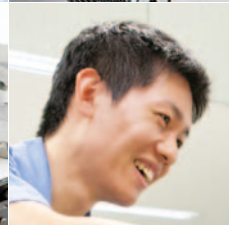
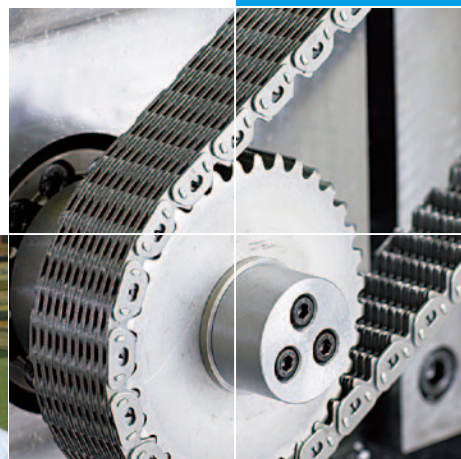


# TSUBAKI CORPORATE REPORT 2013



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The Tsubaki Group's website contains product information and financial information, as well as information on its environmental and social contribution efforts, including descriptions of Tsubaki's eco-products and environmental impact data; however, not all information is available in English.

The Tsubaki Group Website

<http://tsubakimoto.com>

### 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 on 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.

### 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.

### 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 (G3)."

Reporting Period: April 2012 to March 2013

(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 Emerson, Tsubakimoto Custom Chain, Tsubakimoto Sprocket, Tsubakimoto Bulk Systems, Tsubakimoto Mayfran, Tsubakimoto Iron Casting, and Tsubaki Yamakyu Chain)

# Tsubaki Contributes to the World with its Technologies

It is believed that Leonardo da Vinci gave birth to the first chain roughly 500 years ago.

Today, these mechanical components play an indispensable role in transmitting drive energy and in transporting objects.

Since it was founded in 1917, the Tsubaki Group has continued to hone its technological development capabilities and refine its ability to customize chains to meet a diverse range of needs.

These strengths have enabled us to create chains that are superior in terms of both performance and durability.

Today, our chains are supporting economies and lifestyles across the globe.



Leonardo da Vinci portrait made from chain link plates  
(Technical Center at Kyotanabe Plant)

## 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.

## 1

# Corporate Profile

The Tsubaki Group is the world's leading manufacturer of components and units that are essential for power transmission and conveyance, as well as systems consisting of combinations of these items. The Group primarily conducts four businesses—Chain Operations, which it has conducted since its founding in 1917, and Power Transmission Units and Components Operations, Automotive Parts Operations, and Materials Handling Systems Operations, which are born out of its chain technologies. Our core strengths include our development capabilities; the customizability of our products, which can be arranged to meet the needs of specific customers; and the Group's production technologies, which have been fine-tuned to feature unrivaled levels of efficiency and quality. Leveraging these strengths, we have created countless products that have come to boast leading market shares.

## History

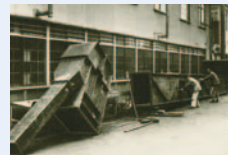
- 1917** Established by Setsuzo Tsubakimoto in Kita-ku, Osaka, as a private enterprise for manufacturing bicycle chains
- 1928** Ceased bicycle chain production to concentrate on industrial-use chains
- 1937** Tsubaki products first used in a large-scale conveyor plant
- 1951** Exported roller chains to the United States for the first time
- 1958** Began mass production of automobile timing chains
- 1963** Began production of plastic chains
- 1968** Da Tseng Chain Co. (now Taiwan Tsubakimoto Co.) established in Taiwan
- 1971** Tsubakimoto USA, Inc. (now U.S. Tsubaki Holdings, Inc.) established in the United States
- 1986** Began production of industrial-use chains in North America
- 1989** Began production of automotive engine timing chains in North America
- 1992** Roller chain factory certified ISO 9001 is first chain industry factory to acquire certification
- 1996** Completed construction of automobile engine timing chain plant in Chicopee, Massachusetts, in the United States
- 1999** Tsubaki Mission Statement formulated
- 2001** Kyotanabe Plant completed, transferred all operations from prior chain factory (Tsurumi District, Osaka City)
- 2004** All Tsubaki Group operating sites in Japan certified ISO 14001
- 2010** German company Kabelschlepp GmbH acquired and consolidated
- 2011** Conveyor chain manufacturing subsidiary Tsubakimoto Chain (Tianjin) Co., Ltd., established in China
- 2012** U.S. company Mayfran Holdings, Inc., consolidated and all businesses acquired



1917



1928



1937



1996



2001



2011

# 2

## Business Segments

### FYE 2013

#### Consolidated Net Sales

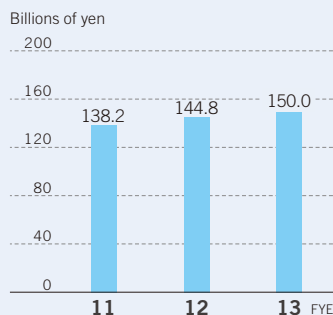
¥ **150.0** billion

#### Operating Income Margin

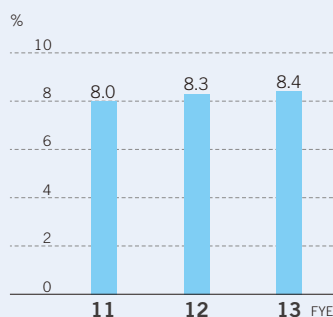
**8.4%**

In the fiscal year ended March 31, 2013, consolidated net sales totaled ¥150.0 billion and the operating income margin was 8.4%. The distribution of sales among business segments is shown to the right.

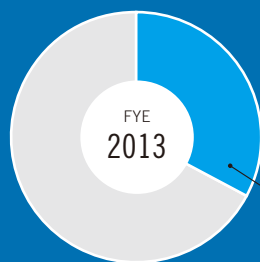
#### Net Sales



#### Operating Income Margin



### Chain Operations



Through our Chain Operations, we provide various industries, such as the machine tool, shipbuilding, steel, and liquid crystal display (LCD) / semiconductor industries, with the best chains for their needs from among our diverse lineup of drive, conveyor, and other chains.

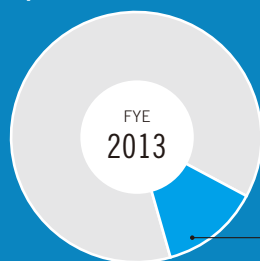
Percentage of Total Net Sales    Operating Income Margin

**32.8%**

**7.1%**

Results in the fiscal year ended March 31, 2013

### Power Transmission Units and Components Operations



In our Power Transmission Units and Components Operations, we provide ideal power transmission products created by leveraging our reducers, linear actuators, clutches, and other industrial machinery parts pertaining to motion and control and related composition technologies.

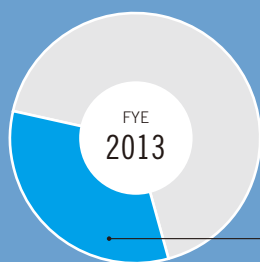
Percentage of Total Net Sales    Operating Income Margin

**12.9%**

**9.9%**

Results in the fiscal year ended March 31, 2013

### Automotive Parts Operations



Tsubaki's Automotive Parts Operations provide automobile manufacturers around the world with timing chain drive systems that assist in making automobile engines lighter, more functional, and more environment-friendly.

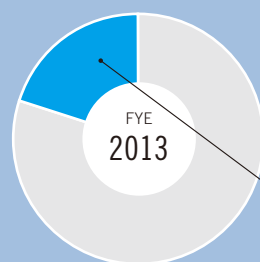
Percentage of Total Net Sales    Operating Income Margin

**32.9%**

**13.1%**

Results in the fiscal year ended March 31, 2013

### 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.

Percentage of Total Net Sales    Operating Income Margin

**20.1%**

**1.8%**

Results in the fiscal year ended March 31, 2013

3

# Tsubaki's Product Lineup

## Chain Operations

### Major Products

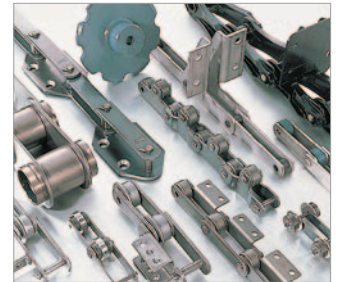
- Drive chains
- Small size conveyor chains
- Large size conveyor chains
- Top chains
- Sprockets
- Support and guidance systems for cables and hoses
- Timing belts and pulleys



Drive chains



Small size conveyor chains



Large size conveyor chains

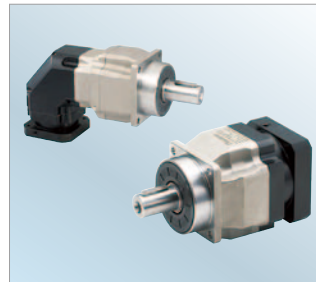
## Power Transmission Units and Components Operations

### Major Products

- Reducers / Variable speed drives
- Linear actuators
- Locking devices
- Shaft couplings
- Clutches
- Overload protectors



Reducers



Precision planetary gear reducers

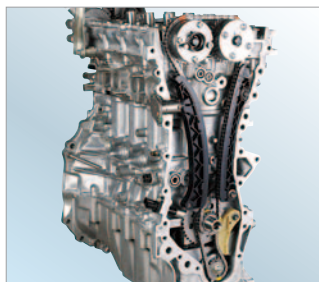


Tsubaki power cylinders / jacks

## Automotive Parts Operations

### Major Products

- Timing chain drive systems
- Timing chains (roller chains, silent chains)
- Tensioners
- Guides / Levers
- Sprockets
- Power drive chains



Timing chain drive systems



Timing chain drive system parts



Roller chains

## Materials Handling Systems Operations

### Major Products

- Systems for the distribution industry
- Systems for the pharmaceutical industry
- Systems for newspaper printing factories
- Systems for automobile factories
- Other conveyance, sorting, and storage systems
- Bulk handling systems
- Metalworking chip handling / coolant processing systems



Automatic sorting equipment / Linisort®



AGV roll paper feeding system



Conveyance system for automobile painting lines



Plastic top chains



Cableveyors®



Timing belts



Tsubaki Zip Chain Actuator®



Power lock®



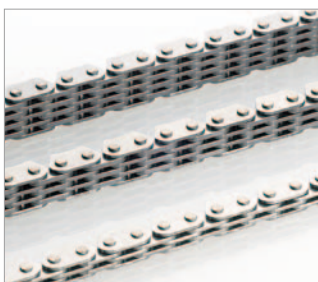
Couplings



Cam clutches



Overload protectors



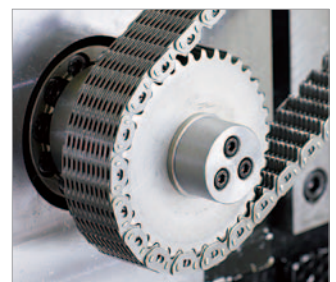
Silent chains



Tensioners



Guides / Levers



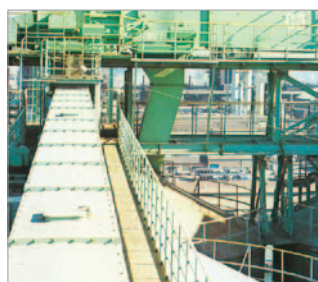
Power drive chains



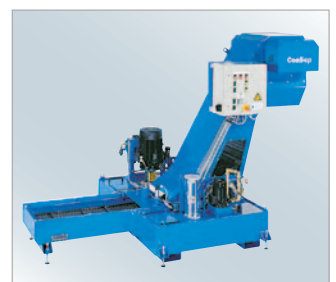
Tsubaki Labo Stocker®



Zip Chain Lifter®



Bulk handling systems



Metalworking chip handling / coolant processing systems

4

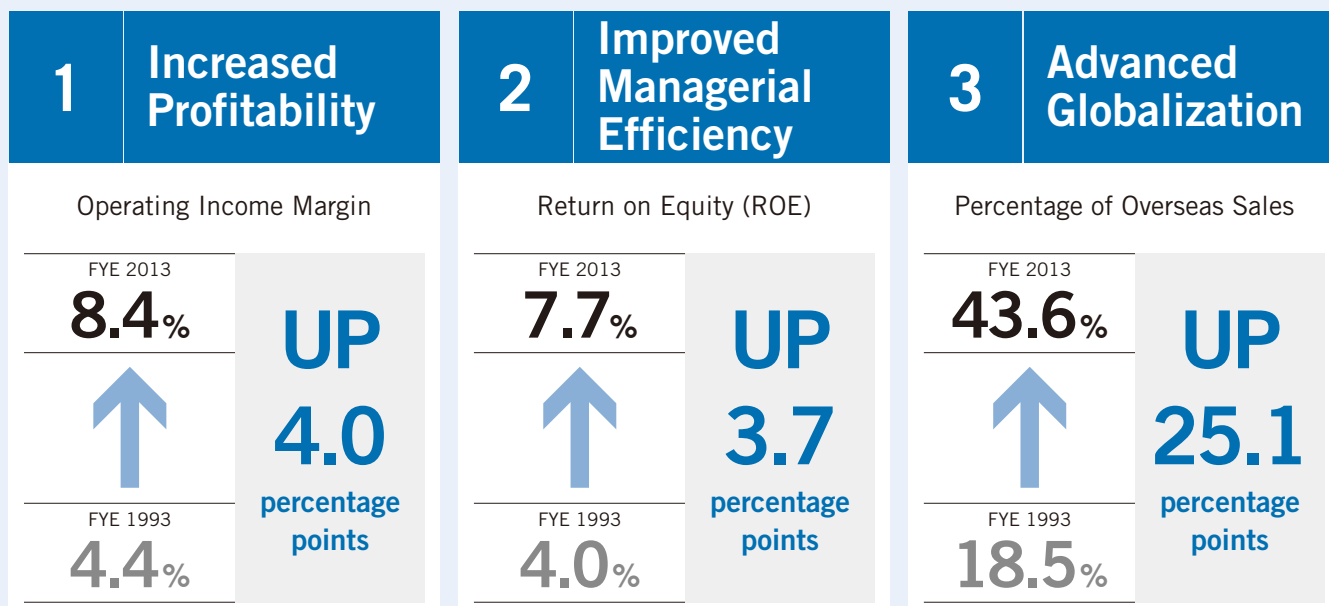
## The Tsubaki Group's Progress and Growth

In the past, the Tsubaki Group's business structure was such that changes in the Japanese economy greatly influenced performance. However, we have since rectified this issue, enabling the Group to realize stronger and more stable growth from 2000 onward.

Specifically, we increased profitability by enhancing regional and product strategies, improved production and managerial efficiency by conducting production in optimal locations and instituting organizational reforms, and advanced the globalization of production and sales activities.

We have continued to pursue profitability, managerial efficiency, and globalization with the aim of becoming the world's leading chain company and providing the best value to customers worldwide. It is this dedication that has inspired us to create countless products that boast strong shares in the Japanese market as well as the global market.

