





## — TS Philosophy —

### Beliefs

**“Due regard for human resources”  
A “company welcomed with joy”**

### Company Principle

**We will always provide comfortable,  
high-quality products at a competitive price  
for customers all over the world,  
pursuing our dreams  
through creating products and  
challenging infinite possibilities.**

### Management Policies

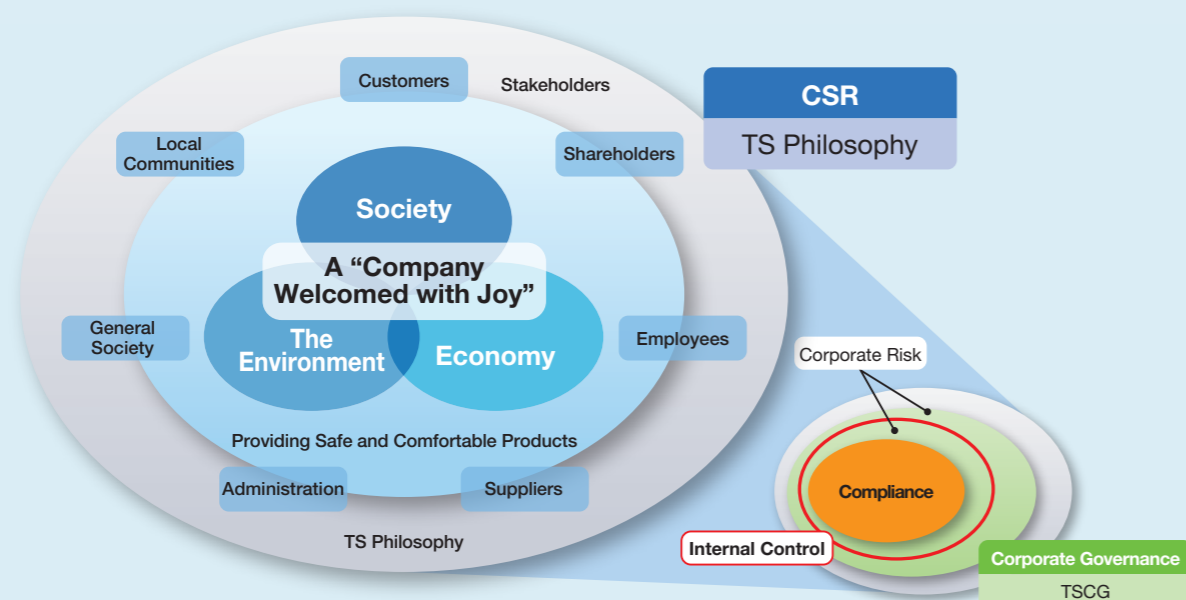
- Create a bright working atmosphere, respecting harmony and communication among people.
- Work in a harmonious manner, making the most effective use of time and observing priorities.
- Challenge the creation of new value, using wisdom in an enthusiastic manner.
- Strive constantly for the realization of individual visions.

## Corporate Message

# Beyond Comfort

In the manufacture of its products, TS TECH pursues safety, environmental sustainability, and comfort. The pursuit of comfort in particular is multifaceted and deep, and over the course of time, this pursuit is subject to an infinite process of evolution. When we approach our tasks as individual members of the TS TECH Group, our actions are underpinned by the belief that comfort leads to satisfaction, which in turn brings joy to the end users of our products. Under the TS Philosophy, we are not bound to the present, but rather we create products that go beyond the present in order to bring joy to all our stakeholders. Our will and determination to take on the challenges of a world whose future shape we cannot yet see are expressed through the words “Beyond Comfort.”

## Conceptual Overview of TS TECH's CSR



Introduction

Evolution as a Global Company

Taking steps to realize our 2020 Vision: Innovative Quality Company—World leader in component competitiveness

With the aim of realizing the 2020 Vision that the Group established in 2011, the TS TECH Group set a qualitative goal of “Evolution as a Global Company” as part of its 11<sup>th</sup> Medium-Term Management Plan (effective for the three-year span from April 2011 to March 2014) and tackled this goal using diverse strategies. The principal results are reported here.

Growth strategy for realizing the 2020 Vision

Realizing the 2020 Vision

Working toward a quantitative target under the 11<sup>th</sup> Medium-Term Management Plan of an operating profit margin of 6% or more, TS TECH achieved an operating profit margin of 8.6% in the fiscal year ended March 31, 2014. This was partly driven by the structural improvements that the Group pursued in each region.

Strengthening global operations

Building a global operations structure

In addition to its head office in Japan, TS TECH has established regional headquarters in China, the Americas, and Asia and Europe—the major global market regions—and is building production and development systems tailored to its customers in each region.

Technical capabilities

Advanced technology development capabilities

TS TECH aims to develop appealing products that exceed the expectations of customers by focusing on the three areas of safety technology, environmental technology and design technology.

Develop as a leading company in CSR

Develop as a leading company in CSR

TS TECH is laying the foundations for original CSR initiatives, for example, by holding CSR workshops to identify all the points of contact that employees’ own work and the company have with society.

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Editorial Policy

In 2012 the TS TECH Group issued the new TS TECH Report by integrating the annual reports and environmental reports that it had until 2011 published in separate volumes. The new TS TECH Report was reorganized from the twin perspectives of financial information and non-financial information (corporate social responsibility (CSR)).

The Group is carrying out a variety of activities and initiatives in terms of the economy, the environment, and society in order to be a “Company Welcomed with Joy.” This report is issued with the purpose of fulfilling the Group’s accountability in these regards. It is also a part of a commitment to “Build a corporate structure with advanced CSR characteristics,” which is one of the measures in the 11<sup>th</sup> Medium-Term Management Plan (April 2011 to March 2014).

The ISO 26000 international guidelines for corporate social responsibility, issued in November 2010, were consulted in editing this report.

Scope of the report

TS TECH Report covers the entire TS TECH Group that conducts business in Japan and around the world. However, the scope of the report may differ depending on business activities and CSR initiatives.

Period covered by the report

In principle, this report covers the period from April 1, 2013 to March 31, 2014 (fiscal 2014), but it may include coverage of activities before or after that period.

Disclaimer

This report contains forward-looking statements of TS TECH Co., Ltd. pertaining to plans, strategies, and results. These forward-looking statements are based on currently available information, and actual results may vary significantly from the forward-looking statements contained in this report due to a range of variable factors.

For comments and inquiries regarding this report, please contact us at the address below.

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## A Message from the President



# Developing attractive products that exceed customer expectations

In the fiscal year ended March 31, 2014, TS TECH recorded its highest operating, ordinary and net income figures. Not only that, we achieved an 8.6% operating profit margin, beating the target we had set for the last year of our 11<sup>th</sup> Medium-Term Management Plan. Now under the 12<sup>th</sup> Medium-Term Management Plan, TS TECH is working to establish its position as a global company with the aim of becoming an Innovative Quality Company and world leader in component competitiveness under its 2020 Vision.

Michio Inoue

President and Representative Director

### Message

**Michio Inoue**  
President and  
Representative Director

Michio Inoue joined Tokyo Seat (renamed TS TECH in 1997) in April 1977. He was appointed to the Board of Directors and as Executive General Manager of the Development and Engineering Division in 2002 and Director and Chairman of TS TECH North America, Inc. (now TS TECH AMERICAS, INC.) in 2008. Mr. Inoue was named Executive Vice President (Representative Director) of TS TECH in 2010 and has served as President since April 2013.

### Consolidated operating performance for the fiscal year ended March 31, 2014

During the fiscal year ended March 31, 2014, there was an increase in orders from major customers, chiefly in the Americas and China. As a result, the Group recorded growth in sales and income as consolidated net sales amounted to 457,053 million yen, up 27.2% from the previous fiscal year; operating income stood at 39,133 million yen, up 61.6%; ordinary income was 42,937 million yen, up 57.8%; and net income amounted to 23,900 million yen, up 51.8%. In terms of income, the Group recorded its highest figures since the fiscal year ended March 31, 2008. I believe this is due to the various strategies we implemented to grow the TS TECH Group; they translated into business results.

### Review of the 11<sup>th</sup> Medium-Term Management Plan

The 11<sup>th</sup> Medium-Term Management Plan (effective from April 2011 to March 2014) was the first medium-term management plan in the period for our 2020 Vision, our ten-year vision for becoming an Innovative Quality Company and world leader in component competitiveness. The Group worked on a range of strategies to build toward 2020, and I will explain the main details of these strategies here.

First, regarding our quantitative target of an operating profit margin of 6.0% or more, TS TECH achieved an operating profit margin of 8.6%, exceeding the target, partly due to growth in sales and partly due to the structural improvements that the Group achieved in each region, chiefly the Americas.

Next, with respect to the qualitative goal of "Evolution as a Global Company," TS TECH established a regional headquarters for Asia and Europe in Bangkok, Thailand, resulting in its third regional headquarters alongside those for the Americas and China. As a result, the Company has successfully established the foundation of its global operations framework for four regions of the world.

As part of our intensified efforts as Honda's global growth partner, we worked to expand our production system in Thailand, India and Indonesia and also

established our development system in China. In Japan, in addition to commencing production of seats for Honda's N-WGN light car at the Suzuka Plant, we also established an engineering and sales support office at the plant with the aim of increasing orders of seats and interior fittings for light cars, which are enjoying strong sales.

Through intensified efforts to expand sales to customers other than Honda, we received an order for 3<sup>rd</sup> row seats from new customer Volkswagen for its next SUV. We plan to commence production in 2015 at a newly established plant in Hungary. Moreover, in the Americas we began production of trim covers for Mazda in January 2014 as part of a strategy to strengthen our components business with customers beyond Honda.

### Main structural improvement initiatives in the Americas

The Americas achieved the most outstanding results in the initiatives for structural improvement, which we undertook in each region in order to reach an operating profit margin of 6.0% or more. Structural improvement was a pressing issue because profit performance in the Americas had always been a key challenge for the Group. The main improvement measures were:

**Streamlining of back-office functions:** Centralization of back-office functions, such as personnel, accounting and computer systems that were duplicated at group companies and at TS TECH AMERICAS, INC., the regional headquarters.

**Improvement of productivity:** In addition to switching to multi-purpose production lines and reducing the number of production lines, growth in production volume was accommodated through automation rather than personnel increases.

**Control of investment:** Controlling growth of depreciation and amortization expenses by keeping investment when switching over to production of new models to around 60–70% of the previous level, mainly by switching to multi-purpose production lines.

As a result of these and other initiatives, the Americas achieved a significant improvement in profitability.

### Achievements

#### Operating profit margin target: 6.0% or more → 8.6% achieved

The Company met its quantitative target to improve operating profit margin under the 11<sup>th</sup> Medium-Term Management Plan, partially as a result of the structural improvements in each region.



#### Completion of a foundation for global operations:

We set up the Asia and Europe regional headquarters in January 2013, completing the foundation for our global operations, which includes headquarters in the Americas and China.



### Challenges

#### Further expansion of sales beyond existing customers:

To achieve the 2020 Vision, the TS TECH Group will work to grow new business with customers other than Honda.



#### Development of products that exceed customer expectations:

We will focus on developing and delivering highly attractive products that exceed customer expectations.



## Starting the 12<sup>th</sup> Medium-Term Management Plan

The 12<sup>th</sup> Medium-Term Management Plan, which commenced at the beginning of the current fiscal year ending March 31, 2015, sets 500,000 million yen in consolidated net sales and 45,000 million in operating income as quantitative targets and “Establishment of position as a global company” as the qualitative target. These goals will take us even higher as we reinforce the strategies of the 11<sup>th</sup> Medium-Term Management Plan and work to achieve the 2020 Vision.

Under the new plan, TS TECH will focus intensely on generating unprecedented value through new product development and innovative production engineering that can deliver the same functionality for a much lower cost. In both these endeavors, we are determined to develop attractive products that exceed customer expectations.

We do not believe that cost alone ensures product competitiveness. Rather, acknowledging today’s intense competition, we understand that we must create highly attractive products that customers around the world strongly prefer.

The new plan also continues and prioritizes the major efforts we made under the 11<sup>th</sup> Medium-Term Management Plan growth strategy to expand sales to customers other than Honda. We appointed a director in charge of new business develop-

ment in April 2013, and we have reinforced our sales structure in Europe (Germany) and Asia (Thailand), China and the Americas. We are committed to expanding our business to new customers.

## Developing human resources who can beat the competition

Human resource development is the key to prevailing in the global arena. Constructing infrastructure to foster individuals capable of competing worldwide is a priority measure in both the 11<sup>th</sup> and 12<sup>th</sup> Medium-Term Management Plans. We have already implemented selective training programs such as TS Camp, TS Overseas Trainee System and TS Academy under the 11<sup>th</sup> Medium-Term Management Plan.

We understand that we must further enhance the human resource training programs we offer, not only in Japan but also at group companies around the world. Each of the world regions targeted for Group expansion has its own distinctive customs, cultures, laws and religions. TS TECH will establish training programs for local employees at overseas group companies that respect this diversity. In doing so, we will ensure that our training programs also take account of the overall operations of the TS TECH Group and facilitate cooperation and collaboration among group companies and across regions. I believe these steps will ensure that we have the

global perspective required to consistently meet the needs of our customers anywhere in the world.

## Ensuring that all employees embrace the TS Philosophy

We believe that all the employees at our group companies want to take pride in the companies they work for and the work that they do. Our global professionals devote themselves to their work while considering the value they can create for themselves and society every day by doing a good job for their company.

To leverage all this people power, we believe that sharing the TS Philosophy is critical for our globally expanding Group.

The TS Philosophy defines the *raison d’être* of the Company and sets down the principles that guide everything we do. It thus builds common ground and shared understanding among employees around the world. It also enables us to share the course the Group is taking by helping each person understand how his or her work contributes to our goals and is relevant to the broader society. I also believe that the TS Philosophy increases solidarity in the workplace and adds motivation for individual employees.

## Group-wide growth is essential for CSR and social contribution activities

At the TS TECH Group, social responsibility means delivering on the TS Philosophy by developing business activities that integrate economic, social and environmental contributions while consistently delivering safe, comfortable products and striving to be a company welcomed with joy.

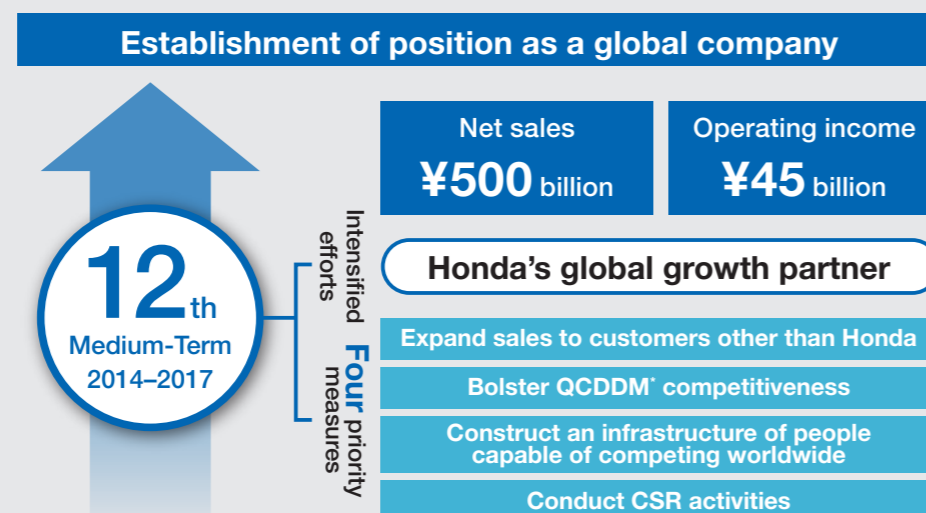
In line with this approach, we have made conducting CSR activities a priority under the 12<sup>th</sup> Medium-Term Management Plan. The intention is to make all of our employees aware that the ultimate goal of social contribution is national development, for which consistent growth as a company is essential. Social contribution is only possible when our own company can maintain the strength that allows it to sustain growth.

## A final word to the readers of this report

The TS TECH Group is determined to keep expanding its business activities by creating products that exceed society’s expectations and pursuing consistent growth based on the TS Philosophy. We pledge to work even harder for further growth and development so that our stakeholders will not only be delighted that TS TECH exists but also be impressed with what TS TECH can do.

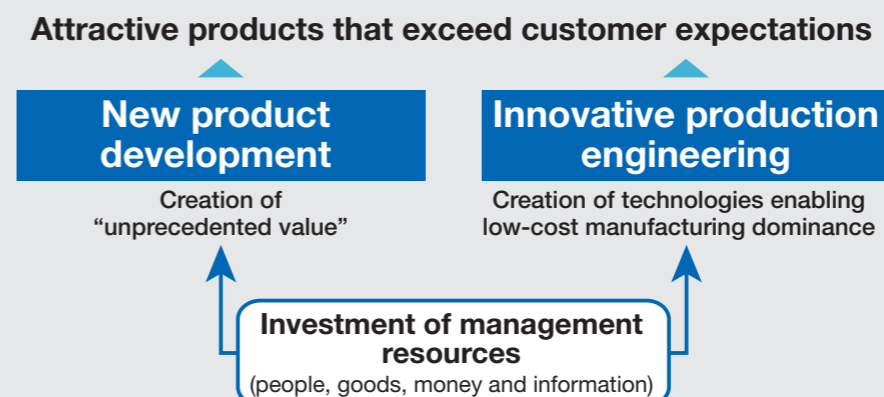


### 12<sup>th</sup> Medium-Term (April 2014–March 2017)



\*QCDDM: Quality Cost Development Delivery Management

### 2020 World leader in component competitiveness



## Dialogue with Three TS TECH Group Regional General Managers

### Dialogue

**Associate Professor Shiho Nakamura of Ritsumeikan University joined three TS TECH officials in discussing how the Group's philosophy relates to developing human resources and becoming a truly global company.**

#### Americas

(United States, Canada, Mexico and Brazil)

##### Achievement

Knowledge has been expanded through the TC Circle World Conference and other events

##### Task

Establish human resource development methods that are not affected by high labor mobility

**Nakamura:** What is your perspective on international human resource management?

**Arai:** In a nutshell, I take it to mean nurturing people who can thrive anywhere in the world. "Global" is about going to places where the environment is different. TS TECH employees in a range of jobs are constantly moving between Japan and the Americas, China, other parts of Asia, and Europe and participat-

## As TS TECH expands globally, what philosophy play in developing human

ing in worldwide conferences. For example, TC Circle\* teams compete at sites around the world, with winners going to Japan for our World Conference. Participants interact with peers from other countries, strengthening ties among Group members.

These experiences broaden perspectives. People learn firsthand about Japan, its culture, and what it's like to work at our Head Office. This is a great opportunity for employees to see things in a new way—and whatever they learn in Japan can be shared with colleagues at home. We think this is one of the best ways to develop global human resources.

\*TC Circle: A program for improving processes using quality assurance methods

**Nakamura:** Few Japanese car component manufacturers have profitable operations in the Americas. TS TECH experienced a long slump there too, but in recent years operations have become profitable. What do you think were the key factors driving this turnaround?

**Arai:** We aggressively undertook several structural improvements aimed at boosting production efficiency, limiting capital

investment by making plants and equipment more general-purpose, and reducing personnel costs by increasing automation. I think these measures, coupled with a recovery in automobile demand, are what led to our improved profitability in the Americas.

The TS Philosophy was part of the turnaround too. It's not easy, but at each site we try to fully convey our mindset to local employees. We want people to understand our traditions, our workplace atmosphere, and our approach to work. We're always trying to improve, and at each step along the way we focus on our priorities, put our knowledge to use, and communicate with those around us. In the Americas we tackled the challenges we faced with passion and energy, and I think that's why we had such great success.

#### China

(China and Hong Kong)

##### Achievement

Sense of working together as associates has spread among employees

##### Task

Develop high-cost-performance products that are optimally suited to local vehicles

**Nakamura:** What is your perspective on international human resource management?

**Okubo:** We translated the Group's Concept Manual into Chinese and gave it to all employees. It explains the TS Philosophy and conduct guidelines. I work to ensure that the key messages get through to employees. This means that when I talk with people on the factory floor we can understand each other even using a bare minimum of vocabulary. In this way we're making sure that everyone learns the contents of the Concept Manual as part of their everyday activities.

One result is that employees now see co-workers as associates rather

## role does the Company's corporate resources?

than as part of a subordinate/superior hierarchy. So if an employee is sent to help at another Group company, they can interact on friendly, equal terms. I think we've built a lot of trust into our relationships—and this helps create capable, motivated employees.

**Nakamura:** So employees from across the Group understand each other's perspective. Working with local employees, what do you think is important to successfully compete in China—the world's largest automobile market?

**Okubo:** Most growth in China has been in the upper end of the market, but from now we expect to see growth in the mid and lower segments too. To localize product planning and development for these segments, in August 2013 we established Guangzhou TS TECH Automotive Interior Research & Development Co., Ltd.

We expect to be competitive with local manufacturers in both cost and quality. Superior product quality is vital to win the trust of local customers, yet we must strive everyday to keep costs down too. One might say this is putting the TS Philosophy into practice.

#### Asia and Europe

(Thailand, Philippines, India, Indonesia and the United Kingdom)

##### Achievement

Staff from across the region have provided skills in other countries regardless of nationality

##### Task

Further expand sales to European automobile manufacturers

**Nakamura:** What is your perspective on international human resource management?

**Yui:** People such as Takuo Arai have already made great progress in developing local human resources. So, rather

than dispatching staff from Japan, we count on high-caliber people in local countries to develop local staff. I think that's the case in many of our international operations—managers are being developed locally.

Today we have the TS Philosophy in written form, but I think we benefited from the foundation of *monozukuri* (the art and science of manufacturing) built by our predecessors in the late 1970s, when the Group first began overseas operations.

Let me tell you about a female employee in Thailand whom we dispatched to India to help with sewing trim covers. Despite dealing with things such as food and religious differences, she earned wide acclaim for her passionate efforts to train staff. People really appreciated her. I think this ability to look beyond national borders and see our Group as a whole is an important asset we learned from our predecessors.

**Nakamura:** How did the TS Philosophy help win an order from Volkswagen in Europe?

**Yui:** In April 2011 we won an order to produce third-row seats for Volkswagen's next-generation SUV. It wasn't a matter of luck or chance. We began new customer development in Europe in 2005, promoting the Group's outstanding technology and product development capabilities. At the same time, we adopted a TS mindset that calls for taking on new challenges while striving to attain our goals. I believe all of this was instrumental in winning Volkswagen's trust.

We have now established TS TECH HUNGARY Kft. to handle manufacturing and sales for the order from Volkswagen. Manufacturing is due to start in 2015, so we are making steady progress.

### Post-Dialogue Comments by Associate Professor Nakamura

This dialogue focuses on two key themes: management philosophy and human resource development. While I have done a lot of research related to the latter, I learned a great deal about the relationship between the two themes from the managers who took part in this dialogue.

How is the TS Philosophy conveyed to people overseas? Takuo Arai, Americas Executive General Manager, has worked in the U.S., China and other countries since 1988. While he does not subscribe to a particular personal philosophy, he has a rare ability to adapt to local conditions. Takashi Okubo, China Executive General Manager, says his approach is to "begin by getting to know the people you're dealing with." He says that to succeed in China, you need to understand the nation's recent history. And Yoshiaki Yui, Asia and Europe Executive General Manager, believes it is crucial to inspect the front line of production. He meticulously checks every part of the factory and stresses cleanliness as a prerequisite to quality production. Through the eyes of these three men, we can see a variety of ways the TS Philosophy is taking root at sites all around the world.

Today local employees play key roles in our overseas operations. This is the fruit of efforts made by these and other managers, along with company-wide support. For example, regional companies send staff to take part in Group-wide conferences in areas such as purchasing, sales, and production engineering. These events strengthen the ties not only between the head office and subsidiaries, but also among subsidiaries themselves. The head office has also introduced such programs as the TS Camp leadership training program to support human resource development.

**Shiho Nakamura**  
Associate Professor,  
Department of International  
Business Administration,  
College of Business  
Administration,  
Ritsumeikan University

•**Research Theme**  
International Human  
Resource Management  
in Japanese MNCs

**Yoshiaki Yui**  
Managing Director,  
Asia and Europe  
Executive General  
Manager

**Takashi Okubo**  
Managing Officer,  
China  
Executive General Manager

**Takuo Arai**  
Senior Managing  
Director,  
Americas  
Executive General  
Manager



## Interview with the Director in Charge of Finance

## Interview

## Achievements and Challenges

## Achievements

## Initiatives to strengthen earning capacity at Group companies:

Group companies set comprehensive profit targets that always look several years ahead and draft profit plans based on the targets to ensure stronger earning capacity.

## Challenges

## Independence of regional headquarters for China and for Asia and Europe

We are working to create a structure that treats each region overall as a single company and can ensure higher profits.

## Improving earning capacity at Group companies and building a more robust financial structure

We have implemented measures to further strengthen the Company's financial structure, aiming to ensure sustainable growth and development for all the companies in the globally expanding TS TECH Group.

## Please tell us about measures to strengthen the earning capacity of Group companies.

Since 2012, as part of the 11<sup>th</sup> Medium-Term Management Plan, we have been working to establish and manage profit targets at Group companies around the world based on financial indicators such as operating profit margin, marginal profit ratio, SGA ratio, ROE and so on. The goal is to try to build a robust financial structure that can ensure a certain level of profit even if sales decline.

In addition to this, we also strive to strengthen our management of profit plans by always looking several years into the future. While the Group's Medium-Term Management Plan generally covers three years, we create profit plans that look four years ahead, for example, and review everything each year to increase their precision. In this process, we look at factors such as regional economic conditions, our main clients' medium- and long-term production plans, and the Group's market trend forecasts. We believe these steps ensure that we are better prepared to make preemptive moves to address changes in the management environment.

