

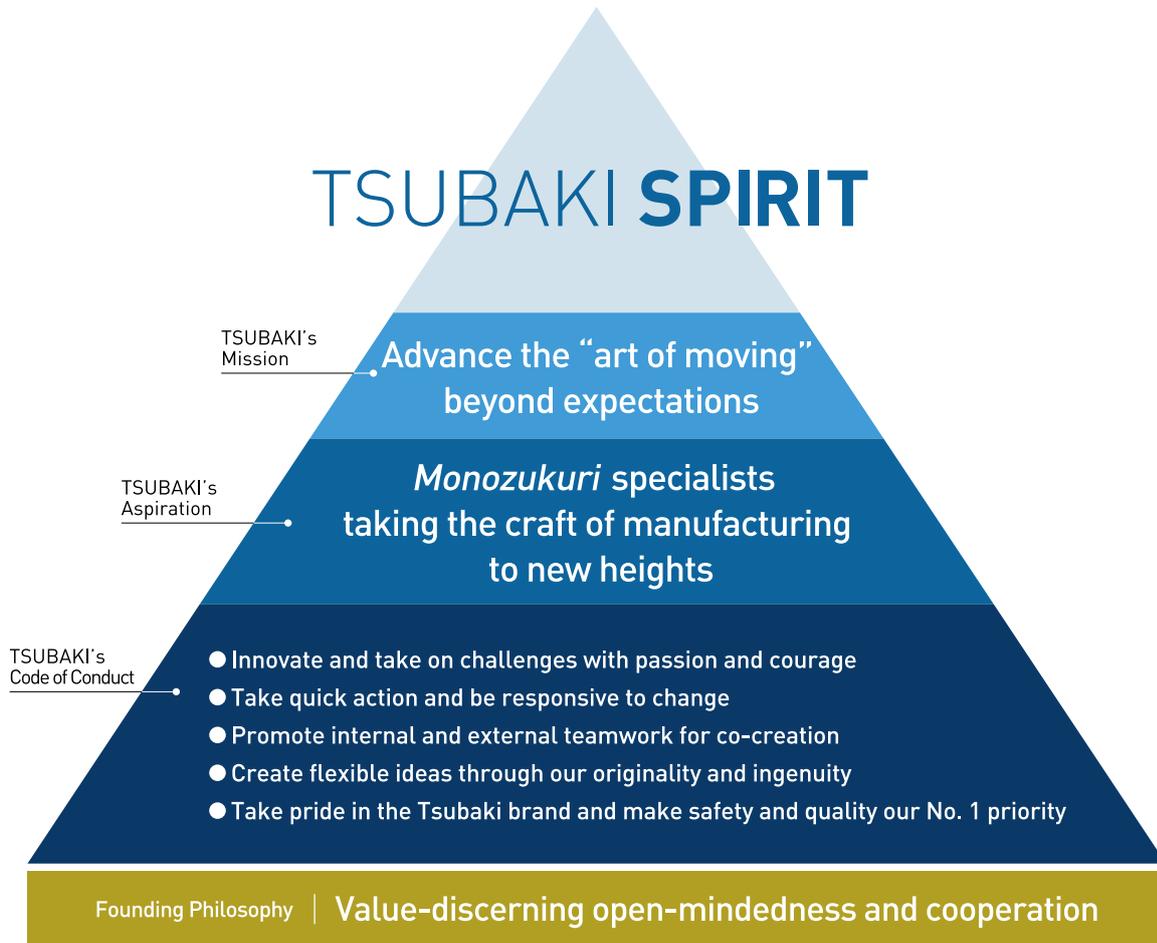


# TSUBAKI CORPORATE REPORT 2018

# TSUBAKI SPIRIT

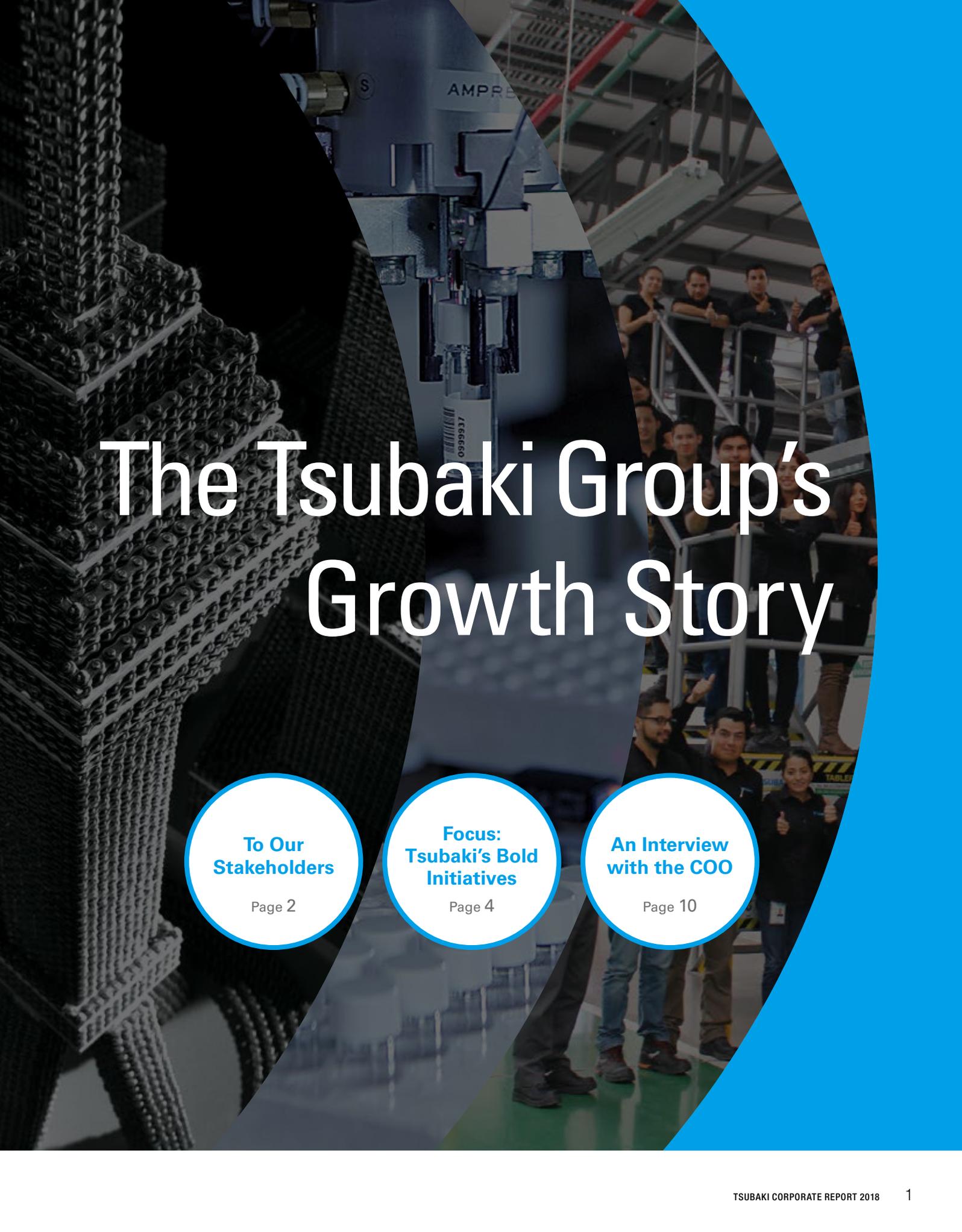
“Tsubaki Spirit” is the Tsubaki Group’s shared corporate philosophy and code of conduct. The formulation of this corporate philosophy entailed reevaluating the Tsubaki Group DNA inherited from predecessors as well as the value that we can offer society going forward. We then clearly expressed and systemized the attributes that we should continue to value—as well as new challenges we should tackle—in the form of Tsubaki’s Mission, Tsubaki’s Aspiration, Tsubaki’s Code of Conduct, and a Founding Philosophy.

We will provide real value that customers and society want by continuing to be a *monozukuri* (manufacturing) specialist and by using our capabilities to provide solutions that transcend the boundaries of *monozukuri*. In the motion and control field, we will remain a company that society needs by providing value that surpasses its expectations.



## Main Disclosure Tools

	Financial information	Non-financial information
<b>Reports</b>	<p><b>TSUBAKI CORPORATE REPORT 2018</b> Mainly provides an overview of the Tsubaki Group and reports on the Group’s business activities, environmental initiatives, and management systems</p> <p>Financial statements   Securities reports (Only available in Japanese)</p>	
<b>Website (latest information and more detailed information)</b>	<p><b>Investor Relations section</b></p> <p>Discloses financial information for shareholders and investors and information on shareholders and shares  <a href="http://tsubakimoto.com/ir/">http://tsubakimoto.com/ir/</a></p> 	<p><b>Environmental Approach section</b></p> <p>Discloses details on initiatives to preserve the environment and coexist with society  <a href="http://tsubakimoto.com/csr/">http://tsubakimoto.com/csr/</a></p> 



# The Tsubaki Group's Growth Story

**To Our  
Stakeholders**

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# We are *monozukuri* specialists who are taking the craft of manufacturing to new heights.

The Tsubaki Group will strengthen business foundations to heighten its economic value while proactively enhancing its social value.

## **Benefited Significantly from the Continued Growth of Automotive Parts Operations and the Resurgence of Chain Operations**

The Tsubaki Group's operating income, which slumped to ¥4.7 billion in the fiscal year ended March 31, 2010, due to the worldwide economic recession, began recovering steadily in the fiscal year ended March 31, 2011, and has surpassed ¥20.0 billion in the four fiscal years since the fiscal year ended March 31, 2015.

Since the fiscal year ended March 31, 2011, Automotive Parts Operations have been entrenching their leading position in the global market for timing chain drive systems by further increasing the systems' superiority in terms of environmental performance.

Meanwhile, Chain Operations have rigorously strengthened manufacturing foundations and accelerated the development of products that match market demand by taking on the challenge of innovative manufacturing and radically reforming production methods. Thanks to the achievements of these business segments, sales growth and profitability have improved significantly.

## **Made a Strong Start in the First Fiscal Year of Mid-Term Management Plan 2020**

In the fiscal year ended March 31, 2018, we got off to a favorable start. As well as reaching targets for net sales and income, we continued to increase the percentage of overseas sales.

As a result of proactive investment focused on Automotive Parts Operations, we did not manage to post new records for operating income and ordinary income. However, all four business segments—Automotive Parts Operations, Chain Operations, Power Transmission Units and Components Operations, and Materials Handling Systems Operations—grew revenues. Each business segment has established unshakable positions (shares) in their target markets. In this way, the Group is progressing steadily toward realization of the target corporate profile that envisions the Group becoming a global leader by the fiscal year ending March 31, 2021.

We will continue unstinting efforts to achieve the numerical targets for the final fiscal year of Mid-Term Management Plan 2020, which are net sales of ¥300.0 billion, operating income of ¥30.0 billion, and a percentage of overseas sales of 70%.



**Isamu Osa**

Chairman and CEO,  
Representative Director

**Yasushi Ohara**

President and COO,  
Representative Director

## Becoming a Company that Society Needs

To sustain growth, the Tsubaki Group must not only strengthen its business foundations but also benefit society. With this in mind, we must actively address important issues in society as a whole and offer solutions targeting these issues.

A good example of our efforts to contribute to society is the new agribusiness. In the fiscal year ended March 31, 2015, the Tsubaki Group developed the world's first automated seedling selection system, which increases the productivity of plant factories by selecting superior vegetable seedlings at an early stage. In another ambitious business initiative, we have developed a connector that allows electric vehicles (EVs) to be used as emergency power supplies in the event of a disaster. eLINK is an EV power system that connects EVs with the power grids of public facilities, buildings, factories, and other facilities via a quick charging connector. Through the continuation of such initiatives, we want to help address such social issues as food shortages and large-scale disasters, thereby growing into a company that society needs.

Further, we would like to offer a sincere apology to customers, business partners, shareholders, and other related parties for the considerable inconvenience and concern caused by incidents of improper data application and data tampering in relation to certain product inspections, details of which we announced on May 15, 2018. With the aim of regaining the trust of customers, the Group will take measures to prevent the recurrence of such incidents and further strengthen quality control Groupwide.

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

**Isamu Osa**

Chairman and CEO,  
Representative Director

**Yasushi Ohara**

President and COO,  
Representative Director

# Taking on Innovative Manufacturing

Since its founding in 1917, the Tsubaki Group has manufactured products with outstanding quality, performance, and safety. We have remained committed to manufacturing excellence because we want our technologies and ideas to help customers and society. At the same time, we are flexibly incorporating new ideas to advance manufacturing reform initiatives that are enhancing quality and productivity.

One example of these efforts is the Manufacturing Innovation in Kyotanabe 2018 (MIK2018) initiative, which we began in the fiscal year ended March 31, 2015. As the mother plant of Chain Operations in Japan, the Kyotanabe Plant has built a compact, efficient production line that has increased productivity while enabling the plant to cater to different specifications for each customer or application as well as different volumes for each order. Consequently, the profitability of the Kyotanabe Plant has risen dramatically.

Also, we have built a new materials handling systems factory within the premises of the Saitama Plant to strengthen the manufacturing foundations of Materials Handling Systems Operations. The new factory began operating as a development-oriented "showcase factory" in June 2018.

Focus

1

## A New Materials Handling Systems Factory Operating as a Development-Oriented “Showcase Factory”

### Showcasing products

An exhibition of our mainstay products at M.LABO



### Showcasing product development

An area for product development acceleration



### Showcasing manufacturing and maintenance skills

A manufacturing and maintenance workshop



### Showcasing safety, comfort, and environment-friendliness

An environment-friendly factory



We will expand Materials Handling Systems Operations by leveraging the business segment’s mother factory to strengthen manufacturing and create new products as well as to show customers the collective strengths and appeal of these operations.

#### Construction Concept of the New Factory

**Showcasing products:** The newly established M.LABO exhibition displays the star products of Materials Handling Systems Operations. The facility not only enables visitors to see actual products but also provides tours that let visitors view manufacturing processes. By highlighting our technological capabilities in relation to materials handling systems, we hope to create business opportunities.

**Showcasing product development:** We have rebuilt our integrated production system, which covers product development and design through to manufacturing, and we will accelerate product development.

**Showcasing manufacturing and maintenance skills:** We will enhance processing, assembly, and maintenance skills and increase measures to pass on skills.

**Showcasing safety, comfort, and environment-friendliness:** As the Tsubaki Group’s model environment-friendly factory, the new factory has greenery and solar panels on its roof, with the latter providing all of the factory’s power needs.

# Taking on New Products and Fields

For many years, the Tsubaki Group has been strengthening new product development and manufacturing to provide customers with optimal solutions.

For example, we create a new-model RS Roller Chain approximately every 10 years to ensure world-leading quality. Through continuous enhancement of the product's wear resistance and transmission capacity, we have captivated customers worldwide.

Automotive Parts Operations have taken a similar approach to timing chain drive systems for automobile engines. The extremely low friction of the Zerotech® series, developed in 2011, has earned it a strong reputation among global automobile manufacturers as they take measures to enhance the fuel efficiency of their automobiles. We hold the No. 1 market share because we have consistently catered to the need for higher performance automobile engines with better environment-friendliness.

Focus

2

## Strengthening New Product Development

### Automotive product development

#### EneDrive™ Chain



### EV power system

#### eLINK



### Life science field

#### LaboStocker®



### Agribusiness

#### Automatic seedling transplanter unit



The Tsubaki Group is focusing on the development of automotive products. As part of these efforts, we have developed EneDrive Chain for electric vehicles (EVs), which is attracting growing interest from automobile manufacturers. We are also taking on the challenge of businesses in fields beyond engines through such initiatives as the renewal of eLINK, which allows EVs to be used as emergency power supplies in the event of a disaster by connecting them with the power grids of public facilities, buildings, factories, and other facilities.

The Tsubaki Group is tackling ambitious initiatives that go beyond the boundaries of its existing business fields. For example, our LaboStocker 150 automated ultra-low-temperature storage units for

biological samples and DNA that are used in the development of pharmaceuticals realize storage and sample transportation at ultra-low temperatures of  $-150^{\circ}\text{C}$ . As a result, our share of Japan's market has surpassed 50%.

Another new field is the agribusiness. The Tsubaki Group's automatic seedling transplanter unit increases the productivity of plant factories by selecting superior vegetable seedlings at an early stage and is the first system of its kind.

The Tsubaki Group's initiatives in the motion control field also target information. We will leverage expertise acquired through manufacturing to evolve information flows.

# Taking on the Global No.1 Position

The first overseas foray of Tsubakimoto Chain was in 1924—only seven years after its founding. An order for conveyor chains for a sugar refinery in Taiwan launched the development of our overseas business.

Since the 1970s, we have been accelerating the establishment of sales subsidiaries and manufacturing subsidiaries overseas so that we can deliver our products and services to customers around the world.

Today, in 26 countries worldwide we have 83 companies, 42 of which are manufacturing subsidiaries. Moreover, the percentage of overseas sales has reached approximately 56% as of the fiscal year ended March 31, 2018.

Focus

3

## Bolstering Production Capabilities Overseas

### Chain Operations

Tsubakimoto Chain (Tianjin) Co., Ltd. (China)



### Power Transmission Units and Components Operations

Tsubaki Motion Control (Thailand) Co., Ltd. (Thailand)



### Automotive Parts Operations

Tsubaki Automotive Czech Republic s.r.o. (Czech Republic)



### Materials Handling Systems Operations

Central Conveyor Company, LLC (United States)



Chain Operations established local production capabilities in Taiwan in the 1970s and in the United States in the 1980s. After our acquisition of Kabelschlepp GmbH of Germany in 2010, we established a chain manufacturing subsidiary in Tianjin, China, in 2012.

In Power Transmission Units and Components Operations, the Group took a stake in a reducer manufacturer in Tianjin, China, in 1999. We then established manufacturing subsidiaries in Shanghai, China, in 2004 and in Thailand in 2012.

Our Automotive Parts Operations established a system that can meet the needs of automobile manufacturers worldwide in a timely manner. This business segment engages in manufacturing at 12 plants in eight countries: Japan, the United States, the

United Kingdom, Thailand, China, Mexico, South Korea, and the Czech Republic.

As for Materials Handling Systems Operations, we have expanded overseas production by establishing subsidiaries in the United States and China, acquiring the operations of Mayfran Holdings, Inc., of the United States, and establishing a manufacturing subsidiary in Indonesia. In 2018, we strengthened our global production capabilities even further by acquiring Central Conveyor Company, LLC, of the United States.

The Tsubaki Group will develop operations rooted in local communities and provide precise solutions to become a global leader.

## Interview with the COO



**Yasushi Ohara**

President and COO,  
Representative Director

# Tsubaki's Ambition Is Limitless

By providing value that surpasses society's expectations,  
we will sustain growth.

**Q1** In the fiscal year ended March 31, 2018, although revenues rose, operating income decreased 4.4% year on year. How would you sum up business results in the fiscal year?

## Sales growth is steadily becoming more robust.

Setting its sights on the target corporate profile for the fiscal year ending March 31, 2021, the Tsubaki Group aims to establish an unshakable position (share) in target markets to become a global leader. To realize this goal, strengthening sales growth by developing and upgrading products that have leading shares of global markets or niche markets is indispensable.

In Automotive Parts Operations, our timing chain drive systems have earned an impressive reputation in regions worldwide. Our technological superiority with respect to such aspects of performance as lowness of friction, quietness, and environment-friendliness has become even stronger, and we are receiving new orders at a higher pace than ever. With our share of the global market for timing chain drive systems now above 40%, I believe the prospect of establishing a firm hold on the No. 1 market share has come into view.

Meanwhile, in Japan and overseas Chain Operations are seeing brisk sales of G8 Series Drive Chain—the latest model of our mainstay drive chains—which features enhanced wear

resistance and fatigue strength. Also, the Manufacturing Innovation in Kyotanabe 2018 (MIK2018) initiative at the Kyotanabe Plant has greatly increased productivity, and cost-competitiveness.

Materials Handling Systems Operations are taking initiatives to grow sales by developing automatic sorting equipment for the distribution industry and chassis conveyor lines for the automotive industry that enable the Group to leverage its unique technological advantages.

In Power Transmission Units and Components Operations, reducers, power cylinders, cam clutches, and other products with leading shares of niche markets are selling well.

Consequently, in the fiscal year ended March 31, 2018, all four of the business segments posted higher revenues, and the Group achieved record net sales. I think these results show that our capacity for growth is building steadily and advancing us toward our goal of becoming a global leader.

### The decline in operating income was expected. We are currently investing to realize our next major move forward.

Despite higher revenues, operating income decreased year on year primarily because of a lower profit margin in Automotive Parts Operations. These operations have stepped up capital investment in Japan and overseas to cater to an ongoing increase in orders. As a result, depreciation and amortization has increased. In addition, initial expenses have arisen with the opening of a series of new plants. Other downward pressures on the profit margin of the business segment included higher steel prices and measures to increase the segment's share of China's market, which has burgeoning growth potential. However, higher production will offset expenses

stemming from advance investment. Therefore, we expect the downward trend in the profit margin of Automotive Parts Operations to become an upward trend within one or two years.

Although Materials Handling Systems Operations also recorded a year-on-year decline in income in the fiscal year ended March 31, 2018, this was due to a one-time factor that arose because a U.S. subsidiary recognized a credit loss on uncollected receivables.

As a result, while operating income declined 4.4% year on year, it surpassed our target by 1.0 percentage point.

### Q2 The basic strategies of Mid-Term Management Plan 2020 (from the fiscal year ended March 31, 2018, through the fiscal year ending March 31, 2021) call on the Group to transition to a market-oriented corporate culture and to utilize the collective strengths of the Group. What progress have you made under these strategies?

#### We have had great success with customer strategies tailored to each market and with efforts to unearth needs.

Our efforts to transition to a market-oriented corporate culture involve categorizing the world into five regions: the Americas, Europe, the Indian Ocean Rim, China, and East Asia (including Japan); conducting marketing in each region; and proceeding with manufacturing that reflects regional demand.

Our ability to analyze markets and identify demand in each market progressed in the fiscal year ended March 31, 2018.

