



# TSUBAKI CORPORATE REPORT 2014

Snapshot

# Masterful Techniques that Provide Customers Worldwide with the Best Value

## Chains Made from Only Five Parts

Since its founding, Tsubakimoto Chain has been steadfast in its efforts to refine each part that forms its chains. The Tsubaki Group aims to make chains that are unrivaled in terms of reliability, precision, and economic benefits, and will continue to contribute to society as a manufacturing professional.

## Tsubaki's Product Lineup

The Group primarily conducts four businesses—Chain Operations, which it has conducted since its founding; Conveyors Operations, Automotive Parts Operations, and Materials Handling Systems Operations, which are born product lineups, we pursue inter-business synergies as we work to provide customers with optimal solutions.

### Chain Operations

▶ See pages 14–15, 28–29



Drive chains



Small-size conveyor chains



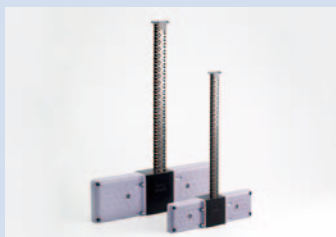
Large-size conveyor chains



Plastic top chains



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



Zip Chain Actuator®

### Power Transmission Units and Components Operations

▶ See pages 14–15, 28–29



Reducers / Variable speed drives



Linear actuators (Power cylinders / jacks)



Locking devices (Power-Lock®)



Shaft couplings



Clutches

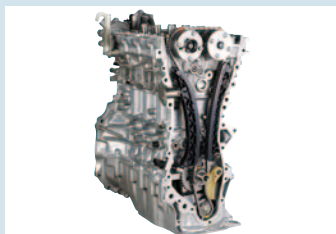


Overload protectors

in 1917, and Power Transmission Units and Compo-  
out of its chain technologies. Leveraging our robust

## Automotive Parts Operations

▶ See pages 14–15, 30



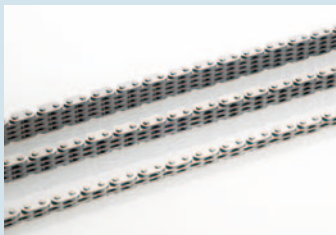
Timing chain  
drive systems



Timing chain  
drive system  
parts



Roller chains



Silent chains



Tensioners



Power drive  
chains

## Materials Handling Systems Operations

▶ See pages 14–15, 31



Automatic  
sorting equip-  
ment (Linisort)



Conveyance  
system for  
automobile  
manufacturing  
lines



Life science  
field system  
(Tsubaki Labo  
Stocker)



Zip Chain  
Lifter®



Bulk handling  
systems



Metalworking  
chip handling /  
coolant  
processing  
systems  
(Chip conveyors)



### Automotive Fields

In automobile engines, timing chain drive systems are responsible for transmitting the rotation energy from crankshafts to camshafts, and maintaining the precise timing of air injection and release. The Tsubaki Group boasts a 33% share of the global market for timing chain drive systems. We also provide a variety of other products to the automobile industry, including conveyance systems for automobile production lines, small- and large-size conveyor chains, reducers, linear actuators, and cam clutches.



### LCD and IT Fields

For LCD and IT fields, we offer Cableveyor® and timing belts as well as conveyance systems for LCD panels. When the environment is a clean room, we are able to provide the Cleanveyor® cable system, which produces no dust, and lubricant-free Lambda® chains. Other products include power cylinders and Power-Lock®.



### Industrial Fields

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



### Energy and Resource Fields

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



### Food Fields

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

# Financial Highlights

## Numerical Overview of the Past Five Years

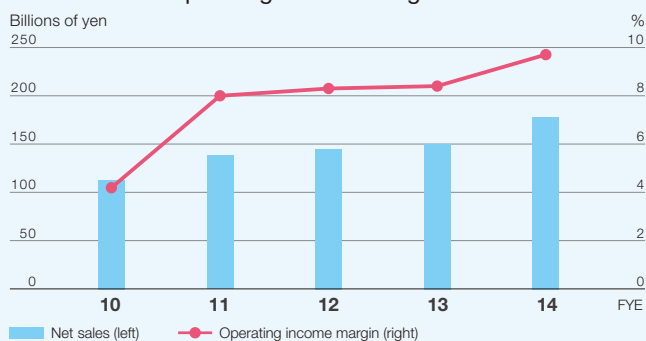
	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
<b>Items from the Consolidated Statements of Income (Millions of yen)</b>					
Net sales	¥112,759	¥138,243	¥144,896	¥150,002	<b>¥178,022</b>
Operating income	4,737	11,022	12,081	12,579	<b>17,354</b>
Ordinary income	4,990	11,111	12,140	12,813	<b>17,993</b>
Net income	3,175	6,093	6,814	7,428	<b>10,213</b>
<b>Items from the Consolidated Balance Sheets (Millions of yen)</b>					
Total assets	¥182,641	¥184,206	¥191,766	¥215,837	<b>¥228,840</b>
Shareholders' equity	80,847	83,413	89,923	102,019	<b>118,433</b>
Interest-bearing debt	38,910	31,240	27,405	36,507	<b>36,538</b>
<b>Items from the Consolidated Statements of Cash Flows (Millions of yen)</b>					
Net cash provided by operating activities	¥ 14,508	¥ 16,293	¥ 11,626	¥ 15,350	<b>¥ 19,761</b>
Net cash provided by (used in) investing activities	(5,020)	(8,281)	(10,487)	(18,401)	<b>(17,166)</b>
Net cash provided by (used in) financing activities	(373)	(10,578)	(5,460)	6,325	<b>(3,196)</b>
<b>Per Share Information (Yen)</b>					
Net income	¥ 17.07	¥ 32.76	¥ 36.60	¥ 39.69	<b>¥ 54.58</b>
Net assets	434.59	448.43	480.46	545.14	<b>632.94</b>
Dividend payments	6.00	7.00	7.00	7.00	<b>10.00</b>
<b>Major Indexes</b>					
Operating income margin (%)	4.2	8.0	8.3	8.4	<b>9.7</b>
Return on equity (ROE) (%) <sup>1</sup>	4.0	7.4	7.9	7.7	<b>9.3</b>
D/E ratio (net) (Times) <sup>2</sup>	0.21	0.17	0.15	0.16	<b>0.13</b>
Equity ratio (%) <sup>3</sup>	44.3	45.3	46.9	47.3	<b>51.8</b>

Amounts less than one million yen have been truncated.

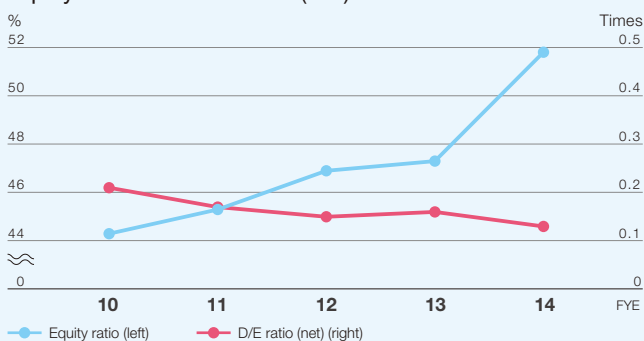
Major Indexes

\*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)



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### Notes on the Production of this Report

The Company realizes that corporate value is based on a comprehensive evaluation of the operating results of a company and a variety of other factors, including its social responsibility. Based on this understanding, the Company compiled its various information transmission tools for stakeholders, including its annual report and environmental and CSR reports, into a single corporate report. This report contains explanations 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 2013 to March 2014  
(includes some activities after the reporting period)

### Scope of Data Collection:

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

## To Our Stakeholders

# The Tsubaki Group's Activities and Successes

In this section, we explain the business activities of the Tsubaki Group and their successes.

# Heading Toward of Our Founding Lies Beyond

Tsubaki is dedicated to realizing sustainable growth through manufacturing that responds to market demand—or in other words, our customers' needs—with quality and technologies.

The Tsubaki Group creates products that are superior in terms of durability, energy efficiency, and environmental performance in the power transmission and materials handling fields, and supplies these to customers around the world.

In the fiscal year ended March 31, 2014, we set a new record high for consolidated net sales while also approaching the record for consolidated operating income, making this the fourth consecutive year of increases in sales and income. In recent years, we have been continually pushing forward with the globalization of our operations. The results of these efforts are apparent as now more than 50% of total net sales come



# the 100th Anniversary and the Growth that



**Isamu Osa**  
President & Representative Director

from overseas. In this manner, usage of Tsubaki's high-value-added products is spreading throughout the global market.

In 2017, we will celebrate the 100th anniversary of the founding of Tsubakimoto Chain. In preparation for this momentous occasion, we have formulated Long-Term Vision 2020, a plan that illustrates our vision for Tsubaki after its 100th anniversary. This vision calls on us to secure solid shares in target markets and to strive to become a global leader in our industry. For its final year, the fiscal year ending March 31, 2021, the vision targets consolidated net sales of ¥300.0 billion, 70% of which is to come from overseas, and an operating income

margin of 10%. In addition, we launched Mid-Term Management Plan 2016, which begins with the fiscal year ending March 31, 2015, as a practical action plan to pursue the accomplishment of the targets of Long-Term Vision 2020.

The Tsubaki Group is dedicated to contributing to society while realizing sustainable growth. We will do this by conducting manufacturing that responds to latent market demand—or in other words, our customers' unmet needs—with quality and technologies.

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

# Growth Over the Past Decade

The Tsubaki Group has continued to improve its growth potential and efficiency through the effective utilization of its technologies, production capabilities, and the people that support these strengths.

## INPUT

## Usage of Capital for Growth

### Enhancing Technology, Production, and Human Capital

#### Technology Capital

#### R&D Costs

FYE 2004                      FYE 2014  
 ¥1.09billion ▶ ¥4.06billion

**3.7** times

#### Production Capital

#### Capital Investment

FYE 2004                      FYE 2014  
 ¥3.50billion ▶ ¥11.37billion

**3.2** times

#### Human Capital

#### Number of Employees

FYE 2004                      FYE 2014  
 4,709                      ▶ 7,068

**1.5** times

#### Distribution of Employees by Region (March 31, 2014)

Japan	54%
America	17%
Europe	13%
China	8%
Asia / Oceania	8%

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

#### Financial Capital

#### Total Assets

FYE 2004                      FYE 2014  
 ¥175.4billion ▶ ¥228.8billion

**1.3** times

#### Financial Capital

#### Net Interest-Bearing Debt

FYE 2004                      FYE 2014  
 ¥36.63billion ▶ ¥15.24billion

Down **58%**

## OUTPUT

## Resulting Growth

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

Performance	Net Sales	Performance	Operating Income
FYE 2004	FYE 2014	FYE 2004	FYE 2014
¥119.1 billion	▶ ¥178.0 billion	¥7.95 billion	▶ ¥17.35 billion
<b>1.5</b> times		<b>2.2</b> times	

## Improved Profitability and Capital Efficiency and More Robust Financial Capital

Profitability	Operating Income Margin	Financial Capital Efficiency	ROE
FYE 2004	FYE 2014	FYE 2004	FYE 2014
6.7%	▶ 9.7%	5.3%	▶ 9.3%
Improved <b>3.0</b> percentage points		Improved <b>4.0</b> percentage points	

Financial Soundness	D/E Ratio (Net)*	Energy Efficiency	Energy Consumption and CO <sub>2</sub> Emissions Per ¥1 Million of Ordinary Income
FYE 2004	FYE 2014	Energy Consumption	FYE 2004
0.55 times	▶ 0.13 times	FYE 2004	222.8GJ
Improved <b>0.42</b> percentage point		FYE 2014	76.8GJ
			Down <b>66%</b>
		CO <sub>2</sub> Emissions	FYE 2004
		FYE 2004	9.2t
		FYE 2014	3.1t
			Down <b>66%</b>

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

# Growth Track—Tsubaki's Progress

Since its founding in 1917, the Tsubaki Group has continued to bolster its technological and production foundations, strengthen its human resources and organization, and expand its business scope and the range of regions in which it operates. Through these efforts, the Group pursued growth while strengthening its management foundations and actively contributing to society through its business activities. In 2017, we celebrate the 100th anniversary of Tsubaki's founding. Passing this milestone, we will set our sights on achieving sustainable growth over the next 100 years.

## 1917~

1917

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

1928

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



1937

- Delivered first large-scale conveyor plant, subsequently commenced Materials Handling Systems Operations

1940

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

1951

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

1958

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

## 1960~

1960

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

1962

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



Photograph is of current Saitama Plant

1966

- Began sales of power cylinders and Gear Motor S Series

1968

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

1971

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

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

1986

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

1998

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

1999

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

## 2000~

2000

- Formulated the Tsubaki Group's Fundamental Environmental Policy

2001

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

2004

- All Tsubaki Group operating sites in Japan certified ISO 14001
- Introduced the executive officer system to expedite operational execution

- Appointed first outside directors with the aim of ensuring management transparency and utilizing the insight of external experts in management

2006

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

2009

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



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

## 2010~

## 2014

### 2010

- ▶ Began conducting innovation workshops for division managers in all four core businesses to instill in them a sense of managerial responsibility
- ▶ Started holding *Kurumaza* Meetings as a forum for direct communication between the president and young employees
- ▶ Introduced overseas trainee system to cultivate employees capable of competing on the global stage



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



### 2012

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



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



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



### 2012

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



### 2013

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

### 2014

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

## The Tsubaki Group's Growth Drivers

In this section, we explain the philosophy and characteristics of the Tsubaki Group that drive its sustainable growth.

### Creating additional value by strengthening sales, development, and production foundations

As our mission, the Tsubaki Group states that “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.” To accomplish this mission, we will develop and manufacture products that are superior in terms of energy efficiency, environmental performance, and durability, and supply these to customers worldwide.

In providing the best value, differentiating business foundations related to sales, development, and production is key. By realizing stronger foundations in these three areas, we have been able to accurately respond to latent customer and market needs, and quickly give birth to products that address these needs. In this manner, we have created numerous products that boast the top share in their respective market, including our industrial-use steel chains, which have a 27% share of the global market, and our timing chain drive systems, which have a 33% share of the global market.

Going forward, the Tsubaki Group will continue to pursue sustainable growth by linking sales, development, and production.

Sustainable Growth Realized by Linking Sales, Development, and Production



# Oriented Toward Sustainable Growth

## Tsubaki Mission Statement

### Our Mission

— Excellence in Manufacturing for Customers Around the World —  
**We will provide the best value to customers around the world  
by capitalizing on our technical strengths in power  
transmission products and materials handling systems.**

### Our Vision

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



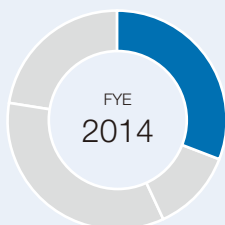
# 2 Business Segments

The Tsubaki Group provides customers worldwide with high-quality, highly functional products in its four core businesses: Chain Operations, Power Transmission Units and Components Operations, Automotive Parts Operations, and Materials Handling Systems Operations.

## Chain Operations

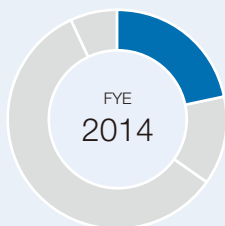


Through our Chain Operations, we provide various industries, such as the machine tool, shipbuilding, steel, and LCD / semiconductor industries, with the best chains for their needs from among our diverse lineup of drive, conveyor, and other chains.



Percentage of Total Net Sales (FYE 2014)

**30.7%**



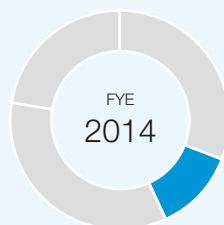
Percentage of Total Operating Income (FYE 2014)

**21.6%**

## Power Transmission Units and Components Operations

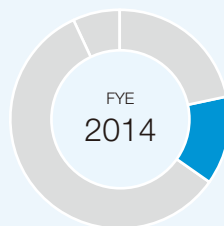


In our Power Transmission Units and Components Operations, we provide ideal power transmission products created by leveraging our reducers, actuators, clutches, and other industrial machinery parts pertaining to motion and control and related composition technologies.