## What is the situation regarding the regional headquarters for coordinating Group companies?

We set up TS TECH ASIAN CO., LTD. in January 2013 in Bangkok, Thailand as the regional headquarters for Asia and Europe, completing the foundation for our global operations alongside the

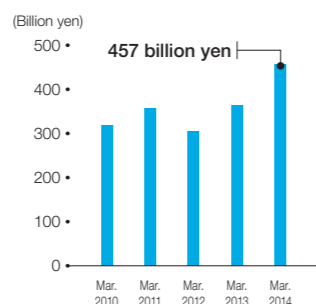
Americas and China. The oldest of the regional headquarters, the one in the Americas, is independent and functioning adequately in its role. However, the regional headquarters for China and for Asia and Europe, being relatively new, still require further strengthening of their functions. This is why, under the 12<sup>th</sup> Medium-Term Management Plan, we will provide a range of support to foster their independence, aiming to build a more efficient structure for our regional headquarters.

## What are your thoughts on being a "company welcomed with joy," which is one of TS TECH's beliefs?

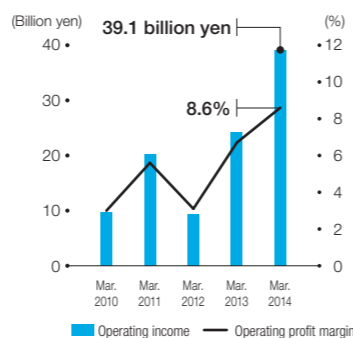
TS TECH was recently selected as a component of the JPX Nikkei Index 400. We are delighted that, as one of the top 400 firms, we have become a company with "high appeal for investors" based on the indicators of ROE, operating profit and market capitalization. It is gratifying to see TS TECH become widely known among investors.

One of the beliefs of the TS Philosophy is being a "company welcomed with joy." If the Group's presence is welcomed with joy by society as a whole, it is a sign that we are becoming a top-tier company. The recent selection as a component of the index is a major step in that direction. We will continue working to create a more robust financial structure so that TS TECH is welcomed with joy by all of its stakeholders.

## Consolidated net sales



## Consolidated operating income and operating profit margin



Kazuhiko Hikida  
Executive General Manager,  
Corporate Business  
Administration Division and  
Senior Managing Director



## Chapter 1

Results of the 11<sup>th</sup> Medium-Term Management Plan

This section shows the results for the three priority strategies under TS TECH's 11<sup>th</sup> Medium-Term Management Plan. The three key areas are "Bolster QCDDM competitiveness," "Construct an infrastructure of people capable of competing worldwide" and "Develop as a leading company in CSR."

## Report 1

## Competitiveness

## Bolster QCDDM competitiveness

- Structural improvement initiatives in the Americas
- Future technology, new technology



## Report 2

## People Power

## Construct an infrastructure of people capable of competing worldwide

Prioritizing international human resource management and promotion of diversity



## Report 3

## A Leading Company in CSR

## Develop as a leading company in CSR

Encouraging each employee to take the initiative to create CSR driven by each individual



## Competitiveness



Report 1

**Competitiveness**  
Bolster QCDDM competitiveness

## Structural improvement initiatives in the Americas

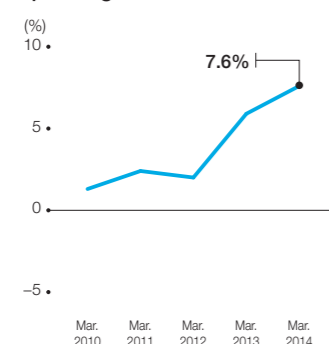
### A New Era for TS TECH in North America

TS TECH's North American operations have changed considerably over the past few years, evolving from individual companies into a coordinated and self-sufficient group that has weathered the economic recession, and achieved considerable improvements in quality and customer satisfaction.

Today, the 13 companies in the Americas (including Brazil) account for nearly half of the revenue and workforce of the TS TECH Group worldwide, and they are continuing to grow. This evolution into a pillar of the group's global operations has been the result of a deliberate effort to bring North American operations into a new era and to prepare it for even further growth in the future.

We visited TS TECH AMERICAS, INC., TS TECH USA CORPORATION and TS TRIM INDUSTRIES INC. in Reynoldsburg, Ohio to see how the company has managed this progression and what it means to the people who have been a part of it.

Operating Profit Ratio of the Americas



### Renewed focus on North American operations

The region concept was established a few years ago, with TS TECH Americas taking on a more central role that integrated sales and R&D functions, as well as manufacturing systems and purchasing. Prior to that, each location operated pretty much independently.

There were a couple of trigger points. First, TS TECH has been growing very fast globally. Japan realized that it could no longer manage everything effectively from one location and had been encouraging us to be more self-sufficient.

The economic recession was also a major factor. We were already moving toward taking on more responsibilities, but the economic crisis increased the sense of urgency. We knew that we had good people and technology here, and that the economy would recover at some point. We also realized that there was a lot of redundancy and that the various companies were at different levels of development. We felt that closer ties would offer a better chance for survival.

We tried to turn the recession into a source of strength, using it to bring the group together, especially the less mature companies that lacked the resources to survive on their own. We now have more



Jason J. Ma  
Executive Vice President, TS TECH AMERICAS, INC.

Message

### The Path to a Central Role for TS TECH Americas

TS TECH's North American operations have become a key part of the group's global network over the past few years, with TS TECH Americas playing a central role. TS TECH Americas Executive Vice President Jason J. Ma explains the circumstances that led to this shift, the measures they have taken, and how the TS Philosophy has helped to guide the way.

standardization and efficiency among our group companies. That's a huge change from the earlier time.

### Self-sufficiency and greater profitability

The growth and stability we've achieved is the result of a deliberate process based on several factors. One is that TS TECH realized that the U.S. is the key component in its global operations and several years ago included boosting profitability in the Americas as one of the goals of its global business plan. They provided extensive support with an extremely strong team of expats and helped to develop longer term strategies.

Another factor is the time and money we spent on boosting quality. We considered our strong and weak points and formulated a long-term plan to improve our weaknesses. The standardization in manufacturing has been particularly impressive and is probably even more advanced than in Japan I think. We produce higher volumes for fewer models than in Japan, so this is important.

Standardization on the management side has also been an important factor in raising efficiency, which we linked to profitability. We've made good use of the QAD management system and other tools and have seen a huge benefit.

The U.S. operations are now mature. Compared to 3-5 years ago, we have made considerable progress in almost every area, including manufacturing, quality, and material handling, as well as management and sales/purchasing. Our

R&D and testing is now pretty much established here, and we can now do around 98% of whatever they can do in Japan in terms of testing capability. Our Associates are becoming more skilled and working as one force together. We have made a conscious effort to guide people in a positive direction.

Every single manufacturing company turned a profit last year. I think that's a very strong statement that as a group we have reached a turning point.

### Standardizing the TS Philosophy

All of the companies in the TS TECH Group need to pursue their own interests, but we realize that there is a lot that we can do together that will make us stronger as a group. The TS TECH Philosophy is one way that we can convey our ideas in the business plan and guide people toward our core beliefs. It is a long-term process, but I think we've been pretty successful over the past couple of years. We try to explain how the ultimate goal relates to the goals of each department, section, and individual. More and more of our Associates are beginning to get that sense, and we are seeing the results.

One example is the standardization of our associate handbook. We had been talking about this for years, but it has not been easy. We want to standardize as much as possible, but since each state has its own laws and regulations, we need to allow enough flexibility to deal with individual circumstances and conditions. However, we have made sure to

incorporate the core company ideals. That was one major development.

We also standardized the structure of the organization, and that has made a tremendous difference. We are more like a corporate group. People are talking the same language, and we all understand our goals and work together. I think we have a good corporate culture here, founded on meeting expectations and putting the customer first. It's all about "Beyond Comfort." I'm glad that this culture has been accepted by the local Associates. I think they really understand it, and this has helped a lot.



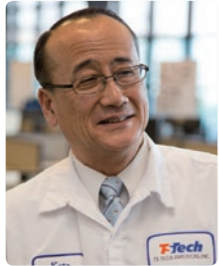
TS TECH USA CORPORATION



TS TRIM INDUSTRIES INC.

## Message

### “We are enhancing competitiveness through PCI.”



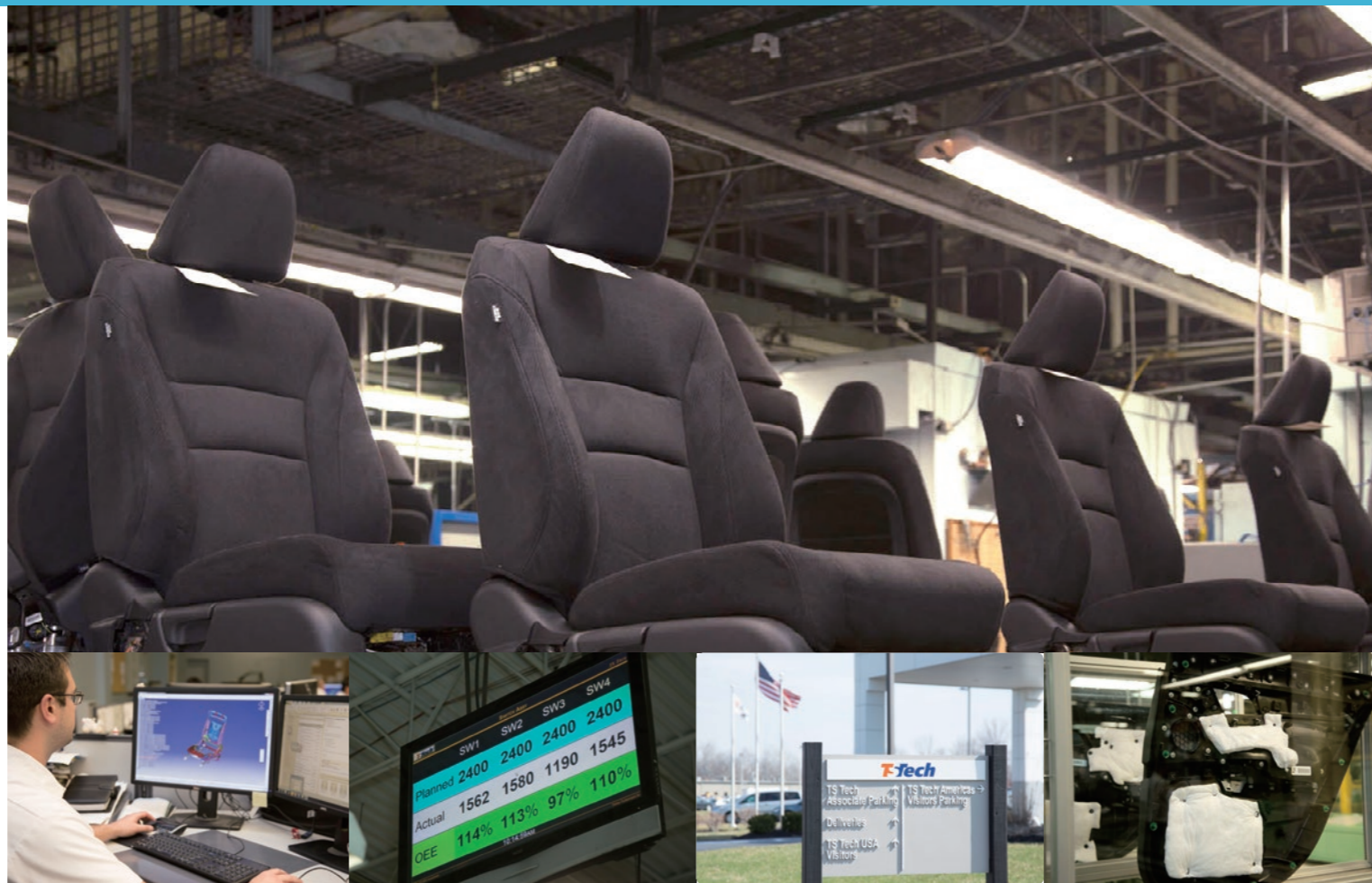
Hideyuki Kato  
Executive Vice President,  
Corporate Manufacturing  
TS TECH AMERICAS, INC.

The foundations of the production division have become extremely solid since the global financial crisis. The operation rate has improved, and we have made advancements in automation of production facilities. We are currently increasing our workforce to handle the business expansion, but rather than just hiring as many people as

possible, we are also emphasizing greater efficiency and automation. We have relocated many parts of the production process that still need to be done by hand to Mexico, where labor costs are lower. This combination of measures has further strengthened our competitiveness.

At the same time, since processing costs and other indices vary across Group companies, we established a standard called PCI (Production Characteristic Index) that allows us to determine the level of each plant and further enhance competitiveness.

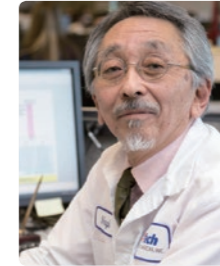
We are currently formulating business plans based on unified rules for the corporate group rooted in the TS Philosophy and will further accelerate this process. Of course, while common rules and standards are important, we are also aware of the need to maintain regional independence and balance. The foundation for the standardization process is now nearly complete, and we are moving on to the next stage of ensuring independence. Our aim is to establish a unique corporate culture for the region.



## Leading Figures in the Business Turnaround

Managers from three of TS TECH's North American companies talk about their efforts and the roles they've played in improving business performance.

### “We have improved profitability and product quality through mutual assessment among Group companies.”



Tsuneyasu Nagashima  
Vice President,  
Corporate Manufacturing  
TS TECH AMERICAS, INC.

The key factor behind the transition to a high earnings structure was probably the QCD (Quality, Cost, and Delivery) process introduced in 2008. QCD is an evaluation system based on common criteria, intended to reinforce the structure of the Group and enhance its overall performance. As

Group companies evaluate each other they become conscious of different circumstances and methods, thereby driving performance improvements. In 2013, we began shifting to a QCD process based more closely on our actual business conditions and are building a solid structure integrated with QAV\* in the measures adopted for the medium-term management plan that began in 2014.

I believe that the growth process for a company begins with unification and standardization, after which it is necessary to pursue the self-reliance of each site. As I have been involved in implementing the QCD process, we have entered the self-reliance stage. In line with the TS Philosophy of emphasis on human resources, we have a deep-rooted belief in the importance of providing employees with training and guidance and utilizing them to advance further. As one of the persons involved in this training, my aim is to produce high-caliber people to take responsibility and play key roles. I believe that nurturing talented people is essential to achieving the self-reliance that follows unification.

\*QAV: Quality Assurance Visit

### Building long-term relationships and a culture of trust



Scott Hepner  
Vice President,  
Corporate Commercial Relations  
TS TECH AMERICAS, INC.

Our partnerships with our customers and suppliers are crucial. We really try to focus on that trust aspect and make every effort to provide them with what they want as much as possible. We seek to establish long-term relationships, and the mutual respect gained in the relationships has benefitted

us, even as we are given challenges to be more competitive and innovative.

From a business perspective, we looked at the past recession and the earthquake disaster in Japan as an opportunity. It prompted us to review our supply bases. We focused on evaluating their characteristics, putting in place an audit process and new systems for better communication with our procurement centers. This has given us a much stronger core and better risk management. It was a difficult time, but by applying various strengthening measures we were able to maintain stability for our Associates.

The number one reason we are successful is our Associates. We see from the top down the respect for the Associate, especially on the plant floor. The system of promoting from within helps us maintain stability in our workforce, shows that we're committed, and conveys the foundations of our philosophy through concrete action.

Looking ahead, we are expanding our team to support the expansion of our customer base. As we broaden our scope, I'd like to see TS TECH continue to gain recognition in the market as a solid company that is highly respected and trustworthy.

### Self-sustainability and the future of R&D



Mike Stevens  
Vice President,  
Corporate R&D  
TS TECH AMERICAS, INC.

Initially we were a window for Japan development, but as the R&D style has changed, more and more work is being completed locally. Our goal is self-reliance. We want to have similar capabilities as Japan, and the systems we apply are the same. There were many difficulties getting to this point,

but TS TECH has been committed to passing on knowledge and helping us grow.

Tying all of the groups together and standardizing everything has been difficult, but overall the communication with the plants has grown dramatically. We're taking more time to understand their needs so that they have less downtime at launch.

Our biggest challenge at the moment is meeting even higher expectations, both supporting more models and adapting to a new development style that relies less on prototypes and more on virtual simulation. We are expanding capabilities in both areas and expect to double our workforce in the next three years.

My slogan for the last mid-term was "Innovative designs with reliability and customer trust." To me that means no matter who we talk to, we provide a service that is already credible. TS TECH fosters that kind of atmosphere for us. So for me, these ideas will lead us to a futuristic, completely virtual, worldwide global entity. We're still far away, but we are continuing to move in that direction.

### Remaining competitive, the next step in the company's evolution



Jeff Daniels  
Vice President,  
Plant Manager,  
TS TECH USA CORPORATION

The increase in our engineering capabilities over the past several years has had a considerable impact on improving efficiency and quality. We now handle almost all of our own equipment design and processing layouts. It's been a huge change, and we've had record profit years for the

last 2-3 years.

At first, the push toward standardization and integration with other parts of the TS TECH group was hard for everyone to understand since we were so independent. But with all the group activities over the past couple of years acceptance is better, and everyone is focused on helping each other.

We work hard to make sure that everyone understands the TS Philosophy, and I think that mental change, along with getting people to understand their role, is a big part of the reason for our quality improvement. Building seats is so dependent on the human element. The Associates recognize that they're part of something bigger, and that outlook is generating results. TS TECH USA has never won a Honda supplier award before, but this year we won three.

Looking ahead, we are preparing to support the next step in the company's evolution, expanding into other customers, markets, and product lines. We are making changes to our ISO systems, acquiring TS16949 certification so that we can supply all the general global automakers.

We have established a good foundation and understand what it takes to be competitive and maintain profitability. We know what it takes to inspire and motivate our Associates. We know how to handle change and evolution, to prepare for it and accomplish it. I think there's a very bright future for TS TECH.

### Comprehensive change in the way we think about quality



Phil Roby  
Vice President,  
Administration,  
TS TRIM INDUSTRIES INC.

TS Trim was struggling for many years, and we focused on how to improve quality and productivity. We realized that we had to make a fundamental change in the way we approached quality, to be more proactive rather than reactive. We pursued initiatives on several fronts, including greater

automation, making improvements in downtime and scrap, and being more engaged with our Associates. Instead of firefighting, we now follow a process of planning, development, and execution. We have clear business strategies and targets and work together as a management team on our business objectives.

Standardization and the quality evaluation process implemented at the corporate level have helped to drive this process. Regular interaction with other facilities helps us understand where we are and to learn from each other. We take the good things at one place and apply them elsewhere. Not everything works everywhere, but I believe there is a strong focus on standardizing the framework across the organization, and that's what's really important.

We've seen dramatic improvement, and the feedback from our customers has been positive. Even though we're not satisfied because we're not at zero issues, I believe that we are now the preferred supplier. TS Trim has developed and evolved, and in my 25 years with the company this is the strongest we've ever been. We are very focused on our customers, focused on our Associates. I want us to be No. 1 at what we do.



## There are no limits— creating the TS TECH brand

Manager Associates from TSAM, TSUS, and TSTI sat down with us in a town hall meeting to share their firsthand views on how the company has changed over the past few years, the challenges they've faced, and what they expect for the future.

### Q: There have been a lot of changes over the past few years. What has your experience been like?

**Wendy:** The biggest challenge on the commercial side has been the rapid growth in both manpower and systems. We are working with new people while developing our own systems.

**Toshie:** Sometimes I wish we could slow down a bit and work out all the standardizations. But we are taking on more and more. The challenge is coordination, and to keep moving forward.

**Mel:** I think from the manufacturing side, the biggest challenge for standardization is changing the old mindset. People get used to doing things a certain way, and we need to get them to understand that these changes are a positive thing.

**Tony:** That's true. We also now have a general training guide for everybody. We have the time to teach and train people correctly, and it's made a huge difference in turnover.

### Q: More responsibility is being shifted to the U.S. Do you get a sense of being a part of a larger operation than before?

**Kao:** I think so. The 2016 model Civic is the first global model for the U.S., and that's a challenge from a manufacturing and development standpoint. It's very exciting. We

make the highest volume, and with development in the U.S. we can understand what each plant is going through, and design accordingly.

**Wendy:** On the commercial side, Japan has always been the backup supplier for the world. Now we're becoming the global supplier for those parts. It's a whole new dimension for us.

**Toshie:** Development has also changed. The NPD\* process has brought down material costs, but manpower hasn't reached the target yet. How to move forward to our final target is our next challenge.

\*NPD: Non-Prototype Development

### Q: Customer diversification will mean big changes. What challenges and opportunities do you think that presents?

**Tony:** We've had representatives from several car companies come through the plant. Honda is doing well, but if you can nail down a couple other car companies, it makes everything more secure.

**Toshie:** It's really interesting because every customer is different. We have to adjust to what they want, and there's a learning curve. We have to meet those expectations.

**Kao:** I think it's good that we're venturing outside of our own comfort zone. It's exciting to see how other companies handle development.

**Wendy:** I think all the new business requires a new way of doing business. Until now, people looked at TS TECH and



thought "Honda." The biggest challenge for us is creating the TS TECH brand. These are our seats, our technology.

**Tony:** I've seen that happening more at the plant side as the mentality changes and the quality improves. Each person plays a part in making that seat and building it right. Ownership has become a lot stronger.

**Wendy:** Our product is so personal. I cannot separate in my mind that the product we are making is going to hold families and children. We're making something that we've got to be proud of and stand behind because peoples' lives depend on the work that we're doing. I try to never forget that.

### Q: Where do you see the company going over the next few years?

**Tony:** From my viewpoint plantside, the sky's the limit. Each month it gets better. If we find something that comes in and it's not working for us, we have a mindset to find what we can do with the equipment we have to make it better.

**Wendy:** I see TS TECH becoming a seat and interior supplier sought after by OEMs. With the developments we're doing, the improvements we're making, the technologies we're going after, we are going to be a benchmark. People are going to be coming to us.

**Shannon:** I agree the sky is the limit. We won a J. D. Power award for quality because we've been able to train and teach our Associates what true quality is about. People are going to want to know what we're doing different. I think that says a lot for TS TECH as a whole.

**Tony:** Last year we had two of our sister companies use us as their benchmark on setting up the weld department. Instead of people coming in and pointing out what we're doing wrong, we have them coming in and asking how we're doing it right.

**Mel:** One other reason I think TS TECH quality continues

to improve is because we set our targets beyond what the customer expects. At first I had a hard time understanding that, but over time it sinks in.

**Tony:** That's absolutely true. When there are no weld issues at all out in the field, it makes you feel good that even if we drop off a little bit, we're not going to have to worry about what goes out the door.

**Toshie:** Instead of waiting for the customer's requests, we are proactively setting targets and taking it to the customer. That type of service will help establish the TS TECH brand.

**Wendy:** Where the profit really gets made is all of us doing our jobs better. Sales are critical, but we can't make the sales without all of us behind that group. We are one, and without all of us, it doesn't happen.

#### Shannon Smith

Seat Assembly Coordinator,  
TS TECH USA CORPORATION

#### Tony Hoover

Weld Coordinator,  
TS TECH USA CORPORATION

#### Kao Yang

Manager, Engineering/Quality Department,  
TS TRIM INDUSTRIES INC.

#### Mel Rutter

Manager, Manufacturing Department,  
TS TRIM INDUSTRIES INC.

#### Toshie Kitamura

Senior Chief Administrator, R&D/Technical Department,  
TS TECH AMERICAS, INC.

#### Wendy Horwitz

Section Manager, CCR/Purchasing Department,  
TS TECH AMERICAS, INC.

Future

## Ensuring stable growth over the long term

To build on its achievements and maintain steady growth in North America in the future, the next steps for TS TECH include customer diversity and greater group synergies.

### Broad-based expansion to support rapid growth

Operations in North America are continuing to grow rapidly, and TS TECH Americas will play a central role in supporting expansion in this competitive market. One of the key areas for growth is R&D. Development capacity is being bolstered to support the increase in business with Honda as well as diversification of the customer base. The U.S. has adopted an “80-20” strategy, with 80% sales to Honda and 20% to other customers. It is a challenging goal that will require a strong effort from sales and purchasing and solid support from research and development, as well as flexibility and commitment on the part of the various manufacturing centers.

Further group standardization and synergy will also be an important area of focus. Despite all the progress made over

the past few years, there are still areas that still need improvement in terms of quality and efficiency. TS TECH Americas will strengthen its management team to make better use of the resources within the group.

### Larger role for Mexico

The shifting of trim cover operations to Mexico has been a major factor in boosting profitability in North America. It was a difficult and risky decision and required

considerable effort in terms of logistics and developing management expertise. In the end, however, the move has been extremely successful, with benefits for both TS TECH and its customers.

Going forward, TS TECH will make greater use of the experience and know-how of our Mexico presence, expanding to areas such as stamping, welding and frame component sub-assembly as part of a long-term strategy to further enhance efficiency.



TST MANUFACTURING DE MEXICO, S. DE R.L. DE C.V.

## A local voice from Ohio, U.S.A.

A leader in the local economy and a contributor to the community  
TS TECH AMERICAS, INC.

Kristi Tanner (center of the picture)  
Managing Director, JobsOhio

“TS TECH is a fantastic example of a strong corporate citizen of Ohio. They represent everything that we look to as being a top business in our state. They are a leader in the economy, respected and appreciated by their employees. TS TECH is also a corporate partner giving back to the community. It demonstrates the company’s commitment to Ohio and the communities where they have a presence.

“We look at TS TECH as an innovative company, dedicated to producing a quality product. We are excited to be able to support their continued growth in Ohio.”



●JobsOhio:  
A non-profit, private organization dedicated to creating jobs in the state of Ohio, U.S.A. while stimulating the economy and attracting companies from abroad.