With respect to chains, power transmission units and components, and other power transmission products for

Japan's market, we initiated activities under the Japan Marketing Project, compiling a list of more than 10,000 companies in Japan and visiting them exhaustively. As a result, we benefited significantly in terms of developing new customers and unearthing needs that we had been unaware of.

In Europe, Tsubakimoto Chain Co. and consolidated subsidiary Tsubaki Kabelschlepp GmbH (Germany) used each other's customer bases to acquire orders for chains and power transmission units and components.

#### Numerical Targets of Mid-Term Management Plan 2020

Net sales

¥300 billion

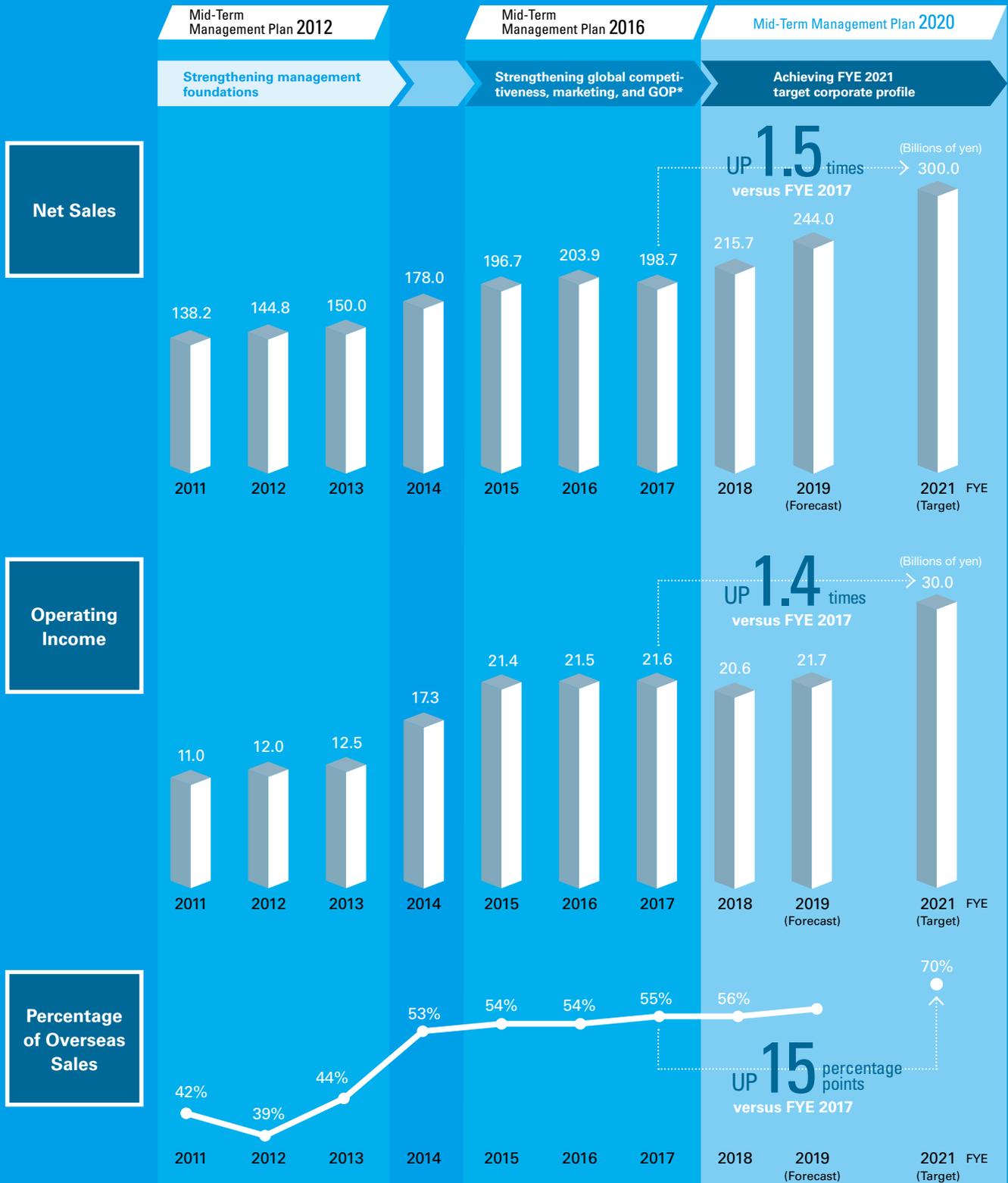
Operating income

¥30 billion

Percentage of overseas sales

70%

## Numerical Targets and Performance



\* GOP: Global Optimized Production

### **We created synergies among businesses in the areas of product development and strengthening cost-competitiveness.**

In efforts to utilize the collective strengths of the Group, our basic strategy is to expand businesses by realizing synergies that transcend the boundaries of the four business segments: Chain Operations, Power Transmission Units and Components Operations, Automotive Parts Operations, and Materials Handling Systems Operations. This strategy has already begun producing benefits.

A good example of these benefits is the SymTrack chassis conveyor line. Orders for the product, which Materials Handling Systems Operations developed for automobile painting lines, have been growing. Used in bake painting, the chassis conveyor line operates in extremely high ambient temperatures, causing the motor inside the system to become ultrahot. The development by Power Transmission

Units and Components Operations of a reducer able to withstand these conditions has supported the success of SymTrack. In addition to manufacturing reducers for SymTrack, this segment will take on the challenge of increasing sales of reducers usable in ultrahot conditions.

Synergies are also emerging between Power Transmission Units and Components Operations and Chain Operations. In chain manufacturing, delayed discovery of drill breakage used to lower productivity. However, Power Transmission Units and Components Operations developed a system that monitors electric current and voltage fluctuations to detect tool damage instantly. Thanks to the system, productivity is up. Moreover, based on this successful initiative, we launched the Shock Monitor Processing-Tool Breakage Detector in 2017.

### **Q3 Could you please outline tasks and strategies by business segment in regard to achieving the goals of Mid-Term Management Plan 2020 and sustaining growth beyond the fiscal year ending March 31, 2021?**

#### **Chain Operations: We will advance globally optimized production even further.**

In Chain Operations, one task is the acceleration of growth. To this end, we need strategies for markets where our market share is still low. Specifically, we want to grow our shares of the Chinese and European markets.

The key to increasing market share is stronger cost-competitiveness. To achieve this, heightening the percentage of localized production will be vital. In China, the Group established a manufacturing subsidiary in Tianjin in 2012. Although it took time, productivity is improving steadily, and the subsidiary

has addressed quality issues. As a result, its production volume has risen significantly. We expect that the stabilization of these operations will strengthen cost-competitiveness and thereby gradually expand our share of China's market.

A further task for the business segment is the establishment of a manufacturing base in the European market. I want to make a decision at the earliest possible opportunity regarding whether we should achieve this aim through M&As or the construction of an independent plant.

#### **Power Transmission Units and Components Operations: We need to reinforce technological foundations by introducing leading-edge technologies related to the Internet of Things (IoT) and motors.**

We will cement the foundations of sustained growth in Power Transmission Units and Components Operations. Buoyed by robust capital investment in the liquid crystal display and semiconductor industries, the business segment has been performing strongly, reaching its operating income target

under Mid-Term Management Plan 2020 in the fiscal year ended March 31, 2018, ahead of the plan's schedule.

Nonetheless, if it is to increase sales further and continue growing over the long term, the business segment must strengthen its technological foundations by introducing the



latest IoT and motor related technologies. With this in mind, we have begun bolstering our personnel capabilities. However, I think additional measures are needed, such as the acquisition

of other companies' technological foundations through M&As or the formation of alliances with other companies.

## **Automotive Parts Operations: Plans call for developing products for EVs.**

Automotive Parts Operations will develop products for electric vehicles (EVs). Mid-Term Management Plan 2020 sets net sales of ¥100.0 billion as a numerical target for this business segment. Orders are increasing steadily and have reached a point where the prospect of achieving this target has, to some extent, come within sight. As I mentioned, the business segment's profit margin has contracted due to investment to ramp up production. However, the profit margin should rise as production increases.

The new task for these operations is to develop mainstay products that will follow on from timing chain drive systems, the

current mainstays. In other words, the business segment needs to develop products for EVs. Accordingly, the Automotive New Product Development Department of the Development & Technology Center, which was established in April 2018, and operating divisions will collaborate to accelerate the development of products for EVs. The aim of this initiative is to develop products that enable the business segment to leverage competitive advantages and to cater flexibly to the diversification of powertrains, which is stemming from such factors as increasing electrification.

## **Materials Handling Systems Operations: We will expand operations.**

Strengthening global competitiveness is the main task for Materials Handling Systems Operations. As I explained earlier, this business segment is developing products that benefit

from the Group's unique technological advantages. Also, the business segment's lower break-even point is beginning to contribute to profitability. To lift profitability even further, we

need to heighten the pace of global business development and grow the scale of revenues.

For this reason, we made materials handling systems integrator Central Conveyor Company, LLC, (Michigan, the United States) a wholly owned subsidiary in June 2018. A blue-chip enterprise, Central Conveyor Company has a strong customer base comprising major U.S. automobile manufacturers and is highly profitable. In 2017, the company posted net sales of US\$240 million, approximately ¥26.3 billion.

Further, we have not acquired Central Conveyor Company simply to add revenues and earnings. Through incorporation of

the new company into the networks of Materials Handling Systems Operations and overseas subsidiaries engaged in these operations, we will promote the mutual use of customer bases and manufacturing bases, thereby accelerating the business segment's global business development. In Materials Handling Systems Operations, we will capitalize on a strengthened network of global bases to advance the marketing of life science related products in the United States—where the scope for growth is substantial—as well as the marketing of offerings for the distribution industry in China.

### **Q4 In April 2018, the Group implemented a large-scale reorganization focused on strengthening governance. What are the aims of these reforms?**

#### **We are promoting management decision-making that is horizontally integrated.**

One aim is to clarify responsibilities by separating business management and operational execution. In addition, we want to enliven discussions among directors at meetings of the Strategy Committee and the Board of Directors. By invigorating

these meetings, we will increase the precision and speed of management decision-making, helping us to boost the Group's overall corporate value.

#### **We will establish management strategies based on a broad outlook.**

Similarly, the aim of strengthening headquarters functions is to enable stronger, horizontally integrated management capabilities. Adopting a broad outlook, we need to establish management strategies that address such big-picture themes as strengthening the competitiveness of the four business segments and how best to proceed with technological development in the context of social responsibility and medium- to long-term viewpoints.

This is why we have given the newly established Headquarters Operations robust strategy formulation capabilities by abolishing vertically divided organizations, including the Management Planning Center and the Corporate Social Responsibility Administration, and placing the Development & Technology Center under the management of Headquarters Operations.

#### **We plan to energize personnel and organizations.**

Further, the organizational reform included the establishment of the Quality Management Department, the Automotive New Product Development Department, and the New Business Development Department within Headquarters Operations as well as the Work Style Reform Department, which is under the direct supervision of the president. I believe that realizing work styles that allow all employees to do their jobs efficiently

and with a sense of satisfaction heightens the ability of a company to sustain growth.

Through these reforms, I want to move forward with business management that maximizes the value of the Group not only for customers but for all stakeholders, including shareholders, local communities, and employees.

## Q5 Lastly, what is your message in relation to stakeholders?

Since its founding more than 100 years ago, the Tsubaki Group has helped society develop by consistently playing a pioneering role and providing products with differentiated performance and quality.

Drawing on accumulated technologies and expertise and

an insatiable appetite for challenges, we will further advance the “art of moving” not only in existing business fields but across an array of new fields to create value that is beyond society’s expectations.



**Yasushi Ohara**

President and COO,  
Representative Director



President and COO of Tsubakimoto Chain Co. Yasushi Ohara (center) with employees of Central Conveyor Company, LLC

# Taking the Craft of Manufacturing to New Heights

Since its founding, the Tsubaki Group has pursued excellence in *monozukuri* (manufacturing). Going forward, we will continue advancing and evolving *monozukuri* to create and provide new value that surpasses expectations.

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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.

### 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 Standards."

Reporting Period: April 2017 to March 2018  
(includes some activities after the reporting period)

**Scope of Data Collection:** Tsubakimoto Chain Kyotanabe Plant, Nagaokakyo Plant, Okayama Plant, and Saitama Plant, and major Tsubakimoto Chain subsidiaries and affiliates

[ Tsubakimoto Custom Chain, Tsubakimoto Sprocket, Tsubakimoto Bulk Systems, Tsubakimoto Mayfran, Tsubakimoto Iron Casting, and Tsubaki Yamakyu Chain ]

### 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.

# Business Overview

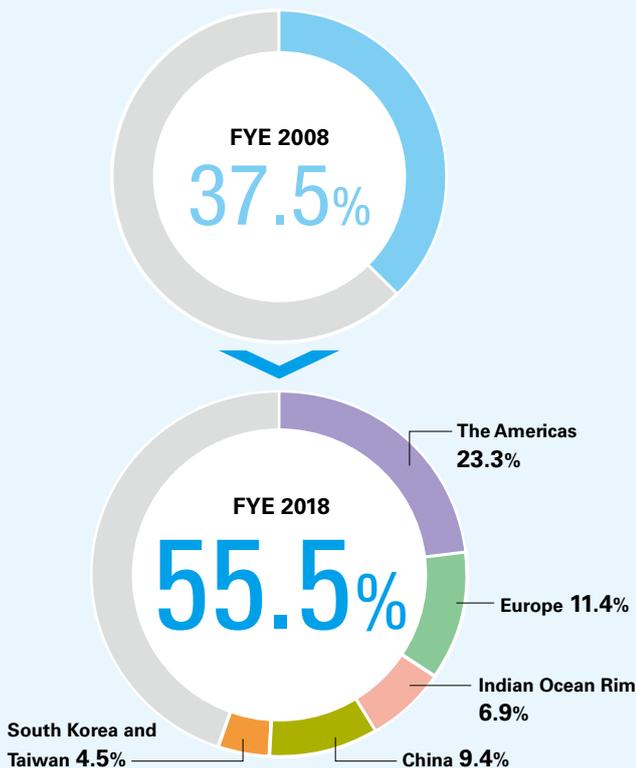
The Tsubaki Group will provide value that surpasses society's expectations by offering solutions that transcend the boundaries of manufacturing.

Since its founding in 1917 as a chain manufacturer, the Tsubaki Group has increased its business lines to include Materials Handling Systems, Automotive Parts, and Power Transmission Units and Components. As a result, we have become a comprehensive manufacturer in the "art of moving" field, providing a diverse range of machinery parts and units as well as systems comprising these items. We create an array of products with leading global market shares, such as industrial-use steel chains and timing chain drive systems.

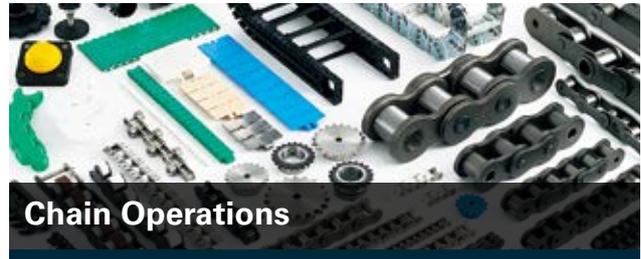
To cement its foundations as a manufacturer, the Group has been increasing its competence in product development and production technology. At the same time, we have been enhancing our ability to offer solutions that transcend the boundaries of manufacturing and to respond to needs globally. Through these efforts, we aim to provide value that surpasses society's expectations.

As a result of our globalization efforts, the overseas sales ratio for the Tsubaki Group for the fiscal year ended March 31, 2018 reached 55.5%.

## Percentage of Overseas Sales



Note: See pages 26 and 27 for details on bases.



### Chain Operations

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



### Power Transmission Units and Components Operations

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



### Automotive Parts Operations

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



### Materials Handling Systems Operations

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

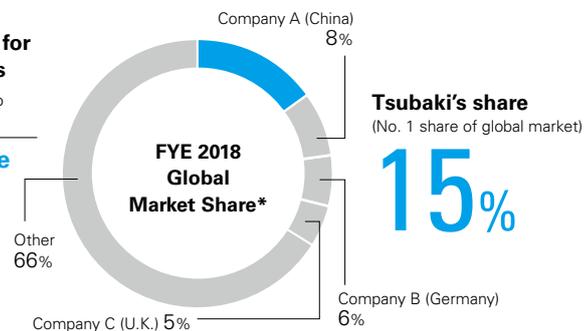


Share of net sales  
(FYE 2018)  
**30.6%**

**Market Shares for  
Major Products**

(Source: Tsubakimoto  
Chain Co.)

**Industrial-Use  
Steel Chains**



\* Method for calculating share was changed from the fiscal year ended March 31, 2018  
(scope of study extended to include developing countries such as ASEAN, India, Brazil, etc.)

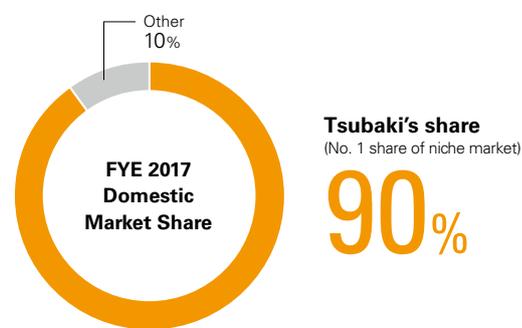


Share of net sales  
(FYE 2018)  
**11.0%**

**Market Shares for  
Major Products**

(Source: Tsubakimoto  
Chain Co.)

**Cam Clutches**

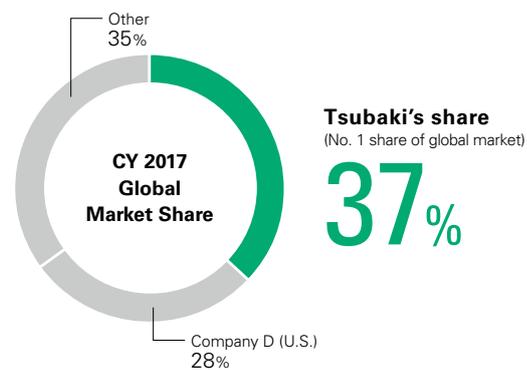


Share of net sales  
(FYE 2018)  
**36.9%**

**Market Shares for  
Major Products**

(Source: Tsubakimoto  
Chain Co.)

**Timing Chain  
Drive Systems**

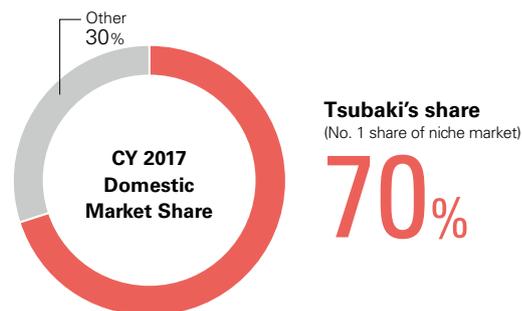


Share of net sales  
(FYE 2018)  
**20.3%**

**Market Shares for  
Major Products**

(Source: Tsubakimoto  
Chain Co.)

**Newspaper  
Feeding  
Systems**



## Product Lineup

Our strengths include an extensive lineup of products with superior durability, environment-friendliness, and quality in the fields of power transmission units (drive systems) and materials handling systems (sorting, conveyance, and storage) as well as our ability to supply products and services that solve customers' issues.

### Chain Operations

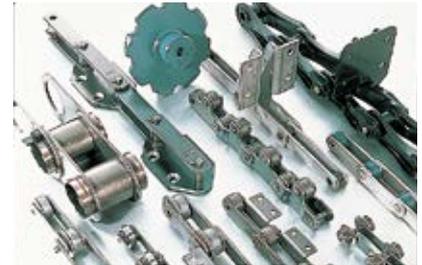
See pages 52–53 for details.



Drive chains



Small-size conveyor chains



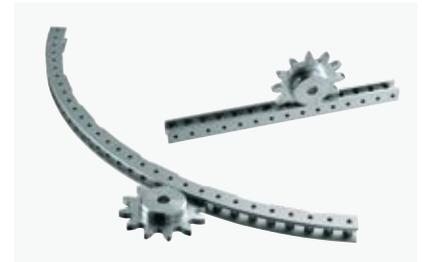
Large-size conveyor chains



Plastic top chains



Support and guidance systems for cables and hoses



Linear / rotating drives (Pin Gear Drive Unit)

### Power Transmission Units and Components Operations

See pages 54–55 for details.



Reducers / Variable speed drives



Linear actuators



Clutches



Shaft couplings / Locking devices



Chain meshing type (Zip Chain®) units



Control equipment / Overload protectors

## Automotive Parts Operations

See pages 56–57 for details.



■ Timing chain drive systems



■ Timing chain drive system parts



■ Timing chain drive system parts (Timing chains)



■ Timing chain drive system parts (Tensioners)



■ Power drive chains



■ EneDrive™ Chain for next-generation eco-friendly vehicles

## Materials Handling Systems Operations

See pages 58–59 for details.