Percentage of Total Net Sales (FYE 2014)

**12.0%**



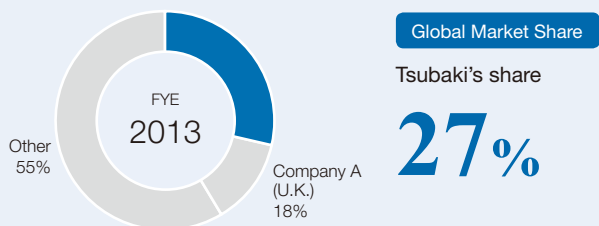
Percentage of Total Operating Income (FYE 2014)

**13.1%**

### Market Shares for Major Products

(Source: Tsubakimoto Chain Co.)

#### Industrial-Use Steel Chains

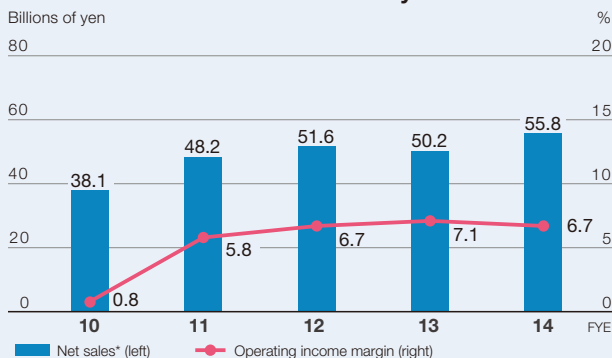


Global Market Share

Tsubaki's share

**27%**

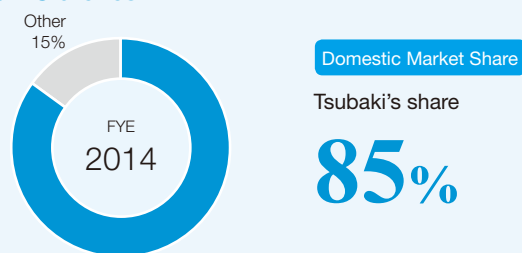
### Five-Year Performance Summary



### Market Shares for Major Products

(Source: Tsubakimoto Chain Co.)

#### Cam Clutches

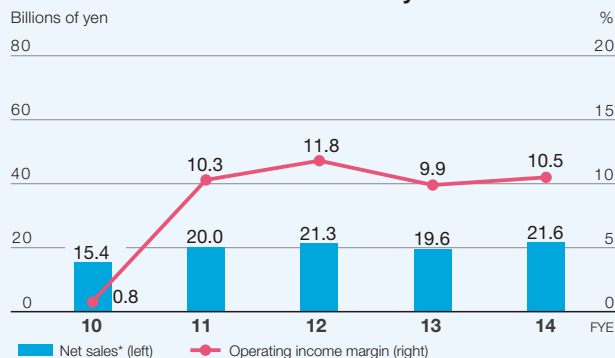


Domestic Market Share

Tsubaki's share

**85%**

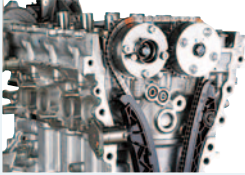
### Five-Year Performance Summary



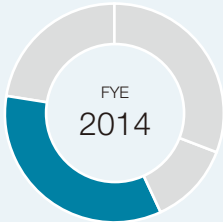


Note: Ratios for percentage of total net sales and percentage of total operating income for each business include amounts for the other segment.

## Automotive Parts Operations

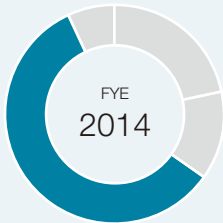


Tsubaki's Automotive Parts Operations provide automobile manufacturers around the world with timing chain drive systems that assist in making automobile engines lighter, more functional, and more environment-friendly.



Percentage of Total Net Sales  
(FYE 2014)

**34.1%**



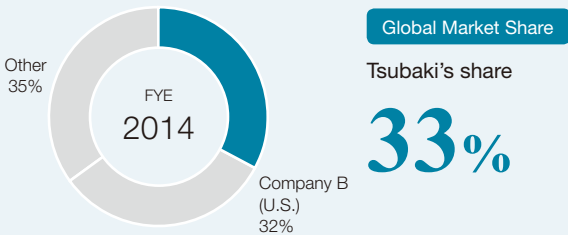
Percentage of Total Operating Income  
(FYE 2014)

**58.1%**

### Market Shares for Major Products

(Source: Tsubakimoto Chain Co.)

#### • Timing Chain Drive Systems



Global Market Share

Tsubaki's share

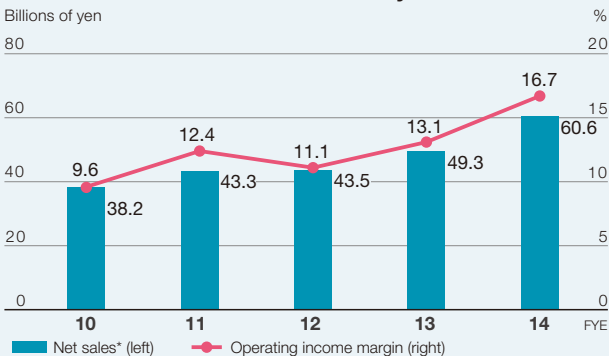
**33%**

Company B  
(U.S.)  
32%

Other  
35%

FYE  
2014

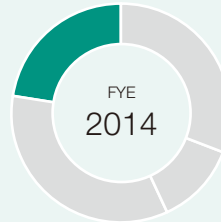
### Five-Year Performance Summary



## Materials Handling Systems Operations

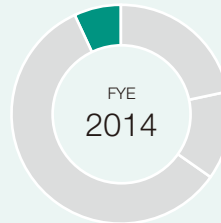


Our Materials Handling Systems Operations provide sophisticated solutions that improve customer productivity by controlling the flow of objects and information through sorting, conveyance, and storage systems.



Percentage of Total Net Sales  
(FYE 2014)

**22.2%**



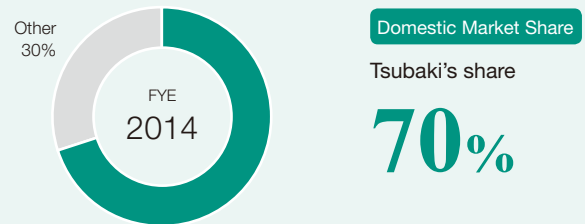
Percentage of Total Operating Income  
(FYE 2014)

**6.8%**

### Market Shares for Major Products

(Source: Tsubakimoto Chain Co.)

#### • Paper Feeding Systems



Domestic Market Share

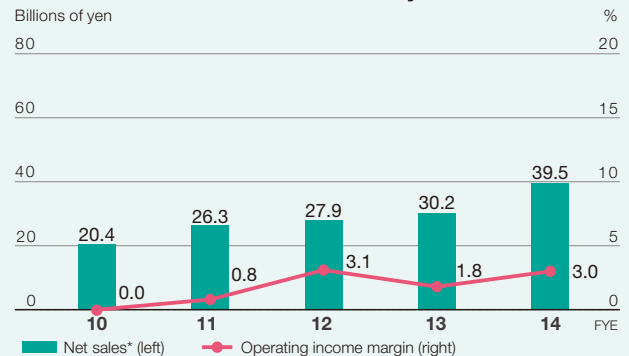
Tsubaki's share

**70%**

Other  
30%

FYE  
2014

### Five-Year Performance Summary



\* Net sales includes inter-segment sales and transfers.

# 3

## Tsubaki's Global Network

In the fiscal year ended March 31, 2014, the percentage of the Tsubaki Group's total net sales accounted for by overseas sales exceeded 50%, at 53.2%. We aim to increase this ratio to 70% before the close of the fiscal year ending March 31, 2021.

Similarly, the ratio of overseas production grows each year, and in the fiscal year ended March 31, 2014, overseas production accounted for 38.9% of total production. Going forward, we will accelerate our global strategy of positioning production operations in the optimal location to facilitate swift response to the diverse range of needs seen in the global market.

\* Numbers of Group companies by region are as of March 31, 2014.

### Europe

Group companies\*

# 17



Tsubakimoto Europe B.V.



Tsubaki Kabelschlepp GmbH



Taiwan Tsubakimoto Co.



Tsubakimoto Singapore Pte. Ltd.



Tsubakimoto Automotive (Thailand) Co., Ltd.



Tsubakimoto Automotive (Shanghai) Co., Ltd.



Tsubakimoto Chain (Tianjin) Co., Ltd.



Tsubaki Australia Pty. Limited

### Asia / Oceania

Group companies\*

# 30

## Japan

Group companies\*  
(Including Tsubakimoto Chain Co.)

**18**



Kyotanabe Plant



Saitama Plant



Kyoto Plant



Hyogo Plant

## United States / Other Regions

Group companies\*

**12**



U.S. Tsubaki Holdings, Inc.

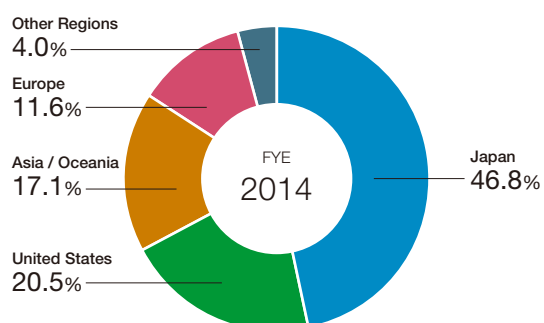


Mayfran International, Inc.



Tsubaki of Canada Limited

## Distribution of Net Sales by Region



	FYE 2010	FYE 2014	Increase
Overseas Sales	¥38.9 billion	▶ ¥94.6 billion	<b>2.4 times</b>
United States	¥18.1 billion	▶ ¥36.4 billion	<b>2.0 times</b>
Europe	¥ 5.5 billion	▶ ¥20.6 billion	<b>3.7 times</b>
Asia / Oceania	¥12.9 billion	▶ ¥30.4 billion	<b>2.3 times</b>
Other Regions	¥ 2.1 billion	▶ ¥ 7.1 billion	<b>3.3 times</b>
Japan	¥73.8 billion	▶ ¥83.3 billion	<b>1.1 times</b>

## 4

## Tsubaki's Strengths

Tsubaki provides solutions that resolve the issues faced by customers around the world. Our core strengths include our product development capabilities and the customizability that allows our products to be arranged to meet the needs of specific customers; the Group's production technologies, which have been fine-tuned to feature unrivaled levels of efficiency and quality; and the sophisticated foundation technologies that support these strengths. Leveraging these strengths, we continue to provide customers with the ideal solutions.

## 1. Product Development Capabilities and Customizability

In our RS Series of roller chains for drive systems, we develop a new product about once every decade. G7-EX, the seventh generation of chains in this series, employed Tsubaki's proprietary developed seamless "solid bushing" as well as "lube dimple" processing to realize a lifespan that is many times longer than those of competitors' products and approximately twice as long as previous Tsubaki offerings.

Also noteworthy is the Zerotech® Series. Launched in the fiscal year ending March 31, 2012, this series has been a driving force behind the recently robust growth of Automotive Parts Operations. The silent chains offered as part of the Zerotech Series utilize a technology that allows for thicker link plates, which results in an approximately 30% reduction in friction loss and a 14% decrease in weight per standard unit of length. These features enable the silent chains to contribute to the realization of smaller, more fuel-efficient engines.

In Materials Handling Systems Operations, we are testing our skills in a new field with Tsubaki Labo Stocker—a system

for storing frozen microbe and pathogen samples. Able to maintain ultra-low temperatures in its storage area and move stored samples at high speeds, Tsubaki Labo Stocker helps prevent the risk of deteriorations in sample quality. This product is finding itself in wide usage in the pharmaceutical industry, particularly drug development areas, as companies quickly seek out new, revolutionary drugs in consideration of the impending patent expiration of several top-name drugs. Labo Stocker is also being utilized in induced pluripotent stem (iPS) cell research and other life science fields.

Furthermore, we have defined the goal of developing all new products to be eco-products that contribute to reductions in customers' environmental footprints (ecology) and also bring economic benefits (economy). Based on this vision, we are advancing product development based on internal eco standards designed to endow products with the ability to help create smaller-sized equipment by providing higher performance and realize waste reductions by featuring a longer lifespan.

RS Series of roller chains  
for drive systems  
G7-EX



Lifespan

**Doubled**

Timing chain drive system  
for automobile engines  
Zerotech® Series



Friction loss

**Approx. 30% lower**

Drug development support system  
Tsubaki Labo Stocker 80



Low-temperature environment  
capabilities

**Approx. 4 times greater**

## Tsubaki's Eco-Products

### ► Tsubaki Zip Chain®

Tsubaki's proprietary zip chains consist of two chains that interlock in a zipper-like fashion to form a single, strong column to perform pushing and pulling motions with a long stroke. When the chains are not interlocked, they become very compact, creating space savings that dwarf those of conventional pneumatic and hydraulic cylinders. Other benefits of these chains include their compatibility with high-speed, high-frequency use; multiple-point stopping functionality; high stopping precision; and freedom of mounting direction. These various usage, environment-friendly features have caused Tsubaki zip chains to be widely used in a variety of equipment, from small actuators to large lifts.

### Tsubaki Zip Chain Actuator®

Zip Chain Actuators are linear actuators that employ Tsubaki's zip chains. As zip chains can be made very compact, Zip Chain Actuators can be installed in smaller spaces than conventional linear actuators, resulting in space savings.

#### Eco & Eco Points

- 1 Compactness:** Achieved 1/4 to 1/5 sizes compared to conventional linear actuators
- 2 High-speed performance:** Capable of higher-speed operation than screw-type, pneumatic cylinder, and hydraulic cylinder actuators (max speed: 1,000 mm/sec)
- 3 Ecology:** Uses less than 1/30th of the electricity of hydraulic and pneumatic cylinders, combining dedicated sprockets delivers high drive efficiency of nearly 90%
- 4 Multi-point stopping:** Multi-point stopping at any desired position is possible by controlling the input rotation

### Zip Chain Lifter®

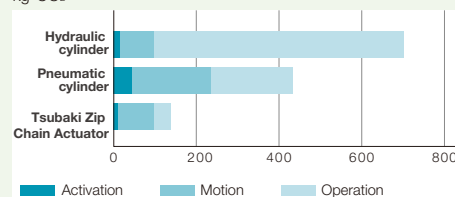
The Zip Chain Lifter employs a lifting mechanism that uses zip chains to directly transmit upward and downward thrust. This lifter realizes high-speed, high-frequency operation that cannot be achieved with conventional lifting equipment.

#### Eco & Eco Points

- 1 High speed:** Lifts and lowers at speeds 3–10 times faster than hydraulic cylinder lifters
- 2 High frequency:** Supports ultra-high-frequency operation cycles
- 3 Durability:** Clears more than 1 million lift cycles in endurance tests without requiring adjustment for chain stretching
- 4 High efficiency:** Realizes more than 20% improvement in energy efficiency in comparison to hydraulic cylinder lifters (maximum energy efficiency improvement of 50%)



CO<sub>2</sub> Emissions Volume from Manufacturing and Operation  
kg-CO<sub>2</sub>



### ► Tsubaki Gear Motor TA Series and Hypoid Motor TA Series

These reducers are compatible with top runner motors (premium efficiency: IE3) with motor capacity of 0.75 kW–5.5 kW.

#### Eco & Eco Points

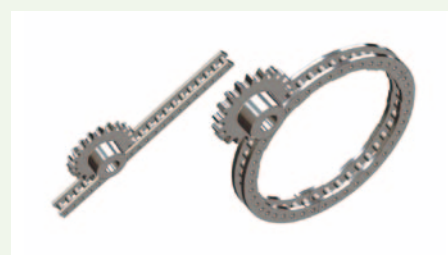
Ecology: Realizes annual electricity savings of ¥12,644 per year (for locations using 1.5 kWh, 16 hours a day, 300 days a year)

### ► Tsubaki Pin Gear Drive Unit

Consisting of a pin wheel and rack and a gear with a unique tooth profile, Tsubaki Pin Gear Drive Units offer limitless design possibilities for rotating, linear, and compound drives.