## Competitiveness

News

Future Technology, New Technology

## Development of the Aibou Seat (buddy seat)

Recommending seating just for you

Young employees from a range of departments at TS TECH came together to start the Za-Lab team. “Za” means “seat” or “seating” in Japanese—and this research group focused on the philosophy and science of precisely that concept. The Aibou Seat grew out of the discussions and work of the team members. A prototype was exhibited at the Tokyo Motor Show 2013, held November–December 2013. Many visitors tried it out and were delighted.



### Conceiving the ideal seat based on ideas about what would be great

At first, we were just a collection of colleagues from the disparate departments of design, sales, human resources, development and testing and electrical device development. We had probably seen each other around but did not really know each other well. However, as we listened to one another’s ideas and opinions, our perspectives broadened and our connections deepened. We managed to pool our ideas about what would be great in a seat and ultimately bring them all together into a single concept.

The seat we created recognizes individuals and automatically corrects so that it is the perfect fit for their body shape. It also helps to promote driver health. In this way, the seat is like a buddy who understands you and sometimes makes you feel relaxed. This is why we named it the Aibou Seat (buddy seat) and presented it as our ideal seat at the Za Forum events that TS TECH held from 2012.

### Turning the Aibou Seat concept into a reality

As the next step, we started a project to make the Aibou Seat into a reality by

producing a prototype to exhibit at the Tokyo Motor Show. First, we created a road map to the ideal seat, and after narrowing it down to the functions it should reflect at the Tokyo Motor Show on this occasion, we commenced the actual production. It was a first for everything, and, without knowing about any techniques and lacking information as well, we went ahead regardless in a process of trial and error.

All the Za-Lab team members were involved in the Tokyo Motor Show development project. For example, team members from the design, development and testing and electrical device development departments were mainly engaged in production of the prototype while participants from the sales and human resources departments provided opinions on the prototype from the customer perspective and created leaflets to explain the Aibou Seat in an easy-to-understand way. Everyone actively took on an important role.

### Our raison d’être is to keep delivering products people will welcome with joy

In the production of the prototype, we provided regular status reports and received advice. Nevertheless, in the end, it was pushed through by the Za-Lab team

members. It is our frank impression that the company basically told us to go ahead without stopping us.

It was a really valuable experience to be able to produce a seat we had conceived ourselves out of nothing with our own hands and to be able to debut it in front of ordinary customers at the Tokyo Motor Show and hear them say, “It’s great” and “It makes it easy to drive.” One of TS TECH’s corporate beliefs is to be a “Company welcomed with joy.” We have no raison d’être unless we constantly deliver products that astonish customers and are welcomed with joy. We have experienced that first hand as young employees working at TS TECH.

The current Za-Lab activities are not finished with the production of the prototype for the Tokyo Motor Show, and we will develop the practical applications of the Aibou Seat which customers thought would be really great. Going forward, we will do our best to achieve the ideal seat.



Takeshi Ito  
Career Development Section, Human Resources Department, Corporate Administration Division  
Ai Furuta  
Materials Development Section, Development and Testing Department, Development and Engineering Division  
Kensuke Mizoi  
Assistant Chief Engineer, Experiment and Research Section, Development and Testing Department, Development and Engineering Division

Kenichi Niitsuma  
Assistant Manager, Design Section, Design Department, Development and Engineering Division  
Chihiro Muto  
Sales Administration Section, Sales Planning Department, Sales Division  
Soichiro Tanaka  
Electrical Device Development Section, Electrical Device Development Department, Development and Engineering Division



The Aibou Seat concept was announced at the Za Forum held on November 30, 2012.



A customer enjoying the Aibou Seat at the Tokyo Motor Show 2013.

Future Technology, New Technology

# Developing constantly evolving seat frame technology

Talking with the developers of the seats for the new HONDA FIT model

Revolutionary new seat frame technology that increases safety while simultaneously further reducing seat weight has been progressively introduced since the 2011 HONDA CIVIC. TS TECH's seat frame technology has been constantly evolving. In this report, development team members explain the latest technology seen in the seat frame for the HONDA FIT, an important piece of its maker's global strategy.



**Akira Takenaka**  
Experiment and Research Section, Development and Testing Department, Development and Engineering Division

**Satoshi Fujita**  
Assistant Manager, Collision Safety Section, Development and Testing Department, Development and Engineering Division

**Yoshiyuki Shizuno**  
Model LPL, Model LPL Department, Development and Engineering Division

**Teppei Ito**  
Assistant Chief Engineer, Design Section, Design Department, Development and Engineering Division



New seat frame

### A project with a mission to achieve three goals

More than anything else, the focus of recent development was weight reduction, the progress of safety performance and improved ride comfort. We managed to achieve our best in all these areas.

We started the project with three goals. The first was achieving a 15% weight reduction compared to the previous model. The second was gaining the top 5-star rating from the JNCAP<sup>\*1</sup> for performance in reducing neck injury criterion values through progress on safety performance. The third was delivering performance superior to that of other compact cars that compete with the HONDA FIT through improved ride comfort. In the end, we achieved them all. In terms of weight reduction, in particular, we achieved the challenging target of a 15% reduction compared to the previous model through such means as modifying materials and components. We believe we made a substantial contribution to improving the HONDA FIT's fuel consumption.

### Reducing weight while also improving safety performance and ride comfort

Rather than using the conventional active head rest mechanism, in the new seat frame, we made innovations to all the conventional seat components to make it easy for the body to go into the seat using the force generated when the body of the occupant moves backwards sharply in a crash due to inertia to bring the occupant's

neck closer to the head rest in a rear end collision. The new seat frame also gives drivers a more comfortable ride day in and day out.

As a result, we simultaneously achieved further weight reductions while also dramatically improving performance in reducing neck injury criterion values. We believe that active utilization of simulations through CAE<sup>\*2</sup> is one factor that made it possible to achieve our goals. It is important to view the interior movements of the neck that are not visible from the outside to confirm the neck position, but we cannot do this with crash test images. It became possible with CAE, so we were able to proceed with development efficiently and effectively.

In terms of improving ride comfort, we aimed to combine a soft touch with a sense of being securely held. Softer is usually popular for seats, but if a seat is too soft, it cannot support the body and is not suitable for long distance driving. Our goal was to be the top compact car, but we ultimately managed to achieve ride comfort that outperformed the category one class above compact cars.

### Establishing the leadership structure early on to ensure success

We conducted joint development of the seats for the FIT in collaboration with Honda by employing a system in which a Large Project Leader (LPL) supervises each department involved. We build this structure early on, from the research stage, to manage the development

process. However, the start of joint research does not guarantee orders will be placed, so this put a lot of pressure on the progress of the project.

Inter-departmental communication went smoothly due to the early establishment of the LPL structure. We believe that it helped in achieving not only the three goals we just mentioned, but also cost reductions and quality enhancement. Boldly assuming global production before commencing design, we also made the most of global procurement by ensuring that the specifications would be easy to produce in any region.

### Seat frame technology continues to evolve

Research and development of the next-generation model is already underway at TS TECH, where there is simply no end to the evolution of technology. Seat frames must be developed with consideration for all factors such as low weight, safety, and comfort—all while facilitating global production. It is quite difficult, but we will constantly aim for even higher goals as we continue blazing new trails.



- Weight reduction**  
15% reduction compared to the previous model
- Safety**  
Earned the JNCAP's top 5-star rating
- Ride comfort**  
Delivers a soft touch with a sense of being securely held

<sup>\*1</sup> JNCAP: Japan New Car Assessment Program. The National Agency for Automotive Safety and Victims' Aid conducts tests to assess the safety performance of cars that are currently on the market and publishes the results as the New Car Assessment Program. This is to establish an environment that makes it easy for users to select safe cars as well as to promote the popularity of safe cars by encouraging manufacturers to develop cars with better safety performance.

<sup>\*2</sup> CAE: Computer Aided Engineering. Computer systems that support design and development.

## Models that used the new seat frame

(April 2011–May 2014)

Japan	Americas	China	Asia and Europe
 Honda FIT seat	 Honda New ACCORD seat	 Guangqi Honda CRIDER seat	 Honda CR-V seat
 Honda FIT SHUTTLE seat	 ACURA RXL seat (for export)	 ACURA RDX seat	 Honda CR-V seat

## People Power

## Report 2

## People Power

Construct an infrastructure of people capable of competing worldwide

## Prioritizing international human resource management and promotion of diversity

### International Human Resource Management

#### TS Camp

TS Camp is a selective training program designed to discover and foster global human resources, which, in addition to practical classes, offers an outdoor hands-on activities program with a view to developing leadership, followership and socialization skills. Following the 1<sup>st</sup> TS Camp in 2012, the 2<sup>nd</sup> TS Camp will be held for a total of 19 days over roughly six months from July–December 2014.



#### My role is to practice and teach the TS Philosophy overseas

Kenji Tanaka  
Administrative Manager  
TS TECH INDIANA, LLC

I felt that not just the communication skills covered in the training, but also improvements and practice in the areas of quality, cost, delivery, development and management (QCDDM), are important qualities for human resources with a global mindset. Being posted to TSIN, I need to have a sense of speed in creating a firm platform for “due regard to human resources” and a “company welcomed with joy,” the tenets which make up the TS Philosophy. The lesson from TS Camp that human resources training is building “human assets” can be applied overseas as well. I will foster human assets capable of practicing the TS Philosophy overseas.



#### Rediscovering the importance of teamwork and harmony for myself

Masayuki Aihara  
Chief Engineer  
TS TECH ASIAN CO., LTD.

Through the training, I experienced first-hand that teamwork and harmony to bring people's diverse ideas together into one are essential for problem solving. This is also the case at work, so I am using these approaches in business. In addition, as the headquarters for the Asia and Europe region, TSAS works in partnership not only with local sites in Thailand, but also with sites in countries such as India and Indonesia. I hope to use the training in future development for the company.

#### TS Overseas Trainee System

The Overseas Trainee System is designed to help younger employees quickly acquire English language skills and improve their adaptability to different cultures through actual experience living overseas. Incorporated into this system is a curriculum that includes attendance at a language school affiliated with Ohio State University in the US for approximately one year.

#### Try to communicate your ideas, and your language skills will also get better

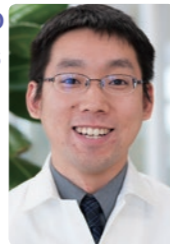
Takuya Yokoyama  
Quality Section,  
Production Department,  
Saitama Plant



At the language school, not speaking was regarded as not participating in class. Friends I made there also repeatedly advised me that one should say yes or no clearly and say precisely what one really wants to do. I was bad at English, so I struggled to communicate my thoughts at first. However, when I indicated that I had something I wanted to say, the other person would try really hard to listen, so I kept improving naturally.

#### Being exposed to another culture is a priceless asset

Hisashi Higashijima  
Purchasing Administration  
Section  
Corporate Purchasing  
Division



It was a year when I realized the differences in attitudes and values about nation and family. A ceremony to welcome home returning soldiers held during a sporting event where the soldiers were greeted with louder cheers than any of the star athletes was an extremely interesting event for me as a Japanese person. Apart from being posted overseas, I wouldn't really have the chance to live abroad. Being exposed to different values and lifestyles is definitely a personal asset, so I would recommend this kind of experience to anyone.

#### Adaptability to new things developed in a different culture

Marie Nagano  
Tochigi Administration Section,  
Corporate Administration  
Division



The style of classes with lots of group work and solving problems through discussion was really new for me. All of our classmates were non-Japanese, so we were exposed to differences in communication styles, food, dress and so on. We learned new values by actively trying these things and having them explained to us. Right after coming home, I was transferred and a completely new life began, but I have been enjoying my new life without any confusion or stress, perhaps because of the adaptability that I gained from this training.

### Building a culture that embraces diversity

#### TS Women's Committee (TWC)

The TWC, a secretariat composed of five employees selected from each office, has an operating structure designed to ensure that the opinions of a broad range of female employees are brought together in the planning and drafting of the measures to improve levels of motivation and satisfaction which it proposes to the Human Resources Screening Committee. The committee is working to transform consciousness under the slogan “Change begins with me,” implementing proposals that will lead to the establishment of a personnel system and workplace environment that enable everyone to play an active role.



#### Supporting active participation in accordance with stage of life and other factors

Emi Shindo  
Saitama Secretariat (General Affairs Section,  
Administration Department, Saitama Plant)

Female employees are in diverse situations. There are women in families where both the husband and wife work and women who are working while bringing up young children. We support active participation that allows women opportunities for overseas business trips and postings even under these circumstances. Meanwhile, we are working to establish personnel systems and workplace environments that enable employees to be relaxed at work and concentrate on being good parents. We are trying not to miss any clues, no matter how small, to make things even more motivating and rewarding for women.



#### A valuable forum for enabling experience of diversity

Yasuko Kuwahara  
Company Secretariat (General Affairs Section,  
Administration Department)

The TWC is a valuable forum for practicing diversity because it is a project without barriers based on job title or other factors. However, systems and management that produce win-win relations between both the company and employees and a transformation in consciousness are needed to further promote active participation by female employees. In particular, it is important that directors speak about diversity and that we widely practice diversity. I believe that the active participation by women itself will lead to flexibility for the company in the future.

#### Non-Japanese employees in Japan

TS TECH in Japan employs citizens of other countries, aiming to build a corporate culture that allows the participation of diverse human resources. A second goal is to promote the globalization of the workforce and invigorate the company.

#### Communication skills rather than language skills

Xu Jin (China)  
Accounting Section,  
Corporate Accounting  
Department



In China, there is no concept of *keigo* (honorific language), and I have been acutely aware of the difficulty of how to speak to superiors since I came to Japan. On the other hand, I have realized that however badly we use *keigo*, if we take the position of trying to communicate what we want to say to the other person in a way that is easy to understand and to communicate while respecting the other person's position and thoughts, we can understand each other and the job will move forward smoothly.

#### It is important to understand and accept the culture and customs of one another's countries

Jennifer Brown (United States)  
Public Relations Section,  
Administration Department



I come from the United States, a country with a culture of respecting individuality and where many people want to be unique. This is because you get lost in a culture comprised of people from all walks of life if you do not stress your own individuality. In addition to showing off your own strengths, working in Japan requires a mutual desire between people from different backgrounds to accept and respect each other's cultures and customs. While understanding takes time, I think the effort to try to understand one another is important.

#### Something more important than “becoming Japanese”

Alexander Dorenburg  
(Germany)  
Design Section,  
Design Department



In a Japanese workplace, although it is important to politely let the people around you know what you would like to do and get their understanding, you also have to understand how Japanese people work and mirror their style. On the other hand, I also believe it is not a bad idea for Japanese employees to incorporate outside forces that are different to themselves and to become literally “foreigners” by themselves. I think we can foster innovation through repeated discussions and debates based on each other's opinions.

## A Leading Company in CSR



### Report 3

## A Leading Company in CSR

Develop as a leading company in CSR

## Encouraging each employee to take the initiative to create CSR driven by each individual

Moving forward with an approach based on improving the awareness of everyone involved rather than mere acquisition of knowledge, TS TECH is holding CSR workshops to help change its employees' mindset.

### The significance of holding CSR workshops

At TS TECH, we understand that contributing to the development of a sustainable society and aiming for the realization of the TS Philosophy through our core business is the essence of our practice of CSR. In what way are the day-to-day operations of the individual employees who practice CSR and our company related to society? We held CSR workshops as an opportunity to foster and shape the awareness of employees about these issues.

### Reaffirming points of contact with society

On April 17, 2014, two workshops were held that brought together 12 employees from across the company's departments with the aims of (1) tuning into social trends to shed light on the connections between the company's operations and society, (2) reaffirming the value of the company in society, and (3) voicing knowledge and opinions to build progressive human resources and relationships. The facilitator was the CSR consultant Rie Kuroi.

The first workshop consisted of storytelling\* to discover points of contact between company operations and society. Participants took turns in the roles of speaking, listening and taking notes on the themes of gratitude from society and stakeholders and the pride of providing something useful by doing a good job. Throughout the workshop, each participant was able to reflect objectively on their own work while simultaneously reaffirming what it is that they have felt pleased with in their relationship with society. In addition, a lot of awareness and empathy was gained from the stories of the participants.

\* Storytelling: A method of making an impression on listeners by citing a narrative, such as a striking story or episode about one's experiences, that conjures up an image of the thoughts and concepts that a person wants to communicate.

### CSR for an ideal future

In the second workshop, the participants created reports for a newspaper of the future based on the scenario that TS TECH had received recognition from an authoritative external organization. The workshop was extremely lively,

producing a series of diverse approaches and inspirations. The participants were able to build a solid image of their ideal vision for society and the company in ten years' time. They expressed this vision in words like these: "Discovery of renewable materials made from air, water and sunlight save the earth from energy depletion," "Development of people- and environmentally-friendly seats that are comfortable even when sitting in scorching heat from global warming," and "Contributions to increasing employment of people with disabilities in emerging countries by leveraging technological diversity."

Finally, all of the participants presented on the topic of "what we can do now to create a better society" in their own words. Ms. Kuroi wrapped up the workshops saying, "I would like you to bear in mind that, rather than existing as an intangible, the future is the product of what we each do today." Through the experience, the 12 employees affirmed their role as colleagues to create the society of the future together. They are well prepared to lead their respective workplaces in the individual practice of CSR.



Facilitator  
**Rie Kuroi**  
Leader, CSR Innovation Room, Cetus & General Press Inc.

As a CSR consultant, Rie Kuroi is involved in planning and running workshops at many major corporations.

Masato Okazaki  
Assistant Manager,  
Purchasing Section 1,  
Purchasing Department 1



**Communication with suppliers**  
In the future, I will be deeply engaged with society and suppliers, so I will do my job with responsibility and self-awareness.

Yoshinori Yanagita  
Assistant Manager,  
Sales Planning Section



**Look, listen and speak about things with interest and concern**  
I was not accustomed to considering things from the perspective of CSR, but I will be aware of it and practice it from now on.

Tomoya Ozaki  
Assistant Manager,  
Career Development Section,  
Human Resources Department



**Passion × Action = Dreams**  
It was extremely meaningful to be able to share the dreams related to the company's beliefs and principles with all the participants.

## Our CSR Declarations

After the workshops finished, the participants created CSR declarations based on the theme of "the first small step we can take now to create a better society." Each of them demonstrated their resolve to help build a bright future for society and TS TECH.

Tadashi Matsumoto  
Assistant Manager,  
Quality Assurance Section,  
Corporate Quality Control Department



**Reduce waste. Identify what the really important things and tasks are.**  
I discovered my own challenges in the course of considering the topics from the global scale discussion to the level of day-to-day operations.

Hiroki Shibuya  
Assistant Manager,  
Financial Section,  
Corporate Accounting Department



**Conversation**  
Within myself, I was able to understand CSR more than ever before. I will apply this understanding to day-to-day operations straightaway.

Tatsuo Sayama  
Assistant Manager,  
Design Section,  
Design Department



**Help things grow**  
The CSR workshops were an opportunity not only to consider company operations, but also the earth as a whole.

Yuki Shirouzu  
Group Leader,  
Manufacturing Section 3,  
Production Department,  
Saitama Plant



**Understand people's ideas**  
I was given valuable experience in deepening my consideration of CSR together with colleagues who I met for the first time.

Akira Ito  
Assistant Manager,  
Administration Section,  
Administration Department,  
Suzuka Plant



**Cross-departmental links**  
I will value cross-departmental links in promoting CSR in day-to-day operations.

Mayken Kimoto  
Assistant Chief Engineer,  
Materials Development Section,  
Development and Testing Department



**Dialog**  
From now on, I will do my job with an awareness of what I and the company can contribute. I gained a lot of awareness today.

Yasuko Seki  
Administrator,  
Prototype Development Section,  
Development Control Department



**Upgrade my own skills**  
Returning to my workplace, I will use the awareness I gained in today's workshop on things like CSR and environmental issues.

Shinya Takayanagi  
Group Leader,  
Quality Section,  
Administration Department,  
Hamamatsu Plant



**Always handle each individual component with care**  
I furthered my awareness of CSR. I will apply it to operations from now on.

Atsushi Kurosawa  
Assistant Chief Engineer,  
Engineering Section,  
Motorcycle Engineering Department



**Eco-driving**  
I became aware of and was made to think about how my own operations are connected to society and the environment.

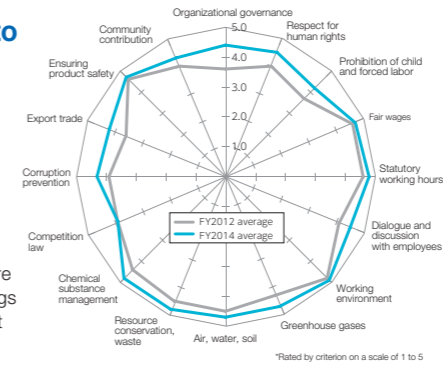
# Chapter 2

## Sharing Pleasure with Stakeholders

The TS TECH Group carries out principles-based business operations in order to maintain good relationships and grow together with all of its stakeholders. Below is an explanation of the association between the core subjects of social responsibility defined by ISO 26000 and the Seven Attitudes of TS TECH in the TS Guidelines for Conduct, as well as an overview of specific initiatives the Group is taking in relation to the core subjects.

### Using a Check Sheet to Discover CSR Issues

The TS TECH Group's CSR Check Sheet is used to identify issues in reference to the seven core subjects defined by ISO 26000. The respective operating locations in Japan and abroad perform self-checks on questions relating especially to basic issues. Issues are identified based on analytical findings and responsive measures rolled out accordingly.



CSR Check Sheet : FY2012 average : 4.2 ⇨ FY2014 average : 4.5

### An Initiative Report Structured based on Interview Sheets

The contents of the report on the initiatives indicated in the following pages are organized based on interview sheets given to the relevant departments. We also aim to ensure that engagement with the CSR report across departments will provide opportunities to encourage awareness of TS TECH's practice of CSR among the Group's employees.



#### The ISO 26000 seven core subjects

#### Summary

#### Main stakeholders

#### Association with Seven Attitudes in the TS Guidelines for Conduct

#### CSR Check Sheet

#### Examples of main initiatives seen on the CSR Check Sheet



### Organizational Governance

P28

In order for organizations to fulfill their social responsibility, it is important that they have a mechanism for effective decision-making to achieve their objectives and roles. Organizational governance is the foundation for an organization to fulfill its social responsibility. Organizational governance requires communication with outside stakeholders as well as internal employees, to reliably implement accountability and transparent decision-making, and to demonstrate leadership through action.

#### Shareholders, employees, administration

- Attitude toward shareholders
- Our attitude while working for the Company
- Attitude toward administration

Item	FY2012 average	FY2013 average	FY2014 average
Organizational governance	3.6	4.1	4.4

- Encouraging awareness by posting the Guidelines for Conduct and the Code of Conduct on each floor
- Holding study sessions on risk management and security control
- Distributing handbooks and concept manuals to employees
- Providing education on the TS Philosophy, the Guidelines for Conduct, etc., through grade-based training sessions



### Human Rights

P30

In order to create a society in which all people are free from discrimination based on gender, age, ethnicity, and so forth, it is important that individuals be aware of human rights, respect the human rights of people inside and outside the organization, and take care not to infringe upon human rights either directly or indirectly. The organization must check to make sure its activities do not infringe upon human rights and that it has not created an environment that might prove to invite human-rights infringement. It is also important to have a mechanism for making improvements in the event that acts have been committed or an environment created that infringes upon human rights.

#### Employees

- Our attitude while working for the Company

Item	FY2012 average	FY2013 average	FY2014 average
Respect for human rights	4.0	4.2	4.5
Prohibition of child and forced labor	3.7	4.3	4.2

- Posting harassment prevention posters
- Practicing management to prevent child and forced labor in line with work regulations
- Not hiring persons younger than 18 year old
- Providing training related to violence and harassment



### Labour Practices

P32

Labour practices have a big impact on society and the economy in the sense that an organization creates jobs and maintains and improves the living standard of workers by paying wages. Based on the fundamental principle that "labour is not a commodity" (International Labour Organization [ILO]), organizations are asked to ensure equal employment opportunities to all workers, provide working conditions and an environment that are fair and safe for workers and their health, and engage in public dialogues such as negotiations, discussions, and exchanges of information with representatives of government, employees, and workers.

#### Employees

- Our attitude while working for the Company

Item	FY2012 average	FY2013 average	FY2014 average
Fair wages	4.6	4.7	4.7
Statutory working hours	4.6	4.8	4.8
Dialogue and discussion with employees	4.1	4.5	4.5
Working environment	4.8	4.9	4.9

- Providing health guidance by public health nurses and promoting health through comprehensive medical examinations for employees aged 35 and older
- Maintaining a Safety and Health Committee
- Revising work regulations and company rules in accordance with the latest labor laws
- Providing medical services to employees and their relatives on-site



### The Environment

P34

Modern society is faced with a number of environmental problems and all organizations can be said to have some impact on the environment. In addition to complying with laws and regulations, organizations must take responsibility for the environmental impact caused by their actions. When the environmental impact exceeds an acceptable level, the organization is asked to bear the costs. It is also important for organizations to take preventive measures to minimize impact on the environment as much as possible, even if that impact is uncertain.

#### General public

- Attitude toward the general public

Item	FY2011 average	FY2012 average	FY2013 average
Greenhouse gases	4.3	4.7	4.7
Air, water, soil	4.5	4.8	4.7
Resource conservation, waste	4.5	4.6	4.8
Chemical substance management	4.4	4.7	4.8

- Reducing industrial waste based on the application of an EMS
- Setting CO<sub>2</sub> reduction targets in business plans
- Implementing energy-saving measures and encouraging energy-saving driving
- Appointing environmental consultants to facilitate understanding of regulations, etc.



### Fair Operating Practices

P38

Issues in the subject of fair operating practices for an organization to fulfill its social responsibility include the prevention of corruption, responsible political involvement, fair competition, and respect for property rights. The foundation of fair operating practices is an organization carrying out operations based on an ethical code of conduct. For this reason, organizations also ask their suppliers and other related organizations to practice ethical operations. It is important in this way for organizations to strive to promote ethical behavior by society as a whole.