■ Conveyance system for automobile manufacturing line



■ Automatic sorting equipment



■ LaboStocker® automatic ultra-low temperature storage units



■ AGV roll paper feeding systems for newspaper printing plants



■ Bulk handling systems



■ Metalworking chip handling / coolant processing systems

# Tsubaki Products Supporting Society in a Wide

	General Industrial Applications	Vehicles	Resources / Materials
Chain Operations Power Transmission Units and Components Operations	 <p>Machine part manufacturing equipment RS Roller Chains, Zip Chain Actuator, gear reducers, other</p>	 <p>Automotive power sliding doors Cable carriers</p>	 <p>Offshore oilfield platforms Cable carriers</p>
	 <p>Lines manufacturing medical rubber gloves Large size conveyor chains</p>	 <p>Man conveyors for vehicle assembly Plastic modular chains</p>	 <p>Conveyor equipment for coal mines Mining chains</p>
	 <p>Machine tools ATC chains</p>  <p>Robots Cable carriers</p>	 <p>Nursing care vehicles Gear reducers, chains, couplings, cable carriers</p>	 <p>Iron ore unloaders Unloader chains</p>
Materials Handling Systems Operations	 <p>Transporting machine tool swarf Chip conveyors</p>	 <p>Part conveyor equipment for vehicle service plants Autoran Vanguard</p>	 <p>Coil stockyards Coil Robo</p>
	 <p>Press plants Scrap conveyors</p>	 <p>Vehicle painting lines New Traverser Systems</p>	 <p>Cement plants Bucket elevators</p>
	 <p>Timing chain drive systems for automobile engines</p>	 <p>Power Drive Chains for four-wheel drive units</p>	 <p>Ene drive Chains for power trains (electric vehicles / hybrid electric vehicles)</p>
New Business			

# Range of Areas

## Food / Medicine



Sorting machines for apple processing plants  
Small size conveyor chains



Beverage plants  
Plastic Top Chains



CT (computed tomography) scanners  
Power Cylinders, gear reducers, other



Produce sorting system  
Linisort S-C



Regenerative medicine / new drug research  
Labo Stocker automatic ultra-low temperature storage units



Plant factories  
Automatic seedling transplanter unit

## Infrastructure / Environment



Passenger boarding bridges for airports  
Power Cylinders, cable carriers, other



Large fork lifts  
RS Roller Chains, cable carriers



Floodgates  
Cable carriers



Biomass power plants  
Bucket elevators, conveyor chains



IoT platform  
Farms and plant factories, Factories, Public utilities, Large facilities and buildings  
IoT-based remote monitoring software  
MitaMon

## Consumer / Entertainment Facilities



Claw crane arcade games  
Cable carriers



Conveyors for conveyor belt sushi restaurants  
Crescent chains



Movable barriers for train station platforms  
Brushless motors, timing belts, other



Seat-moving equipment for domed stadiums  
Jacks



Stage elevator equipment  
Zip Chain Lifter



Escalators  
Step chains



Mail-order shopping distribution systems  
Quicksort



Bond document management systems  
Security Stocker



Newspaper printing plants  
Paper-feeding AGV



EV power systems  
eLINK

# Tsubaki's Global Network (83 Companies in 26 Countries)

Another strength of the Tsubaki Group can be found in its global network, which enables us to maintain an accurate understanding of customer needs while promptly developing and providing products based on these needs.



Tsubakimoto Chain (Tianjin) Co., Ltd.



Tsubakimoto Automotive (Shanghai) Co., Ltd.



Tianjin Tsubakimoto Conveyor Systems Co., Ltd.



Tsubaki CAPT Power Transmission (Shijiazhuang) Co., Ltd.



Tsubakimoto Europe B.V.



Tsubaki Kabelschlepp GmbH



Tsubaki Automotive Czech Republic s.r.o.



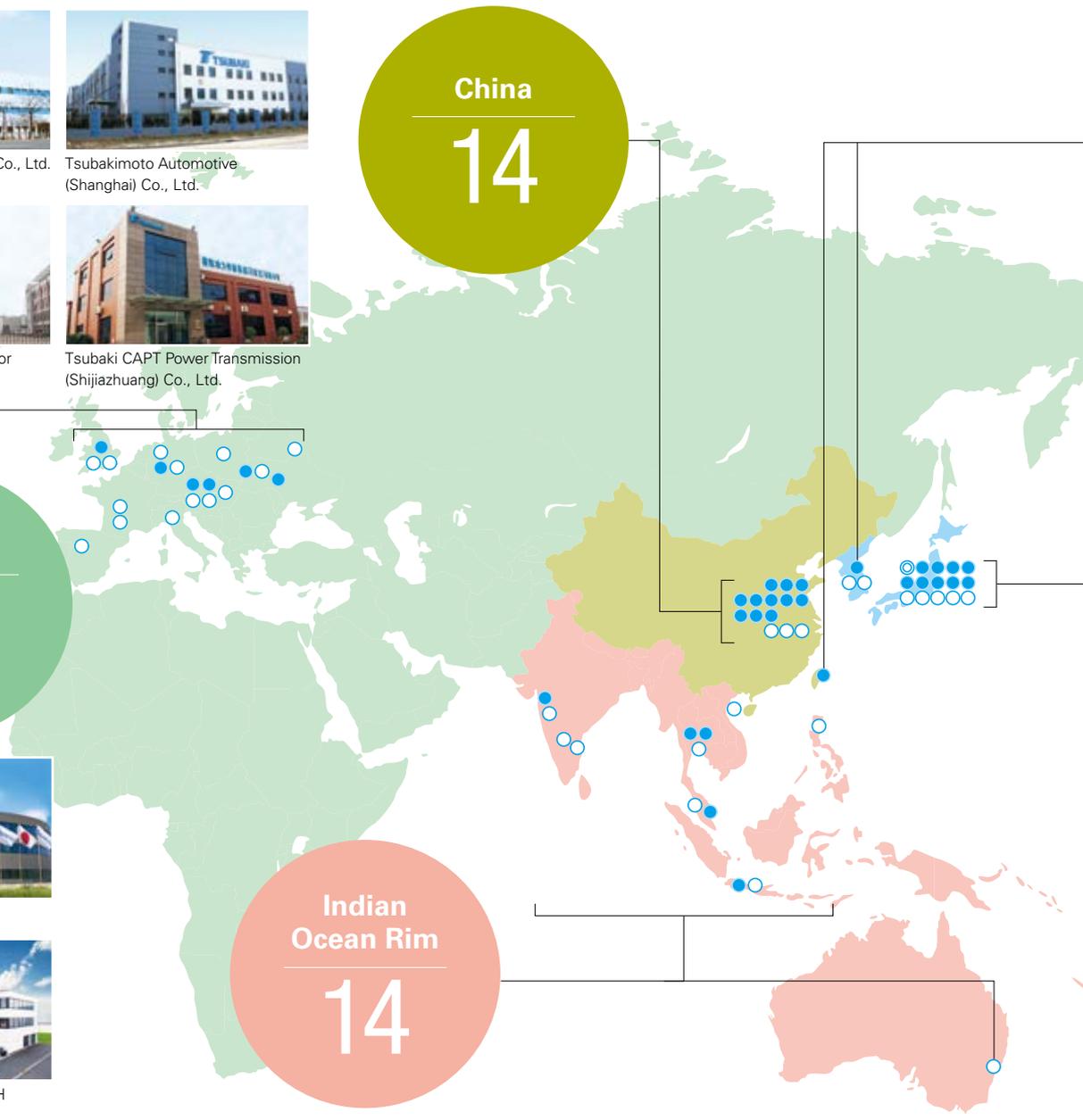
Tsubakimoto Singapore Pte. Ltd.



Tsubakimoto Automotive (Thailand) Co., Ltd.



Tsubaki Australia Pty. Limited



Number of Group companies by region is as of June 30, 2018.

- ⊙ Tsubakimoto Chain Co.
- Manufacturing subsidiary (42 companies)
- Other subsidiary (40 companies)

South  
Korea and  
Taiwan  
**4**



Taiwan Tsubakimoto Co.



Tsubakimoto Automotive  
Korea Co., Ltd.

The  
Americas  
**16**



U.S. Tsubaki Holdings, Inc.



Mayfran International, Inc.



Central Conveyor Company, LLC



Tsubaki of Canada Limited

Japan  
**15**  
Including Tsubakimoto Chain  
Co.



Kyotanabe Plant



Saitama Plant



Nagaokakyo Plant



Hyogo Plant



Okayama Plant

# Activity Results (6-Year Financial and Non-Financial Highlights)

## Numerical Overview of Six Years Fiscal years from April 1 to March 31

<b>For the year</b> (Millions of yen)	<b>FYE 2013</b>	<b>FYE 2014</b>	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>
Net sales	150,002	178,022	196,738	203,976	198,762	<b>215,716</b>
Chain Operations* <sup>1</sup>	50,250	55,828	61,721	63,998	60,600	<b>67,338</b>
Power Transmission Units and Components Operations* <sup>1</sup>	19,664	21,612	22,557	21,975	21,563	<b>24,156</b>
Automotive Parts Operations* <sup>1</sup>	49,397	60,674	66,978	73,473	75,147	<b>79,545</b>
Materials Handling Systems Operations* <sup>1</sup>	30,246	39,565	45,169	44,354	41,043	<b>44,187</b>
Others* <sup>1</sup>	2,846	2,719	2,968	3,186	3,001	<b>3,331</b>
Operating income	12,579	17,354	21,427	21,570	21,647	<b>20,694</b>
Chain Operations	3,586	3,763	5,002	6,172	7,102	<b>8,502</b>
Power Transmission Units and Components Operations	1,955	2,273	2,400	2,428	2,218	<b>3,060</b>
Automotive Parts Operations	6,494	10,119	11,916	12,258	12,385	<b>10,258</b>
Materials Handling Systems Operations	531	1,192	1,940	659	706	<b>416</b>
Others	143	63	123	84	(1)	<b>(41)</b>
Ordinary income	12,813	17,993	22,263	22,109	22,004	<b>21,743</b>
Profit attributable to owners of parent	7,428	10,213	14,153	12,766	14,596	<b>14,666</b>
Net cash provided by operating activities	15,350	19,761	22,189	19,090	25,434	<b>27,657</b>
Net cash used in investing activities	(18,401)	(17,166)	(14,306)	(13,593)	(13,420)	<b>(17,389)</b>
Free cash flow	(3,050)	2,594	7,882	5,496	12,013	<b>10,268</b>
Capital expenditures	11,833	11,372	10,466	15,677	13,995	<b>18,116</b>
Depreciation and amortization	7,360	8,745	9,476	10,402	10,342	<b>11,005</b>
R&D costs	4,319	4,061	4,048	4,300	4,341	<b>4,495</b>
<b>At year-end</b> (Millions of yen)						
Total assets	215,837	228,840	258,742	254,106	267,215	<b>285,952</b>
Shareholders' equity	102,019	118,433	140,439	142,041	152,473	<b>167,916</b>
Interest-bearing debt	36,507	36,538	36,907	34,817	34,634	<b>26,581</b>
Net interest-bearing debt	16,312	15,246	9,547	8,394	492	<b>(5,131)</b>
<b>Indexes</b>						
Operating income margin (%)	8.4	9.7	10.9	10.6	10.9	<b>9.6</b>
ROE* <sup>2</sup> (%)	7.7	9.3	10.9	9.0	9.9	<b>9.2</b>
Equity ratio* <sup>3</sup> (%)	47.3	51.8	54.3	55.9	57.1	<b>58.7</b>
D/E ratio (net)* <sup>4</sup> (Times)	0.16	0.13	0.07	0.06	0.00	<b>(0.03)</b>
Profit attributable to owners of parent per share (Yen)	39.69	54.58	75.65	68.24	78.03	<b>77.49</b>
Net assets per share (Yen)	545.14	632.94	750.63	759.27	815.10	<b>887.19</b>
Dividends per share (Yen)	7.0	10.0	16.0	20.0	24.0	<b>24.0</b>
Payout ratio (%)	17.6	18.3	21.2	29.3	30.8	<b>31.0</b>
Total CO <sub>2</sub> emissions (t-CO <sub>2</sub> /year)* <sup>5</sup>	71,983	74,104	75,484	74,169	73,744	<b>75,301</b>
CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Per million yen of output)* <sup>5, 6</sup>	0.861	0.882	0.833	0.809	0.817	<b>0.790</b>
Employees* <sup>7</sup>	6,792	7,068	7,398	7,579	7,886	<b>8,358</b>

Amounts less than one million yen have been truncated.

\*1 Net sales includes intersegment sales and transfers.

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

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

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

\*5 The scope of the calculation is the Group's 10 manufacturing bases in Japan.

\*6 The CO<sub>2</sub> emission factors for electricity are calculated by the emission factors for each electric power supplier for each publicized annual period.

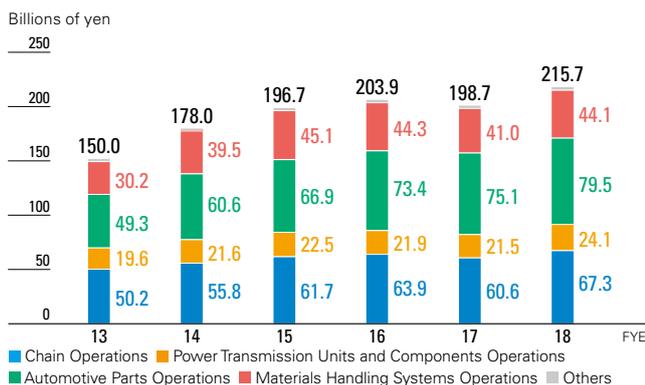
\*7 Including contracted staff and temporary staff, etc.

## Trends as Seen by Graphs

### 1 Sales Growth Capacity

Highest net sales to date

#### Net Sales by Segment



### 2 Profitability

Decrease in profits from previous fiscal year due to increase in upfront investments

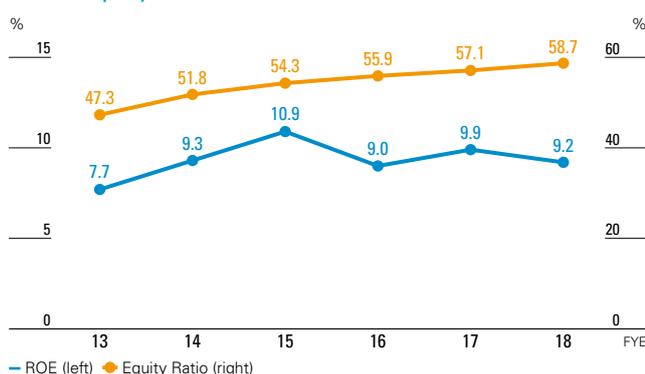
#### Operating Income / Operating Income Margin



### 3 Capital Efficiency

Maintenance of high ROE and equity ratio

#### ROE / Equity Ratio



### 4 Financial Soundness

D/E ratio (net) turned negative

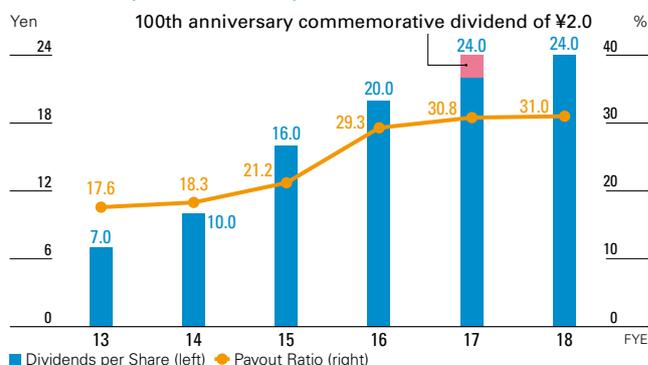
#### D/E Ratio (Net)



### 5 Shareholder Returns

Maintained dividend payout ratio of 30% or higher

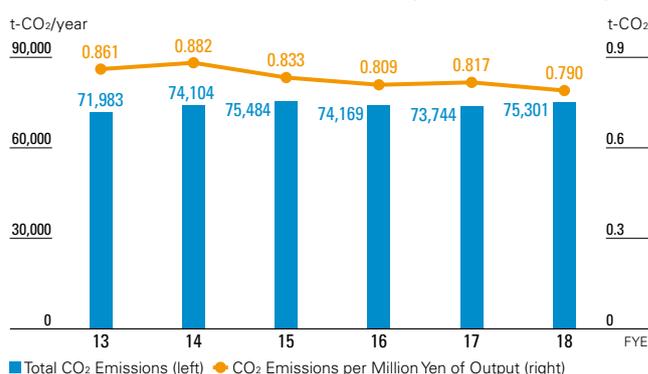
#### Dividends per Share / Payout Ratio



### 6 Environmental Footprint

Striving for energy conservation to decrease CO<sub>2</sub> emissions per million yen of output

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



# Mechanism for Sustainable Growth

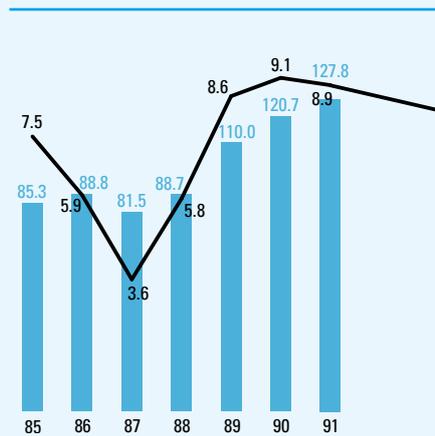
The Tsubaki Group heightens corporate value by strengthening its management foundations to sustain growth while investing earnings for renewing our business and returning earnings to stakeholders.

The “Tsubaki Spirit” corporate philosophy sets out advancing the “art of moving” beyond expectations as Tsubaki’s Mission.

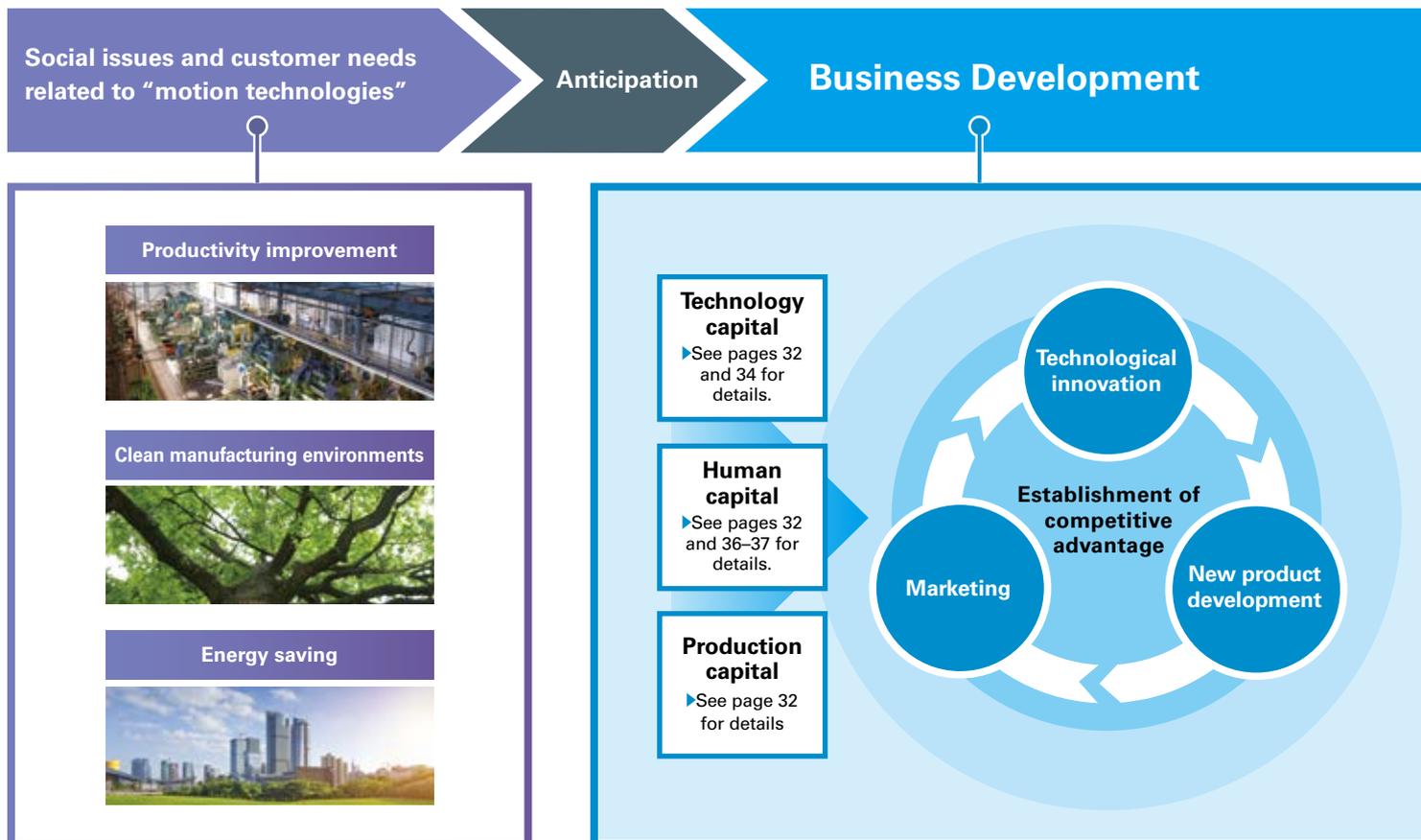
To realize this mission, we invest continuously to reinforce our three management foundations as a manufacturer: technologies, or technology capital; human resources, or human capital; and production facilities, or production capital. At the same time, we actively return earnings to such stakeholders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

