

# TSUBAKI CORPORATE REPORT 2015



# Providing Customers Worldwide with the Best Value

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

## Tsubaki Mission Statement

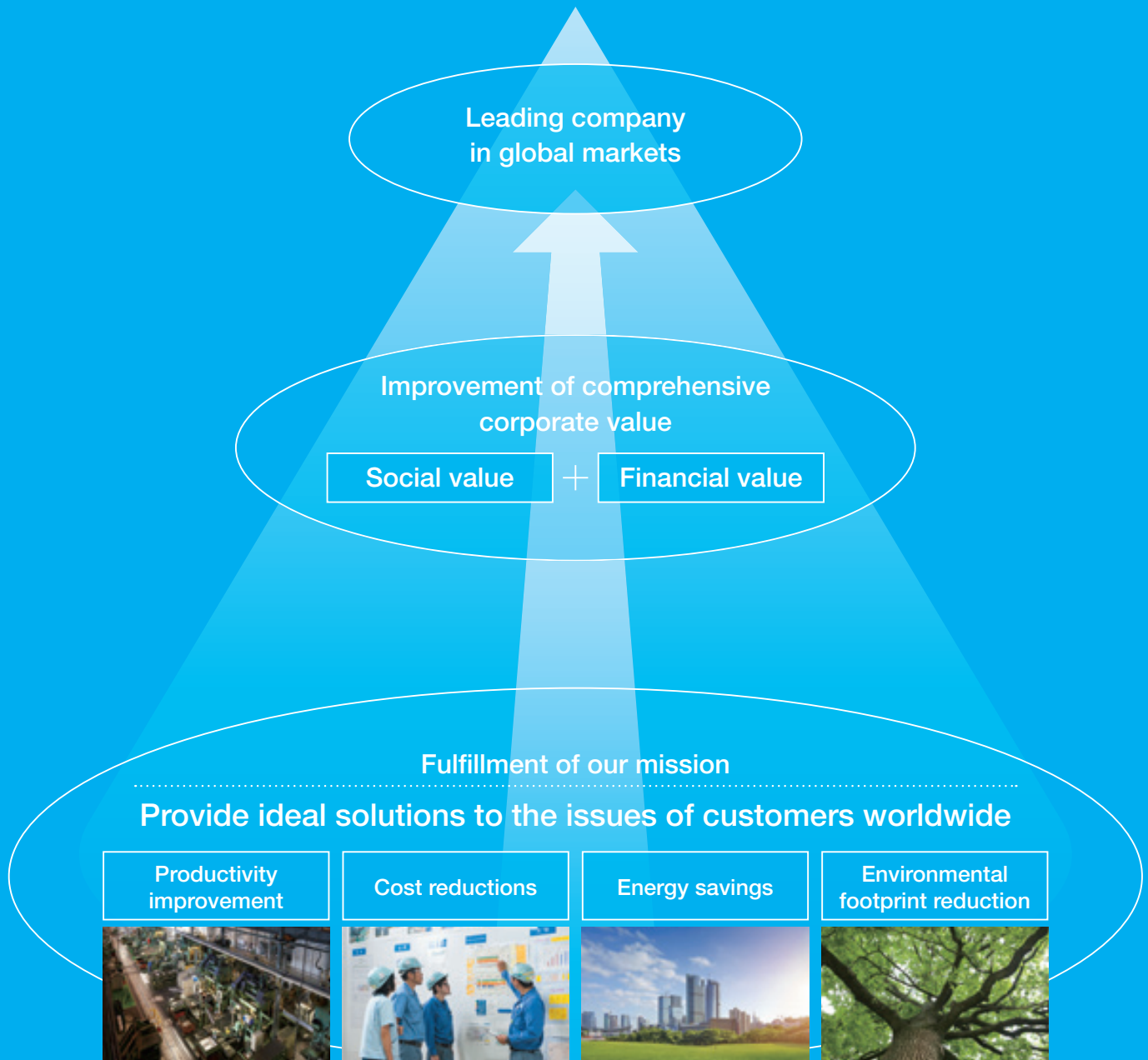
### Our Mission

—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.



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### Forward-Looking Statements

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

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### Data Regarding Environmental and Social Initiatives

This report was prepared with reference to the Ministry of the Environment of Japan's "Environmental Reporting Guidelines 2012," the Ministry of the Environment of Japan's "Environmental Accounting Guidelines 2005," and the Global Reporting Initiative (GRI)'s "Sustainability Reporting Guidelines, Third Edition (G3)."

### Reporting Period

April 2014 to March 2015

(includes some activities after the reporting period)

### Scope of Data Collection

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

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### Notes on the Production of this Report

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

To Our Stakeholders

# Striving to Become a Global Leader



**Yasushi Ohara**

President and COO,  
Representative Director

**Isamu Osa**

Chairman and CEO,  
Representative Director



# —Speed is Imperative

We have formulated Long-Term Vision 2020, which illustrates our vision for the Company in 2017—the 100th anniversary of the founding of Tsubakimoto Chain—and beyond. Long-Term Vision 2020 calls for us to strive to become a global leader with an unshakable position and a solid share in target markets by creating numerous products with the potential to become No. 1 in either the overall global market or their respective niche market. 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%.

We have also formulated Mid-Term Management Plan 2016, a practical action plan that serves as one facet of Long-Term Vision 2020. In the plan's first year, the fiscal year ended March 31, 2015, we posted incredibly impressive results, with sales and income rising in all four of our core businesses, namely Chain Operations, Power Transmission Units and Components Operations, Automotive Parts Operations, and Materials Handling Systems Operations. Moreover, we set a new record for consolidated net sales as well as for all income figures. We also made smooth progress in the Tsubaki Group's strategy of shifting the focus of its growth to overseas, as indicated by the rise in the ratio of overseas sales to total net sales to 54.0%.

However, this does not mean that the Company is without issues to address, and we recognize that speed is imperative in tending to the issues Tsubaki faces. For example, with regard to our industrial-use steel chains and automotive-use timing chain drive systems, which already boast the No. 1 position in the global market, there is an urgent need to further build upon our competitive edge in terms of quality and performance. At the same time, we must work to expand sales of these products in the European and Chinese markets, where our shares are lower than in the Japanese and North American markets. In Power Transmission Units and Components Operations and Materials Handling Systems Operations, meanwhile, we are pressed to develop new products to bolster our product lineups while also advancing the globalization of our operations.

To ensure these issues can be addressed with the necessary speed, the Company switched over to a new management structure in June 2015, under which management will be headed by the chief executive officer (CEO) and chief operations officer (COO). As part of this change, Isamu Osa, who served as president and representative director for six years beginning in the fiscal year ended March 31, 2010, assumed the position of chairman and CEO and representative director. At the same time, Yasushi Ohara took up the mantle of president and COO and representative director. Mr. Ohara has worked overseas for roughly 10 years, after which he went on to fill such positions as manager of Management Planning and senior manager of Global Power Transmission Sales and Marketing Operations. We will continue to strengthen the Company's management system in the future.

Going forward, the Tsubaki Group will accelerate efforts to quickly develop products based on an accurate understanding of the diverse needs of individual markets. In addition, we will provide customers with products that they will judge to feature high added value from the perspectives of improving productivity and reducing environmental footprint. We thereby aim to contribute to society. We are convinced these endeavors will help the Company expand its market shares while augmenting growth in performance, thereby facilitating the improvement of comprehensive corporate value.

We would like to ask our stakeholders for their ongoing support and understanding as Tsubaki tackles the challenges to come.

## Isamu Osa

Chairman and CEO,  
Representative Director

## Yasushi Ohara

President and COO,  
Representative Director

## The Tsubaki Group is boldly transforming its operations to

Tsubakimoto Chain was founded in 1917 as a manufacturer of chains. In the years that followed, the Company expanded the scope of its operations to include materials handling systems, automotive parts, and power transmission products. Today, the Tsubaki Group has grown into a comprehensive manufacturer that provides a diverse range of machinery parts and units as well as systems comprised of these items in the motion and control field.

The Tsubaki Group has built an unshakable manufacturing foundation using its product development capabilities and production technologies. It is also enhancing its ability to provide solutions and respond to customer needs on a global basis, both of which help resolve the issues faced by customers, and has thus been successful in creating industrial-use steel chains, timing chain drive systems, and countless other products that boast the No. 1 share in their respective markets.

## Evolving beyond a manufacturer to become a solutions provider

Open to see Tsubaki's  
Product Lineup.



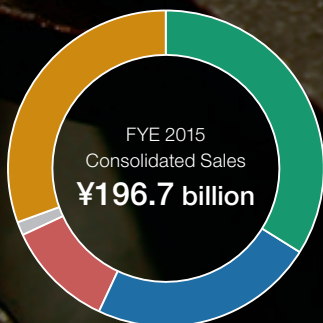
### Net Sales Breakdown by Industry Segment

#### Chain Operations

Share of net sales 30.7%  
Operating income margin 8.1%

#### Automotive Parts Operations

Share of net sales 34.0%  
Operating income margin 17.8%



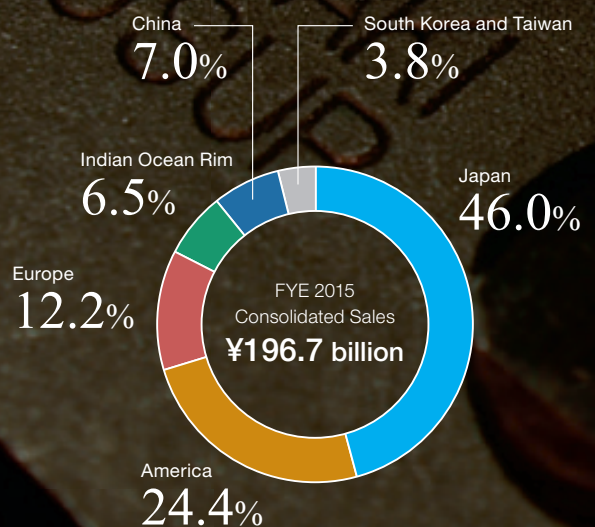
#### Power Transmission Units and Components Operations

Share of net sales 11.2%  
Operating income margin 10.6%

#### Materials Handling Systems Operations

Share of net sales 22.9%  
Operating income margin 4.3%

### Distribution of Net Sales by Region





realize sustainable increases in its social and financial value.



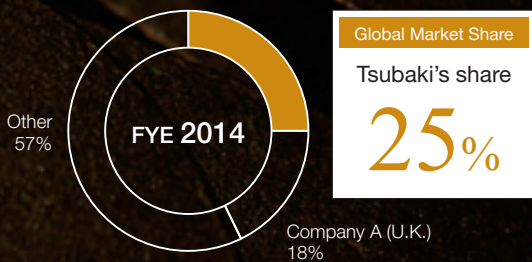
## Triumphing over formidable rivals worldwide to become a global leader

Open to see Tsubaki's Global Network.

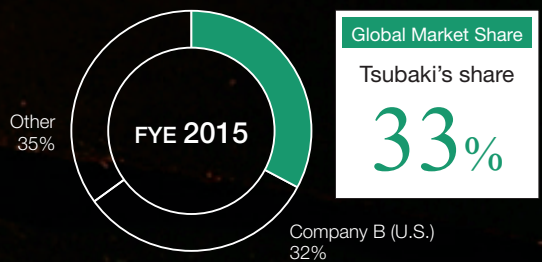
### Market Shares for Major Products

(Source: Tsubakimoto Chain Co.)

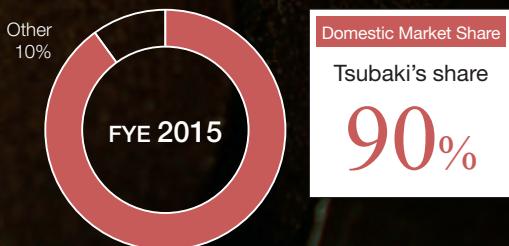
#### Industrial-Use Steel Chains



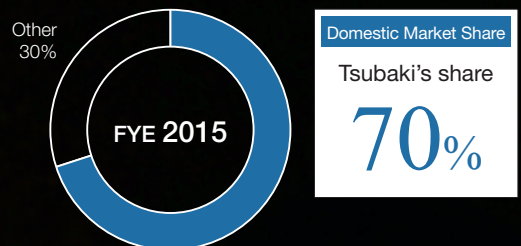
#### Timing Chain Drive Systems



#### Cam Clutches



#### Paper Feeding Systems



The Tsubaki Group's strengths include its robust lineup of products with superior durability, energy efficiency, handling systems (sorting, conveyance, and storage) as well as its ability to supply these in accordance with

### 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.



Drive chains



Small-size conveyor chains



Large-size conveyor chains



Plastic top chains



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



Chain meshing type actuators (Zip Chain Actuator®)

### Power Transmission Units and Components Operations

In our Power Transmission Units and Components Operations, we provide optimal, comprehensive solutions in the motion and control field by utilizing our diverse lineup of reducers, actuators, clutches, and other products utilizing composition technologies.



Reducers / Variable speed drives



Linear actuators (Electric cylinders / jacks)



Clutches



Locking devices (Power-Lock®)



Shaft couplings



Overload protectors



environmental performance, and quality in the fields of power transmission units (drive systems) and materials customer needs.

## 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 more functional and more environment-friendly.



Timing chain drive systems



Roller chains



Silent chains



Timing chain drive system parts



Tensioners



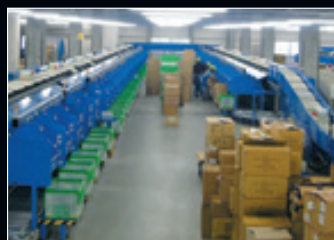
Power drive chains

## Materials Handling Systems Operations

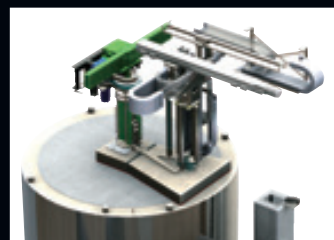
Our Materials Handling Systems Operations provide sophisticated solutions that improve customer productivity by controlling the flow of objects and information through sorting, conveyance, and storage systems.



Conveyance system for automobile manufacturing lines



Automatic sorting equipment (Linisort)



Life science field system (Tsubaki Labo Stocker)



High-speed lifters (Zip Chain Lifter®)



Bulk handling systems



Metalworking chip handling / coolant processing systems (Chip conveyors)

# 3 Tsubaki's Global Network

Another strength of the Tsubaki Group can be found in its global network, which consists of 42 manufacturing subsidiaries that maintain an accurate understanding of customer needs while promptly developing and providing products.

In the fiscal year ended March 31, 2015, 54.0% of total net sales came from overseas while 41.1% of

\* Number of Group companies by region are as of March 31, 2015.

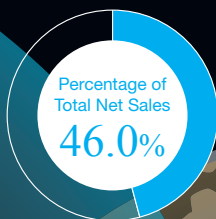




uring subsidiaries and 36 sales companies in 23 countries across the globe. This network enables us to  
ts based on these needs.

production was conducted outside of Japan.

**Japan**  
Group companies\*  
(Including Tsubakimoto  
Chain Co.)  
**17**



Kyotanabe Plant



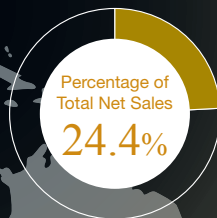
Saitama Plant



Kyoto Plant



Hyogo Plant



**America**  
Group companies\*  
**12**



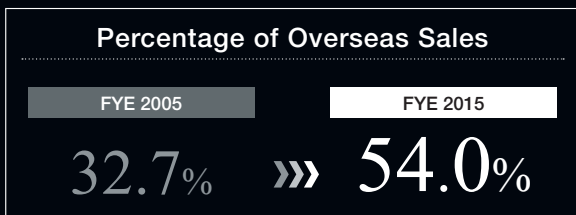
U.S. Tsubaki Holdings, Inc.



Mayfran International, Inc.