#### Suppliers

- Attitude toward suppliers

Item	FY2012 average	FY2013 average	FY2014 average
Competition law	3.9	3.8	3.9
Corruption prevention	3.9	4.3	4.3
Export trade	3.6	4.1	4.2

- Participating in seminars to grasp the latest laws and ordinances
- Periodically visiting government agencies such as local customs offices and tax offices to exchange information
- Having independent organizations with expertise in customs conduct quarterly outside audits
- Conducting internal audits related to service provider contracts



### Consumer Issues

P40

It is important for organizations to take responsibility for the products and services they provide, to avoid putting consumers in danger through the provision of products that have a safety defect. It is also important that when consumers use those products and services they do not have an adverse effect on society, such as by causing environmental damage. It is important to practice consumption in such a way that neither the organization nor consumers have an adverse effect on society.

#### Customers and end users

- Attitude toward customers and end users

Item	FY2012 average	FY2013 average	FY2014 average
Ensuring product safety	4.6	4.6	4.7

- Implementing system checks through outside audits and providing quality training to new hires
- Establishing a policy for dealing with conflict minerals
- Providing periodic quality training
- Conducting extensive reviews of operating standards to check product safety



### Community Involvement and Community Development

P42

It is important for organizations to communicate with the communities that they belong to, to be actively involved in community growth and revitalization, and to grow together with their communities. Organizations are required to participate and contribute in diverse ways, including the enhancement of dialogues with community residents and education and culture in the community through their involvement in the community.

#### Local community

- Attitude toward the local community

Item	FY2012 average	FY2013 average	FY2014 average
Community contribution	4.0	4.4	4.3

- Conducting traffic safety campaigns in the community and neighborhood cleanups
- Accepting interns
- Providing material support to elementary schools and donating scholarships
- Donating to the community fire department and encouraging fire fighting awareness among community children

The ISO 26000 core subject



## Organizational governance

To Be a “Company Welcomed with Joy”

**The TS TECH Group is striving to establish sound and highly transparent management that abides by the law and observes rules and regulations.**



### ● Association with Seven Attitudes in TS Guidelines for Conduct

#### Attitude toward shareholders

In order for the Company to maintain a high degree of transparency,  
I make a positive disclosure of information with a view to ensuring a high degree of transparency in corporate management.

#### Our attitude while working for the Company

In order for the Company to be an entity of high ethical standards,  
I observe the Company rules and regulations faithfully.

#### Attitude toward administration

In order for the Company to be strictly law-abiding,  
I abide by the law faithfully as a member of society.

### ● Main stakeholders

**Shareholders, employees, administration**

### ● CSR Check Sheet

FY2012 average  
**3.6pt**

FY2014 average  
**4.4pt**

### ● Association with business operations and corporate value enhancement

#### Integrity and trustworthiness are conditions for sustainable corporate growth

Many scandals caused by inconsistent corporate governance and/or compliance issues have erased stakeholders' trust in various companies, greatly damaging their corporate value. TS TECH is striving to practice highly transparent corporate management with integrity, recognizing that being a trusted company is prerequisite to being a company that grows sustainably.

## Basic Policy on Corporate Governance

TS TECH's corporate philosophy calls for a “Company Welcomed with Joy,” firstly by its customers and shareholders, as well as its suppliers, the community, and its employees. The Company recognizes that establishing corporate governance is an important step in fulfilling its social responsibility and becoming a “Company Welcomed with Joy” by all its stakeholders, and so is carrying it out enthusiastically.

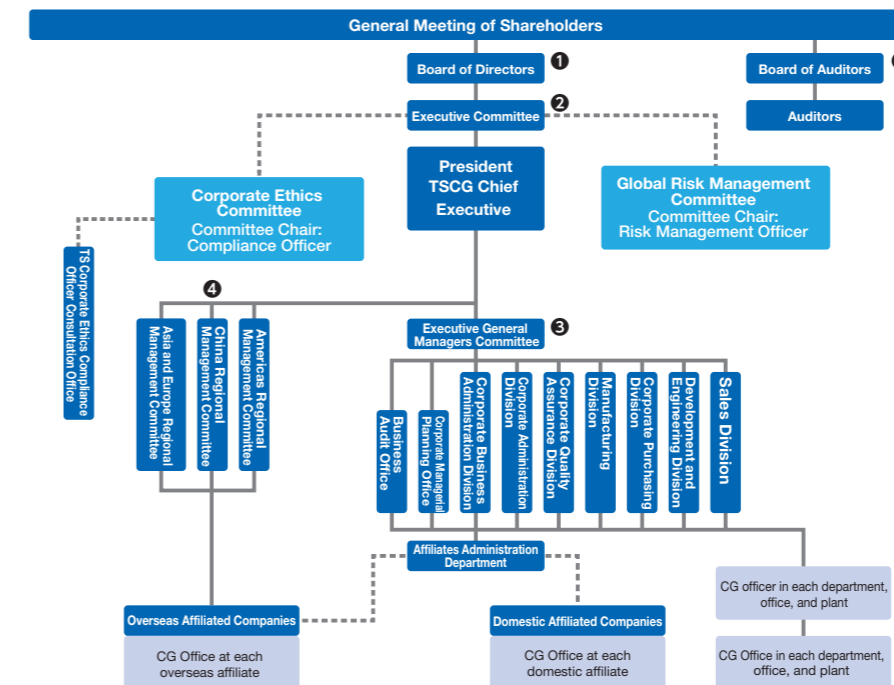
Based on this philosophy, the TS TECH Group has established the TS TECH Corporate Governance (TSCG) System and is working to enhance compliance and risk management and improve corporate ethics.

## Group Governance System

The TS TECH Group has established an across-the-board Group Governance System to ensure the proactive performance of compliance activities. Specific measures include a self-check system for the early detection of compliance problems and issues, the establishment of internal rules, the establishment of an internal whistle-blowing system, the improvement of a system for obtaining the latest legal information, and various legal awareness efforts.

In addition, a framework is in place whereby in the event that an affiliated company makes a decision on an important matter, TS TECH will also deliberate on the matter based on the Affiliate Company Management Rules. For affiliated companies, TS TECH's Business Audit Office also performs a business audit.

**TSCG System** TS TECH has adopted an operating officer system, to improve the mobility of the Board of Directors and enhance its oversight and to strengthen its regional and on-site management systems.



### ①Board of Directors

It comprises 12 members and convenes once a month in principle. It makes decisions regarding management policies, important management issues, and matters mandated by laws and regulations, as well as supervises the execution of the Company's operations.

### ②Executive Committee

It comprises the Company's three representative directors. It conducts preliminary deliberations on such matters as resolutions to be put to the Board of Directors, and, within the scope of the authority assigned to it by the Board of Directors, discusses important matters relating to the execution of the duties of the directors.

**③Executive General Managers Committee**  
It comprises directors and other members. It discusses matters relating to the policies, planning, and control of each business division's overall operations to enhance efficiency of management.

### ④Regional Management Committees

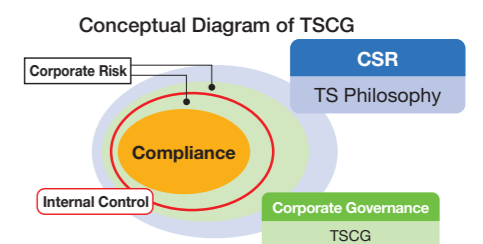
They comprise directors and other managers in the Americas, China, and Asia and Europe, and deliberate on important matters affecting management in their respective areas.

### ⑤Board of Auditors

It comprises four members (including two outside corporate auditors). Each corporate auditor audits the directors' execution of duties in accordance with the audit policy determined by the Board of Auditors through attendance at important meetings such as meetings of the Board of Directors, various examinations, and the regular exchange of opinions with the directors.

## Operation of TSCG Self-Verification System

TS TECH implemented the TSCG Self-Verification System to check the Company's status in terms of legal compliance, risk management, and corporate ethics in order to identify any potential problem regarding compliance and risk management as early as possible and to address the envisaged issues.



## Status of Risk Management System

A risk management officer is appointed from among the representative directors as the person responsible for overseeing risk management. A Global Risk Management Committee chaired by the risk management officer has been established to prevent risks in business operations. The committee leads efforts to identify, evaluate, and deal with risks in each department. On the off chance that a crisis-involving loss occurs, the TS TECH Group is prepared to take emergency measures based on crisis management rules and manuals for specific risks.

## Status of the Internal Control System

Based on the provision of the Companies Act, TS TECH held the General Meeting of Shareholders on May 11, 2006, which passed a resolution on Basic Guidelines for the Formation of an Internal Control System. Since then, the Board of Directors has checked the status of operation of the system every year at its end-of-fiscal-year meeting. Whenever there are changes, they are voted on at Board meetings held as needed.

Furthermore, the TS TECH Group has established an effective and appropriate internal control system to ensure the reliability of financial reports based on the Financial Instruments and Exchange Act. The Group continually evaluates the status of development and operation of that system and takes the necessary corrective measures to maintain an efficient system.

The ISO 26000 core subject



Human rights

To Be a Non-discriminatory and Fair Company

**The TS TECH Group is determined to remain a company that acts under the notion that people are equal and positively promotes mutual acceptance of individual personalities and differences amongst the people of the world.**



#### ● Association with Seven Attitudes in TS Guidelines for Conduct

##### Our attitude while working for the Company

In order for the Company to be non-discriminatory and fair to everybody,

I act under the notion that all people are equal, while positively promoting mutual acceptance of individual personalities and differences amongst the people of the world.

#### ● Prohibition of discrimination

I do not discriminate on account of birth, nationality, creed, religion, sex, race, ethnicity, age, intellectual/physical handicap, clinical history, hobby, academic career, or social standing.

#### ● Prohibition of use of discriminatory expressions and terms

I do not use words that are considered to be discriminatory terms or expressions and terms that may produce misunderstanding.

#### ● Association with business operations and corporate value enhancement

##### Responding to Diversity is the Touchstone of a Global Company

We recognize that initiatives toward respecting diversity and human rights are vital for being accepted and acknowledged in the global marketplace. Embracing the value of diversity is not only related to human rights, but is also intricately connected to corporate growth through the expansion of the scale of our market and to corporate value on a global stage. TS TECH is committed to pursuing our business while valuing the diverse sensibilities of a diverse human population.

#### ● Main stakeholders

Employees

#### ● CSR Check Sheet

FY2012 average  
**3.9pt**

FY2014 average  
**4.4pt**

## Basic Policy on Human Rights

As it says in the TS Guidelines for Conduct, TS TECH does not discriminate on account of birth, nationality, creed, religion, sex, race, ethnicity, age, intellectual/physical handicap, clinical history, hobby, academic career, or social standing.

Moreover, TS TECH does not use words that are considered to be discriminatory terms or expressions. It also does not use terms that may produce misunderstanding.

## Awareness Building about Human Rights



Associate Handbook (TS TECH AMERICAS, INC.) (See p.13)

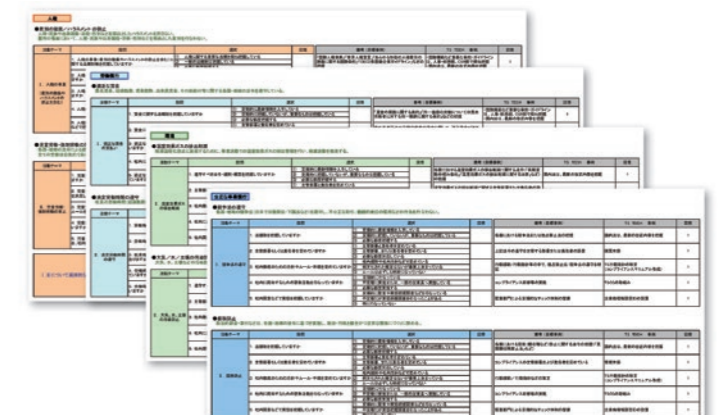
As a concrete measure toward respecting human rights and preventing discrimination, we distribute copies to all employees, including new hires, of the TS Guidelines for Conduct, which detail our approach to human rights. In addition to spreading awareness through the Guidelines, we also issue check sheets on human rights throughout the Group in order to assess our progress. Employee awareness is further promoted by displaying anti-discrimination posters in each of our offices.

Additionally, we carry out assessment, prevention, and handling measures (referred to as human rights due diligence) with regard to human rights issues that could occur from our business activities. At the same time, we respect the four principles outlined in the International Labour Organization's core labor standards (freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation) and are responding to these standards at our offices inside and outside Japan.

## Check Sheet on Human Rights Used by the Whole Group

The TS TECH Group uses a check sheet which covers basic points related to human rights to help employees understand the kind of corporate group we aspire to be as well as to identify current challenges.

We have carried out self-assessments based on the check sheet since 2011 at our offices outside Japan and since 2012 at our affiliates within Japan. Analysis of assessment results has generated information on the challenges for each office, as well as measures to address those challenges.



## Corporate Ethics Consultation Office

TS TECH has established a Corporate Ethics Consultation Office charged with the early detection of potential legal violations and violations of the TS Guidelines for Conduct as well as taking corrective action to prevent any recurrence. An external consultation office has also been established to ensure fairness and prevent disadvantageous treatment of whistleblowers.

The ISO 26000 core subject



Labour practices

To Create New Value and a Safe and Comfortable Workplace

TS TECH does all it can to create a safe and healthy environment for its employees, where they can take pride in their company and work and maintain a positive attitude.



#### ● Association with Seven Attitudes in TS Guidelines for Conduct

#### Our attitude while working for the Company

In order for the Company to respond to the challenge of searching for new values,  
I take pride in my company and work, and keep an open mind to everything.

##### ● Communication

I try to create a bright working atmosphere, respecting harmony and communication among people.

##### ● Efficient work

I work in a balanced manner, giving consideration to time and priority.

##### ● Self-fulfillment

I strive persistently for the fulfillment of my own vision.

In order for all people to be safe and comfortable at all times,

I try to create a safe and healthy environment for working.

#### ● Association with business operations and corporate value enhancement

#### Fostering International Human Resources

Human resources are the very nucleus of our business operations. And as our operations today spread out across the globe, deploying the right personnel to the right projects directly leads to positive results within the Group. As noted in our corporate philosophy, TS TECH holds “due regard for human resources” and is promoting the development of international human resources for the sustainable growth of our business.

## People — The Decisive Factor in a Company

TS TECH believes that people are the decisive factor in a company. It is part of the Company's management policy to “try to create a bright working atmosphere, respecting harmony and communication among people.” TS TECH is, thus, striving to create safe and comfortable workplaces.

#### ● Major Personnel Data (As of March 31; regular employment only)

		FY2012	FY2013	FY2014
No. of employees by gender	Male	1,573	1,547	1,555
	Female	186	182	178
	Total	1,759	1,729	1,733
Average service years	Male	13.9	14.4	14.8
	Female	12.2	13.0	13.2
	Total	13.7	14.3	14.6

#### ● Main stakeholders

Employees

#### ● CSR Check Sheet

FY2012 average  
4.5pt

FY2014 average  
4.7pt

## Human Resources Development

In addition to ensuring full understanding of the TS Philosophy, the foundation of TS TECH's international human resources is ensuring their mastery of *monozukuri* (the art and science of manufacturing) as well as the basic work practices that support *monozukuri*. Fostering international human resources first begins with teaching these basic concepts to each and every employee. TS TECH regularly uses JR (job rotation), OFF-JT (off-the-job-training) and other approaches to successfully realize our training goals and considers employees to be “international human resources” when they have mastered the knowledge necessary for implementing their skills in a global arena.

## Diversity Initiatives

“I act under the notion that all people are equal, while positively promoting mutual acceptance of individual personalities and differences amongst the people of the world.” This fundamental principle for TS TECH is something we follow while recognizing diversity as a vital management strategy and while promoting and spreading diversity. In particular, we try to create further opportunities for women, people with disabilities, and non-Japanese employees in our workplaces; over the mid- and long-term, we implement employment and labor conditions that do not discriminate based on gender or nationality differences; and we strive to create local subsidiaries over the long-term that are suited to the particular conditions of each country we operate in.

As a concrete initiative to promote the employment of people with disabilities, we are building infrastructure that includes handrails in restrooms and on staircases and emergency lifts in newly constructed, remodeled, or outfitted buildings. Moreover, with regard to senior employees, we have established staggered systems to allow all interested employees to remain in employment until age 65 in response to the revised law addressing that issue.

## Promoting Work-Life Balance

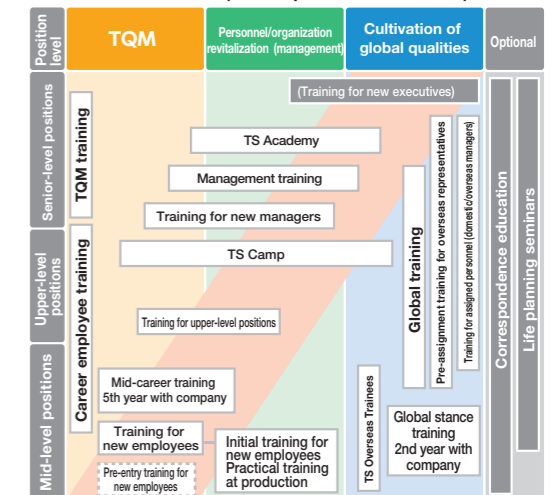
Over and above striving to create a workplace with favorable labor conditions and an amenable work environment, we endeavor to inform all employees of the importance of work-life balance so that they can have satisfying professional and family lives. This includes promoting systems, such as child-care leave and shorter working hours, that allow for different work styles suited to the life stages of employees. In addition, for 17 years straight, all employees have taken their full annual paid leaves.

## Response to Occupational Safety and Health, Mental Health Care

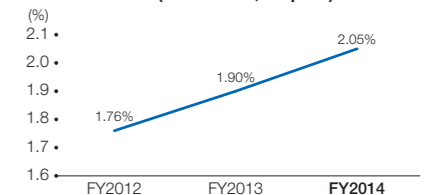
From a risk assessment perspective, we are working to eliminate occupational accidents by detecting potential risks before they occur, and we are working to solve causes of risks and improve the working environment at an early stage. As a concrete internal framework, we hold a Safety and Health Representatives Conference with the executive in charge of safety and health and with the general managers of the respective sites. After carrying out an overall inspection of safety and health activities, the conference sets the operational policies, etc. for the next fiscal year. In fiscal year 2013, we invited a lecturer from the Japan Industrial Safety and Health Association and held training for personnel directly involved in risk assessment. 32 employees were in attendance.

As part of our concern for employees' mental health, we also make mental health specialists available at all of our business sites in addition to providing access to an industrial physician as specified in the Industrial Safety and Health Act. The specialists closely cooperate with our in-house medical clinic to hold in place a system for responding promptly to employees with concerns about their mental health, which we supplement with periodic training sessions to promote better understanding of mental health.

#### ● Human Resources Development Process: OFF-JT Structure (rank-specific education)



#### ● Employment rate of people with disabilities (TS TECH, Japan)



#### ● Non-Japanese Employees

	FY2012	FY2013	FY2014
TS TECH (Japan)	7	6	7
Subsidiaries	12,189	12,833	12,863

#### ● Main systems supporting work-life balance

- Shorter working hours (for child-care, family care)
- Special leave (for maternity, nursing, family care)
- Leave of absence (for child-care, family care, volunteer work)
- “No overtime days” fixed 1 or 2 days per week at each office

#### ● Occupational Accident Occurrence (TS TECH, Japan)

	Total frequency rate	Rate of lost work time due to occupational injuries
FY2012	3.13	0.00
FY2013	1.11	0.00
FY2014	1.85	0.26



Mental health lecture

The ISO 26000 core subject



The environment

To Be Proactive in Environmental Preservation

The TS TECH Group is making Group-wide efforts to protect the Earth, working to eliminate and reduce environmental impact generated through business operations.



#### ● Association with Seven Attitudes in TS Guidelines for Conduct

##### Attitude toward the general public

In order for the Company to be an entity promoting positive attitude toward environmental preservation,

I take positive actions for environmental protection.

###### ● Proper disposal of waste and pollutants

I dedicate my best efforts to the cause of minimization and proper disposal of waste and pollutants.

###### ● Efficient use and recycling of resources

I dedicate my best efforts to the cause of efficient use and recycling of resources.

###### ● Measurement, recording, and reporting pursuant to the relevant ordinances

I carry out environmental measurement, recording and reporting concerning soil, underground water, the atmosphere, noise, and smell pursuant to the relevant environmental ordinances and internal rules.

#### ● Association with business operations and corporate value enhancement

##### Helping to build a sustainable society by practicing environmental management

Corporate management that takes the global environment into consideration, including the use of an environmental management system and efforts to reduce environmental impact throughout the entire lifecycle of products and services, is necessary for the sustainable development of both the company and society.

TS TECH aims to be a company whose existence is valued by society by developing products that reduce environmental impact and thoroughly practicing environmentally friendly production.

#### ● Main stakeholders

General public

#### ● CSR Check Sheet

FY2012 average  
4.4pt

FY2014 average  
4.8pt

## Basic Environmental Policy

With respect for the global environment and a sustainable recycle-oriented society, we will endeavor to make unlimited progress and continuous improvement so as to protect all life from pollution as a manufacturer according to laws and regulations; and become an environmentally friendly “Company Welcomed with Joy.”



## Action Plan

1. Strive to minimize and properly treat waste materials and contaminants with respect to life cycle assessment (LCA) at each stage of a product's development, manufacturing, sale, and disposal.
2. Make efforts to use materials effectively in product development, manufacturing, and all other business activities, and work on material recycling and efficient use of resources and energy.
3. Be actively involved as a member of society in maintaining personal health, preserving the global environment, and living in harmony with the local community.
4. Positively promote environmental protection activities with the whole related companies as the TS TECH Group.
5. Comply with local environmental standards in overseas business activities and transfer environmental protection technologies overseas.

## Environmental Impact of Business Activities and Environmental Initiatives

The TS TECH Group is moving ahead with its 12<sup>th</sup> Medium-Term Management Plan toward the realization of its 2020 vision: to be an “Innovative Quality Company.”

The Group is working toward the target of cutting CO<sub>2</sub> emissions by 1% per unit of production\* in order to reduce the environmental impact generated by its business operations.

#### Environmental Impact

Global warming  
Resource depletion  
Ozone depletion  
Air pollution  
Water pollution  
Soil pollution  
Waste materials

Reduce global environmental impact associated with business operations

#### Domain

Product Development Technology  
Manufacturing Management  
Purchasing Distribution

#### Environmental Protection Efforts

- Design products featuring lighter weight and improved recyclability
- Do not use materials containing regulated chemicals
- Employ energy-saving and resource-saving facilities and process design
- Employ energy-saving and resource-saving manufacturing
- Control and reduce volatile organic compound (VOC) emissions into the atmosphere
- Continue to maintain zero emissions
- Promote proper disposal and recycling of industrial waste
- Improve distribution efficiency
- Promote green purchasing



\*CO<sub>2</sub> emissions, waste output, or water consumption per unit of production refers to the amount emitted or consumed, calculated on the basis of TS TECH's standards, in proportion to production from business operations (sales).

## ISO 14001 Initiatives

In February 2014, TS TECH renewed its ISO 14001 certification. Although only one formal observation was made by the external audit organization, it applauded the company's initiatives, including reporting five notable items of conformity. TS TECH will continue taking a proactive approach on ISO 14001, including making a companywide effort with respect to chemical substance management, the topic on which the audit organization made a request.



Main Environmental Targets and Results in FY2014 and Targets for FY2015

In the 11<sup>th</sup> Medium-Term Management Plan (April 2011 to March 2014), TS TECH instituted the reduction of CO<sub>2</sub> emissions as a priority environmental target. Accordingly, the Company has been working toward a 1% year-on-year reduction in CO<sub>2</sub> emissions per unit of production\*<sup>1</sup> by carrying out various measures.

●Environmental Targets and Results (TS TECH Co., Ltd.)

Item	FY2014				FY2015	
	Targets	Measures	Results	Evaluation	Targets	Measures
CO <sub>2</sub>	Emissions per unit of production down 1% from FY2013 (FY2013 results: 0.096 t-CO <sub>2</sub> /million yen)	• Reduce energy consumption involved in new plant construction • Improve manufacturing equipment energy efficiency • Improve lighting/air-conditioning energy efficiency • Energy savings at transformer facilities • Purchasing more hybrid vehicles as company cars	Emissions per unit of production down 3%* <sup>2</sup> from FY2013 (FY2014 results: 0.093 t-CO <sub>2</sub> /million yen)	100% attainment rate	Emissions per unit of production down 1% from FY2014	• Energy savings through base consolidation • Improve manufacturing equipment energy efficiency • Improve lighting/air-conditioning energy efficiency • Energy savings at transformer facilities • Purchasing more hybrid vehicles as company cars
Waste	Output per unit of production down 1% from FY2013 (FY2013 results: 0.0132 t/million yen)	• Promoted recycling • Reduced product defect rate	Output per unit of production down 0.3%* <sup>2</sup> from FY2013 (FY2014 results: 0.0129 t/million yen)	100% attainment rate	Output per unit of production: 0.0129 (t/million yen) or less	• Promoted recycling • Reduced product defect rate
Water	Consumption per unit of production below FY2010 results: 4m,1.729m <sup>3</sup> /million yen	• Save water at all business sites • Inspect leaks at water supply facilities	Consumption per unit of production down 31%* <sup>2</sup> from FY2011 (FY2014 results: 1.196m <sup>3</sup> /million yen)	100% attainment rate	Consumption per unit of production: 1.196(m <sup>3</sup> /million yen) or less	• Save water at all business sites • Inspect leaks at water supply facilities

\*1 CO<sub>2</sub> emissions, waste output, or water consumption per unit of production refers to the amount emitted or consumed, calculated on the basis of TS TECH's standards, in proportion to production from business operations (sales).  
\*2 In fiscal 2014, all targets were achieved in for CO<sub>2</sub>, waste, and water through increased efficiency obtained by a new plant going into operation, the effects of plan consolidation, and the installation of energy-saving equipment.