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

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

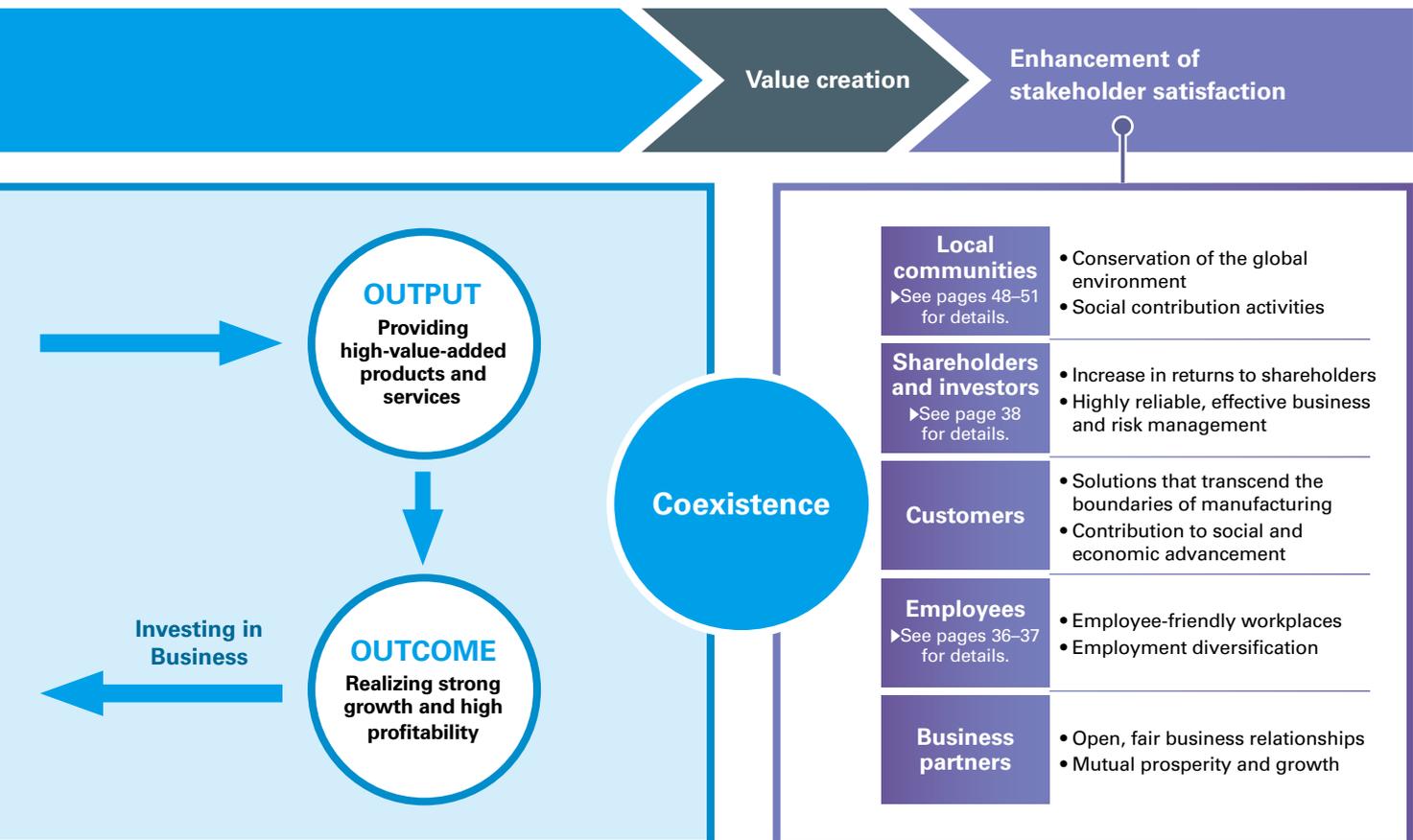
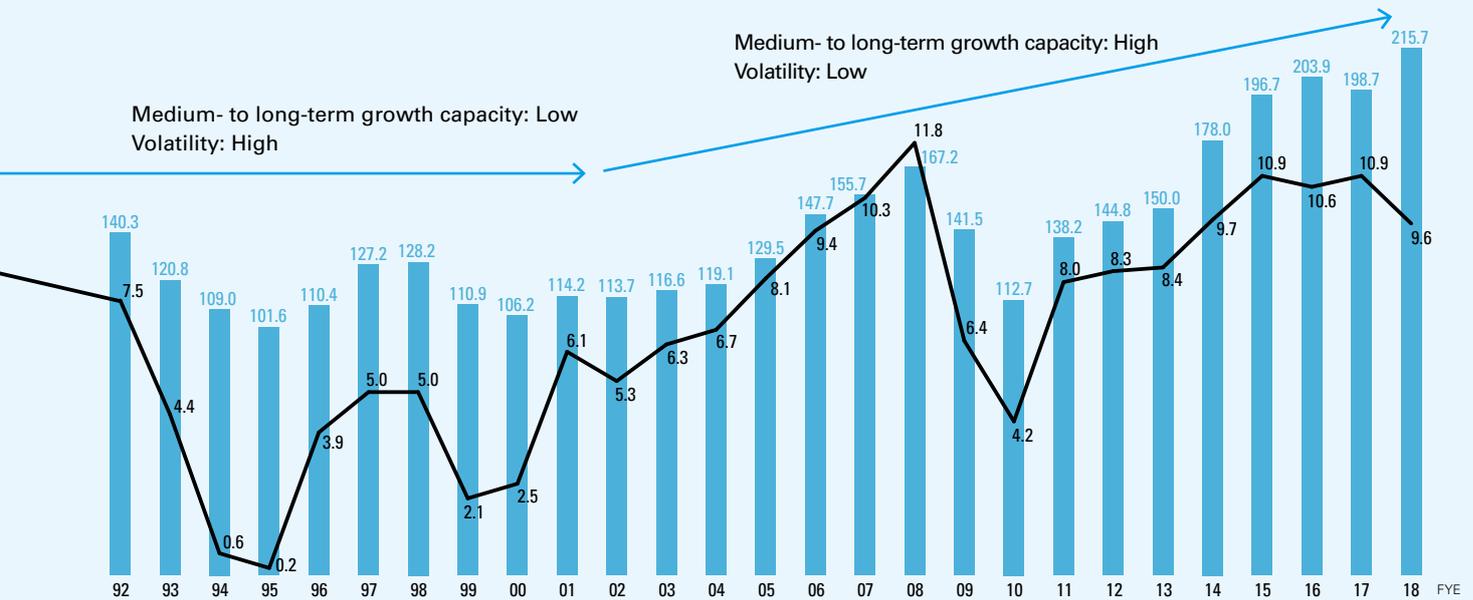


## Value Creation Process



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

■ Net Sales (Billions of yen) — Operating Income Margin (%)



# Allocation of Capital and Benefits

The Tsubaki Group is actively expanding its investment in equipment with the goal of becoming a top global company. In addition, the number of employees, particularly overseas, is increasing rapidly through such efforts as M&As. At the same time, we continue to increase our investment in R&D in order to maintain technological superiority.

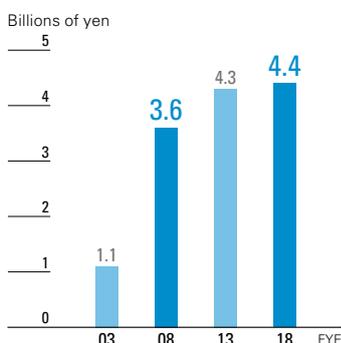
## INPUT Usage of Capital for Growth

Strengthening of Technologies, Human Resources, and Production Facilities

### Technology Capital

#### R&D Costs

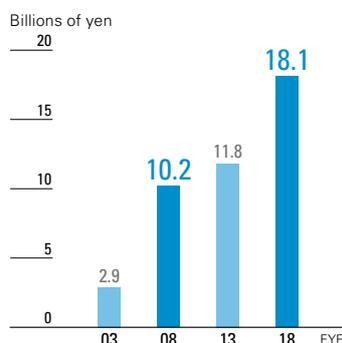
Up  
**22%**  
compared with  
FYE 2008



### Production Capital

#### Capital Expenditures

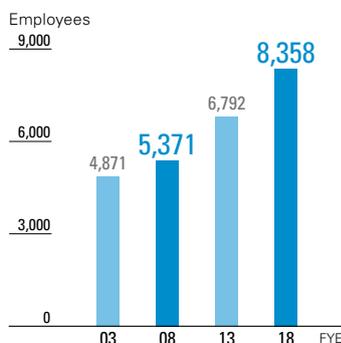
Up  
**77%**  
compared with  
FYE 2008



### Human Capital

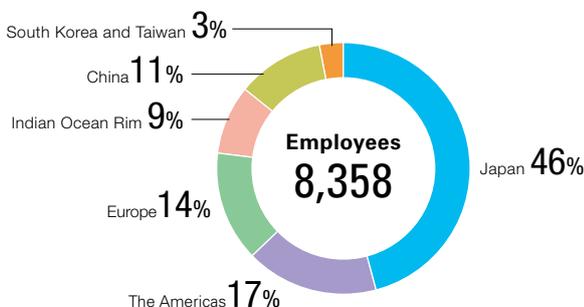
#### Number of Employees

Up  
**1.6 times**  
compared with  
FYE 2008



### Distribution of Employees by Region

(As of March 31, 2018)

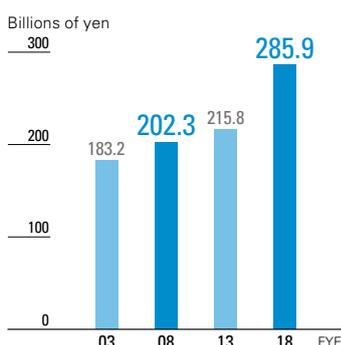


Aggressive management has led to an increase in total assets, but financial stability continues to improve as well

### Financial Capital

#### Total Assets

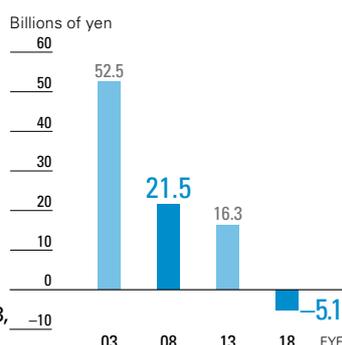
Up  
**41%**  
compared with  
FYE 2008



### Financial Capital

#### Net Interest-Bearing Debt

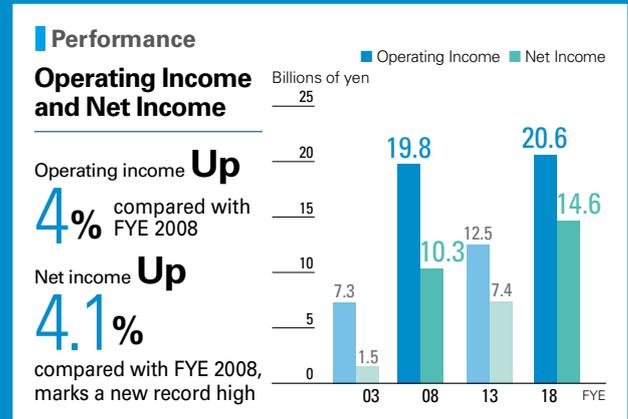
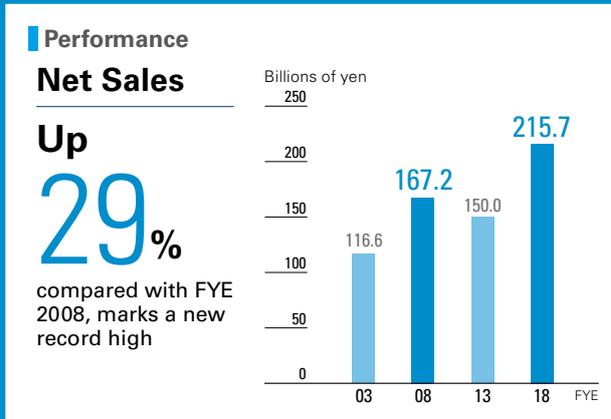
Reduced  
**¥26.7 billion**  
compared with FYE 2008,  
becoming debt-free



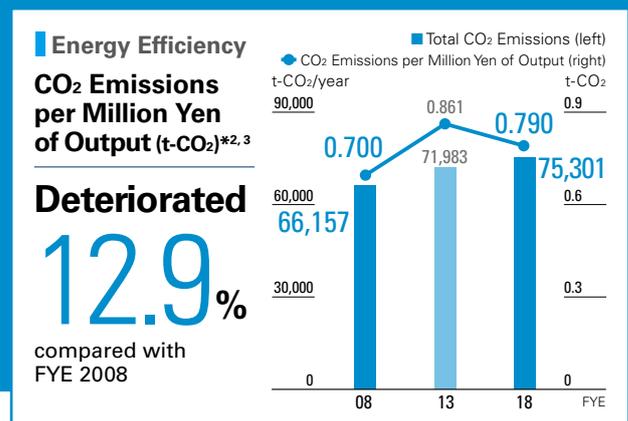
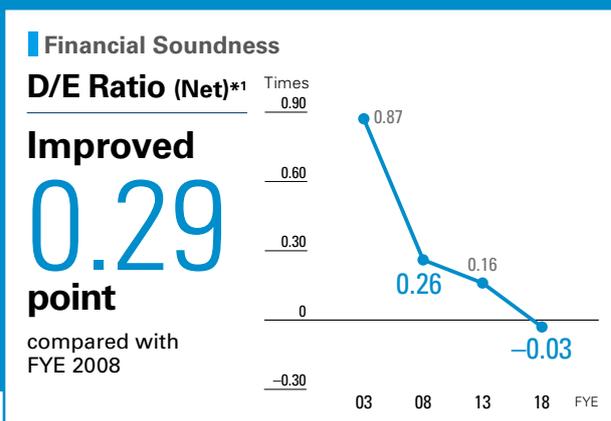
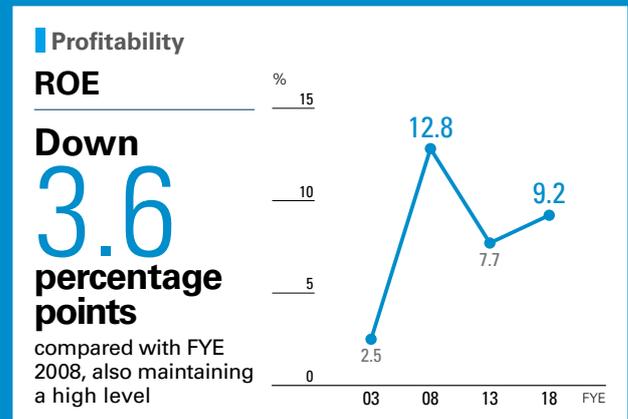
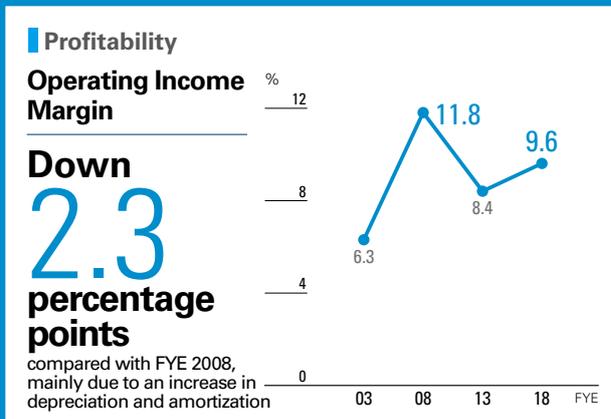
Although growth in profitability and capital efficiency has been sluggish in recent years due to this aggressive style of management, we have kept both profitability and capital efficiency at a high level. In addition, our financial stability continues to improve, regardless of our expansion of total assets.

# OUTPUT Resulting Growth

Performance, particularly the acceleration of top-line sales, continues to be strong



Profitability and capital efficiency decreased slightly due to increase in capital investment, but stayed at a high level



\*1 D/E ratio (net) = Net interest-bearing debt ÷ Shareholders' equity \*2 The scope of the calculation is the Group's 10 manufacturing bases in Japan. \*3 The CO<sub>2</sub> emission factors for electricity are calculated by the emission factors for each electric power supplier for each publicized annual period.

# Technological Base and Quality Assurance

By continuously enhancing its technological (technological capital) capabilities and quality management, the Tsubaki Group has maintained a strong product lineup capable of winning out against fierce global competition.

## Strengthening our Technological Base and Promoting New Product Development

Technologies (technology capital) are one of the most important management foundations for manufacturers and a major factor underpinning competitiveness.

To further enhance competitiveness and sustain growth, the Tsubaki Group has continued to strengthen its technologies without being influenced by short-term economic fluctuations.

Amid dramatic changes in the external environment and rapidly evolving technology, each business division of the Tsubaki Group continues to develop products in response to the needs of the market, while the Development & Technology Center, under Headquarters Operations, promotes strengthening technological capabilities across all businesses. The center enhances foundation technologies, which comprise surface treatment, processing, lubricant, evaluation, electrical, and control technologies. In addition, the center also focuses on developing new business in collaboration with each business division.

Furthermore, we aim to develop power transmission parts that can be supplied with or without an engine, stemming from the diversification of powertrains in automobiles. As a result, we established the Automotive New Product Development Department at the Development & Technology Center in April 2018.

Trends of R&D Costs and Ratio of R&D Costs to Net Sales



## Global Advancement of Aggressive Intellectual Property Strategies

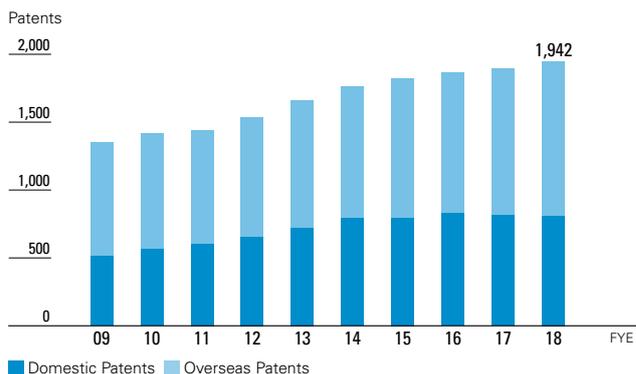
The Tsubaki Group is globally advancing aggressive intellectual property strategies by extending patent application and acquisition of industrial property rights in Japan and overseas through an approach aimed at strengthening product competitiveness. As a result of this strategy, the number of patents held by the Group has been increasing, and as of March 31, 2018, we held 810 patents in Japan and 1,132 overseas for a total of 1,942 patents.

As the Group has been promoting the swift expansion of its business in China, Korea, Taiwan, and emerging countries, there continues to be an urgent need to expand patent application efforts and implement measures to prevent violation of intellectual property rights in these countries. For this reason, we applied for 57 patents in China, Korea, Taiwan, and emerging countries during the fiscal year ended March 31, 2018, and increased our coordination with overseas patent offices.

In addition, the Tsubakimoto Chain's intellectual property division centralizes affairs regarding the application of industrial property rights and the prevention of infringement. Meanwhile, acting in accordance with internal

regulation on managing confidential business information, Tsubakimoto Chain's legal affairs division spearheads Groupwide management of information on confidential technologies and business information. The drafting and review of contracts is carried out through the cooperation of the legal affairs division and the intellectual property division.

Upward Trend in Number of Patents Held by the Group



## Quality Assurance

In July 2017, Tsubakimoto Iron Casting Co., which manufactures and sells casting products and is a 100% subsidiary of the Tsubaki Group, discovered application of improper data and data falsification through an in-house investigation, the results of which were announced on May 15, 2018. The Group established an in-house investigation committee attended by lawyers and independent officers after the incident, investigated the facts and cause of the misconduct, examined remedial measures, and examined measures to prevent

recurrence of such an incident. We take this issue very seriously, and in addition to implementing an in-house product inspection procedure for Group companies that handle manufacturing and sales, we established a Quality Management Department, under Headquarters Operations, in April 2018 to oversee all activities.

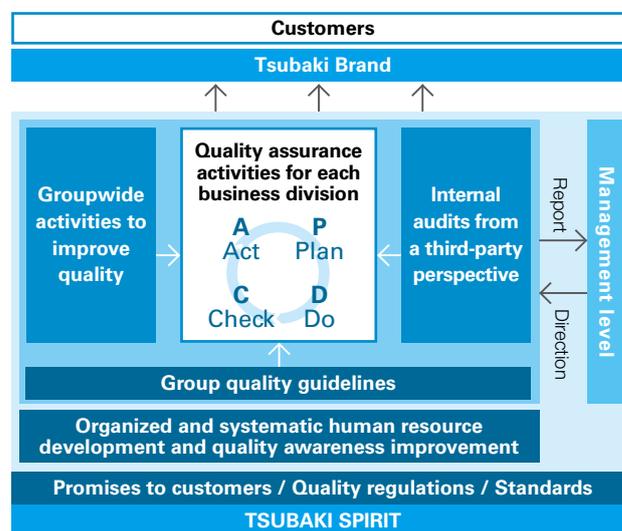
In order to restore customer confidence, the Group will work on measures to prevent recurrence and strengthen Groupwide governance over quality control.

### Framework for Strengthening Quality Control

In addition to traditional quality control assurance activities in each division, the Company has put forth three strategies: (1) Receive audits from a third-party perspective; (2) Establish Group quality guidelines; and (3) Implement cross-organizational activities to improve quality. Through methods such as the ones stated, the Group not only aims for zero defects in quality, but also to strengthen our system to better keep promises made to our customers. In doing so, we plan to maintain and improve the Tsubaki brand.

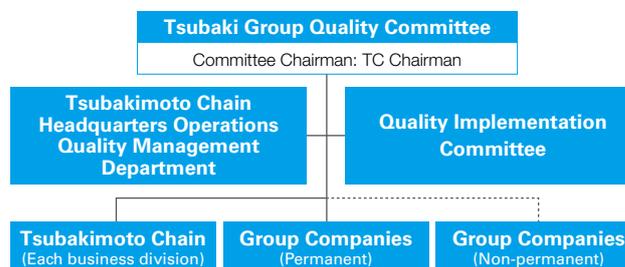


Tsubaki Group KAIZEN Tournament



### System for Furthering Quality Management

The Tsubaki Group Quality Committee was established as a top-level system to promote quality control management for the Group, but in order to further ensure effectiveness, the Quality Management Department for the Tsubakimoto Chain Headquarters Operations and the Quality Implementation Committee were established in April 2018. Moving forward we will ensure quality with a higher level of governance.



### Education on Quality and Human Resource Development

The Group aims to improve quality management skills by developing level-specific education on "quality" and "improvement" in its Companywide educational system. As we move forward, we will enhance education centered on the Quality Management Department and implement human

resource cultivation through employee rotation between divisions inside the Group to improve personnel who specialize in quality control. At the same time, we are introducing "individual quality targets" and "quality model factory" systems aimed at raising quality awareness of all employees.

# Cultivation and Strengthening of Tsubaki's

The Tsubaki Group recognizes that human resources are the most vital component of our management base. For this reason, we remain earnestly committed to cultivating and strengthening personnel by developing a comfortable workplace environment and improving employee motivation.

## Safety Measures and Health Management at Manufacturing Sites

As a manufacturer, we work vigorously to instill a "Safety First" mindset in all of our employees and take measures to prevent work-related accidents. In February 2009, the Group established the Tsubaki Group Safety Committee, which focuses on risk assessment and occupational health and safety education and advances activities aimed at enhancing occupational health and safety throughout the Group.

In the fiscal year ended March 31, 2017, the Group established a flow chart for Groupwide responses in the event of work-related accidents and strengthened preventive measures for various types of contingencies. Moreover, we are continuing to strengthen efforts aimed at eliminating industrial accidents. The most effective way of increasing employees' safety awareness is to heighten sensitivity to danger by having employees experience danger with all five senses. Therefore, we are using simulation equipment to conduct training that gives employees a tangible sense of the risks hidden in various types of work.

As for health management, we are expanding and improving stress check implementation and mental health care activities to ensure that all of our employees remain in good physical and mental health. For example, we have deployed two full-time counselors to the east and west respectively (plus one contracted counselor to the Okayama plant) to conduct consultations with employees and provide ongoing mental health care as a preventative health measure. Going forward, we will focus our initiatives to conduct health management.