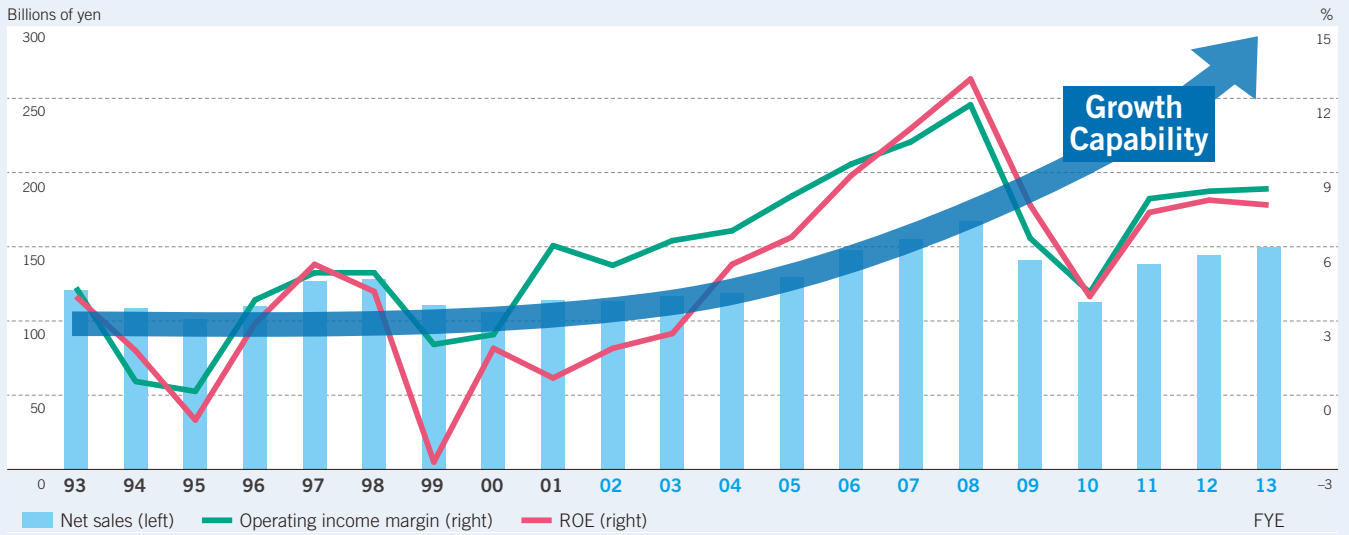
At the Tsubaki Group, we view technologies, personnel, and other such resources as valuable assets that form the foundation underpinning our growth. We will maintain this attitude throughout our efforts to provide customers around the world with ideal solutions while fulfilling our responsibility toward society by performing manufacturing with an emphasis on environmental preservation and energy saving. This will serve as the driving force on our quest to continue growing.



For more information, please refer to Special Feature: Tsubaki's Sustainability-Oriented Management (pages 9–19).

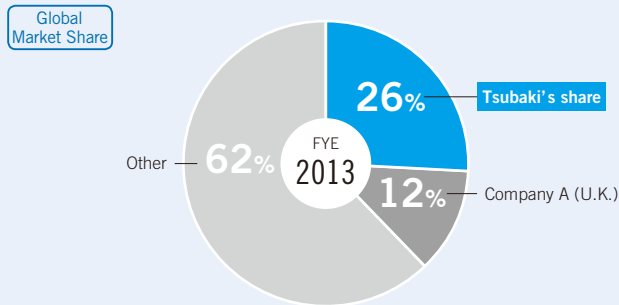


## Consolidated Performance Over Past 20 Years

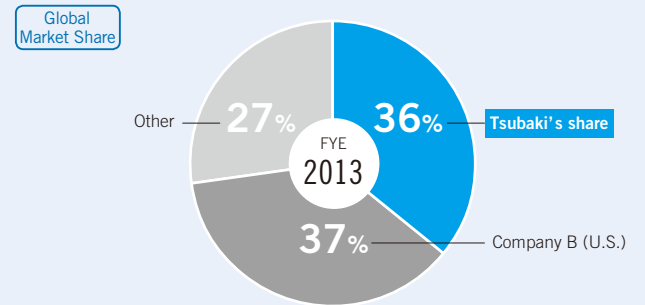


## Market Shares for Major Products\*

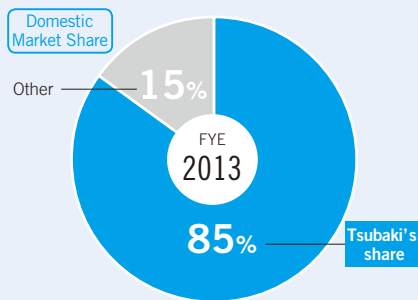
### Industrial-Use Steel Chains



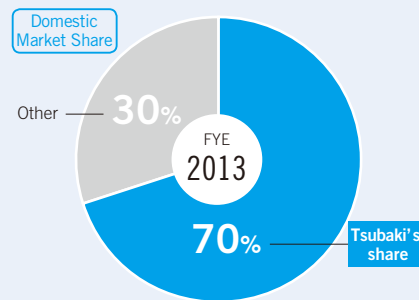
### Timing Chain Drive Systems



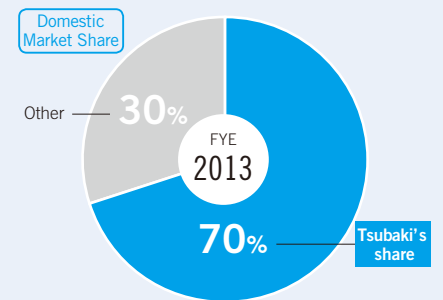
### Cam Clutches



### Power Cylinders



### Paper Feeding Systems



\* Source: Tsubakimoto Chain Co.

5

# Financial Highlights

For information on long-term financial trends (past 10 years), please refer to pages 46 and 47.

## Highlights

in the Fiscal Year Ended  
March 31, 2013

1. Achieved increases in sales and income for the third consecutive year due to strong contributions from Automotive Parts Operations
2. Maintained a sound financial position regardless of rise in interest-bearing debt following increased capital investment

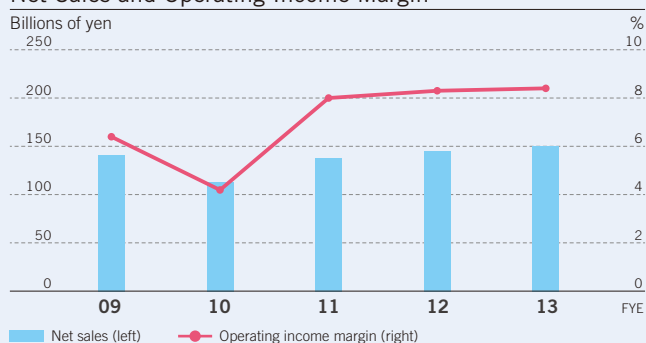
### Numerical Overview of the Past Five Years

	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	YOY Change
Items from the Consolidated Statements of Income (Millions of yen)						
Net sales	¥141,517	¥112,759	¥138,243	¥144,896	¥150,002	+3.5%
Operating income	9,095	4,737	11,022	12,081	12,579	+4.1%
Ordinary income	9,328	4,990	11,111	12,140	12,813	+5.5%
Net income	6,188	3,175	6,093	6,814	7,428	+9.0%
Items from the Consolidated Balance Sheets (Millions of yen)						
Total assets	¥178,455	¥182,641	¥184,206	¥191,766	¥215,837	+12.6%
Shareholders' equity	78,422	80,847	83,413	89,923	102,019	+13.5%
Interest-bearing debt	37,600	38,910	31,240	27,405	36,507	+33.2%
Items from the Consolidated Statements of Cash Flows (Millions of yen)						
Net cash provided by operating activities	¥7,263	¥14,508	¥16,293	¥11,626	¥15,350	
Net cash provided by (used in) investing activities	(9,723)	(5,020)	(8,281)	(10,487)	(18,401)	
Net cash provided by (used in) financing activities	(3,540)	(373)	(10,578)	(5,460)	6,325	
Per Share Information (Yen)						
Net income	¥ 33.26	¥ 17.07	¥ 32.76	¥ 36.60	¥ 39.69	
Net assets	421.53	434.59	448.43	480.46	545.14	
Dividend payments	8.00	6.00	7.00	7.00	7.00	
Major Indexes						
Return on equity (ROE) (%) <sup>*1</sup>	7.7	4.0	7.4	7.9	7.7	
D/E ratio (net) (Times) <sup>*2</sup>	0.31	0.21	0.17	0.15	0.16	
Equity ratio (%) <sup>*3</sup>	43.9	44.3	45.3	46.9	47.3	

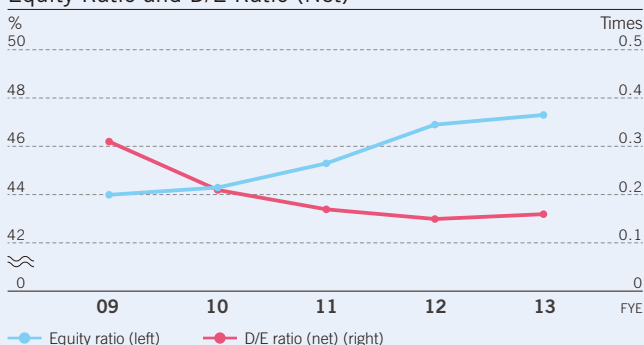
Major Indexes

\*1. ROE = net income ÷ average shareholders' equity \*2. D/E ratio (net) = net interest-bearing debt ÷ shareholders' equity \*3. Equity ratio = shareholders' equity ÷ total assets

### Net Sales and Operating Income Margin



### Equity Ratio and D/E Ratio (Net)



# Strong Drive Toward Sustainable Growth

In April 1999, the Tsubaki Group developed the Tsubaki Mission Statement which expressed the Group's commitment to being a global leader and to providing the best value to customers. Since that time, the Tsubaki Mission Statement has guided the Group in the implementation of its business activities.

We realized that if the Tsubaki Group is to continue growing sustainably it will be absolutely essential for us to develop products with notable social benefits that have been differentiated through technological strength. Moreover, these products must be made with the highest levels of efficiency and provided to customers around the world. Achieving this will require employees with significant skills, expertise, and motivation.

Going forward, these principles will remain core to the Tsubaki Group's operations as it works to become a corporate group viewed as necessary by its shareholders, customers, employees, business partners, local communities, and all of its other stakeholders.

## 10 Development of Eco-Products

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## 12 Improvement of Production and Managerial Efficiency

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## 14 Cultivation of Employee Skills, Expertise, and Motivation

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## 16 Globalization and Production in Optimal Locations

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## 19 Statements from Stakeholders

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# Development of Eco-Products

Contributing to society and the economy through environmental preservation and energy saving—the Tsubaki Group takes this principle to heart in its product development efforts, and is constantly pursuing the differentiation of its products through technological innovation.

We strive to provide products with unrivaled levels of durability and energy efficiency so that these products may help customers realize substantial improvements in convenience as well as significant economic benefits. More importantly, we believe these products will help preserve the global environment. Based on this belief, we have declared that all newly developed products will be required to be environment-friendly.

Products that have been judged compliant with Tsubaki's unique eco-evaluation standards are defined as eco-products and are adorned with the Tsubaki Eco Link logo to communicate their benefits to society.

The Tsubaki Group is dedicated to realizing sustainable growth through the unrelenting development of such one-of-a-kind, society-benefiting products.



The Tsubaki Eco Link logo is used only on products that satisfy the standards for environmental friendliness set by the Tsubaki Group.



## New Eco-Products

### Tsubaki Cleanveyor® & Model TKZP Tsubaki Cableveyor®

Cableveyors are used for various applications in a wide range of industries as protection and guidance systems for the cables and hoses that serve in the moving parts of industrial machinery. Calling upon our accumulated technological expertise and a new sense of innovation, we successfully launched two revolutionary new Cableveyor products in 2013. One is the Tsubaki Cleanveyor cable system designed for use in clean rooms, with the other being the Model TKZP Tsubaki Cableveyor, which features an innovative new structure that is light and compact coupled with superior cost performance.

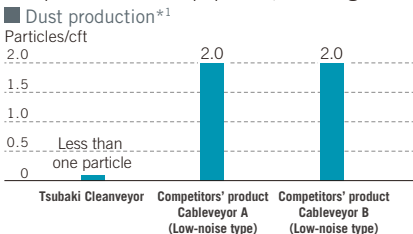
#### Tsubaki Cleanveyor®

This cable system—designed exclusively for use in clean rooms—can be made to incorporate movable cables and pneumatic hoses to meet specific customer requirements. Moreover, the system's ultra-low generation of dust and noise make it ideal for clean rooms.



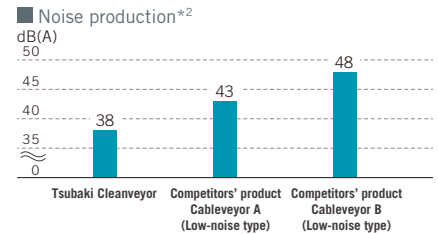
#### Eco & Eco Points

- Maintenance of a clean usage environment and simplification of anti-dust and noise precaution requirements for equipment, lowering costs



Dust production measuring standards  
Location: Inside of clean room (ISO Class 1 cleanliness)  
Installation conditions: Standard installation (floor installation possible)  
Operation speed: 120m/min  
No cable specification (only support members inserted into pods in Cleanveyor system)  
Dust production volume is defined as the number of particles over 0.1µm in size in an area of 1 cubic foot.

\*1 Graph data is the average from five measurements.

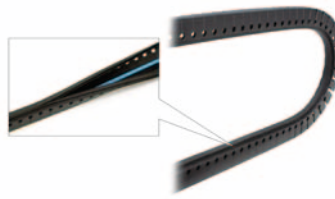


Noise production measuring standards  
Installation conditions: Standard installation (floor installation possible)  
Operation speed: 100m/min  
Distance of measuring equipment from Cleanveyor: 500mm  
No cable specification (only support members inserted into pods in Cleanveyor system)

\*2 Graph data is the average of the largest figures from five measurements.  
• Cableveyor and Cleanveyor are registered trademarks of Tsubakimoto Chain.

#### Model TKZP Tsubaki Cableveyor®

The Model TKZP Tsubaki Cableveyor features a new structure in which cables and hoses can be set in place simply by folding the strip and fastening it closed. It bends in only one direction in a manner similar to conventional Cableveyor products, allowing for stable operation, and the link-free structure and short pitch also minimize the generation of dust and noise. This product is ideal for protecting and improving appearance of cables and hoses where carriers such as Cableveyors are not conventionally used. It can also be used to replace protective components in an effort to improve functionality.



#### Eco & Eco Points

- Reduction in weight of 65% in comparison to previous models of similar sizes
- Dust production during operations less than 1/5 of traditional levels, noise reduced to below 10dB(A)

\* For information on range of operations (uses), please refer to the Company's website.

### Labo Stocker Mini

Labo Stocker Mini features a small drug discovery library that is capable of storing up to 1 million items. Moreover, it is capable of managing various different types of containers, including vials, tubes, and plates. Customers may also expand the stocker's capacity for items at a later date, and the stocker itself features various other related options.



#### Eco & Eco Points

- Reduced size in comparison to previous Labo Stocker models, taking up 60% less space for the same capacity and enabling installation in small labs and standard buildings
- Smaller air conditioner lowers operating costs

### Tsubaki NAB Aprovator® R Series

The conveyor, Tsubaki NAB Aprovator, is ideal for handling abrasive and aggregated materials. It is even able to prevent declines in performance due to adhesion when transporting adhesive substances.