FY2014 Environmental Accounting

●Environmental Conservation Cost

(Unit: Millions of yen)

Category		Main Efforts	FY2012		FY2013		FY2014	
			Investment	Cost	Investment	Cost	Investment	Cost
Business area cost	Pollution prevention cost	Prevention of air, water, and soil pollution, etc.	2	8	2	12	7	24
	Global environmental conservation cost	Prevention of global warming and ozone depletion and other environmental preservation efforts	55	30	1,199	43	855* <sup>1</sup>	30
	Resource circulation cost	Recycling, waste treatment and disposal, and water-saving efforts	3	46	5	53	21	53
Upstream/downstream cost		Costs generated from purchasing low environmental impact products and raw materials	—	1	3	2	—	3
Administration cost		EMS development & operation costs, environmental measurement costs, office interior "greening" and development costs	14	72	10	86	4	101
R&D cost		Research and development of new technology with a high positive environmental impact, such as , reducing the weight of products, reducing VOCs (not using paints) and developing recyclable materials	54	132	—	4,040	—	4,080* <sup>2</sup>
Social activity cost		Environmental measures such as nature protection, greening, and scenery preservation	—	6	—	6	—	3
Environmental remediation cost		Remediation of soil pollution, etc.	—	—	—	—	—	51* <sup>3</sup>
Total			128	295	1,219	4,242	887	4,345

1 Period covered: April 1, 2013, to March 31, 2014  
2 The above figures include portions ascertained by estimation, such as apportionment.  
3 Materials relating to environmental accounting, such as guidelines and guidebooks published by the Ministry of the Environment of Japan, were referenced when preparing the spreadsheet.  
4 Costs do not include depreciation costs.  
5 Starting in FY2014, environmental accounting of consolidated subsidiaries is included.  
\*1 Global environmental conservation costs include expenses related to the construction of a new plant at the Saitama Plant, which was the main reason for the increased investment.  
\*2 R&D cost increased due to environment-related investment and costs of Technical Center being brought under review, where a new calculation method was employed from fiscal 2013 onward.  
\*3 The figure is expenses for remediation of soil pollution under the soil pollution remediation plan at the Saitama Plant.

●Material Effects (TS TECH Co., Ltd.)

		FY2013	FY2014	Difference
Energy consumption	GJ	208,640	229,354	20,714
Water consumption	1,000m <sup>3</sup>	130	117	△13
CO <sub>2</sub> emissions	t-CO <sub>2</sub>	8,232	9,047	815
CO <sub>2</sub> emissions due to transportation	t-CO <sub>2</sub>	2,633	1,361	-1,272*
Total waste output	t	1,134	1,255	121
VOC emissions	t	40	34	△6
PRTR emissions	t	14	8	△6

\*CO<sub>2</sub> emissions saw a major decline in fiscal 2014 due to the change in the scope of logistics operated by the TS TECH Group.

●Economic Effects (TS TECH Co., Ltd.)

(Unit: Thousand yen)

	FY2014
Gain on sale of valuables	7,876
Cost saved by energy conservation	12,206
Total	20,082

Examples of Environmental Improvement Initiatives

Completion of an administrative building featuring energy-saving and environmentally friendly technologies

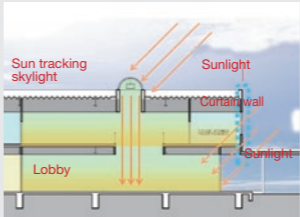
Japan / Technical Center

In March 2013, an administrative building equipped with environmentally friendly technologies was completed in the Tochigi district, where the company's Technology Center and other facilities are located. The building features performance eligible for Rank A in the Comprehensive Assessment System for Built Environment Efficiency (CASBEE). Moreover, as a building with a reduced environmental impact which contributes to the global environment, it was included in the Japan Federation of Construction Contractors' collection of examples of sustainable architecture. Low-E glass, which provides excellent day lighting and thermal barrier/insulation performance, was used on the exterior. An automatic GPS-based sun tracking skylight and a light court installed in the large cafeteria space were included to take in more natural light. These and other measures reduced electricity consumption by 122,473 kWh\* and water consumption by 3,869 m<sup>3</sup>.\*

\*Both figures are comparisons to the Technology Center in fiscal 2011.



The administrative building has a bright, clean image



Open ceilings are used to take in more natural light



Automatic GPS-based sun tracking system installed above open ceilings

Changed method of disposing of waste cloth

Asia/Europe TS TECH (THAILAND) CO., LTD.

TS TECH (THAILAND) CO., LTD. used to dispose of waste cloth generated during the working process by asking a manufacturer (a specialized company) to incinerate it as fuel. It has changed this and now sells it to a manufacturer for recycling. This resulted in a 1,264.5-ton reduction of CO<sub>2</sub> emissions produced by incineration disposal during the period from February to December 2013. At the same time, it reduced the expense incurred for incineration of the cloth, which is now used in recycling.

Improved color changing loss in injection molding

Japan / Hamamatsu Plant

Injection molding is the main process at the Hamamatsu Plant used to manufacture door trim. When changing the color to match the automobile interior color variations, color unevenness has to be corrected and the inside of the equipment cleaned. This was causing an increase in waste due to material loss and an increase in CO<sub>2</sub> emissions as a result of the washing time.

As an improvement measure, the plant first thoroughly verified and selected a detergent with a powerful cleaning effect. Further, it greatly reduced the material used and the time for work by figuring out a way to clean inside the screw and the dies at the same time, whereas they used to be cleaned separately.

By working on this issue, the plant not only reduced wasteful spending, it also achieved a more environmentally friendly manufacturing method.



Injection molding machine

Countermeasures taken

1. Reduced number of steps to correct color unevenness  
Reduced use of main ingredient and changed to a detergent with a powerful cleaning effect
2. Reduced material use  
Changed to a detergent with a powerful cleaning effect
3. Reduced material use and shortened work time  
Changed cleaning method from separate cleaning to simultaneous cleaning

Reduced electricity consumption by switching to LED lighting

China / WUHAN TS-GSK AUTO PARTS CO., LTD.

WUHAN TS-GSK AUTO PARTS CO., LTD. changed the lighting in its plant and office to LED lighting as part of its energy saving efforts. This resulted in reductions of 117,648 kWh in electricity consumption and 118 tons in CO<sub>2</sub> emissions in the period from January to April 2013. It also took other steps to save energy, including unified management of air conditioners.



Lighting inside the plant was switched to LED lighting

The ISO 26000 core subject



Fair operating practices

To Grow Together with Our Suppliers

We practice procurement based on fair transactions in order to develop good products and grow together with our suppliers.



● Association with Seven Attitudes in TS Guidelines for Conduct

Attitude toward suppliers

In order for the Company to maintain a fair and sound relationship with its suppliers, I deal with suppliers in a fair and sound manner.

● Selection of a supplier

When a product or service is procured, I select the optimum supplier from among several suppliers by comparing and evaluating their terms and conditions with an unbiased eye.

● Prohibition of unreasonable gifts or business entertainment

I do not offer suppliers nor receive from suppliers any gift or business entertainment that is beyond what is generally acceptable.

● Prohibition of unreasonable use of organizational position or authority

I do not make unreasonable use of my organizational position or authority to afford convenience to the interested party or make the interested party afford convenience to me.

● Main stakeholders

Suppliers

● CSR Check Sheet

FY2012 average  
3.8pt



FY2014 average  
4.2pt

● Association with business operations and corporate value enhancement

Growing together with our suppliers to win in the global market

To achieve good results in the global market requires not only the efforts of the TS TECH Group but also cooperation throughout the supply chain. This is why the TS TECH Group practices fair, sound transactions with its procurement partners, seeking to grow together with suppliers and build relationships of trust that enhance corporate value for all parties.

## Compliance with the Antimonopoly Act and Prohibition of Corruption

TS TECH has prepared and operates its own Antimonopoly Act and Subcontract Act Compliance Manual which sets forth the approach and considerations related to Japan's Act on Prohibition of Private Monopolization and Maintenance of Fair Trade ("Antimonopoly Act") and the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors ("Subcontracting Act"). The departments concerned utilize the manual in promoting day-to-day operations based on an accurate understanding of the two laws and adequate scrutiny into the lawfulness of individual events.

TS TECH is creating mechanisms that allow the departments concerned to liaise with the department responsible for legal affairs and consult with attorneys when needed on events that cannot be clearly decided based solely on the manual. Moreover, TS TECH provides proper and appropriate training on the Antimonopoly Act and the Subcontract Act in accordance with its stratified training programs to foster awareness of compliance among employees.

## Reinforced Foundation for Domestic Procurement (Japan)

TS TECH works together with its suppliers, frequently sharing information, to strengthen cost competitiveness amid increasingly globalized competition. The company implements an annual briefing on our procurement policy for main suppliers.

Moreover, TS TECH is building a mechanism that will ensure flexible and stable procurement, backed by greater preparedness for market upheavals, foreign exchange fluctuations, unexpected changes in manufacturing conditions, natural disasters, and other risks. The underlying concept of this mechanism is fair and impartial treatment of all suppliers and trade partners. TS TECH is also putting in place a system that supports suppliers in areas related to their expertise, quality and cost so that they can fully demonstrate their strengths in their transactions with TS TECH.

## Greater Competitiveness in Global Procurement

The TS TECH Group builds and strengthens its partnerships with suppliers in accordance with the Four Principles for TS Procurement. To achieve cost competitiveness and consistent quality for raw and other materials which are commonly used worldwide, we are also working to progressively build a procurement system that allows central procurement in Japan.

● Four Principles of TS Procurement

<b>Principle 1: Fair trade</b>	When selecting a supplier, we offer our business to several candidates irrespective of their nationality, size, or past transactions and finalize our choice in a fair manner by comprehensively evaluating their ability to offer superior quality, expertise, price, delivery, and other elements, as well as competitiveness, rationality, efforts for business security and other relevant matters.
<b>Principle 2: Mutually beneficial transactions</b>	We share with our trade partners business challenges such as development and competitive pricing, set goals from a common perspective, and conduct joint efforts to achieve targets. We afford the highest priority to mutually beneficial transactions in terms of results thus obtained and make continuous efforts to strengthen mutual trust as the basis of mutually beneficial relationships.
<b>Principle 3: Environmental responsibility</b>	In our corporate activities, we under all circumstances attach the greatest importance to global environmental preservation. Accordingly, we practice "green purchasing," granting preference to environmentally responsible products, services, companies, etc.
<b>Principle 4: Legal compliance and confidentiality</b>	We respect the principle of legal compliance and thoroughly observe relevant laws and regulations and generally accepted norms. We handle with the greatest care all kinds of information obtained from our customers and trade partners and make the utmost effort to prevent the loss or misuse of such information.

## Respect for Intellectual Property Rights

We respect intellectual property rights. In developing products and technologies, we take full and appropriate care to ensure that we do not infringe on the intellectual property rights of others. At the same time, we ask others to respect our intellectual property rights. In cases where an infringement is identified, we take all necessary measures, including demanding that infringing parties immediately discontinue any offending activities and offering such parties an opportunity to negotiate the signing of license agreements. We also provide our employees with training sessions on intellectual property rights in various forms, including in-house training.

## Initiatives in Trade Management

Proper execution of operations related to imports and exports is a business continuity prerequisite for the TS TECH Group, which has expanded its business to 13 countries worldwide. In 2008, we set up the Foreign Trade Management Office, creating a management structure to manage and supervise trade operations. The office has been working to upgrade the management of trade by making proactive efforts in training and education. For example, it has obtained approval for TS TECH from the Director of Tokyo Customs as an "authorized exporter" (October 2008) and "authorized importer" (March 2013) based on the Authorized Economic Operator (AEO) program\*1 and participates in the IATA Diploma Program (IATA Dangerous Goods Regulations Professional Diploma)\*2, an international qualification program.

\*1. AEO program: A program for approval of operators with established structures for security management and legal compliance in their international distribution supply chains to be approved by the Director of Customs as eligible for special treatment, such as simplified customs procedures.

\*2. IATA Diploma Program: A qualifying examination run by the International Air Transport Association (IATA), a body to which airlines with international routes belong. The Dangerous Goods Regulations course tests knowledge required for transporting dangerous goods as international air cargo.

## Policy and Action against Antisocial Forces

The Group's basic policy for internal control requires individual officers and employees to diligently avoid any type of relationship with antisocial groups that can threaten a safe and orderly civil society, and to work together as an entire group to demonstrate uncompromising attitudes against such forces. Specific measures include incorporating provisions for excluding the influence of antisocial forces in preparing agreements.



TS TECH staff delivering a presentation at an AEO Program Briefing for Tokyo Customs



## Consumer issues

## Winning Trust as a Company that Makes High-quality Products

**We are further strengthening our quality management system as we strive to realize quality that meets global market needs.**



### ● Association with Seven Attitudes in TS Guidelines for Conduct

### Attitude toward customers (customer companies and end users)

In order for TS TECH to provide customers and end users with a high degree of satisfaction

I always set myself a creative task from the customer's viewpoint and then proceed with my task while imagining myself in the customer's position.

- Offer of Quality Products

I offer quality products, always placing myself in the customer's position.

- Association with business operations and corporate value enhancement

## Maintaining quality is the key to securing a competitive advantage in the global market

The consumer's eye for quality is becoming more and more discriminating every year. That is why ensuring that a product can be used reliably for a long time in a state of high quality makes it more competitive.

TS TECH practices painstaking quality control, always looking at things from the customer's perspective in order to build its competitive advantage worldwide.

- Main stakeholders

## Customers, end users

## ● CSR Check Sheet

FY2012 average  
**4.6pt**

FY2014 average  
**4.7pt**

## Global System Focused on Quality

In accordance with TS TECH's Corporate Principle, we attach great importance to quality in our manufacturing, which we develop on a global scale.

Our quality assurance system, which has acquired certification in international standards related to quality (e.g., ISO 9001 and ISO/TS 16949) at all sites in and outside Japan, ensures the delivery of products with the same high level of quality around the globe. The Corporate Quality Assurance Division manages targets and performance related to quality assurance throughout the Group. TS TECH aims to create products that provide customers with greater satisfaction, making use of market research conducted by the research firm J. D. Power and Associates, a U.S. company which conducts customer satisfaction surveys such as the Initial Quality Study and Vehicle Dependability Study.

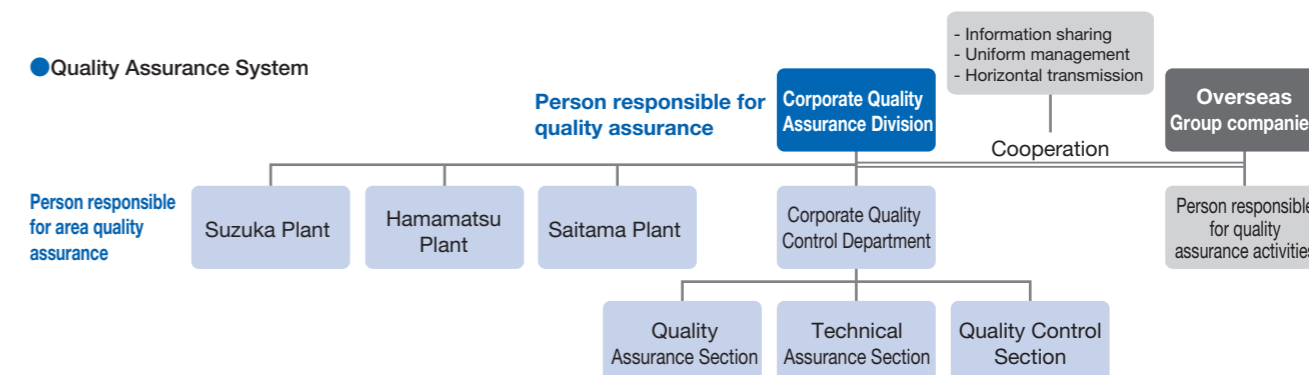
Meanwhile, quality control on the manufacturing floor is tightly integrated with manufacturing processes under the supervision of each plant's Quality Department, enabling us to carry out production and quality initiatives that ensure stable manufacturing quality. Additionally, once every two years we hold a TC Circle (see below) global conference to help raise each and every employee's awareness of quality.



### Review for the ISO/TS 16949 quality management system in the automobile industry



ISO/TS 16949 certificates



## Global Quality Assurance System

TS TECH's global quality assurance system is centered on Japan, the nucleus of TS TECH manufacturing. Under this system, quality is controlled and assured at each of the steps from new model planning to mass production, as indicated in the quality assurance system chart. This procedure leads to a smooth manufacturing process startup.

Once mass production is launched, quality information from all sites, including those outside Japan, is collected for centralized management. The global system also enables instantaneous horizontal transmission of quality-related knowhow.

## Product Warranty System (Traceability Management)

The TS TECH Group uses a common parts platform worldwide. This makes it possible to trace individual parts using mechanisms such as its manufacturing quality assurance system. The Group has also established a system that can monitor the potential for quality problems to spread at each site, including sites outside Japan.

Traceability management leaves a reliable history of the Group's manufacturing. If by any chance a customer raises an issue with a product, the Group responds quickly based on the history stored in its manufacturing quality assurance system.

## TC Circle Initiatives

The TS TECH Group carries out improvement efforts through small groups called TC Circles. These are what are generally called QC (quality control) circles. The objective is to develop human resources who can resolve, manage, and improve problems using QC methods. The aim is to promote globally shared themes, share improvement case studies and to develop human resources and discover leaders through these initiatives.

To increase members' motivation, an annual conference is held in each region (Japan, China, the Americas, and Asia/Europe) and a global conference is held once every two years. In 2013, 598 circles participated in the regional conferences and employees from 18 circles and 10 countries participated in the global conference held that year.



Award ceremony at the 2013 TC Circle global conference

Members of NINGBO EPZ TRIMONT AUTOMOTIVE INTERIOR INC., which won the top award

The ISO 26000 core subject

Community involvement  
and  
community development

To Be a Company Firmly Rooted in the Local Community

The TS TECH Group actively engages in social contribution through community exchange, social welfare promotion, and disaster support as a member of the community.



#### ● Association with Seven Attitudes in TS Guidelines for Conduct

##### Attitude toward the local community

In order for the Company to take root in the local community,

I make a positive contribution to the local community as a member of the community.

##### ● Cultural exchange with the community

I try to promote cultural exchange with the community through positive participation in local events.

##### ● Social welfare

I extend help positively to mentally or physically handicapped persons.

##### ● Disaster relief

I will give positive aid to the victims when and if a disaster occurs.

##### ● Volunteer

I join or support volunteer activities in a positive manner.

#### ● Main stakeholders

Local  
community

#### ● CSR Check Sheet

FY2012 average  
4.0pt



FY2014 average  
4.3pt

#### ● Association with business operations and corporate value enhancement

##### Building a Stronger Foundation for Business Activities by Contributing to Local Communities

TS TECH seeks to coexist with local communities by engaging in diverse social contribution activities. The company strives to increase corporate value by earning the strong appreciation of society while strengthening the foundation for its business activities on a global scale.

### Examples of Community Involvement

#### Activities to Promote Traffic Safety in Local Communities

Japan / Technical Center, Hamamatsu Plant, Suzuka Plant



A traffic safety seminar for parents and children (Suzuka Plant)

TS TECH works hard to promote traffic safety in the communities around each of its business sites. At the Technical Center, TS TECH takes part in traffic safety supervision for the morning commute at strategic points around the center as well as local traffic safety events. At the Hamamatsu Plant, TS TECH supported a campaign to prevent traffic accidents. Meanwhile, at the Suzuka Plant, TS TECH helps to promote local traffic safety by taking steps such as holding traffic safety seminars for parents and children in partnership with Honda Partnership Instructors (employees from Honda Motor affiliates who implement activities to promote traffic safety nationwide) and supervising traffic on roads around the plant.

### Supporting Sports Events

Japan / Saitama Plant, Suzuka Plant

TS TECH supports local sports events. The Saitama Plant has sponsored a basketball tournament for elementary and junior high school students in Saitama Prefecture since 2010. The Suzuka Plant supports a mini-basketball tournament for elementary school students in Suzuka City as well as Mie Violet Iris, a women's handball club. It also holds baseball clinics for local junior baseball teams. TS TECH provides support for local people of all walks of life, promoting sports while helping to reinvigorate Japan's local communities.



Basketball tournament for elementary and junior high school students (Saitama Plant)



Baseball clinics for junior baseball teams (Suzuka Plant)

### Supporting Children's Education

China / NINGBO FTZ TS TRIMONT AUTOMOTIVE INTERIOR INC.  
NINGBO EPZ TS TRIMONT AUTOMOTIVE INTERIOR INC.  
GUANGZHOU TSK AUTO PARTS CO., LTD.

In February 2013, seven employees from two consolidated subsidiaries in Ningbo, China visited the nearby Beilun Xingang Kindergarten. There are many children from comparatively disadvantaged families at this kindergarten, which is also not adequately equipped. During the visit, the employees had fun with the children, reading the books they had donated and other activities. Around the same time, GUANGZHOU TSK AUTO PARTS CO., LTD. also donated books to an elementary school in a mountainous area, which is similarly short of learning resources.



Employees reading the books they gave to the children (China)

### Collecting Food for Hurricane Victims

Americas / TST MANUFACTURING DE MEXICO, S. DE R.L. DE C.V.

In September 2013, a hurricane struck coastal areas in the northwest Gulf of Mexico. TST MANUFACTURING DE MEXICO, S. DE R.L. DE C.V. in the city of Nuevo Laredo in northeastern Mexico moved to support the victims. In addition to asking employees to donate, the company also initiated activities to collect food and daily essentials. The relief supplies collected were all donated to the local Red Cross.



Employees collecting food (Mexico)

### Supporting People with Disabilities

Asia/Europe / TS TECH TRIM PHILIPPINES, INC.  
TS TECH (THAILAND) CO., LTD.

These two companies have provided both material and emotional support for people with a variety of disabilities. Examples include the presentation of old calendars for use as braille paper and support for resources as well as participation in volunteer programs to read and record books for the visually challenged.



Collecting soda can tabs (top) to support the purchase of wheelchairs at facilities for people with physical disabilities and gathering old calendars to send to the facilities as braille paper (Thailand)

Examples of Community Involvement

Column

Global Development of the Green Ecosystem Conservation Activities

The global development of Green Ecosystem Conservation Activities are featured here as an example of TS TECH's community involvement.

List of Principal Green Ecosystem Conservation Activities under 11th Medium-Term Management Plan

### China

GUANGZHOU TS AUTOMOTIVE INTERIOR SYSTEMS CO., LTD.

- Payment of tree-planting fee

GUANGZHOU TECH INTERIOR TRIM MANUFACTURING CO., LTD.

- Afforestation program, primarily tree planting

WUHAN TS-GSK AUTO PARTS CO., LTD.

- Tree-planting activity in a residential area near the plant

NINGBO FTZ TS TRIMONT AUTOMOTIVE INTERIOR INC.

- Cleaning activities, including roads, flower beds and lawns

### Japan

Head Office Saitama Plant

- TS TECH Forest Technical Center
- Forest of High Spirits

Hamamatsu Plant

- TS TECH Forest of Healing

Suzuka Plant

- TS TECH Forest of Relaxation

### Asia/Europe

TS TECH TRIM PHILIPPINES, INC.

- Tree planting for environmental improvement and flood control

PT. TS TECH INDONESIA

- Tree planting under the supervision of Japan International Cooperation Agency (JICA)

TS TECH (THAILAND) CO., LTD.

- Local environmental improvement
- Cleaning activities at Pattaya beach

TS TECH SUN (INDIA) LIMITED

- Tree planting on the premises

TS TECH UK LTD

- Creating green arches in school gardens

### Americas

TS TECH AMERICAS, INC.

- Cooperation with The Nature Conservancy\*  
\*The US's biggest nature conservation organization, established in 1951, works to protect animal habitats and preserve ecosystems.

TS TECH ALABAMA, LLC.

- Activities to protect a wild bird sanctuary

TST NA TRIM, LLC.

- Tree planting and removal of weeds and bushes

TS TECH INDIANA, LLC

- Removal of bushes at the YMCA

TRIMONT MFG. INC.

- Yard gardening

INDUSTRIAS TRI-CON DE MEXICO, S.A. DE C.V.

- Tree planting and afforestation

TS TECH DO BRASIL LTDA.

- Tree planting by volunteer employees

Topics from the FY2014 activities

Shizuoka Prefectural Forest Park Presented with Certificate for Shizuoka Future Forest Supporter Activities in Recognition of Funding Assistance for Management of Windfall Trees

Japan / Hamamatsu Plant

A section of the Shizuoka Prefectural Forest Park, popular with many of the prefecture's residents, suffered windfall tree damage from 2011's Typhoon No. 15. In response, the Hamamatsu Plant is providing funds for management of the damage over five years starting in 2012 as part of TS TECH's commitment to environmentally responsive business activities.

For contributing 2.89t in CO<sub>2</sub> absorption as a result of these activities, TS TECH was presented with a certificate by Shizuoka Governor Heita Kawakatsu in June 2013 for its activities accompanying the Shizuoka Future Forest Supporter Pact.

In the future, TS TECH will develop activities that make the forest popular with local people as a forest of healing.

Registered under the Green Wave 2014

Japan

Some programs conducted under the Green Ecosystem Conservation Activities have been registered for participation in the Green Wave 2014, which was implemented March 1 – June 15, 2014 and is promoted by Japan's Ministry of the Environment. Green Wave activities are group activities that contribute to general public understanding and raise awareness in relation to biodiversity through contact with forests and tree-planting and other activities. The following programs were registered for participation.