Safety experience training

## Advancement of Employee Diversity and Fulfillment

The Group continues to promote reforming its personnel system with sights set on securing its work force through diversified employment formats and improving job satisfaction. Moreover, these reforms will incorporate our traditional emphasis on capabilities and results. This primarily involves diversifying employment formats, enhancing the understandability of employee evaluations and compensation, developing personnel in a planned manner, and empowering female employees.

We are promoting the success of women, with the particular aim of raising the ratio of female employees and female employees in managerial roles. We aim to have a 10% female employee ratio by the fiscal year ended March 31, 2021 (8.4% as of April 1, 2018) and a ratio of 5% of women in managerial roles (2% as of April 1, 2018). We are holding women-only seminars and working actively in universities and high school in order to achieve these goals.

In addition, we launched the Work Style Promotion Team in the fiscal year ended March 31, 2017. This team is working to improve productivity by improving efficiency and to advance the establishment of a work environment that promotes health

and motivation. In April 2018, we also established the Work Style Reform Department, under the direct supervision of the president. We have highlighted long working hours as a priority issue, and will promote the introduction of new methods to reduce working hours and a flexible work style in accordance with work duties.

Through these efforts, we will increase employees' fulfillment and motivation with respect to their jobs, which will strengthen the capabilities of each employee, boost the capabilities of the Group as an organization, and contribute to its expansion.



# Human Resources

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

Tsubaki's manufacturing capabilities include 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. Each course emphasizes linkage between training and on-site operations. Employees apply what they have learned to their respective duties, thereby creating a cycle that enhances on-site operations as well as employees' awareness and skills.

Further, the Tsubaki Techno School helps the Group secure the next generation of personnel. When we hire new graduates, students increasingly value well-developed education and training programs and cite the school as a reason for wanting to work with us.



Tsubaki Techno School

### 2. Tsubaki Technical Skills Olympics

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



Tsubaki Technical Skills Olympics  
(sequence control competition)

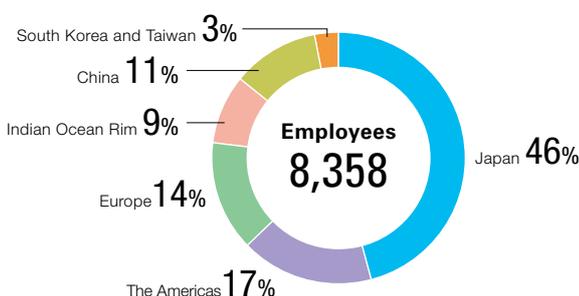
## Strengthening and Cultivation of Global Human Resources

In the fiscal year ended March 31, 2018, 55.5% of the Group's total net sales came from overseas, a substantial increase from 37.5% in the fiscal year ended March 31, 2008, demonstrating the rapid globalization of our operations. In addition, the number of Group employees positioned overseas has increased greatly; on March 31, 2018, 54% of the Group's 8,358 employees (consolidated basis) were at overseas subsidiaries.

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

extreme importance for the Group. For this reason, we introduced the global trainee system in the fiscal year ended March 31, 2011. This system allows young employees to be dispatched to overseas subsidiaries for training, and is designed to teach them foreign languages and international business manners as well as help them to better understand other cultures. In addition to dispatching domestic employees overseas, we have also begun inviting employees from overseas subsidiaries to undergo training in Japan.

### Distribution of Employees by Region (As of March 31, 2018)



Global trainees  
(Netherlands)

## Financial Base

**The Tsubaki Group will enhance returns to shareholders and maintain the robustness of its financial base while continuing to strengthen the foundations of sustained growth in operations.**

The Tsubaki Group's cash generation capabilities have been increasing favorably. This increase is a testament to the Group's steady strengthening of the foundations of sustained growth through three mid-term management plans. Specifically, on a fiscal year basis, net cash provided by operating activities averaged ¥14.4 billion during the term of Mid-Term Management Plan 2012 (between the fiscal year ended March 31, 2011, and the fiscal year ended March 31, 2013); ¥19.7 billion in the fiscal year ended March 31, 2014; ¥22.2 billion during the term of Mid-Term Management Plan 2016 (between the fiscal year ended March 31, 2015, and the fiscal year ended March 31, 2017); and ¥27.6 billion in the fiscal year ended March 31, 2018, which was the first fiscal year of Mid-Term Management

Plan 2020 (between the fiscal year ended March 31, 2018, and the fiscal year ending March 31, 2021).

Meanwhile, due to stepped-up investment, net cash used in investing activities has been trending upward. Nonetheless, because we have followed a selection and concentration strategy and invested in fields that contribute directly to growth in revenues and earnings, we generated a cumulative cash surplus, or free cash flow, of ¥38.2 billion during the five fiscal years between the fiscal year ended March 31, 2014, and the fiscal year ended March 31, 2018.

The Tsubaki Group will use this cash surplus to increase returns to shareholders and maintain the robustness of its financial base.

### Proactive Shareholder Returns

We increased dividends for four consecutive fiscal years, paying dividends per share of ¥7.0 in the fiscal year ended March 31, 2013, and ¥24.0 in the fiscal year ended March 31, 2017, which comprised ordinary dividends of ¥22.0 per share and a 100th anniversary commemorative dividend of ¥2.0 per share. Further, in the fiscal year ended March 31, 2018, we maintained dividends at ¥24.0 per share, effectively converting the previous fiscal year's commemorative dividend into an ordinary dividend. The consolidated dividend payout ratio has surpassed 30% for

two consecutive fiscal years, reaching 30.8% in the fiscal year ended March 31, 2017, and 31.0% in the fiscal year ended March 31, 2018.

Our basic approach is to maintain the consolidated dividend payout ratio at 30%. At the same time, in light of a comprehensive consideration of cash flow trends and progress in the implementation of mergers and acquisitions (M&As) and capital investments, we would like to consider the realization of shareholder returns that are even more positive.

### Maintaining a Robust Financial Base

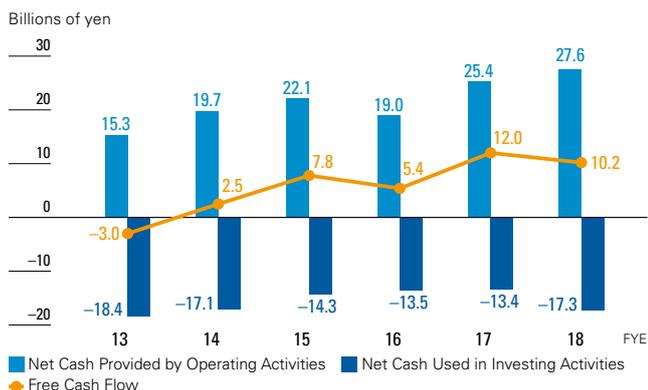
Since peaking at ¥59.0 billion on March 31, 2002, net interest-bearing debt has been trending downward. On March 31, 2018, the Group was effectively debt free, with funds in hand (cash and cash equivalents at end of the year) surpassing interest-bearing debt by ¥5.1 billion.

Further, net interest-bearing debt is expected to rise again due to the acquisition of materials handling systems integrator Central

Conveyor Company, LLC, (the United States) by subsidiary U.S. Tsubaki Holdings, Inc., in the fiscal year ending March 31, 2019.

Although numerous uncertainties, such as the implementation of M&As, make it challenging to forecast our financial situation going forward, we will maintain a robust financial base so that we preserve our current "A" credit rating.

#### Cash Flows (Consolidated)



#### Net Interest-Bearing Debt (Consolidated)



# Strengthening Corporate Governance

We will take proactive measures to build an even stronger corporate governance system and energize organizations and personnel.

### Tetsuya Yamamoto

Director & Senior Managing Executive Officer  
Headquarters Operations / President, U.S. Tsubaki Holdings, Inc.



## Corporate Governance Strengthening Measures to Date

The Tsubaki Group has developed frameworks to facilitate the senior management team's precise, timely formulation of and decision-making on strategies. As part of these efforts, we established the Strategy Committee in the fiscal year ended March 31, 2012, and separated the roles of CEO and COO in the fiscal year ended March 31, 2016. Meanwhile, to increase

the transparency and flexibility of business management, we designated outside Audit & Supervisory Board members as independent officers in the fiscal year ended March 31, 2010, and increased the number of outside directors from one to two in the fiscal year ended March 31, 2014, and then from two to three in the fiscal year ended March 31, 2018.

## Strengthening Corporate Governance Even Further

In the fiscal year ending March 31, 2019, we are implementing further management reforms. We have established a headquarters for each of our four business segments and appointed directors who previously served as the general managers of domestic divisions as the heads of these business segment headquarters, which oversee the global operations of each business segment. Under each business segment headquarters, we have appointed an executive officer, who primarily functions as the general manager of the segment's domestic operations. This system enables the directors who are responsible for business segment headquarters to formulate and make decisions on strategies with a view to optimizing the segment's overall global operations, including the operations of Group companies in Japan and overseas.

At the same time, we abolished the Management Planning Center and the Corporate Social Responsibility Administration, integrating their functions into Headquarters Operations. Also, we placed the Development & Technology Center under the

management of Headquarters Operations. This reorganization enables Headquarters Operations not only to strengthen operational foundations but also to conduct management based on broader consideration of environmental, social, and governance factors.

In addition, we established the Automotive New Product Development Department and the New Business Development Department within the Development & Technology Center. The aim of establishing these departments is to advance the development of automotive new products and new businesses on a Groupwide basis, which will be indispensable for the Group's growth going forward. Further, we established the Quality Management Department under the management of Headquarters Operations. The incorporation into Headquarters Operations of a department tasked with checking the quality assurance systems of respective business segments will further strengthen quality control on a Groupwide basis.

## Heightening Employee Motivation and Invigorating Organizations

When compared with the initiatives of companies at the forefront of diversity advancement, some aspects of our diversity initiatives remain insufficient. Nonetheless, the Tsubaki Group has been promoting capable personnel to senior management positions regardless of nationality or gender. As part of efforts to empower female employees, we are aiming for women to account for 5% of senior management positions at Tsubakimoto Chain Co. on an unconsolidated basis by 2020.

In April 2018, we established the Work Style Reform Department with a view to reinforcing the foundations of our sustained growth by developing employee-friendly workplaces and increasing the efficiency of work processes. At present, the office is focusing on reducing long overtime work hours. Going forward, however, the office will implement measures and reforms in other areas.

## Interview with an Outside Director

I hope to utilize insight and experience gained during a career in the financial industry and corporate management to enhance corporate value even further.

**Q1** You have had a relationship with the Tsubaki Group since your time at Sumitomo Mitsui Banking Corporation. What is your evaluation of the Group? Please speak frankly.

I feel that Tsubakimoto Chain Co. is a company that has achieved a good balance between valuing tradition and having an appetite for innovation.

In the form of "Tsubaki Group DNA," the Company has internalized its founder's philosophy, which emphasizes pursuing manufacturing excellence and providing the value that customers and society expect. Reflecting this philosophy, the

Company is steadily developing its technological capabilities and personnel, which are the foundations of manufacturing. During many years engaged in the financial industry, I have seen a host of different companies. This experience has led me to conclude that strong companies are those that, in the manner of Tsubakimoto Chain, evolve with the times and in which all employees share the corporate philosophy.

While Tsubakimoto Chain respects tradition, it also continuously tackles innovation to cater precisely to society's current needs. This is evident if we look at the Company's history. One of the first to anticipate the growth of the machine industry, the Company switched from the manufacture of bicycle chains to the manufacture of industrial-use chains. Subsequently, the Company continued to anticipate society's needs, increasing its business lines to encompass Materials Handling Systems Operations, Automotive Parts Operations, and Power Transmission Units and Components Operations. The timing chain drive systems of Automotive Parts Operations provide a good example of the application of Tsubakimoto Chain's business model, which calls for constant innovation to create competitive products, increase market share, and grow. Tsubakimoto Chain has been able to grow into a global company with a percentage of overseas sales of nearly 60% precisely because it has focused on both tradition and innovation.

Also, I think the "Tsubaki Spirit" corporate philosophy, established to mark the 100th anniversary of the Company's founding, deserves praise. I have no doubt that using this corporate philosophy as the basis for sharing Tsubaki's mission, aspiration, code of conduct, and founding philosophy with all employees will support the Company's sustained growth.



## Keiichi Ando

Outside Director  
Tsubakimoto Chain Co.

### Profile

- 2009 Director and Senior Managing Executive Officer, Sumitomo Mitsui Banking Corporation
- 2010 Representative Director, Deputy President, and Executive Officer, Sumitomo Mitsui Banking Corporation
- 2012 Representative Director, President, and CEO, New Kansai International Airport Company, Ltd.
- 2016 Representative Director and President, Ginsen Co., Ltd. (incumbent)
- 2017 Outside Director, Tsubakimoto Chain Co. (incumbent)



## Q2 What are your views on the Company's governance? Also, as an outside director what advice would you give the Company with respect to strengthening governance going forward?

The Company has steadily strengthened governance with a view to bolstering the supervisory functions of management and ensuring transparency. For example, it has increased the number of independent outside officers and separated business management and execution. Further, the Company has established the Internal Control Committee and is advancing positive measures in relation to risk management, corporate ethics, information security, the environment, quality, and health and safety.

In addition, to maximize the utilization of outside directors' insights, the Company sets aside ample time in which to provide outside directors with prior briefings. There is a tendency for prior briefings to focus only on the favorable aspects of matters so that it is easier to gain the approval of

outside directors. However, the Company thoroughly explains issues and concerns to outside directors, and this gives me a sense of its sincerity.

The Company's task going forward is to ensure that it does not stop taking measures to strengthen governance. There is still room for improvement, such as introducing incentivized compensation for directors, increasing the percentage of outside directors further, and strengthening global governance capabilities. However, the Company is not alone in having governance tasks left to address. Strengthening measures never perfects governance. The important thing is for the senior management team to maintain dialogue with shareholders and investors, pay more heed to external opinions, and continue taking measures to strengthen governance.

## Q3 What are your aspirations as an outside director?

Companies cannot continue growth along a straight line. At the time of the global recession triggered by the collapse of the Lehman Brothers, the Company recorded significant decreases in income for two consecutive fiscal years. Over the long term, however, Tsubakimoto Chain's ability to sustain growth has increased, with net sales, income levels, ROE, and other capital efficiency indices trending upward steadily.

On the other hand, over-optimism would be inappropriate. As AI and the Internet of Things drive the fourth industrial revolution and industry structures as well as customers' needs change dramatically, companies will have to be more strategically astute than ever in the conduct of business management. Tsubakimoto Chain will also have to increase the speed of reforms even further. The Company needs to heighten

its product development capabilities and step up the pace of globalization. To these ends, the Company must strengthen its technological foundations and production foundations while bolstering and expanding business foundations through M&As. I hope to utilize insight and experience gained during a career in the financial industry and corporate management to offer advice from a range of viewpoints regarding M&As and other types of new investment in businesses.

Working with other members of the senior management team, I will spare no effort to heighten corporate value further by dramatically advancing the Company toward its goal of becoming a global leader that provides value surpassing society's expectations.

# Corporate Governance System

## Basic Approach to Corporate Governance

The Tsubaki Group regards strengthening corporate governance to realize its mission of creating value for customers and contributing to society as one of the most important tasks of business management.

The Group has formulated this basic approach into the basic policy stated below and is working to realize this policy and enhance corporate governance.

### Basic Policy

#### Ensuring the Rights and Equality of Shareholders

We will respect the rights of shareholders, ensure the equality of shareholders, and establish conditions to facilitate the appropriate exercise of rights.

#### Appropriate Cooperation with Stakeholders Other than Shareholders

We will maintain and enhance relationships of trust with all stakeholders based on the "Tsubaki Spirit" corporate philosophy.

#### Ensuring Appropriate Disclosure and Transparency

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.

#### Responsibilities of the Board of Directors and Other Matters

Aiming to heighten competitiveness amid volatile business conditions and to ensure the legal compliance, efficiency, and transparency of business management, we introduced an executive officer system. Under this system, we have been working to enhance and expedite the decision-making of the Board of Directors, strengthen the execution and oversight of operations, and increase the efficiency of business management. Further, through the appointment of outside directors and outside Audit & Supervisory Board members, we are endeavoring to strengthen the oversight of business management, heighten the transparency of business management, and enhance corporate value.

#### Dialogue with Shareholders

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.

[web http://tsubakimoto.com/ir/](http://tsubakimoto.com/ir/)

## Overview of Corporate Governance System (As of June 28, 2018)

Organization system	Company with Auditors
Chairman of the Board of Directors	President
Number of directors	10 (of which 3 are outside directors)
Number of Audit & Supervisory Board members	4 (of which 2 are outside Audit & Supervisory Board members)
Independent officers	3 outside directors and 2 outside Audit & Supervisory Board members

Meetings of the Board of Directors in the fiscal year ended March 31, 2018	14
Meetings of the Audit & Supervisory Board in the fiscal year ended March 31, 2018	19
Total compensation paid to directors in the fiscal year ended March 31, 2018	¥344 million paid to 11 directors*
Total compensation paid to Audit & Supervisory Board members in the fiscal year ended March 31, 2018	¥64 million paid to 5 Audit & Supervisory Board members* (decided by the Audit & Supervisory Board)
Total compensation paid to outside directors and outside Audit & Supervisory Board members in the fiscal year ended March 31, 2018	¥30 million paid to 6 individuals*

\* The abovementioned compensation includes compensation paid to a director who retired following completion of his term of service and an Audit & Supervisory Board member who retired through resignation at the conclusion of the 108th General Meeting of Shareholders held on June 29, 2017.

## Decision-Making and Strategy Advancement

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

The number of members of the Board of Directors can be changed based on business conditions. The compactness of the Board of Directors is intended to enable rapid responses to dramatic changes in business conditions. As of the fiscal year ended March 31, 2018, the Board of Directors comprises 10 members.

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

The Company has appointed 20 executive officers, five of which serve concurrently as directors and all of whom possess extensive insight into their respective business field. The extensiveness of the operational execution body compared with the decision-making body is intended to enable executive officers to utilize their expertise in respective fields to quickly and appropriately execute the strategies formulated by the Board of Directors.

In the fiscal year ending March 31, 2019, the Group implemented reorganization with the aim of further clarifying the management responsibilities of directors and the

operational execution responsibilities of executive officers and with the aim of strengthening governance, including that of subsidiaries and affiliates.

We established business segment headquarters in each of the four business segments: Chain Operations, Power Transmission Units and Components Operations, Automotive Parts Operations, and Materials Handling Systems Operations. We appointed directors who previously served as the general managers of domestic divisions as the heads of these business segment headquarters, which oversee respective business segments in Japan as well as overseeing each business segment's Group companies in Japan and overseas on a global basis. Under each business segment headquarters, we have appointed an executive officer, who primarily functions as the general manager of the segment's domestic operations. This reorganization enables the directors who are responsible for business segment headquarters to formulate and make decisions on strategies based on Groupwide perspectives.

In addition, we abolished the Management Planning Center and the Corporate Social Responsibility Administration, integrating their functions into Headquarters Operations. Also, we placed the Development & Technology Center under the management of Headquarters Operations. This reorganization enables Headquarters Operations not only to strengthen operational foundations but also to conduct management based on broader consideration of environmental, social, and governance factors.

## Initiatives to Strengthen Corporate Governance

### Reorganization as of April 1, 2018

- (1) Established a business segment headquarters in each business segment, which oversees the business segment and its Group companies in Japan and overseas
- (2) Established Headquarters Operations, which oversee Headquarters and the Development & Technology Center



### Aim of Reorganization

To further clarify the management responsibilities of directors and the operational execution responsibilities of executive officers and to strengthen governance, including that of subsidiaries and affiliates

FYE 2010	Designated outside Audit & Supervisory Board members as independent officers
FYE 2012	Introduced the Strategy Committee
FYE 2014	Increased the number of outside directors from one to two
FYE 2016	<ul style="list-style-type: none"> <li>· Reformed management system to separate the roles of CEO and COO</li> <li>· Responded to Japan's Corporate Governance Code</li> </ul>
FYE 2018	Increased the number of outside directors from two to three
FYE 2019	Transferred to a system in which executive officers serve as general managers of business segments

## Corporate Governance System

### Systems to Ensure Management Transparency and Flexibility

Systems to ensure management transparency and flexibility include appointing three of 10 directors as outside directors. The Group's outside directors meet the requirements for outside directors pursuant to the Companies Act of Japan as well as the independence criteria for outside directors (independent officers) that the financial instruments exchange stipulates.

Further, two of the Group's four Audit & Supervisory Board members are outside Audit & Supervisory Board members (independent officers). The Group has appointed outside Audit & Supervisory Board members who have expertise and extensive experience as attorneys.