#### Eco & Eco Points

Convenience: Realizes low noise and long lifespan through proprietary developed gear tooth profile; allows for easy installation and maintenance



## Tsubaki's Strengths

### 2. Production Technologies

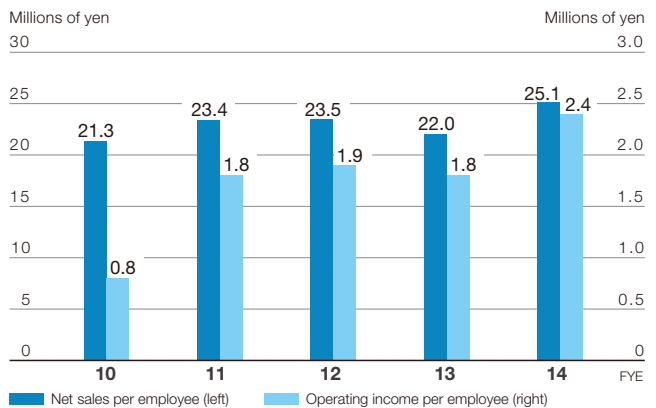
One of the Tsubaki Group's strengths is its ability to utilize the latest production technologies to create high-quality products in an efficient manner.

In Automotive Parts Operations, our *dantotsu* activities began with the construction of a model line at our Saitama Plant in 2008. These activities are now being conducted at all Tsubaki manufacturing bases across the globe as well as at facilities belonging to the Group's business partners (suppliers), with the aim of reducing quality defects and forced line halts to zero. The benefits are already apparent as we have witnessed substantial quality improvements and cost reductions. These *dantotsu* activities have since evolved into manufacturing reform initiatives as they continue to drive improvements in the global competitiveness of Automotive Parts Operations.

In Chain Operations, we are constructing production lines that overturn the established idea that lot production is the best method for manufacturing chains. In the fiscal year ended March 31, 2013, we introduced an integrated mass production line for chains to be used in hanging heavy objects. Later, a

similar line was installed at our industrial-use chain manufacturing subsidiary in Tianjin, China. In addition, the Kyotanabe Plant has launched an innovative project that is aimed at realizing low-cost production through systems that can respond to changes in lot sizes and the type of component to be produced and that are capable of fast deliveries.

#### Net Sales and Operating Income per Employee



### 3. Foundation Technologies

Tsubaki's ability to develop products that match customer needs and evolve its production technologies is made possible by its superior foundation technologies.

The Tsubaki Group has continued working to ensure that its technologies are passed on to younger engineers. To this end, we opened the Tsubaki Techno School in 1998 to provide education on the material, processing, and other sophisticated technologies that Tsubaki has refined since its founding (please see page 34 for details). In addition, Tsubaki's various technologies and research successes are compiled into the *Tsubaki Technical Review* magazine, which is released both inside and outside the Group once a year.



Tsubaki Technical Review

The Tsubaki Group's capabilities in the area of foundation technologies also extend to its superior evaluation technologies. These technologies are used to evaluate product performance and quality through pre-commercialization simulations and inspections and examinations of finished products. To conduct such evaluations, the Technical Center in the Kyotanabe Plant has been equipped with a full range of state-of-the-art facilities for running analyses and simulations and processing images. In addition, at the Saitama Plant's Auto Engineering Lab, performance tests take place using actual engines and automobile bodies. This lab also evaluates the functionality of products and develops new production and processing technologies.



Timing chain drive system test simulator at the Auto Engineering Lab

## HIGHLIGHT

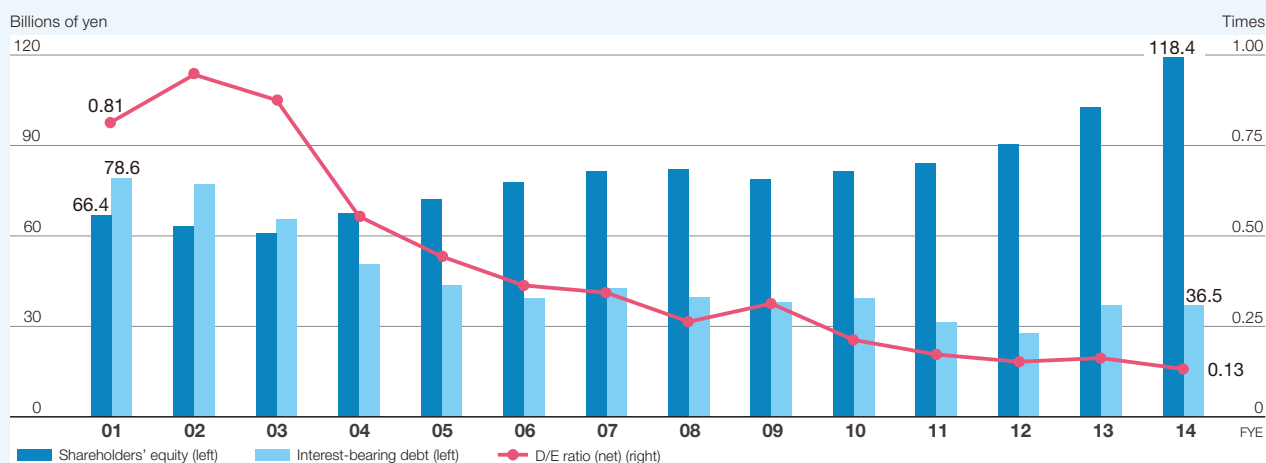
### Financial Strength Underpinning Technological Capabilities

Product development capabilities, production technologies, and the foundation technologies that support these are crucial in determining a manufacturer’s competitiveness, and these capabilities cannot be developed overnight. Honing these capabilities requires steadfast efforts in the form of ongoing investments in technologies, facilities, and human resources and a persistent drive to accumulate expertise from countless successes and failures. These steadfast efforts must continue, no matter what conditions the operating environment might present. As such, significant financial strength is required to underpin these efforts.

Since 2000, the Tsubaki Group has continued to reinforce its financial strength while also conducting the ongoing investments required to enhance technological capabilities and advance the globalization of its operations. Interest-bearing debt reached its peak level of ¥78.6 billion as of March 31, 2001, following the construction of the Kyotanabe Plant. However, as of March 31, 2014, interest-bearing debt had dropped to ¥36.5 billion, a significant reduction resulting in a D/E ratio (net) of 0.13 times and demonstrating our success in building a solid financial base.

There is a relatively large number of medium-sized companies in the chain industry. In order to stay on top, the Tsubaki Group must therefore leverage its financial strength to enhance the competitiveness of its technologies and accelerate the expansion of its business on a global scale.

#### Progressive Reinforcement of Financial Position



▶ For more information, please refer to Financial and Capital Strategies on page 32 and Intellectual Properties and R&D on page 33.

# Striving to Become a

## The Tsubaki Group's Challenges and Strategies

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

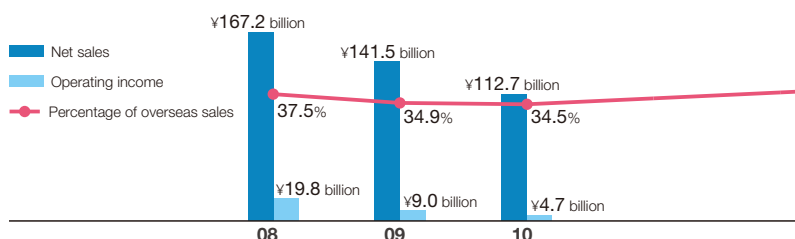
### Policies of Medium-Term Management Plan 2012

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

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

Due to the impacts of the Lehman Shock, sales and income dropped for two consecutive years starting with the fiscal year ended March 31, 2009. In response to this situation, under Medium-Term Management Plan 2012 (for the fiscal years ended March 31, 2011–2013) we worked to strengthen our foundations to ensure adaptability toward the rapidly changing operating environment. Specifically, we achieved a substantial improvement in productivity through production reform activities while simultaneously stepping up development and sales of products designed to realize superior levels of energy efficiency and environmental performance. In Chain Operations and Materials Handling Systems Operations, we conducted two overseas merger and acquisition (M&A) transactions. At the same time, we advanced the globalization of our operations by establishing a chain manufacturing base in China and a materials handling system manufacturing base in Indonesia. In developing human resources, we introduced the overseas trainee system and launched new initiatives including innovation workshops and *Kurumaza* Meetings (roundtable meetings). These initiatives help improve employee awareness and motivation and share a sense of urgency throughout the organization.

### Numerical Targets and Performance





# Global Leader

## Long-Term Vision 2020

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

### Global Leader

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

### Niche Leader

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

## Policies of Mid-Term Management Plan 2016

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

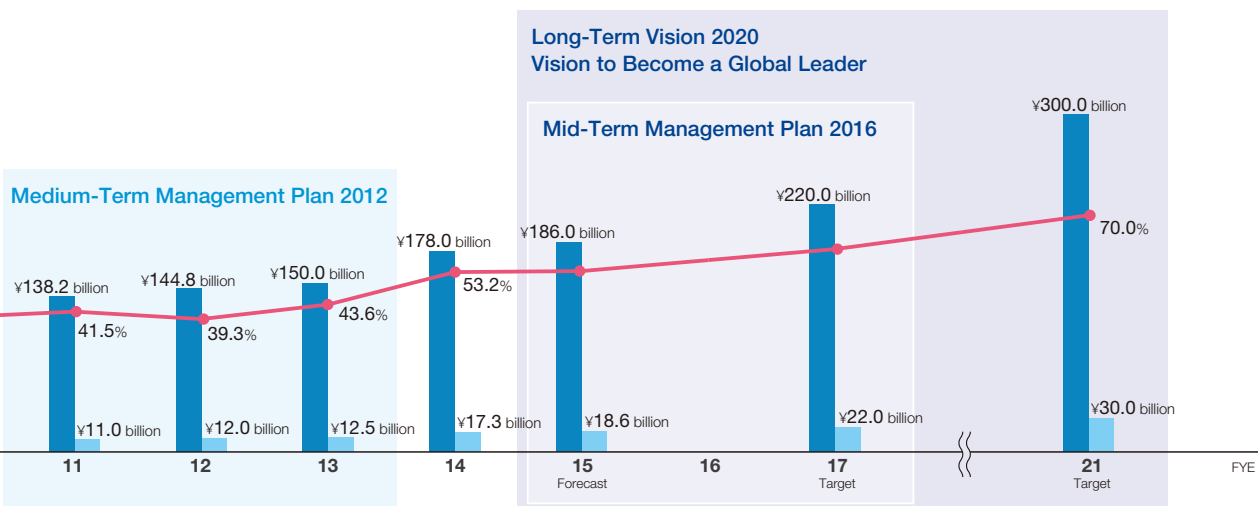
- 2 Expansion of businesses that leverage the collective strengths of the Group
- 4 Development and utilization of human resources

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

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

Mid-Term Management Plan 2016 has four basic policies, the first of which is to “transition to a market-oriented corporate culture.” To advance this transition, we have divided the global market into five regions: America, Europe, China, the Indian Ocean Rim, and East Asia, which includes Japan. By quickly developing and manufacturing products that match the market needs of each region, we will further the globalization of our

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



# An Interview with the President

The Tsubaki Group will grow into a true global leader by maintaining an unwavering devotion to the development and manufacture of products that respond to market needs.



**Isamu Osa**  
President & Representative Director

**Q** Starting with the fiscal year ended March 31, 2011, the Company has achieved increases in sales and income for four consecutive years. Am I right in assuming that the recovery of global automobile production was a major factor behind this impressive performance?

## Superior Product Technologies Enabled Us to Take Advantage of Favorable Operating Conditions

The largest contributor to the four consecutive years of increased sales and income was Automotive Parts Operations. Since commencing mass production of timing chain drive systems in 1958, we have continued to make these systems more durable, quieter, and lighter by leveraging the technologies we have accumulated through the development of industrial-use chains. We are now a global leader in this field, standing shoulder-to-shoulder with U.S. rivals that came before us. Automobile manufacturers around the world have been particularly pleased with our Zerotech® Series. Launched in the fiscal year ended March 31, 2012, the Zerotech Series makes substantial contributions to improving the environmental performance of engines while reducing friction loss to unparalleled levels.

I believe it was this superiority of our product technologies that enabled us to take advantage of the favorable operating conditions, namely the recovery of automobile production.

## Improved Productivity and M&A Activities Contributed to Sustainable Growth

Another factor behind our impressive performance is the improved productivity that we achieved through a concerted Companywide effort. We suffered a large decline in sales and income immediately following the Lehman Shock. Learning from this catastrophe, we worked to strengthen foundations under Medium-Term Management Plan 2012, striving to build a solid earnings base that was resilient to changes in the operating environment. In addition, we accelerated the globalization of Chain Operations and Materials Handling Systems Operations by conducting two M&A transactions overseas\*.

In this manner, we instituted measures to differentiate products and strengthen foundations from the perspective of pursuing medium- to long-term improvements in Tsubaki's ability to grow sustainably. I believe that the steady progression of these measures was in part to thank for the four-year streak of improved sales and income that began in the fiscal year ended March 31, 2011.

\* The two M&A transactions were the acquisition of historic German cable and hose protection and guidance product manufacturer Kabelschlepp GmbH in the fiscal year ended March 31, 2011, and the acquisition of all operations, including chip conveyor and slag conveyor operations, of the U.S. Mayfran Holdings Group in the fiscal year ended March 31, 2013.

## Forward-Looking Expansion of Overseas Base Network

In Chain Operations and Materials Handling Systems Operations, in addition to conducting M&A activities over these four years, we have also continued to expand our overseas base network. On a short-term basis, these measures have resulted in the

Company incurring massive expenses. However, I am confident that these measures will drive the medium- to long-term improvements in Tsubaki's ability to grow sustainably that will be indispensable in accelerating the globalization of Chain Operations and Materials Handling Systems Operations.

**Q After a year of preparation following the completion of Medium-Term Management Plan 2012, Tsubaki unveiled its Long-Term Vision 2020 together with the new three-year plan Mid-Term Management Plan 2016. Could you please explain the goals and specifics of these two plans?**

Long-Term Vision 2020 illustrates our grand design for the Tsubaki Group by looking at five regional markets: America, Europe, China, the Indian Ocean Rim, and East Asia. By evaluating the scale and latent growth potential of each market, this vision paints a picture of the ideal scale of sales in these markets as well as the optimal distribution of sales by region and the level of profitability we should obtain. For its final year, the fiscal year ending March 31, 2021, this vision sets the targets of net sales of ¥300.0 billion, 70% of which is to come from overseas, and an operating income margin of 10%.

### Quest to Lead Both Global and Niche Markets

In Automotive Parts Operations, our timing chain drive systems boasted a 33% share of the global market in 2013. We aim to expand this share to 42% by 2020 to make Tsubaki into the undisputed global share leader, a company truly in a league of its own. Meanwhile, our industrial-use steel chains possess the top share in both the Japanese and North American markets. However, we have no intention of becoming complacent, and are therefore advancing into the Chinese market while also increasing our share of the European market with the aim of making our position as a global leader unshakable. The markets for some of our products are so small that the term "global leader" does not apply. Examples of such products would be Power Cylinders and Cam Clutches of Power Transmission Units and Components Operations and the AGV roll paper feeding system and the drug development support systems of Materials Handling Systems Operations. For these products, we will develop our operations with the aim of capturing the top share in each individual field and region, thereby becoming the leader of these niche markets.

### Three-Year Period for Thoroughly Strengthening Ability to Compete on the Global Stage

Mid-Term Management Plan 2016 is a practical action plan geared toward accomplishing the goal of Long-Term Vision 2020, which is making Tsubaki into a global leader. This plan sets out the following four basic policies to guide us in thoroughly strengthening Tsubaki's ability to compete on the global stage.