Tsubaki of Canada Limited





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

## 1917~

1917

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

1928

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



1937

- Delivered first large-scale conveyor plant, 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

- ▶ 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

## 2010~2015

### 2009

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



### 2010

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



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



### 2012

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



- ▶ 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 in the Saitama Plant to create substantial productivity improvements in Automotive Parts Operations
- ▶ Converted Tsubaki E&M Co. (previously Tsubaki Emerson Co.), into a wholly owned subsidiary to promote globalization and reinforce the collective strengths of the Group

### 2014

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

## Numerical Overview of Six Years

Fiscal years from April 1 to March 31

	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
<b>For the year</b> (Millions of yen)						
Net sales	¥112,759	¥138,243	¥144,896	¥150,002	¥178,022	<b>¥196,738</b>
Chain Operations*1	38,195	48,262	51,692	50,250	55,828	<b>61,721</b>
Power Transmission Units and Components Operations*1	15,424	20,061	21,364	19,664	21,612	<b>22,557</b>
Automotive Parts Operations*1	38,209	43,303	43,509	49,397	60,674	<b>66,978</b>
Materials Handling Systems Operations*1	20,438	26,340	27,977	30,246	39,565	<b>45,169</b>
Others*1	2,850	2,689	2,911	2,846	2,719	<b>2,968</b>
Operating income	4,737	11,022	12,081	12,579	17,354	<b>21,427</b>
Chain Operations*1	308	2,780	3,462	3,586	3,763	<b>5,002</b>
Power Transmission Units and Components Operations*1	125	2,065	2,512	1,955	2,273	<b>2,400</b>
Automotive Parts Operations*1	3,659	5,382	4,846	6,494	10,119	<b>11,916</b>
Materials Handling Systems Operations*1	(8)	215	878	531	1,192	<b>1,940</b>
Others*1	120	173	170	143	63	<b>123</b>
Ordinary income	4,990	11,111	12,140	12,813	17,993	<b>22,263</b>
Net income	3,175	6,093	6,814	7,428	10,213	<b>14,153</b>
Net cash provided by operating activities	¥ 14,508	¥ 16,293	¥ 11,626	¥ 15,350	¥ 19,761	<b>¥ 22,189</b>
Net cash used in investing activities	(5,020)	(8,281)	(10,487)	(18,401)	(17,166)	<b>(14,306)</b>
Free cash flow	9,487	8,012	1,138	(3,050)	2,594	<b>7,882</b>
Capital expenditures	¥ 3,988	¥ 5,807	¥ 9,518	¥ 11,833	¥ 11,372	<b>¥ 10,466</b>
Depreciation and amortization	7,390	7,544	7,403	7,360	8,745	<b>9,476</b>
R&D costs	3,543	4,144	4,231	4,319	4,061	<b>4,048</b>
<b>At year-end</b> (Millions of yen)						
Total assets	¥182,641	¥184,206	¥191,766	¥215,837	¥228,840	<b>¥258,742</b>
Shareholders' equity	80,847	83,413	89,923	102,019	118,433	<b>140,439</b>
Interest-bearing debt	38,910	31,240	27,405	36,507	36,538	<b>36,907</b>
Net interest-bearing debt	18,531	13,931	13,488	16,312	15,246	<b>9,547</b>
<b>Indexes</b>						
Operating income margin (%)	4.2	8.0	8.3	8.4	9.7	<b>10.9</b>
ROE (%)*2	4.0	7.4	7.9	7.7	9.3	<b>10.9</b>
Equity ratio (%)*3	44.3	45.3	46.9	47.3	51.8	<b>54.3</b>
D/E ratio (net) (Times)*4	0.21	0.17	0.15	0.16	0.13	<b>0.07</b>
Net income per share (Yen)	¥ 17.07	¥ 32.76	¥ 36.60	¥ 39.69	¥ 54.58	<b>¥ 75.65</b>
Net assets per share (Yen)	434.59	448.43	480.46	545.14	632.94	<b>750.63</b>
Dividends per share (Yen)	6.0	7.0	7.0	7.0	10.0	<b>16.0</b>
<b>Social and environmental impact</b>						
CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Per million yen of ordinary income)	9.9	5.2	4.8	4.3	3.1	<b>2.6</b>
Energy consumption (GJ)*5 (Per million yen of ordinary income)	242.0	126.3	117.6	106.5	76.8	<b>64.4</b>
Employees*6	5,271	5,891	6,160	6,792	7,068	<b>7,398</b>

Amounts less than one million yen have been truncated.

\*1. Net sales includes intersegment sales and transfers. \*2. ROE = Net income ÷ Average shareholders' equity

\*3. Equity ratio = Shareholders' equity ÷ Total assets \*4. D/E ratio (net) = Net interest-bearing debt ÷ Shareholders' equity

\*5. Gigajoule (GJ): Unit of energy equivalent to one billion (10<sup>9</sup>) joules

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

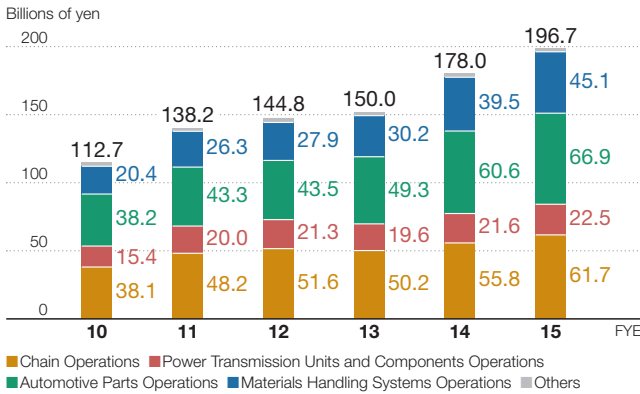


# Trends as Seen by Graphs

## 1. Sales Growth Capacity

Sales growth capacity increasing, centered on Automotive Parts Operations

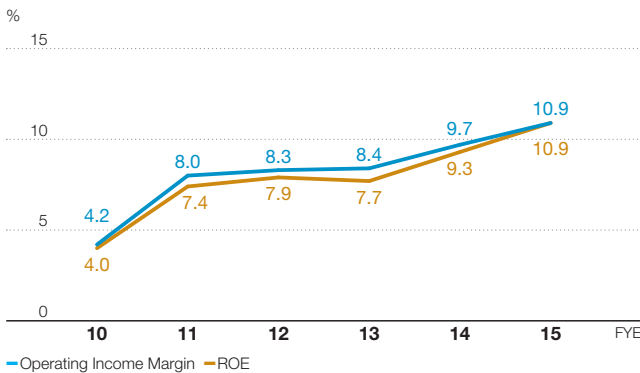
### Net Sales by Segment



## 2. Profitability and Capital Efficiency

Double-digit figures for operating income margin and ROE

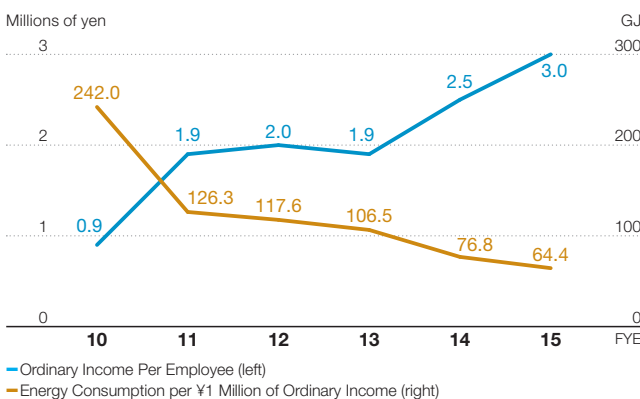
### Operating Income Margin and ROE



## 3. Productivity

Striking a balance between productivity and using energy efficiently

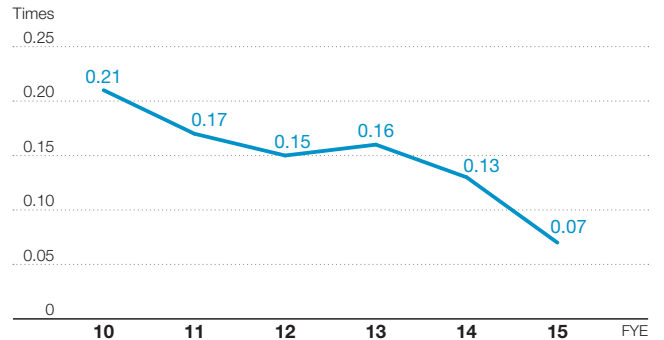
### Ordinary Income Per Employee and Energy Consumption per ¥1 Million of Ordinary Income



## 4. Financial Soundness

Ongoing reduction in D/E ratio (net)

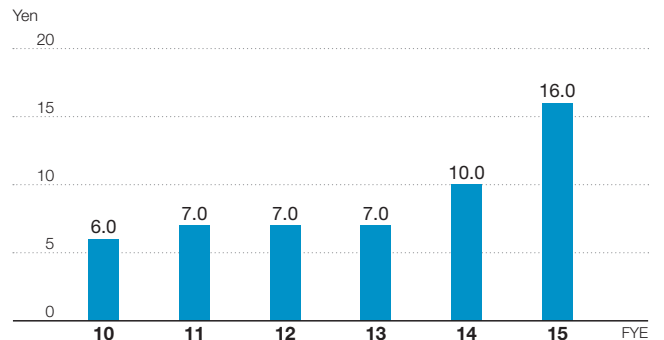
### D/E Ratio (Net)



## 5. Shareholder Returns

Dividends up despite increased capital investment

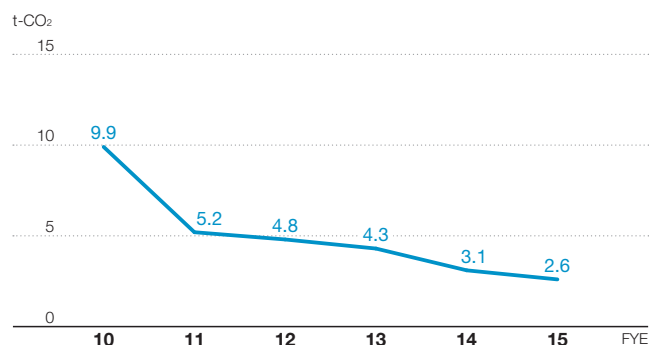
### Dividends per Share



## 6. Environmental Footprint

Environment footprint reduced through highly efficient production activities

### CO<sub>2</sub> Emissions per ¥1 Million of Ordinary Income



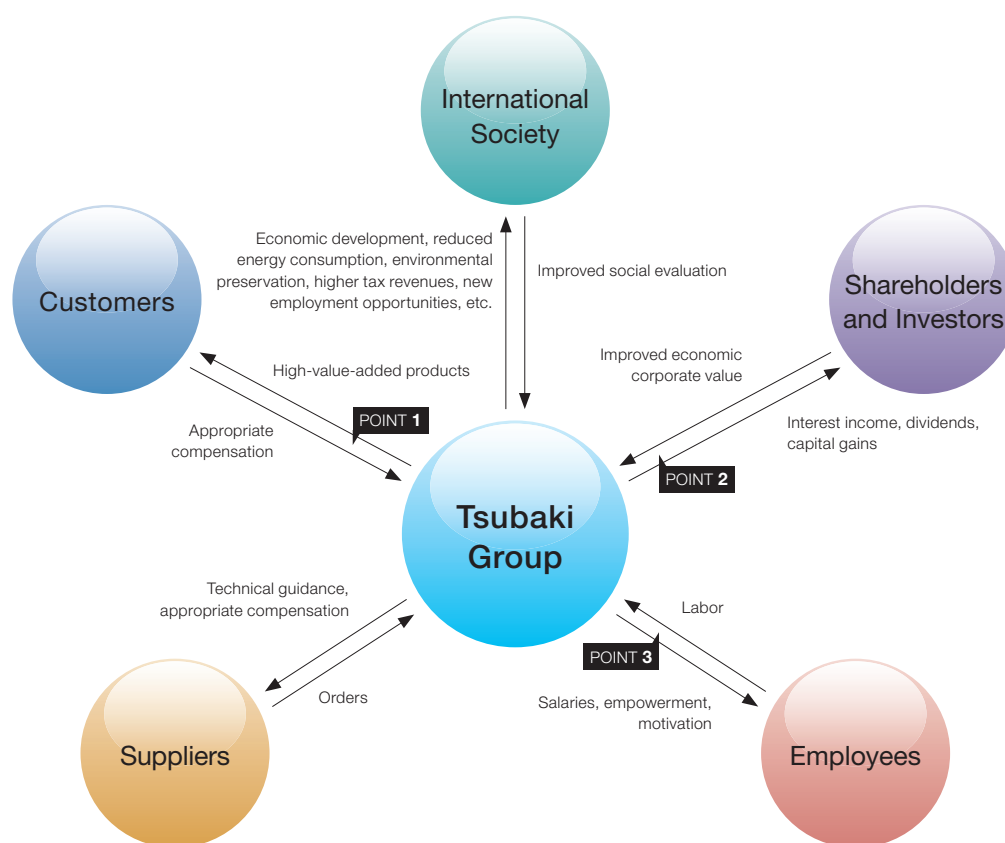
## Creating Shared Value

The Tsubaki Group sees CSR as the act of creating shared value (CSV) by striking a balance between the creation of social and economic value.

We believe that the social responsibility of a manufacturer should be fulfilled through its manufacturing activities. The Tsubaki Group develops high-value-added products, which include those that feature superior durability and light weight and deliver excellent drive efficiency, those that run quietly and cleanly, and those that help reduce energy consumption and environmental impact. With these products, the Group strives to provide customers worldwide with ideal solutions by leveraging its revolutionary production technologies. Looking ahead, the Tsubaki Group will continue to contribute to the development of the international society as it helps reduce energy usage and prevent damage to the environment while simultaneously achieving sustainable growth.

### The Tsubaki Group's Relationship with Society

Striking a balance between the creation of social and economic value



**POINT 1** For information on high-value-added products, see pages 15–16.  
For information on enhancement of technology capital, see pages 22–23.

**POINT 3** For information on human resource development, see pages 24–25.

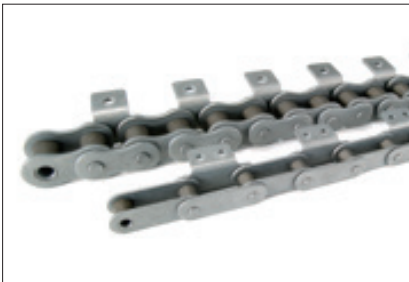
**POINT 2** For information on financial strategies and shareholder value, see pages 26 and 42.

For other CSR-related information, see pages 27–32.

## 1. Development of High-Value-Added Products

The Tsubaki Group is aiming to increase the value of its products in order to further strengthen their competitiveness. In addition, 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.



Surface treated roller chain (NEP)

Saltwater spray test

**700** hours

Alkaline water solution test

**Approx. 100**  
times resistance of  
previous offerings

In June 2015, we launched the surface treated roller chain (NEP) as part of the G8 series of products commemorating Tsubakimoto Chain's 100th anniversary. This chain features the same level of corrosion resistance (rust resistance) as previous NEP specification environmental factor resistance chains while also boasting new chemical resistant properties realized through a proprietary double-layer surface treatment technique.

This chain is characterized by its high resilience to water and alkaline chemicals, and is therefore ideal for use in the cleaning procedures of food processing machinery, high-humidity environments, and applications for which standard stainless chains lack the necessary durability.



Timing chain drive system for automobile engines  
Zerotech® series silent chains

Wear-induced stretching

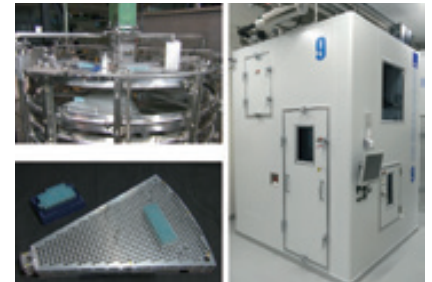
**Approx. 45%** lower

Friction loss

**Approx. 30%** lower

Automobile manufacturers around the world are working to develop fuel-efficient automobiles with superior environmental performance to help combat global warming. The Zerotech series was created with the aim of providing a timing chain drive system for automobile engines that responds to the needs of such automobile manufacturers by reducing energy loss and adapting to the changing conditions inside of engines.

These driving chain systems employ optimal chain designs to realize reductions of approximately 45% in wear-induced stretching and 30% in friction loss.



Fully automated refrigerated storage unit for life science field  
Tsubaki Labo Stocker 150L

Range of temperatures available for automated stocking

**70°C** increase  
in lowest temperature  
(-80°C → -150°C)

In Materials Handling Systems Operations, one new offering is Tsubaki Labo Stocker 150L, the latest addition to the Tsubaki Labo Stocker line of systems for storing large quantities of frozen, microscopic samples of compounds, DNA, and other substances. Tsubaki Labo Stocker 150L is capable of storing approximately 50,000 samples at ultra-low temperatures of -150°C. The first of these new systems delivered was supplied to a research institution at a national university.