#### Eco & Eco Points

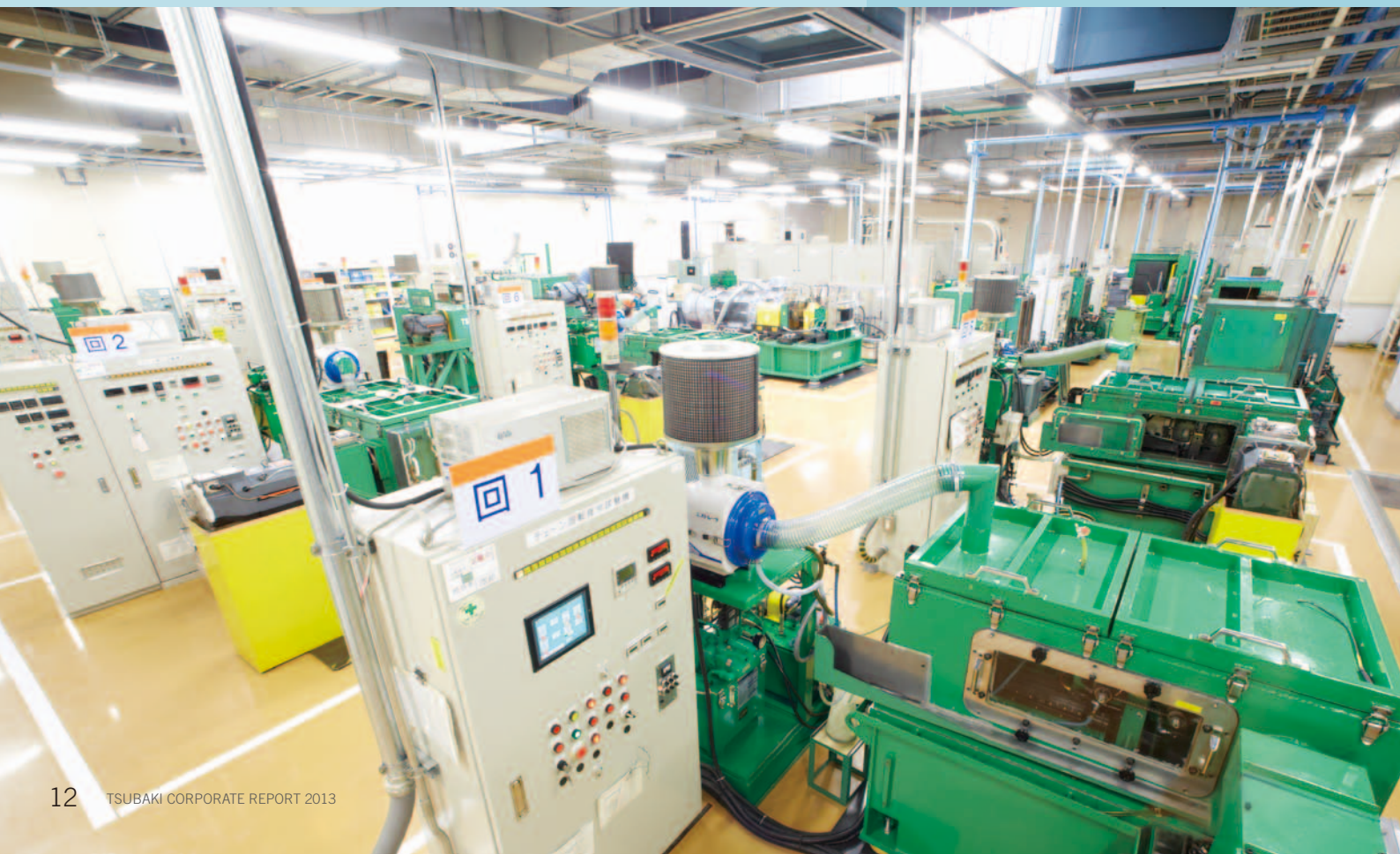
- Rubber sheet at bottom of bucket moves in conjunction with bucket motion to prevent adhesion of contents
- Low adhesion decreases energy loss, reduces cleaning frequency, and lessens environmental impact
- Buckets interchangeable with existing NAB Aprovator® models

# Improvement of Production and Managerial Efficiency

One of the Tsubaki Group's core strengths is its highly functional, high-quality manufacturing technologies. Utilizing these technologies, we are working to enhance the quality of our chains and other products through such means as making them smaller. The aim of these improvements is to provide benefits to customers and society including savings in energy and resources.

However, we also recognize the importance of boosting cost competitiveness in expanding our share of the global market. As such, we have pushed forward with an array of measures targeting improved productivity, including the installation of revolutionary production lines in Chain Operations and the implementation of manufacturing reform initiatives in Automotive Parts Operations. As a result, we have seen a substantial increase in production efficiency over the past 10 years.

These ongoing efforts have helped us realize an improved operating income margin and a significantly better D/E ratio (net). In this manner, we are working to reduce the amount of capital invested in our business together with our environmental footprint while simultaneously expanding operations, which we believe will lead to enhanced corporate value for the Tsubaki Group.



## Principal Efficiency Indexes

### Operating Income Per Employee

FYE 2003  
 ¥1.51 million → FYE 2013  
 ¥1.85 million

23%  
Up



### D/E Ratio (Net)

FYE 2003  
 0.87 times → FYE 2013  
 0.16 times

Improved  
 0.71 times



### ROE

FYE 2003  
 2.5% → FYE 2013  
 7.7%

Up  
 5.2  
 percentage points



### CO<sub>2</sub> Emission Volume Per ¥1 Million of Ordinary Income\*

FYE 2004  
 9.2 t → FYE 2013  
 4.3 t

Down  
 53%



### Energy Consumption Volume Per ¥1 Million of Ordinary Income

FYE 2004  
 223 GJ → FYE 2013  
 107 GJ

Down  
 52%



\* Data collection for CO<sub>2</sub> emission and energy consumption volumes began in the fiscal year ended March 31, 2004. Accordingly, comparisons are between this year and the fiscal year ended March 31, 2013.

# Cultivation of Employee Skills, Expertise, and Motivation

As a manufacturing company, we can only hope to achieve sustainable growth if our employees maintain high levels of skills, expertise, and motivation.

More and more companies are having trouble passing technical skills and expertise on to new employees. The Tsubaki Group, however, has established the Tsubaki Techno School, and is otherwise taking steps to foster young technicians. We are also actively working to improve employee motivation. As a new initiative toward this goal, in the fiscal year ended March 31, 2013, we held the first annual Tsubaki Technical Skills Olympics, an event in which Group employees put their technical skills to the test against one another. In addition, we provided many opportunities for employees to refine their skills and share techniques. These opportunities were designed to promote exchanges that exceed the boundaries between different operating sites and factories while also improving motivation at manufacturing sites.

The Tsubaki Group believes that its people are invaluable assets, and this belief inspires us to come together in the pursuit of improved corporate value.

For more information, please refer to Human Resources Management (pages 34 and 35).





## Companywide Initiatives to Improve Skills and Expertise

### Tsubaki Technical Skills Olympics

#### Improving manufacturing expertise and passing this on to the next generation

On October 28, 2012, we kicked off the first annual Tsubaki Technical Skills Olympics. This fierce competition took place at the Kyotanabe Plant and two other sites over the course of three days. Moreover, the event served as an opportunity for employees to improve their technical expertise and for techniques to be shared between operating sites, thereby strengthening our foundation as a manufacturing company.

The Tsubaki Technical Skills Olympics consisted of a total of seven events designed to test employees skills in areas shared between the Company's four main businesses. Individual events included engine lathe operation, welding, injection molding, measuring, handwritten blueprint construction, and forklift driving competitions. Also, a workflow improvement competition was held as a team event. Having topped the competition at preliminary tournaments, a total of 51 elite employees assembled for the event from Group companies throughout Japan, eager to put to the test the skills they have perfected through daily practice at their respective worksites. In addition to these competitors, this event was supported by the efforts of the countless employees that helped with preliminary tournaments, attended the competition to cheer on their coworkers, or otherwise participated in this exciting event.

The Tsubaki Technical Skills Olympics proved to be a prime opportunity for technicians to further hone their skills. For this reason, we have chosen to hold this tournament each year to inspire employees to work toward participating and winning this event. Further, we hope to develop this tournament into a global event in the future so that overseas Group companies may participate as well.



Competitions held as part of the Tsubaki Technical Skills Olympics

### Tsubaki Technical Forum and Tsubaki Group KAIZEN Tournament

#### Learning from one another to improve quality and technological capabilities

We are conducting Groupwide initiatives to share foundation, product, and production technologies and improve quality throughout all areas of operation.

In November 2012, we held the 19th annual Tsubaki Technical Forum. This forum was broadcast to four operating sites, enabling a total of 320 employees from domestic Group companies to participate in the event. The forum consisted of presentations on six themes pertaining to product and technology development as well as production technologies, and a panel discussion was held on the subject of Tsubaki's core technologies.

In addition, we held the 14th annual Tsubaki Group KAIZEN Tournament in March 2013. A total of eight teams from domestic and overseas Group companies participated in this event. The tournament also featured presentations on activities by quality circles as well as on workflow improvement activities and *dantotsu* activities, helping facilitate Companywide awareness on such matters, an important step toward reducing repeat complaints from outside of the Company to zero.



Tsubaki Technical Forum

# Globalization and Production in Optimal Locations

In recent years, the Tsubaki Group has been accelerating its globalization efforts. Under Medium-Term Management Plan 2012, we established sales and manufacturing subsidiaries in China and the Indian Ocean Rim region. In addition, we actively strengthened our network of overseas bases through M&A activities and other means. As a result of these efforts, the percentage of net sales generated overseas was 43.6% in the fiscal year ended March 31, 2013, and overseas production accounted for 24.0% of total production. Not only have there been significant changes in the ratios of overseas sales and production when compared to 10 years ago, roughly 40% of the Group's total staff is now employed by overseas subsidiaries as well.

Presently a major theme for our globalization is transitioning away from a Japan-centric approach. In other words, we must shift from our previous focus of globalization based out of Japan to conduct manufacturing with a market-oriented approach that is responsive to the differing needs of each region in which we operate. At the same time, we will work to expand our share in the volume zones of emerging markets, while continuing to develop operations in the high-end areas of markets, where Tsubaki is particularly strong.

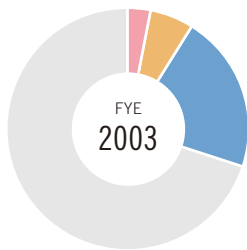
In this manner, the Tsubaki Group will pursue a truly global approach to strengthen its ability to grow sustainably.



## Accelerated Globalization of Sales and Production Activities

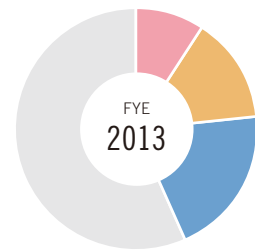
### Percentage of Overseas Sales

■ Europe ■ Asia / Oceania ■ North America / Other



FYE 2003  
33.8%

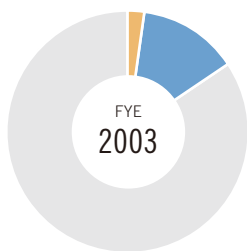
**UP**  
**9.8**  
percentage points



FYE 2013  
43.6%

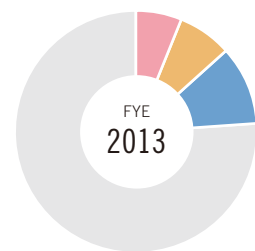
### Percentage of Overseas Production

■ Europe ■ Asia / Oceania ■ North America / Other



FYE 2003  
15.8%

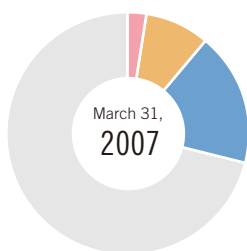
**UP**  
**8.2**  
percentage points



FYE 2013  
24.0%

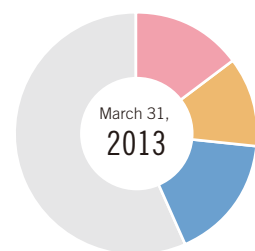
### Percentage of Overseas Employees\*

■ Europe ■ Asia / Oceania ■ North America / Other



FYE 2007  
29.1%

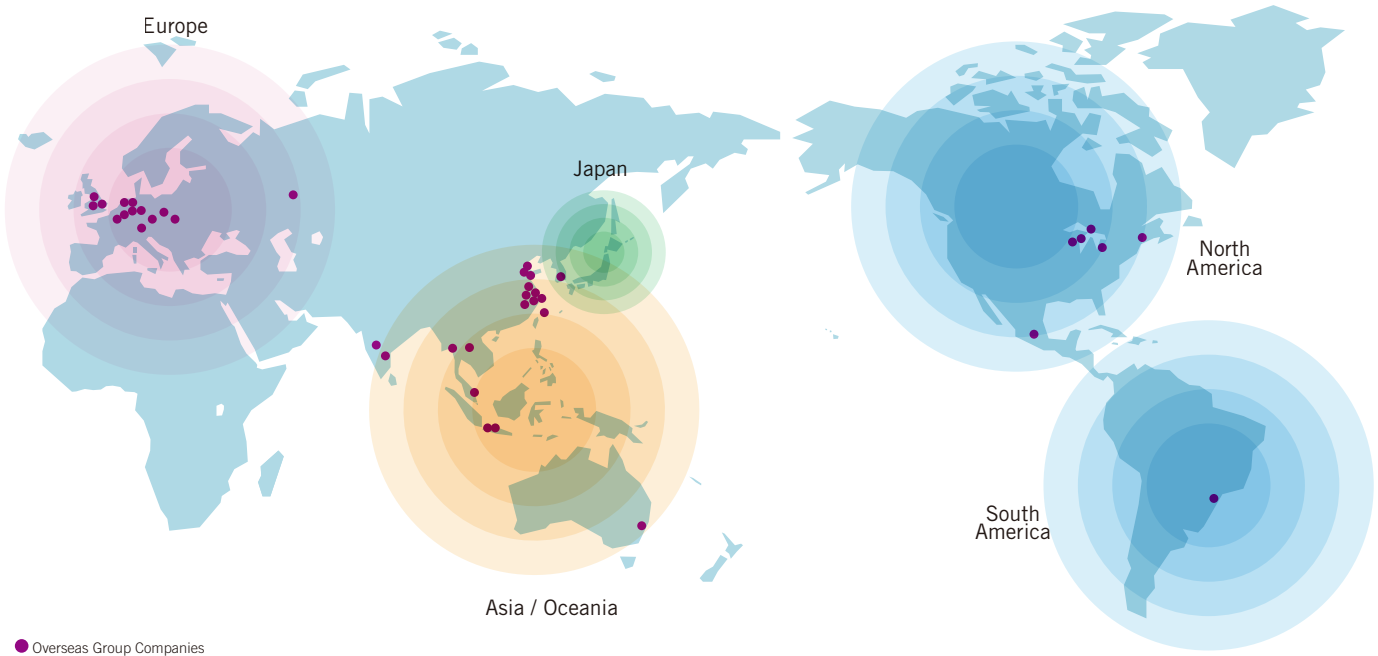
**UP**  
**14.2**  
percentage points



FYE 2013  
43.3%

\* For percentage of overseas employees, data collection commenced in the fiscal year ended March 31, 2007, which is used as the base year.

## Tsubaki's Global Network



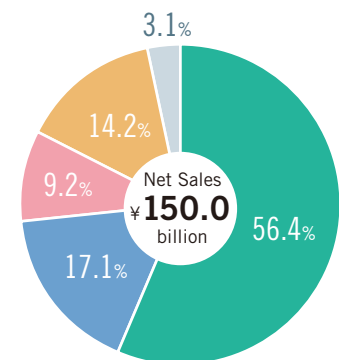
### Major Operating Bases by Region

● Japan (18 companies) ● North America / South America (12 companies) ● Europe (17 companies) ● Asia / Oceania (29 companies)



### Distribution of Net Sales by Region

(FYE 2013, Consolidated)



■ Japan  
■ North America  
■ Europe  
■ Asia / Oceania  
■ Other Regions

# Statements from Stakeholders

## From a Customer

**Tsubaki Linisort® helped improve operational efficiency.** We chose Tsubaki Linisort® because it was easy to use, highly efficient, exceptionally precise, and helped reduce consumption of materials and disposal items. While we faced many obstacles in introducing this system, we were successful in the end thanks to Tsubaki's all-out support.

