Settlement of Accounts

	FYE 2015	FYE 2016	YoY Change
Consolidated Operating Results (Millions of yen)			
Net sales	196,738	203,976	+3.7%
Operating income	21,427	21,570	+0.7%
Profit attributable to owners of parent	14,153	12,766	-9.8%
Dividends per share (Yen)	16	20	+4
Equity ratio	54.3%	55.9%	+1.6 points
D/E ratio (net)	0.07 times	0.06 times	Improved 0.01 point

**A** Overseas, we continued to acquire new customers.

The percentage of overseas sales increased 0.5 percentage point year on year, to 54.5%.

Automotive Parts Operations are seeing increasing adoption of the Group's timing chain drive systems for new engines worldwide. Chain Operations significantly increased sales of products for ports, steelmaking, palm oil manufacturing, and five other industries in the Indian Ocean Rim—a region in which we have been stepping up efforts. Also, Power Transmission Units and Components Operations accomplished a priority task by substantially surpassing sales growth targets for cam clutches in the Americas.

**A** The benefits of integrating subsidiaries began to emerge.

Among companies that have become subsidiaries through M&As, the significantly improved performance of Kabelschlepp GmbH, which became a subsidiary in 2010, was another major achievement in the fiscal year ended March 31, 2016. For a time after acquisition, the performance of the subsidiary flagged. However, I think its business results have begun reflecting integration's beneficial effect on manufacturing and sales.

**Question**

**In the fiscal year ended March 31, 2016, a Group subsidiary engaged in the manufacture of industrial chains in China recorded impairment losses and lower profit attributable to owners of parent. What is the outlook for this company?**

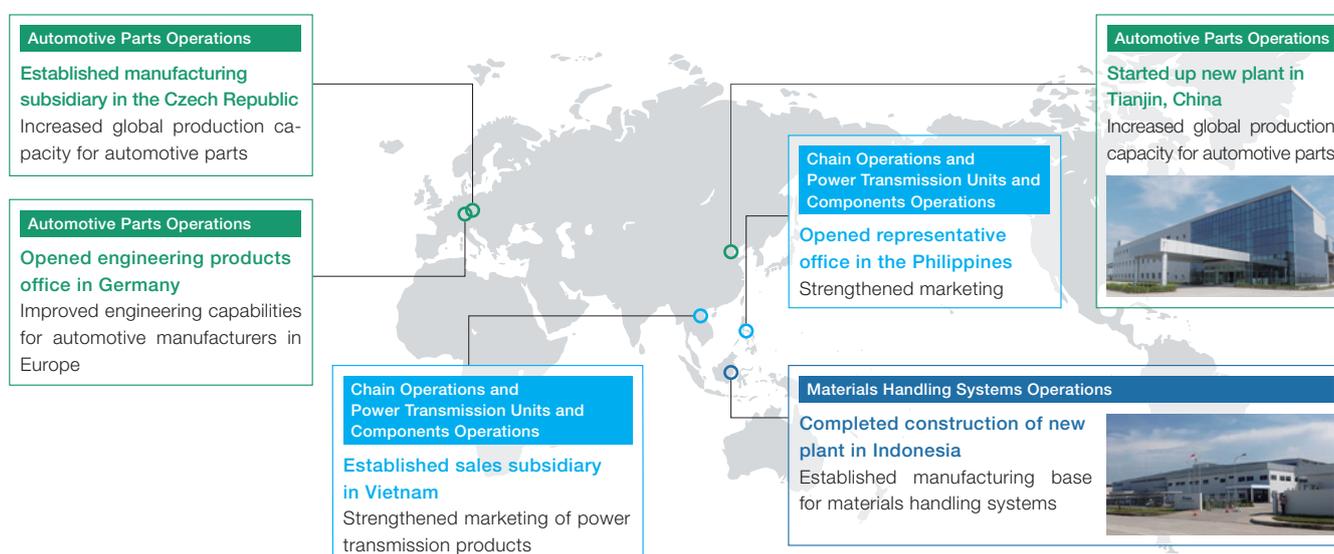
**A** We plan to enhance the subsidiary's performance through greatly improved product quality and increased exports to other parts of Asia.

For the Tsubaki Group, which is increasing the pace of product rollouts globally, China and Europe are important markets in which it should bolster measures.

In 2012, we established Tsubakimoto Chain (Tianjin) Co., Ltd. (TCT), for the manufacture and sale of conveyor chains in the Chinese market. This subsidiary recorded impairment losses because it had been in the red for three consecutive fiscal years. These deficits were attributable to the time needed to strengthen the competitiveness of pricing and enhance quality, which was partly due to establishing the plant from scratch, and the marked deceleration of China's economy.

However, as a result of efforts to improve productivity, TCT has greatly enhanced and stabilized its products' price competitiveness and quality. Focusing on the Indian Ocean Rim, in the current fiscal year we will begin exporting TCT's conveyor chains to surrounding countries. Moreover, in addition to industrial chain manufacturing, TCT is scheduled to start up a plant for the mass production of automotive parts in the fiscal year ending March 31, 2018. Through the abovementioned measures, we hope to move TCT into the black.

**Expansion and Establishment of Overseas Bases in the Fiscal Year Ended March 31, 2016**



## An Interview with the COO

### Question

Europe has strategic significance comparable with that of China. Has the Group's construction of chain manufacturing bases progressed in Europe?

**A** We secured a local manufacturing base with a view to expanding operations that cater to the growing demand for small-size conveyor chains.

The Tsubaki Group is one of the world's leading manufacturers of industrial chains. However, compared with market shares in other regions, our share of the European market is small. Therefore, opening up this market is a task we must address if we are to grow further. To increase sales of conveyor chains, which are made-to-order products, it is essential to have a local production base that can meet customer specifications, manufacture products at low cost, and realize short lead times. With the establishment of such a production base in mind, we examined a range of different possibilities, including the independent construction of a plant, M&As, and the conclusion of an original equipment manufacturer (OEM) contract with a local manufacturer.

This process took time. However, in May 2016 we concluded an alliance agreement with an Italian manufacturer of industrial chains. We plan to provide the company with technical support so that it can begin OEM manufacturing of small-size conveyor chains under the Tsubaki brand in 2017.

### Question

The fiscal year ending March 31, 2017, is the final year of Mid-Term Management Plan 2016. How do you expect the Group to progress in relation to the plan, and have there been any changes in the Group's strategies?

**A** Strategies aimed at realizing Long-Term Vision 2020 are progressing well.

Our initial numerical targets for the fiscal year ending March 31, 2017, were consolidated net sales of ¥220.0 billion and operating income of ¥22.0 billion. However, taking into consideration the recent deceleration of the global economy and appreciation of the yen, we forecast consolidated net sales of ¥206.0 billion and operating income of ¥20.8 billion in the current fiscal year.