#### Basic policy 1 Transition to a market-oriented corporate culture

In Automotive Parts Operations, we have been successful in expanding our global share by conducting product development and manufacturing in a manner that accurately responds to the needs of automobile manufacturers worldwide. However, we have yet to achieve this level of global success in Chain Operations and Power Transmission Units and Components Operations. In these operations, we had been focusing on plant-driven manufacturing, which places the development of high-quality, high-performance products as the top priority. As such, we had not been able to turn our attention to market-driven manufacturing. To remedy this situation, we instituted massive organizational reforms effective April 1, 2014, to switch to systems that would allow for manufacturing to be more responsive to the needs of individual markets. The aim of these reforms is to boost customer satisfaction, and subsequently our market shares, by providing customers with high-quality products that match their needs at affordable prices. With this aim in mind, we separated marketing and manufacturing functions in Chain Operations and Power Transmission Units and Components Operations, thereby enabling marketing teams to be assigned to specific markets. These teams work to develop an understanding of the needs in their respective markets, so that we can reflect these needs in product development and manufacturing.

#### Basic policy 2 Expansion of businesses that leverage the collective strengths of the Group

The Tsubaki Group's strengths can be found in the product lineups and technological capabilities that enable it to provide a diverse range of products spanning from parts and units to modules and systems. Going forward, we will leverage the collective strengths of the Group that span across the traditional boundaries of business segments and regional divisions to combine these products and technologies and create new composite products. In this manner, we will expand our business by providing solutions that match market needs.

#### Basic policy 3 Enhancement of earning power

Under Medium-Term Management Plan 2012, we successfully realized a substantial improvement in productivity. Tsubaki's *dantotsu* activities and other productivity improvement measures progressed rapidly in Automotive Parts Operations. In comparison, progress was lagging in Chain Operations and Power Transmission Units and Components Operations, and these operations still face the need to achieve globally optimized production. In the future, we will actively introduce state-of-the-art manufacturing methods, those that employ advanced production and processing technologies, and pursue globally optimized production in all manufacturing divisions. At the Kyotanabe Plant of Chain Operations, we have shrugged off the shackles of established ideas to undertake a project targeting the creation of new production lines and new manufacturing systems. Through

## An Interview with the President

this project, we aim to realize low-cost production through systems that can respond to changes in lot sizes and the type of component to be produced and that are capable of fast deliveries. Elsewhere, we aim to get industrial-use chain production operations in Tianjin, China, on track as soon as possible. In addition, we plan to set up new manufacturing bases in Europe during the period of Mid-Term Management Plan 2016.

### Basic policy 4 Development and utilization of human resources

Human resources are absolutely essential to advancing strategies in accordance with the three policies I just mentioned. Recognizing this, we are educating young employees and fostering employees capable of competing on the global stage while also empowering female employees. At the same time, we are striving to develop a workplace environment that is respectful toward the ever-more diverse lifestyles of these employees. In this manner, we aim to make Tsubaki a company at which all employees are motivated and feel a sense of purpose in their work.

**Q The operating income margin for Materials Handling Systems Operations has been at a low level over the past four years, in the range of 0.8%–3.1%. How do you intend to improve the profitability of this business going forward?**

Domestic capital investment is in a prolonged period of stagnancy, and the scale of sales in Materials Handling Systems Operations is contracting as a result. This contraction is the main cause for the business' poor profit margins. To respond to this situation, we have been reinforcing our network of overseas bases and bolstering product lineups, particularly in recent years,

and are now finally positioned to begin expanding sales. Going forward, we will work to rebuild Materials Handling Systems Operations by concentrating management resources on growth fields, such as those I am about to describe, while simultaneously managing costs in an even-more stringent manner.

### Growth Field 1. Overseas Markets

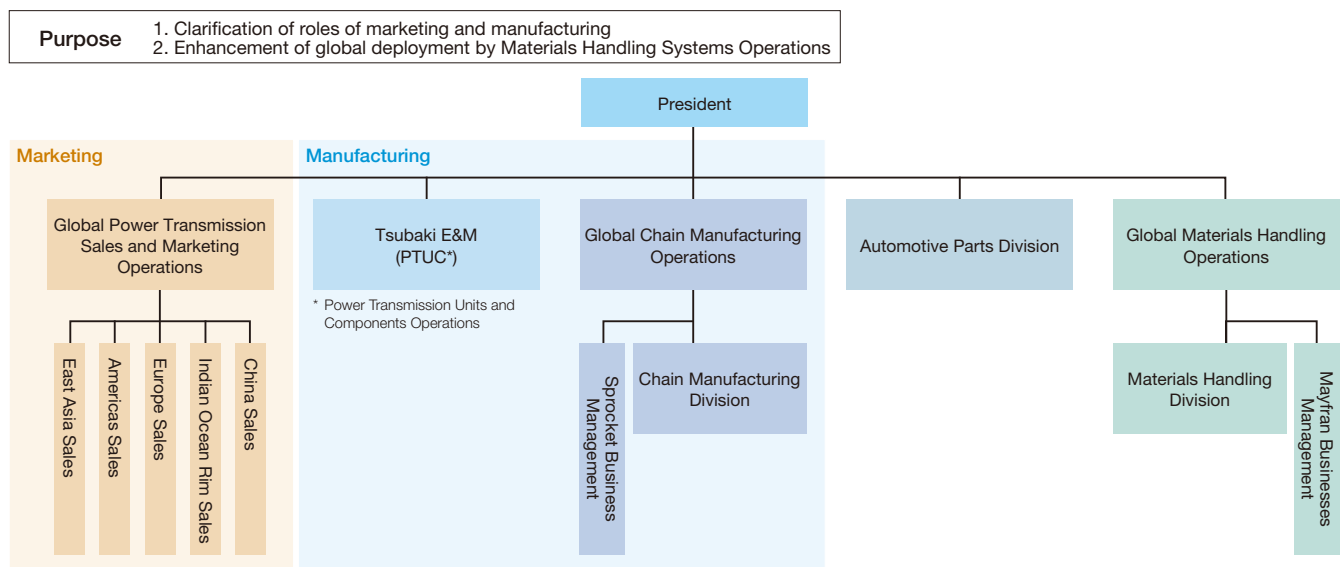
In the domestic machine tools industry, tools that would have previously been exported out of Japan are increasingly being produced in the overseas markets for which they would have been destined. In light of this trend, we will work to boost efficiency, cut costs, and thereby strengthen global competitiveness by instilling uniformity into our worldwide network of manufacturing bases for chip conveyors and other peripheral facilities.

Moreover, we acquired the chip conveyor and slag conveyor operations of the Mayfran Holdings Group in the fiscal year ended March 31, 2013, further strengthening our global network. In 2013, a major Japanese machine tool manufacturer recognized Tsubaki as a global supplier, reflecting their high evaluation of our production and supply systems, which allow for timely deliveries to be conducted on a global scale. Looking at global operations, the Tsubaki Group has possessed local production bases in the United States for a number of years, and recently we have been establishing bases in other locations, such as Indonesia. Looking ahead, we will utilize the strength of this global network to aggressively respond to the ever-growing overseas capital investment demand in Materials Handling Systems Operations.

### Growth Field 2. New Proprietary Products

Even faced with a harsh operating environment in Japan, we have continued bolstering product lineups alongside the reinforcement of our overseas network. Noteworthy products

### Structural Reforms (As of April 1, 2014)



include our Zip Chain Lifter® ultra-high-speed lift. As an electric lift, this product is more eco-friendly than conventional hydraulic lifts. It also realizes more precise positioning at higher speeds. These benefits have earned much praise, and Zip Chain Lifter is therefore finding itself used in a widening range of applications, including in automobile production lines. Another product of note, Tsubaki Quicksort is a high-speed automatic system used in the distribution industry. Characterized by its fast and precise sorting capabilities, this product is popular among major couriers. We also serve the pharmaceutical industry, which, despite featuring a smaller market than the automobile and distribution industries, is ripe with growth potential. For this industry, Tsubaki Labo Stocker\*—a system for storing frozen microbe and pathogen samples—is gaining attention for its superior ability to provide low-temperature environments. With these and other products, Tsubaki's lineup has a clear technological advantage over the competition. By concentrating management resources on such products, we will increase sales and improve profit margins in Materials Handling Systems Operations into the future.

\* For more information on Tsubaki Labo Stocker, please refer to page 18.

**Q Corporate value is increasingly being measured from an overall perspective, including social value, rather than simply focusing on economic value. Considering this trend, what type of management does the Tsubaki Group aim to practice?**

### Social Contribution Integrated with Business Expansion

The driving force behind the Tsubaki Group's growth is the development and manufacture of products with superior levels of durability, energy efficiency, and environmental performance. This is made possible by our ongoing refinement of the technologies Tsubaki possesses as a manufacturing company. Long-Term Vision 2020 sets out the numeric targets of net sales of ¥300.0 billion, 70% of which is to come from overseas, and an operating income margin of 10% for its final year. These targets are to be accomplished by expanding the range of areas in which Tsubaki contributes to society, which we will do by encouraging the market to embrace as many Tsubaki Group products as possible. However, we also realize that expanding production operations can also increase our environmental footprint. To prevent this from happening, we are actively pursuing improved productivity while making production lines more eco-friendly. As a numeric target in this area, we have set the target of reducing CO<sub>2</sub> emission volume by 15% of the level from the fiscal year ended March 31, 2006. This is to be accomplished by the fiscal year ending March 31, 2021.



### Construction of a Management System Appropriate for a Global Leader

As the globalization of our operations progress, the construction of a high-quality management system is becoming increasingly more important. Aiming to instill an additional degree of flexibility and objectivity into management, we appointed a second outside director in June 2013. In addition, we realize that diversifying our human resources is a task requiring attention over the long term. Tsubaki believes that actively promoting talented individuals to management positions regardless of their nationality or gender is the fastest path toward becoming a global leader.

### Improvement of Corporate Value

The Tsubaki Group is expanding its presence on the global stage by leveraging the vitality of its organization and employees and the strength of its technologies to create high-value-added products. Through this process, we aim to transform the Tsubaki Group into a group with high overall value by realizing sustained improvements in its economic value.

Our ultimate goal is to have all of our stakeholders say that the Tsubaki Group is essential to the development of society, and we will continue to undertake new challenges as we pursue this goal.

September 2014

Isamu Osa  
President & Representative Director

# Review of Operations

## Chain Operations and Power Transmission Units and Components Operations

### Operating Environment and Performance Review

Consolidated net sales in Chain Operations have recorded average yearly growth of 10.0% over the four-year period leading up to March 31, 2014. However, this growth rate is due largely to the benefits of the acquisition of Germany's Kabelschlepp GmbH. In actuality, the current operating environment for this business leaves little room for optimism, as private-sector capital investment in Japan, which has a large impact on domestic Chain Operations sales, is suffering from persisting stagnation.

Buoyed by increased sales, the operating income margin continued to grow over the past few years; increasing from 5.8% in the fiscal year ended March 31, 2011, to 6.7% in the fiscal year ended March 31, 2012, and then to 7.1% in the fiscal year ended March 31, 2013. In the fiscal year ended

March 31, 2014, the operating income margin fell to 6.7%. This decline was mainly due to the downward pressure of investment expenses related to the new industrial-use chain manufacturing subsidiary in Tianjin, China, which has only been operating for a little over a year\*.

In Power Transmission Units and Components Operations, consolidated net sales have increased by an average yearly rate of 8.8% over the four-year period leading up to March 31, 2014. However, similar to Chain Operations, this business faces harsh conditions in Japan, which accounts for 70% of its sales.

\* For more information, please refer to Report and Analysis of Financial Condition and Results of Operations for FYE 2014 on pages 46–48.

### Future Growth Strategies

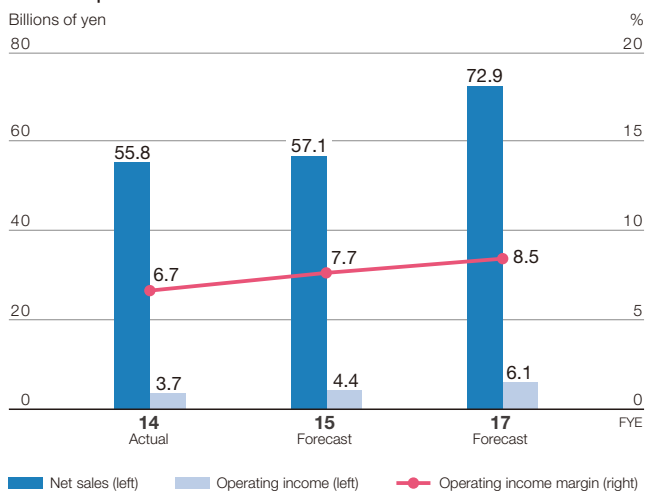
Amidst sluggish domestic demand, there is a need to accelerate the globalization of production and sales in both Chain Operations and Power Transmission Units and Components Operations.

#### Chain Operations Growth Strategies

In Chain Operations, Tsubaki has captured a dominating share of the Japanese and U.S. markets. This means that the next step in pursuing future growth will need to be taken in the Chinese and European markets. In the rapidly growing Chinese market, we must build a solid business foundation. Meanwhile, we will have to expand our share in the European market, where our share is relatively small compared to the Japanese and U.S. markets.

In China, our strategies will focus on commencing full-fledged local production operations and expanding sales channels. In regard to commencing full-fledged local production operations, the newly established manufacturing subsidiary in Tianjin, China, began production in the second half of the fiscal year ended March 31, 2013. Local production brings with it the benefits of allowing us to better design products that match market needs and diversify material suppliers, and thereby reduce costs. Leveraging these benefits, we hope to decrease the price gap between Tsubaki and local Chinese manufacturers.

#### Chain Operations



GT4 WINNER® roller chain that is compliant with European industry standards

As for expanding sales channels, we integrated Chain Operations and Power Transmission Units and Components Operations sales companies located in Shanghai, China, during the previous fiscal year, thereby cutting operating costs. In addition, we have begun offering one-stop service for solutions proposals in which we supply chain and power transmission products to customers as sets. Furthermore, we plan to double Chinese sales bases from the current six by the fiscal year ending March 31, 2017.

In Europe, we intend to greatly expand our lineup of products that comply with European industry standards. Specifically, we will select for compliance certain products based on Japanese Industrial Standards Committee (JISC) standards and American National Standards Institute (ANSI) standards. Particularly, we will select those that have sold favorably in their respective markets and for which there is strong demand in Europe. These products will be adjusted to conform to the British Standards (BS) and the standards of the German Institute for Standardization (DIN). As we expand our product lineup, we will simultaneously tend to the issue of strengthening cost competitiveness by setting up local production operations. We plan to establish new European manufacturing bases during the period of Mid-Term Management Plan 2016. M&A activities will be considered among our options for accomplishing this task.

### Power Transmission Units and Components Operations Growth Strategies

The top priority in Power Transmission Units and Components Operations is to advance this business in the U.S. market. Previously, our ability to sell power transmission products in

this market had been limited due to the existence of a joint-venture company with the Emerson Group, of the United States. However, in 2013 we acquired the remaining shares of this company held by the Emerson Group, transforming it from a joint venture to a wholly owned subsidiary and positioning us to begin expansion of U.S. operations in earnest. Tsubaki's power transmission products lineup includes such competitive offerings as its cam clutches, which boasts an unrivaled leading share in the Japanese market due to their matchless ability to deliver high levels of transmission torque. We aim to rapidly expand sales of these and other Tsubaki products in the U.S. market going forward.