These obstacles included the short timeframe imposed on the installation of only three months after the order was placed, an incredibly difficult schedule considering that we operate 24 hours a day, 365 days a year, and that there was no precedent for the installation of such a system at our company. Another obstacle was the fact that the installation effort needed to be coordinated with other companies.

Overcoming these obstacles, we were able to start operating

our Tsubaki Linisort system in April 2012. The strong support of Tsubaki enabled us to introduce this system with minimal exposure to the difficulties we had imagined, and we began seeing benefits just three days after its installation. Moreover, Linisort has proven incredibly easy to operate. Certain parts of the system's operation are conducted by employees with disabilities, thereby allowing us to improve employment conditions for such individuals.

I would like to extend my deepest appreciation to all those at Tsubakimoto Chain who helped us install our Tsubaki Linisort system.

**Shinobu Yotsumoto**

Manager of Processing Section and  
ISO Promotion Logistics Department  
A-Coop Kagoshima Co., Ltd.



## From the Community

**Tsubakimoto Chain is an essential part of Kyotanabe City.** Tsubakimoto Chain's plant tours for parents and their children during summer vacation are incredibly well-known among the citizens of Kyotanabe City. In fact, they are so popular that we receive inquiries before the start of summer vacation. To many it must seem quite the challenge to portray manufacturing in a fun and appealing manner to children. Nonetheless, Tsubaki has managed to create a program that takes into mind the needs of elementary schools, winning much acclaim from participants. City officials that assist with these tours also experience the joy of these events, particularly when they see the children's eyes light up with excitement. Also, the warm reception we receive at

Tsubaki's Kyotanabe Plant speaks volumes of the Company's friendly corporate culture.

In addition, the plant's fields are made open to the public, with other areas opened up in April for cherry blossom viewing, and Tsubaki proactively participates in local projects and events. In the future, I hope that the Company continues to play a leadership role in advancing local industry so that Kyotanabe City may come to be equated with Tsubakimoto Chain.

**Kenji Sakamoto**

Chief of Industry Promotion Section,  
Economic Development Department  
Kyotanabe City, Kyoto Prefecture



## From a Business Partner

**Tsubaki's dantotsu activities helped us develop human resources in addition to improving productivity.**

In 2010, Tsubakimoto Chain began introducing its *dantotsu* activities to business partners. These activities are steeped in Tsubaki's devotion to reduce in-process defects to zero, making them different from conventional improvement activities. As such, it was difficult to bring all employees to a common understanding with regard to these activities. Nonetheless, I feel that I grew significantly when advancing these activities in my first position as leader. Other members of the *dantotsu* activity team began proposing their own improvement suggestions as we pushed forward with reforms. Moreover, pursuing the challenging goals of the *dantotsu* activities helped workers realize a level of

awareness and perceptiveness that they had not formerly possessed. For these reasons, I feel that Tsubaki's *dantotsu* activities also helped us develop our human resources, the principle area in which we had been facing issues.

Since we began implementing *dantotsu* activities, Tsubakimoto Chain has constantly provided us with courteous guidance in a number of areas, something for which we are most appreciative. I look forward to continuing our relationship with Tsubaki into the future.

**Tomonori Shishido**

Manufacturing Group  
I&P Co., Ltd.



## From an Employee

**I was able to study technologies in Germany through the Company's overseas trainee system.**

I worked as a trainee at a German subsidiary for one year starting in 2010. Compared to the exceptionally cautious nature of operations in Japan, business in Germany was conducted rationally and decisions were made quickly.

In addition to the overseas trainee system, the Company also provides a comprehensive range of training programs including on-the-job training for new employees, rank-based training, and programs offered through the Tsubaki Techno School. I have found the Tsubaki Techno School to be particularly advantageous. The large volume of assignments provided through the school's programs mean that studying while working is no easy task. Regardless, the school is a spectacular way to systematically

learn about material engineering and other foundation and advanced technologies.

Presently, I am busy advancing a project for replacing large-scale Cableveyors in a harbor's facility. My partner in this project is Peter Otten (photograph right), who was dispatched to Japan from a German subsidiary in April 2013. This was our first time to receive such an order, which we were able to capture through advertising that called upon our track record in Germany and our detailed technical data. In the future, I hope to further refine my technical skills while also helping the Company develop products more quickly.



**Satoshi Oomori (left)**

Supervision of Cableveyor Technology Section  
Cableveyor Division, Chain Manufacturing Division  
Tsubakimoto Chain Co.

Message from the President to Stakeholders

## Year of Completing the Strengthening of Management Foundations

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



Isamu Osa  
President and Representative Director

### FYE 2013 Business Results Report

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

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

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

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

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

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

### Quantitative Targets Largely Reached

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

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

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

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

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

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

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

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

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

### Breaking Away from Past Successes and Established Ideas

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

## Financial Section: Aiming to Strengthen Competitiveness Even Further

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

### Laying the Foundations for Bold Structural Reform

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

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

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

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

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

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





## Toward a Global Company Capable of Strong Sustained Growth

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

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

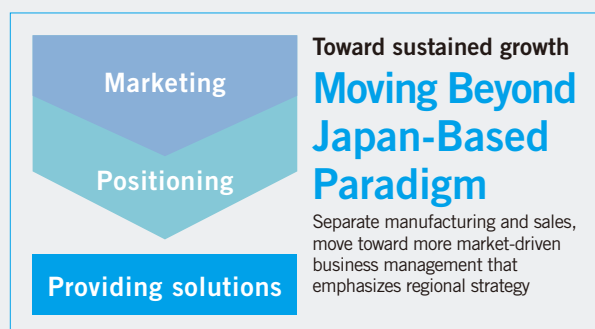
### Aiming for a Clearly Stated Dividend Policy

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

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

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

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



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

### Restructuring Tirelessly to Increase Corporate Value Continuously

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

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

August 2013

Isamu Osa  
President and Representative Director

**FOCUS ON**

# Laying Strategic Foundations to Strengthen Growth Potential

## Pursuing M&A Actively

### Key Points

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

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

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

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

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

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

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



Tsubaki Kabelschlepp GmbH



Mayfran International, Inc.

## Establishing New Bases Overseas

### Key Points

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

### Established Manufacturing Company for Industrial Chains in China

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

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



Tsubakimoto Chain (Tianjin) Co., Ltd.

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

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

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



PT. Tsubaki Indonesia Manufacturing



PT. Tsubaki Indonesia Trading

# Review of Operations

## Chain and Power Transmission Units and Components Operations

### ■ Operating Environment and Performance

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

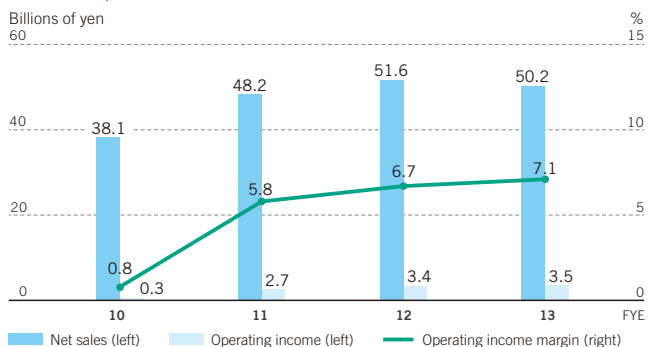
In our Chain Operations, overseas expansion began in the early 1970s when we commenced operations in the United States. Later, in the mid-1980s, we began acquiring U.S. chain manufacturers and commenced local production. Today, Chain Operations are performing impressively in the U.S. market, particularly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

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

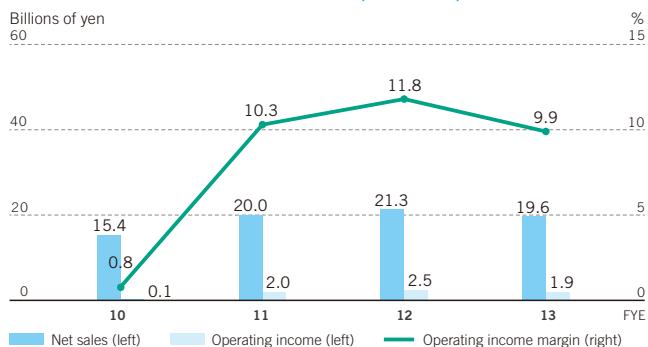
Over the three-year period beginning with the fiscal year ended March 31, 2011, overseas demand has sufficiently compensated for sluggish domestic demand, enabling our Chain Operations to achieve average yearly growth in net sales of 9.6%. This solid overseas demand has also helped the operating income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

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

#### ■ Chain Operations



#### ■ Power Transmission Units and Components Operations



## ■ Basic Strategies

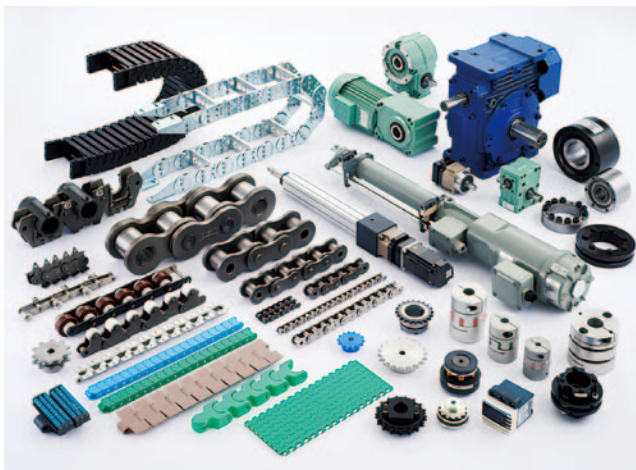
### Advancement in the Chinese Market

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

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

### Expansion in Asian and European markets

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



Diverse product lineup

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

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

### Establishment of General Technical Information Website

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

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

## Automotive Parts Operations

### Operating Environment and Performance

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

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

### Basic Strategies

#### Further Differentiation of Quality and Performance

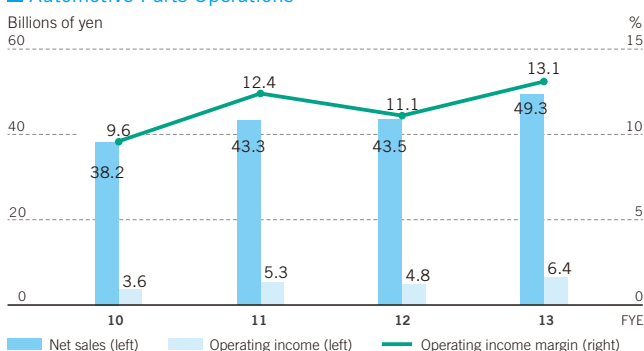
The ability of Tsubaki's timing chain drive systems to maintain a high market share can largely be attributed to two factors: the fact that they have been differentiated in terms of both quality and performance and the Company's global production and supply systems. Our products realize high levels of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

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

unparalleled levels.

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

#### Automotive Parts Operations



#### Pursuit of Further Cost Reductions

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

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



Zerotech® Series

## Materials Handling Systems Operations

### Operating Environment and Performance

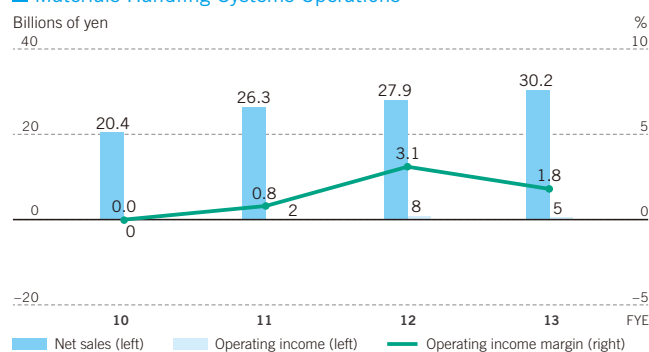
In our Materials Handling Systems Operations, we have developed a strong reputation for our technical proposal capabilities with regard to special-use conveyance systems including high-speed automatic sorting systems and paper feeding systems for the newspaper industry. We also have operations in fields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

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

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

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

### Materials Handling Systems Operations



### Basic Strategies

#### Expansion into Asian Markets

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

#### Effective Utilization of Intellectual Properties

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

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

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



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

## TOPICS

### Establishment of Automotive Parts Manufacturing Subsidiary in Mexico

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



Mexican automotive parts production base (conceptual drawing)

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

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



Indonesian materials handling systems manufacturing subsidiary

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

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



Ceremony commemorating start of operations held on May 13, 2013

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

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



Airport boarding bridge containing power cylinders and several other Tsubaki products



# Strengthening Operating Foundations

As one of the values defined in its mission statement, the Tsubaki Group declares that “We will contribute to overall social and economic development by manufacturing products that satisfy customers.” This value serves as the foundation of our business and social contribution activities, and we take this value to heart as we communicate with our various stakeholders with the aim of living up to their expectations and trust.

This value has been passed down through Tsubakimoto Chain’s operations since the Company was founded in 1917. Today, it continues to drive us forward on our quest to create value by strengthening manufacturing capabilities and human resources management as well as through social contribution activities and environmental preservation.

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## **34 Human Resources Management**

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## **36 Social Contribution**

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## **38 Environmental Preservation**

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## **41 Corporate Governance**

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## **44 Board of Directors, Corporate Auditors, and Executive Officers**

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# Manufacturing Capabilities

## Tsubaki's first quality creation driver: Manufacturing capabilities that can meet customers' needs for quality

Tsubaki provides products that exceed customers' expectations with regard to quality, prices, delivery periods, and eco-friendliness. We are able to accomplish this by leveraging the development capabilities that underpin our technological prowess and intellectual property strategies, the production technology capabilities used to supply products that meet customers' needs with high quality through global production systems, and Tsubaki's unique manufacturing capabilities that are born out of these strengths.

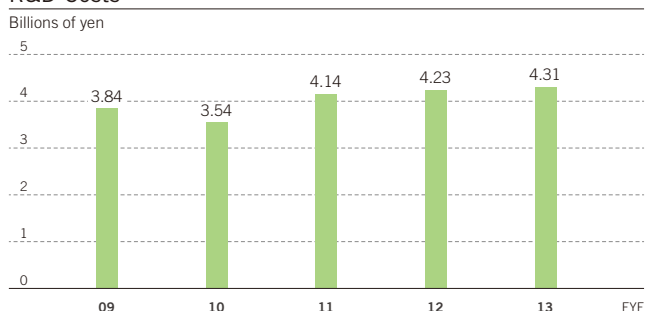
### Basic Policies and Improvement Measures

The Tsubaki Group is working to strengthen its manufacturing capabilities in pursuit of medium- to long-term improvements in corporate value.

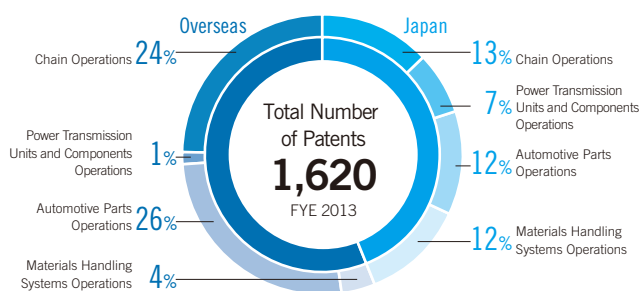
One element of our manufacturing capabilities lies in our development capabilities. We aim to enhance these capabilities through initiatives that link R&D, business, and intellectual property strategies to differentiate our products. Another

element is our production technology capabilities, which we are working to reinforce through *dantotsu* activities and other quality and production improvement activities conducted with the goal of reducing defects to zero. Further, the benefits of such reforms will be spread to Group companies in Japan and overseas to strengthen Tsubaki's manufacturing capabilities on a global scale.