The ability to automatically pick samples at -150°C without exposure to temperature change is a world-first technological feat. This system is currently making massive contributions to improved storage quality of induced pluripotent stem (iPS) cell and other samples in the life science and pharmaceutical development fields.



## FOCUS

## Tsubaki Zip Chain<sup>®</sup>

Tsubaki Zip Chain consists 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. Zip Chain Lifter, which employs these zip chains, is more compact and durable than conventional hydraulic lifts and is capable of higher-speed elevation and descent with increased stopping precision at numerous positions. These features, combined with its clean and energy-efficient running, have led Zip Chain Lifter to be adopted in a variety of fields including production lines for automobiles. Furthermore, Zip Chain Actuators, specially designed linear actuators utilizing Tsubaki Zip Chain, can be made 1/4 to 1/5 the size of conventional linear actuators due to the ability for zip chains to be stored in a compact manner. We are working to expand the range of applications for Tsubaki Zip Chain from elevation and descent to include horizontal pushing and pulling as well as lifting and lowering of suspended objects.

While chains were previously believed to only transmit force through pulling or rotating, Tsubaki Zip Chain destroyed this preconception. A culmination of Tsubaki's technologies and manufacturing capabilities, this product has continued to be a massive hit among customers since its launch in 2008.

Tsubaki Zip Chain<sup>®</sup>Zip Chain Lifter<sup>®</sup>  
(high-elevation model)Zip Chain Actuator<sup>®</sup> in use on  
production line

### Customer Feedback



**Masakazu Kawamura**  
Shimizu Octo, Inc.

#### Adopting Zip Chain Lifter<sup>®</sup> broadened our range of stage direction options.

My company is often called upon to construct stage sets for concerts and other events. We introduced Zip Chain Lifter with the aim of responding to demands for more sophisticated stage direction. Previously, we had employed a specially constructed system that incorporated cheap hydraulic lifts. However, this system required a substantial amount of troublesome adjustments when installing. It was also affected by temperature and oil pressure differences, which could result in elevation and descent speeds becoming faster or slower than expected at outdoor events, and we were not always able to compensate for such changes in speed.

Tsubakimoto Chain was especially accommodating toward our request to introduce Zip Chain Lifters into the lift systems used by artists and performers at concerts and other events. By introducing these lifters, we are now able to better respond to requests for more sophisticated stage direction, and our new lift systems have been praised by customers as a result. The lift systems employing Zip Chain Lifter are quite impressive. They are precise and fast and can even be synchronously controlled when using multiple lifts or when incorporating different models of lifts.

I look forward to the development of newly structured Zip Chain Lifters.



Lift system synchronously operating four  
Zip Chain Lifters for supporting concert  
performers (Shimizu Octo factory)

## 2. CSV Through Manufacturing Reforms

Even if we supply products that realize productivity improvements and energy savings for customers, these efforts will be rather pointless if the process of manufacturing these products causes significant damage to the environment. Based on this realization, the Tsubaki Group is actively advancing various manufacturing reform initiatives with the aim of manufacturing products efficiently while consuming less energy and emitting less CO<sub>2</sub>.

**In Automotive Parts Operations**, the new assembly factory building in the Saitama Plant, the core manufacturing base in this business, is advancing the manufacturing reform initiative program in the pursuit of massive improvements in productivity. Through these initiatives, the plant had initially targeted a 30% increase in the amount of per unit input product output at the new building and a 15% increase for the entire Saitama Plant. In the fiscal year ended March 31, 2015, increases of 46% for the new building and 28% for the entire plant were realized, greatly exceeding these targets. Going forward, these manufacturing reform initiatives will be introduced into all overseas automotive parts manufacturing bases, including those in the United States, England, China, Thailand, South Korea, and Mexico.

**In Chain Operations**, the Kyotanabe Plant is advancing its own unique brand of manufacturing reform initiatives known as Manufacturing Innovation in Kyotanabe 2018 (MIK2018). These initiatives include refitting production lines to ensure the utmost efficiency in the conveyance of items, reducing the number of assembly lines, and installing one-pass lines for certain standardized parts. The initial goal of the MIK2018 initiatives was to realize a 30% increase in labor productivity by the fiscal year ending March 31, 2019. However, the time frame for achieving this goal was later shortened by two years, to the fiscal year ending March 31, 2017, with the aim of accelerating the pace of reforms.

In addition to the Kyotanabe Plant, productivity improvements are also being pursued at other domestic chain factories as well as at manufacturing subsidiaries in Taiwan, the United States, and Europe. In the fiscal year ended March 31, 2015, overall progress outstripped targets by 3%.



### FOCUS

## Relation Between Tsubaki's Sustainable Growth Capacity and Society

The manufacturing industry is heavily impacted by economic trends, and the performance of manufacturers can vary greatly as a result of such trends.

Nonetheless, Tsubaki has continued to display a strong capacity for sustainable growth that is unrivaled among manufacturers since it began disclosing consolidated performance in the fiscal year ended March 31, 1984. Over the period from this year to the fiscal year ended March 31, 2015, the Company only once recorded ordinary loss, and this was in the fiscal year ended March 31, 1995.

This capacity for sustainable growth is due in part to our efforts to differentiate the Company from competitors in terms of both product quality and performance, resulting in the creation of numerous products that directly contribute to resolution of the various issues faced by customers. Another factor is our exceptional proficiency for responding to poor economic conditions.

By enhancing its capacity for sustainable growth, the Tsubaki Group aims to generate profits while also contributing to society through such means as providing stable employment and creating new jobs.

## The Tsubaki Group's Growth Mechanism

The Tsubaki Group is enhancing its growth capacity while improving capital efficiency by reinvesting financial capital in management foundations that are directly linked to competitiveness.

The graph on the following page shows the Tsubaki Group's performance dating back to the fiscal year ended March 31, 1984, when it began disclosing consolidated performance.

Prior to the fiscal year ended March 31, 2001, the Group's performance proved to be heavily impacted by trends in the domestic economy, particularly those related to private-sector capital investment. This situation resulted in consolidated net sales and the operating income margin showing sharp spikes and dips, limited within a certain range, leading up to that year.

This changed in the fiscal year ended March 31, 2002, when the Group witnessed a dramatic increase in profitability following a rise in its medium- to long-term sales and income growth capacity. This rise can be attributed to (1) massive growth in Automotive Parts Operations (increase in the number of manufacturers supplied), (2) the accelerated globalization of all businesses, and (3) substantial improvements in productivity resulted from manufacturing reform initiatives.

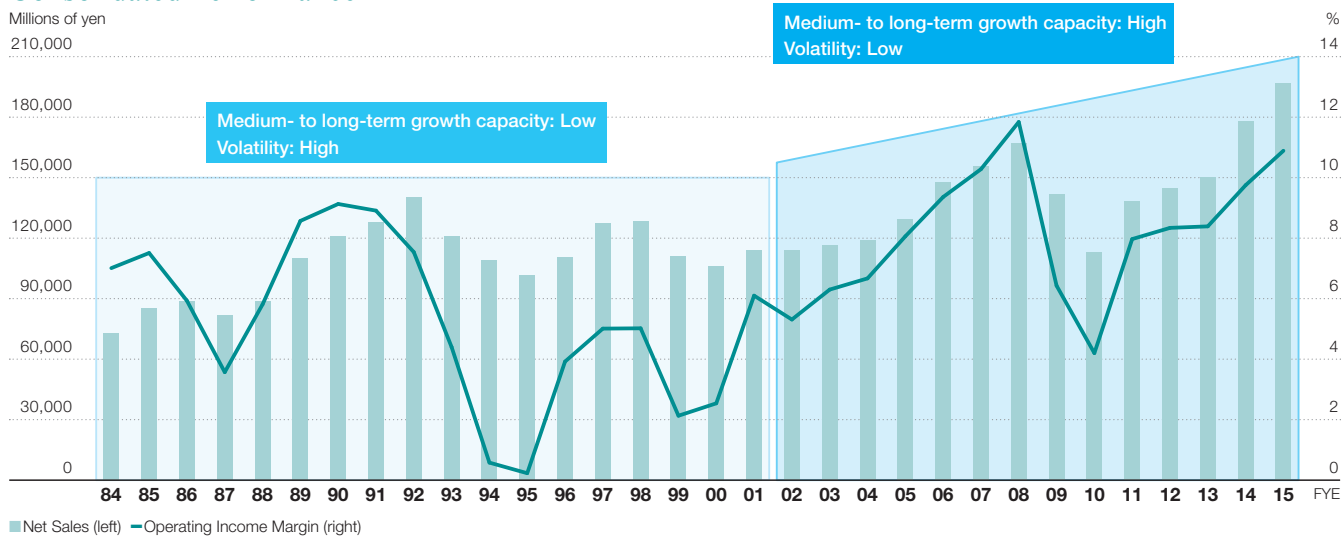
For manufacturers, competitiveness hinges on three management foundations: technologies (technology capital), human resources (human capital), and production facilities (production capital). The Group has proceeded to reinvest financial capital in the reinforcement of these important management foundations, thereby bolstering its product lineups while maintaining a solid financial base. At the same time, we have been working to protect the environment by promoting highly efficient production activities realized through the improvement of productivity and the installation of eco-friendly production lines. We have also been advancing various activities to strengthen our relationships with local communities, shareholders, investors, and other stakeholders, and building the foundations for sustainable growth.

Through the reinvestment of capital in these important management foundations, we are enhancing the Group's growth capacity while improving capital efficiency. The resulting solid financial base will be leveraged to invest in further management foundation reinforcement with the aim of heightening the sustainable growth potential of the Tsubaki Group.

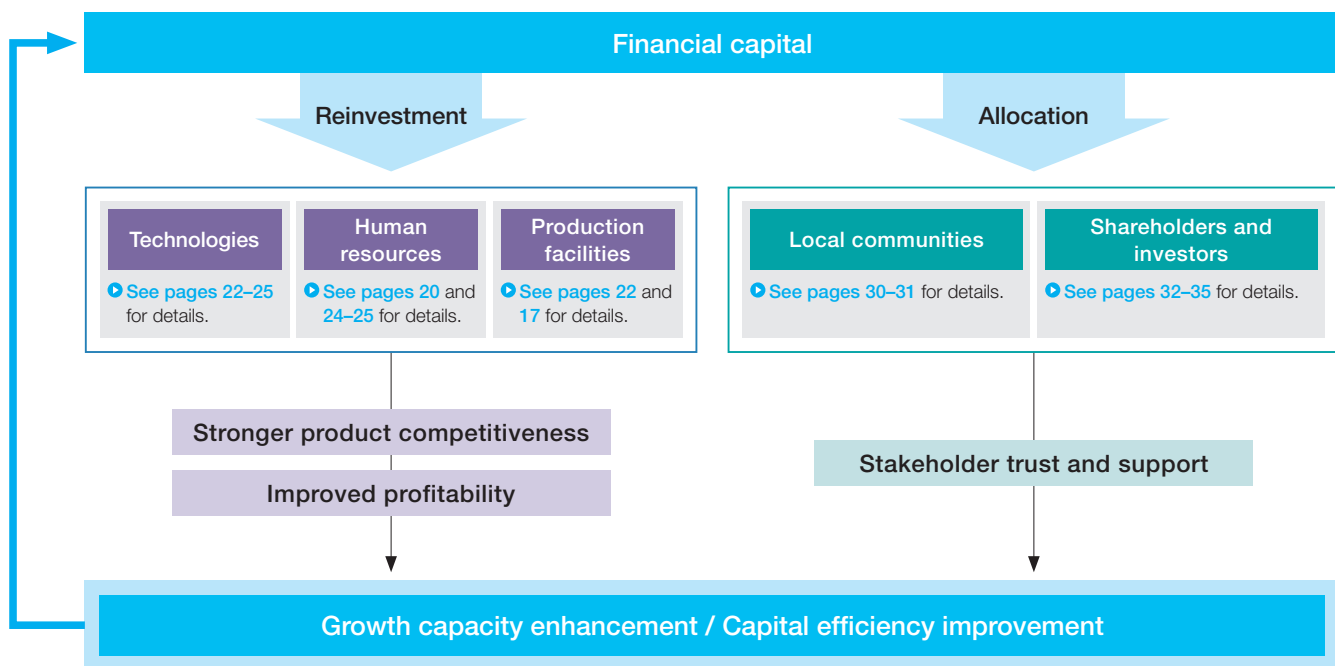


# Sustainable Growth

## Consolidated Performance



## Reinvestment of Capital to Create Virtuous Cycle



## Allocation of Capital and Benefits Over the Past Decade

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

### INPUT

Usage of Capital  
for Growth

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

#### Technology Capital

R&D Costs **1.8** times

FYE 2005

FYE 2015

¥2.21 billion >> ¥4.04 billion

#### Production Capital

Capital Investment **2.8** times

FYE 2005

FYE 2015

¥3.69 billion >> ¥10.46 billion

#### Human Capital

Number of Employees **1.6** times

FYE 2005

FYE 2015

4,765 >> 7,398

#### Distribution of Employees by Region

(As of March 31, 2015)

Japan .....	51%
America .....	17%
Europe .....	13%
Indian Ocean Rim .....	6%
China .....	10%
South Korea and Taiwan .....	3%

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

#### Financial Capital

Total Assets **1.4** times

FYE 2005

FYE 2015

¥179.2 billion >> ¥258.7 billion

#### Financial Capital

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

FYE 2005

FYE 2015

¥31.81 billion >> ¥9.54 billion

# OUTPUT

Resulting Growth

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

Performance	
Net Sales <b>1.5</b> times	
FYE 2005	FYE 2015
¥12.95 billion	¥196.7 billion

Performance	
Operating Income <b>2.1</b> times	
FYE 2005	FYE 2015
¥10.44 billion	¥21.42 billion

Improved Profitability and Capital Efficiency and More Robust Financial Capital

Profitability	
Operating Income Margin Improved <b>2.8</b> percentage points	
FYE 2005	FYE 2015
8.1%	10.9%

Financial Capital Efficiency	
ROE Improved <b>4.5</b> percentage points	
FYE 2005	FYE 2015
6.4%	10.9%

Financial Soundness	
D/E Ratio (Net)* Improved <b>0.37</b> point	
FYE 2005	FYE 2015
0.44 times	0.07 times

Energy Efficiency		
Energy Consumption and CO <sub>2</sub> Emissions Per ¥1 Million of Ordinary Income		
Energy Consumption		
FYE 2005	FYE 2015	Down <b>60%</b>
161.8 GJ	64.4 GJ	
CO <sub>2</sub> Emissions		
FYE 2005	FYE 2015	Down <b>62%</b>
6.8 t-CO <sub>2</sub>	2.6 t-CO <sub>2</sub>	

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



## Tsubaki's Technologies (Technology Capital) and Measures



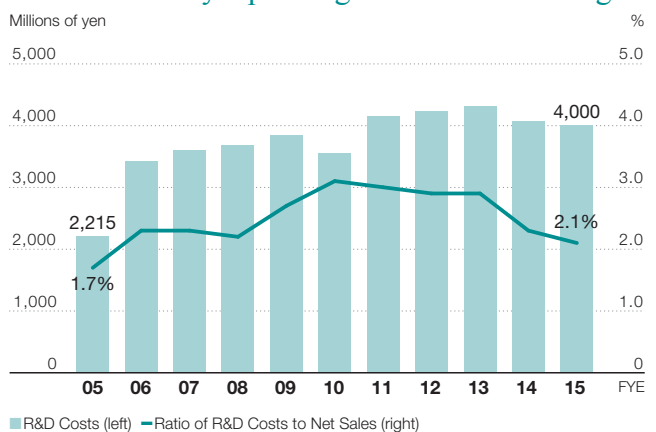
By continually enhancing its technologies (technology capital), the Tsubaki Group has maintained a strong product lineup capable of winning out against fierce global competition.

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

Technologies (technology capital) is one of the most important management foundations for manufacturers and a major factor underpinning competitiveness. In order to further enhance its competitiveness, the Tsubaki Group has continued to strengthen its technological foundations in a proactive and ongoing manner without being influenced by short-term fluctuations in economic conditions.

In the fiscal years ended March 31, 2009 and 2010, for example, the Company's witnessed successive decreases in consolidated sales and income due to the impacts of the global recession stemming from the Lehman Shock. Regardless, we took a medium- to long-term perspective, continuing to strengthen technological foundations during this period. As a testament to this devotion, R&D costs in the fiscal year ended March 31, 2015, were nearly double the level seen in the fiscal year ended March 31, 2005, and represented 2.1% of net sales as compared with 1.7% a decade earlier.