#### Reasons for Appointing Outside Directors (Independent Officers) and Their Attendance at Meetings of the Board of Directors

Name	Reason for appointment	Attendance at meetings of the Board of Directors in the fiscal year ended March 31, 2018
Hidetoshi Yajima	The Group appointed Mr. Yajima to receive objective advice concerning its focus on technologies, development, and manufacturing as three core areas based on his wealth of insight and experience as the manager of a manufacturing company.	Attended all 14 meetings
Shuji Abe	The Group appointed Mr. Abe to receive objective advice concerning its focus on technologies, development, and manufacturing as three core areas based on his wealth of insight and experience as the manager of a manufacturing company.	Attended all 14 meetings
Keiichi Ando	The Group appointed Mr. Ando to receive objective advice concerning its overall business management based on his wealth of insight and experience as the manager of a financial institution.	Attended all 11 meetings * Number of meetings held following his appointment on June 29, 2017

#### Reasons for Appointing Outside Audit & Supervisory Board Members (Independent Officers) and Their Attendance at Meetings of the Board of Directors and the Audit & Supervisory Board

Name	Reason for appointment	Attendance at meetings of the Board of Directors and the Audit & Supervisory Board in the fiscal year ended March 31, 2018	
		Board of Directors	Audit & Supervisory Board
Shozo Seki	The Group appointed Mr. Seki so that its audit system could benefit from his expertise and knowledge as an attorney.	Attended all 14 meetings	Attended all 19 meetings
Hidefumi Naito	The Group appointed Mr. Naito so that its audit system could benefit from his expertise and knowledge as an attorney.	Attended all 11 meetings * Number of meetings held following his appointment on June 29, 2017	Attended all 12 meetings * Number of meetings held following his appointment on June 29, 2017

### System for Heightening the Motivation of Directors

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

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

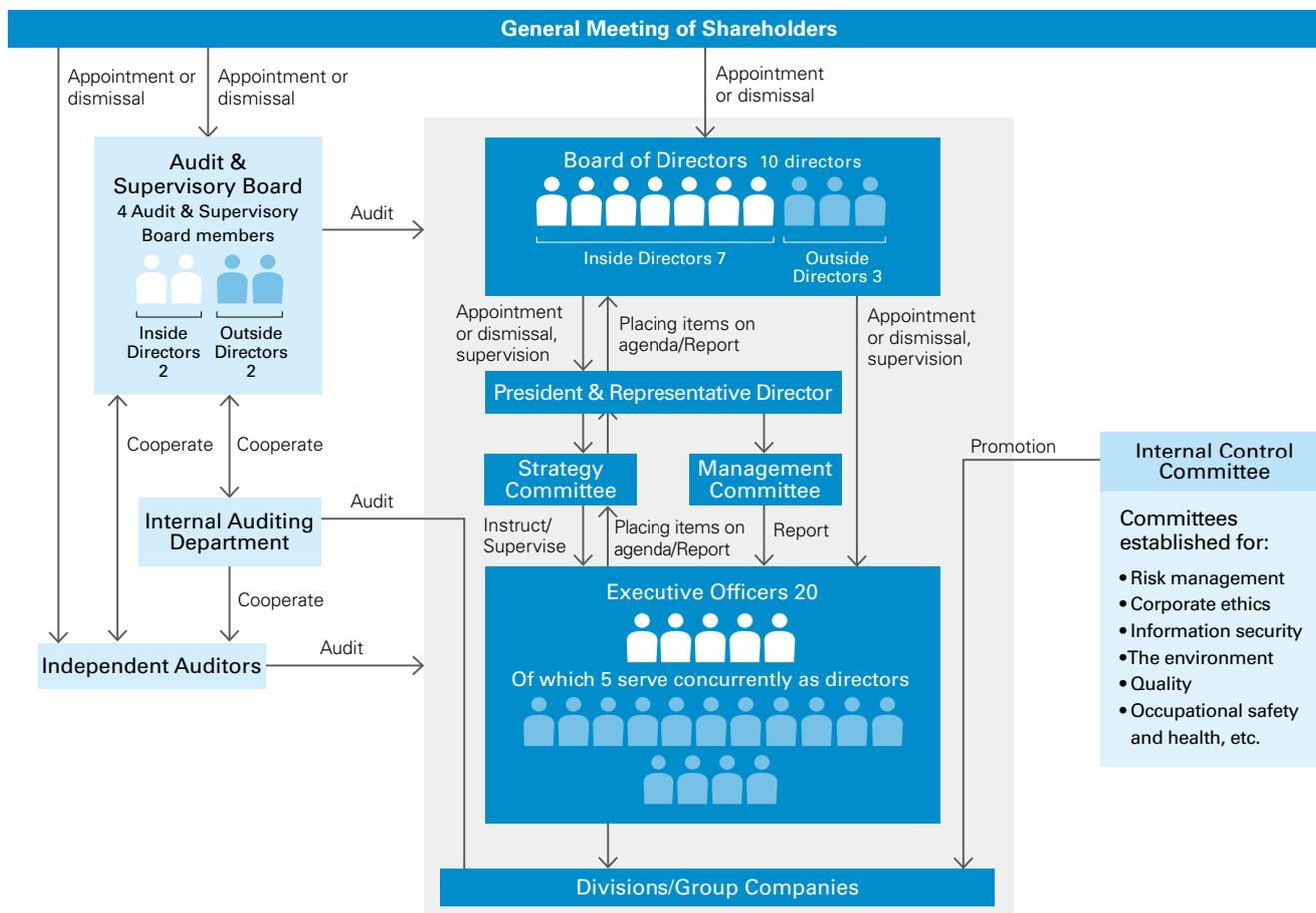
### Effective Audits

Directors and executive officers make reports to Audit & Supervisory Board members whenever deemed necessary. Reports are issued on matters that can seriously impact the Company or Group companies and the status of internal audits in addition to issues that are legally required to be reported. Further, 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 and other important meetings to maintain an understanding of the status of operational execution and supervise proceedings in order to ensure sound and proper management.

To enable the implementation of independent auditing that is more effective, we appointed additional auditing-related personnel in April 2018.

## Corporate Governance System (As of June 28, 2018)



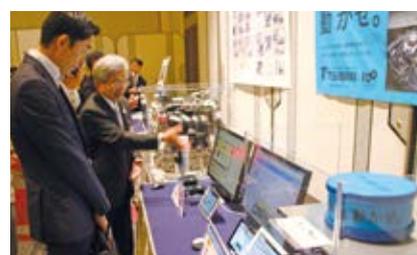
## Constructive Dialogue with Shareholders and Investors

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 Tsubaki Group'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. Further, we actively disclose information in English and Chinese in addition to Japanese.

Further, we regard the General Meeting of Shareholders as an opportunity for reciprocal communication with shareholders. Accordingly, we mail convocation notices for these meetings as early as possible. 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.

The department responsible for investor relations gathers opinions received from shareholders and investors through such dialogues and shares summaries of these opinions with directors. Further, opinions deemed particularly important are discussed fully, and information regarding them is shared with directors, executive officers, and other members of the senior management team.



Explaining our initiatives at a shareholders' discussion

## Corporate Governance System

### 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. Further, 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 six 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.



A meeting on global quality assurance (Automotive Parts Operations)

## Board of Directors, Audit & Supervisory Board Members, and Executive Officers (As of June 28, 2018)



Back row

**Keiichi Ando**

Outside Director

**Hidetoshi Yajima**

Outside Director

**Kenji Kose**

Director & Managing  
Executive Officer  
Chain Operations

**Shuji Abe**

Outside Director

Front row

**Hiomasa  
Kawaguchi**

Director & Managing  
Executive Officer  
Power Transmission Units  
and Components  
Operations

**Hideaki Haruna**

Director & Senior  
Managing Executive  
Officer  
Materials Handling  
Systems Operations

**Yasushi Ohara**

President and COO  
Representative Director

**Isamu Osa**

Chairman and CEO  
Representative Director

**Tadasu Suzuki**

Director & Senior  
Managing Executive  
Officer  
Automotive Parts  
Operations

**Tetsuya  
Yamamoto**

Director & Senior  
Managing Executive Officer  
Headquarters Operations /  
President, U.S. Tsubaki  
Holdings, Inc.

Audit & Supervisory Board  
Members (Standing)

Kikuo Tomita  
Hitoshi Kobayashi

Audit & Supervisory Board  
Members (Outside)

Shozo Seki  
Hidefumi Naito

Senior Executive Officers

Masahiko Yamamoto  
Shigeru Ito  
Tadahiro Otsuki  
Takatoshi Kimura  
Masaki Miyaji

Executive Officers

Nobuaki Haga  
Yukihiro Fujii  
Atsushi Kumakura  
Kevin Richard Powers  
Toshihiro Ageta  
Isao Sato  
Futoshi Tanyama  
Kazutomo Nakamura  
Hiromi Ishida  
Masafumi Okamoto

# Acceleration of CSR Activities

## Environmental Preservation

Given that environmental preservation is one of humanity's most important tasks, the Tsubaki Group is advancing medium- to long-term initiatives focused on preserving the environment through operations, products, and services. In conjunction with these initiatives, we are proactively developing environment-friendly eco-products.

### Tsubaki Group Basic Environmental Policy

#### [Philosophy]

The Tsubaki Group recognizes that environmental conservation is one of the most important issues shared by humankind, and seriously considers the environment in all aspects of its global business activities and contributes to the "development of a sustainable society" by generating environmental value and economic value through manufacturing.

#### [Environmental Policy]

- |                                |                                    |  |                                    |  |
|--------------------------------|------------------------------------|--|------------------------------------|--|
| 1. Reduce environmental impact | 2. Develop and spread eco-products | 3. Observe laws and other requirements | 4. Improve environmental awareness | 5. Promote environmental communication |
|--------------------------------|------------------------------------|--|------------------------------------|--|

**Long-Term Objectives:** Reduce total CO<sub>2</sub> emissions in Japan by 30% by FYE 2031 (Base year: FYE 2014)

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

## Environmental Preservation Activities

### Energy Conservation at Our New Materials Handling Systems Factory (Saitama Plant)

Designed as a development-oriented "showcase factory," our new materials handling systems factory began operations in June 2018.

The new factory includes a host of energy-saving measures. On the roof, we have installed a 510kW solar power generation system, which produces all of the power used by the factory. Further, by installing LED lighting, using heat-insulating coating on external walls, incorporating top runner transformers, and changing heater fuel, the factory realizes annual CO<sub>2</sub> emissions that are approximately 300 tons lower than those of the former factory. Our goal is for the materials handling systems factory to reduce CO<sub>2</sub> emissions by half compared with those of its predecessor.



The solar power generation system of the new materials handling systems factory

### Evolution of a New, Highly Efficient Air-Conditioning System (Kyotanabe Plant)

Since its construction, the Kyotanabe Plant has used a cogeneration system (two 1050kW generators) for air-conditioning and the supply of cold water used in production. However, the rising maintenance costs and

declining energy efficiency of the 18-year-old system were becoming noticeable. Therefore, we are replacing\* it with a highly efficient system. As a result, we hope to reduce CO<sub>2</sub> emissions 900 tons per year and lower lifecycle costs.

\* Replacement period: August 2017–December 2018

#### Features of the new system

- Enables flexible, low-cost operation by using electricity and gas
- Improves efficiency 50% through changeover to highly efficient air conditioner chillers (cold/hot water generator) and improves efficiency during low-consumption periods (holidays, nighttime)
- Visualizes operational status to enable optimized operational management based on consumption fluctuations

### Eco-Products That Provide Customers with Ecological and Economic Benefits

At the design and development stages of our eco-products, we are taking into consideration seven environmental objectives that are focused on benefiting customers. We actively heightened the profile of these products in the fiscal year ended March 31, 2018.

We are using our website to introduce representative eco-products. These include a new automated picking and storage unit for the life science field, LaboStocker® Mini, and conveyor



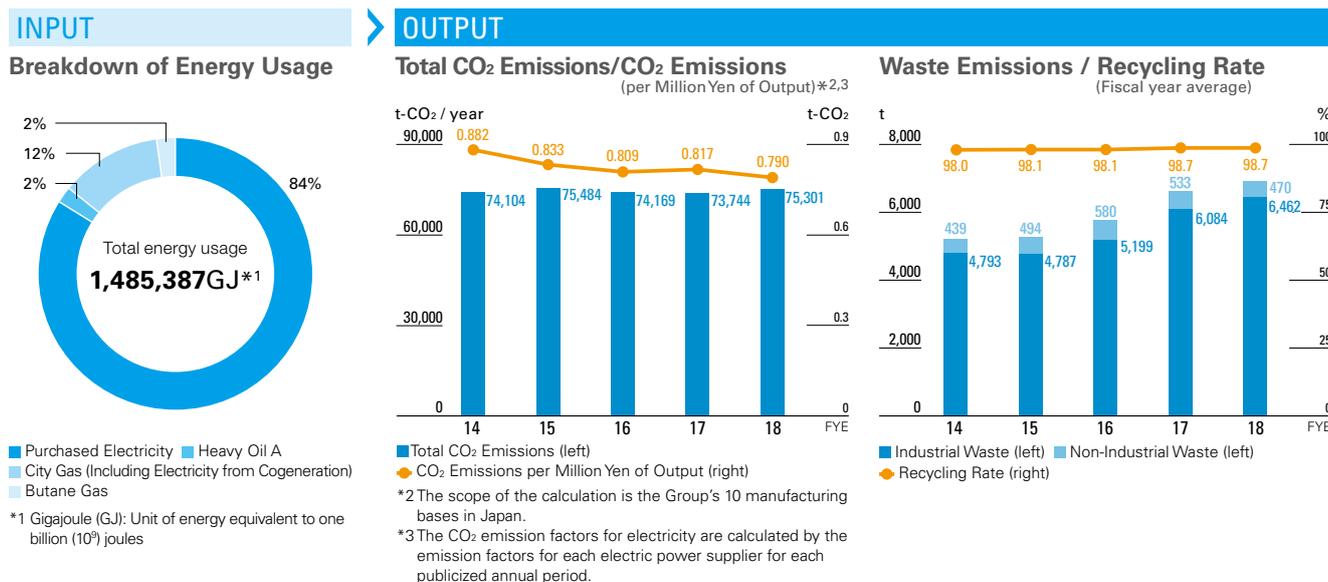
chains with enhanced wear resistance, Smart Conveyor Chain Advanced Models.

Smart Conveyor Chain Advanced Models

## Environmental Data

### Flow of Energy and Materials

INPUT		OUTPUT	
Raw materials	70,314 t	Total product manufacturing	¥95,455 million
Electricity	124,826,000 kWh	Valuables	25,589 t
Heavy oil	627 kL	Industrial waste 6,462 t	Recycle 6,844 t Other 88 t
Gasoline	77 kL	Non-industrial waste 470 t	
Kerosene	74 kL	Hazardous chemical substances under the PRTR Law	
Diesel oil	4 kL	Release/transfer	148 t
City gas (excluding cogeneration)	3,565,000 m <sup>3</sup>	Release into the atmosphere	
City gas (for cogeneration)	524,000 m <sup>3</sup>	CO <sub>2</sub>	75,301 t-CO <sub>2</sub>
Butane gas	544 t	Release into the water	416,000 m <sup>3</sup>
Propane gas	64,000 m <sup>3</sup>		
Water	416,000 m <sup>3</sup>		



### Environmental Preservation Costs (Business Activity Classification)

Thousands of yen

Classification	Details of major initiatives	FYE 2018	
		Amount invested	Costs
(1) Business area costs		444,277	437,731
(1) - 1 Pollution prevention costs	Introduction, operation, and management of air pollution prevention facilities and wastewater treatment facilities	98,464	106,444
Break-down (1) - 2 Global environmental preservation costs	Introduction, operation, and management of electricity control systems	340,996	130,741
(1) - 3 Resource recycling costs	Waste processing/recycling expenses, improvement of industrial waste storage facilities	4,816	200,546
(2) Upstream/downstream costs	Outsourcing analysis costs, such as for substances with environmental impact	0	1,195
(3) Administration costs	Establishment and operation of environmental management systems (EMSs), worksite greening and maintenance, installation of air and water measurement equipment	1,900	256,248
(4) R&D costs	R&D of environment-friendly products (reduction of environmental burden during product use)	33,019	206,172
(5) Social activity costs	Regional environmental preservation initiatives	0	653
(6) Environmental remediation costs	Groundwater purification measures, etc.	0	0
Total		479,196	901,999

## Acceleration of CSR Activities

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

Acting as a good corporate citizen, 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.

### Initiatives in Japan

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

#### Supporting Girls' Science Camp for Junior and Senior High School Girls

Girls' Science Camp comprises hands-on experiment classes based on the theme of the fun of physics. It is part of a program that Doshisha University organizes with the aim of encouraging junior and senior high school girls to choose science subjects. During the program, held in August 2017, we conducted study tours of the Kyotanabe Plant and provided activities led by the plant's female engineers. Under the concepts of "watching moving machines," "touching objects," and "listening to sounds," our activities provided all participants with firsthand experiences that utilized our distinctive operations.

The activities were a good opportunity to communicate the fun and appeal of manufacturing. For example, we provided opportunities for exchanges among our female engineers and 54 junior and senior high school girls. Also, our female engineers talked to the group about their experiences, explaining reasons for choosing science, the type of work in which the engineers are currently engaged, and the fulfillment that it provides.



Girls' Science Camp

#### Opening of the Saitama Plant's Tsubakimoto Chain Entertainment Facility for a Walking Event

Following on from 2017, the Group's Saitama Plant again made its entertainment facilities available for the Hanno Shinryoku

Two-Day March, a citywide walking event that the city of Hanno holds every May. At the entertainment facilities, which have new tennis courts and a renewed welfare area, the plant's personnel and volunteers from a local junior high school offered participants candy made specially for the event and beverages. During the heat of the day, passing walkers were able to rest before setting off with renewed energy toward the next refreshment station.

We intend to continue working in partnership with and making further contributions to the local community.



Hanno Shinryoku  
Two-Day March

#### Conducting the 10th Summer Vacation Child and Parent Factory Tours

Open to the local community, the Kyotanabe Plant conducts many different activities aimed at heightening local residents' interest in the Tsubaki Group.

These activities include our annual summer vacation factory tours for local elementary school students and their parents. The plant held factory tours for the 10th time in the fiscal year ended March 31, 2018. During two days, 100 elementary school students and their parents took part in the factory tours. Participants enjoyed an activity-packed event that included chain assembly competitions, which have become a fixture; an overview of the history of manufacturing at Tsubakimoto Chain; a closer look at the renewed entrance; and a factory tour with a revised route that enables fuller explanations of plant operations.



A summer vacation child and parent factory tour

## Overseas Initiatives

To contribute to the development of local communities, the Group conducts various charity activities through overseas Group companies in addition to initiatives in Japan.

### Donating to Food Banks

In Germany, charities operate food banks, providing food and daily necessities to refugees and those in receipt of social security. In the fiscal year ended March 31, 2018, the employees of Tsubaki Kabelschlepp GmbH made donations to local food banks of more than 10,000 euros, which comprised donations collected from employees and a matching donation from the company.



Germany  
Tsubaki Kabelschlepp GmbH  
(TKG)

### Contributing to Society through a Marathon

Twelve employees of Tsubakimoto Europe B.V. (TEU) participated in and completed the NN Marathon Rotterdam, the largest sports event in the Netherlands. This was the second year of TEU employees' participation in the event. As with the previous event, our donations to charities were based on employees' performances in the marathon, which resulted in a 1,750 euro donation.



Netherlands  
Tsubakimoto Europe B.V.  
(TEU)

Thailand  
Tsubakimoto Automotive  
(Thailand) Co., Ltd. (TAT)

Australia  
Tsubaki Australia Pty.  
Limited (TAL)

### Participating in Relay For Life

Originating from the United States, Relay For Life charity events aim to raise funds for the support of cancer patients and their families as well as to bring communities together to tackle and beat cancer (The American Cancer Society owns the international license for these events.). At U.S. Tsubaki Automotive, LLC, Tennessee Plant employees participated in a Relay For Life event with the goals of furthering understanding of cancer and encouraging donations to the American Cancer Society.



United States  
U.S. Tsubaki Automotive,  
LLC (USTA)

### Helping at Christmas

Every year, from the end of November through the beginning of December, employees of Tsubaki Australia Pty. Limited gather clothes, toys, food, and other items that they have bought or goods from their homes and send the items to an international charity for distribution to families or homeless persons without the means to celebrate Christmas.



### Conducting Environmental Preservation Activities

Tsubakimoto Automotive (Thailand) Co., Ltd., (TAT) conducts a variety of activities aimed at reducing climate change and preserving ecosystems. For example, the company has an ongoing tree planting program to reduce CO<sub>2</sub>, which contributes to climate change. With the help of local residents, TAT plants more than 1,000 trees a year on its premises.

Also, the subsidiary is concentrating on preserving the local ecosystem. As well as planting mangrove trees to prevent soil erosion, the company creates watering holes as a way of providing supplements of salt and other minerals to wild animals living in the forest.



# Chain Operations

By raising productivity and advancing product strategies that reflect market demand, we will increase our share of the global market.

## Review of Performance and Business Conditions

The market for chains, which are indispensable for conveyance and power transmission, has expanded in step with global economic growth. Since our founding in 1917, we have honed technologies and expertise, enabling us to provide products with outstanding wear resistance, strength, and drive efficiency. As a result, the world's major manufacturers trust in the absolute superiority of our products, and we boast the No. 1 share of the market for industrial-use steel chains (source: Tsubakimoto Chain Co.).

The average annual growth in the net sales of Chain Operations was 6.0% in the five fiscal years leading up to the fiscal year ended March 31, 2018. In the fiscal year ended March 31, 2018, the net sales of Chain Operations grew sharply, rising 11.1% year on year. In part, this increase stemmed from particularly brisk sales of G8 Series Drive Chain in the drive chain field—where Tsubakimoto Chain is most competitive. In markets worldwide, the business segment rolled out the new offerings of this series, which features heightened wear resistance, fatigue strength, and environmental performance. Meanwhile, the operating income margin has increased for four consecutive fiscal years, up from 6.7% in the fiscal year ended March 31, 2014, to 12.6% in the fiscal year ended March 31, 2018. This marked rise is attributable to the effect of higher production as well as to enhanced productivity resulting from the Manufacturing Innovation in Kyotanabe 2018 (MIK2018) initiative. We began this initiative in the fiscal year ended March 31, 2015, based on a five-year plan focused on building a compact production line. Another factor contributing to the rise in the operating income margin was improvement in the profitability of the subsidiary that we established in Tianjin, China, in the fiscal year ended March 31, 2013, as the subsidiary's production operations finally stabilized.

## Challenges and Growth Strategies Going Forward

### Accelerating the Global Rollout of Drive Chains

In the drive chain field, where we have already acquired strong endorsement from numerous client companies worldwide, we will leverage the superior quality and performance of the G8 Series Drive Chain to enlarge sales in the global market even further.

### Aiming for a Bigger Share of the European Conveyor Chain Market

The highest priority task for Chain Operations is to increase the business segment's share of the global conveyor chain market. As with our drive chains, our conveyor chains have clear advantages in terms of quality and performance. For conveyor chains, however, we often have to cater to different needs for each client company. As a result, not having a manufacturing base near a target market puts us at a disadvantage with respect to lead times and costs. One of the main reasons why Tsubakimoto Chain has comparatively large shares of the Asian market, including Japan, and the North American market is that the Company has local manufacturing bases in these markets. Therefore, to establish a robust position in Europe's market, where our market share remains low, it is essential that we secure a local manufacturing base.