- (1) April 2014: "TS TECH Forest" new recruit training (tree planting)
- (2) June 2014: Head Office and Saitama Plant volunteer activity in the TS TECH Forest (weeding)



Developing tree planting activities in the TS TECH Forest of Healing



The Manager of Hamamatsu Plant (left) attending the presentation ceremony for the certificate for Shizuoka Future Forest Supporter Activities



THE GREEN WAVE  
One school, one tree, one gift to nature  
UNEP CSD

Chapter

Financial Report

2020 Vision  
INNOVATIVE QUALITY COMPANY

The TS TECH Group's competitive environment is no longer limited to the old framework; it is now the arena of fierce global competition. In this situation, the Group believes it cannot respond only to the needs of its existing main clients. In order to expand the size of the Company and improve its corporate value, it must also acquire new commercial rights by aggressively developing new customers.

2030 Level of global interior parts manufacturing giants ... To the highest peak, Mt. Everest

2020 INNOVATIVE QUALITY COMPANY

World leader in component competitiveness



2010 GOOD QUALITY COMPANY

World-class quality ... From beautiful Mt. Fuji

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## Consolidated Performance Highlights

### Consolidated Balance Sheets (Million yen)

Item	FY2013 (Year ended March 31, 2013)	FY2014 (Year ended March 31, 2014)
<b>Assets</b>		
Current assets	136,587	177,395
Cash and deposits	58,269	78,181
Notes and accounts receivable-trade	48,806	65,530
Merchandise and finished goods	2,251	2,609
Work in process	1,978	3,325
Raw materials and supplies	18,256	19,681
Other	7,046	8,106
Allowance for doubtful accounts	(21)	(41)
Noncurrent assets	71,113	87,240
Property, plant and equipment	48,870	62,253
Intangible assets	1,259	1,546
Investments and other assets	20,984	23,441
<b>1 Total assets</b>	<b>207,701</b>	<b>264,636</b>

#### 1 Total assets

Total assets as of March 31, 2014 increased 56,934 million yen over the year earlier due to factors including the impact of foreign exchange rates, a rise in cash and deposits, an increase in notes and accounts receivable-trade, which was due to increased orders from major customers, and investment in new models, as well as an increase in property, plant and equipment, which was attributable to the construction of new plants in Thailand, Mexico and other countries.

#### 2 Total liabilities

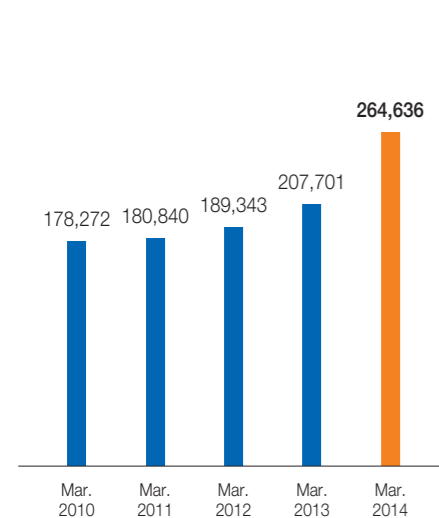
Total liabilities as of March 31, 2014 increased 23,743 million yen from the previous year, resulting primarily from an increase attributable to the impact of foreign exchange rates and a rise in notes and accounts payable-trade.

#### 3 Total net assets

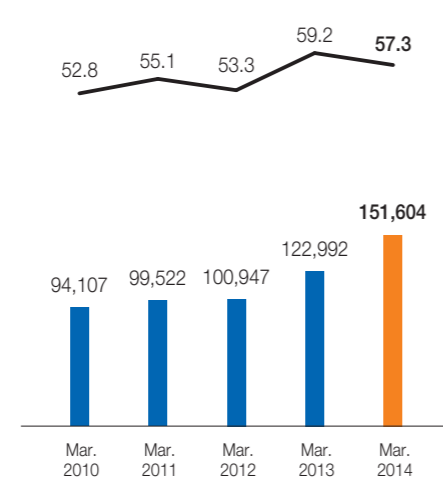
Total net assets as of March 31, 2014 rose 33,190 million yen over the year earlier, chiefly attributable to a rise in retained earnings and foreign currency translation adjustments.

Item	FY2013 (Year ended March 31, 2013)	FY2014 (Year ended March 31, 2014)
<b>Liabilities</b>		
Current liabilities	62,189	84,773
Notes and accounts payable-trade	40,330	56,932
Short-term bank loans	2,050	1,870
Long-term loans scheduled for payment within one year	2,572	167
Income taxes payable	1,716	3,050
Allowances	2,476	3,204
Other	13,042	19,547
Noncurrent liabilities	7,988	9,148
Long-term loans payable	210	69
Other	7,776	9,076
<b>2 Total liabilities</b>	<b>70,176</b>	<b>93,920</b>
<b>Net assets</b>		
Shareholders' equity	122,992	151,604
Common stock	4,700	4,700
Capital surplus	5,163	5,163
Retained earnings	113,122	133,859
Treasury stock	(3)	(3)
Accumulated other comprehensive income	9	7,886
Minority interests	14,532	19,111
<b>3 Total net assets</b>	<b>137,524</b>	<b>170,715</b>
<b>Total liabilities and net assets</b>	<b>207,701</b>	<b>264,636</b>

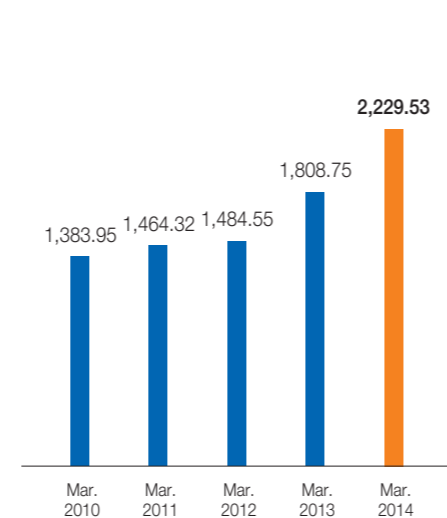
### Total Assets (Million yen)



### Shareholders' Equity (Million yen) Equity Ratio (%)



### Net Assets per Share (Yen)



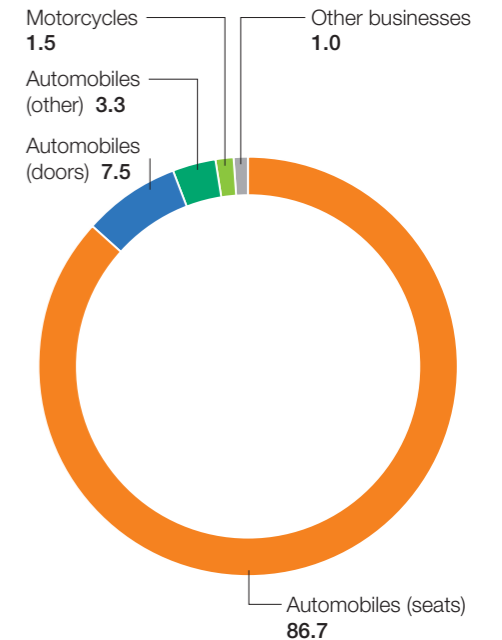
### Consolidated Statements of Income (Million yen)

Item	FY2013 (Year ended March 31, 2013)	FY2014 (Year ended March 31, 2014)
Net sales	359,331	457,053
Cost of sales	309,929	385,940
Gross profit	49,402	71,113
Selling, general and administrative expenses	25,182	31,980
<b>Operating income</b>	<b>24,220</b>	<b>39,133</b>
Non-operating income	3,345	3,999
Non-operating expenses	355	195
<b>Ordinary income</b>	<b>27,209</b>	<b>42,937</b>
Extraordinary income	359	561
Extraordinary loss	1,121	1,242
Income before income taxes and minority interests	26,447	42,256
Total income taxes	7,563	12,135
Net income before minority interests	18,884	30,121
Minority interests in income	3,142	6,220
<b>Net income</b>	<b>15,742</b>	<b>23,901</b>

### Consolidated Statements of Cash Flows (Million yen)

Item	FY2013 (Year ended March 31, 2013)	FY2014 (Year ended March 31, 2014)
Net cash provided by (used in) operating activities	23,773	43,601
Net cash provided by (used in) investing activities	(10,976)	(18,233)
Net cash provided by (used in) financing activities	(7,305)	(8,899)
Effect of exchange rate change on cash and cash equivalents	4,462	6,642
Net increase (decrease) in cash and cash equivalents	9,954	23,111
Cash and cash equivalents at beginning of period	43,395	53,349
Cash and cash equivalents at end of period	53,349	76,460

### Sales by Business Segment (%)



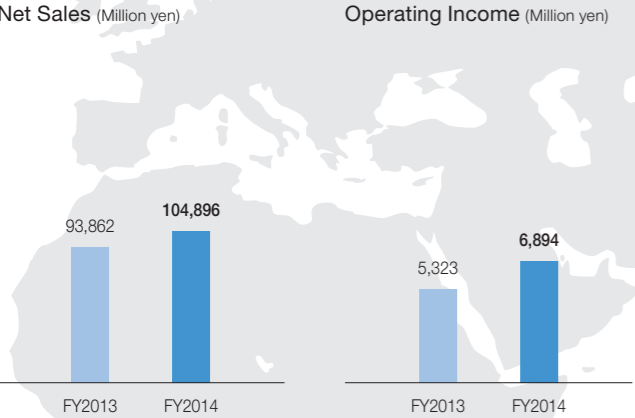
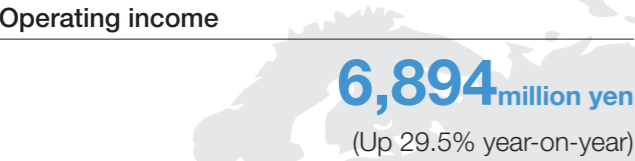
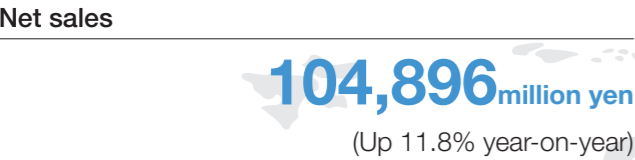
**4 Net cash provided by operating activities**  
Net cash provided by operating activities increased 19,827 million yen over the previous year due to factors including a year-on-year increase in income before income taxes and minority interests.

**5 Net cash used in investing activities**  
Net cash used in investing activities rose 7,257 million yen from the previous year, primarily reflecting expenditure for the acquisition of property, plant and equipment, which increased 10,035 million yen from the previous fiscal year.

Operating Performance

Performance by Geographic Segment

Japan

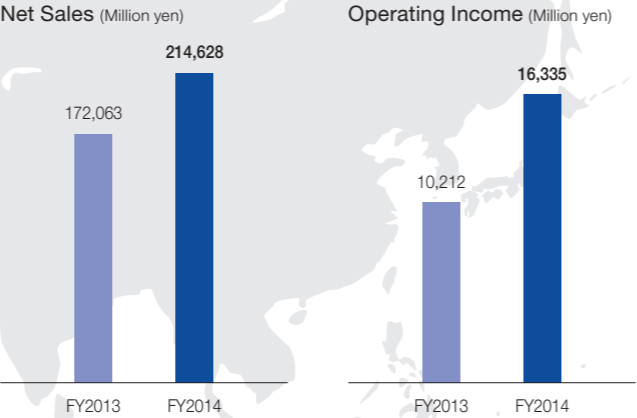
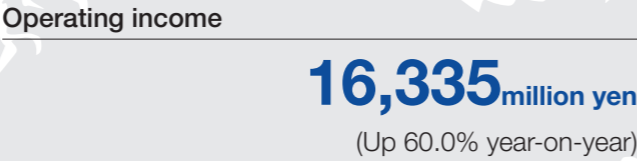
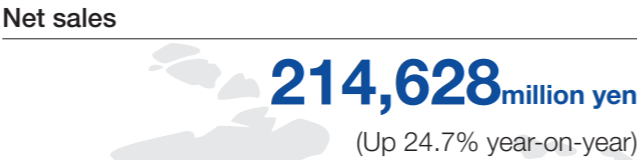


Main factors for year-on-year changes

Net sales	Net sales soared after increases in order volumes from major customers and royalty revenues following the expansion of overseas production.
Operating income	Operating income grew as a result of the rise in net sales, although the increase in orders led to a hike in various expenses.

The Group commenced the production of seats for Honda's new FIT, the new light automobile model N-WGN, the new Odyssey model and others. At the Saitama Plant, the new interior product plant went into full operation following its new seat plant, which commenced production in the preceding year, as part of the reform of the domestic production structure. The Group thereby integrated the interior product operations in the Saitama area to achieve further improvements in production efficiency as well as distribution and management cost reductions. The Suzuka Plant enhanced its organizational structure and revised its production lines in accordance with the needs of major customers in a bid to win orders for seats for light automobiles and interior products following a deal for seats for the N-WGN.

Americas

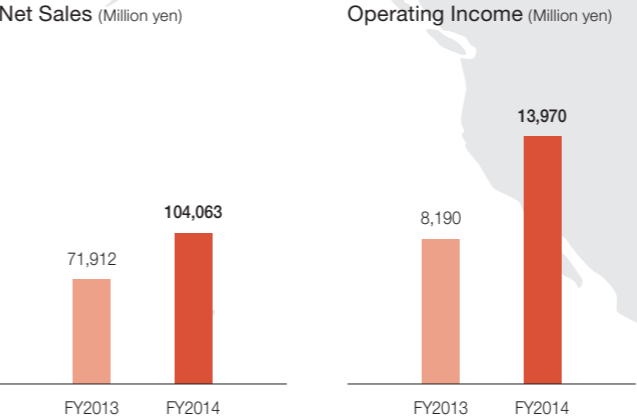
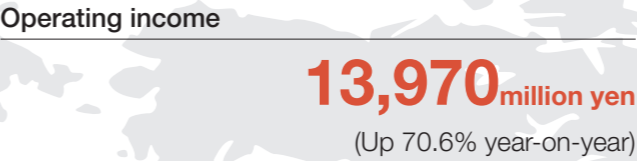
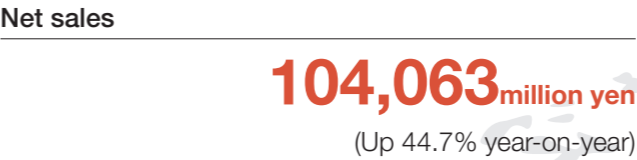


Main factors for year-on-year changes

Net sales	Net sales jumped, reflecting the impact of the weakening yen in terms of foreign currency conversion and growth in order volumes from major customers.
Operating income	Operating income jumped with the effects of net sales growth and foreign currency conversion, despite a rise in expenses after the growth of orders.

As demand for automobiles showed a turnaround, brisk orders were obtained from major customers. With the continued effort to change the earning structure, the segment achieved a rise in both net sales and operating income. In the Americas, with its continued fierce competition, the Group implemented several measures including the establishment of a new company in Mexico in which to concentrate the production of automotive seat components.

China

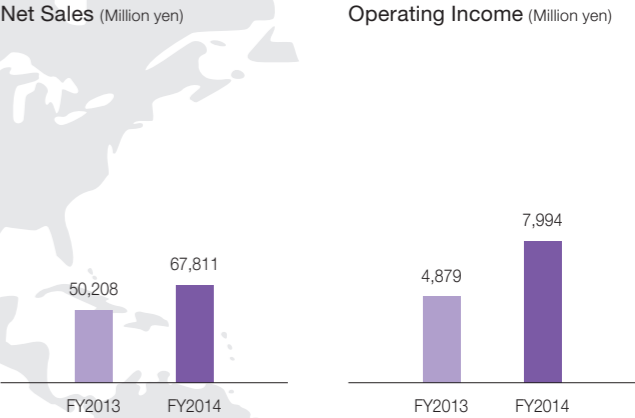
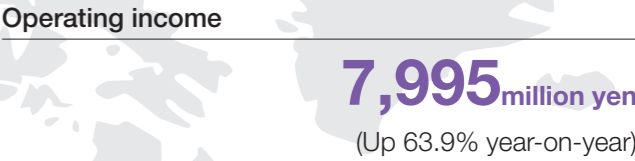
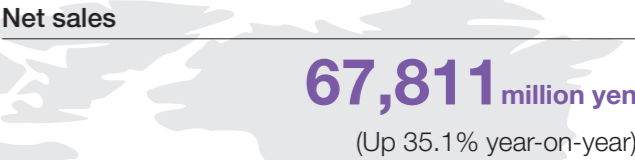


Main factors for year-on-year changes

Net sales	Net sales were up due to the positive effect of the depreciation of the yen on foreign currency conversion, as well as an increase in order volumes from major customers.
Operating income	Operating income surged with the effects of the net sales growth and the foreign currency conversion, despite a rise in expenses after the increase in orders.

The production of seats and interior products for Honda's Crider, a model exclusively marketed in China, commenced. In an attempt to meet the locally optimized specifications from major customers and their local development needs, a new company engaging in research and development functions was launched in the city of Guangzhou to commence its operations to develop new models. The Group has thus endeavored to construct a structure for obtaining orders that are expected to grow for locally developed models.

Asia and Europe



Main factors for year-on-year changes

Net sales	Net sales jumped, reflecting the impact of the weakening yen in terms of foreign currency conversion and growth in order volumes from major customers.
Operating income	Operating income expanded with the effects of the net sales hike and the foreign currency conversion, although expenses increased after the rise in orders.

The Group commenced the production of seats for Honda's new Mobilio in Indonesia, and the production of seats and interior products for Honda's City and seats for the Amaze in India. As a result, the Group strengthened its production system in the Asia region. For example, a new company for the production of seats for four-wheel vehicles was erected in Thailand to keep up with the production growth of major customers, and new plants were built in India and Indonesia as well. In the Europe region, the Group pushed ahead with the construction of a new plant in Hungary for the production of seats for four-wheel vehicles and worked to construct a system for manufacturing products for Volkswagen.

Management’s Discussion and Analysis

1. Analysis of Financial Condition

Total assets at the end of FY2014 stood at 264,636 million yen, showing an increase of 56,934 million yen from the end of the previous fiscal year. These changes chiefly reflected an increase in total assets, which was attributable to the impact of foreign exchange rates, a rise in cash and deposits, an increase in notes and accounts receivable-trade, which was due to increased orders from major customers, and investment in new models, as well as an increase in property, plant and equipment, which was attributable to the construction of new plants in Thailand, Mexico, and other countries.

Total liabilities at the end of FY2014 amounted to 93,920 million yen (up 23,743 million yen from the end of the previous fiscal year). This was chiefly due to an increase attributable to the impact of foreign exchange rates and a rise in notes and accounts payable-trade.

Total net assets at the end of FY2014 amounted to 170,715 million yen, an increase of 33,190 million yen from the end of the previous fiscal year. This was chiefly attributable to a rise in retained earnings and foreign currency translation adjustments.

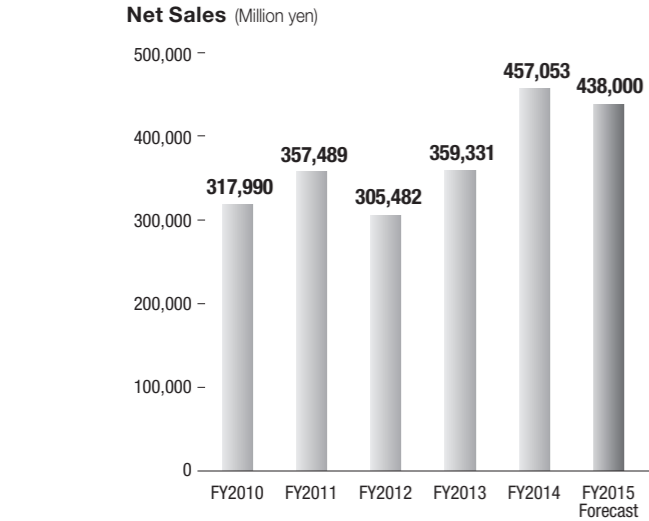
Cash and cash equivalents (hereinafter “cash”) at the end of FY2014 amounted to 76,460 million yen, up 23,111 million yen from the end of the previous fiscal year.

*(Net cash provided by (used in) operating activities)*

Net cash provided by operating activities amounted to 43,601 million yen, showing a year-on-year rise of 19,827 million yen. This result reflects a year-on-year increase in income before income taxes and minority interests of 15,808 million yen from the previous fiscal year, to 42,256 million yen, and a change in notes and accounts payable-trade from a decrease of 12,899 million yen in the previous fiscal year to an increase of 8,972 million yen in FY2014, despite a shift in notes and accounts receivable-trade from a rise of 8,459 million yen in the previous fiscal year to a decline of 8,371 million yen in FY2014.

*(Net cash provided by (used in) from investing activities)*

Net cash used in investing activities stood at 18,233 million yen, up 7,257 million yen from the previous fiscal year, primarily reflecting a change in time deposits, after addition and withdrawal, from a net outlay of 126 million yen in the previous fiscal year to a net increase of 3,740 million yen in the fiscal year under review, as well as expenditure of 19,378 million yen for the acquisition of property, plant and equipment, which increased 10,035 million yen from the previous fiscal year.



*(Net cash provided by (used in) financial activities)*

Net cash used in financing activities amounted to 8,899 million yen, showing a rise of 1,593 million yen year on year. This reflects an increase in dividend payments of 1,223 million yen from the previous fiscal year, to 2,991 million yen.

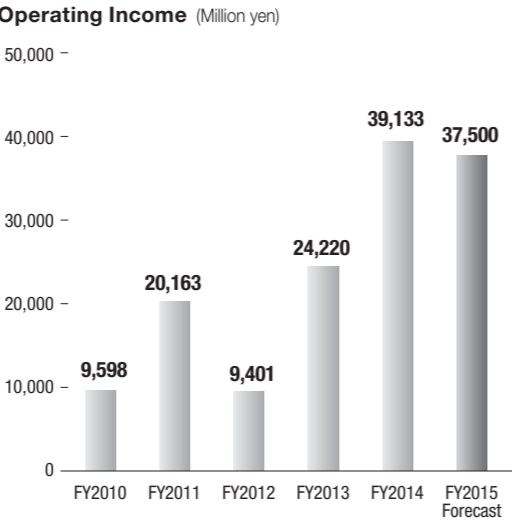
3. Analysis of Operating Performance

During FY2014, the global economy was brisk on the whole, although there was some uncertainty about the outlook of emerging economies. With respect to the business environment surrounding the TS TECH Group, there were fears that the political unrest in Thailand would affect its business. Meanwhile, demand for automobiles rallied, mainly in North America and China. As a result, performance was generally buoyant.

Under these circumstances, the Group continued to work on its 11<sup>th</sup> Medium-Term Management Plan (April 1, 2011–March 31, 2014) with the goal of “Evolution as a global company” under its 2020 Vision of “Innovative Quality Company.”

FY2014 was the final year of the 11<sup>th</sup> Medium-Term Management Plan. During this period, the Group worked to reinforce its production structure in line with production expansion on the part of its major customers and the local development structures in China, Asia, and Europe. The Group also endeavored to strengthen its structure for sales expansion from non-principal customers and to build a system in anticipation of the future. In addition, the Group implemented measures aimed at surviving the ever-intensifying competition for orders, including increasing the competitiveness of its components by means of regionally optimized procurement and the mutual inter-change of components between different regions. With these initiatives, the Group took steady steps forward in preparation for its 12<sup>th</sup> Medium-Term Management Plan.

Net sales for the fiscal year under review on a consolidated basis increased 97,722 million yen, or 27.2%, from the preceding fiscal year, to 457,053 million yen, reflecting a rise in orders from major customers chiefly in North America and China and the impact of conversions from foreign currencies. Looking at profits, operating income stood at 39,133 million yen, an increase of 14,913 million yen, or 61.6%, year on year, after the effects of the net sales growth and cost cuts. Ordinary income also rose by 15,727 million yen, or 57.8%, from the preceding fiscal year, to 42,937 million yen. Net income was up 8,159 million yen, or 51.8%, year on year, to 23,901 million yen.



4. Forecasts for the Fiscal Year Ending March 31, 2015

The Group’s consolidated forecasts for the FY2015 are as follows:

Consolidated net sales	438.0 billion yen	(Year on year down 4.2%)
Consolidated operating income	37.5 billion yen	(Year on year down 4.2%)
Consolidated ordinary income	40.0 billion yen	(Year on year down 6.8%)
Consolidated net income	22.7 billion yen	(Year on year down 5.0%)

The Group’s forecasts by segment are as follows:

(Unit: Million yen)				
	FY2014	FY2015 Forecasts	Year on year	Changes
Net sales	104,896	101,320	-3,575	-3.4%
Operating income	6,894	9,460	2,566	37.2%

Main factors for year-on-year changes

Net sales Net sales decreased, reflecting a decline in the production of parts supplied from Japan.

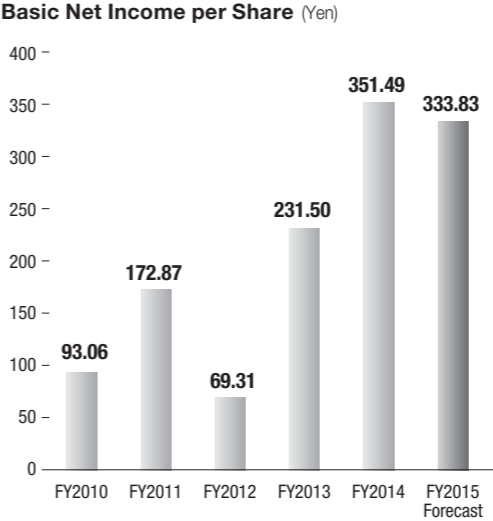
Operating income Operating income increased, reflecting the reduction of expenses and the impact of a rise in sales.

(Unit: Million yen)				
	FY2014	FY2015 Forecasts	Year on year	Changes
Net sales	214,628	197,960	-16,668	-7.8%
Operating income	16,335	14,000	-2,334	-14.3%

Main factors for year-on-year changes

Net sales Net sales declined due to a decrease in order volumes from major customers.

Operating income Operating income decreased, reflecting an increase in expenses such as depreciation and personnel expenses and the impact of a decline in sales.