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



### Accelerated Product Development and Manufacturing Reforms Utilizing Foundation Technologies

The strengthening of technological foundations is being pursued on a Groupwide basis through efforts spearheaded by the Development & Technology Center, which operates under the direct command of the president. This center is working to enhance foundation technologies, which consist of surface treatment, processing, lubricant, evaluation, electrical, and control technologies. In addition, the center coordinates with the technology departments of business divisions to develop new products matched to market needs and reinforce production technologies for improving productivity.

In regard to product development, Tsubaki Zip Chain (see page 16) and Tsubaki Labo Stocker 150L (see page 15) have been immensely successful. Going forward, we will expand the range of

applications for these incredibly promising products while enhancing the technologies they employ. Another important measure will be ensuring the quick launch of next-generation (eighth-generation) roller chains, which will boast heightened competitiveness with regard to properties such as wear resistance, corrosion resistance, and durability.

In terms of reinforcing production technologies, the Development & Technology Center has recently made several noteworthy contributions. For example, it has helped realize such achievements as a substantial improvement in productivity in Automotive Parts Operations as well as a large reduction in repeat cases of product defects and complaints registered outside of the Company in Power Transmission Units and Components Operations.

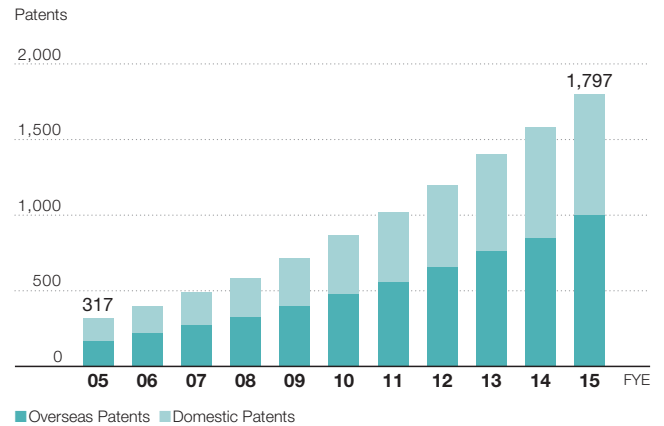
# for Bolstering this Capital

## Global Advancement of Aggressive Intellectual Property Strategies

The Group is globally advancing aggressive intellectual property strategies by accelerating patent application and acquisition of industrial property rights in Japan and overseas through an approach aimed at strengthening product competitiveness. Through such aggressive intellectual property strategies, the number of patents held by the Group around the world has been increasing rapidly in recent years. As of March 31, 2015, we held a total of 797 patents in Japan and 1,000 overseas. As the Group has been promoting the swift expansion of its business in emerging countries, there is an urgent need to step up patent application efforts and implement measures to prevent violation of intellectual property rights in these countries. For this reason, we applied for 55 patents in emerging countries during the fiscal year ended March 31, 2015, and substantially increased our coordination with overseas patent offices.

Furthermore, the intellectual property department within the Development & Technology Center is in charge of all aspects of managing patent applications and violation prevention of industrial property rights, which it does in an integrated manner. Meanwhile, acting in accordance with internal regulations on managing confidential business information, Tsubakimoto Chain's legal affairs divisions prevent leakage by spearheading Groupwide management of confidential business information and information on technologies.

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



## THE VOICE

### Surface Treated Roller Chain Created Based on Customer Requests—Surface Treated Roller Chain (NEP)

We undertook the development of Neptune based on customer requests for chains that feature the same high levels of corrosion resistance as previous NEP specification chains while also boasting a new degree of chemical resistance. The most difficult aspect of developing Neptune was endowing these chains with both corrosion resistance and chemical resistance, as these two properties have an inverse relationship in which an increase in one will result in a decrease in the other. To overcome this obstacle, we carefully selected the chemicals that would be used in the coating agent and how they would be combined. We also completely revised the surface treatment portion of the coating agents, resulting in the creation of a new proprietary coating agent. Born out of this process, the Neptune surface treated roller chain displays particularly high resistance against alkaline chemicals, making it a clear choice for customers that had previously been dissatisfied with the levels of wear-induced stretching experienced by steel chains or the corrosion affecting iron chains.

We hope to continue gathering the invaluable opinions of customers so that we may collaborate with the relevant divisions to strengthen Tsubaki's technological capabilities and bolster its product lineup.



Aiko Arima  
R&D Department, Development & Technology Center

4

# Cultivation and Strengthening of Tsubaki's Human Resources



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

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

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

### 1. Tsubaki Techno School

The Tsubaki Techno School is an education program launched in 1998 to cultivate young engineers and bestow upon them Tsubaki's superb technical skills and expertise. This program has a robust curriculum that includes courses for specific job types and ranks. Courses range from those for beginners, which teach foundation and processing technologies, to intermediate courses, where engineers learn material, control, and information engineering. The program also offers technical courses developed to improve monitoring capabilities and employees' ability to transmit technical expertise. Since the start of the program, a total of 7,900 employees have completed one of its six-month courses, which entail 48 hours of class time.

### 2. Tsubaki Technical Skills Olympics

The Tsubaki Technical Skills Olympics is a unique technical competition consisting of a total of eight events that test employees' technical skills in areas that underpin the Group's manufacturing operations. Events 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.



Engine lathe operation competition at the Tsubaki Technical Skills Olympics

## Strengthening and Cultivation of Human Resources Compatible with Globalization

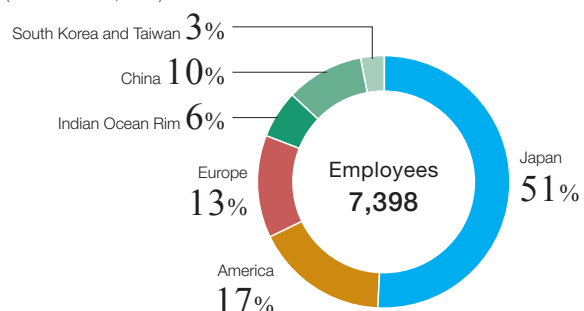
In the fiscal year ended March 31, 2015, 54.0% of the Group's total net sales came from overseas, a substantial increase from 32.7% in the fiscal year ended March 31, 2005, demonstrating the rapid globalization of our operations. In addition, the number of Group employees positioned overseas has increased greatly; on March 31, 2015, 49.0% of the Group's 7,398 employees (consolidated basis) were at overseas subsidiaries.

This situation has made the cultivation and strengthening of human resources compatible with globalization a task of extreme importance for the Group. For this reason, we introduced the global trainee system in the fiscal year ended March 31, 2011. This system allows young employees to be dispatched to overseas subsidiaries for training, and is designed to teach them foreign languages and international business manners and help them to better understand other cultures.

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

### Distribution of Employees by Region

(As of March 31, 2015)



## Improvement of Employee Motivation

The Tsubaki Group aims to transmit its unique manufacturing DNA throughout the organization and cultivate human resources capable of giving birth to innovative, globally minded ideas from a flexible mindset unbound by preconceptions. We therefore conduct various education and training programs targeting a wide range of employees, from young employees to managers, and are striving to improve employee motivation.

The Company has also introduced flextime and discretionary labor systems to provide peace of mind to employees hoping to work while also raising children or nursing family members. At the same time, we encourage employees to take consecutive days off, which has resulted in a rise in leave acquisition, and are striving to shorten work hours. In these matters, we are actively endeavoring to develop a comfortable workplace environment that is supportive toward the contributions of female employees and also facilitates more diverse lifestyles.

Through these efforts, we hope to make Tsubaki a company where all employees feel empowered and motivated in their work.



## Safety Measures at Manufacturing Sites

At the Tsubaki Group, we believe that safety is our highest priority as a manufacturing company, and are therefore working to prevent work-related accidents. 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 in Japan and the safety measures in place at these sites. In addition, we encourage all employees to be aware of and to make a habit of safety confirmation. We therefore enforce the use of a defined set of hand gestures and calls at domestic manufacturing sites to ensure that employees are always acting with a cool head, and are focused on other danger prediction activities.

In addition, helping our employees to improve their physical and mental health is a matter of immense importance. For this reason, we are stepping up mental health care initiatives while promoting good physical health by holding various walking events.



## THE VOICE

I work at Tsubakimoto Europe B.V. (Netherlands) as a sales engineer for the European market. I have participated in two technical education training programs for overseas personnel, which were held at the Kyotanabe Plant.

The first training program increased my technical knowledge of such areas as roller chain analysis and chain production processes. The second gave me a real sense of Tsubaki products' high quality. This was because comparison with competitors' chains verified superior performance of the Tsubaki GT4 Winner BS-Roller Chain, which has been launched in Europe and meets the region's industrial standards.

The training programs enabled me to appreciate the excellence of Tsubaki's technology and quality compared with those of competitors. As a result, I deliver Tsubaki products to customers with confidence. In addition, I will never forget my stay in beautiful Japan.



**Jacques Gores**  
Tsubakimoto Europe B.V.  
(Netherlands)





The Tsubaki Group strives to maintain a strong financial base while enhancing shareholder returns and stepping up capital investments that will directly contribute to globalization and profitability improvements.

## Capital Investment

### Benefits of 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 has been consistently above ¥10.0 billion since the fiscal year ended March 31, 2013. In conducting these investments, the Company has carefully selected and concentrated investment toward bolstering its network of overseas manufacturing and sales bases, which are major growth drivers, and on productivity improvements, which contribute directly to higher profit margins. Due to this selected concentration, the aggregate free cash flow over the six-year period leading up to the fiscal year ended March 31, 2015, has totaled a positive ¥26.0 billion, regardless of the increase in capital investment amounts.

Mid-Term Management Plan 2016 (for the fiscal years ending March 31, 2015–2017) projects capital investment to total ¥35.0–40.0 billion over its three-year period. We will practice selection and concentration in conducting these investments to boost their benefits.

## Shareholder Returns

### Proactive Shareholder Returns that Emphasize Payout Ratio

After issuing dividend payments of ¥7.00 per share in the fiscal year ended March 31, 2013, the Company proceeded to increase

dividend payments to ¥10.00 and then ¥16.00 per share in the fiscal years ended March 31, 2014 and 2015, respectively. As a result, the consolidated dividend payout ratio has increased from 17.6% in the fiscal year ended March 31, 2013, to 18.3% in the fiscal year ended March 31, 2014, and subsequently 21.2% in the fiscal year ended March 31, 2015. The Company plans to issue dividend payments of ¥20.00 per share in the fiscal year ending March 31, 2016, which is projected to make for a consolidated dividend payout ratio of 24.9%.

Over the period of Mid-Term Management Plan 2016, we will target a consolidated dividend payout ratio of 30.0%.

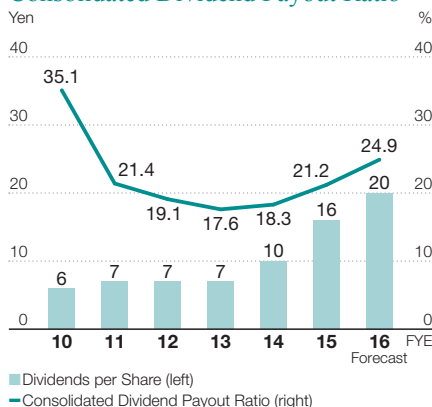
## D/E Ratio (Net)

### Maintenance of Solid Financial Base

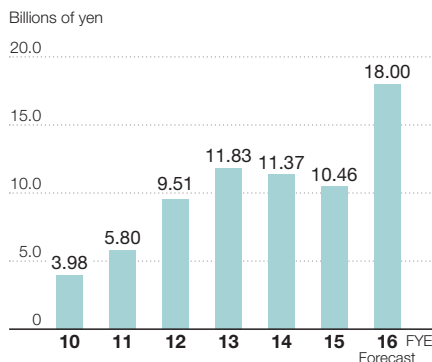
The D/E ratio (net) has shown substantial improvement from 0.21 times on March 31, 2010, to 0.07 times on March 31, 2015. This improvement can be attributed to ongoing growth in performance stemming from the higher profit margins we realized by expanding sales, largely overseas, and increasing productivity.

The Group aims to maintain its current solid financial base even as it continues to proactively conduct capital investment and issue shareholder returns, and this will be accomplished by generating increasingly more robust free cash flow.

### Dividends per Share and Consolidated Dividend Payout Ratio



### Trend of Capital Investment



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

Capital investment	¥35.0–40.0 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)
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## 1. Contributions to Society Through Manufacturing Operations



### Masaya Ushida

Senior Executive Officer  
Manager, Social Responsibility  
Development Office

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

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

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

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

In 2006, the Company established the Social Responsibility Development Office, which contains the Legal Affairs Department,

the Administrative Affairs Department, and the Occupational Health and Safety Department. Group environmental activity promotion representatives are also affiliated with this office. The foundation for our CSR activities is formed when each of these departments and individuals effectively fulfills their duties. The medium- to long-term goals of these departments and individuals are listed in the table below.

As part of its activities toward meeting these goals, the Occupational Health and Safety Department expanded its staff of counselors and began actively holding mental health seminars in April 2015. Employees are absolutely essential for generating corporate profits. We therefore recognize that preventing employees from being forced to take extended leave due to physical or mental health issues is crucial to making social contributions while also creating corporate profits.

Rather than acting on an individual basis, each department is pursuing their goals through cross-departmental efforts united under the Social Responsibility Development Office.

#### Future Tasks

As the Tsubaki Group's business becomes more global, we are faced with the urgent need to advance our CSR activities in a global, Groupwide manner. In this undertaking, we are placing particular emphasis on Asia. Our first task will be to improve employee awareness. After bolstering awareness with regard to the so-called "5Ss" (sort, straighten, shine, standardize, and sustain) and safety, we will go on to pursue reductions in energy consumption by production lines via manufacturing process reforms. Furthermore, in the fiscal year ending March 31, 2016, we will promote risk management on a global scale while strengthening efforts to support Group companies. To this end, we have established the Global Risk Management Section under the Legal Affairs Department. This section will offer its services on a Companywide basis, helping further entrench risk management into Tsubaki's operations.

Over the medium to long term, we will advance risk management and business operation initiatives that are ideally suited to the characteristics of specific countries and regions to facilitate social contribution activities linked to local communities.

#### Goals of the Social Responsibility Development Office

##### Legal Affairs Department

- Accelerate business development
- Improve risk mitigation and internal control functions

##### Administrative Affairs Department

- Minimize the impacts of risk actualization through more-comprehensive preventative measures
- Prevent the spread of damages from actualized risks through more-effective initial response measures

##### Occupational Health and Safety Department

- Improve safety awareness and risk sensitivity and prevent reoccurrence of accidents
- Reduce number of work days lost due to illnesses

##### Group environmental activity promotion representatives

- Create environmental management systems at overseas subsidiaries
- Reduce CO<sub>2</sub> emissions and cut costs

## 6 Acceleration of CSR Activities

### 2. Environmental Preservation

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

#### Environmental Philosophy

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

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

### Environmental Preservation Activities

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

At the Kyoto Plant, we systematically replaced the plant's boilers and air conditioning units with those fueled by city gas. This undertaking took place in 2012 and 2013 and was aimed at reducing CO<sub>2</sub> emissions volumes in accordance with a Kyoto ordinance on greenhouse gas emission prevention measures and Japan's Act on the Rational Use of Energy.

By changing to gas heat pump air conditioning units and installing boilers that run on city gas as opposed to heavy oil, we were able to realize CO<sub>2</sub> reductions of 580 tons per year. These efforts have been recognized by the Kyoto government, and Tsubaki was thus presented with an award as an exceptional business operator in January 2015.



Gas heat pump air conditioning units



New boilers

#### Reuse of Casting Sand

Tsubakimoto Iron Casting Co., Ltd., which is housed in the Saitama Plant, is a company that primarily manufactures small casted items for automobiles. After the casting process, completed products are separated from the sand used for casting. This sand becomes mixed with iron fragments, sand, and blasting particles during the casting process, making it difficult to reuse as casting sand.

For this reason, it was generally disposed of as waste. However, this was changed when Tsubakimoto Iron Casting introduced magnetic separators in August 2013.

The company refined these separators to completely separate the sand from iron fragments, enabling both of these resources to be reused. Each month, approximately 3 tons of iron fragments are reused at steel plants while 12 tons of sand is reused for casting.