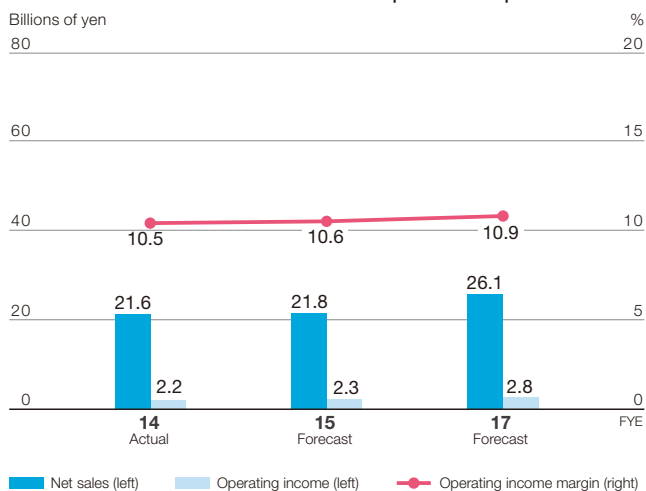


PTC ASIA 2013 (China)



Hannover Messe (Germany)

### Power Transmission Units and Components Operations



Cam clutches

## Review of Operations

### Automotive Parts Operations

#### Operating Environment and Performance Review

Automotive Parts Operations have continued to drive performance improvements for the entire Group over the four-year period leading up to March 31, 2014, with consolidated net sales recording average yearly growth of 12.3% and operating income rising substantially with an average yearly growth rate of 29.0%. One factor behind this impressive performance was the expansion of global automobile production that accompanied increased demand for eco-friendly automobiles and economic growth in emerging nations. Another contributing factor

was the rise in automobile manufacturers around the world that chose to adopt Tsubaki's timing chain drive systems, reflecting their recognition of the superiority of these systems in terms of quality and technologies.

In the fiscal year ended March 31, 2014, we saw massive growth in income in Japan as well as at all overseas subsidiaries in the United States, England, Thailand, China, and South Korea. As a result, the operating income margin for Automotive Parts Operations rose to 16.7%.

#### Future Growth Strategies

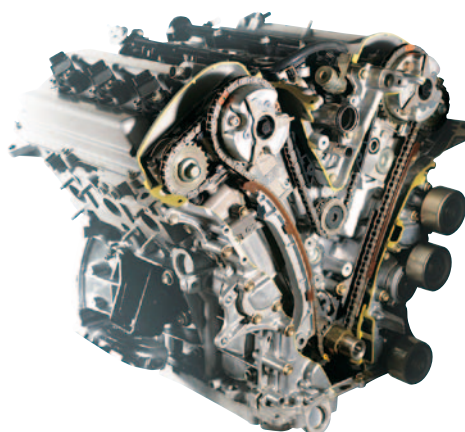
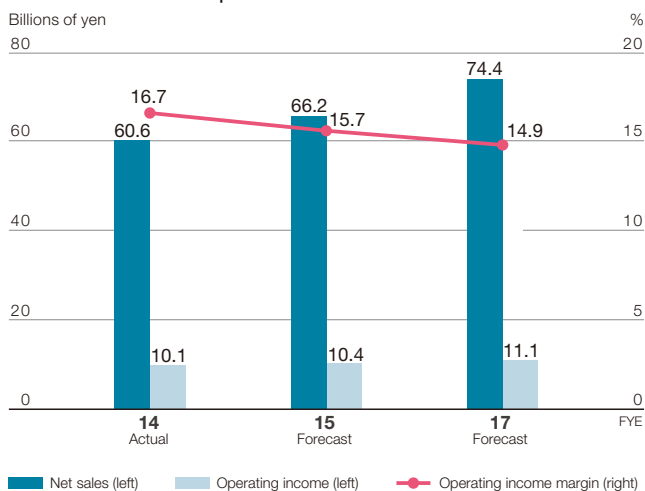
With regard to timing chain drive systems, the Tsubaki Group is a global leader, standing shoulder-to-shoulder with its U.S. rivals. By the fiscal year ending March 31, 2021, we aim to make Tsubaki the undisputed leader by capturing a 42% share of the global market. To accomplish this ambitious goal, we will acquire new contracts by promoting the differentiation of our products in terms of quality and performance. In this quest, the markets that we will emphasize most are China and Europe.

Our strategies for the Chinese market are centered on the pillars of enhancing sales engineering capabilities and strengthening cost competitiveness. In enhancing sales engineering capabilities, we will conduct various technical proposals before engine development even begins to solicit the height of Tsubaki's engineering skills and quality. In addition, we are examining the possibility of establishing a technology center in China during the fiscal year ending March 31, 2015, to serve as a base for technical sales proposal activities. Meanwhile, as

one initiative for strengthening cost competitiveness, we commenced construction of a new automotive parts manufacturing base in Tianjin, China, during April 2014. Once completed, this base will complement the existing base in Shanghai. In the past, production operations in China have primarily consisted of the assembly of parts imported from Japan. However, we plan to broaden these operations to include everything from manufacturing to assembly. More importantly, this will be done a step ahead of the competition, and will therefore substantially strengthen Tsubaki's cost competitiveness.

In the European market, a number of automobile manufacturers employ silent chains and bushed chains in their timing chain drive systems. For this reason, we intend to advance the technological differentiation of products in these two areas. For example, the Company is actively developing silent chains with superior levels of durability. We are also developing low-weight, low-cost tensioners as well as levers and guides.

Automotive Parts Operations



Timing chain drive system



## Materials Handling Systems Operations

### Operating Environment and Performance Review

Consolidated net sales in Materials Handling Systems Operations showed average yearly growth of 18.0% over the four-year period leading up to March 31, 2014. However, this strong growth can largely be attributed to the acquisition of operations of the Mayfran Holdings Group, of the United States. In Japan,

Materials Handling Systems Operations has been facing dire straits as a protracted period of sluggish demand results in reduced profitability. Due to these harsh conditions, the overall operating income margin for this business has remained low—between 0.8% and 3.1%—for the past four years.

### Future Growth Strategies

In this harsh environment, the Company's Materials Handling Division will work to ascertain which businesses and products truly boast high levels of growth potential and competitiveness. Going forward, the division will concentrate the allocation of management resources on these growth fields while at the same time improving profitability by reducing costs.

The first such growth field for Materials Handling Systems Operations is chip conveyors, for which we hold a strong market share. Recently, major Japanese machine tool manufacturers have been working to develop globally optimized production operations. These manufacturers therefore have a strong need for the services of a global supplier that can fill batch orders for chip conveyors as well as the parts and units they need for use in their overseas manufacturing bases. The acquisition of the Mayfran Group has boosted Tsubaki's ability to operate globally, and we will utilize this newfound strength to provide quick and accurate responses to such customer needs.

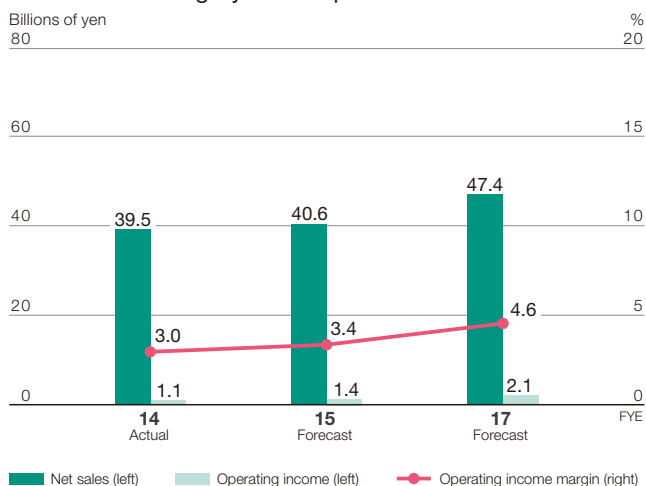
The second growth field is emerging nations, such as China and other parts of Asia. These nations are lacking in harbor, waste disposal, and other infrastructure. As such, demand is rising for materials handling systems, namely the bulk handling

systems for which Tsubaki has captured the top domestic market share. In addition, Indonesia and other ASEAN countries are in need of a materials handling system manufacturer that possesses local engineering bases in this area and is able to provide a comprehensive range of services. We are responding to this demand through the materials handling system sales and manufacturing subsidiary we established in Indonesia during 2012.

Domestically, cost reduction initiatives are proceeding alongside the selection of businesses and products to which we will concentrate management resource allocation. The products that will be developed through concentrated resource allocation are those that embody Tsubaki's technological prowess. Such products include our Zip Chain Lifter<sup>®</sup>, which is more eco-friendly than conventional hydraulic lifts and also realizes more precise positioning even under high-speed, high-frequency cycles, as well as Tsubaki Quicksort, an automatic system that sorts products at unprecedented speeds. Focused on these and other differentiated products, we will expand sales to prominent customers in the automobile and distribution industries. At the same, we will progressively modularize designs to accelerate productivity improvements to realize more extensive cost reductions.

\* For more information, please refer to Tsubaki's Strengths on pages 18-21.

#### Materials Handling Systems Operations



Automatic sorting equipment—Tsubaki Quicksort

# Financial and Capital Strategies

The Tsubaki Group strives to strike a balance between expanding businesses and maintaining a sound financial position by allocating management resources in an efficient manner. In addition, the results of business growth are used to issue appropriate returns to shareholders.

## Financial Soundness Maintained through Selection and Concentration of Investments

The level of capital investment in the fiscal year ended March 31, 2010, was low at ¥3.9 billion because we curtailed investment as an emergency response measure to the performance deterioration that followed the Lehman Shock. However, the rise in investment levels resumed in the following year, and capital investment amounted to more than ¥10.0 billion in the fiscal years ended March 31, 2013 and 2014, respectively. This increase was the product of Companywide investments for rationalization measures to improve productivity and for the expansion of overseas manufacturing and sales bases as well as investments for boosting production capacity in Automotive Parts Operations.

Despite these aggressive investments, the D/E ratio (net) showed improvement from 0.21 times in the fiscal year ended March 31, 2010, to 0.13 times in the fiscal year ended March 31, 2014. This strengthening of the Company's financial position amidst rising investment was the result of the efficiency with which these investments were conducted. These efficient

investments focused primarily on areas that are directly linked to high growth potential for the Tsubaki Group, such as globalization and productivity improvements.

Mid-Term Management Plan 2016 (for the fiscal years ending March 31, 2015–2017) projects capital investment to total ¥35.0 billion–¥40.0 billion over its three-year period, a level that will exceed the investments of ¥27.1 billion conducted over the preceding three-year period of Medium-Term Management Plan 2012 (for the fiscal years ended March 31, 2011–2013). Nonetheless, we will continue our strategy of selection and concentration of investments into the future, and our basic policy for these investments will be to keep them within the scope of operating cash flows. This approach is anticipated to help Tsubaki maintain the soundness of its financial base even in the wake of these aggressive investments. Accordingly, the Company believes it can achieve a D/E ratio (net) of 0.20 times or less for the fiscal year ending March 31, 2017.

## Shift Toward Dividends that Emphasize Payout Ratio

In the past, the Company has issued dividend payments based on a policy defining ¥6.00 per share as the stable base level for full-year dividends. Dividends were then adjusted based on the Company's consolidated performance and financial position. However, we have chosen to shift toward a policy of emphasizing the dividend payout ratio when determining dividend amounts. In addition, Long-Term Vision 2020 sets out the numeric targets of net sales of ¥300.0 billion and an operating income margin of 10% for the fiscal year ending March

31, 2021, its final year. In this manner, we have clearly defined our intent to pursue sustainable growth. We plan to use the results of this business growth to issue appropriate returns to shareholders. Accordingly, our consolidated dividend payout ratio target for the period of Mid-Term Management Plan 2016 has been set at 30%, a large increase from the yearly average of 19.1% over the past four years (fiscal years ended March 31, 2011–2014).

### Financial and Capital-Related Targets of Mid-Term Management Plan 2016

Capital investment	¥35.0 billion–¥40.0 billion (3-year aggregate)
D/E ratio (net)	0.20 times or less
Consolidated dividend payout ratio	30% (Target for period of Mid-Term Management Plan 2016)

# Intellectual Properties and R&D

The Tsubaki Group realizes that strengthening technological capabilities forms the very foundations necessary for improving its corporate value as a manufacturing company. Based on this recognition, we are actively submitting applications for new intellectual properties while protecting existing ones while at the same time advancing R&D activities.

## Aggressive Advancement of Global Intellectual Property Strategies

The Tsubaki Group is constantly strengthening the core technologies (foundation technologies) that are critical for the entire Group while also advancing the development of new products that respond to market needs. New product development proceeds through collaboration between the related departments, principally the Development & Technology Center and the R&D divisions positioned in each business segment.

For patents and other industrial property rights, the intellectual property department within the Development & Technology

Center takes charge for all aspects of patent applications and violation prevention. This is done to facilitate efforts to improve upon the superiority of the Group's products and aggressively advance global intellectual property rights strategies. Meanwhile, acting in accordance with regulations on managing confidential business information, Tsubakimoto Chain's legal affairs divisions prevent leakage by spearheading stringent, Groupwide management of confidential business information and information on technologies.

## Sustained Growth Realized by Enhancing Technological Prowess

R&D costs have increased greatly compared with 10 years ago. While consolidated R&D costs amounted to ¥1.0 billion in the fiscal year ended March 31, 2004, this figure was ¥4.0 billion in the fiscal year ended March 31, 2014. In addition, these costs are coming to account for a larger portion of consolidated net sales as this ratio was 2.3% in the fiscal year under review, compared with 0.9% 10 years ago. The source

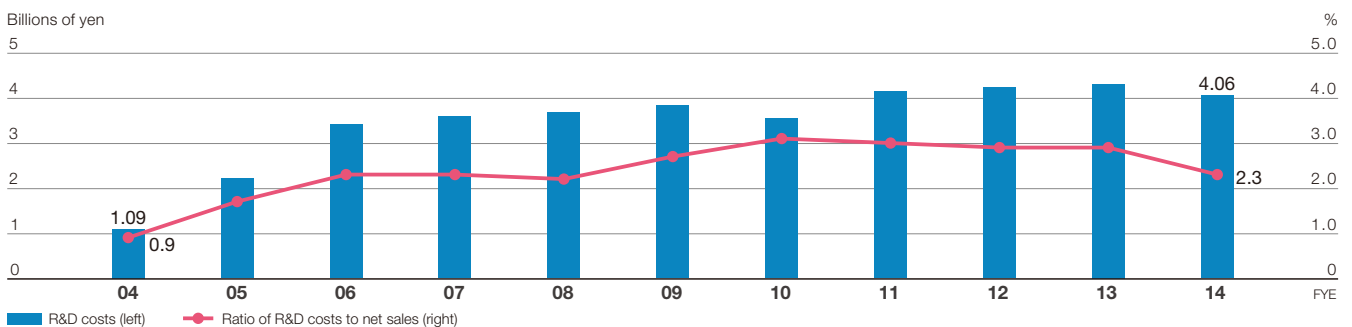
of the Tsubaki Group's competitiveness lies in the strength of its technological capabilities and the high quality of its products. Based on this recognition, we have continued to steadily advance R&D ventures, regardless of economic depression and other external concerns, and these ventures are supporting the sustained growth of the Group by enhancing its technological prowess.

## Focus on Developing "Era-Leading" Products

Each business division is conducting product development based on a defined priority order to ensure this process is both efficient and effective. In Chain Operations, the development of next-generation (eighth-generation) roller chains is nearing completion. The eighth-generation chains will further cement Tsubaki's lofty position in the market for high-end roller chains. In developing these chains, we are working to further improve upon existing performance standards, such as the high levels of durability that had been achieved even before the seventh

generation. At the same time, we have focused on selecting materials that contribute to cost reduction while employing innovative production technologies. In Automotive Parts Operations, meanwhile, priority is being placed on developing new products and technologies that will help support customer acquisition efforts from a technological development standpoint. Examples of projects include the development of chains that feature lower levels of wear-induced stretching and higher environmental performance as well as low-weight, low-cost tensioners.

### R&D Costs



# Human Resource Development and Invigoration

It is impossible for a company to grow if its employees do not. Based on this belief, we are pursuing the development of human resources through various initiatives geared toward cultivating young technicians, fostering human resources capable of competing on the global stage, educating managers, raising employee motivation, and ensuring employee safety. We are confident that these initiatives will help fuel the future growth of the Company.

## Strengthening of Manufacturing Capabilities and Passing on Technical Skills and Expertise to Young Engineers

We aim to ensure that the Tsubaki Group can grow its business through more competitive manufacturing, and hope to make this growth sustainable. To this end, we are implementing a range of initiatives designed to develop a workplace in which employees are highly motivated and technical skills and expertise are able to be passed on to young engineers.