Nonetheless, Long-Term Vision 2020's numerical targets are unchanged. For the year ending March 31, 2021, we are targeting consolidated net sales of ¥300.0 billion, an operating income margin of 10%, and a percentage of overseas sales of 70%. As an action plan aimed at reaching these numerical targets, Mid-Term Management Plan 2016 sets out four basic strategies: "transition to a market-oriented corporate culture," "expansion of businesses that leverage the collective strengths of the Group," "enhancement of earning

### Long-Term Vision 2020

Aim to become a leading global company with an unshakable position (share) in target markets

#### Targets

Net sales

¥300 billion

Operating income margin

10%

Percentage of overseas sales

70%

power,” and “development and utilization of human resources.” I believe our measures based on these strategies are making good progress.

Regarding “transition to a market-oriented corporate culture,” our four business segments will strengthen the development of new products and services that accurately cater to market needs. As part of these efforts, we intend to launch a series of new products as we approach our centennial in 2017. Measures for the “enhancement of earning power,” will focus on raising productivity significantly. To this end, Chain, Automotive Parts, and Materials Handling Systems operations will promote globally optimized production, while in Japan Power Transmission Units and Components Operations will consolidate three manufacturing bases into two and introduce the latest equipment. As for the “development and utilization of human resources,” in the current fiscal year we will begin introducing a new human resources system that diversifies recruitment and increases job satisfaction.

### **A** Our task going forward is to increase collective strengths even further.

I feel that we have not made quite as much progress as we could with respect to “expansion of businesses that leverage the collective strengths of the Group.” A feature of the Tsubaki Group is its ability to offer a comprehensive lineup of products

that stretches from a diverse range of machinery components and units through to systems. To advance the Group further, I think we must avoid building barriers between business segments; share all types of information, from analysis of customers’ needs and development information through to information on ensuring safety at manufacturing sites; and create synergies.

I believe my mission as COO is to increase our collective strengths even further, with “One Tsubaki” as an overriding theme; to continue earning the trust and meeting the expectations of society; and to accelerate corporate value enhancement.

In pursuing this mission, I would like to ask our stakeholders for their continued support.



**Yasushi Ohara**

President and COO,  
Representative Director

## Focusing on Growth Investment and Strengthening Our Financial Base Simultaneously

Aiming to realize Long-Term Vision 2020, the Tsubaki Group is focusing efforts on continued growth investment to enhance global competitiveness and on strengthening its financial base even further.

In the fiscal year ended March 31, 2016, the Group’s capital expenditures were ¥15.6 billion, up ¥5.2 billion year on year. Meanwhile, net interest-bearing debt stood at ¥8.3 billion, down from ¥9.5 billion at the previous fiscal year-end. As a result, the Group’s financial base became even stronger, with the D/E ratio (net) improving 0.01 point from the previous fiscal year-end, to 0.06 times.

### Capital Expenditures / Net Interest-Bearing Debt/D/E Ratio (net)



# Review of Operations

## Chain Operations and Power Transmission Units and Components Operations



We will expand operations globally by developing high-value-added products.

**Tetsufumi Matsuura**  
Director & Senior Managing Executive Officer

### OUR NUMBERS Chain Operations



### OUR NUMBERS Power Transmission Units and Components Operations



#### Review of Performance and Business Conditions

As the Japanese market matures, Chain Operations and Power Transmission Units and Components Operations are accelerating product rollouts and business development globally. At the same time, we are expanding operations by developing and providing high-value-added products that help customers enhance productivity, save energy, and build clean manufacturing environments. In the industrial-use steel chains field, the Tsubaki Group is a leading manufacturer, with a 26% share of the global market. Furthermore, Power Transmission Units and Components Operations have established solid positions in particular fields, such as cam clutches, power cylinders, and worm gear reducers.

Between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2016, Chain Operations grew segment net sales 30% and operating income 120%, while Power Transmission Units and Components Operations increased segment net sales 10% and operating income 20%. In the fiscal year ended March 31, 2016, both business segments counteracted a deterioration in the business results of subsidiaries in China as the

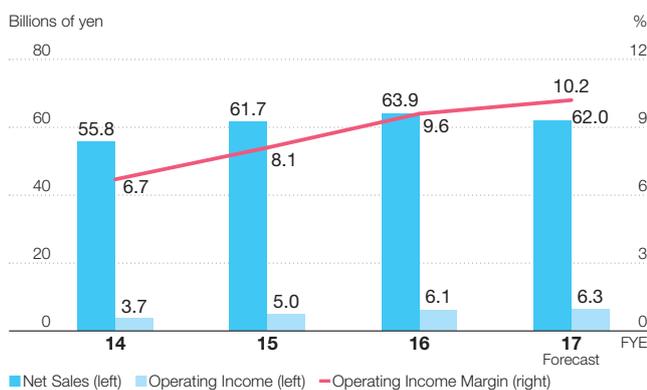
country's economy slowed by improving business results in other countries. Also, Chain Operations laterally introduced the Kyotanabe Plant's manufacturing reform initiative program, known as Manufacturing Innovation in Kyotanabe 2018 (MIK2018), to other plants and subsidiaries. The resulting improvement in productivity will increase the operating income margin.

#### Challenges and Growth Strategies Going Forward

##### Product Strategy— Introduce New Technologies and Products

As the 2017 centennial approaches, Chain Operations are stepping up the marketing of new products with even higher added value. In the fiscal year ended March 31, 2016, we launched a surface treated roller chain (NEP) that combines corrosion and chemical resistance—properties that normally conflict. In addition, we released a new-model, lubricant-free Tsubaki Lambda® Chain\* with twice the wear resistance of previous products. Both products have been well received by customers.

## Chain Operations Performance Trends and Outlook



Also, June 2016 saw the launches of the G8 Series RS Roller Chain, featuring in-house developed lubricant and a 20% increase in wear resistance versus our previous offerings, and Super (Heavy Duty) Drive Chain, which in comparison with the previous generation of products has increased the maximum allowable tension 20% and doubled wear resistance.

\* Lubricant-free Tsubaki Lambda® Chain is drive chains that do not require lubricant because they have special bushings that include lubricant. These chains are used in the food industry and other industries requiring clean manufacturing sites.