Magnetic separator used for separating sand from other particles

#### Cost Reductions through Summertime Energy Conservation

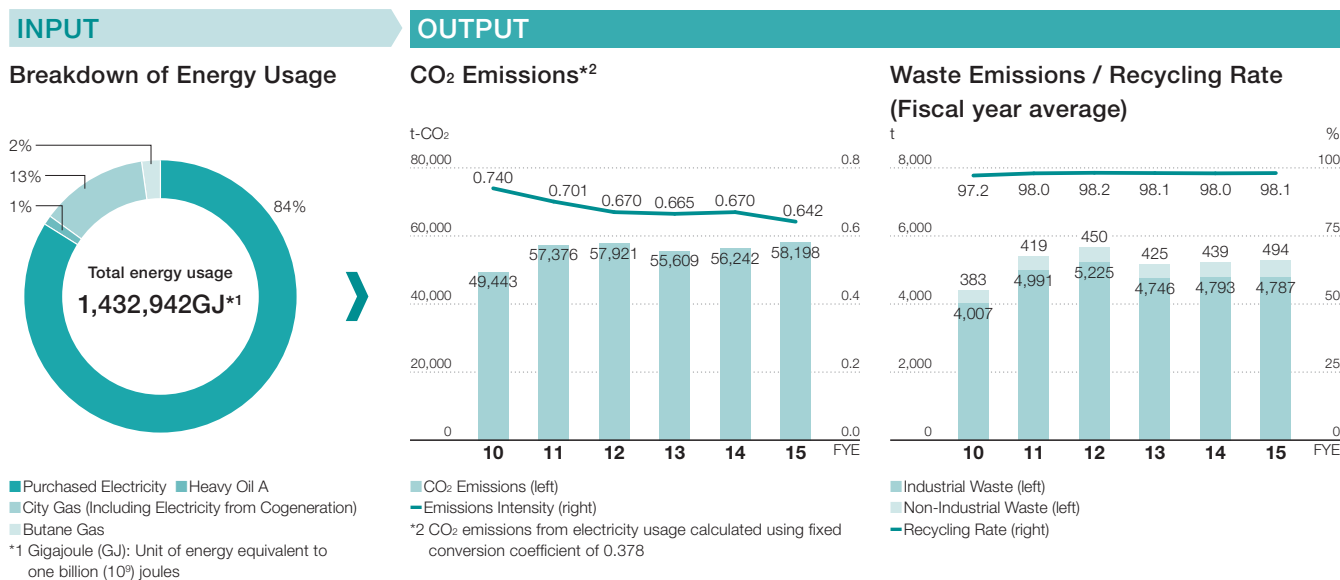
In Japan, the supply and demand situation for energy changed greatly following the Great East Japan Earthquake as the country has faced ongoing electricity shortages during the summer months coupled with high electricity rates. As such, the Japanese government together with power companies is requesting that people and companies conserve electricity. However, rather than simply responding to this request, Tsubaki has embarked on its own 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. We have thereby been able to reduce the amount of electricity purchased from power companies by 750 kW over the past two years, effectively saving ¥16.0 million in electricity fees.

Recently, 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 Data

### Flow of Energy and Materials

INPUT		OUTPUT		
<b>Raw materials</b>		<b>Total product manufacturing</b>		
	71,559t		¥90,617million	
Energy	Electricity	119,480,000kWh	<b>Valuables</b>	
	Heavy oil	589kL	23,012t	
	Gasoline	101kL	<b>Industrial waste</b> 4,787t	
	Kerosene	18kL		Recycle 5,179t
	Diesel oil	22kL	Other 102t	
	City gas (excluding cogeneration)	3,495,000m <sup>3</sup>	<b>Non-industrial waste</b> 494t	
	City gas (for cogeneration)	701,000m <sup>3</sup>	<b>Hazardous chemical substances under the PRTR Law</b>	
	Butane gas	565t	Release / transfer 124t	
	Propane gas	82,000m <sup>3</sup>	<b>Release into the atmosphere</b>	
			CO <sub>2</sub> 58,198t-CO <sub>2</sub>	
<b>Water</b>		<b>Release into the water</b>		
	396,000m <sup>3</sup>	396,000m <sup>3</sup>		



### Environmental Preservation Costs (Business Activity Classification)

Thousands of yen

Classification	Details of major initiatives	FYE 2015	
		Amount invested	Costs
(1) Business area costs		154,343	420,468
Breakdown	(1) - 1 Pollution prevention costs	22,464	124,655
	(1) - 2 Global environmental preservation costs	123,493	149,148
	(1) - 3 Resource recycling costs	8,385	146,665
(2) Upstream / downstream costs	Outsourcing analysis costs, such as for substances with environmental impact	0	27
(3) Administration costs	Establishment and operation of environmental management systems (EMSs), worksite greening and maintenance, installation of air and water measurement equipment	0	165,416
(4) R&D costs	R&D of environment-friendly products (reduction of environmental burden during product use)	11,148	160,941
(5) Social activity costs	Regional environmental preservation initiatives	0	430
(6) Environmental remediation costs	Groundwater purification measures, etc.	0	0
<b>Total</b>		<b>165,490</b>	<b>747,283</b>



For environmental data from the fiscal year ended March 31, 2015, such as information on energy expenditures and the benefits of environmental preservation activities, please refer to the Company's website.

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



## 6 Acceleration of CSR Activities

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

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

#### Basic Policy

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

#### Initiatives in Japan

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 laws and social rules. Rather, we go a step further, working to build strong partnerships with local communities. Tertiary industries account for more than 70% of Japan's working population. In recognition of this fact, we are promoting understanding of the manufacturing industry by providing factory tours as well as work-experience programs for elementary and junior high school students. In addition, we are forging bonds by acting as a member of communities, opening factory grounds for local residents during seasonal events and otherwise reaching out to the community.

#### Opening of Kyotanabe Plant Grounds for Cherry Blossom Viewing

During the first part of April 2014, the grounds of the Kyotanabe Plant were opened to allow local residents to view the blossoming cherry trees planted therein. The opening of the grounds was promoted together with the Kyotanabe city office, creating a large turnout of visitors who no doubt enjoyed viewing the cherry trees. When we first set about constructing the factory, we already had the dream of turning its grounds into a famous cherry blossom viewing site. Initially, several hundred cherry trees were planted when the factory was built in 2001. Now, more than a decade later, our dream is coming true as the factory's grounds are gradually becoming recognized as a prime viewing spot. We plan to continue holding these viewing events on into the future.



Cherry blossom viewing event

#### Work-Experience Program for Local Junior High School Students

Various domestic Tsubaki manufacturing bases are actively holding factory tours and accepting applications for internships. In addition, we are committed to teaching children about the enjoyable and profound nature of manufacturing. To this end, the Hyogo Plant once again held the "Try-Do Week" work-experience program for junior high school students during the fiscal year ended March 31, 2015, while the Okayama Plant conducted its own "Tsuyamakko Debut 14" program. These week-long programs are designed to provide participants with an opportunity to experience both the joy and the difficulty of working by performing actual factory tasks.



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

#### Summer Vacation Child and Parent Factory Tours

It is our policy to operate the Kyotanabe Plant in a manner that is open toward the community, and we are striving to build strong relations with relevant municipal governments and members of the community. In the fiscal year ended March 31, 2015, we held our seventh summer vacation factory tour event for children and their parents, an event that receives a large number of applications each year. In its most recent iteration, tours were held on two days, and 80 local elementary school children and parents attended. In addition to the factory tour, participants took part in chain assembly competitions, had lunch at the factory cafeteria, and were treated to other activities that enabled them to experience manufacturing work firsthand and in a tactile manner.



Children and parents on summer vacation factory tour

## Overseas Initiatives

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

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

U.S. Tsubaki Holdings, Inc., is conducting various charity activities. For example, this company has installed collection boxes in which employees can deposit food, clothing, and daily necessities to be donated to the homeless. In addition, U.S. Tsubaki Holdings participates in the charity activities of the Marine Toys for Tots Foundation, an organization that collects new toys to be given to impoverished children and children with serious diseases.

U.S. Tsubaki Power Transmission, LLC, meanwhile, is working together with communities to contribute to the development of the local economy by supporting an organization that advances projects with this aim.

### Participation in Happy Temple Project in Thailand

Tsubakimoto Automotive (Thailand) Co., Ltd., is committed to creating a safe work environment for its employees. Viewing the promotion of the 5Ss as a step toward accomplishing this goal, it is participating in the Happy Temple Project sponsored by the Japan-Thailand Economic Cooperation Society. In this project, the Thai government and local residents work together to clean temples. Employees that participated in these activities developed a sense of solidarity as they cleaned the temple hall and toilets.



Participants in the Happy Temple Project in Thailand

### Disaster Relief Support in Malaysia

In December 2014, heavy rainfalls caused severe flooding along the east coast of the Malay Peninsula. In response to this disaster, Tsubaki Power Transmission (Malaysia) Sdn. Bhd. provided support for the relief effort by helping deliver disaster relief items to the areas where lifeline supply networks had been disrupted. Three truckloads of supplies were transported on an eight-hour trip through a combined effort by employees and volunteers from other companies.



Disaster relief support activities in Malaysia



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

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

## 6 Acceleration of CSR Activities

### 4. Strengthening of Investor Relations Activities

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

#### Basic Policy

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

#### Disclosure Policy

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

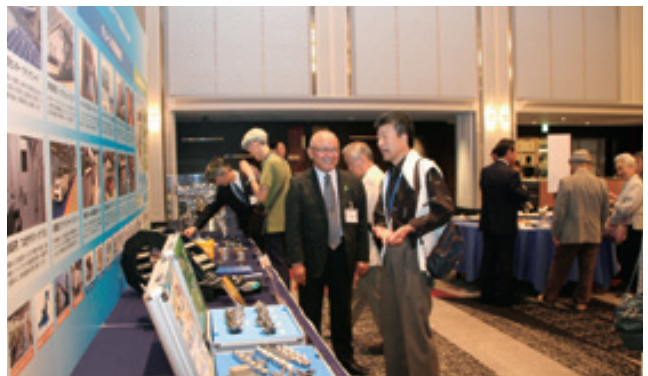
#### Investor Relations Activities

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

In addition, a "Tsubaki at a Glance" page aimed at private investors was introduced onto the Company's website in September 2013. This page provides easy-to-understand explanations of the Tsubaki Group's vision, business, and strengths.

#### General Meeting of Shareholders

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



Shareholders' discussion



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

## Board of Directors, Audit & Supervisory Board Members, and Executive Officers (As of June 26, 2015)



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

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

**3 Toru Fujiwara**  
Representative Director & Senior Managing Executive Officer  
Global Materials Handling Operations / Saitama Plant

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

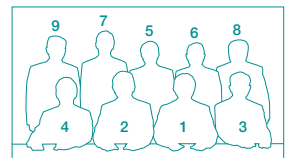
**5 Tadasu Suzuki**  
Director & Managing Executive Officer  
Global Automotive Parts Operations / Automotive Parts Division /  
Engineering Management

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

**7 Hideaki Haruna**  
Director & Managing Executive Officer  
Materials Handling Division / Kyoto Plant / Nagoya Office

**8 Hidetoshi Yajima**  
Outside Director

**9 Shuji Abe**  
Outside Director



Audit & Supervisory Board Members  
(Standing)

Kikuo Tomita  
Hitoshi Kobayashi

Audit & Supervisory Board Members  
(Outside)

Masaru Tokuda  
Takafumi Watanabe

Senior Executive Officers

Masaya Ushida  
Hiromasa Kawaguchi  
Kenji Kose

Executive Officers

Nobuaki Haga  
Masahiko Yamamoto  
Yukihiro Fujii  
Masatoshi Okada  
Atsushi Kumakura  
Takatoshi Kimura  
Kevin Richard Powers

## 7 Corporate Governance System

### Switch Decision Making and Steady Strategy Advancement

In the fiscal year ended March 31, 2010, the ratio of overseas sales to total net sales was 34.5%. However, this ratio rose to 54.0% in the fiscal year ended March 31, 2015, illustrating the rapid speed at which the Tsubaki Group's business is globalizing. The Tsubaki Group aims to win out against fierce international competition and become a global leader. In order to accomplish this goal, it is crucial for us to be able to quickly make decisions regarding the bolstering of overseas base networks and mergers and acquisitions (M&As) while steadily advancing our established strategies.

Based on this realization, the Company has developed the corporate governance system described in the following sections.

#### Establishment of COO as a Post Separate from CEO

In the fiscal year ending March 31, 2016, the Company reformed its management system by establishing the position of COO as a completely separate post from the CEO. Specifically, Isamu Osa, who previously served as president and representative director, assumed the position of chairman and CEO and representative director and Yasushi Ohara, who has worked overseas and filled such positions as manager of Management Planning and senior manager of Global Power Transmission Sales and Marketing Operations, was appointed president and COO and representative director. Guided by these two individuals, we are pursuing the strengthening of management systems.

#### Streamlined Decision-Making Body and Extensive Operational Execution Body

At the Tsubaki Group, managerial decisions are conducted by the Board of Directors, who are 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.

While the number of members of the Board of Directors varies based on business conditions, the Company maintains the policy of operating with a small number of elite directors, and the Board of Directors had nine members in the fiscal year ended March 31, 2015. The Strategy Committee has been positioned as the second highest authority in the Company after the Board of Directors. This committee deliberates on and makes decisions regarding important Groupwide business strategies and management policies.

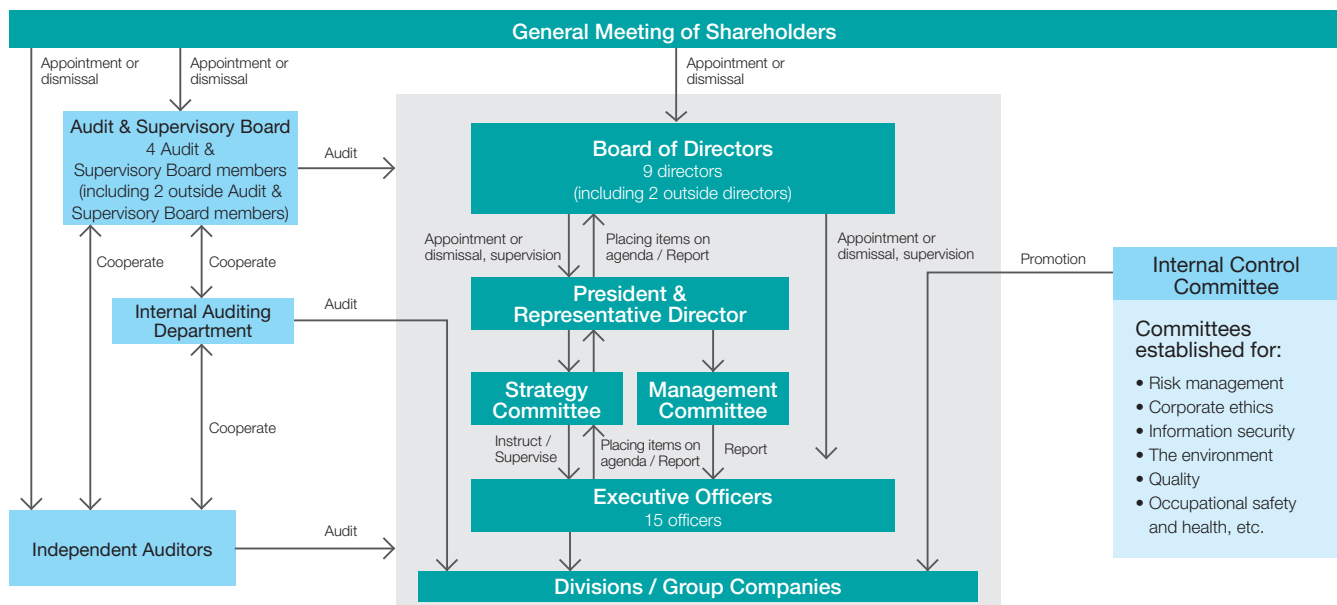
The Management Committee convenes with the aim of disseminating information on management conditions and policies among all executive officers.

The Company has appointed 15 executive officers, five of which serve concurrently as directors and all of whom possess extensive insight into their respective business field. The executive officers utilize their specialized knowledge and unique expertise to quickly and effectively advance the strategies formulated by the Board of Directors. In June 2015, the Company appointed its first non-Japanese executive officer, Kevin Richard Powers, with the aim of better facilitating the globalization of operations.