### Technical Skill Improvement through the Tsubaki Techno School and the Tsubaki Technical Skills Olympics

With the aim of enabling all employees to improve their expertise and skills, the Tsubaki Group conducts training programs and offers other skill development opportunities for employees based on their position and rank. Examples of such opportunities include the Tsubaki Techno School and the Tsubaki Technical Skills Olympics.

The Tsubaki Techno 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. The school also offers technical courses developed to improve monitoring capabilities and employees' ability to transmit technical expertise. Since the Tsubaki Techno School was founded in April 1998, approximately 7,200 employees have completed half-year courses at the school, consisting of 48 class-hours, through which they acquired skills that are now being put into practice in daily operations.

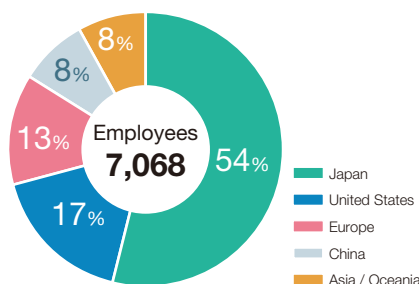
The Tsubaki Technical Skills Olympics is a unique technical competition that the Tsubaki Group has held since 2012. This competition consists of a total of eight events that test employees' technical skills in areas that underpin the Group's manufacturing operations. Events included engine lathe operation, welding, and injection molding. Elite employees from domestic

Group companies are selected to compete in this event, with awards presented to the employees with the best performance. The Tsubaki Technical Skills Olympics are designed to facilitate the improvement of employees' technical skills and to help these skills be passed on, as well as encourage techniques to be shared between different business divisions. In this manner, the event is helping to invigorate the organization.

### Initiatives to Facilitate Globalization

In the fiscal year ended March 31, 2014, overseas sales accounted for more than 50% of consolidated net sales, demonstrating the acceleration of our globalization. In addition, the number of Group employees positioned overseas has increased greatly; on March 31, 2014, 46.3% of the Group's 7,068 employees (consolidated basis) were at overseas subsidiaries. Aiming to cultivate human resources that can compete on the global stage, we introduced the global trainee system in the fiscal year ended March 31, 2011. This system allows young employees to be dispatched to overseas subsidiaries for training, and is designed to teach them languages and business manners and help them to better understand other cultures. As of March 31, 2014, a total of 35 employees had taken advantage of this program.

Distribution of Employees By Region (As of March 31, 2014)



Workflow improvement competition at the Tsubaki Technical Skills Olympics



Engine lathe operation competition at the Tsubaki Technical Skills Olympics

## Protection of Employee Safety and Improvement of Employee Motivation

Placing employee safety as its top priority, Tsubaki is taking steps to prevent work-related accidents. The Company is also implementing measures and activities to help employees remain healthy. In addition, we have introduced flextime and discretionary labor systems, and encourage employees to take consecutive days off. In these ways, we are striving to build a comfortable workplace environment.

### Onsite Safety Measures

At the Tsubaki Group, we realize that safety is our highest priority as a manufacturing company, and are therefore working to prevent work-related 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.

Furthermore, in August 2012 the president began personally conducting checks to evaluate past accident sites and the safety measures in place at these sites. In addition, we introduced a defined set of hand gestures and calls at domestic

manufacturing sites in November 2012, to be used when crossing factory pathways. The aim of this initiative is to encourage all employees to be aware of and to make a habit of safety confirmation.

The results of these activities are clear and can be noted in the recent decrease in work-related accidents.

### Construction of a Comfortable Workplace Environment

Tsubakimoto Chain is proactively developing an environment that is conducive to employees hoping to work while also 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.

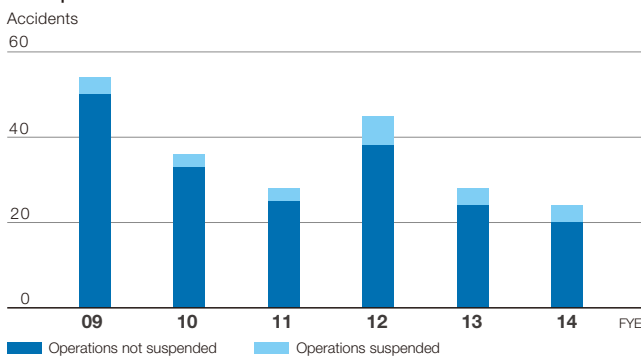
To help employees remain healthy, we have launched programs to encourage employees to exercise, such as walking events. The first event took place during the period from April to June 2014, and over 100 employees participated.

We are also promoting good mental health, and are working to reduce the number of employees suffering from mental health issues by providing education and information to all Tsubaki Group members.

### Empowerment of Female Employees

The Company was a forerunner in terms of introducing flextime and other systems to build a more comfortable workplace environment. However, we realize that the empowerment of female employees is a task we will need to address going forward. It will be necessary to consider ways in which female employees can be given opportunities to exercise their skills within the Group's manufacturing operations. We will seek the answer to this dilemma through discussions with female employees and their supervisors, and work to put any solutions found into action.

Number of Work-Related Accidents at Domestic Tsubaki Group Sites



President Osa personally evaluating a past accident site and its safety measures

# Together with Our Stakeholders

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.” Acting in accordance with this value, we are continually contributing to society through our business activities.

## Contributions to Local

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

### Basic Policy

The Tsubaki Group’s mission statement declares as a value that “We will contribute to the development of local societies as a good corporate citizen.” We do not limit ourselves simply to complying with the laws and social rules of the countries in which we operate. Rather, we go a step further, working to build strong partnerships with local communities. Some of the activities conducted with this aim include factory tours and work-experience programs held for children in Japan and donations to various charities by overseas Group companies.

### Summer Vacation Child and Parent Factory Tours

Since the 2001 completion of the Kyotanabe Plant, located in Kyotanabe City, Kyoto Prefecture, we have strived to operate the factory in a manner that is open toward the community, and have continued to practice open communication 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 in August of each year, during summer vacation. These tours serve as a valuable opportunity for us to communicate to society the type of company that Tsubaki is.

Aiming to teach the children that will shape the future about the joy of manufacturing, we have developed a unique program for these tours that is packed full of activities. In addition to the factory tour, participants take part in chain assembly competitions, have lunch at the factory cafeteria, and are treated to other activities as well. This program was held for the sixth time in the fiscal year ended March 31, 2014, and a total of 80 local elementary school children and parents (31 groups) were selected from more than 600 applicants to attend.



Children and parents on summer vacation factory tour

# Communities

## Work-Experience and Internship Programs

Domestic Tsubaki Group factories are actively participating in municipal government-sponsored work-experience and internship programs for junior high school students. For students invited to our facilities, we have arranged a program that includes actual work duties designed to show these children the joy of manufacturing and the fun of searching for creative solutions to problems.

Since 2001, the Hyogo Plant, located in Kasai City, Hyogo Prefecture, has accepted applicants for the one-week, work-experience program for local junior high school students known as "Try-Do Week." In the fiscal year ended March 31, 2014, two junior high school students participated and experienced such factory work tasks as processing, assembly, and production management.



Junior high school students experiencing factory work as part of "Try-Do Week"

## Support for the American Cancer Society

Since 2002, a team of employee volunteers 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

## 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. Over the past six years, this project has been responsible for planting a total of 11,573 mangrove trees, subsequently resulting in a reduction of 101 tons of CO<sub>2</sub>. As a new initiative, employees have started burying salt to enrich soil for the benefit of wildlife and planting coral. In 2011, Tsubakimoto Automotive (Thailand) began donating water tanks to local schools. Furthermore, employees helped paint dining tables at Nong-Kra-Ka school during July 2014, and also aided in the planting of 100 trees in the surrounding community.



Mangrove tree planting team members

## Social Recognition for Manufacturing Activities

Customers and society have high evaluations for Tsubaki's manufacturing activities, which provide the best value.

As one piece of this recognition, our Model TKZP Cableveyor® received the Machinery Award in the 2013 'CHO' Monodzukuri (the craft of making superior things) Innovative Parts and Components Award sponsored by the *Nikkan Kogyo Shimbun* and the Conference for the Promotion of Monodzukuri in October 2013. These organizations designed the award to turn the spotlight on the superior parts and components that are the unsung heroes supporting the competitiveness of Japan's manufacturing operations. Awards are presented in six divisions: machinery, electronic and electric components, automobiles, environmental-related devices, healthcare and medical equipment, and lifestyle-related devices.



Award ceremony at which the Machinery Award was presented to Model TKZP Cableveyor®

# Environmental Preservation Activities



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

## Environmental Philosophy

The Tsubaki Group believes that environmental conservation is a critical challenge facing humanity.

**We will remain mindful of the environment in all our operations and contribute to it through our workmanship.**

## 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)

## CO<sub>2</sub> Emission Volume Reduction

In the fiscal year ended March 31, 2014, we commenced operations at a new assembly factory building in the Saitama Plant. This building is equipped with numerous energy-saving measures, including solar panels, exclusive use of LED lighting for the entire building, gas heat pump air conditioning, greenery planted on the building's roof, and heat-insulated glass. Elsewhere, Group company Tsubaki E&M Co., Ltd., has switched to gas-powered equipment for air conditioning and boiler facilities. These and other investments in energy-saving measures began generating significant benefits during the fiscal year ended March 31, 2014, and Groupwide reductions in CO<sub>2</sub> emissions during the year were more than double the figures from previous years, at approximately 1,100 tons.



Solar panels at new assembly factory building in the Saitama Plant

## Waste Recycling

The Saitama Plant's employee cafeteria uses a raw garbage processing unit to make compost from leftover food, unused portions of vegetables, and other kitchen waste.

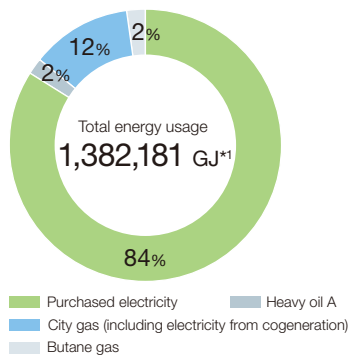
During this year's Strengthening Environmental Education Month, the Saitama Plant held an event in which this compost was provided free-of-charge to interested employees as "recycled fertilizer" together with various seeds. A total of 70 sets of fertilizer and seeds were prepared for the event, which was held in front of the employee cafeteria. These sets proved incredibly popular, with all 70 being handed out in only 10 minutes, and we believe that the event helped raise employees' awareness toward recycling.



Fertilizer made in raw garbage processing unit

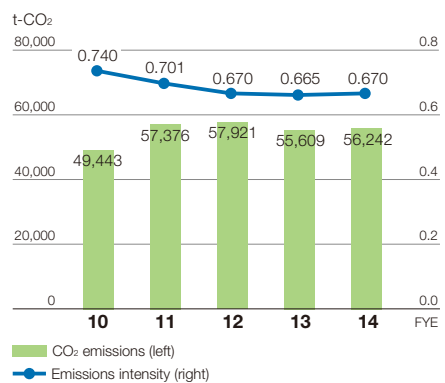


### Breakdown of Energy Usage



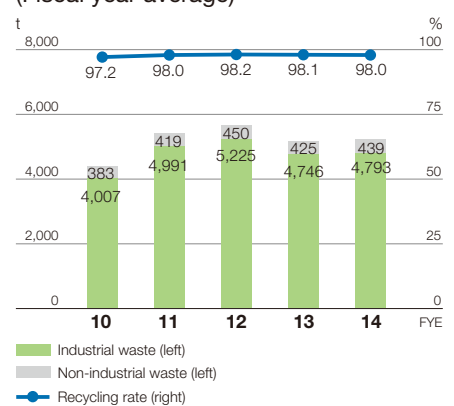
\*1. Gigajoule (GJ): Unit of energy equivalent to one billion (10<sup>9</sup>) joules

### CO<sub>2</sub> Emissions<sup>\*2</sup>



\*2. CO<sub>2</sub> emissions from electricity usage calculated using fixed conversion coefficient of 0.378

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



## Cost Reductions through Summertime Energy Conservation

In Japan, the supply and demand situation for energy changed greatly following the Great East Japan Earthquake as the country has faced ongoing electricity shortages during the summer months coupled with high electricity rates. As such, the Japanese government together with power companies is requesting that people and companies conserve electricity. In addition to responding to this request, Tsubaki has embarked on a new quest to realize more extensive summertime energy conservation with the aim of reducing costs and decreasing electricity consumption, and thereby CO<sub>2</sub> emissions. Specifically, we have begun actively working to make electricity usage rates more uniform throughout the day and reduce the amount of electricity purchased from power companies.

In the past couple of years, the quantitative benefits of summertime electricity conservation measures have ceased to improve. To realize future improvements, we are conducting appropriate energy conservation measures at Group companies and are consistently managing electricity demand based

on internal targets that have been set to a higher level than requested by the government and power companies.

## Environmental Accounting

In the fiscal year ended March 31, 2014, investments in environmental measures only amounted to ¥300 million due to the small number of large-scale investment projects, such as the construction of the new assembly factory building in the Saitama Plant in the previous fiscal year. Costs were down 10% year on year, to approximately ¥690 million. The primary reasons for this were because we did not rent generators or engine-powered air-conditioning systems as part of our extensive summertime energy conservation measures and because we worked to limit other expenses.

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.

### Environmental Preservation Costs (Business Activity Classification)

Classification	Details of major initiatives	FYE 2014	
		Amount invested	Costs
(1) Business area costs		<b>215,072</b>	<b>392,111</b>
Break-down	(1) - 1 Pollution prevention costs	128,866	112,448
	(1) - 2 Global environmental preservation costs	84,506	142,803
	(1) - 3 Resource recycling costs	1,700	136,859
(2) Upstream / downstream costs	Outsourcing analysis costs, such as for substances with environmental impact	0	445
(3) Administration costs	Establishment and operation of environmental management systems (EMSs), worksite greening and maintenance, installation of air and water measurement equipment	18,156	173,191
(4) R&D costs	R&D of environment-friendly products (reduction of environmental burden during product use)	61,849	125,974
(5) Social activity costs	Regional environmental preservation initiatives	0	376
(6) Environmental remediation costs	Groundwater purification measures, etc.	0	0
<b>Total</b>		<b>295,078</b>	<b>692,097</b>

For environmental data from the fiscal year ended March 31, 2014, such as information on energy expenditures and the benefits of environmental preservation activities, please refer to the Company's website. <http://tsubakimoto.com/csr/>

# Strengthening of Management Foundations and Corporate Governance Functions



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

## Corporate Governance Systems

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.” Accordingly, the Group has continued to maintain a stance based on a customer-first mentality and a drive to contribute to society through business activities. To facilitate the promotion of these ideals, the Company employs the Company with Auditors system for its corporate governance system. With this system in place, we have established a framework for improving the speed of management decisions, the appropriateness of operational execution, and the effectiveness of audits.

At the Tsubaki Group, managerial decisions are conducted by the Board of Directors, which consists of nine directors elected at the General Meeting of Shareholders. In addition, we employ an executive officer system to ensure that measures approved by the Board of Directors are quickly and effectively put into action.

Furthermore, directors and executive officers make reports to Audit & Supervisory Board members whenever deemed necessary. Reports are issued on matters that can seriously impact the Company or Group companies and the status of internal audits in addition to issues that are legally required to be reported. Furthermore, employees are encouraged to quickly submit reports on the execution of their business duties to Audit & Supervisory Board members when requested. The Strategy Committee has been positioned as the second highest authority in the Company after the Board of Directors. This committee deliberates on and makes decisions regarding the improvement of important Groupwide business strategies and management policies. The Management Committee convenes with the aim of disseminating information on management conditions and policies among all executive officers. Audit & Supervisory Board members attend meetings of the Board of Directors and also sit in on meetings of the other abovementioned important committees as appropriate. In this manner, Audit & Supervisory Board members monitor and

maintain an understanding of circumstances surrounding operational execution, and thereby work to help ensure the appropriateness and soundness of management.