## Continue Advancing Globally Optimized Production in Chain Operations

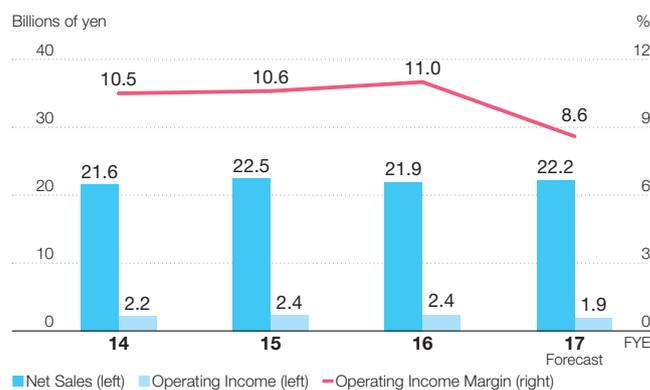
In Chain Operations, we established a subsidiary in Tianjin for the local manufacture of conveyor chains in 2012. Having enhanced and stabilized the competitiveness of product pricing and quality, the subsidiary will increase exports of large-size conveyor chains for ports and the palm oil industry. In such industries, demand for these products is rising in the Indian Ocean Rim region.

Meanwhile, in Europe we will begin manufacturing Tsubaki-brand, small-size conveyor chains in 2017, based on an alliance with an Italian chain manufacturer. The establishment of local manufacturing capabilities in Europe—which had been an issue for many years—will enable us to cater precisely to the specification requirements of each customer and industry in a timely manner and grow sales in the European market.

## Improve Production through Reorganization of Plants in Power Transmission Units and Components Operations

In Power Transmission Units and Components Operations, accelerating new product development, renewing aged equipment, and heightening productivity are key issues. To address them, we are currently conducting a project tasked with consolidating

## Power Transmission Units and Components Operations Performance Trends and Outlook



three domestic plants into two. This consolidation will raise the utilization rates of equipment and enable the introduction of the latest equipment, thereby enhancing productivity and strengthening price competitiveness even further.



Super (Heavy Duty) Drive Chain



The technology center of Tsubaki E&M Co., renewed as a result of consolidation of plants in Power Transmission Units and Components Operations

## Review of Operations

### Automotive Parts Operations



We aim to become  
the undisputed global  
share leader.

**Tadasu Suzuki**

Director & Senior Managing Executive Officer

#### OUR NUMBERS

Share of net sales (FYE 2016)

**36.0%**

Sales growth (past 5 fiscal years)

Annual average of **11.2%**

Profitability (FYE 2016 operating income margin)

**16.7%**

#### Review of Performance and Business Conditions

As well as an increase in vehicle production worldwide, the changeover from belts to chains in timing drive systems for automotive engines has been accelerating since 1990. Within these conditions, we have leveraged our ability to develop technology that contributes directly to better environmental performance to heighten our presence in the market steadily. Consequently, we have grown into one of the world's leading manufacturers of timing chain drive systems—boasting a 35% share of the global market.

A powerful driver of the Tsubaki Group's growth, Automotive Parts Operations grew significantly between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2016, increasing the segment's net sales 70% and operating income 130%.

#### Challenges and Growth Strategies Going Forward

##### Continue Strategies Focused on Manufacturers in Europe and China

We aim to lift our share of the global market for timing chain drive systems to 42% by 2020 to become the undisputed market share leader. To this end, we have identified Europe and China as priority regions for marketing initiatives.

Increasingly, Europe's automotive manufacturers are developing engines with silent chains. With our sights set on heightening

the competitiveness of our products in this field, we are redoubling efforts to develop products with significantly better wear resistance and lower friction. Moreover, we will boost our engineering capabilities for entire systems through efforts that encompass tensioners and other products.

In China, automotive manufacturers are rapidly developing new engines in response to stricter regulations of greenhouse gas emissions in the country. In 2015, we enhanced the capabilities of our engineering base in Shanghai. Through this base, we will strengthen relationships with local automotive manufacturers to win more orders.

##### Expand Operations Outside the Timing Chain Drive Systems Field

Beyond the timing chain drive systems field, the Tsubaki Group is concentrating on increasing the development and sale of power drive chains used in the transfer cases\* of four-wheel-drive vehicles.

As a latecomer to this product field, the Tsubaki Group's market share is currently less than 10%. However, orders for our products continue to grow, reflecting the favorable reputation they have earned among transfer case manufacturers.

We intend to take advantage of our global manufacturing capabilities to boost sales of power drive chains and develop them into mainstay products second only to timing chain drive systems.

\* In four-wheel-drive vehicles, transfer cases transfer power from the engine to front and rear axles via drive shafts.

### Automotive Parts Operations Performance Trends and Outlook



### Strengthen Global Manufacturing Capabilities Even Further

For Automotive Parts Operations, we have set out net sales of ¥100.0 billion as a target for the fiscal year ending March 31, 2021. Our efforts to reach this target by winning orders for new projects are making solid progress. Our next task is the steady development and strengthening of manufacturing capabilities globally.

In the fiscal year ended March 31, 2016, following on from our establishment of an automotive parts plant in Shanghai, we established a second such plant in China, in Tianjin, and began production.

In the current fiscal year, we have begun building a plant in the Czech Republic, which will become the eighth\* country in which we have an automotive parts plant, and plans call for starting up production in 2017.

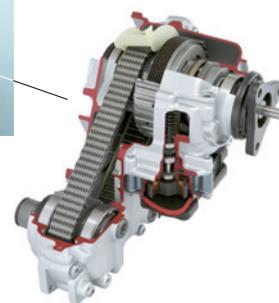
We have decided to establish a third automotive parts plant in Japan by beginning the manufacture of automotive parts at the Hyogo Plant. Our other plants for these products are at the Saitama and the Kyotanabe manufacturing bases. We will renovate the Hyogo Plant and install production equipment.

Also, we plan to expand and ramp up the production capacity of automotive parts plants in the United States and South Korea.

\* We currently have automotive parts plants in Japan, the United States, the United Kingdom, Thailand, China (Shanghai and Tianjin), South Korea, and Mexico.



Silent chain with better wear resistance and lower friction



Transfer cases and power drive chain



Our second automotive parts plant in China, the Tianjin Plant

## Review of Operations

### Materials Handling Systems Operations



We will increase cost-competitiveness and strengthen profitability.

Hideaki Haruna

Director & Senior Managing Executive Officer

#### OUR NUMBERS

Share of net sales (FYE 2016)

21.6%

Sales growth (past 5 fiscal years)

Annual average of 11.0%

Profitability (FYE 2016 operating income margin)

2.6%

#### Review of Performance and Business Conditions

As a result of M&As overseas, the segment's net sales increased a significant 70% between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2016. However, the segment's operating income margin has remained low, only increasing from 0.8% to 4.3% between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2015.