#### Effective Audits

Directors and executive officers make reports to Audit & Supervisory Board members whenever deemed necessary. Reports are issued on matters that can seriously impact the Company or Group companies and the status of internal audits in addition to issues that are legally required to be reported. Furthermore, employees are encouraged to quickly submit reports on the execution of their business duties to Audit & Supervisory Board members when requested. In addition to participating in meetings of the Board of Directors, Audit & Supervisory Board members attend meetings of the Strategy Committee and Management Committee when appropriate to maintain an understanding of the status of operational execution and supervise proceedings in order to ensure sound and proper management.

### Corporate Governance System (As of June 26, 2015)



## Overview of Corporate Governance System

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	9 (of which 2 are outside directors)
Number of Audit & Supervisory Board members	4 (of which 2 are outside Audit & Supervisory Board members)
Independent officers	2 outside directors and 2 outside Audit & Supervisory Board members
Meetings of the Board of Directors in the fiscal year ended March 31, 2015	16
Meetings of the Audit & Supervisory Board in the fiscal year ended March 31, 2015	18
Total compensation paid to directors in the fiscal year ended March 31, 2015 (excluding outside directors)	¥258 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, 2015 (excluding outside Audit & Supervisory Board members)	¥54 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, 2015	¥33 million paid to 4 individuals

## Management Transparency

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 (increased from one in 2013) and two outside Audit & Supervisory Board members. The two outside directors do not have any noteworthy relationships with the Company that might cause a conflict of interest, and both have a wealth of insight and experience as managers of manufacturing companies based on which they provide the Company with objective advice. Meanwhile, 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 by means of training and other initiatives. The progress of these initiatives is periodically reported to the Board of Directors. The Ethics Committee has been established to develop and institute measures to prevent violations of the Corporate Work Ethics. This committee also administers penalties to violators as appropriate, and is thus helping strengthen compliance systems. Furthermore, we have established the Corporate Ethics Hotline to be used for reporting violations of the Corporate Work Ethics. This hotline can be used to receive consultation from or report issues to either an internal consultant or an outside lawyer.



Tsubaki Corporate Ethics Handbook translated into five languages

## Risk Management

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

## Striving to Become a Global

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.

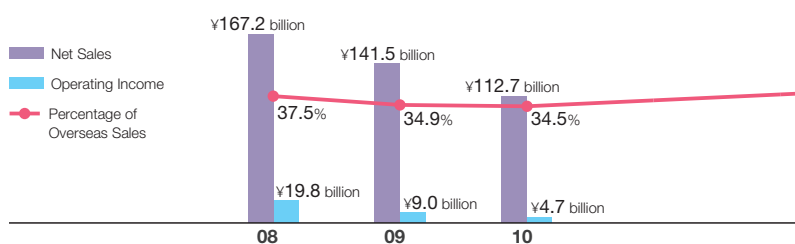
### Policies of Medium-Term Management Plan 2012

- 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 M&A transactions. At the same time, we advanced the globalization of our operations by establishing a chain manufacturing base in China and a materials handling systems manufacturing base in Indonesia. In developing human resources, we introduced the overseas trainee system and launched new initiatives including Tsubaki Technical Skills Olympics, innovation workshops, and *Kurumaza* Meetings (roundtable meetings). These initiatives help improve employee awareness and motivation and share a sense of urgency throughout the organization.

### Numerical Targets and Performance





## Long-Term Vision 2020

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

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

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

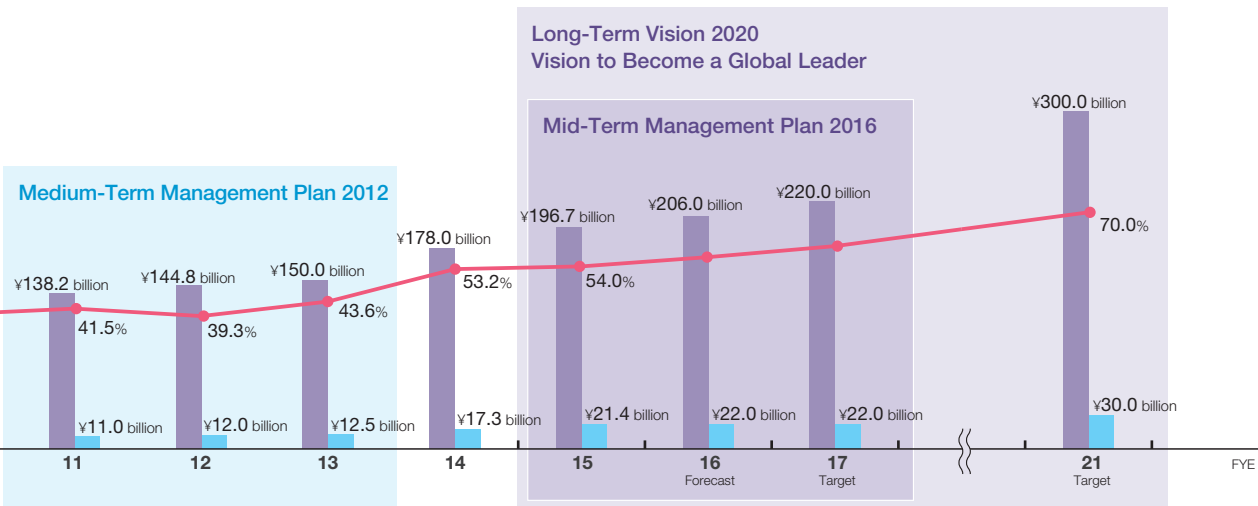
**Policies of Mid-Term Management Plan 2016**

- 1 Transition to a market-oriented corporate culture
- 2 Expansion of businesses that leverage the collective strengths of the Group
- 3 Enhancement of earning power
- 4 Development and utilization of human resources

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

Long-Term Vision 2020 illustrates our grand design for the Tsubaki Group in 2020, shortly after we celebrate the 100th anniversary of our founding in 2017. The vision calls on us to establish an unshakable position (share) in target markets and thereby become a global leader with net sales of ¥300.0 billion, 70% of which is to come from overseas, and an operating income margin of 10%. As a practical action plan to pursue the realization of this grand design, we commenced Mid-Term Management Plan 2016 (for the fiscal years ending March 31, 2015–2017) in the fiscal year ending March 31, 2015. Mid-Term Management Plan 2016 has four basic policies, the first of which is to “transition to a market-oriented corporate culture.” To advance this transition, we have divided the global market into five regions: America, Europe, China, the Indian Ocean Rim, and East Asia, which includes Japan. By quickly developing and manufacturing products that match the market needs of each region, we will realize the further globalization of our

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



## An Interview with the CEO



The Tsubaki Group will grow into a true global leader by undertaking forward-looking reforms based on future projections.

**Isamu Osa**

Chairman and CEO,  
Representative Director

### Question

In the fiscal year ended March 31, 2015, Tsubakimoto Chain posted higher sales and income for the fifth consecutive year, setting a new record for consolidated net sales as well as for all income figures. What have been your policies for managing Tsubakimoto Chain over the six years since you became president in the fiscal year ended March 31, 2010?

### A Enhancement of Check and Act Functions

When I assumed the position of president, my first order of business was to revise our medium-term management plan. The Group had previously been establishing three-year medium-term management plans. However, it was not uncommon for these plans to undergo yearly rolling updates without first sufficiently evaluating the successes of plans or acting with regard to the issues they faced. The first plan we launched after I became president was Medium-Term Management Plan 2012, which was for the fiscal years ended March 31, 2011-2013. Beginning with this plan, I put an end to rolling updates, and made sure we performed the appropriate checks to confirm that the plan's strategies were being implemented effectively and acted quickly to resolve any issues. In other words, I enhanced the "check" and "act" functions of the plan-do-check-act, or PDCA, cycle.

### A Clear Definition of Long-Term Vision

With regard to the "plan" function of the PDCA cycle, we established Long-Term Vision 2020 in 2014, clearly defining our grand vision for the Group over the long term. This vision set forth the clear long-term goals of turning overseas operations into growth

drivers and leading the global market and niche markets. The vision also made it easier to formulate action plans (medium-term management plans) and for employees to take action for advancing our strategies.

### A Improvement of Employee Skills and Motivation

I also set my sights on strengthening the "do" function of the PDCA cycle. After becoming president, I launched several new initiatives designed to share recognition of the issues faced by the Company among employees and contribute to improved motivation. These initiatives included innovation workshops, which are meant to help cultivate the next generation of leaders, and *Kurumaza* Meetings, which provide a forum for direct communication between young employees and myself.

I believe that our ability to increase both sales and income for five consecutive years and continue rewriting our previous performance records can be attributed to these innovative initiatives. Furthermore, our focus on efforts to heighten employees' ability to address problems was a major factor behind the strengthening of the "do" function. I would like to take this opportunity to thank the shareholders and investors, financial institutions, and all of the stakeholders that have supported us and been understanding toward our growth strategies.

### Question

Tsubaki has been accelerating the reinforcement of its network of overseas bases to support further globalization. How was progress on this front during the fiscal year ended March 31, 2015?

## A Promotion of Globalization in Manufacturing and Sales

In the fiscal year ended March 31, 2015, we established a power transmission product sales company in South Korea. We also converted a materials handling systems manufacturing company in India and a sprocket manufacturing company in China into subsidiaries.

In addition, we established a new factory in Tianjin as our second automotive parts manufacturing base in China. In this manner, we made strides forward in reinforcing our network of overseas bases from the perspectives of both manufacturing and sales. These measures, I believe, will help advance the development and manufacture of products that fully respond to the market needs, expansion of businesses that leverage the collective strengths of the Group, and enhancement of earning power, all of which are policies of Mid-Term Management Plan 2016. (See map below.)

Going forward, we will reinforce the ability of Tsubaki products to compete on the global market in order to expand market shares.

Manufacturing reform initiatives are being conducted at major domestic and overseas plants to improve labor productivity. For example, we implemented measures that realized massive declines in wasted time from unnecessary employee movement and time lost searching for parts, which enabled us to accelerate reductions in the number of assembly lines. The overall improvement in labor productivity at six major plants worldwide outstripped targets by 3% in the fiscal year ended March 31, 2015.

In Automotive Parts Operations, we began constructing a new assembly factory building in the Saitama Plant in February 2013. At this plant, we are advancing manufacturing reform initiatives, and had initially set the targets of realizing improvements in productivity of 30% for the new assembly factory building and 15% for entire plant. However, we were able to achieve improvements that greatly exceeded these targets in the fiscal year ended March 31, 2015.

In addition, we have made large strides in improving design productivity in Materials Handling Systems Operations. By employing modular design principles and encouraging employees to utilize finished blueprints for other projects, we witnessed a substantial increase in the amount of net sales generated by one design, from ¥390,000 in the fiscal year ended March 31, 2014, to ¥630,000 in the fiscal year ended March 31, 2015.

With regard to the transition to a market-oriented corporate culture, we have divided the global market into five regions: America, Europe, China, the Indian Ocean Rim, and East Asia, which includes Japan. By promoting the development and manufacture of products that fully respond to the market needs of each region, we aim to increase sales. This approach is gradually creating results as the Company has already launched products that were refined to match the needs of specific markets. Examples of such products include conveyor chains for China, backstop cam clutches for the United States, and lubricant-free Lambda chains for the food industry in Europe.

As for the expansion of businesses that leverage the collective strengths of the Group, we have been promoting the shared usage of facilities within the Group, and the benefits of these efforts

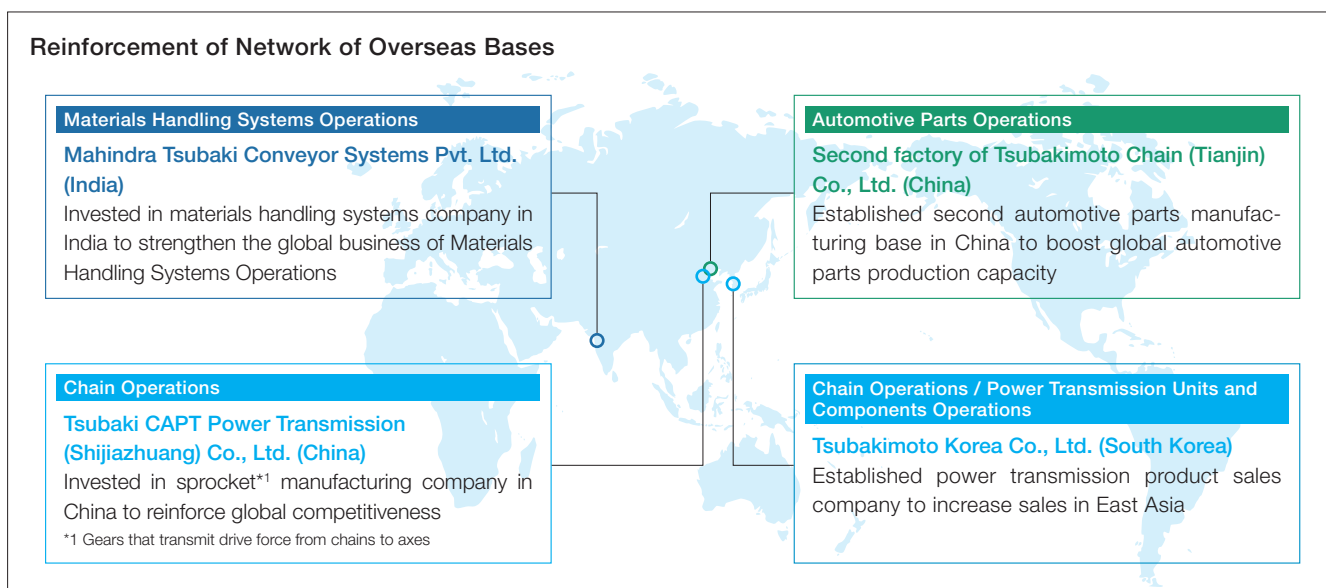
### Question

**Mid-Term Management Plan 2016 has defined the four policies of transition to a market-oriented corporate culture, expansion of businesses that leverage the collective strengths of the Group, enhancement of earning power, and development and utilization of human resources. How was progress in relation to these policies during the first year of the plan?**

## A Massive Improvements in Productivity

Of the four policies, the most progress was made with regard to the enhancement of earning power.

In Chain Operations, we are in the process of advancing manufacturing reform initiatives at major plants in Japan as well as overseas.



## An Interview with the CEO

are being felt. For example, we have developed a system through which frames for the chip conveyors supplied to the machine tool industry are manufactured at a materials handling systems factory in Indonesia, and then delivered to the customer after undergoing final assembly at a site nearby them. Going forward, we will not only encourage facility sharing but also work to step up inter-business coordination in terms of sales and technologies.

The development and utilization of human resources is a task that will take time to come to fruition, and we have yet to see any noteworthy results accordingly. At the moment, we are pushing forward with steadfast efforts through the overseas trainee system and other existing training and education programs, and are also promoting human resource development at manufacturing sites by encouraging the sharing of techniques. In addition, we invited a total of 112 engineers and manufacturing leaders from overseas factories to Japan to undergo training in the fiscal year ended March 31, 2015. Automotive parts training was conducted at the Saitama Plant, the core manufacturing base for Automotive Parts Operations, while industrial-use chain training took place at the Kyotanabe Plant.

### Question

**While there appears to be discrepancies in the progress of initiatives based on the four policies of Mid-Term Management Plan 2016, it seems as though a strong start was cut toward accomplishing the goals of the plan. What tasks do you think will need to be addressed to achieve the goal of becoming a global leader that was set forth by Long-Term Vision 2020?**

### A 1. Expansion of Businesses in China and Europe

A task that needs to be addressed in both Chain Operations and Automotive Parts Operations is the expansion of businesses in China and Europe, where our market share is still quite low.

Resolving this issue will no doubt require us to conduct local production in these markets.

In Chain Operations, we must work to get our Chinese manufacturing subsidiaries on the track toward suitable performance, and are advancing productivity improvement initiatives and accelerating the shift toward local production to accomplish this. At the same time, we need to establish manufacturing bases in Europe, a task that we are addressing through M&As and other activities.

In Automotive Parts Operations, we have already laid the foundations for boosting production capacity and strengthening cost competitiveness in China by creating our second automotive parts manufacturing base in this country. Similarly, in Europe we sought to create a second manufacturing base to supplement our base in England by establishing a new subsidiary in the Czech Republic in July 2015. Operations are slated to commence at this subsidiary in 2017.

### A 2. Development of New Technologies and Products

Technologies and products are the lifeblood of manufacturers. It would not be an exaggeration to say that the growth of the Tsubaki Group up until today has been supported by the competitive position we have developed with regard to both of these factors.