#### R&D Costs



#### Distribution of Patents Held by the Tsubaki Group



### Enhancing Development Capabilities

#### R&D and Intellectual Properties that Support Technical Prowess

Today, the Tsubaki Group boasts a unique technical prowess that gives it an advantage on the global market. This prowess has been developed by evolving the technologies used in the drive and conveyance functions of Tsubaki's chains, its mainstay products since its founding—to create power transmission and materials handling technologies.

Approximately 360 employees, roughly 5% of the Group's total staff, have been assigned to the Development & Technology Center, responsible for R&D, or to the technology and production technology divisions of specific businesses. In addition, we

collaborate with external organizations, including Yokohama National University, Osaka Prefecture University, and Keio University, to advance the development of cutting-edge technologies. Further, in the fiscal year ended March 31, 2013, we incurred total R&D costs of ¥4,319 million, of which ¥783 million was devoted to Chain Operations, ¥322 million to Power Transmission Units and Components Operations, ¥2,374 million to Automotive Parts Operations, and ¥839 million to Materials Handling Systems Operations.

For new and other important products, we are working to

develop a patent map consisting of basic patents, applied patents, and process patents, and are taking steps to comprehensively protect and strengthen our intellectual property portfolio.

As a result, the number of patents held by the Group in Japan and overseas grows with each coming year.

## Reinforcing Production Technology Capabilities

### Manufacturing Reform Initiatives in Automotive Parts Operations

In Automotive Parts Operations, we are conducting *dantotsu* activities—Tsubaki’s unique brand of improvement activities—to improve quality and productivity at all production bases. In the fiscal year ended March 31, 2013, we implemented such activities at over 200 production lines while also holding educational drills and providing forums for the sharing of techniques.

We first began conducting *dantotsu* activities in 2008, when, under the guidance of Toyota Motor Corporation, we constructed a model line in our Saitama Plant. Since then, these activities have been continued with the aim of reducing quality defects and forced line halts to zero. Moreover, we are working to spread the benefits of these activities to all Tsubaki Group manufacturing companies worldwide, and are also sharing such reforms with business partners (suppliers).

In February 2013, we completed construction of a new assembly factory building at our Saitama Plant to house assembly lines, which saw the start of mass production operations in April of this year. In addition, we implemented a number of manufacturing reform initiatives known as the “5E Reforms,” as they targeted improvements based on the themes of efficiency, economy, ecology, emotion, and evolution. Through such efforts, we aim to install a level of functionality that will allow this factory to serve as a model for manufacturing operations worldwide.



New assembly factory building at Saitama Plant

### Sharing of Technologies in Chain Operations

For our Chain Operations, we have constructed global manufacturing systems with bases in Japan, the United States, Taiwan, and China. To further the development of these systems, we work to share Tsubaki’s stance toward manufacturing and quality throughout all the regions in which we operate.

The Kyotonabe Plant in Japan serves as our flagship factory for industrial chains, and is actively engaged in exchanges with Group factories overseas as it works to share technologies, technical skills, and expertise. As one facet of these activities, in the fiscal year ended March 31, 2013, team leaders from the new factory in Tianjin, China, were invited to the Kyotonabe

Plant to receive hands-on manufacturing instruction and participate in quality and safety training.



Employee from factory in Tianjin, China (right), receiving manufacturing instruction at the Kyotonabe Plant

### Manufacturing Foundation Strengthening Initiatives Conducted Under Medium-Term Management Plan 2012

Business	Initiatives	Results	
Chain	Construction of revolutionary production lines	Aim: Reduce cost of chain for specific applications Effect: Improved productivity through technological innovation and increased speed, achieved synchronization and in-line operations, and reduced labor requirements	
Power Transmission Units and Components	Intensive production of hypoid motor (reducers) in China	Aim: Reduce costs through intensive production in China and enhance competitiveness in Japan and China Effect: Achieved sales growth in China	
Automotive Parts	<i>Dantotsu</i> improvement activities and manufacturing reform initiatives	Aim: Improve productivity in seven regions worldwide, reduce costs, and improve productivity by 30% for the new assembly factory building in the Saitama Plant and 15% for the entire Saitama Plant Effect: Currently promoting cost reductions of 30–50% through product specification changes at customer request	
Materials Handling Systems	Introduction of modular design	Aim: Improve design productivity (item processing efficiency) Effect: Realized 60% reduction in quantity of blueprints for Linisort (sorting systems) and 50% reduction in indirect worker-hours through reduction in drawings	

# Human Resources Management

## Tsubaki's second quality creation driver: Capable human resources supporting global operations

In addition to Tsubaki's manufacturing capabilities, another management resource critical to providing high-value-added products is our human resources. It is impossible for a company to grow if its employees do not. Based on this belief, we are actively cultivating young technicians and developing human resources capable of competing on the global stage. At the same time, the Company is developing fair evaluation standards to enable employees to feel motivated and empowered in their work.

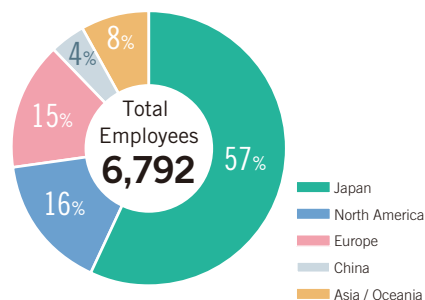
### Basic Policies and Improvement Measures

Due to proactive globalization efforts, we are seeing yearly increases in the ratio of consolidated net sales generated overseas and are also coming to conduct a greater volume of production outside of Japan. In addition, over 40% of the Tsubaki Group's staff is now employed by overseas subsidiaries. Accordingly, it is ever more important for employees to be able to respond to globalization trends, regardless of position or rank.

Going forward, it is vital that we pass on our "manufacturing genes" to employees that will help Tsubaki create value in the future, while also giving rise to global innovations that are not limited within the current scope of operations. In recognition of this necessity, we are actively providing employees with various opportunities to study and improve their skills, and are committed to providing a comfortable workplace environment. In these manners, we aim to ensure that all employees are highly motivated.

Distribution of Employees By Region

(As of March 31, 2013)



### Fostering Human Resources

#### Grounds for Training Young Technicians—Tsubaki Techno School

With the aim of enabling all employees to improve their expertise and skills, Tsubaki conducts training programs and offers other skill development opportunities for employees based on their position and rank. One way it provides these opportunities is through the Tsubaki Techno School, a training ground for young technicians where they can learn foundation technologies and other specialized technical skills that are directly applicable to their work.

The school has developed a robust curriculum including courses ranging from those for beginners, which teach foundation and processing technologies, to intermediate courses,

where engineers learn material, control, and information engineering, and technical courses developed to improve monitoring capabilities and transmit technical expertise. These courses are taught by managers standing at the front lines of operations or by retired Tsubaki employees, who use anecdotes in teaching the Company's unique lecture programs.

Since the Tsubaki Techno School was founded in April 1998, approximately 6,400 employees have completed half-year courses at the school, consisting of 48 hours of classes, through which they acquired skills that are now being put into practice in daily operations.

#### First Annual Tsubaki Technical Skills Olympics

In October 2012, we held the first annual Tsubaki Technical Skills Olympics at the Kyotanabe Plant and two other sites. This competition consisted of seven events that tested employees' skills in basic areas common among all the Group's businesses.

A total of 51 elite employees from Group companies throughout Japan assembled for the fierce competition, which took place over a three-day stretch.

We expect that holding such events will lead to improved

employee motivation while also helping strengthen manufacturing foundations through inter-division exchanges. As such, we have decided to hold the Tsubaki Technical Skills Olympics

annually, and will work to develop it into a global event in the future so that employees from overseas subsidiaries may also participate (see page 15 for details).

## Cultivation of Human Resources that Can Compete on the Global Stage

Aiming to cultivate human resources that can compete on the global stage, we provide employees with a wide range of educational opportunities from the moment they enter the Company, including those that teach languages or business manners or help them to better understand other cultures. Another such program is the overseas trainee system, which allows young employees to be dispatched to overseas subsidiaries for one

year of training. In the fiscal year ended March 31, 2013, a total of 15 employees took advantage of this program, and six employees utilized the program in the previous year.



Employee dispatched to British subsidiary through the overseas trainee system

## Rank-Based Training

The Company provides various training programs for employees based on their position and rank within the organization.

For employees with less than three years' experience at the Company	For general employees	For managers (division and section managers)
<ul style="list-style-type: none"> <li>Comprehensive quality control training (Graph, data management, and analytical skills)</li> <li>Teamwork training</li> <li>New-employee training by business division (hands-on instruction at factories, etc.)</li> <li>Group training for new employees</li> </ul>	<ul style="list-style-type: none"> <li>Training prior to promotion to managerial position</li> <li>Leadership training</li> <li>Logical thinking training</li> <li>Inquisitive analysis training</li> </ul>	<ul style="list-style-type: none"> <li>Manager training</li> <li>External dispatch training</li> <li>SAT training (Basic skills necessary for managers)</li> </ul>

## Enhancing Workplace Environment

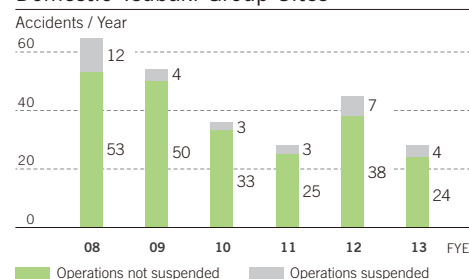
### Safe and Comfortable Workplace Environment

At the Tsubaki Group, we realize that safety is our highest priority as a manufacturing company, and we are therefore working to prevent occupational accidents and help employees remain healthy. As one facet of these efforts, in February 2009 we established the Tsubaki Group Safety Committee, which guides us as we implement initiatives centered on risk assessment activities and occupational safety and health education activities.

In addition, during the fiscal year ended March 31, 2013, we began conducting checks by senior management in which top-ranking managers personally evaluate past accident sites and the prevention measures in place at these sites. We have also defined the goal of making safety confirmation through a defined set of hand gestures and calls a shared Group practice with the

aim of encouraging all employees to be aware of and to make a habit of safety confirmation. Initiatives toward entrenching this practice are currently under way.

Number of Work-Related Accidents at Domestic Tsubaki Group Sites



### Promotion of Work-Life Balance

In Japan, Tsubakimoto Chain is proactively developing an environment that is conducive to employees hoping to work while raising children or nursing family members. To this end, we have introduced flextime and discretionary labor systems. In addition, we encourage employees to take consecutive days off, which has resulted in a rise in leave acquisition, and are striving to shorten work hours. We are also working to cultivate a workplace atmosphere that is understanding toward employees taking childcare or nursing leave, and have instituted a plethora of measures to help employees work stably at the Company. For

example, we allow employees to take leave for periods that exceed the legally-mandated minimum and have introduced systems under which paid leave days that have expired are accumulated and made usable for special purposes, such as nursing family members.

#### More information available online

For information regarding the Company's human resource evaluation systems, employment of people with disabilities, and other matters, please refer to the environmental and social contribution activities section of Tsubakimoto Chain's website (Japanese only).

# Social Contribution

## Tsubaki's third quality creation driver: Coexistence with local communities

In its quest to create value, the Tsubaki Group is supported by its various stakeholders. This support comes in such forms as the land on which factories are built and the people who staff these facilities, all of which are provided by local societies. To repay society for these gifts, we work to create employment opportunities and economic benefits, and also conduct environmental preservation and social contribution activities. We believe this is a win-win relationship born out of our modest, ongoing efforts to build bonds of trust with society.

### Basic Policies and Improvement Measures

In our mission statement, one of the values declares that “We will contribute to the development of local societies as a good corporate citizen.” Such contribution does not just mean complying with the laws and social rules of each region and country we operate in, it also includes actively working to build

trust-based relationships with society. These efforts involve a diverse range of activities. For example, we make our factories open toward the community and provide support for children that will shape the future. In addition, overseas Group companies place emphasis on charity and volunteer activities.

### Making Factories Open Toward the Community

#### Hands-On Manufacturing Tours at the Kyotanabe Plant

Since the 2001 relocation of the Kyotanabe Plant, located in Kyoto Prefecture, we have strived to operate the factory in a manner that is open toward the community, and have worked to build positive relationships with related municipal governments and members of the community. In particular, working together with Kyotanabe City, we began holding factory tours for children and their parents during summer vacation in 2008. These tours serve as a valuable opportunity for us to communicate to society the type of company that Tsubaki is.

This unique tour program was developed out of the plant's commitment toward supporting the education of the children that will shape the future of society, a goal that we aim to accomplish by showing them the joy of manufacturing. In August 2012, the program was held for the fifth time. The number of local elementary school children and parents welcomed to the plant reached 80 over the two-day period, while the

number of applications received was much more, a testament to the event's popularity.

The Kyotanabe Plant also loans employees to teach special classes at local high schools, participates in various city events, has employees that are active in local committees, and is otherwise working to maintain a close relationship with the community.



Conveyor chain explanation using fun and easy-to-understand picture cards

#### Work-Experience Program at Hyogo Plant

Since 2001, the Hyogo Plant has held a work-experience program known as “Try-Do Week,” through which local junior high school students are granted the opportunity to experience work at our factory for one week. In the fiscal year ended

March 31, 2013, two children participated and experienced factory work tasks such as processing, assembly, and production management.

## Support for Fire Prevention Initiatives

The Tsubaki Group has supported fire prevention initiatives on an ongoing basis. In the fiscal year ended March 31, 2013, the Kyoto Plant, located in Nagaokakyo City, Kyoto Prefecture, opened its grounds to be used for firefighting drills held by the Kyoto Prefectural Firefighting Association for two cities and one

town. Also, a team from the Kyotonabe Plant participated in a drill competition for firefighting brigades in Kyotonabe City. Meanwhile, the Hyogo Plant's team won a tournament that tested practical firefighting techniques held in Kasai City for its second year in a row.

## Social Contribution Overseas

### ● Participation in Charity Events for Fighting Cancer in the United States and the United Kingdom

Since 2002, a team of volunteer employees at U.S. Tsubaki Automotive, LLC, known as the "Chain Gang" has been participating in the Relay for Life event held by the American Cancer Society. This event is held at 5,000 locations throughout the United States as well as in 20 countries worldwide, with the aim of collecting donations to support cancer victims and their families and fund research. In addition, the Chain Gang collects donations throughout the year via self-planned events as it works to form a chain "linking" all of society together in the fight against cancer.



Chain Gang team of employee volunteers in the United States

At Tsubakimoto U.K. Ltd., almost all employees participate in Wear it Pink Day, an event held with the aim of collecting donations to fund breast cancer research, and Wrong Trousers Day, which was designed to support hospital-bound youngsters. These events entail collecting donations in humorous guises, such as pink outfits or mismatched top and bottom combinations, thereby bringing a British sense of humor into the donation drives and allowing participants to contribute to society while having a good time.



Uniquely British Wear it Pink Day charity event

### ● Environmental Preservation and Social Contribution in Thailand

Tsubakimoto Automotive (Thailand) Co., Ltd., believes environmental preservation and social contribution activities are of the utmost importance, and is participating in a mangrove reforestation project as part of these efforts. Mangrove forests play an important role in developing rich, healthy ecosystems and protecting biodiversity, and also absorb large quantities of CO<sub>2</sub>. However, in recent years, industrial development has resulted in a deforestation trend that is driving these trees to the brink of extinction. In the fiscal year ended March 31, 2013, 45 employees from this subsidiary participated in the program, planting 2,040 mangrove trees. Moreover, employees have planted approximately 7,200 trees since the subsidiary began participating in this project during 2007, helping realize reductions in CO<sub>2</sub> emitted into the atmosphere to the extent of 72 tons per year.