(Unit: Million yen)				
	FY2014	FY2015 Forecasts	Year on year	Changes
Net sales	104,063	107,350	3,286	3.2%
Operating income	13,970	14,480	509	3.6%

Main factors for year-on-year changes

Net sales Net sales increased thanks to a rise in order volumes from major customers, despite a decline in sales, which was attributable to differences in the makeup of models.

Operating income Operating income rose, reflecting the positive effects of foreign exchange rates and increased sales, despite an increase in expenses that was attributable to a rise in orders received.

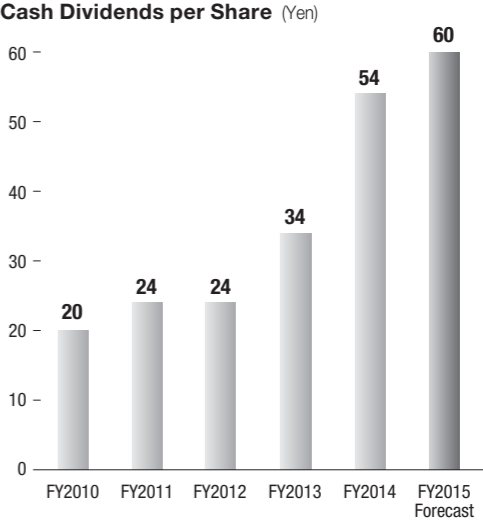
(Unit: Million yen)				
	FY2014	FY2015 Forecasts	Year on year	Changes
Net sales	67,811	62,430	-5,381	-7.9%
Operating income	7,995	6,6160	-1,834	-22.9%

Main factors for year-on-year changes

Net sales Sales fell, reflecting decreased sales that were attributable to differences in the makeup of models and the impact of foreign exchange rates, despite a rise in order volumes from major customers.

Operating income Despite a sales increase effect attributable to a rise in order volumes from major customers, sales declined, reflecting the effects of differences in the makeup of models and foreign exchange rates.

The amount of capital investment is planned to be 20.0 billion yen (up 0.2% from the previous fiscal year). As to foreign exchange rates, 100.0 yen per US dollar and 16.1 yen per RMB on a yearly average basis are assumed.



Business and Other Risks

The business performance and financial condition of the TS TECH Group may be affected by the following risks, and we believe that the risk factors outlined may materially affect the investment decisions of investors. Although the Group has established appropriate risk management systems in response to these risks, users of this information should be aware that it is not possible to anticipate all contingencies.

Any statements contained herein regarding the future are based on judgments made by the Group as of the time this report was produced.

[1] Changes in the market environment

The TS TECH Group operates in regions around the world, including Japan, North America, South America, China, and other countries in Asia, and Europe. The decline in the economies of these regions and reduced consumer spending resulting from trends in the costs of goods that has led to reduced sales of motorcycles and automobiles may have an adverse effect on the Group's operating performance.

[2] Level of dependence on sales to Honda Motor Co., Ltd. and Honda Group

Honda Motor Co., Ltd. and its affiliates (the "Honda Group") accounted for 93.1% of the consolidated net sales of the TS TECH Group (96.0% if indirect sales to the Honda Group via other Honda Group partners are included).

The TS TECH Group has regular opportunities to communicate with the Honda Group, through which it reaffirms the business direction being pursued by both groups. However, it is not guaranteed that the TS TECH Group will continue to receive orders for each model. If the TS TECH Group unexpectedly failed to win an order with the Honda Group, the TS TECH Group's operating performance may be affected. In addition, the business performance of the TS TECH Group may also be affected by such factors as (1) changes in the Honda Group's business strategies or purchasing policies; (2) adjustments in the Honda Group's production; (3) transfer of the production bases of special models produced by the Honda Group; (4) reorganization of the Honda Group's production bases; and (5) the sale start time and the trend of sales of the Honda Group models that incorporate the TS TECH Group's products.

[3] Competition

The appearance of new competitors or cooperation among existing competitors may result in such companies, or alliances, rapidly gaining market share.

The TS TECH Group aims continually for technical innovation to reinforce its position as a manufacturer specializing in automobile seats and interiors. The Group focuses on the development of high-quality, high-value-added automobile seats and interiors as a means of enhancing its competitiveness. However, there is no guarantee that the Group will be able to maintain or expand its market share in the future.

[4] Latent risks inherent in international operations and overseas expansion

Reinforcing local production capabilities is a core strategy for the TS TECH Group. In North America, South America, China, other countries in Asia, and Europe, the Group has established local manufacturing

subsidiaries and is pursuing an aggressive strategy of overseas business development.

Through this overseas business development, the business results of the Group may possibly be affected by factors such as the unexpected establishment or amendment of overseas laws and regulations, the opinions and views of tax authorities regarding transfer pricing taxation, difficulties acquiring human resources and insufficient infrastructure, etc.

If a change in the political and economic situation of each country or an event such as a dispute between multiple countries, a terrorist attack or a serious accident occurred, the business results of the Group may be influenced due to physical and human damage and the disruption of infrastructure, etc.

[5] Exposure to the credit risk of business partners

As a manufacturer of automotive parts, the TS TECH Group has many business partners. While we regularly verify the management status of our business partners, in the event of an unexpected deterioration in the credit or failure of a partner, the Group's operating performance may be adversely affected.

[6] Impact of fluctuations in raw materials markets

The TS TECH Group's main product, automobile seats, is made of steel, resin, polyurethane, and covering materials. The Group takes steps to ensure the stable procurement of these materials by concluding basic purchase contracts with our suppliers of raw materials and parts.

However, in the event of an insufficient supply of raw materials that cannot be addressed or absorbed by the Group, or sharp price increases induced by changes in the regulations surrounding raw materials, reduced production by raw materials manufacturers, and changes in raw materials markets, the Group's operating performance may be negatively affected.

[7] Impact of foreign exchange fluctuations

The TS TECH Group operates globally and is susceptible to foreign exchange fluctuations in its foreign currency-denominated transactions. While the Group conducts exchange hedging transactions for major currencies to minimize the risk of foreign exchange fluctuations, as it is impossible to hedge against all exchange risk, the Group's operating performance may be affected by changes in the foreign exchange market.

The Group's operating performance may also be affected by changes in management results following the conversion to yen based on the conversion rate used in the consolidated financial statements.

[8] Impact of disasters, accidents, and other incidents on the Group's production lines

To minimize the latent risk of disruptions to its production lines, the TS TECH Group carries out regular accident prevention and safety inspections as well as equipment maintenance inspections on all equipment at its plants.

However, there is no guarantee that the Group will be able to completely prevent or mitigate the effect of disruptions to its production lines.

In addition, although the Group endeavors to enhance its manufacturing capacity by undertaking measures to improve processes on its production lines, making its equipment more versatile, and installing production equipment that enables the flexible transfer of production between different plants, among other measures, if an earthquake, contagious disease, or other large-scale natural disaster were to occur, or some other situation arose that caused the suspension of operations, it is possible that production capacity would be severely constrained. This event may have an adverse effect on the Group's operating performance.

[9] Protection of intellectual property rights

Although the TS TECH Group has accumulated technologies and know-how related to the manufacture of its products, in the future it is possible that these intellectual property rights will not be comprehensively protected. Moreover, the Group's operations could be adversely affected if its intellectual property rights were illegally infringed on a large scale.

In addition to the foregoing, although the Group develops products and technologies while paying sufficient attention to ensure that it does not infringe on the intellectual property rights of other companies, the business results of the Group may be affected if it is considered that products and technologies developed by the Group infringe on the intellectual property rights of third parties.

[10] Response to legal procedures

There is a possibility of a lawsuit against the TS TECH Group or an investigation based on the applicable laws. If a decision against the TS TECH Group was made in legal proceedings pending in court, the business results of the Group may be affected.

[11] Response in case of a product defect

The TS TECH Group has made efforts to prevent the occurrence of product defects by establishing a quality assurance system for the manufacturing process and operating quality management systems based on international standards such as ISO 9001.

Moreover, with respect to product defects that require compensation for losses due to product liability, the Group hedges risks by taking out insurance and establishing a system of traceability (tracing of manufacturing history), etc. However, the business results of the Group may be adversely affected by a significant cost caused by a product recall or deterioration of trust, etc.

[12] Response to laws and regulations

In its business activities, which extend across many countries, the TS TECH Group is subject to a wide range of legal restrictions, such as safety and environmental regulations and laws. The Group operates in compliance with the relevant laws and regulations. In particular, in response to legal requirements in Europe and the United States relating to automobile safety, the Group has established a research and development system that enables it to respond adequately to future changes in the regulatory framework in this area.

However, in response to the reinforcement of various regulations or the establishment of new regulations in the future, if the Group is unable to fully comply with new legal requirements, its business activities may be restricted. Moreover, such reinforcement of regulations or the establishment of new regulations may cause the costs of the Group to increase, and the business results of the Group may be adversely affected.

[13] Retirement benefit liabilities

The retirement benefit costs and liabilities of the TS TECH Group are calculated based on assumptions such as the discount rate and expected rate of investment income. As a result, should actual results differ from these assumptions or should these assumptions change, the Group's operating performance and financial condition may be affected.

## Consolidated Balance Sheets

TS TECH Co., Ltd. and Consolidated Subsidiaries  
March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2014	2013	2014
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 12)	¥ 76,460	¥ 53,349	\$ 742,907
Short-term investments (Note 12)	1,690	4,891	16,424
Notes and accounts receivable (Note 12):			
Trade	65,182	48,253	633,322
Unconsolidated subsidiaries and associated companies	349	553	3,396
Allowance for doubtful accounts	(41)	(21)	(397)
Inventories (Note 3)	25,616	22,486	248,891
Income taxes receivable (Note 12)	65	187	636
Deferred tax assets (Note 9)	2,703	2,389	26,264
Prepaid expenses and other current assets	5,371	4,500	52,176
Total current assets	177,395	136,587	1,723,619
<b>PROPERTY, PLANT, AND EQUIPMENT</b> (Note 4):			
Land	10,249	9,683	99,583
Buildings and structures	44,270	37,270	430,145
Machinery and equipment	57,031	49,938	554,131
Furniture and fixtures	48,720	42,002	473,376
Construction in progress	6,372	3,027	61,903
Total	166,642	141,920	1,619,138
Accumulated depreciation	(104,389)	(93,050)	(1,014,269)
Net property, plant and equipment	62,253	48,870	604,869
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 5 and 12)	15,398	14,792	149,613
Investments in and advances to unconsolidated subsidiaries and associated companies	4,358	3,216	42,341
Long-term loans (Note 12)	400	692	3,882
Intangibles	1,546	1,259	15,022
Deferred tax assets (Note 9)	1,569	1,165	15,247
Asset for retirement benefits (Note 7)	267		2,597
Other	1,456	1,457	14,145
Allowance for doubtful accounts	(6)	(337)	(60)
Total investments and other assets	24,988	22,244	242,787
<b>TOTAL</b>	¥264,636	¥207,701	\$2,571,275

See notes to consolidated financial statements.

## LIABILITIES AND EQUITY

**CURRENT LIABILITIES:**

Notes and accounts payable (Note 12):

Trade	¥ 56,136	¥ 39,820	\$ 545,434
Unconsolidated subsidiaries and associated companies	796	511	7,738
Short-term bank loans (Notes 6 and 12)	1,870	2,050	18,167
Current portion of long-term debt (Notes 6 and 12)	584	2,992	5,678
Accrued bonuses	3,053	2,367	29,665
Accrued bonuses to directors and audit & supervisory board members	152	110	1,473
Income taxes payable (Note 12)	3,050	1,716	29,634
Deferred tax liabilities (Note 9)	36	152	352
Other	19,096	12,471	185,534
Total current liabilities	84,773	62,189	823,675

**LONG-TERM LIABILITIES:**

Long-term debt (Notes 6 and 12)	474	457	4,602
Liability for employees' retirement benefits (Note 7)	2,664	563	25,884
Retirement allowances for directors and audit & supervisory board members	60	59	584
Deferred tax liabilities (Note 9)	4,715	5,099	45,808
Other	1,235	1,810	12,009
Total long-term liabilities	9,148	7,988	88,887

**CONTINGENT LIABILITIES** (Note 14)

**EQUITY:**

Common stock—authorized, 272,000,000 shares; issued, 68,000,000 shares in 2014 and 2013	4,700	4,700	45,667
Capital surplus	5,163	5,163	50,166
Retained earnings	133,859	113,122	1,300,609
Treasury stock—at cost, 1,645 shares in 2014 and 1,630 shares in 2013	(3)	(3)	(34)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	8,532	8,191	82,913
Foreign currency translation adjustments	291	(8,181)	2,824
Defined retirement benefit plans	(938)		(9,113)
Total	151,604	122,992	1,473,032
Minority interests	19,111	14,532	185,681
Total equity	170,715	137,524	1,658,713
<b>TOTAL</b>	<b>¥264,636</b>	<b>¥207,701</b>	<b>\$2,571,275</b>

Consolidated Statements of Income

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES	¥457,053	¥359,331	\$4,440,860
COST OF SALES	385,940	309,929	3,749,903
Gross profit	71,113	49,402	690,957
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 10)	31,980	25,182	310,726
Operating income	39,133	24,220	380,231
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,779	1,414	17,290
Interest expense	(158)	(190)	(1,536)
Loss on impairment of long-lived assets (Note 4)	(408)	(326)	(3,961)
Loss on sale and disposal of property, plant, and equipment	(474)	(281)	(4,602)
Gain on sale and disposal of property, plant, and equipment	128	51	1,242
Foreign exchange gains	1,015	1,076	9,866
Losses on disaster (Note 20)	(356)	(420)	(3,462)
Equity in earnings of associated companies	600	306	5,827
Rent income	203	197	1,968
Other—net	794	400	7,706
Other income —net	3,123	2,227	30,338
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	42,256	26,447	410,569
INCOME TAXES (Note 9):			
Current:			
Income taxes	12,764	8,539	124,011
Deferred	(629)	(976)	(6,110)
Total income taxes	12,135	7,563	117,901
NET INCOME BEFORE MINORITY INTERESTS	30,121	18,884	292,668
MINORITY INTERESTS IN NET INCOME	(6,220)	(3,142)	(60,440)
NET INCOME	¥ 23,901	¥ 15,742	\$ 232,228
PER SHARE OF COMMON STOCK (Notes 2.v. and 17):			
Basic net income	¥ 351.49	¥ 231.50	\$ 3.42
Cash dividends applicable to the year	54.00	34.00	0.52

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥30,121	¥18,884	\$292,668
OTHER COMPREHENSIVE INCOME (Note 15):			
Unrealized gain on available-for-sale securities	357	1,110	3,473
Foreign currency translation adjustments	11,289	8,683	109,680
Share of other comprehensive income in associates	209	105	2,027
Total other comprehensive income	11,855	9,898	115,180
COMPREHENSIVE INCOME	¥41,976	¥28,782	\$407,848
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥32,715	¥23,878	\$317,870
Minority interests	9,261	4,904	89,978

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Thousands					Millions of Yen						
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings (Losses)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)			Total	Minority Interests	Total Equity (Deficit)	
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans				
<b>BALANCE, APRIL 1, 2012</b>	68,000	¥4,700	¥5,163	¥ 99,214	¥(3)	¥7,089	¥(15,216)	¥ —	¥100,947	¥11,301	¥112,248	
Net income				15,742					15,742		15,742	
Cash dividends, ¥26 per share				(1,768)					(1,768)		(1,768)	
Contribution to employee welfare fund				(66)					(66)		(66)	
Purchase of treasury stock					(0)				(0)		(0)	
Net change in the year						1,102	7,035		8,137	3,231	11,368	
<b>BALANCE, MARCH 31, 2013</b>	68,000	4,700	5,163	113,122	(3)	8,191	(8,181)		122,992	14,532	137,524	
Net income				<b>23,901</b>					<b>23,901</b>		<b>23,901</b>	
Cash dividends, ¥44 per share				<b>(2,991)</b>					<b>(2,991)</b>		<b>(2,991)</b>	
Contribution to employee welfare fund				<b>(173)</b>					<b>(173)</b>		<b>(173)</b>	
Purchase of treasury stock					<b>(0)</b>				<b>(0)</b>		<b>(0)</b>	
Net change in the year						<b>341</b>	<b>8,472</b>	<b>(938)</b>	<b>7,875</b>	<b>4,579</b>	<b>12,454</b>	
<b>BALANCE, MARCH 31, 2014</b>	<b>68,000</b>	<b>¥4,700</b>	<b>¥5,163</b>	<b>¥133,859</b>	<b>¥(3)</b>	<b>¥8,532</b>	<b>¥ 291</b>	<b>¥(938)</b>	<b>¥151,604</b>	<b>¥19,111</b>	<b>¥170,715</b>	

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Capital Surplus	Retained Earnings (Losses)	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity (Deficit)
BALANCE, APRIL 1, 2013	\$45,667	\$50,166	\$1,099,131	\$(32)	\$79,586	\$ (79,492)	\$ —	\$1,195,026	\$141,196	\$1,336,222
Net income			232,228					232,228		232,228
Cash dividends, \$0.43 per share			(29,070)					(29,070)		(29,070)
Contribution to employee welfare fund			(1,680)					(1,680)		(1,680)
Purchase of treasury stock				(2)				(2)		(2)
Net change in the year					3,327	82,316	(9,113)	76,530	44,485	121,015
BALANCE, MARCH 31, 2014	\$45,667	\$50,166	\$1,300,609	\$(34)	\$82,913	\$ 2,824	\$ (9,113)	\$1,473,032	\$185,681	\$1,658,713

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	<b>¥42,256</b>	¥26,447	<b>\$410,569</b>
Adjustments for:			
Income taxes paid	<b>(11,574)</b>	(7,734)	(112,452)
Depreciation and amortization	<b>8,618</b>	7,290	<b>83,736</b>
Impairment loss on long-lived assets	<b>408</b>	326	3,961
Equity in earnings of associated companies	<b>(600)</b>	(306)	<b>(5,827)</b>
Losses on disaster undisbursed	<b>261</b>	297	2,536
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	<b>(8,371)</b>	8,459	<b>(81,333)</b>
Increase in inventories	<b>(823)</b>	(499)	<b>(8,000)</b>
Increase (decrease) in trade notes and accounts payable	<b>8,972</b>	(12,899)	<b>87,170</b>
Increase (decrease) in liability for employees' retirement benefits	<b>1,165</b>	(85)	<b>11,320</b>
(Increase) decrease in receivable for insurance proceeds	<b>(236)</b>	0	<b>(2,291)</b>
Other—net	<b>3,525</b>	2,477	<b>34,248</b>
Total adjustments	<b>1,345</b>	(2,674)	<b>13,068</b>
Net cash provided by operating activities	<b>43,601</b>	23,773	<b>423,637</b>
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	<b>(4,385)</b>	(6,132)	(42,597)
Proceeds from withdrawal of time deposits	<b>8,125</b>	6,005	<b>78,941</b>
Proceeds from sale of property, plant, and equipment	<b>307</b>	146	<b>2,983</b>
Payment for purchase of property, plant, and equipment	<b>(19,378)</b>	(9,343)	(188,285)
Payment for purchase of investment securities	<b>(687)</b>	(560)	<b>(6,672)</b>
Proceeds from collection of loan receivables	<b>962</b>	384	<b>9,345</b>
Payment of loan receivables	<b>(973)</b>	(187)	<b>(9,456)</b>
Purchase of investments in capital of subsidiaries and affiliates	<b>(1,342)</b>	(375)	(13,036)
Investments in a newly consolidated subsidiary	<b>(31)</b>		(297)
Other—net	<b>(831)</b>	(914)	<b>(8,087)</b>
Net cash used in investing activities	<b>(18,233)</b>	(10,976)	(177,161)
<b>FINANCING ACTIVITIES:</b>			
Decrease in short-term bank loans—net	<b>(314)</b>	(2,330)	(3,048)
Repayment of finance lease obligations	<b>(573)</b>	(580)	(5,571)
Repayment of long-term debt	<b>(2,755)</b>	(222)	<b>(26,766)</b>
Payment for purchase of treasury stock	<b>(0)</b>	(0)	(2)
Dividends paid	<b>(5,257)</b>	(4,173)	(51,075)
Net cash used in financing activities	<b>(8,899)</b>	(7,305)	(86,462)
<b>FORWARD</b>	<b>¥16,469</b>	¥5,492	<b>\$160,014</b>

Consolidated Statements of Cash Flows

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
FORWARD	¥16,469	¥ 5,492	\$160,014
FOREIGN CURRENCY TRANSLATION AND OTHER ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	6,642	4,462	64,542
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,111	9,954	224,556
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,349	43,395	518,351
CASH AND CASH EQUIVALENTS, END OF YEAR	¥76,460	¥53,349	\$742,907

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TS TECH Co., Ltd. and Consolidated Subsidiaries  
Year Ended March 31, 2014

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TS TECH Co., Ltd. (the “Company”), is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.92 to \$1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2014, include the accounts of the Company and its 32 significant (30 in 2013) subsidiaries (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in two associated companies (2 in 2013) are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period of five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

Under Japanese GAAP, a difference of less than three months between the fiscal year-end of the parent company and its subsidiaries is not required to be adjusted for purposes of the consolidation. The fiscal year-end of subsidiaries except for those in Japan, North America, and India is December 31.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—In March 2008, the ASBJ issued ASBJ Statement No. 16, “Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to be made to conform the associate’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate’s financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

**d. Business Combinations**—In October 2003, the Business Accounting Council issued a Statement of Opinion, “Accounting for Business Combinations,” and in December 2005, the ASBJ issued ASBJ Statement No. 7, “Accounting Standard for Business Divestitures,” and ASBJ Guidance No. 10, “Guidance for Accounting Standard for Business Combinations and Business Divestitures.” The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting of interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

**e. Cash and Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits that mature or become due within three months of the date of acquisition.

**f. Inventories**—Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net selling value, except for certain items that are stated at the lower of cost, determined by the specific identification method, or net selling value. Supplies are stated at the lower of the last purchase price that approximates cost determined by the first-in, first-out method, or net selling value.

**g. Allowance for Doubtful Accounts**—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**h. Property, Plant, and Equipment**—Property, plant, and equipment are carried at cost. Depreciation of property, plant, and equipment is computed by the straight-line method over the estimated useful lives. The range of estimated useful lives for the Group is from 2 to 50 years for buildings, from 2 to 20 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.

**i. Investment Securities**—Investment securities are all classified as available-for-sale securities. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average cost method. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**j. Investments in Unconsolidated Subsidiaries and Associated Companies**—Nonmarketable available-for-sale investments in unconsolidated subsidiaries and associated companies are stated at cost determined by the moving-average cost method.

**k. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**l. Other Assets**—Intangible assets are carried at cost, less accumulated amortization, which is calculated by the straight-line method principally over 3 to 20 years for intangible assets of the Company and its consolidated domestic subsidiaries and over the estimated useful life for intangible assets of the consolidated foreign subsidiaries. Goodwill and negative goodwill incurred before March 31, 2010, are amortized by the straight-line method over five years.

**m. Employees’ Retirement Benefits**—The Company and certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum severance payment plans, or defined contribution pension plans in place for employees’ retirement benefits. Employees whose service is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to basic rates of pay at the time of termination, length of service, and conditions under which the termination occurs.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized by applying the declining balance method over 17 years within the average remaining service period. Past service costs are amortized using the declining balance method over 17 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or an asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.w).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥267 million (\$2,597 thousand) and liability for retirement benefits of ¥2,664 million (\$25,884 thousand) were recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥938 million (\$9,113 thousand).

**n. Retirement Allowances for Directors and Corporate Audit and Supervisory Board Members**—Retirement allowances for directors and corporate audit and supervisory board members of domestic subsidiaries, which rules them in their company policies, are recorded as a liability at the amount that would be required if all directors and corporate audit and supervisory board members retired at each balance sheet date.

Retirement allowances for directors and corporate audit and supervisory board members are paid subject to approval of the shareholders in accordance with the Japanese Companies Act.

**o. Asset Retirement Obligations**—In March 2008, the ASBJ issued ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**p. Research and Development Costs**—Research and development costs are charged to income as incurred.

**q. Bonuses to Directors and Audit and Supervisory Board Members**—Bonuses to directors and audit and supervisory board members are accrued at the end of the year to which such bonuses are attributable.

**r. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

Certain consolidated foreign subsidiaries file a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned subsidiaries.

**s. Foreign Currency Transactions**—All short-and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

**t. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

**u. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

**v. Per Share Information**—Basic net income per share (“Basic EPS”) is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not presented, as the Company has no shares with dilutive effects.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

#### w. New Accounting Pronouncements

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits,” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

##### (a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, is recognized as a liability or an asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

##### (b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income, and actuarial gains and losses and past service costs that

were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

##### (c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014. Operating income, and income before income taxes and minority interests will increase by ¥2 million (\$21 thousand), respectively, as the result of applying the revised accounting standard for (c) above in fiscal year ending March 31, 2015.

**Accounting Standards for Business Combinations and Consolidated Financial Statements** —On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, “Accounting Standard for Business Combinations,” revised ASBJ Guidance No. 10, “Guidance on Accounting Standards for Business Combinations and Business Divestitures,” and revised ASBJ Statement No. 22, “Accounting Standard for Consolidated Financial Statements.”

Major accounting changes are as follows:

##### Transactions with noncontrolling interest

A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

##### Presentation of the consolidated balance sheet

In the consolidated balance sheet, “minority interest” under the current accounting standard will be changed to “noncontrolling interest” under the revised accounting standard.

##### Presentation of the consolidated statement of income

In the consolidated statement of income, “income before minority interest” under the current accounting standard will be changed to “net income” under the revised accounting standard, and “net income” under the current accounting standard will be changed to “net income attributable to owners of the parent” under the revised accounting standard.

##### Provisional accounting treatments for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss are recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

##### Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for “transactions with noncontrolling interest”, “acquisition-related costs” and “presentation changes in the consolidated financial statements” are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for

the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” is permitted. In retrospective application of the revised standards and guidance for “transactions with noncontrolling interest,” and “acquisition-related costs,” accumulated effects of retrospective adjustments for all “transactions with noncontrolling interest” and “acquisition-related costs” which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for “transactions with noncontrolling interest” and “acquisition-related costs” shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for “provisional accounting treatments for a business combination” are effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance in future applicable periods.