With regard to our roller chains, for example, throughout our history we have continued to release a new generation of chains that dwarfed the previous generation in terms of quality and performance about once every decade. In the fiscal year ending March 31, 2016, we plan to sequentially release the next generation of each line of chains, and thereby further solidify our dominating competitive edge in terms of technologies and products.

### A 3. Development of New Human Resource Systems

Whether we are talking about globalization or developing a competitive position for technologies and products, all of our efforts are supported by our human resources.

#### Long-Term Vision 2020

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

Net sales  
¥**300** billion

Operating income margin  
**10%**

Percentage of overseas sales  
**70%**



The Company's current human resource systems were created in the fiscal year ended March 31, 2004, and were aimed at enabling employees to undertake ambitious endeavors by increasing the transparency of these systems and making them more easily accepted. Measures such as the abolishment of seniority rights based on length of service and other measures were revolutionary for the time. Today, however, our business is expanding and rapidly becoming more global, and these systems are proving to have compatibility issues with our current operations.

For this reason, we plan to drastically revise our human resource systems over the two-year period beginning with the fiscal year ending March 31, 2016. Main points of these revisions will include supporting the contributions of female employees and otherwise responding to the diversification of human resources and implementing flexible position rotations for personnel.

**Question**

Last, what is your basic policy for improving corporate value?

**A Simultaneous Improvement of Social Value and Financial Value**

In addition to the strong growth of sales and income, the Tsubaki Group is also achieving substantial improvements in capital efficiency, as evidenced by the rise in ROE to 10.9% during the fiscal year ended March 31, 2015. Amid these increases in performance and capital efficiency, we are also witnessing smooth growth in the Company's stock price, stimulated by our raising

dividend payments for two consecutive years beginning with the fiscal year ended March 31, 2014. Based on these factors, I can confidently say that the financial value of the Tsubaki Group is on the rise.

However, corporate value, I feel, is something that should be measured as the sum of both financial value and social value. As a manufacturing company, I think Tsubaki's first objective should be the creation of countless unrivaled products that cannot be imitated with the aim of contributing to improved productivity and energy savings for customers and environmental preservation for society. I believe that increasing social value in this manner will also lead to higher financial value.

For this reason, I am confident that our strategy of developing operations on a more-global scale based on superior technologies and products will improve both social value and financial value, and subsequently overall corporate value.

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



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

**Verification of Shareholder Value Over Past Five Years**

In this section, we would like to verify the rise in value of the Company for its shareholders over the five-year period beginning with the fiscal year ended March 31, 2011, the first year of Medium-Term Management Plan 2012.

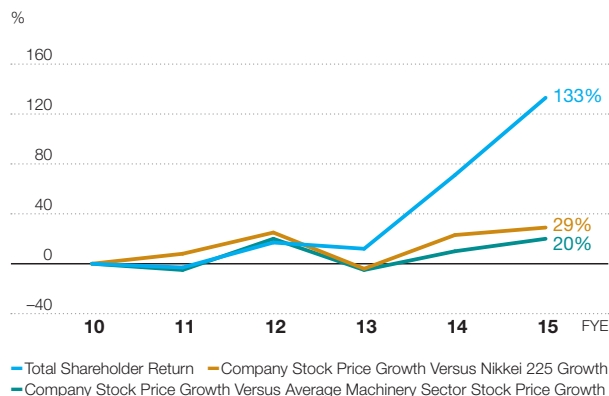
In the fiscal year ended March 31, 2010, consolidated net income was ¥3,175 million. By the fiscal year ended March 31, 2015, net income had grown substantially, to ¥14,153 million. ROE improved from 4.0% to 10.9% over the same period.

Dividend payments have also increased continually. From ¥6.00 per share in the fiscal year ended March 31, 2010, dividend payments were raised to ¥7.00 per share in the fiscal year ended March 31, 2011; ¥10.00 per share in the fiscal year ended March 31, 2014; and then ¥16.00 per share in the fiscal year ended March 31, 2015.

As the Company proceeded to increase earnings, improve capital efficiency, and enhance shareholder returns, its stock price continued to rise, growing from ¥449 on March 31, 2010, to ¥1,001 on March 31, 2015. Over this five-year period, the total shareholder return was 133%, meaning that shareholders who commenced investment on March 31,

2010, saw their investment increase by 2.33 times leading up to March 31, 2015.

**Stock Price and Total Shareholder Return (Change in Comparison to March 31, 2010)**



## Review of Operations

### Chain Operations and Power Transmission Units and Components Operations



We will accelerate the global development of our business and improve our competitiveness in terms of technologies and prices.

**Tetsufumi Matsuura**

Director & Senior Managing Executive Officer

#### Market Growth Potential and Tsubaki's Characteristics

Together with the growth of the global economy, we are witnessing the continued expansion of the markets for chains and power transmission products used in various industries, such as the automotive, LCD / semiconductor, machine tools, energy and resource, and food industries. The potential for growth is particularly strong in market segments for high-value-added products, such as those used for improving productivity, saving energy, and creating clean manufacturing environments in a variety of industries.

In Chain Operations, the Tsubaki Group is highly proficient in developing technologies and customizing products to match customer needs, and possesses a robust product lineup. Leveraging these strengths, we have captured the leading position in the industrial-use steel chain field with a 25% share of the global market. Meanwhile, we have strong domestic shares of 90% for cam clutches and 79% for power cylinders in Power Transmission Units and Components Operations.

#### Review of Performance in the Fiscal Year Ended March 31, 2015

In Chain Operations, net sales were up 10.6% year on year and operating income increased 32.9% due to performance that was generally higher than the previous year in the global market.

In Power Transmission Units and Components Operations, net sales grew 4.4% and operating income rose 5.6% as the strong performance in Japan, America, and Europe offset the decline in sales and income in China stemming from economic slowdown.

#### Future Tasks and Growth Strategies

##### Expansion of Businesses in China and Europe

Chain Operations are unrivaled in their position with the No. 1 share in the Japanese and U.S. markets. In order for these operations to grow further, there are two important tasks that will need to be addressed. First, we must build solid operating foundations in the Chinese market, which continues to display high growth rates. Second, we have to expand our share in the European market.

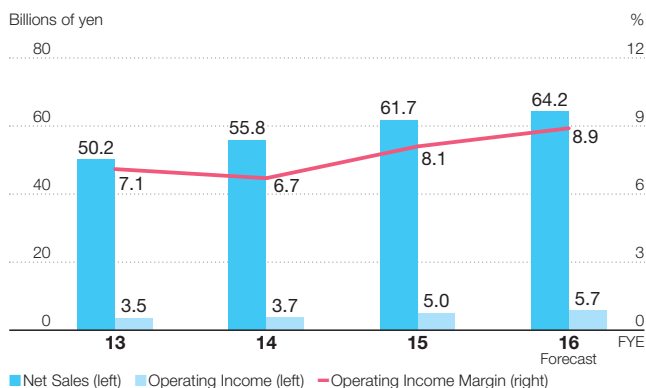
In China, we established a manufacturing company in Tianjin, which commenced production in the fiscal year ended March 31, 2014. As this company is still quite new, it is currently posting operating losses. Nonetheless, it has witnessed growth in the number of customer visits, and has been working to increase recognition by taking part in exhibitions and conducting public relations activities. As a result, this company began experiencing a sharp rise in inquiries from potential customers in 2015. Going forward, this company will focus on revising product specifications to meet the needs of the Chinese market while accelerating the diversification of material procurement sources to further boost price competitiveness.

In Europe, we are working to bolster our lineup of products that match the industry-standard specifications used in this region. Moreover, we will need to promote local production if we are to realize a full-fledged expansion of our share in the European market. To this end, we plan to form alliances with local manufacturers through M&As and other activities. In addition, we are examining various options for developing manufacturing bases, including establishing our own factory. We hope to make a definitive decision about our future course during the fiscal year ending March 31, 2016.

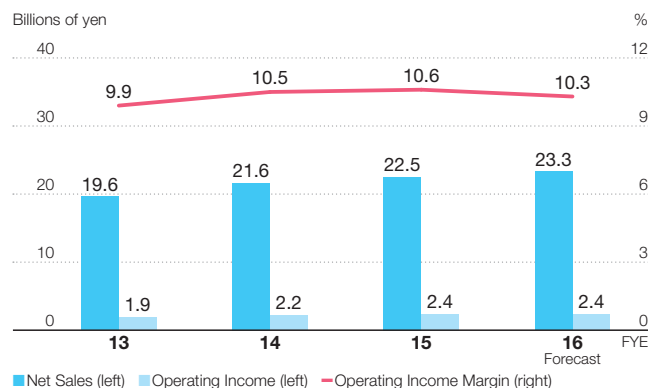
##### Enhancement of Earning Power

At the Kyotanabe Plant, we are advancing a manufacturing reform initiative program known as Manufacturing Innovation in Kyotanabe 2018 (MIK2018) that includes (1) realizing higher efficiency in

### Chain Operations Performance Trends and Outlook



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



the conveyance of items, (2) consolidating and downsizing production lines, and (3) introducing integrated mass production lines for certain products. The initial goal of the MIK2018 initiatives was to realize a 30% increase in labor productivity by the fiscal year ending March 31, 2019. However, the time frame for achieving this goal was later shortened by two years, to the fiscal year ending March 31, 2017. In the future, we plan to actively introduce state-of-the-art equipment to increase the speed of processing procedures. In addition, we will evaluate new processing methods, and pursue further improvements in profitability through means such as eliminating certain portions of heat treatment processes.

In Power Transmission Units and Components Operations, meanwhile, we are enhancing earning power by consolidating the manufacturing operations currently conducted in three bases into two and investing in high-quality facilities.

#### New Products

Throughout our history, we have continued to develop new roller chains with performance and quality that was substantially higher than previous offerings about once every 10 years. At the moment, we are focused on developing the next generation of roller chains, a new line of models that will feature further enhanced competitiveness, to commemorate the 100th anniversary of Tsubakimoto Chain. As the first in this line, we launched surface treated roller chain (NEP) in June 2015, a chain boasting massive improvements in corrosion resistance over previous models. Furthermore, we plan to introduce a new Lambda chain during the second half of the fiscal year. This chain is being developed for the food production industry, and will therefore be designed to help create clean manufacturing environments. In addition, we intend to release a new Super Roller Chain (heavy duty chain) with minimal levels of fatigue failure as well as other models commemorating our 100th anniversary.



Integrated mass production line for steel Cableveyors®



Surface treated roller chain (NEP)

## Review of Operations

### Automotive Parts Operations



We aim to become  
the undisputed global share leader.

**Tadasu Suzuki**

Director & Managing Executive Officer

#### Market Growth Potential and Tsubaki's Characteristics

In automobile engines, timing chain drive systems are responsible for transmitting the rotation energy from crankshafts to camshafts, and maintaining the precise timing of the opening and closing of air injection and release valves. The market for timing chain drive systems is expanding rapidly due to the favorable increase in the number of automobiles produced worldwide and the fact that there was a shift from belt systems to chain systems that began in the 1990s.

Tsubaki has continued to push forward with technological development to boost the environmental performance of its timing chain drive systems, and today the Company has grown into a leading manufacturer, capable of standing shoulder-to-shoulder with rival U.S. manufacturers. In 2014, we held a 33% share of the global market. We aim to increase this to 42% by fiscal year 2020, thereby earning the title of undisputed global share leader.

#### Review of Performance in the Fiscal Year Ended March 31, 2015

In Automotive Parts Operations, net sales increased 10.4% year on year while operating income grew 17.8%. In addition, the operating income margin rose 1.1 percentage points, to 17.8%. While the improvement in the operating income margin is due in part to the increased net sales and the benefits of the depreciated yen, this accomplishment should also be attributed to the impressive improvements realized in productivity. Centered on the core Saitama Plant, productivity improvement initiatives at our manufacturing bases in seven regions worldwide progressed to a degree that exceeded our targets.

#### Future Tasks and Growth Strategies

##### Strategy for Approaching European Automobile Manufacturers

The Tsubaki Group's timing chain drive systems have been adopted by automobile manufacturers in Japan, the United States, South Korea, Europe, and other parts of the world. However, in order for Automotive Parts Operations to realize further sales growth and become the undisputed global share leader, it is absolutely essential that we strategically approach major automobile manufacturers in Europe, where the ratio of manufacturers using Tsubaki systems is lower than in Japan, the United States, and South Korea.

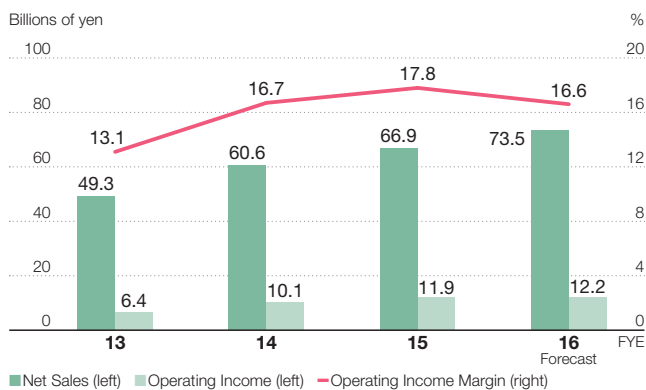
For example, it is becoming increasingly common for new engines developed by European manufacturers to contain silent chains, necessitating that we enhance competitiveness in this area. For this reason, we are devoted to improving the performance of our silent chains (low stretching and low friction). At the same time, we are endeavoring to improve upon engineering capabilities, particularly with regard to tensioners and other low-friction items, as well as systems proposal capabilities. Through these measures, we will target increased orders.

##### Stronger Approach Toward Local Chinese Automobile Manufacturers

Growth in the automotive market in China continues to outpace the markets of developed countries, and it is believed that local Chinese automobile manufacturers will come to have an even larger presence in this market over the medium to long term. To respond to the needs of these local manufacturers, the Tsubaki Group expanded the engineering functions contained within its manufacturing subsidiary in Shanghai, and established a technology center in this city in July 2015. Going forward, this technology center will be leveraged as a base for strengthening ties with local automobile manufacturers as we strive to participate in engine projects from the development phase.



### Automotive Parts Operations Performance Trends and Outlook



Timing chain drive system (left) and low-stretching, low-friction silent chain (right)

### Reinforcement of Global Production Network

August 2015 saw the start of operations at a newly constructed automotive parts manufacturing base, the second factory of Tsubakimoto Chain (Tianjin) Co., Ltd. Alongside the site in Shanghai, this new factory is our second automotive parts manufacturing base in China. In addition to boosting production capacity in China, this base was established for the purpose of strengthening cost competitiveness by allowing certain parts previously exported from Japan to be produced locally in China.

We also commenced the construction of a new manufacturing base in Europe, the second after the existing base in England. This base will be built on a 41,000 m<sup>2</sup> site we have secured in the Czech Republic, and is scheduled to begin operation in 2017. In addition to supplementing the limited production capacity of the England base, the Czech base will function similarly to the new Tianjin factory, helping strengthen cost competitiveness through local production and thereby aiding us in approaching European automobile manufacturers.



Auto Engineering Lab serving as technology development nerve center (Saitama Plant)



Second factory of Tsubakimoto Chain (Tianjin) Co., Ltd., where operations commenced in August 2015 (China)

## Review of Operations

### Materials Handling Systems Operations



We are pursuing technological innovation while accelerating globalization.

**Toru Fujiwara**

Representative Director &  
Senior Managing Executive Officer

#### Market Growth Potential and Tsubaki's Characteristics

The market for sorting, conveyance, storage, and other materials handling systems is growing together with global economic development. At the same time, however, inter-manufacturer price competition is becoming increasingly fierce. In this difficult environment, the ability to provide sophisticated solutions based on superior technological capabilities is becoming imperative to survival.

The Tsubaki Group boasts a strong share in the highly specialized segments of this market, such as those for paper feeding systems for the newspaper industry and bulk handling systems for transporting cement and other substances. In recent years, we have also been recognized as a cutting-edge manufacturer in fields such as storage systems for cells and other frozen samples in the life science field.

#### Review of Performance in the Fiscal Year Ended March 31, 2015

In Materials Handling Systems Operations, net sales increased 14.2% year on year and operating income surged 62.8%.

In Japan, sales of systems for the logistics industry and the life science field proved favorable. In addition, profitability increased substantially as a result of reduced fixed costs and massive improvements in design productivity. Elsewhere, sales and income were down in America due to sluggish capital investment in resource- and energy-related fields, while strong performance of slag conveyors led to higher sales and income in Europe.