In addition, employees at Tsubakimoto Automotive

(Thailand) plan and conduct a variety of volunteer activities. For example, employees collected and returned bottles as well as plastic and glass, and used the proceeds to purchase a 2,000 liter water tank, which was donated to an elementary school in an underpopulated area.



Mangrove reforestation project in Thailand

# Environmental Preservation

## Tsubaki's fourth quality creation driver: Integrated environmental management

Manufacturing processes require us to consume significant amounts of natural resources and energy. At the same time, preserving the global environment is recognized as an issue to be faced by all of humanity. In light of this recognition, the Tsubaki Group is working to minimize its environmental footprint by managing energy usage, while also developing eco-products to accelerate the contributions of its business to society.

### Basic Policies and Improvement Measures

#### 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.**

#### Fundamental Environmental Policy

- We will acknowledge the environmental impact of our operations, products, and services. In the interests of environmental conservation, we will use our creativity to exhibit industry leadership in reducing our environmental load.
- We will create a management system for environmental conservation and will promote pollution control and continual improvement.
- We will strictly comply with environmental laws, rules, and regulations and will seek to develop good relationships with our stakeholders.
- Through environmental training and in-house public relations, we will work to enhance awareness of environmental conservation among all Tsubaki Group employees.

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

In accordance with its environmental philosophy and fundamental environmental policy, the Tsubaki Group has defined long-term environmental preservation objectives and developed an integrated environmental management system centered on the Environmental Management Committee. This committee constructs environmental objectives for each fiscal year, and periodically

monitors progress toward accomplishing these objectives.

We have also coined the term Eco & Eco (ecology and economy) to emphasize our focus on developing new products that boast both ecological and economic benefits (see page 10 for details). In this way, we aim to create new value unique to the Tsubaki Group.

### FYE 2013 Environmental Objectives, Results, and Evaluation

Item	FYE 2013 environmental objectives	FYE 2013 results	Evaluation
Expansion of sales of eco-products	Entrench the concept of Eco & Eco*1	Developed systems for monitoring quantitative CO <sub>2</sub> reduction data for eco-product usage	○
Reduction of CO <sub>2</sub> emissions	1. Achieve 1% year-on-year reduction in total emissions 2. Achieve 3% year-on-year reduction in emissions intensity	1. Met goal by reducing total emissions by 4% 2. Failed to meet goal by reducing intensity by only 0.7%	△
Reduction of industrial waste, etc.	Achieve recycling rate*2 of 98% or higher (full-year average)	Maintained annual average recycling rate of over 98%	○
Reduction in use of chemical substances	Reduce use of chemical substances in manufacturing processes	Decreased emissions into atmosphere by 9.9%, decreased transfers by 8.5%	○
Progress in green procurement	Utilize green procurement guidelines	Reduced procurement of harmful chemical substances and compiled related database	○
Globalization of environmental management	Develop common objectives for overseas companies	Formulated objectives for CO <sub>2</sub> emissions, and advanced initiatives Began collecting water usage data	○
Protection of water resources	Commence water conservation activities at certain bases	Introduced waterless toilets, and collected rain water to use for the watering of plants	○

\*1 Eco & Eco: Ecology and Economy

\*2 Recycling rate: The ratio of the total weight of reused, material-recycled, and thermal-recycled waste to the total amount of waste



## Achieving CO<sub>2</sub> Reductions Over Twice as Large as in Previous Years

In manufacturing the Tsubaki Group's mainstay chains, heat treatment plays an important role in ensuring the durability of finished products, and a large portion of our total energy usage is devoted to this process. Accordingly, we are taking steps to reduce the amount of energy used for this process. For example, at our Saitama Plant, we attached insulating covers to heat treatment furnaces as part of our efforts to improve the efficiency of heat treatment processes and subsequently the overall energy efficiency of the plant. Further, we are working to lower electricity usage by applying heat-insulating paint to factories and installing solar panels.

In addition to the abovementioned initiatives, other activities conducted during the fiscal year ended March 31, 2013, included switching to air pressure devices that use invertors and installing LED lighting. We also instituted electricity conservation measures during the summer and winter, such as reducing and

turning off lighting and managing air conditioning. These measures proved highly successful, enabling us to achieve full-year reductions in CO<sub>2</sub> emissions that were over twice as large as those accomplished in previous years.



Insulating cover attached to a large-scale retort furnace

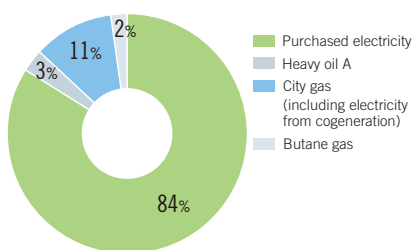
## Promoting Waste Recycling

The Tsubaki Group promotes the recycling of substances that had previously been considered waste. For example, blanking chain plates results in the production of iron scraps, which often become covered in oil and end up requiring painstaking processing before disposal. At Tsubaki, we process these scraps with equipment that strips the oil from them, and then treat this oil with filtration equipment so that it may be reused in other processes, thereby promoting recycling.

Further, we sort waste, remove water from hydrous sludge to lower the weight of waste, and recycle packaging materials, and are implementing other measures to reduce and recycle waste.

In the fiscal year ended March 31, 2013, the Company's waste output, including industrial waste and non-industrial waste, was 5,171 tons, a decrease of 8.9% year on year. The average annual recycling rate was 98%, relatively unchanged from the previous fiscal year.

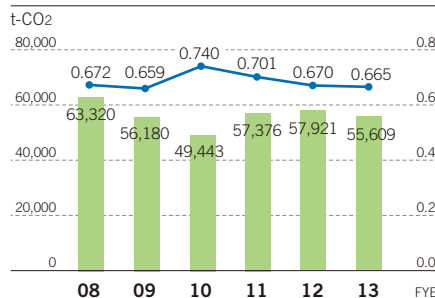
### Breakdown of Energy Usage



Total energy usage  
1,364,853GJ\*

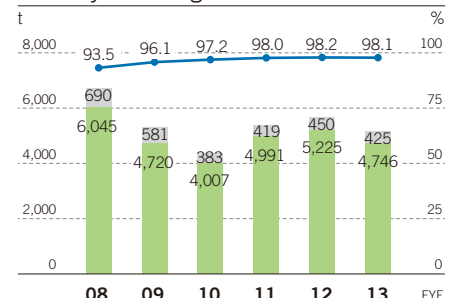
\* Gigajoule (GJ): Unit of energy equivalent to one billion (10<sup>9</sup>) joules

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



CO<sub>2</sub> emissions (left)  
Emissions intensity

### Waste Emissions / Recycling Rate (Fiscal year average)



Industrial waste (left)  
Non-industrial waste (left)  
Recycling rate

**4%**

Year-on-year reduction in CO<sub>2</sub> emissions

**98.1%**

Of total waste recycled

[More information available online](#)

For information regarding the Company's climate change prevention measures, chemical substance management initiatives, and other matters, please refer to the environmental and social contribution activities section of Tsubakimoto Chain's website (Japanese only).

## FYE 2013 Energy Usage

### Flow of Energy and Materials

INPUT		→ Manufacturing process	OUTPUT	
Raw materials	63,151t		Total product manufacturing	¥83,602 million
Electricity	114,592 thousand kWh	Valuables	22,137t	
Heavy oil	984kL	Industrial waste	4,746t	
Gasoline	102kL	Non-industrial waste	425t	
Kerosene	17kL	Recycle	5,070t	
Energy	Light oil 5kL	Other	101t	
City gas (excluding cogeneration)	2,862 thousand m <sup>3</sup>	Hazardous chemical substances under the PRTR Law	143t	
City gas (for cogeneration)	529 thousand m <sup>3</sup>	Release / transfer		
Butane gas	565t	Release to the atmosphere		
Propane gas	93 thousand m <sup>3</sup>	CO <sub>2</sub>	55,609 t-CO <sub>2</sub>	
Water	396 thousand m <sup>3</sup>	Release to water	(396 thousand m <sup>3</sup> )	

Scope of application: Tsubakimoto Chain Co. (Kyotanabe Plant, Saitama Plant), Tsubaki Emerson Co., Tsubakimoto Custom Chain Co., Tsubakimoto Sprocket Co., Tsubakimoto Bulk Systems Corp., Tsubakimoto Mayfran Inc., Tsubakimoto Iron Casting Co., Ltd., and Tsubaki Yamakyu Chain Co.  
 Period of application: April 1, 2012, to March 31, 2013

## Environmental Accounting

In the fiscal year ended March 31, 2013, the Company actively invested in energy-saving equipment in conjunction with the construction of a new assembly factory building at the Saitama Plant (see page 33 for details). In consideration of the environment, we installed solar panels, used only LED lighting for the entire building, and introduced gas heat pump air-conditioning systems\*. This resulted in approximately ¥860 million being invested in environmental measures. We also incurred costs associated with generators used as part of summer time electricity conservation measures, which realized our greatest reductions in electricity

use. However, total costs were unchanged from the previous fiscal year at approximately ¥7.7 billion because of our efforts to limit other costs.

The Tsubaki Group employs an environmental accounting system to analyze the costs associated with environmental preservation activities as well as the benefits of those activities. The findings of these analyses are reflected in our ongoing environmental preservation activities and related information is disclosed.

\* Systems that perform air conditioning using air pressure devices powered by gas engines

### Environmental Preservation Costs (Business Activity Classification)

Classification	Details of major initiatives	Thousands of yen	
		Amount invested	Costs
(1) Business area costs		851,978	458,232
Breakdown	(1) - 1 Pollution prevention costs	192,893	186,677
	(1) - 2 Global environmental preservation costs	659,086	114,281
	(1) - 3 Resource recycling costs	0	157,274
(2) Upstream / downstream costs	Outsourcing analysis costs, such as substances with environmental impact	0	50
(3) Administration costs	Establishment and operation of environmental management systems (EMSs) worksite greening and maintenance, installation of air and water measurement equipment	5,508	175,680
(4) R&D costs	R&D of environment-friendly products (reduction of environmental burden during product use)	0	135,648
(5) Social activity costs	Regional environmental preservation initiatives	0	292
(6) Environmental remediation costs	Groundwater purification measures, etc.	0	0
Total		857,487	769,903

### Environmental Preservation Effects

Environmental preservation benefit categories	Environmental performance indicators (Unit)	FYE 2012	FYE 2013	Difference between base period and period under review (environmental conservation benefits)
Environmental preservation benefit related to waste or environmental impact originating from business activities	CO <sub>2</sub> emissions (t-CO <sub>2</sub> )	57,921	55,609	Decrease of 2,312 t-CO <sub>2</sub>
	Waste emissions (t)	5,675	5,171	Decrease of 504t
Environmental preservation benefit related to resources input into business activities	Water (thousand m <sup>3</sup> )	408	396	Decrease of 12 thousand m <sup>3</sup>

# Corporate Governance

## Tsubaki's fifth quality creation driver: Effective corporate governance as the foundation for business activities

As one of the values defined in its mission statement, the Tsubaki Group declares that "We will contribute to overall social and economic development by manufacturing products that satisfy customers." This value casts light on our devotion to contributing to society through our business activities. We recognize that effective corporate governance must form the foundation based on which we strive to accomplish this goal. For this reason, we position strengthening corporate governance as one of management's most important duties.

### Corporate Governance Systems

At the Tsubaki Group, managerial decisions are conducted by the Board of Directors, which consists of directors elected at the General Meeting of Shareholders. For operational execution, we employ an executive officer system. This system helps strengthen monitoring functions for decisions made by the Board of Directors and for operational execution, thereby improving managerial efficiency. In addition, the Strategy Committee has been established to deliberate on matters of particular importance to management, further reinforcing systems to guarantee proper operational execution. Also, corporate auditors attend Board of Directors' meetings and other important meetings to maintain an understanding of and to monitor managerial practices, and to ensure the appropriateness and soundness of management.

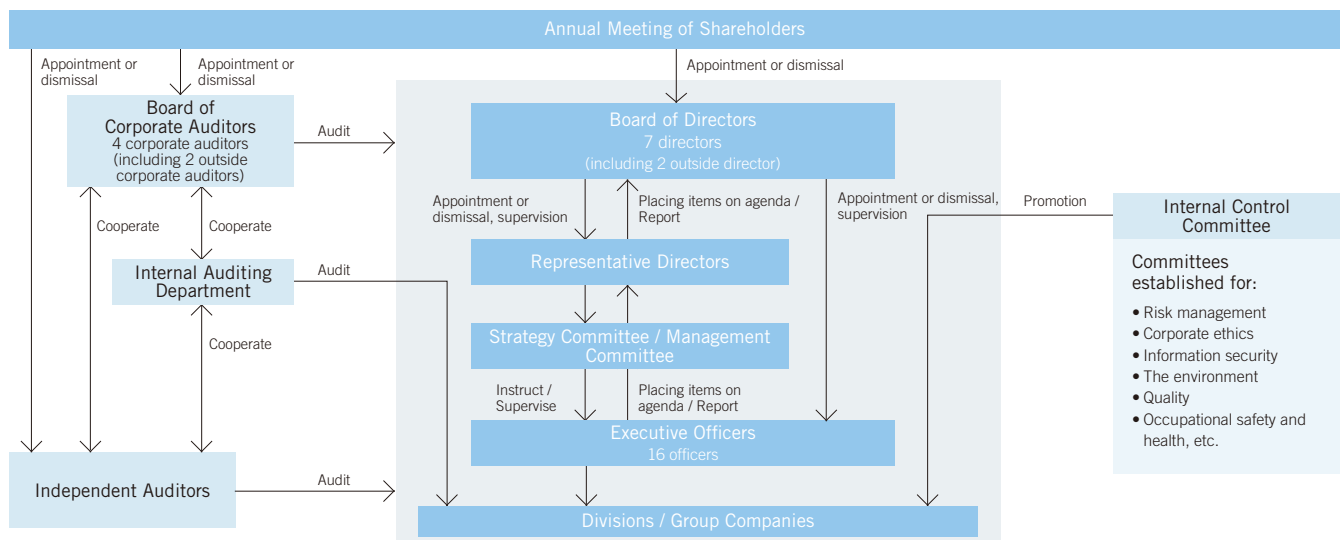
### Overview of Tsubaki's Corporate Governance Systems

(Figures for the fiscal year ended March 31, 2013)

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	7 (of which 2 are outside directors)
Number of corporate auditors	4 (of which 2 are outside corporate auditors)
Independent officers	2 outside directors and 2 outside corporate auditors
Meetings of the Board of Directors	16
Meetings of the Board of Corporate Auditors	19
Total compensation paid to directors	¥259 million paid to 7 directors (decided by the Board of Directors)
Total compensation paid to corporate auditors	¥65 million paid to 5 corporate auditors* (decided by the Board of Corporate Auditors)

\* Includes compensation paid to one corporate auditor that resigned from their position following the completion of their term in conjunction with conclusion of the 103rd General Meeting of Shareholders held on June 28, 2012

### Corporate Governance System



## Outside Directors and Corporate Auditors

The Company seeks to improve the transparency and objectivity of management and strengthen managerial supervision and monitoring functions. To this end, we employ two outside directors and two outside corporate auditors. The outside directors do not have any particular relationships with the Company that might cause a conflict of interest. Both of the Company's

outside corporate auditors possess a high degree of specialized expertise based on their experience as attorneys and certified public accountants. In addition, all outside directors and outside corporate auditors are independent officers as stipulated by the Tokyo Stock Exchange.