Cyclical economic factors and the presence or absence of major projects cause net sales to fluctuate considerably in each fiscal year, and competition is fierce. Facing these particular conditions, the segment's primary task is to sustain growth as far as possible while increasing profitability.

#### Challenges and Growth Strategies Going Forward

##### Rebuild the Operations of Mayfran in Europe

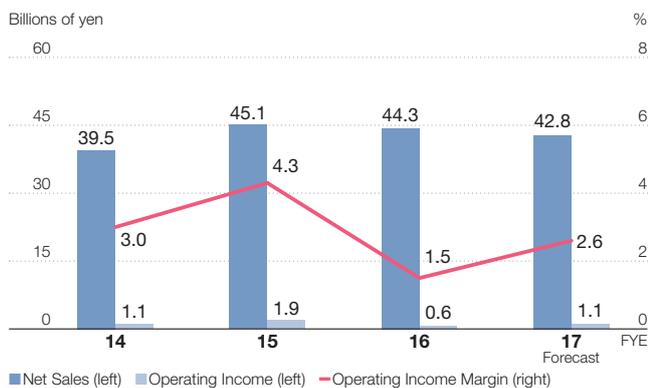
In 2012, the Tsubaki Group acquired all of the operations of Mayfran Holdings, Inc., a major global manufacturer of slag conveyors and chip conveyors. However, in the fiscal year ended March 31, 2016, the company's revenues and earnings

decreased significantly due to slumping demand for slag conveyors in Europe. Given the unlikelihood of a rapid recovery in demand for slag conveyors, on a global basis we intend to reform the production system for chip conveyors for the machine tools industry, which generates comparatively stable demand. These efforts will heighten profitability by strengthening cost-competitiveness. Specifically, we began manufacturing common components for chip conveyors at the Slovakia Plant, which has the latest production equipment, and our Indonesia Plant for materials handling systems, which started up production in April 2016. Through such efforts, we will increase cost-competitiveness and strengthen profitability.

##### Take Steps to Strengthen Profitability

We have steadily strengthened profitability by improving design productivity and introducing discrete business management methods for each industry to which we cater. While continuing these measures, we will increase the number of automated systems to shorten construction periods at installation sites. In other words, by accelerating efforts to realize turnkey systems, we will minimize disparities between estimated and actual profitability.

### Materials Handling Systems Operations Performance Trends and Outlook



Tsubaki Labo Stocker®, capable of storing approximately 50,000 samples at the ultra-low temperature of -150°C

### Strengthen Product Appeal Even Further

In tandem with efforts to bolster cost-competitiveness, the Tsubaki Group is developing unique products that are less susceptible to price competition. A representative example of such products is our fully automated refrigerated storage unit for the life science field, Tsubaki Labo Stocker®, which we developed two years ago. Ultra-low temperature storage technologies and high-speed sample transportation technologies have earned the product high praise from universities and research institutions, ensuring a steady flow of orders for the product in Japan.

Given growing needs related to the development of major new drugs and regenerative medicine, the market for systems for the ultra-low temperature storage of cells is expected to grow strongly over the medium-to-long term. The Tsubaki Group will accelerate the development of new products and establish a track record in the Japanese market while increasing the pace of business development in America and Europe, which are large markets.

Other initiatives include our current development of a new AGV roll paper feeding system for newspaper printing plants' rotary presses. We have an almost 80% share of the market for AGV roll paper feeding systems, and many old-generation systems that we have installed are nearing the end of their service lives and need replacement. In response, the Group is developing next-generation AGV roll paper feeding systems that have enhanced operability and which are compatible with old-generation systems. We want to capitalize on the superior performance of our new systems to tap replacement demand.



Boasting a long track record, our AGV roll paper feeding systems for newspaper printing plants



A new materials handling systems plant that has started production in Indonesia, PT. Tsubaki Indonesia Manufacturing

# Consolidated Financial and Non-Financial Summary

TSUBAKIMOTO CHAIN CO. and Consolidated Subsidiaries  
Fiscal years from April 1 to March 31

	FYE 2006	FYE 2007	FYE 2008
<b>For the year</b>			
Net sales	147,761	155,746	167,202
Operating income	13,830	16,008	19,805
Ordinary income	12,594	14,545	18,051
Profit attributable to owners of parent	6,606	8,541	10,371
Capital expenditures	7,488	10,893	10,225
Depreciation and amortization	5,509	5,948	7,301
R&D costs	3,422	3,595	3,681
Net cash provided by operating activities	10,680	10,107	20,873
Net cash used in investing activities	(5,595)	(5,879)	(11,481)
Net cash (used in) provided by financing activities	(5,595)	(647)	(5,582)
Cash and cash equivalents at end of the year	10,984	14,618	17,744

## At year-end

Total assets	198,458	212,739	202,316
Shareholders' equity	77,098	81,033	81,605
Interest-bearing debt	38,966	42,313	39,314
Net interest-bearing debt	27,981	27,694	21,570

## Indexes

Operating income margin (%)	9.4	10.3	11.8
ROE* <sup>1</sup> (%)	8.9	10.8	12.8
Equity ratio* <sup>2</sup> (%)	38.8	38.1	40.3
D/E ratio (net)* <sup>3</sup> (Times)	0.36	0.34	0.26
Profit attributable to owners of parent per share (Yen)	34.78	45.55	55.70
Net assets per share (Yen)	410.66	432.20	438.56
CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Per million yen of output)* <sup>4</sup>	0.697	0.662	0.672
Employees* <sup>5</sup>	4,675	5,114	5,371

Amounts less than one million yen have been truncated.

\*1. ROE = Profit attributable to owners of parent ÷ Average shareholders' equity

\*2. Equity ratio = Shareholders' equity ÷ Total assets

\*3. D/E ratio (net) = Net interest-bearing debt ÷ Shareholders' equity

\*4. The scope of the calculation is the Group's nine manufacturing bases in Japan.

\*5. Including contracted staff, temporary staff, etc.