## Overview of Corporate Governance Systems

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	9 (of which 2 are outside directors)
Number of Audit & Supervisory Board members	4 (of which 2 are outside Audit & Supervisory Board members)
Independent officers	2 outside directors and 2 outside Audit & Supervisory Board members
Meetings of the Board of Directors in the fiscal year ended March 31, 2014	16
Meetings of the Audit & Supervisory Board in the fiscal year ended March 31, 2014	18
Total compensation paid to directors in the fiscal year ended March 31, 2014 (excluding outside directors)	¥224 million paid to 7 directors (decided by the Board of Directors)
Total compensation paid to Audit & Supervisory Board members in the fiscal year ended March 31, 2014 (excluding outside Audit & Supervisory Board members)	¥49 million paid to 2 Audit & Supervisory Board members (decided by the Audit & Supervisory Board)
Total compensation paid to outside directors and outside Audit & Supervisory Board members in the fiscal year ended March 31, 2014	¥29 million paid to 4 individuals

## Outside Directors and Audit & Supervisory Board Members

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 Audit & Supervisory Board members. The outside directors do not have any noteworthy relationships with the Company that might cause a conflict of interest. Both of the Company’s outside Audit & Supervisory Board members possess a high degree of specialized expertise based on their experience, one as an attorney and the other as a certified public accountant. In addition, all outside directors and outside Audit & Supervisory Board members are independent officers as stipulated by the Tokyo Stock Exchange.

## Internal Control System

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

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

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

## Tsubaki's Corporate Work Ethics

We have formulated the Corporate Work Ethics, which are a clearly defined set of ethical guidelines and a code of conduct for all directors, executive officers, and employees. Based on these guidelines, we are working to raise the awareness of corporate ethics throughout the Group through training and other initiatives. The progress of these initiatives is periodically reported to the Board of Directors. The Ethics Committee has been established to develop and institute measures to prevent violations of the Corporate Work Ethics. This committee also

administers penalties to violators as appropriate, and is thus helping strengthen compliance systems. Furthermore, we have established the Corporate Ethics Hotline to be used for reporting violations of the Corporate Work Ethics. This hotline can be used to receive consultation from or report issues to either an internal consultant or an outside lawyer.

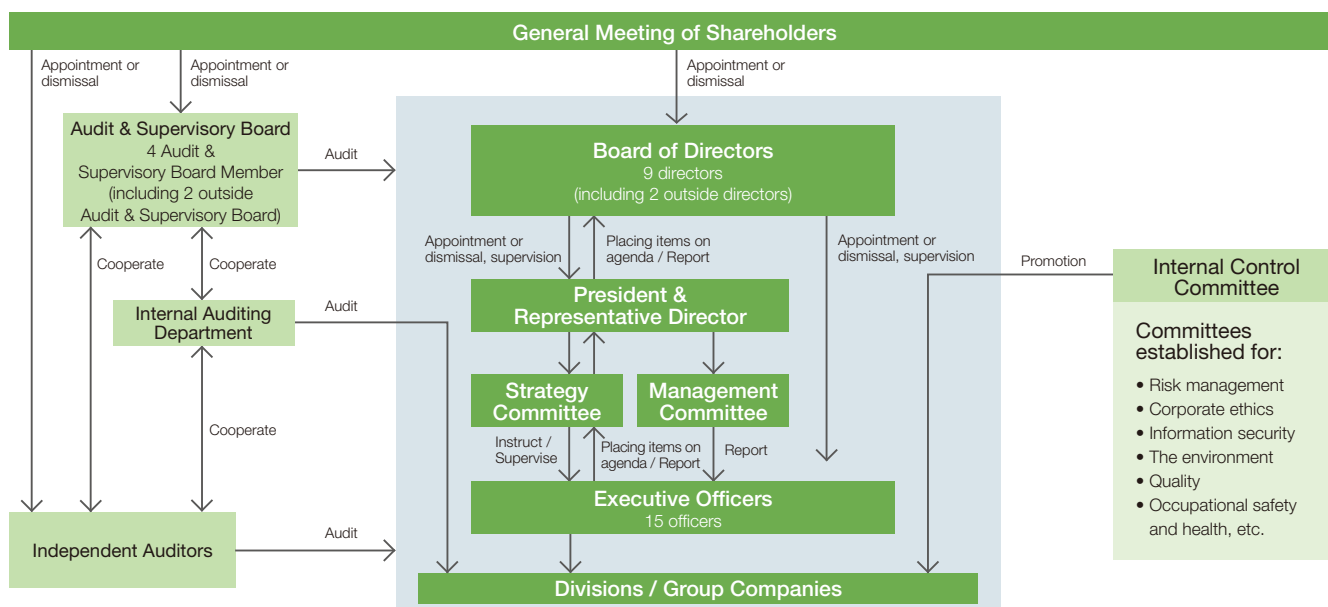


Tsubaki Corporate Ethics Handbook

## Risk Management

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

Corporate Governance System (As of June 27, 2014)



## Strengthening of Management Foundations and Corporate Governance Functions

### Board of Directors, Corporate Auditors, and Executive Officers (As of June 27, 2014)



**Isamu Osa**

President & Representative Director  
Responsible for China Operations



**Toru Fujiwara**

Representative Director & Senior  
Managing Executive Officer  
Global Materials Handling Operations /  
Saitama Plant



**Tadasu Suzuki**

Director & Managing Executive Officer  
Global Automotive Parts Business /  
Automotive Parts Division /  
Engineering Management



**Tetsuya Yamamoto**

Director & Managing Executive Officer  
Management Planning /  
Corporate Planning Department /  
President, U.S. Tsubaki Holdings, Inc.



**Hideaki Haruna**

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



**Tetsufumi Matsuura**

Director & Managing Executive Officer  
Global Chain Manufacturing Operations /  
President, Tsubakimoto Custom Chain Co.



**Yasushi Ohara**

Director & Executive Officer  
Global Power Transmission Sales &  
Marketing Operations / Europe Sales  
Management



**Hidetoshi Yajima**

Outside Director



**Shuji Abe**

Outside Director

Audit & Supervisory Board Members (Standing)

Masahiro Takemura Kikuo Tomita

Senior Executive Officers

Masaya Ushida Toshimitsu Sakai

Audit & Supervisory Board Members (Outside)

Masaru Tokuda Takafumi Watanabe

Executive Officers

Nobuaki Haga Hiromasa Kawaguchi Masahiko Yamamoto  
Hitoshi Kobayashi Yukihiro Fujii Kenji Kose Masatoshi Okada

# Communication with Shareholders and Investors



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

## Basic Policy

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

## Disclosure Policy

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

## Investor Relations Activities

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

## General Meeting of Shareholders

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



Shareholders' discussion

# 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</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

## At year-end

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

## Indexes

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

## Social and environmental impact

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*2	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, 2014, of US\$1 = ¥102.88.

\*2. Including contracted staff, temporary staff, etc.

							Millions of yen	Thousands of U.S. dollars*1
FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	<b>FYE 2014</b>	<b>FYE 2014</b>	
¥167,202	¥141,517	¥112,759	¥138,243	¥144,896	¥150,002	<b>¥178,022</b>	<b>\$1,730,390</b>	
19,805	9,095	4,737	11,022	12,081	12,579	<b>17,354</b>	<b>168,690</b>	
18,051	9,328	4,990	11,111	12,140	12,813	<b>17,993</b>	<b>174,899</b>	
10,371	6,188	3,175	6,093	6,814	7,428	<b>10,213</b>	<b>99,272</b>	
10,225	10,041	3,988	5,807	9,518	11,833	<b>11,372</b>	<b>110,545</b>	
7,301	7,344	7,390	7,544	7,403	7,360	<b>8,745</b>	<b>85,009</b>	
3,681	3,847	3,543	4,144	4,231	4,319	<b>4,061</b>	<b>39,475</b>	
20,873	7,263	14,508	16,293	11,626	15,350	<b>19,761</b>	<b>192,080</b>	
(11,481)	(9,723)	(5,020)	(8,281)	(10,487)	(18,401)	<b>(17,166)</b>	<b>(166,860)</b>	
(5,582)	(3,540)	(373)	(10,578)	(5,460)	6,325	<b>(3,196)</b>	<b>(31,071)</b>	
17,744	11,269	20,379	17,308	13,916	20,194	<b>21,291</b>	<b>206,957</b>	
¥202,316	¥178,455	¥182,641	¥184,206	¥191,766	¥215,837	<b>¥228,840</b>	<b>\$2,224,340</b>	
81,605	78,422	80,847	83,413	89,923	102,019	<b>118,433</b>	<b>1,151,177</b>	
39,314	37,600	38,910	31,240	27,405	36,507	<b>36,538</b>	<b>355,153</b>	
11.8	6.4	4.2	8.0	8.3	8.4	<b>9.7</b>	—	
40.3	43.9	44.3	45.3	46.9	47.3	<b>51.8</b>	—	
12.8	7.7	4.0	7.4	7.9	7.7	<b>9.3</b>	—	
0.26	0.31	0.21	0.17	0.15	0.16	<b>0.13</b>	—	
55.70	33.26	17.07	32.76	36.60	39.69	<b>54.58</b>	<b>0.53</b>	
438.56	421.53	434.59	448.43	480.46	545.14	<b>632.94</b>	<b>6.15</b>	
3.5	6.0	9.9	5.2	4.8	4.3	<b>3.1</b>	—	
83.8	138.3	242.0	126.3	117.6	106.5	<b>76.8</b>	—	
5,371	5,339	5,271	5,891	6,160	6,792	<b>7,068</b>	—	

# Report and Analysis of Financial Condition and Results of Operations for FYE 2014

## Review of Operating Environment and Management Performance

### Key Points

1. Automotive Parts Operations continued to see vigorous growth, and Chain Operations and Materials Handling Systems Operations achieved substantially higher revenues following progress in globalization.
2. Increased revenues and higher productivity centered on Automotive Parts Operations contributed to significantly improved income margins, and operating income, ordinary income, and net income all rose to their second highest historic level.

## Operating Environment in FYE 2014

### Domestic Operating Environment

In the fiscal year under review, ended March 31, 2014, Japan saw positive growth in all GDP figures for the first time in three years. Public investment showed double-digit year-on-year growth due to the advancement of the government's national resilience improvement plans. At the same time, export volumes expanded significantly following the entrenchment of the yen depreciation trend and favorable overseas economic conditions. As a result, capital investment demand was up in the private sector.

### Overseas Operating Environment

In North America, there was a certain degree of economic slowdown, but overall the economy continued to grow as the greatly improved job market stimulated consumer spending. Meanwhile, in Asia and Oceania, China maintained an annual GDP growth rate of more than 7%, despite such causes for concern as the instability of the financial sector and the collapse of the real estate bubble. At the same time, the pace of economic expansion accelerated in Singapore and other ASEAN countries. Europe saw a modest economic recovery trend supported by improved trade balances, which counteracted the impacts of rising unemployment rates.

## Consolidated Management Performance in FYE 2014

### Net Sales

Amidst relatively favorable operating conditions in Japan and overseas, consolidated net sales increased 18.7% year on year, to ¥178,022 million, rising above the pre-Lehman Shock figure from the fiscal year ended March 31, 2008, and setting a new record high. In Materials Handling Systems Operations, net sales were up 30.8%. This was largely due to acquisition of all operations of the Mayfran Group of the United States. The Mayfran Group companies were acquired in the third quarter of the fiscal year ended March 31, 2013, and were therefore only included in the scope of consolidation for four months during that year. Conversely, these companies were included in the scope of consolidation over the entirety of the fiscal year under review, driving the increase in sales. In Automotive Parts Operations, strong performance continued with net sales rising 22.8% as a reflection of the increase in global automobile production.

Net sales were up 11.1% year on year in Chain Operations and 9.9% in Power Transmission Units and Components Operations. In both businesses, strong sales growth in Asia and Oceania offset sluggish sales in Japan.

### Operating Income

Consolidated operating income grew 38.0% year on year, to ¥17,354 million. The full-year presence of the Mayfran Group companies in the scope of consolidation resulted in a rise in personnel costs and other fixed costs. However, this negative impact was offset by the higher revenues coupled with the reduction in costs that resulted from measures to increase productivity. As a result, the operating income margin showed a substantial improvement, rising to 9.7% from 8.4% in the previous fiscal year.

By business segment, Automotive Parts Operations showed a massive 55.8% year on year improvement in operating income, making a large contribution to the expansion of consolidated operating income. While automobile manufacturers continued to demand lower prices, the negative impacts of this trend were counteracted by the benefits of ongoing productivity improvement measures and higher sales, and the operating income margin for Automotive Parts Operations rose from last year's 13.1% to 16.7%. Operating income was up 4.9% in Chain Operations, which saw a decline in its operating income margin, and up 16.2% in Power Transmission Units and Components Operations, which witnessed an improvement in



its operating income margin. One factor behind the lower margin in Chain Operations was the harsh operating environment in Japan. Another factor would be the fact that a newly established industrial chain manufacturing subsidiary in China, positioned as a crucial market going forward, only just commenced operations in the second half of the previous fiscal year, and is not yet operating at a rate that matches its cost burden. In Materials Handling Systems Operations, the strong performance of the Mayfran Group resulted in the recording of operating income that was 2.2 times higher than in the previous fiscal year. However, this segment's operating income margin remains low at 3.0%, and it faces issues with regard to recovering profitability in the domestic market and accelerating business expansion overseas.

## Net Income

In the fiscal year under review, net income was up 37.5% year on year, to ¥10,213 million, and net income per share was ¥54.58.

The balance of other income and expenses made for other income of ¥638 million, up ¥404 million year on year. The net of interest and dividend income and interest expense was income of ¥90 million, compared with expense of ¥139 million in the fiscal year ended March 31, 2013. This was primarily the result of higher dividend income. Meanwhile, the net of extraordinary income and extraordinary loss amounted to loss of ¥420 million, up ¥253 million from the previous fiscal year. This was largely due to the recording of loss on disaster under extraordinary loss in association with the damages from heavy snowfall in Japan.

## Performance by Business Segment

		Millions of yen		
		FYE 2013	FYE 2014	YOY Change (%)
Chain Operations	Net sales*	50,250	<b>55,828</b>	<b>11.1</b>
	Operating income	3,586	<b>3,763</b>	<b>4.9</b>
	Operating income margin (%)	7.1	<b>6.7</b>	
Power Transmission Units and Components Operations	Net sales*	19,664	<b>21,612</b>	<b>9.9</b>
	Operating income	1,955	<b>2,273</b>	<b>16.2</b>
	Operating income margin (%)	9.9	<b>10.5</b>	
Automotive Parts Operations	Net sales*	49,397	<b>60,674</b>	<b>22.8</b>
	Operating income	6,494	<b>10,119</b>	<b>55.8</b>
	Operating income margin (%)	13.1	<b>16.7</b>	
Materials Handling Systems Operations	Net sales*	30,246	<b>39,565</b>	<b>30.8</b>
	Operating income	531	<b>1,192</b>	<b>124.3</b>
	Operating income margin (%)	1.8	<b>3.0</b>	

\* Net sales includes intersegment sales and transfers.

## Performance by Geographic Segment

		Millions of yen		
		FYE 2013	FYE 2014	YOY Change (%)
Japan	Net sales*	110,183	<b>110,585</b>	<b>0.4</b>
	Operating income	8,570	<b>9,234</b>	<b>7.7</b>
	Operating income margin (%)	7.8	<b>8.4</b>	
North America	Net sales*	29,967	<b>43,329</b>	<b>44.6</b>
	Operating income	2,103	<b>3,998</b>	<b>90.1</b>
	Operating income margin (%)	7.0	<b>9.2</b>	
Europe	Net sales*	14,566	<b>22,056</b>	<b>51.4</b>
	Operating income	429	<b>471</b>	<b>9.7</b>
	Operating income margin (%)	2.9	<b>2.1</b>	
Asia / Oceania	Net sales*	17,027	<b>25,740</b>	<b>51.2</b>
	Operating income	1,417	<b>2,710</b>	<b>91.2</b>
	Operating income margin (%)	8.3	<b>10.5</b>	

\* Net sales includes intersegment sales and transfers.