### Message from an Outside Director

The Tsubaki Group is currently accelerating the implementation of global strategies. For example, the Group's Automotive Parts Operations has a production system encompassing seven regions across the globe. At the same time, the Group is also expanding its other businesses overseas, rooting them in each region and considering regional characteristics.

These efforts are supported by Tsubaki's superior manufacturing capabilities. Each of Tsubaki's businesses operates in a highly specialized field in which the Company has a unique position. As such, Tsubaki's business is resilient to the pressures placed on profitability by competition. In regard to management

### Striving to Make the Tsubaki Group Even More Appealing

systems, the Company makes decisions flexibly and quickly on a daily basis while remaining informed by detailed market analyses. This is a source of the Tsubaki Group's competitiveness.

I have been involved in businesses in various regions around the world in the past, and have held positions as an outside director at two companies other than Tsubakimoto Chain. Based on this experience, I offer advice on matters that I feel the Tsubaki Group should consider when pursuing globalization. At the same time, I offer opinions from an outside perspective with the aim of guiding the Group in becoming even more appealing to its shareholders.



Hidetoshi Yajima  
Outside Director

## Internal Control System

The Tsubaki Group has formulated basic policies on internal control and internal control regulations. It has also established the Internal Control Committee, which, under the guidance of the president and representative director, is responsible for advancing ongoing internal control initiatives that are inclusive of the entire organization and participated in by all employees. The Group's internal control initiatives are based on three pillars:

(1) initiatives stipulated by the Companies Act, (2) initiatives described in the Financial Instruments and Exchange Act, and (3) initiatives conducted by the Group on a voluntary basis. Through these initiatives, we promote legal compliance, corporate ethics, risk management, and reliable disclosure in financial statements and other releases. In addition, such activities are used to improve operational efficiency.

## Tsubaki's Corporate Work Ethics

To serve as a clear code of conduct, we have formulated the Corporate Work Ethics, which are a clearly defined set of ethical guidelines and code of conduct. These standards are to be followed by all directors, executive officers, and employees, and we are working to raise the awareness of corporate ethics throughout the Group through training and other initiatives. The progress of these initiatives is periodically reported to the Board of Directors. Should a violation of the Corporate Work Ethics be discovered, the Ethics Committee will develop and implement the necessary measures to prevent the reoccurrence of violations.

This committee also administers penalties as appropriate, and is thus helping strengthen compliance systems. Further, we have established the Corporate Ethics Hotline to serve as a common venue for domestic Tsubaki Group employees to report any violations of the Corporate Work Ethics they may witness. This hotline can be used to receive consultation from or report issues to either an internal consultant or an outside lawyer\*.

\* The Corporate Ethics Hotline consists of separate venues for internal and external consultation and reporting.

## Risk Management

In accordance with its Risk Management Basic Strategy, the Tsubaki Group has established committees in relation to matters such as risk management, corporate ethics, information security, the environment, quality, and occupational safety and health. These committees operate under the Internal Control

Committee. With this system in place, we are continually identifying and evaluating risk factors, and are working to spread Groupwide awareness to prevent the actualization of risks and thereby reduce the potential damage of risks to the greatest degree possible.

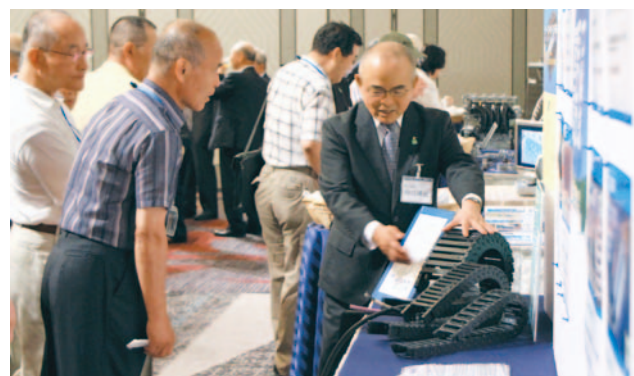
## Communication with Shareholders and Investors

We realize that, in order for the Tsubaki Group to continue growing, it is absolutely essential that we build strong bonds of trust with our shareholders, investors, and other stakeholders, and that this must be done by practicing accountability.

In this pursuit, we actively conduct investor relations (IR) 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 uploaded 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. Previously, such materials had been made available in both English and Japanese. Starting in the fiscal year ended March 31, 2010, however, we began providing such information in Chinese also. In this manner, we are working to bolster the content of information disclosed.

In addition, we mail convocation notices for the General Meeting of Shareholders three weeks before it is held, in principle. We also choose the site for the meeting in consideration of shareholders' needs to ensure maximum convenience. At

these meetings, information is not merely transmitted from the Company in a one-sided manner. Rather, we regard these meetings as an opportunity to practice reciprocal communication. Accordingly, we hold shareholders' panel 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' panel discussions at the General Meeting of Shareholders

## Fundamental 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 aim to provide our shareholders, investors, and other stakeholders with timely, impartial, accurate, and continuous disclosure of information.

### Business Risks

The Tsubaki Group has identified the following risks pertaining to its business operations as having the potential to significantly impact the decisions of investors.

Risks of Changes in the Operating Environment	Were a significant decline in demand to occur, particularly in the automobile industry, which represents the Group's largest customer, due to deterioration in economic conditions, the Group's business results could be materially impacted.
Risk of Increases in the Price of Steel and Other Raw Materials	Were the price of steel or other raw materials to increase rapidly, resulting in higher procurement costs and reduced profitability for the Group, the Group's business results could be materially impacted.
Risk of Natural Disasters	Were an earthquake, fire, or other major disaster to occur at an important production base, it could disrupt the Group's ability to provide a stable supply of its products and subsequently the Group's business results could be materially impacted.
Risks Related to Overseas Business Expansion	Were political or economic issues in a region in which the Group operates to cause temporary economic disruption or recession in that region, the Group's ability to procure parts or operate factories could be impacted, which in turn could reduce or delay the production of the Group's products and could potentially materially impact the Group's business results.
Risk of Fluctuations in Foreign Exchange Rates	Should foreign exchange rates fluctuate drastically to an extent that exceeds all possible expectations, the Group's business results could be materially impacted.
Risk of Violation of Intellectual Property Rights	Should a third-party entity violate the Group's intellectual property rights through unauthorized use or other means, or should lawsuits be brought against the Group by a third-party entity regarding the violation of intellectual property rights, the Group's business results and financial position could be materially impacted.
Risk of Product Defects	In the event that the Group's product liability insurance is not sufficient to cover compensation expenses or other expenses resulting from accidents caused by defective products, recalls, complaints, or other occurrences, the Group's business results and financial position could be materially impacted.

# Board of Directors, Corporate Auditors, and Executive Officers

As of June 27, 2013



## Isamu Osa ①

President and Representative Director  
Responsible for China Operations

## Toru Fujiwara ②

Director and Senior Managing  
Executive Officer  
Global Automotive Parts Business /  
Automotive Parts Division /  
Saitama Plant

## Tadasu Suzuki ③

Director and Managing  
Executive Officer  
Chain Manufacturing Division /  
Global Optimized Chain  
Production / Kyotanabe Plant

## Tetsuya Yamamoto ④

Director and Managing  
Executive Officer  
Management Planning / Power  
Transmission Units and Components  
Operations / President, U.S. Tsubaki  
Holdings, Inc.

## Hideaki Haruna ⑤

Director and Managing  
Executive Officer  
Materials Handling Division /  
Kyoto Plant / Nagoya Office

## Hidetoshi Yajima ⑥

Outside Director

## Shuji Abe ⑦

Outside Director



### Corporate Auditors (Standing)

Masahiro Takemura Kikuo Tomita

### Corporate Auditors (Outside)

Masaru Tokuda Takafumi Watanabe

### Senior Managing Executive Officers

Toshio Takahashi Masato Kondo

### Managing Executive Officer

Jiro Miyamoto

### Senior Executive Officers

Masaya Ushida Toshimitsu Sakai

### Executive Officers

Nobuaki Haga Hiromasa Kawaguchi Masahiko Yamamoto  
Hitoshi Kobayashi Yukihiro Fujii Yasushi Ohara  
Kenji Kose

# Financial Data and Supplementary Information

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**48** Report and Analysis of Consolidated Financial Condition and  
Results of Operations for FYE 2013

**50** Principal Tsubaki Group Companies

**51** Corporate Data and Stock Information

## 10-Year Consolidated Financial and Non-Financial Summary

Tsubakimoto Chain Co. and its consolidated subsidiaries  
Fiscal years from April 1 to March 31

	FYE 2004	FYE 2005	FYE 2006	FYE 2007
<b>For the year (Millions of yen)</b>				
Net sales	¥119,141	¥129,563	¥147,761	¥155,746
Operating income	7,950	10,447	13,830	16,008
Ordinary income	6,215	8,888	12,594	14,545
Net income	3,384	4,449	6,606	8,541
Capital expenditures	3,505	3,697	7,488	10,893
Depreciation and amortization	6,083	5,503	5,509	5,948
R&D costs	1,092	2,215	3,422	3,595
Net cash provided by operating activities	7,995	9,672	10,680	10,107
Net cash (used in) provided by investing activities	9,067	(2,465)	(5,595)	(5,879)
Net cash (used in) provided by financing activities	(15,537)	(9,412)	(5,595)	(647)
Cash and cash equivalents at end of the year	13,680	11,562	10,984	14,618
<b>At year-end (Millions of yen)</b>				
Total assets	¥175,432	¥179,263	¥198,458	¥212,739
Shareholders' equity	66,872	71,633	77,098	81,033
Interest-bearing debt	50,316	43,380	38,966	42,313
<b>Indexes</b>				
Operating income margin (%)	6.7	8.1	9.4	10.3
Equity ratio (%)	38.1	40.0	38.8	38.1
ROE (%)	5.3	6.4	8.9	10.8
D/E ratio (net) (Times)	0.55	0.44	0.36	0.34
Net income per share (Yen and U.S.dollars)	17.40	22.77	34.78	45.55
Net assets per share (Yen and U.S.dollars)	354.14	380.91	410.66	432.20
<b>Social and Environmental Impact</b>				
CO <sub>2</sub> emissions (t) (Per million yen of ordinary income)	9.2	6.8	4.7	4.0
Energy consumption (GJ) (Per million yen of ordinary income)	222.8	161.8	110.0	95.9
Employees* <sup>2</sup>	4,709	4,765	4,675	5,114

\*1 Consolidated financial summary figures calculated on a yen basis, U.S. dollar amounts calculated for reader convenience using the exchange rate prevailing on March 31, 2013, of US\$1 = ¥94.01

\*2 Including contracted and temporary staff



					(Millions of yen)	(Thousands of U.S. dollars)*1
FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2013
¥167,202	¥141,517	¥112,759	¥138,243	¥144,896	<b>¥150,002</b>	<b>\$1,595,605</b>
19,805	9,095	4,737	11,022	12,081	<b>12,579</b>	<b>133,807</b>
18,051	9,328	4,990	11,111	12,140	<b>12,813</b>	<b>136,298</b>
10,371	6,188	3,175	6,093	6,814	<b>7,428</b>	<b>79,023</b>
10,225	10,041	3,988	5,807	9,518	<b>11,833</b>	<b>125,878</b>
7,301	7,344	7,390	7,544	7,403	<b>7,360</b>	<b>78,299</b>
3,681	3,847	3,543	4,144	4,231	<b>4,319</b>	<b>45,951</b>
20,873	7,263	14,508	16,293	11,626	<b>15,350</b>	<b>163,290</b>
(11,481)	(9,723)	(5,020)	(8,281)	(10,487)	<b>(18,401)</b>	<b>(195,744)</b>
(5,582)	(3,540)	(373)	(10,578)	(5,460)	<b>6,325</b>	<b>67,290</b>
17,744	11,269	20,379	17,308	13,916	<b>20,194</b>	<b>214,816</b>
¥202,316	¥178,455	¥182,641	¥184,206	¥191,766	<b>¥215,837</b>	<b>\$2,295,898</b>
81,605	78,422	80,847	83,413	89,923	<b>102,019</b>	<b>1,085,202</b>
39,314	37,600	38,910	31,240	27,405	<b>36,507</b>	<b>388,336</b>
11.8	6.4	4.2	8.0	8.3	<b>8.4</b>	-
40.3	43.9	44.3	45.3	46.9	<b>47.3</b>	-
12.8	7.7	4.0	7.4	7.9	<b>7.7</b>	-
0.26	0.31	0.21	0.17	0.15	<b>0.16</b>	-
55.70	33.26	17.07	32.76	36.60	<b>39.69</b>	<b>0.42</b>
438.56	421.53	434.59	448.43	480.46	<b>545.14</b>	<b>5.79</b>
3.5	6.0	9.9	5.2	4.8	<b>4.3</b>	-
83.8	138.3	242.0	126.3	117.6	<b>106.5</b>	-
5,371	5,339	5,271	5,891	6,160	<b>6,792</b>	-

# Report and Analysis of Financial Condition and Results of Operations for FYE 2013

## REVIEW OF MANAGEMENT PERFORMANCE

### Key Points

1. Revenues and earnings rise for third consecutive fiscal year as business results continue steady recovery since the Lehman Shock.
2. Automotive Parts Operations continue vigorous growth globally.
3. Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations target demand overseas to counteract lackluster domestic demand.

In the fiscal year under review, ended March 31, 2013, Japan saw significantly higher government investment in infrastructural development related to restoration following the Great East Japan Earthquake. Nominal GDP grew due to a continuation of the previous fiscal year's rise in consumer spending, which was partly attributable to a range of tax breaks. However, conditions were challenging for the manufacturing industry as a result of sluggish exports—reflecting extreme yen strength until the third quarter and a softening of China's economic growth—and for the first time in three years negative growth in private-sector capital investment, which had been trending toward recovery following the Lehman Shock.

Despite these conditions, the Tsubaki Group recorded higher revenues and earnings for the third consecutive fiscal year, posting year-on-year increases of 3.5% in net sales, to ¥150,002 million; 4.1% in operating income, to ¥12,579 million; and 9.0% in net income, to ¥7,428 million.

By business segment, Automotive Parts Operations achieved a 13.5% rise in net sales\* year on year and an impressive 34.0% year-on-year increase in operating income. This was attributable to a continuing pick-up in global automotive manufacturing centered on Japan and the United States and an increase in the

Tsubaki Group's sales of timing chain drive systems thanks to superior technological capabilities and quality. As for Chain Operations, although overseas demand centered on North America compensated for a continuing demand downturn in Japan, net sales\* declined 2.8% year on year. Nevertheless, as a result of ongoing cost reduction efforts these operations posted a 3.6% year-on-year rise in operating income. Meanwhile, Power Transmission Units and Components Operations saw year-on-year declines of 8.0% in net sales\* and 22.2% in operating income. These decreases stemmed from slumping demand in Japan, particularly in sales to the liquid crystal display (LCD) / semiconductor industries and the machine tools industry, which counteracted continued solid sales of reducers in China. In Materials Handling Systems Operations, net sales\* were up 8.1% year on year due to acquisition of all operations of the Mayfran Group of the United States. However, operating income was down 39.5% year on year because of deterioration in the operating margin that resulted from fewer major orders.

As a result, in the fiscal year under review net income per share was ¥39.69, up from the previous fiscal year's ¥36.60. Return on equity (ROE) edged down 0.2 percentage point from the previous fiscal year, to 7.7%, due to a higher shareholders' equity.