(Millions of yen)

FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
141,517	112,759	138,243	144,896	150,002	178,022	196,738	203,976
9,095	4,737	11,022	12,081	12,579	17,354	21,427	21,570
9,328	4,990	11,111	12,140	12,813	17,993	22,263	22,109
6,188	3,175	6,093	6,814	7,428	10,213	14,153	12,766
10,041	3,988	5,807	9,518	11,833	11,372	10,466	15,677
7,344	7,390	7,544	7,403	7,360	8,745	9,476	10,402
3,847	3,543	4,144	4,231	4,319	4,061	4,048	4,300
7,263	14,508	16,293	11,626	15,350	19,761	22,189	19,090
(9,723)	(5,020)	(8,281)	(10,487)	(18,401)	(17,166)	(14,306)	(13,593)
(3,540)	(373)	(10,578)	(5,460)	6,325	(3,196)	(2,647)	(5,476)
11,269	20,379	17,308	13,916	20,194	21,291	27,360	26,422
178,455	182,641	184,206	191,766	215,837	228,840	258,742	254,106
78,422	80,847	83,413	89,923	102,019	118,433	140,439	142,041
37,600	38,910	31,240	27,405	36,507	36,538	36,907	34,817
26,330	18,531	13,931	13,488	16,312	15,246	9,547	8,394
6.4	4.2	8.0	8.3	8.4	9.7	10.9	10.6
7.7	4.0	7.4	7.9	7.7	9.3	10.9	9.0
43.9	44.3	45.3	46.9	47.3	51.8	54.3	55.9
0.31	0.21	0.17	0.15	0.16	0.13	0.07	0.06
33.26	17.07	32.76	36.60	39.69	54.58	75.65	68.24
421.53	434.59	448.43	480.46	545.14	632.94	750.63	759.27
0.659	0.740	0.701	0.670	0.665	0.670	0.642	0.629
5,339	5,271	5,891	6,160	6,792	7,068	7,398	7,579

# Report and Analysis of Financial Condition and Results of Operations for the Fiscal Year Ended March 31, 2016

## 1 Factors Influencing Performance and Initiatives for Enhancing Sustainable Growth Capacity

The Tsubaki Group conducts the manufacture and sale of machinery parts and units as well as systems made up of these. For this reason, the Group's performance is heavily influenced by changes in (1) economic trends in the regions to which products are to be supplied (industrial production, private-sector capital investment, etc.), (2) foreign exchange rates, and (3) prices of steel materials and other raw materials\*. It is impossible to completely eliminate the risk of downturns in performance due to these factors. However, the Group has been taking the following steps to reinforce its constitution in order to reduce the potential impact of these risks and enhance sustainable growth capacity.

### 1. Diversification of Operations and Dispersion of Customer Base

The Company was originally founded as a chain manufacturer, but it has since diversified its operations to include materials handling systems, automotive parts, and power transmission units and components. As a result, its customer base has become dispersed among a wide range of industries, including the machinery, energy and resource, food, LCD and IT, automotive, distribution, and life science industries.

### 2. Diversification of Supply Regions

The Tsubaki Group began proactively advancing globalization in the late 1980s. As a result, 54.5% of the Group's total net sales came from overseas in the fiscal year ended March 31, 2016, and we are now targeting a ratio of 70% in the fiscal year ending March 31, 2021. By pursuing global expansion centered on countries and regions with significant growth potential, such as China, we aim to further enhance the Group's capacity for sustainable growth.

### 3. Promotion of Globally Optimized Production

While the aforementioned diversification of supply regions has its merits, it also entails increased exposure to the influence of foreign exchange rate fluctuations. For this reason, as we proceed with the diversification of supply regions, we are simultaneously decentralizing production (42.7% of production was conducted overseas in the fiscal year ended March 31, 2016). This pursuit of globally optimized production helps mitigate the impacts of foreign exchange rate fluctuations while also reducing manufacturing costs, allowing for the utilization of a wider range of material suppliers, and contributing to improved customer satisfaction through shortened delivery times.

### 4. Expansion of Market Share

The Tsubaki Group's lineup includes numerous products that have won strong market shares with characteristics such as superior durability, energy efficiency, and environmental performance. Examples include our industrial-use steel chains and timing chain drive systems. The Group's most fundamental strategy is to expand its market shares by differentiating its products in terms of performance and quality. This strategy has the benefits of reducing economic downturn risks and fueling sustainable growth of the Group's business.

#### Macroeconomic Environment Data Affecting the Group's Performance (Year-on-year growth)

	FYE 2015	FYE 2016
<b>Machinery orders in Japan</b>	+0.8%	+4.1%
<b>Automotive unit sales by region</b>		
<b>United States</b>	+6.9%	+5.2%
<b>Japan</b>	-6.9%	-6.8%
<b>China</b>	+5.5%	+5.1%
<b>Korea</b>	-0.3%	+0.6%
<b>EU</b>	+4.7%	+9.3%
<b>Total of five regions above</b>	+1.3%	+7.2%

Source: Tsubakimoto Chain Co.

\* In addition to these three factors, the Company's performance may also be affected by earthquakes, fires, and other natural disasters; violations of intellectual property rights; product defects; or political unrest overseas. For more information, please refer to the business risks section of the Company's annual securities report (*Yukashoken Hokukoshō*, in Japanese only).  
[http://www.tsubakimoto.jp/fileadmin/ja/ir/pdf/16\\_4q.pdf](http://www.tsubakimoto.jp/fileadmin/ja/ir/pdf/16_4q.pdf)

### 1. Review of Management Performance

#### ▶ Key Points

1. The Group compensated for depreciation and amortization to post record consolidated net sales and operating income
2. As in the previous fiscal year, the Group increased dividends. The consolidated dividend payout ratio rose 8.1 percentage points year on year, to 29.3%

#### Net Sales

Consolidated net sales increased 3.7% year on year, to ¥203,976 million, setting a record for the third consecutive fiscal year.

In Chain Operations, net sales increased 3.7% year on year, to ¥63,998 million. Revenues in America were higher because yen depreciation versus the U.S. dollar more than offset lackluster sales of resource-related chains. As for Europe, the Group overcame the adverse effect of yen appreciation versus the euro by growing sales volume.

In Power Transmission Units and Components Operations, net sales decreased 2.6% year on year, to ¥21,975 million. This decline reflected the adverse effect of China's economic slowdown on consolidated subsidiaries in Tianjin and Shanghai, which counteracted steady sales of actuators and reducers in Japan.

In Automotive Parts Operations, net sales increased 9.7% year on year, to ¥73,473 million. Although sales plateaued in Japan, sales of timing chain drive systems rose steadily in the United States. Furthermore, bases in Europe, Thailand, China, and South Korea achieved double-digit growth in sales of these products on a local currency basis.

In Materials Handling Systems Operations, net sales declined 1.8% year on year, to ¥44,354 million. The segment posted lower revenues because the favorable sales growth of consolidated subsidiaries engaged in the manufacture of bulk handling systems did not compensate completely for sluggish sales of metalworking chip handling systems and coolant processing systems in Europe.

#### Operating Income

Consolidated operating income edged up 0.7% year on year, to ¥21,570 million, reaching a record for the second consecutive fiscal year.