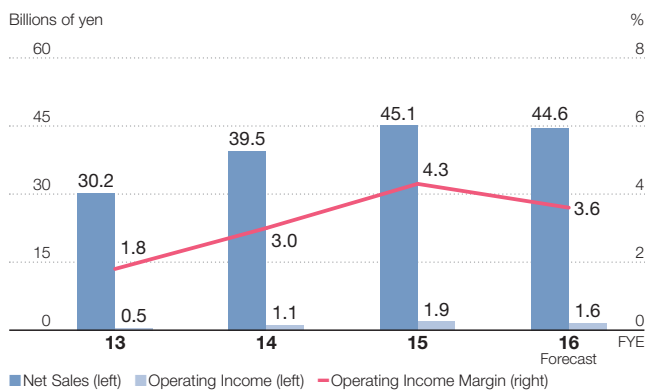
#### Future Tasks and Growth Strategies

##### Expansion of Customer Base and Business Scope

In Materials Handling Systems Operations, we are pursuing innovation-fueled growth. At the same time, we are revising our current business structure, which is excessively focused on automobiles, steel working, and other heavy duty manufacturing industries. To this end, we are working to expand our customer base and business scope to include the life science field and the distribution and entertainment industries.

In the life science field, we recently launched Tsubaki Labo Stocker 150L (see page 15), a new addition to our promising line of systems for storing frozen microbe and pathogen samples. Unlike anything offered by our rivals, this new system has won high praise for its ultra-low temperature storage technologies and high-speed sample transportation technologies. Accordingly, we are seeing a rise in inquiries from universities and research institutions overseas as well as in Japan. For the logistics industry, we supply such promising products as Tsubaki Quicksort and Linisort, both of which are characterized by high-speed, high-precision sorting capabilities. Demand for these systems is expected to grow in Asia, where the rising cost of labor is causing a rapid increase in the need for labor-saving solutions. Zip Chain Lifter® (see page 16), another offering, is capable of higher-speed elevation and descent and more precise positioning than conventional hydraulic lifts. This product has proved popular among stage performance-related companies and other customers, and we are working to expand the range of applications for which it is used outside of production lines.

### Materials Handling Systems Operations Performance Trends and Outlook



### Acceleration of Global Expansion

In Materials Handling Systems Operations, we have achieved substantial increases in our worldwide supply capacity by acquiring Kabelschlepp GmbH in 2010 and then Mayfran Holdings, Inc., a major global manufacturer of slag conveyors and chip conveyors, in 2012. Furthermore, a major machine tool manufacturer recognized Tsubaki as a global supplier of chip conveyors in 2014. The Tsubaki Group is promoting the shared usage of Group manufacturing facilities to enhance its ability to provide just-in-time production of items with the same quality and price anywhere in the world, and is also strengthening cost competitiveness. It is thereby working to accelerate the global expansion of its chip conveyor operations. However, global expansion is not only being pursued in chip operations. Rather, the Tsubaki Group is also endeavoring to develop operations in other areas on a global basis, and is leveraging its strength in providing batch shipments of products ranging from parts to modules and systems in this undertaking.



Tsubaki Quicksort system for realizing reliable sorting



Tsubaki Labo Stocker employed by NIAS Genebank for permanent storage of seeds from around the world under low-temperature, low-humidity conditions



Chip conveyor for which global expansion is being accelerated

# Report and Analysis of Financial Condition and Results of Operations

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

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

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

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

### 2. Diversification of Supply Regions

The Tsubaki Group began proactively advancing globalization in the late 1980s. As a result, 54.0% of the Group's total net sales came from overseas in the fiscal year ended March 31, 2015, and we are now targeting a ratio of 70% in the fiscal year ending March 31, 2021. By pursuing global expansion centered on countries and regions with significant growth potential, such as China, we aim to further enhance the Group's capacity for sustainable growth.

### 3. Promotion of Globally Optimized Production

While the aforementioned diversification of supply regions has its merits, it also entails increased exposure to the influence of foreign exchange rate fluctuations. For this reason, as we proceed with the diversification of supply regions, we are simultaneously decentralizing production (41.1% of production was conducted overseas in the fiscal year ended March 31, 2015). This pursuit of globally optimized production helps mitigate the impacts of foreign exchange rate fluctuations while also reducing manufacturing costs, allowing for the utilization of a wider range of material suppliers, and contributing to improved customer satisfaction through shortened delivery times.

### 4. Expansion of Market Share

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

\* In addition to these three factors, the Company's performance may also be affected by natural disasters, violations of intellectual property rights, product defects, or political unrest overseas. For more information, please refer to the business risks section of the Company's annual securities report (*Yukashoken Hokukoshō*, in Japanese only).  
[http://www.tsubakimoto.jp/fileadmin/ja/ir/pdf/14\\_4q.pdf](http://www.tsubakimoto.jp/fileadmin/ja/ir/pdf/14_4q.pdf)



## 2. Detailed Analysis of Consolidated Financial Condition and Results of Operations for the Fiscal Year Ended March 31, 2015

### 1. Review of Management Performance

#### ▶ Key Points

1. Sales and income increased in all businesses, and new records were set for consolidated net sales as well as for all income figures.
2. The operating income margin showed substantial improvement due to the benefits of higher sales and yen depreciation as well as the smooth progress in cost reduction efforts.

#### Net Sales

Net sales increased 10.5% year on year, to ¥196,738 million, setting a new record high for the second consecutive year.

In Chain Operations, net sales increased 10.6% year on year, to ¥61,721 million. Sales in Japan, America, Europe, and all other principal regions increased amid a relatively favorable operating environment seen both in Japan and overseas. Sales growth was particularly pronounced in America and Europe, where operations benefited from the depreciated yen.

In Power Transmission Units and Components Operations, net sales increased 4.4% year on year, to ¥22,557 million. Sales of products in Japan, America, and Europe were strong. However, overall sales growth was low due to the deterioration of the performance of a subsidiary in Tianjin, which itself was a result of sluggish construction-related investment stemming from economic slowdown in China.

In Automotive Parts Operations, net sales increased 10.4% year on year, to ¥66,978 million. Sales were up at all bases in Japan, America, Europe, Thailand, South Korea, and China. While performance in Japan suffered due to lower sales of automobiles, revenue increases were driven by the export of parts to overseas subsidiaries. In China, meanwhile, impacts of the poor performance of Japanese automobile manufacturers were counteracted by the acquisition of new contracts, leading to an increase in sales.

In Materials Handling Systems Operations, net sales increased 14.2% year on year, to ¥45,169 million. Performance of systems for the logistics industry and the life science field was strong in Japan, while higher sales of slag conveyors as well as chip conveyors for the machine tools industry were seen in Europe.

#### Operating Income

Consolidated operating income grew 23.5% year on year, reaching a new record high of ¥21,427 million.

Personnel costs, depreciation and amortization, and other fixed costs increased approximately ¥5.9 billion. Nonetheless, the operating income margin improved 1.2 percentage points, rising from 9.7% to 10.9% due to the benefits of higher net sales, lower costs stemming from heightened productivity, and the depreciated yen.

Operating income increased in all regions. The increase was most substantial in Japan, where operating income grew 37.5% year on year as a result of yen depreciation and productivity improvements, which were particularly helpful to operations in this country. Operating income was also impressive in Europe. Profit in this region benefited from higher sales of power transmission products and automotive parts by a Dutch subsidiary and also from the solid performance of Kabelschlepp GmbH, which was acquired in 2010.

#### Net Income

Net income showed a massive year-on-year increase of 38.6%, to ¥14,153 million. This strong growth was largely due to a ¥169 million increase in income representing the net of interest and dividend income and interest expense as well as the absence of the loss on disaster recorded as extraordinary loss during the fiscal year ended March 31, 2014, in association with the damages from heavy snowfall in Japan. In addition, insurance income received in relation to these damages was recorded as extraordinary income. Due to these factors, net income grew to an extent that greatly exceeded the rise in operating income.

## Report and Analysis of Financial Condition and Results of Operations for the Fiscal Year Ended March 31, 2015

## 2. Review of Financial Condition and Cash Flows

## Key Points

1. Steps were taken to limit increases in interest-bearing debt, resulting in a stronger financial base regardless of business growth.
2. Positive free cash flow increased, despite the ongoing high level of capital investment.

## Financial Condition

Total assets on March 31, 2015, stood at ¥258,742 million, up ¥29,901 million from the previous fiscal year-end. Investments in securities grew ¥8,037 million following stock price increases and property, plant and equipment rose ¥4,761 million due to expanded capital investments. In addition, trade notes and accounts receivable increased following higher sales, and inventories of goods and finished products, unfinished products, and raw materials were up.

Liabilities on March 31, 2015, amounted to ¥114,450 million, an increase of ¥7,238 million from the previous fiscal year-end. Accrued income taxes and deferred tax liabilities rose as a result of strong business performance, and trade notes and accounts payable were up as well. Despite aggressive capital investments, the balance of interest-bearing debt only showed a slight year-on-year increase of ¥369 million.

As a result of the above, net assets totaled ¥144,291 million, up ¥22,663 million from the previous fiscal year-end. The D/E ratio (net) on March 31, 2015, was 0.07 times, an improvement from 0.13 times a year earlier, and the equity ratio was 54.3%, up from 51.8%.

## Cash Flows

Net cash provided by operating activities was ¥22,189 million, compared with ¥19,761 million in the previous fiscal year, reflecting higher net sales and an improved operating income margin.

Net cash used in investing activities amounted to ¥14,306 million, compared with ¥17,166 million in the previous fiscal year. In Automotive Parts Operations, 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 improved productivity in domestic operations and the enhancement of manufacturing networks centered on East Asia and China. These factors resulted in capital investment totaling ¥10.4 billion in the fiscal year ended March 31, 2015, making for the third consecutive year of investment exceeding ¥10.0 billion, a streak that began with the fiscal year ended March 31, 2013.

As a result, free cash flow in the fiscal year ended March 31, 2015, was a positive ¥7,882 million, compared with the positive ¥2,594 million recorded in the previous fiscal year.

Net cash used in financing activities totaled ¥2,647 million, compared with ¥3,196 million in the previous fiscal year. This result can be primarily attributable to an outflow of ¥2,432 million in the form of cash dividends paid.

## Cash Flow-Related Indexes

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
Equity ratio* <sup>1</sup> (%)	45.3	46.9	47.3	51.8	54.3
Equity ratio (market-based)* <sup>2</sup> (%)	43.1	49.9	41.9	60.3	72.4
Debt repayment periods* <sup>3</sup> (Years)	1.9	2.4	2.4	1.9	1.7
Interest coverage ratio* <sup>4</sup> (Times)	24.1	21.8	30.6	41.3	60.4

\*<sup>1</sup> Equity ratio: Shareholders' equity ÷ Total assets

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

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

\*<sup>4</sup> Interest coverage ratio: Net cash provided by operating activities ÷ Interest paid

## Performance by Business Segment

Millions of yen

		FYE 2014	FYE 2015	YoY Change (%)
Chain Operations	Net sales*	55,828	61,721	10.6
	Operating income	3,763	5,002	32.9
	Operating income margin (%)	6.7	8.1	
Power Transmission Units and Components Operations	Net sales*	21,612	22,557	4.4
	Operating income	2,273	2,400	5.6
	Operating income margin (%)	10.5	10.6	
Automotive Parts Operations	Net sales*	60,674	66,978	10.4
	Operating income	10,119	11,916	17.8
	Operating income margin (%)	16.7	17.8	
Materials Handling Systems Operations	Net sales*	39,565	45,169	14.2
	Operating income	1,192	1,940	62.8
	Operating income margin (%)	3.0	4.3	

\* Net sales includes intersegment sales and transfers.

## Performance by Geographic Segment

Millions of yen

		FYE 2014	FYE 2015	YoY Change (%)
Japan	Net sales*	110,585	119,349	7.9
	Operating income	9,234	12,694	37.5
	Operating income margin (%)	8.4	10.6	
America	Net sales*	43,551	48,749	11.9
	Operating income	3,964	4,162	5.0
	Operating income margin (%)	9.1	8.5	
Europe	Net sales*	22,056	26,545	20.4
	Operating income	471	890	89.0
	Operating income margin (%)	2.1	3.4	
Indian Ocean Rim	Net sales*	9,741	10,718	10.0
	Operating income	1,384	1,385	0.1
	Operating income margin (%)	14.2	12.9	
China	Net sales*	11,044	14,062	27.3
	Operating income	954	1,008	5.7
	Operating income margin (%)	8.6	7.2	
South Korea and Taiwan	Net sales*	5,011	7,115	42.0
	Operating income	372	258	(30.5)
	Operating income margin (%)	7.4	3.6	

\* Net sales includes intersegment sales and transfers.

# Principal Tsubaki Group Companies

As of March 31, 2015

\*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)	MXN173,000,000	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
000 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\$77,000,000	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
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
Tsubakimoto Automotive Korea Co., Ltd.* <sup>1</sup> (South Korea)	WON17,860,000	100.0%	Manufacture and sales of automotive parts

※ As of April 1, 2015, Tsubakimoto Nishinihon Co., Ltd., was absorbed into Tsubakimoto Machinery Co.



# Corporate Data and Stock Information

As of March 31, 2015

## Corporate Data

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

Number of Consolidated Subsidiaries	56
Number of Unconsolidated Subsidiaries	13
Number of Affiliates	9 (Including 1 Equity-Method Affiliate)
Number of Employees* (consolidated)	7,398

\* 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	9,339

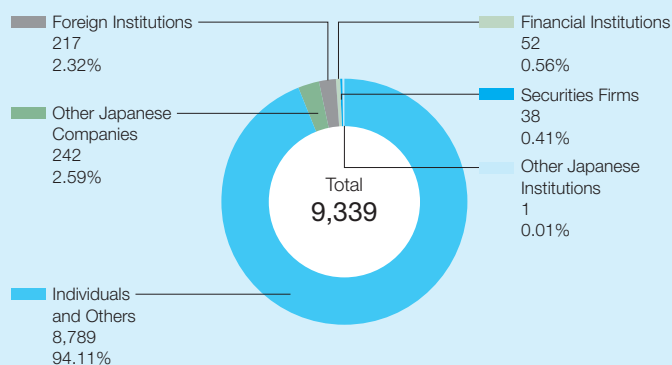
### Major Shareholders (Top 10 Companies)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued
Taiyo Life Insurance Company	18,398	9.83
The Master Trust Bank of Japan, Ltd. (Trust account)	10,966	5.86
Nippon Life Insurance Company	9,850	5.26
Japan Trustee Services Bank, Ltd. (Trust account)	8,320	4.44
Toyota Motor Corporation	7,722	4.12
Sumitomo Mitsui Banking Corporation	7,034	3.75
Kyoeikai Employee Stock Ownership Association	6,107	3.26
Tsubakimoto Kogyo Co., Ltd.	5,194	2.77
Sumitomo Mitsui Trust Bank, Limited	4,245	2.26
BBH for BBHTSIA Nomura Funds Ireland Plc / Japan Strategic Value Fund	3,695	1.97

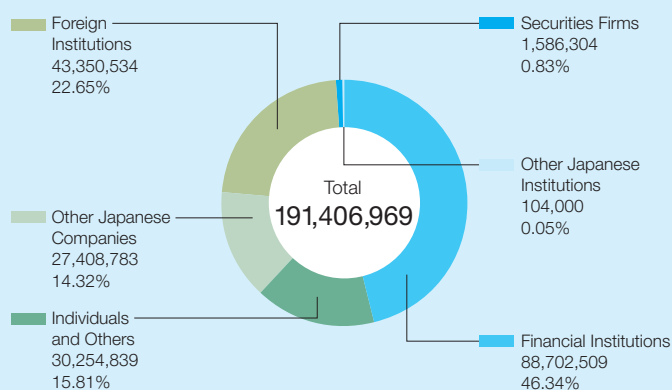
- Numbers less than 1,000 have been rounded.
- The Company owns treasury stock of 4,311,895 shares; however, these shares are not included in the above list of major shareholders.
- Percentage of total shares issued has been calculated excluding the treasury stock of 4,311,895 shares.

## Shareholder Composition

### Number of Shareholders



### Number of Shares Held



Treasury stock of 4,311,895 shares is included in "Individuals and Others."

Contact for Inquires with Regard to the Corporate Report

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**TSUBAKIMOTO CHAIN CO.**

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