### Geographic Segments (comparison of FYE 2012 and FYE 2013)

(Millions of yen)

		FYE 2012	FYE 2013	YOY
		Result	Result	Change
Japan	Net sales*	¥112,940	<b>¥110,183</b>	<b>-2.4%</b>
	Operating income	9,165	<b>8,570</b>	<b>-6.5%</b>
	Operating income margin	8.1%	<b>7.8%</b>	
North America	Net sales*	25,444	<b>29,967</b>	<b>17.8%</b>
	Operating income	1,338	<b>2,103</b>	<b>57.2%</b>
	Operating income margin	5.3%	<b>7.0%</b>	
Europe	Net sales*	12,335	<b>14,566</b>	<b>18.1%</b>
	Operating income	242	<b>429</b>	<b>77.3%</b>
	Operating income margin	2.0%	<b>2.9%</b>	
Asia / Oceania	Net sales*	13,910	<b>17,027</b>	<b>22.4%</b>
	Operating income	1,419	<b>1,417</b>	<b>-0.1%</b>
	Operating income margin	10.2%	<b>8.3%</b>	
Other	Net sales*	89	<b>95</b>	<b>6.6%</b>
	Operating income (loss)	(53)	<b>(55)</b>	<b>-</b>
	Operating income margin	-	<b>-</b>	

\* Net sales includes intersegment sales and transfers.

## REVIEW OF FINANCIAL CONDITION AND CASH FLOWS

### Key Points

1. Equity ratio increases further, reflecting favorable growth in business results.
2. The D/E ratio (net) remains at a sound level, despite higher capital requirements due to stepped-up capital investment.
3. Cash and cash equivalents are maintained above a certain level in preparation for higher capital investment going forward.

Total assets at the end of the year stood at ¥215,837 million, up ¥24,071 million from the previous fiscal year-end. This was primarily the result of a ¥10,017 million increase in cash and cash equivalents due to favorable business results; a ¥7,720 million rise in property, plant and equipment, reflecting proactive investment in production facilities and equipment, such as Automotive Parts Operations' construction of a new factory in the Saitama Plant in Japan and Chain Operations' construction of a new plant in Tianjin, China; and a ¥3,001 million increase in investment securities as the market prices of shares held rose.

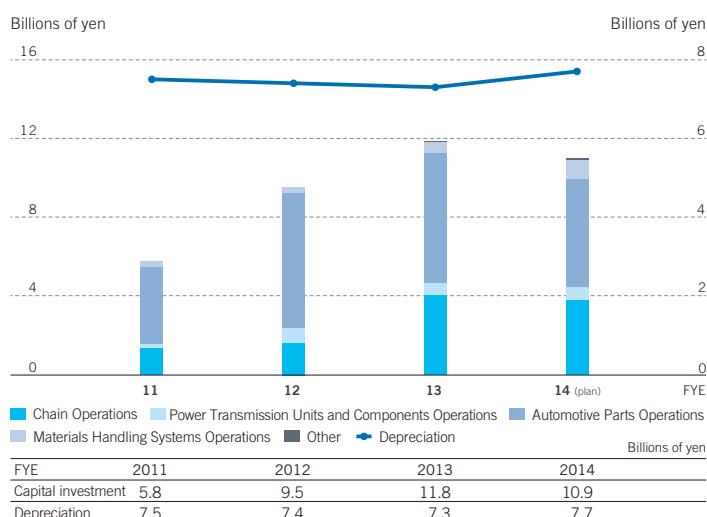
Liabilities amounted to ¥107,239 million, an increase of ¥11,809 million from the previous fiscal year-end. This was attributable to such factors as a ¥9,102 million rise in interest-bearing debt.

Net assets were ¥108,597 million, a rise of ¥12,261 million from the previous fiscal year-end. This was mainly the result of a ¥6,151 million rise in retained earnings, due to favorable business results in the fiscal year under review, and a ¥4,398 million rise in foreign currency translation adjustment reflecting exchange rates fluctuation.

As a result of the above, the equity ratio improved 0.4 percentage point, to 47.3%. Although the D/E ratio (net) at the end of the fiscal year under review was 0.16 times, up marginally from the previous fiscal year-end's 0.15 times, it remained at a sound level. Moreover, the D/E ratio (net) has improved 0.71 point in the 10 years since March 31, 2003, when it was 0.87 times.

Further, cash and cash equivalents at March 31, 2013 totaled ¥20,194 million, up ¥6,278 million from the previous fiscal year-end. Net cash provided by operating activities was ¥15,350 million, reflecting favorable business results. Meanwhile, net cash used in investing activities was ¥18,401 million, resulting from increased investment in production facilities and equipment mainly in Automotive Parts Operations. In addition, net cash provided by financing activities was ¥6,325 million, due to a net increase in borrowings.

### Capital Investment and Depreciation



## Principal Tsubaki Group Companies

As of March 31, 2013

\*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 Emerson Co.*1	¥460 million	70.6%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Tsubakimoto Custom Chain Co.*1	¥125 million	99.6%	Manufacture of small-pitch conveyor chains and specialty chains
Tsubakimoto Sprocket Co.*1	¥126 million	100.0%	Manufacture and sales of sprockets and couplings
Tsubaki Yamakyu Chain Co.*1	¥126 million	51.0%	Manufacture of various types of plastic chains and automated equipment
Tsubakimoto Iron Casting Co., Ltd.*1	¥50 million	100.0%	Casting, processing, and sales of iron and steel products
Tsubakimoto Bulk Systems Corp.*1	¥150 million	100.0%	Manufacture and sales of bulk materials handling systems
Tsubakimoto Mayfran Inc.*1	¥90 million	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubakimoto Machinery Co.*1	¥139 million	100.0%	Domestic sales of Tsubaki Group products
Tsubakimoto Nishinohon Co., Ltd.*1	¥90 million	50.0%	Domestic sales of Tsubaki Group products
Hokkaido Tsubakimoto Chain Co., Ltd.*1	¥30 million	100.0%	Domestic sales of Tsubaki Group products
Tsubaki Support Center Co.*1	¥80 million	100.0%	Building maintenance service and insurance agency, etc.
Tsubaki FlexLink Co.*4	¥50 million	51.0%	Import and sales of the FlexLink System
<b>The Americas</b>			
U.S. Tsubaki Holdings, Inc.*1,2 (United States)	US\$33,500,000	100.0%	Import sales and local production of materials handling systems Management of subsidiaries and affiliates
U.S. Tsubaki Power Transmission, LLC*1 (United States)	US\$2,000	100.0%	Import sales and local production of chains and power transmission products
U.S. Tsubaki Automotive, LLC*1 (United States)	US\$2,000	100.0%	Import sales and local production of automotive parts
Tsubaki Kabelschlepp America, Inc.*1 (United States)	US\$100	100.0%	Import sales and local production of chains
Mayfran International, Inc.*1 (United States)	US\$1,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubaki of Canada Limited*1 (Canada)	CAN\$6,295,000	100.0%	Import sales and local production of chains and power transmission products
Tsubaki Brasil Equipamentos Industriais Ltda.*1 (Brazil)	R\$2,458,000	100.0%	Import sales of chains and power transmission products
Tsubakimoto Automotive Mexico S.A. de C.V.*4 (Mexico)	MXN120,000,000	100.0%	Import sales and local production of automotive parts
<b>Europe</b>			
Tsubakimoto Europe B.V.*1 (Netherlands)	€2,722,000	100.0%	Import sales of chains, power transmission products, and automotive parts
Mayfran International B.V.*1 (Netherlands)	€45,000	100.0%	Import sales of conveyors for chips and scraps
Tsubaki Kabelschlepp GmbH*1 (Germany)	€2,600,000	100.0%	Sales and local production of chains
Tsubaki Deutschland GmbH*1 (Germany)	€100,000	100.0%	Import sales of chains, power transmission products, and automotive parts
Tsubakimoto U.K. Ltd.*1 (United Kingdom)	STG £550,000	100.0%	Import sales and local production of chains, power transmission products, and automotive parts
Metool Products Limited*1 (United Kingdom)	STG £203,000	100.0%	Import sales of chains
Kabelschlepp Italia S.R.L.*1 (Italy)	€350,000	90.0%	Import sales of chains and materials handling systems
Kabelschlepp France S.A.R.L.*1 (France)	€165,000	100.0%	Import sales of chains and materials handling systems
Mayfran France S.A.R.L.*1 (France)	€16,000	100.0%	Import sales of conveyors for chips and scraps
Kabelschlepp Systemtechnik spol. s.r.o.*1 (Slovak Republic)	€49,000	100.0%	Import sales and local production of materials handling systems
OOO Tsubaki Kabelschlepp*1 (Russia)	RUB6,000	100.0%	Import sales of chains
<b>Asia and Oceania</b>			
Taiwan Tsubakimoto Co.*1 (Taiwan)	NT\$70,000,000	100.0%	Import sales and local production of chains, power transmission products, and automotive parts
Tsubakimoto Singapore Pte. Ltd.*1 (Singapore)	¥960 million	100.0%	Import sales and local production of chains, power transmission products, and materials handling systems
PT. Tsubaki Indonesia Manufacturing*1 (Indonesia)	US\$12,400,000	100.0%	Local production of materials handling systems
PT. Tsubaki Indonesia Trading*1 (Indonesia)	US\$520,000	100.0%	Import sales of chains, power transmission products, and materials handling systems
Tsubakimoto (Thailand) Co., Ltd.*1 (Thailand)	THB4,000,000	95.1%	Import sales of chains and power transmission products
Tsubakimoto Automotive (Thailand) Co., Ltd.*1 (Thailand)	THB202,000,000	100.0%	Import sales and local production of automotive parts
Tsubaki India Power Transmission Private Limited*1 (India)	INR20,000,000	100.0%	Import sales of chains and power transmission products
Kabelschlepp India Private Limited*1 (India)	INR8,897,000	100.0%	Import sales of chains
Tsubaki Australia Pty. Limited*1 (Australia)	A\$300,000	100.0%	Import sales of chains and power transmission products
Tsubakimoto Automotive (Shanghai) Co., Ltd.*1 (China)	RMB20,692,000	100.0%	Import sales and local production of automotive parts
Tsubaki Everbest Gear (Tianjin) Co., Ltd.*1 (China)	RMB87,496,000	59.4%	Import sales and local production of reducers, variable speed drives, actuators, clutches, and their related products
Kabelschlepp China Co., Ltd.*1 (China)	RMB4,610,000	100.0%	Import sales and local production of chains and materials handling systems
Tsubakimoto Chain (Tianjin) Co., Ltd.*1,2 (China)	US\$38,500,000	90.0%	Manufacture and sales of chains
Tsubakimoto Automotive Korea Co., Ltd.*1 (South Korea)	WON17,860,000,000	100.0%	Import sales and local production of automotive parts
Tianjin Tsubakimoto Conveyor Systems Co., Ltd.*3 (China)	RMB8,314,000	47.0%	Import sales and local production of bulk materials handling systems
Tsubaki Emerson Machinery (Shanghai) Co., Ltd.*4 (China)	US\$5,200,000	100.0%	Import sales and local production of power transmission products
Tsubakimoto Chain (Shanghai) Co., Ltd.*4 (China)	US\$400,000	100.0%	Import sales of chains
Tsubakimoto Mayfran Conveyor (Shanghai) Co., Ltd.*4 (China)	US\$2,220,000	100.0%	Import sales and local production of conveyors for chips and scraps
Tsubaki Materials Handling Systems (Shanghai) Co., Ltd.*4 (China)	US\$1,000,000	90.0%	Design and sales of materials handling systems

Note: In April 2013, the Company established Tsubaki Power Transmission (Malaysia) Sdn. Bhd. as a sales company in Malaysia.

# Corporate Data and Stock Information

As of March 31, 2013

## 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:	+81-6-6441-0011 (Receptionist)
Fiscal Year-End:	March 31

Number of Consolidated Subsidiaries	53
Number of Unconsolidated Subsidiaries	12
Number of Affiliates	10 (Including 2 Equity-Method Affiliates)
Number of Employees* (consolidated)	6,792

\* Including contracted and temporary staff

## Stock Information

Shareholder Register	Sumitomo Mitsui Trust Bank, Limited
Stock Listings	Tokyo and Osaka*

\* The Osaka Securities Exchange was merged into the Tokyo Stock Exchange on July 16, 2013.

### Common Stock

Authorized:	299,000,000 shares
Issued:	191,406,969 shares
Number of Shareholders	11,799

### Major Shareholders (Top 10 Companies)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Taiyo Life Insurance Company	18,398	9.83
Japan Trustee Services Bank, Ltd. (Trust account 9)	12,488	6.67
The Master Trust Bank of Japan, Ltd. (Trust account)	11,593	6.19
Japan Trustee Services Bank, Ltd. (Trust account)	11,333	6.06
Nippon Life Insurance Company	10,944	5.85
Toyota Motor Corporation	7,722	4.13
Sumitomo Mitsui Banking Corporation	7,034	3.76
Kyoeikai Employee Stock Ownership Association	6,330	3.38
Tsubakimoto Kogyo Co., Ltd.	5,194	2.78
Sumitomo Mitsui Trust Bank, Limited	4,245	2.27

- Numbers less than 1,000 have been rounded.
- The Company owns treasury stock of 4,263,619 shares; however, these shares are not included in the above list of major shareholders.
- Percentage of total shares issued has been calculated excluding the treasury stock of 4,263,619 shares.

Contact for Inquires with Regard to the Corporate Report

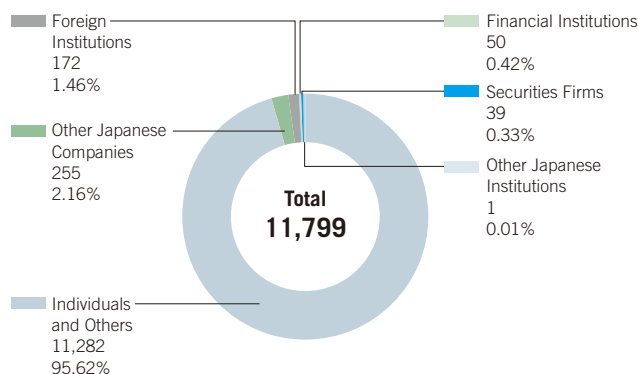
Office of the President, Public Relations & Investor Relations Section

Telephone: +81-6-6441-0054

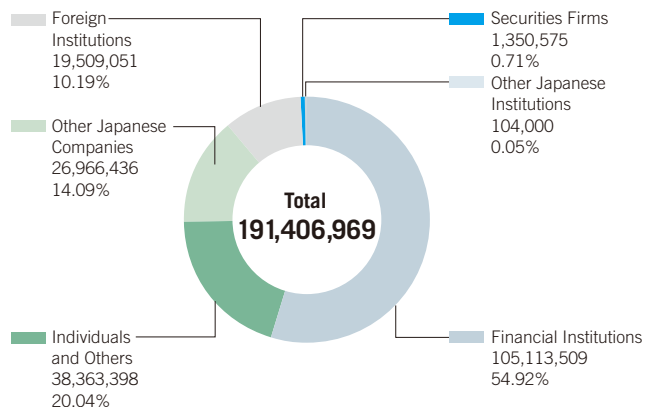
<http://tsubakimoto.com>

## Shareholder Composition

### Number of Shareholders



### Number of Shares Held



Treasury stock of 4,263,619 shares is included in "Individuals and Others."

**TSUBAKIMOTO CHAIN CO.**

<http://tsubakimoto.com>

Published October 2013