Personnel costs, depreciation and amortization, and other fixed costs increased approximately ¥2,100 million. However, yen depreciation and improvements in costs resulting from enhanced productivity absorbed the increase in fixed costs.

Although 0.3 percentage points lower year on year, the operating income margin remained high at 10.6%.

In Chain Operations, operating income increased a significant 23.4% year on year. Enhanced productivity more than offset the lackluster performance of chain manufacturing subsidiaries in China, and the business segment's operating income margin improved 1.5 percentage points year on year, to 9.6%.

In Power Transmission Units and Components Operations, operating income was up 1.1% year on year. Although subsidiaries in China performed sluggishly, the segment's operating income margin edged up 0.4 percentage points year on year, to 11.0%, thanks to a significant contribution from the improved profitability of subsidiaries in Japan and the United States.

As for Automotive Parts Operations, operating income grew 2.9% year on year, but the operating income margin declined 1.1 percentage points year on year, to 16.7%. In recent years, the segment has been actively investing to cater to rapidly rising demand for timing chain drive systems. The resulting approximately ¥600 million year-on-year increase in depreciation and amortization was the main cause of the decline in operating income margin.

Materials Handling Systems Operations saw operating income decrease a steep 66.0% year on year. This decrease was attributable to the absence of the previous fiscal year's highly profitable projects and a substantial drop in the sales of a subsidiary in Europe.

## Report and Analysis of Financial Condition and Results of Operations for the Fiscal Year Ended March 31, 2016

### Profit Attributable to Owners of Parent

Profit attributable to owners of parent decreased 9.8%, to ¥12,766 million. This decline was primarily attributable to foreign exchange loss, net, of ¥168 million recognized and loss on impairment of property, plant and equipment of ¥1,718 million recognized in other income (expenses), which counteracted a year-on-year increase in operating income. Furthermore, loss on impairment of property, plant and equipment arose from writing down to net selling prices the book values of assets owned by a chain manufacturing subsidiary in China. (Assets that would be difficult to sell or use for other purposes were valued at zero.)

In the fiscal year ended March 31, 2013, the Group established the said subsidiary with a view to expanding operations over the medium-to-long term. Since the fiscal year ended March 31, 2014, the subsidiary has manufactured and sold conveyor chains, mainly in the Chinese market. In recent years, however, China's economy has slowed. As a result, the

subsidiary has not reached breakeven, and its business results have been lackluster. In light of this situation, we decided to recognize loss on impairment of property, plant and equipment. Rather than only using the subsidiary as a base for catering to the Chinese market, the Group also plans to use the company to export products to customers outside China. Furthermore, the company built a second plant and will begin production in August 2016, which will cater to the significant increase in demand for automotive parts. We expect the abovementioned measures to grow the net sales of the company steadily and produce a recovery in its performance.

As a result of the above, profit attributable to owners of parent per share was ¥68.24. Dividends per share were ¥20.0, up ¥4.0 year on year.

The consolidated dividend payout ratio rose 8.1 percentage points year on year, from 21.2% to 29.3%.

### Performance by Geographic Segment

(Millions of yen)

		FYE 2015	FYE 2016	YoY Change
Japan	Net sales*	119,349	121,347	+1.7
	Operating income	12,694	12,621	-0.6
	Operating income margin (%)	10.6	10.4	
The Americas	Net sales*	48,749	51,671	+6.0
	Operating income	4,162	4,496	+8.0
	Operating income margin (%)	8.5	8.7	
Europe	Net sales*	26,545	24,219	-8.8
	Operating income	890	531	-40.3
	Operating income margin (%)	3.4	2.2	
Indian Ocean Rim	Net sales*	10,718	12,626	+17.8
	Operating income	1,385	1,680	+21.3
	Operating income margin (%)	12.9	13.3	
China	Net sales*	14,062	16,494	+17.3
	Operating income	1,008	273	-72.9
	Operating income margin (%)	7.2	1.7	
South Korea and Taiwan	Net sales*	7,115	8,578	+20.6
	Operating income	258	405	+56.7
	Operating income margin (%)	3.6	4.7	

\* Net sales includes intersegment sales and transfers.

## 2. Review of Financial Condition and Cash Flows

### ▶ Key Points

1. Interest-bearing debt decreased, and D/E ratio (net) improved further, to 0.06 times
2. Free cash flow remained positive, despite the continuing high level of capital investment

#### Financial Condition

Total assets on March 31, 2016, stood at ¥254,106 million, down ¥4,635 million from the previous fiscal year-end. Cash and deposits increased ¥2,691 million, and trade notes and accounts receivable rose ¥1,388 million. However, investments in securities decreased ¥4,966 million, due to a fall in the market prices of owned shares, while short-term investments declined ¥4,486 million, mainly as a result of lower certificates of deposit.

Total liabilities on March 31, 2016, amounted to ¥108,291 million, down ¥6,159 million from the previous fiscal year-end. Deferred tax liabilities decreased ¥2,128 million, while income taxes payable decreased ¥1,989 million. Furthermore, interest-bearing debt was ¥34,817 million, down ¥2,090 million from the previous fiscal year-end.

As a result of the above, net assets totaled ¥145,815 million, up ¥1,524 million from the previous fiscal year-end. The D/E ratio (net) on March 31, 2016, was 0.06 times, an improvement from 0.07 times a year earlier, and the equity ratio was 55.9%, up from 54.3%.

#### Cash Flows

Net cash provided by operating activities was ¥19,090 million, a decrease from ¥22,189 million in the previous fiscal year. This decline mainly reflected lower profit before income taxes.

Net cash used in investing activities amounted to ¥13,593 million, compared with ¥14,306 million in the previous fiscal year. In Automotive Parts Operations, the Group invested to increase global production capacity and improve productivity. In Chain Operations, the Group invested to rationalize operations in Japan and the United States. Consequently, in the fiscal year ended March 31, 2016, capital expenditures were approximately ¥15,600 million, up ¥5,200 million from the previous fiscal year.

As a result of the above, free cash flow in the fiscal year ended March 31, 2016, was a positive ¥5,496 million, compared with positive free cash flow of ¥7,882 million in the previous fiscal year.

Net cash used in financing activities totaled ¥5,476 million, compared with ¥2,647 million in the previous fiscal year. This was primarily attributable to cash dividends paid of ¥3,554 million and repayment of long-term loans of ¥2,278 million.