# Report and Analysis of Financial Condition and Results of Operations for FYE 2014

## Review of Financial Condition and Cash Flows

### Key Points

1. Business scale was expanded while limiting rises in interest-bearing debt, and financial base was solidified.
2. High levels of capital investment continued as a result of globalization and production improvement measures, but positive free cash flow was secured.

### Financial Condition

Total assets at the end of the year stood at ¥228,840 million, up ¥13,002 million from the previous fiscal year-end. Trade notes and accounts receivable increased in conjunction with business scale expansion. In addition, property, plant and equipment rose following high levels of capital investment for purposes such as ongoing measures to boost production capacity and to improve productivity in Automotive Parts Operations and the startup of a new Chinese factory in Chain Operations.

Liabilities amounted to ¥107,212 million, a decrease of ¥27 million from the previous fiscal year-end. Deferred tax liabilities

and accrued income taxes rose, but this increase was offset by a decline in other current liabilities following lower equipment-related accounts payable. In addition, interest-bearing debt on March 31, 2014, stood at ¥36,538 million, showing only a ¥30 million year-on-year increase regardless of aggressive capital investments.

As a result of the above, net assets totaled ¥121,628 million, up ¥13,030 million from the previous fiscal year-end. The D/E ratio (net) at the end of the fiscal year under review was 0.13 times, compared with 0.16 times a year earlier, and the equity ratio was 51.8%, compared with 47.3%.

### Cash Flows

Net cash provided by operating activities was ¥19,761 million, compared with ¥15,350 million in the previous fiscal year, reflecting favorable business results.

Net cash used in investing activities was ¥17,166 million, compared with ¥18,401 million in the previous fiscal year. Capital investment levels for the Group have been increasing since the fiscal year ended March 31, 2010, when investment bottomed out at ¥3,988 million. Capital investment totaled ¥9,518 million in the fiscal year ended March 31, 2012, ¥11,833 million in the fiscal year ended March 31, 2013, and ¥11,372 million in the fiscal year ended March 31, 2014. In Automotive Parts Operations, which continues to see favorable increases in results, investment was targeted at expanding global production capacity and improving productivity.

Meanwhile, in Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations, investments were conducted in pursuit of the rationalization of domestic operations and the enhancement of manufacturing networks in China, Southeast Asia, and other areas. These factors drove the rise in capital investment.

As a result, free cash flow in the fiscal year under review was a positive ¥2,594 million, compared with the negative ¥3,050 million recorded in the previous fiscal year.

Net cash used in financing activities totaled ¥3,196 million, compared with net cash provided by financing activities of ¥6,325 million in the previous fiscal year. This result can be primarily attributable to outflows in the forms of cash dividends paid and repayment of long-term loans.

### Cash Flow-Related Indexes

	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014
Equity ratio (%) <sup>*1</sup>	44.3	45.3	46.9	47.3	51.8
Equity ratio (market-based) (%) <sup>*2</sup>	45.7	43.1	49.9	41.9	60.3
Debt repayment periods (Years) <sup>*3</sup>	2.7	1.9	2.4	2.4	1.9
Interest coverage ratio (Times) <sup>*4</sup>	22.9	24.1	21.8	30.6	41.3

\*1. Equity ratio: shareholders' equity ÷ total assets

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

\*3. Debt repayment periods: interest-bearing debt ÷ net cash provided by operating activities

\*4. Interest coverage ratio: net cash provided by operating activities ÷ interest paid

# Business Risks

As of the release date of the Company's financial statements for the fiscal year under review (May 9, 2014), the Tsubaki Group has identified the following risks pertaining to its business operations and other activities as having the potential to significantly impact the decisions of investors.

## **1 Risks of Changes in the Operating Environment**

The Group works to expand sales in its target markets. Accordingly, were a rapid 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.

## **2 Risk of Increases in the Price of Steel and Other Raw Materials**

The Group strives to reduce costs through its focus on productivity improvement activities. However, were the price of steel or other raw materials to increase rapidly, resulting in higher procurement costs and subsequently reduced profitability for the Group, the Group's business results could be materially impacted.

## **3 Risk of Natural Disasters**

The Group conducts risk management and institutes risk countermeasures at all domestic and overseas production bases to prepare for unpredictable natural disasters. However, 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.

## **4 Risks Related to Overseas Business Expansion**

The Group is expanding production, procurement, and sales activities on a global scale to boost cost competitiveness and mitigate foreign exchange risks. Accordingly, 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.

## **5 Risk of Fluctuations in Foreign Exchange Rates**

As the Group actively develops its operations on a global scale, it hedges against risk from fluctuations in currency exchange rates by dispersing currency exchange contracts. However, should foreign exchange rates fluctuate drastically to an extent that exceeds all possible expectations, the Group's business results could be materially impacted.

## **6 Risk of Violation of Intellectual Property Rights**

The Group possesses a wide range of intellectual properties, including those related to its expertise as well as the various patents and trademarks accumulated during the process of developing and improving products. 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.

## **7 Risk of Product Defects**

As a manufacturer, the Group continues a concerted effort to improve product quality with the aim of reducing defects to zero. However, 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.

# Principal Tsubaki Group Companies

As of March 31, 2014

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

	Paid-in Capital	Equity Owned by Tsubakimoto Chain Co.	Principal Business
<b>Japan</b>			
Tsubaki E&M Co.* <sup>1</sup>	¥460 million	100.0%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Tsubakimoto Custom Chain Co.* <sup>1,2</sup>	¥125 million	99.6%	Manufacture of small-pitch conveyor chains and specialty chains
Tsubakimoto Sprocket Co.* <sup>1</sup>	¥126 million	100.0%	Manufacture and sales of sprockets and couplings
Tsubaki Yamakyu Chain Co.* <sup>1</sup>	¥126 million	51.0%	Manufacture and sales of various types of plastic chains and automated equipment
Tsubakimoto Iron Casting Co., Ltd.* <sup>1</sup>	¥50 million	100.0%	Casting, processing, and sales of iron and steel products
Tsubakimoto Bulk Systems Corp.* <sup>1</sup>	¥150 million	100.0%	Manufacture and sales of bulk materials handling systems
Tsubakimoto Mayfran Inc.* <sup>1</sup>	¥90 million	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubakimoto Machinery Co.* <sup>1</sup>	¥139 million	100.0%	Domestic sales of Tsubaki Group products
Tsubakimoto Nishinihon Co., Ltd.* <sup>1</sup>	¥90 million	100.0%	Domestic sales of Tsubaki Group products
Tsubaki Support Center Co.* <sup>1</sup>	¥80 million	100.0%	Building maintenance service and insurance agency, etc.
Tsubaki FlexLink Co.* <sup>4</sup>	¥50 million	51.0%	Sales of the FlexLink System
<b>The Americas</b>			
U.S. Tsubaki Holdings, Inc.* <sup>1,2</sup> (United States)	US\$33,500,000	100.0%	Manufacture and sales of materials handling systems Management of subsidiaries and affiliates
U.S. Tsubaki Power Transmission, LLC* <sup>1</sup> (United States)	US\$2,000	100.0%	Manufacture and sales of chains and power transmission products
U.S. Tsubaki Automotive, LLC* <sup>1</sup> (United States)	US\$2,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Kabelschlepp America, Inc.* <sup>1</sup> (United States)	US\$100	100.0%	Manufacture and sales of chains
Mayfran International, Inc.* <sup>1</sup> (United States)	US\$1,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubaki of Canada Limited* <sup>1</sup> (Canada)	CAN\$6,295,000	100.0%	Manufacture and sales of chains
Tsubaki Brasil Equipamentos Industriais Ltda.* <sup>1</sup> (Brazil)	R\$2,458,000	100.0%	Sales of chains and power transmission products
Tsubakimoto Automotive Mexico S.A. de C.V.* <sup>4</sup> (Mexico)	MXN120,000,000	100.0%	Manufacture and sales of automotive parts
<b>Europe</b>			
Tsubakimoto Europe B.V.* <sup>1</sup> (Netherlands)	EUR2,722,000	100.0%	Sales of chains, power transmission products, and automotive parts
Mayfran Limburg B.V.* <sup>1</sup> (Netherlands)	EUR226,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Mayfran International B.V.* <sup>1</sup> (Netherlands)	EUR45,000	100.0%	Sales of conveyors for chips and scraps
Tsubaki Kabelschlepp GmbH* <sup>1</sup> (Germany)	EUR2,600,000	100.0%	Manufacture and sales of chains
Tsubaki Deutschland GmbH* <sup>1</sup> (Germany)	EUR100,000	100.0%	Sales of chains, power transmission products, and automotive parts
Tsubakimoto U.K. Ltd.* <sup>1</sup> (United Kingdom)	STG£550,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Metool Products Limited* <sup>1</sup> (United Kingdom)	STG£203,000	100.0%	Sales of chains
Kabelschlepp Italia S.R.L.* <sup>1</sup> (Italy)	EUR350,000	90.0%	Sales of chains and materials handling systems
Kabelschlepp France S.A.R.L.* <sup>1</sup> (France)	EUR165,000	100.0%	Sales of chains and materials handling systems
Mayfran France S.A.R.L.* <sup>1</sup> (France)	EUR16,000	100.0%	Sales of conveyors for chips and scraps
Kabelschlepp Systemtechnik spol. s.r.o.* <sup>1</sup> (Slovak Republic)	EUR49,000	100.0%	Manufacture and sales of materials handling systems
OOO Tsubaki Kabelschlepp* <sup>1</sup> (Russia)	RUB6,000,000	100.0%	Sales of chains
<b>Asia and Oceania</b>			
Taiwan Tsubakimoto Co.* <sup>1</sup> (Taiwan)	NT\$70,000,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Tsubakimoto Singapore Pte. Ltd.* <sup>1</sup> (Singapore)	¥960 million	100.0%	Manufacture and sales of chains, power transmission products, and materials handling systems
PT. Tsubaki Indonesia Manufacturing* <sup>1</sup> (Indonesia)	US\$12,400,000	100.0%	Manufacture and sales of materials handling systems
PT. Tsubaki Indonesia Trading* <sup>1</sup> (Indonesia)	US\$520,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto (Thailand) Co., Ltd.* <sup>1</sup> (Thailand)	THB4,000,000	95.1%	Sales of chains and power transmission products
Tsubakimoto Automotive (Thailand) Co., Ltd.* <sup>1</sup> (Thailand)	THB202,000,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Power Transmission (Malaysia) Sdn. Bhd.* <sup>1</sup> (Malaysia)	MYR1,500,000	100.0%	Sales of chains and power transmission products
Tsubaki India Power Transmission Private Limited* <sup>1</sup> (India)	INR20,000,000	100.0%	Sales of chains and power transmission products
Kabelschlepp India Private Limited* <sup>1</sup> (India)	INR8,897,000	100.0%	Sales of chains
Tsubaki Australia Pty. Limited* <sup>1</sup> (Australia)	A\$300,000	100.0%	Sales of chains and power transmission products
Tsubakimoto Automotive (Shanghai) Co., Ltd.* <sup>1</sup> (China)	RMB20,692,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Everbest Gear (Tianjin) Co., Ltd.* <sup>1</sup> (China)	RMB87,496,000	59.4%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Kabelschlepp China Co., Ltd.* <sup>1</sup> (China)	RMB4,610,000	100.0%	Manufacture and sales of chains and materials handling systems
Tsubakimoto Chain (Tianjin) Co., Ltd.* <sup>1,2</sup> (China)	US\$50,050,000	90.0%	Manufacture and sales of chains
Tsubaki E&M (Shanghai) Co., Ltd.* <sup>1</sup> (China)	US\$5,200,000	100.0%	Manufacture and sales of power transmission products
Tsubakimoto Automotive Korea Co., Ltd.* <sup>1</sup> (South Korea)	WON17,860,000,000	100.0%	Manufacture and sales of automotive parts
Tianjin Tsubakimoto Conveyor Systems Co., Ltd.* <sup>3</sup> (China)	RMB8,314,000	47.0%	Manufacture and sales of bulk materials handling systems
Tsubakimoto Chain (Shanghai) Co., Ltd.* <sup>4</sup> (China)	US\$400,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto Mayfran Conveyor (Shanghai) Co., Ltd.* <sup>4</sup> (China)	US\$2,220,000	100.0%	Sales of conveyors for chips and scraps
Tsubaki Materials Handling Systems (Shanghai) Co., Ltd.* <sup>4</sup> (China)	US\$1,000,000	90.0%	Design and sales of materials handling systems

# Corporate Data and Stock Information

As of March 31, 2014

## 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	56
Number of Unconsolidated Subsidiaries	11
Number of Affiliates	9 (Including 1 Equity-Method Affiliate)
Number of Employees* (consolidated)	7,068

\* Including contracted and temporary staff

## Stock Information

Shareholder Register	Sumitomo Mitsui Trust Bank, Limited
Stock Listing	Tokyo

### Common Stock

Authorized:	299,000,000 shares
Issued:	191,406,969 shares
Number of Shareholders	9,839

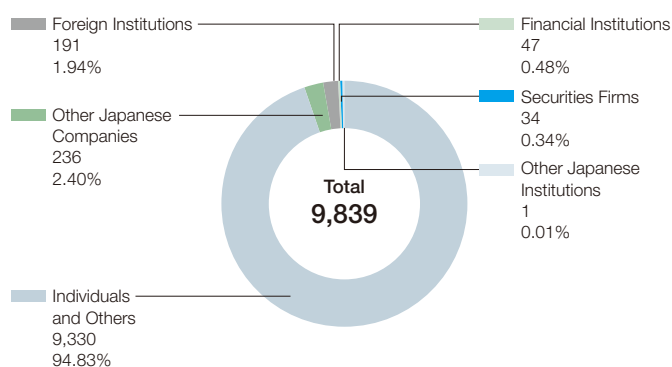
### Major Shareholders (Top 10 Companies)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Taiyo Life Insurance Company	18,398	9.83
The Master Trust Bank of Japan, Ltd. (Trust account)	12,288	6.56
Nippon Life Insurance Company	10,397	5.55
Toyota Motor Corporation	7,722	4.12
Japan Trustee Services Bank, Ltd. (Trust account)	7,717	4.12
Sumitomo Mitsui Banking Corporation	7,034	3.75
Kyoeikai Employee Stock Ownership Association	6,311	3.37
Tsubakimoto Kogyo Co., Ltd.	5,194	2.77
The Nomura Trust and Banking Co., Ltd. (Trust account)	4,301	2.29
Sumitomo Mitsui Trust Bank, Limited	4,245	2.26

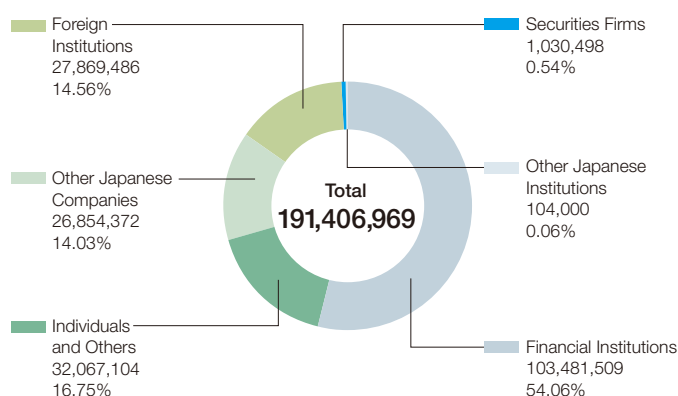
- Numbers less than 1,000 have been rounded.
- The Company owns treasury stock of 4,292,184 shares; however, these shares are not included in the above list of major shareholders.
- Percentage of total shares issued has been calculated excluding the treasury stock of 4,292,184 shares.

## Shareholder Composition

### Number of Shareholders



### Number of Shares Held



Treasury stock of 4,292,184 shares is included in "Individuals and Others."

Contact for Inquires with Regard to the Corporate Report

Office of the President, Public Relations & Investor Relations Section  
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**TSUBAKIMOTO CHAIN CO.**

<http://tsubakimoto.com>

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