We are still considering whether to acquire a manufacturing base in Europe through an M&A or through the construction of our own plant. However, we will reach a conclusion as rapidly as possible and then accelerate growth in our share of the European market.

### Strengthening and Developing Leading Products in Niche Markets Even Further

Tsubakimoto Chain is the world's second largest manufacturer of support and guidance systems for cables and hoses (Cableveyor®). However, there is a considerable gap between

## Kenji Kose

Director & Managing  
Executive Officer  
Chain Operations



Tsubakimoto Chain and the world's largest manufacturer with respect to the scale of global sales, and closing this gap is extremely challenging.

On the other hand, in almost all of the world's automobile-manufacturing countries, including Japan, the United States, and Germany, we supply automobile manufacturers with Cableveyor products for use in the power sliding doors of minivans. Also, our track record and development capabilities for these products are unmatched. As a first step, we want to further strengthen the leading position of our products in this niche market.

Other products with competitive advantages include the Cleanveyor® cable system and the Flatveyor® flat cable system, which help preserve the ultra-clean environments required in such industries as semiconductor manufacturing. Steadily developing such offerings into products with leading shares of niche markets will strengthen the ability of Chain Operations to sustain growth.



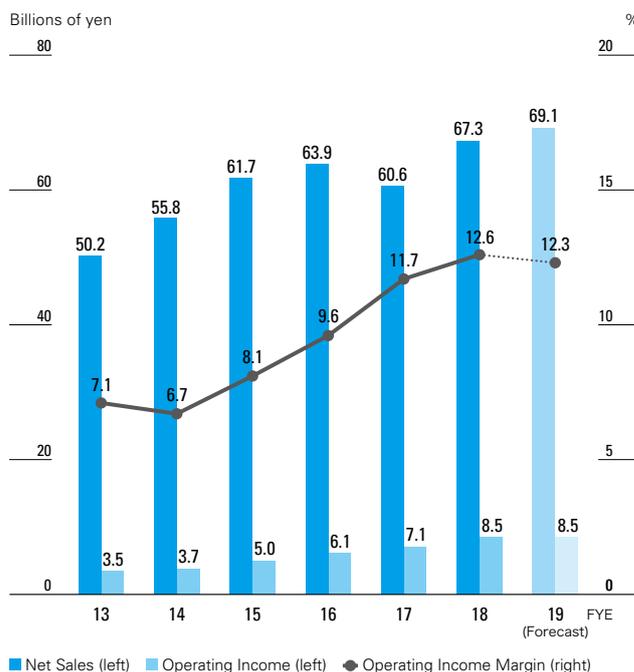
Participants in our global meeting on Cableveyor products for use in power sliding doors

## Enhancing Productivity Even Further

Under the aforementioned MIK2018 initiative, we aim to increase productivity 30% in the fiscal year ending March 31, 2019, compared with that of the fiscal year ended March 31, 2014. Based on the initiative, we have set out a total of 25 innovation themes for press zones, assembly zones, and other processes. We have achieved 80% of the initial targets based on these themes. As a result, productivity rose 20% in the fiscal year ended March 31, 2018. We will steadily achieve the remaining targets of these themes to realize a 30% enhancement in productivity.

Chain Operations will steadfastly implement the aforementioned strategies in an all-out effort to reach Mid-Term Management Plan 2020's targets for the business segment, namely net sales of ¥78.1 billion and operating income of ¥9.3 billion in the fiscal year ending March 31, 2021. Also, we will take additional measures to sustain long-term growth beyond the fiscal year ending March 31, 2021, such as commencing the development of automotive products other than Cableveyor products for use in power sliding doors.

## Chain Operations Performance Trends and Outlook



# Power Transmission Units and Components Operations

We will accelerate the development of overseas markets and new products while strengthening technological foundations in light of long-term perspectives.

## Review of Performance and Business Conditions

In tandem with the global economic growth, the markets for reducers, actuators, and clutches are expanding favorably. The Tsubaki Group is the leading manufacturer of power cylinders (actuators) and cam clutches in Japan. Also, our technologies for right-angle-shaft-type reducers and worm gear reducers, both of which save space, have earned an impressive reputation.

The average annual growth in the net sales of Power Transmission Units and Components Operations was 4.2% in the five fiscal years leading up to the fiscal year ended March 31, 2018. In particular, the business segment's net sales grew markedly in the fiscal year ended March 31, 2018, rising 12.0% year on year. This growth primarily resulted from higher sales of reducers for manufacturing equipment and conveyance systems, which reflected robust capital investment in the liquid crystal display and semiconductor industries in China, as well as favorable sales of locking devices, such as Power-Lock® for machine tools, and couplings, including shaft couplings. In addition, the inclusion within the scope of consolidation of a clutch manufacturing subsidiary in Thailand in the fiscal year ended March 31, 2018, was also a factor in the significant increase in revenues. Thanks to the aforementioned contributions to revenues as well as the benefits of the reorganization of plants in Japan in the fiscal year ended March 31, 2017, the operating income margin in the fiscal year ended March 31, 2018, reached 12.7%, the highest operating income margin level in the past five fiscal years.

## Challenges and Growth Strategies Going Forward

### Growing Sales in Overseas Markets

On a consolidated basis, the Group's percentage of overseas sales was 55.5% in the fiscal year ended March 31, 2018. However, at approximately 27%, the percentage of overseas sales of Power Transmission Units and Components Operations

remains low. To sustain growth, these operations need to grow sales overseas. With this in mind, the business segment will focus on increasing sales of cam clutches and power cylinders—product lineups that have already established their superiority in Japan—with East Asia, not including Japan; China; and the Indian Ocean Rim as target markets.

### Increasing Modular Products

Modular products are units that combine a variety of the Tsubaki Group's motion technologies and products. For example, by combining electric lifters, Pin Gear Drive Unit products, and reducers we can offer customers a single package that performs three functions: lifting, rotating, and flipping. In 2018, the business segment launched Zip Master, a high-speed electric lifter with a unique drive system that uses Zip Chain®. Moreover, we have established a module/motion sales department, which is increasing sales of modular products in the domestic market.

Combining products from the Group's extensive product lineup to realize different applications and provide solutions that cater to customers' needs will not simply increase sales of individual products but also promise to add significant value to the Group's businesses.

### Stepping up Sales of Automotive Products

The Thai subsidiary that the Group included within the scope of consolidation in the fiscal year ended March 31, 2018, manufactures clutches for the self-start systems of motorcycles and exports to India, Vietnam, and other parts of Asia. The subsidiary has been growing sales favorably to establish a solid position in the motorcycle starter clutch market, claiming a 23% share of the global market (source: Tsubakimoto Chain Co.).

Aiming to open up markets for such power transmission components as clutches for four-wheeled vehicles, Power Transmission Units and Components Operations and Automotive Parts Operations will jointly undertake global marketing activities. For Power Transmission Units and Components Operations, this will mean tackling new markets. Adopting a long-term view, the business segment will take on

## Hiromasa Kawaguchi

Director & Managing  
Executive Officer  
Power Transmission  
Units and Components  
Operations



this challenge by leveraging its long track record in the fields of industrial-use clutches and motorcycle clutches as well as the strong relationships of trust that the Tsubaki Group has developed with automobile manufacturers.

### Enhancing Productivity and Realizing Global Optimized Production

Power Transmission Units and Components Operations completed a reorganization of plants that consolidated three domestic plants into two plants in the fiscal year ended March 31, 2017. Based on this reorganization, we were targeting a 30% improvement in productivity by the fiscal year ending March 31, 2019. However, the pressing need to increase production in response to the high level of orders has slightly delayed our progress in productivity improvement. Nonetheless, we will increase the speed of productivity improvement by steadily accomplishing each task, such as changing the conveyance of items and layouts for manufacturing.

With the aim of realizing global optimized production, we will review each product category and strengthen cost-competitiveness.

### Strengthening Technological Foundations from a Long-Term Viewpoint

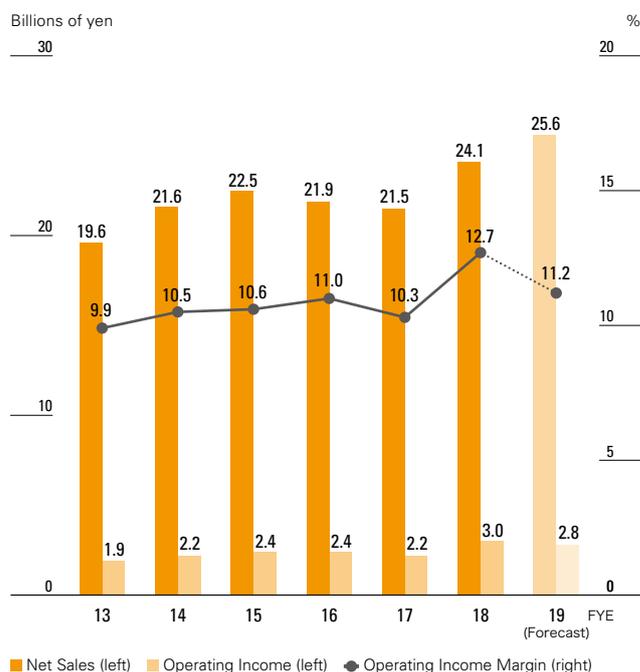
Continuous technological innovation is indispensable to heighten the competitiveness of our power transmission units and components even further. Without taking the current high level of orders for granted, we will reinforce our core technologies for power transmission units and components, such as those related to gears and screws. Also, we need to strengthen our control-related technological foundations in step with the advent of the Internet of Things (IoT) era.

To strengthen technological foundations, we will revitalize dormant technology assets and increase personnel capabilities. At the same time, we will continue considering M&As or alliances with other companies as potential ways of strengthening our technological foundations.



Our first booth at Korea Machinery Fair, South Korea's largest general exhibition of machinery

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



# Automotive Parts Operations

We will strengthen our technological advantages even further with the aim of becoming the undisputed world No. 1.

## Review of Performance and Business Conditions

The main focus of the automotive industry is on developing compact, lightweight engines that maintain output performance while enhancing environmental performance. The Tsubaki Group has developed new timing chain drive systems—its mainstay products—that realize impressive reductions in wear resistance and friction. Today, we are the leading manufacturer of timing chain drive systems, boasting a 37% share of global market for these products (source: Tsubakimoto Chain Co.).

Growing net sales at an average annual rate of 10.0% in the five fiscal years leading up to the fiscal year ended March 31, 2018, Automotive Parts Operations have become the Tsubaki Group's largest business segment.

Further, in the fiscal year ended March 31, 2018, although revenues rose, operating income decreased 17.2% year on year, and the operating income margin declined to 12.9%. One of the principal reasons for these decreases was higher depreciation and amortization accompanying capital investment in Japan and overseas in response to an ongoing rise in orders. Additional significant factors were one-time costs arising from the start-up of new plants and the incurring of fixed costs before the realization of revenues. Other downward pressures on the business segment's profit margin included higher steel prices and the effect of price competition on certain orders received for products manufactured in China.

## Challenges and Growth Strategies Going Forward

### Orders Trending Very Favorably

Due to recognition among automobile manufacturers of the technological superiority in relation to environmental performance and the high quality of the Tsubaki Group's products, the number of new adoptions of the Tsubaki Group's timing chain drive systems is rising steadily. The fiscal year ended March 31, 2018, saw a growing number of instances in which manufacturers curbed the use of competitors' products and adopted our products, particularly in the United States and South Korea. Further, we acquired orders essentially as planned in China, Japan, and Thailand. As a result of the above, we believe that we are almost within reach of the ¥100.0 billion net sales target of Mid-Term Management Plan 2020 for the fiscal year ending March 31, 2021, the plan's final fiscal year.

As we increase capital investment so that we have the capacity to cater to net sales at the level of ¥100.0 billion, for the time being we will record initial depreciation and amortization and start-up costs, which will lower the profit margin. As production rises, however, we expect the profit margin to rebound.

### Increasing Our Market Share Thanks to Two Tailwinds

Since the revelation of scandals related to the tailpipe gas emissions of diesel cars, Europe has seen a drop-off in diesel car unit sales and a conspicuous shift in demand toward fuel-efficient gasoline-fueled cars, such as hybrid electric vehicles. In response, European automobile manufacturers are redoubling efforts to develop engines with outstanding environmental performance for 1,000 to 1,500 cc class gasoline-fueled cars. Given our particular competence in products for engines with these displacements, we view this trend as an excellent opportunity to grow market share in Europe.

## Tadasu Suzuki

Director & Senior Managing  
Executive Officer  
Automotive Parts  
Operations



Further, amid the Chinese government's stricter environmental regulations, automobile manufacturers in China are also accelerating the development of new-model engines with outstanding environmental performance. Consequently, we are receiving a rising number of business inquiries from such manufacturers.

Given that Europe and China are important markets in which it needs to increase its presence, the Tsubaki Group will steadily analyze and target demand trends in these markets and accelerate the development of products that match customers' needs. In parallel with these efforts, we will launch proactive marketing initiatives. Through these measures, we will increase our share of global market even further.

### Strategically Expanding Operations That Cater to Increased Electrification

The market for vehicles with internal combustion engines, which includes hybrid electric vehicles and plug-in hybrid electric vehicles, is projected to continue expansion and increase from 100 million units in 2020 to 112 million units in 2030. At the same time, however, powertrains are likely to diversify further. Therefore, we are concentrating efforts on fostering products in areas beyond timing chain drive systems.

Power drive chains used in the transfer cases of four-wheel-drive vehicles are one such area. Gradually growing our sales of these products, we have acquired a 15% share of the global market (source: Tsubakimoto Chain Co.).

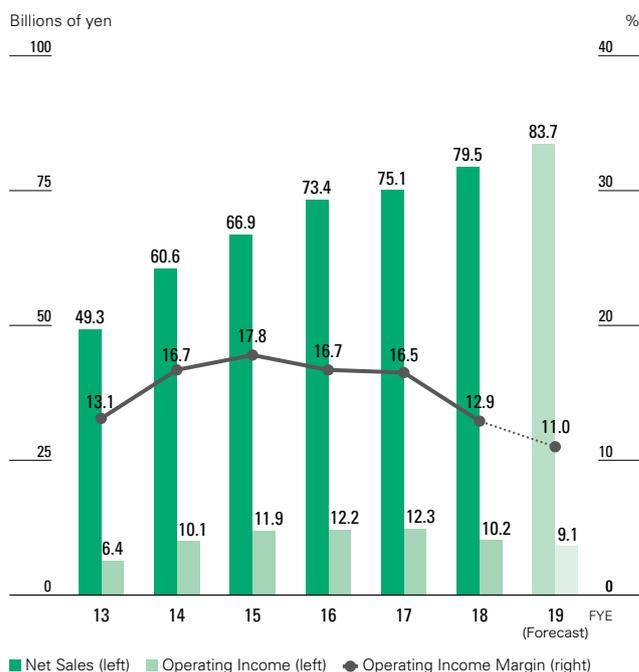
Further, we are continuing to conduct R&D in relation to EneDrive™ Chain, designed for use in the regenerative braking and auxiliary drive systems of electric vehicles and hybrid electric vehicles. We are bolstering initiatives for this product through such efforts as providing automobile manufacturers with prototypes.

In Automotive Parts Operations, rather than being satisfied with the current growth in revenues, we will steadily move forward with strategic measures aimed at fostering the earnings mainstays of the coming generation.



Opening a cask of sake to mark the opening of the Czech Plant in October 2017

### Automotive Parts Operations Performance Trends and Outlook



# Materials Handling Systems Operations

By leveraging a new factory and advancing global rollouts, we will place Materials Handling Systems Operations on a growth trajectory.

## Review of Performance and Business Conditions

In developed countries, the demand for automation of production and conveyance lines is increasing steeply as labor shortages emerge with the aging of societies and as the volume of goods distributed increases with development of the e-commerce market. However, many companies from other industries, such as industrial robot manufacturers, are entering the materials handling systems market. Consequently, competition among manufacturers over technology and pricing is becoming fierce.

Amid these conditions, the Group's Materials Handling Systems Operations enjoy advantages in specific fields. For example, we provide automatic sorting equipment to the distribution industry, roll paper feeding systems to newspaper printing plants, and bulk handling systems for cement and other substances.

The average annual growth in the net sales of Materials Handling Systems Operations was 7.9% in the five fiscal years leading up to the fiscal year ended March 31, 2018. This is partly due to M&As overseas, and sales of automatic sorting equipment for the distribution industry which has been increasing over the past two years. In this business segment, the Tsubaki Group has developed highly differentiated products in areas where it has particular competence. These products include LiniSort® S-C high-speed automatic sorting equipment, which saves space at operating sites by incorporating a multi-stage structure. Pursuing differentiation from competing manufacturers in this way has contributed significantly to sales growth.

Bulk handling systems are also continuing to sell briskly. As well as robust sales of products for the cement industry, biomass-related sales have been increasing in Japan in recent years. Meanwhile, in China a stricter regulatory environment is driving an upward trend in orders for handling systems for activated charcoal, which is used in desulfurization and denitrification devices.

Revenues from metalworking chip handling and coolant processing systems are trending steadily thanks to higher production of machine tools worldwide. Further, we are

developing new products to cater to an increase in the processing of stainless steel and aluminum workpieces.

Amid these business conditions, net sales rose 7.7% year on year, but the segment recorded a significant 41.0% year-on-year decrease in operating income in the fiscal year ended March 31, 2018. This decline in earnings reflected the significant effect of a U.S. subsidiary's recognition of a credit loss on uncollected receivables. Excluding this one-time factor, our efforts over the past five years focused on heightening the efficiency of design work have succeeded, and the break-even point is improving steadily.

## Challenges and Growth Strategies Going Forward

### Growing Sales of Automated Systems for the Distribution Industry in China and Other Parts of Asia

Although the break-even point of the Tsubaki Group's Materials Handling Systems Operations has improved, the business segment must enlarge sales if it is to increase profitability drastically. As an initial step to this end, the business segment will increase sales mainly in the markets of China and other parts of Asia, which are far bigger than the domestic market. Moreover, we will achieve differentiation from competitors by rolling out our unique automated systems for the distribution industry. These offerings will include high-speed automatic sorting equipment—strong sellers in Japan's market.

In China, a buoyant mail-order industry is pushing up distribution volumes, creating vigorous demand for distribution that is automated or more efficient. A similar trend is emerging in Southeast Asia, and Materials Handling Systems Operations are beginning to see orders rise in this region.

### Leveraging an Expanded Network to Advance Global Rollouts

In June 2018, the Tsubaki Group made materials handling systems integrator Central Conveyor Company, LLC, based in Michigan, the United States, a wholly owned subsidiary. This leading company boasts a robust customer base in the U.S.

## Hideaki Haruna

Director & Senior Managing  
Executive Officer  
Materials Handling  
Systems Operations



automobile industry. As well as being highly profitable, the new subsidiary has significant revenues, with net sales reaching US\$240 million in 2017. Prior to this acquisition, the business segment had already strengthened its network by acquiring the Mayfran Group, as an addition to manufacturing and sales bases in Japan, the United States, China, and Indonesia. Thus, the recent acquisition of Central Conveyor Company has given Materials Handling Systems Operations access to an even more extensive network.

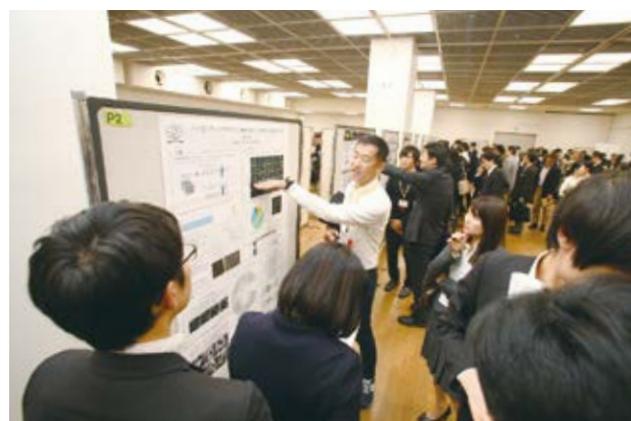
Going forward, we will leverage this worldwide network to heighten our ability to compete globally. For example, one medium- to long-term issue was how to achieve rollouts in the large, life science related markets of the United States and Europe for the business segment's LaboStocker® units, which realize the ultra-low-temperature storage of biological samples and DNA that is indispensable in the development of pharmaceuticals. However, our expanded global network promises to be a major asset in this regard.

## Unveiling a New Materials Handling Systems Factory in Saitama

In June 2018, the business segment's new "showcase factory" started up operations in Saitama. The new factory's product development area and the M.LABO display area are completely separate from the processing, assembly, and other operations conducted in the manufacturing area. This separation enables us to develop new products intensively and efficiently as well as strengthen marketing. M.LABO exhibits our mainstay products and groups them according to target industries, including the distribution, automobile, newspaper, and life science industries. By providing customers with opportunities to see actual products firsthand and gain a tangible appreciation of our products' merits, we will increase orders.

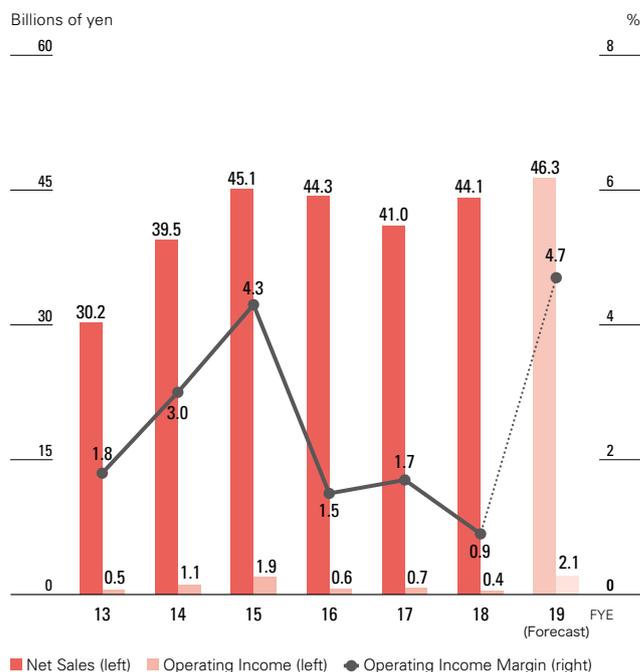
Further, the manufacturing and maintenance workshop that adjoins the processing area is increasing our ability to enhance and pass on processing, assembly, and maintenance skills.