#### Cash Flow-Related Indexes

	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016
Equity ratio* <sup>1</sup> (%)	46.9	47.3	51.8	54.3	55.9
Equity ratio (market-based)* <sup>2</sup> (%)	49.9	41.9	60.3	72.4	51.3
Debt repayment periods* <sup>3</sup> (Years)	2.4	2.4	1.9	1.7	1.8
Interest coverage ratio* <sup>4</sup> (Times)	21.8	30.6	41.3	60.4	58.0

\*1 Equity ratio: Shareholders' equity ÷ Total assets

\*2 Equity ratio (market-based): Market capitalization of stock ÷ Total assets

\*3 Debt repayment periods: Interest-bearing debt ÷ Net cash provided by operating activities

\*4 Interest coverage ratio: Net cash provided by operating activities ÷ Interest paid

## Principal Tsubaki Group Companies

As of April 1, 2016

- \*1. Consolidated subsidiary
- \*2. Specified subsidiary
- \*3. Equity-method affiliate
- \*4. Unconsolidated subsidiary

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Principal Business
<b>Japan</b>			
Tsubaki E&M Co.* <sup>1</sup>	¥460 million	100.0%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Tsubakimoto Custom Chain Co.* <sup>1,2</sup>	¥125 million	99.6%	Manufacture of small-pitch conveyor chains and specialty chains
Tsubakimoto Sprocket Co.* <sup>1</sup>	¥126 million	100.0%	Manufacture and sales of sprockets and couplings
Tsubaki Yamakyu Chain Co.* <sup>1</sup>	¥126 million	51.0%	Manufacture and sales of various types of plastic chains and automated equipment
Tsubakimoto Iron Casting Co.* <sup>1</sup>	¥50 million	100.0%	Casting, processing, and sales of iron and steel products
Tsubakimoto Bulk Systems Corp.* <sup>1</sup>	¥150 million	100.0%	Manufacture and sales of bulk materials handling systems
Tsubakimoto Mayfran Inc.* <sup>1</sup>	¥90 million	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubakimoto Machinery Co.* <sup>1</sup>	¥139 million	100.0%	Domestic sales of Tsubaki Group products
Tsubaki Support Center Co.* <sup>1</sup>	¥80 million	100.0%	Building maintenance service and insurance agency, etc.
<b>The Americas</b>			
U.S. Tsubaki Holdings, Inc.* <sup>1,2</sup> (United States)	US\$33,500,000	100.0%	Manufacture and sales of materials handling systems Management of subsidiaries and affiliates
U.S. Tsubaki Power Transmission, LLC* <sup>1</sup> (United States)	US\$2,000	100.0%	Manufacture and sales of chains and power transmission products
U.S. Tsubaki Automotive, LLC* <sup>1</sup> (United States)	US\$2,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Kabelschlepp America, Inc.* <sup>1</sup> (United States)	US\$100	100.0%	Manufacture and sales of cable carriers
Mayfran International, Inc.* <sup>1</sup> (United States)	US\$1,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubaki of Canada Limited* <sup>1</sup> (Canada)	CAN\$6,295,000	100.0%	Manufacture and sales of chains and power transmission products
Tsubakimoto Automotive Mexico S.A. de C.V.* <sup>1</sup> (Mexico)	MXN173,000,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Brasil Equipamentos Industriais Ltda.* <sup>1</sup> (Brazil)	R\$2,458,000	100.0%	Sales of chains and power transmission products
<b>Europe</b>			
Tsubakimoto Europe B.V.* <sup>1</sup> (Netherlands)	EUR2,722,000	100.0%	Sales of chains, power transmission products, and automotive parts
Mayfran Limburg B.V.* <sup>1</sup> (Netherlands)	EUR226,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Mayfran International B.V.* <sup>1</sup> (Netherlands)	EUR45,000	100.0%	Sales of conveyors for chips and scraps
Tsubaki Kabelschlepp GmbH* <sup>1</sup> (Germany)	EUR2,600,000	100.0%	Manufacture and sales of cable carriers and materials handling systems
Tsubaki Deutschland GmbH* <sup>1</sup> (Germany)	EUR100,000	100.0%	Sales of chains, power transmission products, and automotive parts
Kabelschlepp GmbH-Hünsborn* <sup>1</sup> (Germany)	EUR51,000	100.0%	Manufacture and sales of materials handling systems
Tsubakimoto U.K. Ltd.* <sup>1</sup> (U.K.)	STG£550,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Metool Products Limited* <sup>1</sup> (U.K.)	STG£203,000	100.0%	Sales of chains
Kabelschlepp France S.A.R.L.* <sup>1</sup> (France)	EUR165,000	100.0%	Sales of cable carriers and materials handling systems
Mayfran France S.A.R.L.* <sup>1</sup> (France)	EUR16,000	100.0%	Sales of conveyors for chips and scraps
Kabelschlepp Italia S.R.L.* <sup>1</sup> (Italy)	EUR350,000	90.0%	Sales of cable carriers and materials handling systems
Tsubaki Automotive Czech Republic s.r.o.* <sup>1</sup> (Czech Republic)	CZK42,105,000	100.0%	Manufacture and sales of automotive parts
Kabelschlepp Systemtechnik spol. s.r.o.* <sup>1</sup> (Slovak Republic)	EUR49,000	100.0%	Manufacture and sales of materials handling systems
OOO Tsubaki Kabelschlepp* <sup>1</sup> (Russia)	RUB6,000,000	100.0%	Sales of cable carriers
<b>Indian Ocean Rim</b>			
Tsubakimoto Singapore Pte. Ltd.* <sup>1</sup> (Singapore)	¥960 million	100.0%	Manufacture and sales of chains, power transmission products, and materials handling systems
PT. Tsubaki Indonesia Manufacturing* <sup>1,2</sup> (Indonesia)	US\$19,200,000	100.0%	Manufacture and sales of materials handling systems
PT. Tsubaki Indonesia Trading* <sup>1</sup> (Indonesia)	US\$520,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto (Thailand) Co., Ltd.* <sup>1</sup> (Thailand)	THB4,000,000	95.1%	Sales of chains and power transmission products
Tsubakimoto Automotive (Thailand) Co., Ltd.* <sup>1</sup> (Thailand)	THB202,000,000	100.0%	Manufacture and sales of automotive parts
Tsubaki E&M (Thailand) Co., Ltd.* <sup>4</sup> (Thailand)	THB65,000,000	100.0%	Manufacture and sales of power transmission products
Tsubaki Power Transmission (Malaysia) Sdn. Bhd.* <sup>1</sup> (Malaysia)	MYR1,500,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto Vietnam Co., Ltd.* <sup>1</sup> (Vietnam)	¥40 million	100.0%	Sales of chains and power transmission products
Tsubaki India Power Transmission Private Limited* <sup>1</sup> (India)	INR20,000,000	100.0%	Sales of chains and power transmission products
Kabelschlepp India Private Limited* <sup>1</sup> (India)	INR8,897,000	100.0%	Sales of cable carriers
Mahindra Tsubaki Conveyor Systems Private Limited* <sup>4</sup> (India)	INR313,775,000	51.0%	Manufacture and sales of materials handling systems
Tsubaki Australia Pty. Limited* <sup>1</sup> (Australia)	A\$300,000	100.0%	Sales of chains and power transmission products
<b>China</b>			
Tsubakimoto Automotive (Shanghai) Co., Ltd.* <sup>1</sup> (China)	US\$2,500,000	100.0%	Manufacture and sales of automotive parts
Tsubakimoto Chain (Shanghai) Co., Ltd.* <sup>1</sup> (China)	US\$400,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubaki E&M (Shanghai) Co., Ltd.* <sup>1</sup> (China)	US\$5,200,000	100.0%	Manufacture and sales of power transmission products
Tsubakimoto Bulk Systems (Shanghai) Corp.* <sup>1</sup> (China)	RMB6,000,000	100.0%	Sales of bulk materials handling systems
Tsubakimoto Chain Engineering (Shanghai) Co., Ltd.* <sup>4</sup> (China)	US\$1,000,000	90.0%	Provision of engineering services in relation to chains, automotive parts, and materials handling systems
Tsubakimoto Chain (Tianjin) Co., Ltd.* <sup>1,2</sup> (China)	US\$77,000,000	90.0%	Manufacture and sales of chains and automotive parts
Tsubaki Everbest Gear (Tianjin) Co., Ltd.* <sup>1</sup> (China)	RMB87,496,000	59.4%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Kabelschlepp China Co., Ltd.* <sup>1</sup> (China)	RMB4,610,000	100.0%	Manufacture and sales of cable carriers and materials handling systems
Tianjin Tsubakimoto Conveyor Systems Co., Ltd.* <sup>3</sup> (China)	RMB8,314,000	47.0%	Manufacture and sales of bulk materials handling systems
Tsubaki CAPT Power Transmission (Shijiazhuang) Co., Ltd.* <sup>4</sup> (China)	RMB104,289,000	51.0%	Manufacture and sales of sprockets and couplings
<b>South Korea and Taiwan</b>			
Taiwan Tsubakimoto Co.* <sup>1</sup> (Taiwan)	NT\$70,000,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Tsubakimoto Automotive Korea Co., Ltd.* <sup>1</sup> (South Korea)	WON17,860,000,000	100.0%	Manufacture and sales of automotive parts
Tsubakimoto Korea Co., Ltd.* <sup>4</sup> (South Korea)	WON700,000,000	100.0%	Sales of chains and power transmission products

# Corporate Data and Stock Information

As of March 31, 2016

## Corporate Data

Company Name	Tsubakimoto Chain Co.
Date of Foundation	December 1917
Date of Incorporation	January 31, 1941
Paid-in Capital	¥17,076 million
Headquarters	3-3-3, Nakanoshima, Kita-ku, Osaka 530-0005, Japan
Telephone	+816-6441-0011 (Receptionist)
Fiscal Year-End	March 31

Number of Consolidated Subsidiaries*1	57
Number of Unconsolidated Subsidiaries*1	11
Number of Affiliates*1	8 (Including 1 equity-method affiliate)
Number of Employees*2 (consolidated)	7,579

\*1 As of April 1, 2016

\*2 Including contracted and temporary staff

## Stock Information

Shareholder Register	Sumitomo Mitsui Trust Bank, Limited
Stock Listing	Tokyo

### Common Stock

Authorized:	299,000,000 shares
Issued:	191,406,969 shares
Number of Shareholders	9,681

### Major Shareholders (Top 10 Companies)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Taiyo Life Insurance Company	18,398	9.83
The Master Trust Bank of Japan, Ltd. (Trust account)	10,555	5.64
Nippon Life Insurance Company	9,850	5.26
Japan Trustee Services Bank, Ltd. (Trust account)	9,714	5.19
Toyota Motor Corporation	7,722	4.12
Sumitomo Mitsui Banking Corporation	7,034	3.76
Kyoeikai members Stock Ownership Association	6,120	3.27
Tsubakimoto Kogyo Co., Ltd.	5,194	2.77
National Mutual Insurance Federation of Agricultural Cooperatives	4,766	2.54
Sumitomo Mitsui Trust Bank, Limited	4,245	2.26

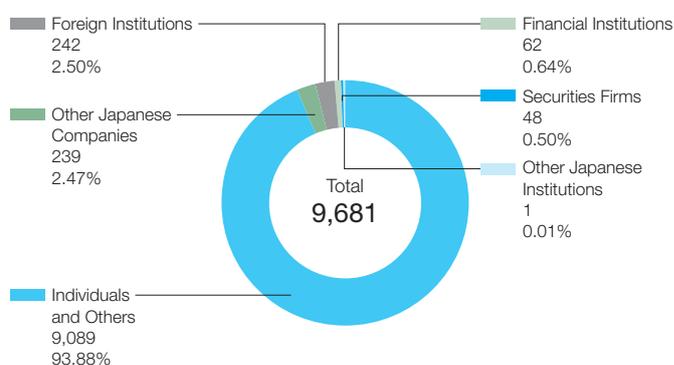
1. Numbers less than 1,000 have been rounded down.

2. The Company owns treasury stock of 4,330,756 shares; however, these shares are not included in the above list of major shareholders.

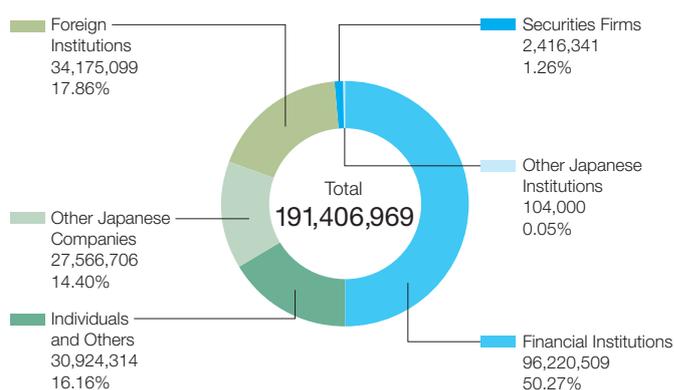
3. Percentage of total shares issued has been calculated excluding the treasury stock of 4,330,756 shares.

## Shareholder Composition

### Number of Shareholders



### Number of Shares Held



Treasury stock of 4,330,756 shares is included in "Individuals and Others."

Contact for Inquires with Regard  
to the Corporate Report

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## TSUBAKIMOTO CHAIN CO.

<http://tsubakimoto.com>

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