Through utilization of the new factory as well as tie-ups with manufacturers overseas and robot manufacturers, Materials Handling Systems Operations will enrich its lineup of automated products to reflect market demand and realize growth.



Offering our support to drug discovery researchers and developers at the Conference on Biomolecular Screenology

## Materials Handling Systems Operations Performance Trends and Outlook



# Consolidated Financial and Non-Financial

For the year (Millions of yen)	FYE 2008	FYE 2009	FYE 2010
Net sales	167,202	141,517	112,759
Operating income	19,805	9,095	4,737
Ordinary income	18,051	9,328	4,990
Profit attributable to owners of parent	10,371	6,188	3,175
Capital expenditures	10,225	10,041	3,988
Depreciation and amortization	7,301	7,344	7,390
R&D costs	3,681	3,847	3,543
Net cash provided by operating activities	20,873	7,263	14,508
Net cash used in investing activities	(11,481)	(9,723)	(5,020)
Net cash (used in) provided by financing activities	(5,582)	(3,540)	(373)
Cash and cash equivalents at end of the year	17,744	11,269	20,379

At year-end (Millions of yen)	FYE 2008	FYE 2009	FYE 2010
Total assets	202,316	178,455	182,641
Shareholders' equity	81,605	78,422	80,847
Interest-bearing debt	39,314	37,600	38,910
Net interest-bearing debt	21,570	26,330	18,531

## Indexes

Operating income margin (%)	11.8	6.4	4.2
ROE* <sup>1</sup> (%)	12.8	7.7	4.0
Equity ratio* <sup>2</sup> (%)	40.3	43.9	44.3
D/E ratio (net)* <sup>3</sup> (Times)	0.26	0.31	0.21
Profit attributable to owners of parent per share (Yen)	55.70	33.26	17.07
Net assets per share (Yen)	438.56	421.53	434.59
Total CO <sub>2</sub> emissions (t-CO <sub>2</sub> /year)* <sup>4</sup>	66,157	57,793	46,439
CO <sub>2</sub> emissions (t-CO <sub>2</sub> ) (Per million yen of output)* <sup>4,5</sup>	0.700	0.678	0.695
Employees* <sup>6</sup>	5,371	5,339	5,271

Amounts less than one million yen have been truncated.

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

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

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

\*4 The scope of the calculation is the Group's 10 manufacturing bases in Japan.

\*5 The CO<sub>2</sub> emission factors for electricity are calculated by the emission factors for each electric power supplier for each publicized annual period.

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

# Summary

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

FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
138,243	144,896	150,002	178,022	196,738	203,976	198,762	<b>215,716</b>
11,022	12,081	12,579	17,354	21,427	21,570	21,647	<b>20,694</b>
11,111	12,140	12,813	17,993	22,263	22,109	22,004	<b>21,743</b>
6,093	6,814	7,428	10,213	14,153	12,766	14,596	<b>14,666</b>
5,807	9,518	11,833	11,372	10,466	15,677	13,995	<b>18,116</b>
7,544	7,403	7,360	8,745	9,476	10,402	10,342	<b>11,005</b>
4,144	4,231	4,319	4,061	4,048	4,300	4,341	<b>4,495</b>
16,293	11,626	15,350	19,761	22,189	19,090	25,434	<b>27,657</b>
(8,281)	(10,487)	(18,401)	(17,166)	(14,306)	(13,593)	(13,420)	<b>(17,389)</b>
(10,578)	(5,460)	6,325	(3,196)	(2,647)	(5,476)	(4,084)	<b>(13,191)</b>
17,308	13,916	20,194	21,291	27,360	26,422	34,142	<b>31,712</b>
184,206	191,766	215,837	228,840	258,742	254,106	267,215	<b>285,952</b>
83,413	89,923	102,019	118,433	140,439	142,041	152,473	<b>167,916</b>
31,240	27,405	36,507	36,538	36,907	34,817	34,634	<b>26,581</b>
13,931	13,488	16,312	15,246	9,547	8,394	492	<b>(5,131)</b>
8.0	8.3	8.4	9.7	10.9	10.6	10.9	<b>9.6</b>
7.4	7.9	7.7	9.3	10.9	9.0	9.9	<b>9.2</b>
45.3	46.9	47.3	51.8	54.3	55.9	57.1	<b>58.7</b>
0.17	0.15	0.16	0.13	0.07	0.06	0.00	<b>(0.03)</b>
32.76	36.60	39.69	54.58	75.65	68.24	78.03	<b>77.49</b>
448.43	480.46	545.14	632.94	750.63	759.27	815.10	<b>887.19</b>
54,614	67,711	71,983	74,104	75,484	74,169	73,744	<b>75,301</b>
0.667	0.784	0.861	0.882	0.833	0.809	0.817	<b>0.790</b>
5,891	6,160	6,792	7,068	7,398	7,579	7,886	<b>8,358</b>

# Report and Analysis of Financial Condition and Results

## Review of Management Performance



- Year-on-year increases in sales were achieved in all four major businesses.
- There was a slight decline in operating income due to higher capital investment and expenses associated with starting up a new factory.

### Net Sales

Consolidated net sales increased 8.5% year on year, to ¥215,716 million.

In Chain Operations, net sales increased 11.1% year on year, to ¥67,338 million. In regard to our drive chains, which boast the No. 1 share of the global market, a strong global reception was received by model change products featuring increased functionality in terms of wear resistance, fatigue strength, and environmental performance. In addition, sales of support and guidance systems for cables and hoses to the machine tool and automotive industries were favorable.

In Power Transmission Units and Components Operations, net sales increased 12.0% year on year, to ¥24,156 million. Impressive sales were posted for LCD and semiconductor manufacturing equipment in China, actuators and reducers for conveyance systems, and locking devices for the machine tool industry. The inclusion of a Thai clutch manufacturing subsidiary in the scope of consolidation from the fiscal year ended March 31, 2018, also contributed to higher sales.

In Automotive Parts Operations, net sales increased 5.9% year on year, to ¥79,545 million. Sales were down in Japan and the United States. Conversely, bases in Europe, Thailand, China, South Korea, and Mexico continued to enjoy brisk sales of timing drive systems for automobile engines.

In Materials Handling Systems Operations, net sales increased 7.7% year on year, to ¥44,187 million. There was a slump in sales of metalworking chip handling and coolant processing systems in the United States and Europe. However, the impacts of this slump were counteracted by strong sales of automatic sorting systems for the logistics industry and conveyance systems for the automotive industry in Japan. Furthermore, consolidated subsidiaries dealing in bulk handling systems continued to post impressive performance.

### Operating Income

Consolidated operating income was down 4.4% year on year, to ¥20,694 million. Operating income was up in Chain Operations and Power Transmission Units and Components Operations due to higher sales, but these increases were offset by massive decreases in operating income in Automotive Parts Operations and Materials Handling Systems Operations.

The decrease in operating income in Automotive Parts Operations was due in part to higher depreciation expenses resulted from increased capital investments for augmenting production capacities around the world in response to favorable order trends. Another factor was expenses associated with starting up a new factory. In Materials Handling Systems Operations, operating income declined due to an inability to collect unpaid receivables at a consolidated subsidiary in the United States.

### Profit Attributable to Owners of Parent

Profit attributable to owners of parent rose 0.5% year on year, to ¥14,666 million. The main factor behind this increase was the tax cuts in the United States.

Adhering to its policy of targeting a consolidated dividend payout ratio of 30%, the Company issued dividends per share of ¥24.0 for the fiscal year ended March 31, 2018, ¥1.0 higher than the initial forecast.

Note: Net sales figures for business segments include intersegment sales and transfers.

# of Operations for the Fiscal Year Ended March 31, 2018

## Review of Financial Condition and Cash Flows

### Key Points

- The equity ratio improved and our financial base continued to grow stronger.
- Positive free cash flow rose, providing greater funds for growth investments and shareholder returns.

### Total assets

Total assets on March 31, 2018, stood at ¥285,952 million, up ¥18,736 million from the previous fiscal year-end. Factors behind this increase included higher property, plant and equipment stemming from aggressive capital investment as well as a rise in inventories associated with an increase in merchandise and finished goods.

### Net Assets and Equity Ratio

Net assets totaled ¥169,765 million on March 31, 2018, up ¥13,546 million from the previous fiscal year-end, due to an increase in retained earnings as well as improvements in the market values of stocks held by the Company because of a brisk stock market. As a result, the equity ratio was 58.7%, up 1.6 percentage points from a year earlier.

### Cash Flows

Net cash provided by operating activities was ¥27,657 million, an increase from ¥25,434 million in the previous fiscal year. This rise was a result of an increase in depreciation and amortization.

Net cash used in investing activities amounted to ¥17,389 million, compared with ¥13,420 million in the previous fiscal year, and mainly stemmed from capital investment in Automotive Parts Operations.

As a result of the above, free cash flow in the fiscal year ended March 31, 2018, was a positive ¥10,268 million.

### Performance by Geographic Segment

		(Millions of yen)		
		FYE 2017	FYE 2018	YoY Change (%)
Japan	Net sales* <sup>1</sup>	117,795	125,380	+6.4
	Operating income* <sup>2</sup>	11,351 (9.6%)	12,203 (9.7%)	+7.5
The Americas	Net sales* <sup>1</sup>	50,830	52,862	+4.0
	Operating income* <sup>2</sup>	4,853 (9.5%)	3,034 (5.7%)	-37.5
Europe	Net sales* <sup>1</sup>	23,181	25,620	+10.5
	Operating income* <sup>2</sup>	687 (3.0%)	204 (0.8%)	-70.2
Indian Ocean Rim	Net sales* <sup>1</sup>	12,763	14,850	+16.4
	Operating income* <sup>2</sup>	1,744 (13.7%)	2,138 (14.4%)	+22.6
China	Net sales* <sup>1</sup>	18,186	22,251	+22.4
	Operating income* <sup>2</sup>	925 (5.1%)	864 (3.9%)	-6.5
South Korea and Taiwan	Net sales* <sup>1</sup>	8,378	9,684	+15.6
	Operating income* <sup>2</sup>	273 (3.3%)	471 (4.9%)	+72.3

\*1 Net sales includes intersegment sales and transfers.

\*2 Figures in parentheses (%) represent the operating income margin.

### Cash Flow-Related Indexes

	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Equity ratio* <sup>1</sup> (%)	51.8	54.3	55.9	57.1	58.7
Equity ratio (market-based)* <sup>2</sup> (%)	60.3	72.4	51.3	65.0	57.3
Debt repayment periods* <sup>3</sup> (Years)	1.9	1.7	1.8	1.4	1.0
Interest coverage ratio* <sup>4</sup> (Times)	41.3	60.4	58.0	93.7	105.4

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

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

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

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

# Principal Tsubaki Group Companies (As of June 30, 2018)

\*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>			
Tsubakimoto Custom Chain Co.*1,2	¥125 million	99.6%	Manufacture of small-pitch conveyor chains and specialty chains
Tsubakimoto Sprocket Co.*1	¥126 million	100.0%	Manufacture and sales of sprockets and couplings
Tsubaki Yamakyu Chain Co.*1	¥126 million	100.0%	Manufacture and sales of various types of plastic chains and automated equipment
Tsubakimoto Iron Casting Co.*1	¥50 million	100.0%	Casting, processing, and sales of iron and steel products
Tsubakimoto Bulk Systems Corp.*1	¥150 million	100.0%	Manufacture and sales of bulk materials handling systems
Tsubakimoto Mayfran Inc.*1	¥90 million	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubakimoto Machinery Co.*1	¥139 million	100.0%	Domestic sales of Tsubaki Group products
Tsubaki Support Center Co.*1	¥80 million	100.0%	Building maintenance service and insurance agency, etc.
<b>The Americas</b>			
U.S. Tsubaki Holdings, Inc.*1,2 (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*1 (United States)	US\$2,000	100.0%	Manufacture and sales of chains and power transmission products
U.S. Tsubaki Automotive, LLC*1 (United States)	US\$2,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Kabelschlepp America, Inc.*1 (United States)	US\$100	100.0%	Manufacture and sales of cable carriers
Central Conveyor Company, LLC*1,2 (United States)	US\$21,258,000	100.0%	Manufacture and sales of materials handling systems
Mayfran International, Incorporated*1 (United States)	US\$1,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Tsubaki of Canada Limited*1 (Canada)	CAN\$6,295,000	100.0%	Manufacture and sales of chains and power transmission products
Tsubakimoto Automotive Mexico S.A. de C.V.*1 (Mexico)	MXN173,000,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Brasil Equipamentos Industriais Ltda.*1 (Brazil)	R\$2,458,000	100.0%	Sales of chains and power transmission products
<b>Europe</b>			
Tsubakimoto Europe B.V.*1,2 (Netherlands)	EUR17,422,000	100.0%	Sales of chains, power transmission products, and automotive parts
Mayfran Limburg B.V.*1 (Netherlands)	EUR226,000	100.0%	Manufacture and sales of conveyors for chips and scraps
Mayfran International B.V.*1 (Netherlands)	EUR45,000	100.0%	Sales of conveyors for chips and scraps
Tsubaki Kabelschlepp GmbH*1 (Germany)	EUR2,600,000	100.0%	Manufacture and sales of cable carriers and materials handling systems
Tsubaki Ibérica Power Transmission S.L.*1 (Spain)	EUR1,600,000	100.0%	Sales of chains and power transmission products
Tsubaki Deutschland GmbH*1 (Germany)	EUR100,000	100.0%	Sales of chains, power transmission products, and automotive parts
Kabelschlepp GmbH-Hünsborn*1 (Germany)	EUR51,000	100.0%	Manufacture and sales of materials handling systems
Tsubakimoto UK Ltd.*1 (U.K.)	STGE550,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Metool Products Limited*1 (U.K.)	STGE203,000	100.0%	Sales of chains
Kabelschlepp France S.A.R.L.*1 (France)	EUR165,000	100.0%	Sales of cable carriers and materials handling systems
Mayfran France S.A.R.L.*1 (France)	EUR16,000	100.0%	Sales of conveyors for chips and scraps
Kabelschlepp Italia S.R.L.*1 (Italy)	EUR350,000	90.0%	Sales of cable carriers and materials handling systems
Tsubaki Automotive Czech Republic s.r.o.*1,2 (Czech Republic)	CZK549,340,000	100.0%	Manufacture and sales of automotive parts
Kabelschlepp Systemtechnik spol. s.r.o.*1 (Slovak Republic)	EUR49,000	100.0%	Manufacture and sales of materials handling systems
OOO Tsubaki Kabelschlepp*1 (Russia)	RUB6,000,000	100.0%	Sales of cable carriers
<b>Indian Ocean Rim</b>			
Tsubakimoto Singapore Pte. Ltd.*1 (Singapore)	¥960 million	100.0%	Manufacture and sales of chains, power transmission products, and materials handling systems
PT. Tsubaki Indonesia Manufacturing*1,2 (Indonesia)	US\$19,200,000	100.0%	Manufacture and sales of materials handling systems
PT. Tsubaki Indonesia Trading*1 (Indonesia)	US\$520,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto (Thailand) Co., Ltd.*1 (Thailand)	THB4,000,000	95.1%	Sales of chains and power transmission products
Tsubakimoto Automotive (Thailand) Co., Ltd.*1 (Thailand)	THB202,000,000	100.0%	Manufacture and sales of automotive parts
Tsubaki Motion Control (Thailand) Co., Ltd.*1 (Thailand)	THB65,000,000	100.0%	Manufacture and sales of power transmission products
Tsubaki Power Transmission (Malaysia) Sdn. Bhd.*1 (Malaysia)	MYR1,500,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubakimoto Vietnam Co., Ltd.*1 (Vietnam)	VND7,120,000,000	100.0%	Sales of chains and power transmission products
Tsubakimoto Philippines Corporation*1 (Philippines)	PHP9,840,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubaki India Power Transmission Private Limited*1 (India)	INR20,000,000	100.0%	Sales of chains and power transmission products
Kabelschlepp India Private Limited*1 (India)	INR8,897,000	100.0%	Sales of cable carriers
Mahindra Tsubaki Conveyor Systems Private Limited*4 (India)	INR313,775,000	51.0%	Manufacture and sales of materials handling systems
Tsubaki Australia Pty. Limited*1 (Australia)	AUD\$300,000	100.0%	Sales of chains and power transmission products
<b>China</b>			
Tsubakimoto Automotive (Shanghai) Co., Ltd.*1	RMB20,692,000	100.0%	Manufacture and sales of automotive parts
Tsubakimoto Chain (Shanghai) Co., Ltd.*1	US\$400,000	100.0%	Sales of chains, power transmission products, and materials handling systems
Tsubaki Motion Control (Shanghai) Co., Ltd.*1	US\$5,200,000	100.0%	Manufacture and sales of power transmission products
Tsubakimoto Bulk Systems (Shanghai) Corp.*1	RMB6,000,000	100.0%	Sales of bulk materials handling systems
Tsubakimoto Chain Engineering (Shanghai) Co., Ltd.*4	US\$1,000,000	90.0%	Provision of engineering services in relation to chains, automotive parts, and materials handling systems
Tsubakimoto Chain (Tianjin) Co., Ltd.*1,2	US\$7,700,000	90.0%	Manufacture and sales of chains and automotive parts
Tsubaki Everbest Gear (Tianjin) Co., Ltd.*1	RMB87,496,000	59.4%	Manufacture and sales of reducers, variable speed drives, actuators, clutches, and their related products
Kabelschlepp China Co., Ltd.*1	RMB13,866,000	100.0%	Manufacture and sales of cable carriers and materials handling systems
Tianjin Tsubakimoto Conveyor Systems Co., Ltd.*3	RMB8,314,000	47.0%	Manufacture and sales of bulk materials handling systems
Tsubaki CAPT Power Transmission (Shijiazhuang) Co., Ltd.*4	RMB104,289,000	51.0%	Manufacture and sales of sprockets and couplings
<b>South Korea and Taiwan</b>			
Taiwan Tsubakimoto Co.*1 (Taiwan)	NT\$70,000,000	100.0%	Manufacture and sales of chains, power transmission products, and automotive parts
Tsubakimoto Automotive Korea Co., Ltd.*1,2 (South Korea)	WON29,500,000,000	100.0%	Manufacture and sales of automotive parts
Tsubakimoto Korea Co., Ltd.*4 (South Korea)	WON700,000,000	100.0%	Sales of chains and power transmission products

# Corporate Data and Stock Information (As of March 31, 2018)

### Corporate Data

Company Name	Tsubakimoto Chain Co.
Date of Foundation	December 1917
Date of Incorporation	January 31, 1941
Paid-in Capital	¥17,076 million
Headquarters	3-3-3, Nakanoshima, Kita-ku, Osaka 530-0005, Japan
Telephone	+81 (6) 6441-0011 (Receptionist)
Fiscal Year-End	March 31

Number of Consolidated Subsidiaries	59
Number of Unconsolidated Subsidiaries	8
Number of Affiliates	9 (including 1 equity-method affiliate)
Number of Employees* (consolidated)	8,358
Manufacturing facilities	Kyotanabe, Saitama, Nagaokakyo, Hyogo, Okayama

\* Including contracted staff and temporary staff, etc.

### 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	9,825

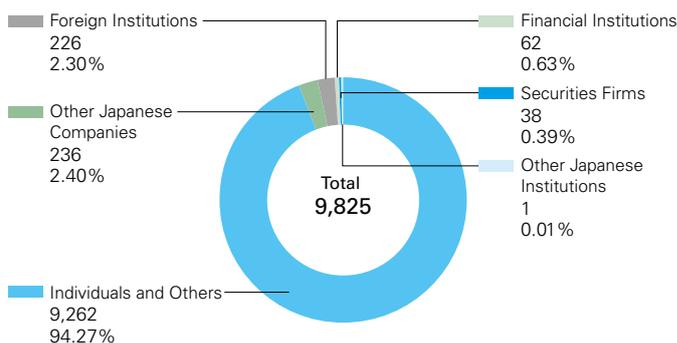
### Major Shareholders (Top 10 Companies)

Name	Number of Shares Held (Thousands)	Percentage of Total Shares Issued (%)
Taiyo Life Insurance Company	17,798	9.40
Nippon Life Insurance Company	9,850	5.20
The Master Trust Bank of Japan, Ltd. (Trust account)	9,612	5.07
Japan Trustee Services Bank, Ltd. (Trust account)	8,766	4.63
Toyota Motor Corporation	7,722	4.07
Sumitomo Mitsui Banking Corporation	7,034	3.71
Kyoeikai Members Stock Ownership Association	6,501	3.43
Tsubakimoto Kogyo Co., Ltd.	5,294	2.79
Sumitomo Mitsui Trust Bank, Limited	4,245	2.24
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,563	1.88

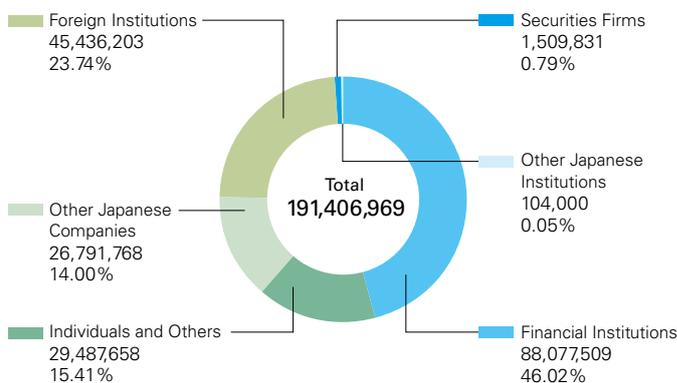
- Numbers less than 1,000 have been rounded down.
- Percentage of total shares issued has been calculated excluding the treasury stock of 2,139,235 shares.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd., changed its name to MUFG Bank, Ltd., as of April 1, 2018.

### Shareholder Composition

#### Number of Shareholders



#### Number of Shares Held



Treasury stock of 2,139,235 shares is included in "Individuals and Others."

Contact for Inquires with Regard  
to the Corporate Report

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**TSUBAKIMOTO CHAIN CO.**

<http://tsubakimoto.com>

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