3. INVENTORIES

Inventories as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Merchandise and finished products	¥ 2,609	¥ 2,252	\$ 25,350
Work in process	3,325	1,978	32,310
Raw materials and supplies	19,682	18,256	191,231
Total	¥25,616	¥22,486	\$248,891

4. LONG-LIVED ASSETS

For the purpose of reviewing for impairment, the Group divides its operating assets into groups based on the related product category. Assets to be disposed and idle assets are grouped on an individual basis. For assets to be disposed through planned scrapping or sale and idle assets that are not expected to be used in the future, the carrying amounts were reduced to the recoverable amounts, and the amounts of these reductions were recorded under other expenses as impairment loss. Impairment loss of ¥408 million (\$3,961 thousand) for the year ended March 31, 2014, consisted of ¥202 million (\$1,963 thousand) on certain land and buildings and ¥206 million (\$1,998 thousand) on certain equipment. Impairment loss of ¥326 million for the year ended March 31, 2013, consisted of ¥317 million on certain land buildings and structures and ¥9 million on machines and equipment.

The recoverable amounts of assets to be disposed through sales are measured at the net selling price. The carrying value of the assets, which were not expected to be used or sold in the future was reduced to be zero.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Noncurrent:			
Marketable equity securities	¥15,322	¥ 14,720	\$148,870
Nonmarketable equity securities	76	72	743
Total	¥15,398	¥ 14,792	\$149,613

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities classified as available-for-sale equity securities	¥2,157	¥13,165		¥15,322
March 31, 2013				
Securities classified as available-for-sale equity securities	¥ 2,107	¥12,613		¥ 14,720
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value

March 31, 2014			
Securities classified as available-for-sale equity securities	\$20,955	\$127,915	\$148,870
Available-for-sale securities whose fair value is not readily determinable as of March 31, 2014 and 2013, were as follows:			
	Carrying Amount		Thousands of U.S. Dollars
	Millions of Yen		2014
2014	2013		2014
Available-for-sale equity securities	¥76	¥72	\$743

For other-than-temporary declines where fair values of securities at the end of the fiscal year become less than 50% of their acquisition costs, investment securities are reduced to net realizable value by a charge to income. No such impairment loss on securities was recorded for the years ended March 31, 2014 and 2013.

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and interest rates thereon as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
0.60% to 1.45% (0.61% to 2.20% for 2013)	¥1,870	¥2,050	\$18,167

Long-term debt and interest rates thereon as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loans from financial institutions—From banks, 0.82% to 1.75% (0.91% to 3.85% for 2013):			
Unsecured	¥ 237	¥2,783	\$ 2,302
Obligations under finance leases	821	666	7,978
Total	1,058	3,449	10,280
Less current portion	(584)	(2,992)	(5,678)
Long-term debt, less current portion	¥ 474	¥ 457	\$ 4,602

Annual maturities of long-term debt as of March 31, 2014, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 584	\$ 5,678
2016	267	2,595
2017	123	1,195
2018	30	289
2019	47	455
2020 and thereafter	7	68
Total	¥1,058	\$10,280

7. EMPLOYEES' RETIREMENT BENEFITS

Employees serving with the Company and certain subsidiaries are generally entitled to a lump-sum payment at retirement and, in certain cases, annuity payments at retirement, provided by funded defined benefit pension plans based on the rates of pay at the time of termination, length of service, and conditions under which the termination occurs.

**Year Ended March 31, 2014**

1. The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	<b>¥14,691</b>	<b>\$142,738</b>
Current service cost	<b>788</b>	<b>7,665</b>
Interest cost	<b>217</b>	<b>2,106</b>
Actuarial gains and losses	<b>385</b>	<b>3,737</b>
Benefits paid	<b>(561)</b>	<b>(5,450)</b>
Others	<b>248</b>	<b>2,414</b>
Balance at end of year	<b>¥15,768</b>	<b>\$153,210</b>

2. The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	<b>¥11,487</b>	<b>\$111,607</b>
Expected return on plan assets	<b>164</b>	<b>1,594</b>
Actuarial gains and losses	<b>1,250</b>	<b>12,142</b>
Contributions from the employer	<b>710</b>	<b>6,900</b>
Benefits paid	<b>(441)</b>	<b>(4,288)</b>
Others	<b>202</b>	<b>1,968</b>
Balance at end of year	<b>¥13,372</b>	<b>\$129,923</b>

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Obligation for funded defined benefit plan	<b>¥13,248</b>	<b>\$128,720</b>
Plan assets	<b>(13,372)</b>	<b>(129,923)</b>
	<b>(124)</b>	<b>(1,203)</b>
Obligation for unfunded defined benefit plan	<b>2,521</b>	<b>24,490</b>
Net liability arising from defined benefit obligation	<b>¥ 2,397</b>	<b>\$ 23,287</b>

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	<b>¥ 2,664</b>	<b>\$ 25,884</b>
Asset for retirement benefits	<b>(267)</b>	<b>(2,597)</b>
Net liability arising from defined benefit obligation	<b>¥ 2,397</b>	<b>\$ 23,287</b>

4. The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	<b>¥ 788</b>	<b>\$ 7,665</b>
Interest cost	<b>217</b>	<b>2,106</b>
Expected return on plan assets	<b>(164)</b>	<b>(1,594)</b>
Recognized actuarial gains and losses	<b>341</b>	<b>3,308</b>
Others	<b>6</b>	<b>61</b>
Net periodic benefit costs	<b>¥1,188</b>	<b>\$11,546</b>

Net periodic benefit costs noted above do not include payment costs for defined contribution benefit plan of ¥349 million (\$3,388 thousand) for the year ended March 31, 2014.

5. Accumulated other comprehensive income on defined retirement benefit plans (before net of tax), as of March 31, 2014, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial gains and losses	<b>¥1,439</b>	<b>\$13,982</b>
Total	<b>¥1,439</b>	<b>\$13,982</b>

6. Plan assets

(1) *Components of plan assets*

Plan assets consisted of the following:

	<b>2014</b>
Debt investments	<b>45%</b>
Equity investments	<b>41%</b>
Life insurance company general accounts	<b>11%</b>
Others	<b>3%</b>
Total	<b>100%</b>

(2) *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

7. Assumptions used for the year ended March 31, 2014, were set forth as follows:

	<b>2014</b>
Discount rate	<b>1.50%</b>
Expected rate of return on plan assets	<b>1.50%</b>

Year Ended March 31, 2013

The liability for employees' retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
	2013
Projected benefit obligation	¥14,691
Fair value of plan assets	(11,487)
Funded status	3,204
Unrecognized actuarial loss	(2,641)
Net liability	¥ 563

The components of net periodic benefit costs for the year ended March 31, 2013, were as follows:

	Millions of Yen
	2013
Service cost	¥ 667
Interest cost	253
Expected return on plan assets	(47)
Recognized actuarial loss	431
Other	236
Net periodic benefit costs	¥1,540

Other, noted above as a component of net periodic benefit cost, is payment costs for defined contribution benefit plans.

Assumptions used for the year ended March 31, 2013, were set forth as follows:

	Millions of Yen
	2013
Discount rate	1.50%
Expected rate of return on plan assets	1.50%
Amortization period of prior service cost	17 years
Recognition period of actuarial gain/loss	17 years

**8. EQUITY**

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

**a. Dividends**

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, including (1) having a board of directors, (2) having independent auditors, (3) having an audit and supervisory board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term

by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

**b. Treasury Stock**

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

**9. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes that, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.2% for the years ended March 31, 2014 and 2013, respectively.

The tax effects of significant temporary differences and loss carryforwards that resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonus	¥ 958	¥ 825	\$ 9,304
Corporate enterprise taxes payable	80	71	775
Accrued expenses	796	867	7,733
Reserve for retirement benefits for directors	173	198	1,680
Pension and severance costs	866	189	8,410
Allowance for doubtful accounts	112	153	1,091
Advance received	84		815
Unrealized gain on inventories	290	168	2,819
Inventory reserve	209	138	2,032
Impairment loss	246	156	2,395
Depreciation and amortization	594	537	5,772
Research and development costs	1,960	1,361	19,046
Foreign tax credit carryforwards	79	105	768
Tax loss carryforwards	293	257	2,847
Other	1,104	761	10,726
Total deferred tax assets	7,844	5,786	76,213
Valuation allowance	(874)	(816)	(8,484)
Deferred tax liabilities offset	(2,698)	(1,416)	(26,218)
Total deferred tax assets, net	¥4,272	¥3,554	\$41,511
Deferred tax liabilities:			
Depreciation expenses in foreign subsidiaries	¥ 811	¥ 748	\$ 7,882
Net unrealized gains on marketable securities	4,576	4,384	44,461
Asset for retirement benefits	93	0	905
Foreign currency translation adjustments	391	397	3,799
Retained earnings of foreign subsidiaries	667	0	6,482
Other	911	1,138	8,849
Total deferred tax liabilities	7,449	6,667	72,377
Deferred tax assets offset	(2,698)	(1,416)	(26,218)
Total deferred tax liabilities, net	¥4,751	¥5,251	\$46,160

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, with the corresponding figures for 2013, was as follows:

	2014	2013
Normal effective statutory tax rate	37.2%	37.2%
Permanent differences mainly arisen from non-taxable dividend income	(4.1)	(2.1)
Tax credit	(1.5)	(2.1)
Dividend income from subsidiaries eliminated by consolidation	6.0	4.6
Difference in statutory tax rates of foreign subsidiaries	(11.2)	(9.3)
Undistributed earnings of tax-haven subsidiaries	0.0	1.1
Valuation allowance		
Other—net	2.3	(0.8)
Actual effective tax rate	28.7%	28.6%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.2% to 34.8%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥157 million (\$1,528 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥157 million (\$1,528 thousand).

**10. RESEARCH AND DEVELOPMENT COSTS**

Research and development costs charged to income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Research and development expenses	¥11,635	¥11,221	\$113,053

**11. LEASES**

ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. However, the ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee and whose lease inception was before March 31, 2008, to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the financial statements. The Company applied the ASBJ Statement No. 13 effective April 1, 2008, and continued to account for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, is omitted due to immateriality of the balance as of March 31, 2014.

The minimum rental commitments under noncancelable operating leases at March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 443	\$ 4,305
Due after one year	909	8,832
Total	¥1,352	\$13,137

**12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

**(1) Group Policy for Financial Instruments**

The Group uses financial instruments, mainly long-term debt, including bank loans, depending on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets, such as time deposits or other assets, whose principal is guaranteed. Short-term bank loans are used to fund ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

**(2) Nature and Extent of Risks Arising from Financial Instruments**

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Long-term loans are mainly for the suppliers of the Group.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Maturities of bank loans are less than three years after the balance sheet date.

Derivatives consist primarily of forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 2.u for further details about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers in early stages.

Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. Derivative transactions entered into by the Group have been made in accordance with internal guidelines that regulate the authorization and credit limit amounts. The execution and control of derivatives are under the authority of the finance department. In addition, the counterparties to these derivatives are limited to major international financial institutions, and the Group, therefore, does not anticipate any losses arising from credit risk.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by conducting adequate financial planning by the corporate accounting department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Please see Note 13 for the details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Loss
March 31, 2014			
Cash and cash equivalents	¥ 76,460	¥ 76,460	
Short-term investments	1,690	1,690	
Notes and accounts receivable	65,531	65,531	
Income taxes receivable	65	65	
Investment securities	15,322	15,322	
Long-term loans	400	371	¥ (29)
Total	¥159,468	¥159,439	¥ (29)
Notes and accounts payable	¥ 56,932	¥ 56,932	
Short-term bank loans	1,870	1,870	
Current portion of long-term debt	584	584	¥ (0)
Income taxes payable	3,050	3,050	
Long-term debt	474	472	(2)
Total	¥ 62,910	¥ 62,908	¥ (2)
Derivatives *1	¥ (9)	¥ (9)	

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Loss
March 31, 2013			
Cash and cash equivalents	¥53,349	¥53,349	
Short-term investments	4,891	4,891	
Notes and accounts receivable	48,806	48,806	
Income taxes receivable	187	187	
Investment securities	14,720	14,720	
Long-term loans	692		
Allowance for doubtful accounts	(300)		
Subtotal	392	368	¥(24)
Total	¥122,345	¥122,321	¥(24)

Notes and accounts payable	¥40,331	¥40,331	
Short-term bank loans	2,050	2,050	
Current portion of long-term debt	2,992	2,991	¥ (1)
Income taxes payables	1,716	1,716	
Long-term debt	457	453	(4)
Total	¥47,546	¥47,541	¥ (5)
Derivatives	¥ (2)	¥ (2)	

	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Loss
March 31, 2014			
Cash and cash equivalents	\$ 742,907	\$ 742,907	
Short-term investments	16,424	16,424	
Notes and accounts receivable	636,718	636,718	
Income taxes receivable	636	636	
Investment securities	148,870	148,870	
Long-term loans	3,882	3,597	\$ (285)
Total	\$1,549,437	\$1,549,152	\$ (285)
Notes and accounts payable	\$ 553,172	\$ 553,172	
Short-term bank loans	18,167	18,167	
Current portion of long-term debt	5,678	5,675	\$ (3)
Income taxes payable	29,634	29,634	
Long-term debt	4,602	4,586	(16)
Total	\$ 611,253	\$ 611,234	\$ (19)
Derivatives *1	\$ (89)	\$ (89)	

\*1 Receivables and payables arising from derivative transactions are presented net. If the net amount is a liability, it is written in parentheses ( ).

Cash and Cash Equivalents, Short-term Investments, Receivables, and Income Taxes Receivable

The carrying values of cash and cash equivalents, short-term investments, notes and accounts receivable, and income taxes receivable approximate fair value because of their short maturities. Short-term investments mainly consist of time deposits.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments. Fair value information for investment securities by classification is included in Note 5.

Long-Term Loans

The fair values of long-term loans are determined by discounting the cash flows by an interest rate, such as the yield on government bonds, to which a credit spread is added.

Payables, Short-Term Bank Loans, and Income Taxes Payable

The carrying values of notes and accounts payable, short-term bank loans, and income taxes payable approximate fair value because of their short maturities.

Long-Term Debt

The fair values of the current portion of long-term debt are measured at the amounts to be paid at maturity, discounted at the Group's assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 13.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Investments in equity instruments that do not have a quoted market price in an active market	¥76	¥72	\$743

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen	
	Due in One Year or Less	Due after One Year through Five Years
March 31, 2014		
Short-term investments	¥ 1,690	
Notes and accounts receivable	65,531	
Income taxes receivable	65	
Long-term loans		¥400
Total	¥67,286	¥400
	Thousands of U.S. Dollars	
	Due in One Year or Less	Due after One Year through Five Years
March 31, 2014		
Short-term investments	\$ 16,424	
Notes and accounts receivable	636,718	
Income taxes receivable	636	
Long-term loans		\$3,882
Total	\$653,778	\$3,882

Please see Note 6 for annual maturities of long-term debt.

13. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied  
Currencies

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
At March 31, 2014				
Foreign currency forward contracts:				
Selling U.S. dollars	¥684		¥(5)	¥(5)
Selling British pounds	248		(2)	(2)
Selling Canadian dollars	135		(2)	(2)
Selling Thai baht	54		(1)	(1)
Buying Canadian dollars	9		(0)	(0)
Buying Japanese yen	1		(0)	(0)
	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
At March 31, 2013				
Foreign currency forward contracts:				
Selling U.S. dollars	¥527		¥0	¥0
Selling British pounds	229		0	0
Selling Canadian dollars	83		(0)	(0)
Selling Thai baht	227		(2)	(2)

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
At March 31, 2014				
Foreign currency forward contracts:				
Selling U.S. dollars	\$6,650		\$(45)	\$(45)
Selling British pounds	2,414		(19)	(19)
Selling Canadian dollars	1,313		(16)	(16)
Selling Thai baht	524		(8)	(8)
Buying Canadian dollars	86		(0)	(0)
Buying Japanese yen	14		(0)	(0)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

Derivative Transactions to Which Hedge Accounting Is Applied  
(1) Currencies

		Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2014				
Foreign currency forward contracts:				
Selling British pounds	Receivables	¥630		¥29
Selling U.S. dollars	Receivables	13		0
Buying Japanese yen	Payables	61		0

		Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2013				
Foreign currency forward contracts:				
Selling British pounds	Receivables	¥385		¥1
Buying Japanese yen	Payables	18		2

		Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
At March 31, 2014				
Foreign currency forward contracts:				
Selling British pounds	Receivables	\$6,121		\$282
Selling U.S. dollars	Receivables	124		1
Buying Japanese yen	Payables	597		4

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

(2) Interest

		Millions of Yen	
		Contract Amount	Contract Amount Due after One Year
At March 31, 2014			
Interest rate swaps			
(fixed-rate payment, floating-rate receipt)	Long-term debt	¥88	¥0
		Millions of Yen	
		Contract Amount	Contract Amount Due after One Year
At March 31, 2013			
Interest rate swaps			
(fixed-rate payment, floating-rate receipt)	Long-term debt	¥240	¥88

		Thousands of U.S. Dollars	
	Hedged Item	Contract Amount	Contract Amount Due after One Year
<b>At March 31, 2014</b>			
Interest rate swaps (fixed-rate payment, floating-rate receipt)	Long-term debt	<b>\$855</b>	<b>\$0</b>

The above interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in the fair value of hedged items (i.e., long-term debt).

14. CONTINGENT LIABILITIES

At March 31, 2014, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes endorsed	<b>¥ 27</b>	<b>\$ 266</b>
Guarantees and similar items of bank loans	<b>106</b>	<b>1,027</b>

15. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities			
Gains arising during the year	<b>¥ 550</b>	¥1,703	<b>\$ 5,340</b>
Amount before income tax effect	<b>550</b>	1,703	<b>5,340</b>
Income tax effect	<b>(193)</b>	(593)	<b>(1,867)</b>
Total	<b>¥ 357</b>	¥1,110	<b>\$ 3,473</b>
Foreign currency translation adjustments			
Adjustments arising during the year	<b>¥11,289</b>	¥8,683	<b>\$109,680</b>
Total	<b>¥11,289</b>	¥8,683	<b>\$109,680</b>
Share of other comprehensive income in associates			
Gains arising during the year	<b>¥ 209</b>	¥ 105	<b>\$ 2,027</b>
Total	<b>¥ 209</b>	¥ 105	<b>\$ 2,027</b>
Total other comprehensive income	<b>¥11,855</b>	¥9,898	<b>\$115,180</b>

16. RELATED-PARTY DISCLOSURES

Transactions between the Group and a Major Shareholder

Honda Motor Co., Ltd. (“Honda”) holds shares of the Company’s common stock representing 22.6% of the total shares and is the largest share-holder of the Company. The Company sells significant quantities of its products to Honda and also purchases significant quantities of materials and manufacturing components from Honda. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between the Company and Honda for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥54,576</b>	¥41,565	<b>\$530,271</b>
Purchases of materials and components	<b>10,265</b>	8,262	<b>99,741</b>

The balances due to or from Honda at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥9,075</b>	¥3,044	<b>\$88,177</b>
Accounts payable	<b>225</b>	97	<b>2,187</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

Transactions between a Consolidated Subsidiary and Fellow Subsidiary

TS TECH USA CORPORATION

Honda of America Mfg., Inc. is a subsidiary of Honda and, as such, is a fellow subsidiary of the Company, and TS TECH USA CORPORATION sells significant quantities of its products to Honda of America Mfg., Inc. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between TS TECH USA CORPORATION and Honda of America Mfg., Inc. for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥60,286</b>	¥50,894	<b>\$585,754</b>

The balances from Honda of America Mfg., Inc. at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥3,342</b>	¥4,295	<b>\$32,467</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

TS TECH ALABAMA, LLC.

Honda Manufacturing of Alabama, LLC is a subsidiary of Honda and also a related party of the Company, and TS TECH ALABAMA, LLC sells significant quantities of its products to Honda Manufacturing of Alabama, LLC. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between TS TECH ALABAMA, LLC and Honda Manufacturing of Alabama, LLC for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥36,812</b>	¥34,701	<b>\$357,672</b>

The balances from Honda Manufacturing of Alabama, LLC at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥3,061</b>	¥3,116	<b>\$29,744</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

TS TECH CANADA INC.

Honda Canada Inc. is a subsidiary of Honda and also a related party of the Company, and TS TECH CANADA INC. sells significant quantities of its products to Honda Canada Inc. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between TS TECH CANADA INC. and Honda Canada Inc. for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥49,315</b>	¥34,583	<b>\$479,158</b>

The balances from Honda Canada Inc. at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥4,719</b>	¥3,546	<b>\$45,854</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

TS TECH (THAILAND) Co., Ltd.

Honda Automobile (Thailand) Co., Ltd. is a subsidiary of Honda and also a related party of the Company, and TS TECH (THAILAND) Co., Ltd. sells significant quantities of its products to Honda Automobile (Thailand) Co., Ltd. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between TS TECH (THAILAND) Co., Ltd. and Honda Automobile (Thailand) Co., Ltd. for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥26,957</b>	¥15,482	<b>\$261,920</b>

The balances from Honda Automobile (Thailand) Co., Ltd. at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥3,029</b>	¥4,950	<b>\$29,428</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

TS TECH UK LTD

Honda of the U.K. Manufacturing Ltd. is a subsidiary of Honda and also a related party of the Company, and TS TECH UK LTD sells significant quantities of its products to Honda of the U.K. Manufacturing Ltd. Terms and conditions of transactions are determined individually through price negotiations and are documented in a written agreement or quotation.

Transactions between TS TECH UK LTD and Honda of the U.K. Manufacturing Ltd. for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Sales of products	<b>¥19,347</b>	¥19,069	<b>\$187,981</b>

The balances from Honda of the U.K. Manufacturing Ltd. at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Accounts receivable	<b>¥1,836</b>	¥2,257	<b>\$17,837</b>

Note: Consumption tax is excluded from the transaction amounts and included in the year-end balances.

17. NET INCOME PER SHARE

Basic EPS for the years ended March 31, 2014 and 2013, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Income	Weighted-Average Shares	EPS	
<b>Year Ended March 31, 2014</b>				
Basic EPS—Net income available to common shareholders	<b>¥23,901</b>	<b>67,998</b>	<b>¥351.5</b>	<b>\$3.42</b>

Year Ended March 31, 2013

Basic EPS—Net income available to common shareholders	¥15,742	67,998	¥231.5	
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Diluted net income per share is not presented since there were no shares with dilutive effect for the years ended March 31, 2014 and 2013.

18. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company’s shareholders’ meeting held on June 24, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30 (\$0.29) per share	<b>¥2,040</b>	<b>\$19,821</b>

19. SEGMENT INFORMATION

Under the ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures,” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures,” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group’s reportable segments are those for which separate financial information is available, and regular evaluation by the Company’s management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group’s reportable segments consist of Japan, Americas, China, and Asia/Europe. Americas consists of USA, Canada, Mexico, and Brazil. China consists of China and Hong Kong. Asia/Europe consists of Thailand, the Philippines, India, Indonesia, and the UK.

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

3. Information about sales, profit (loss), assets, liabilities, and other items is as follows:

	Millions of Yen						
	2014						
	Reportable Segment						
	Japan	Americas	China	Asia/Europe	Total	Reconciliations	Consolidated
Sales:							
Sales to external customers	¥ 79,064	¥214,180	¥ 96,702	¥67,107	¥457,053		¥457,053
Intersegment sales or transfers	25,832	448	7,361	704	34,345	¥(34,345)	0
Total	¥104,896	¥214,628	¥104,063	¥67,811	¥491,398	¥(34,345)	¥457,053
Segment profit	¥ 6,894	¥ 16,335	¥ 13,970	¥ 7,995	¥ 45,194	¥ (6,061)	¥ 39,133
Segment assets	91,147	71,408	61,786	47,402	271,743	(7,107)	264,636
Segment liabilities	29,899	29,261	33,229	12,208	104,597	(10,676)	93,921
Other:							
Depreciation and amortization	3,162	2,906	784	1,782	8,634	(16)	8,618
Investment in associated companies accounted for by the equity method	1,200			8	1,208		1,208

	Millions of Yen						Reconciliations	Consolidated
	2014							
	Reportable Segment							
	Japan	Americas	China	Asia/Europe	Total			
Sales:								
Sales to external customers	¥ 79,064	¥214,180	¥ 96,702	¥67,107	¥457,053		¥457,053	
Intersegment sales or transfers	25,832	448	7,361	704	34,345	¥(34,345)	0	
Total	¥104,896	¥214,628	¥104,063	¥67,811	¥491,398	¥(34,345)	¥457,053	
Segment profit	¥ 6,894	¥ 16,335	¥ 13,970	¥ 7,995	¥ 45,194	¥ (6,061)	¥ 39,133	
Segment assets	91,147	71,408	61,786	47,402	271,743	(7,107)	264,636	
Segment liabilities	29,899	29,261	33,229	12,208	104,597	(10,676)	93,921	
Other:								
Depreciation and amortization	3,162	2,906	784	1,782	8,634	(16)	8,618	
Investment in associated companies accounted for by the equity method	1,200			8	1,208		1,208	
Increase in property, plant and equipment and intangible assets	5,380	6,699	655	7,227	19,961		19,961	

	Millions of Yen						Reconciliations	Consolidated
	2013							
	Reportable Segment							
	Japan	Americas	China	Asia/Europe	Total			
Sales:								
Sales to external customers	¥69,698	¥172,063	¥67,470	¥50,100	¥359,331		¥359,331	
Intersegment sales or transfers	24,164		4,442	108	28,714	¥(28,714)		
Total	¥93,862	¥172,063	¥71,912	¥50,208	¥388,045	¥(28,714)	¥359,331	
Segment profit	¥ 5,323	¥ 10,212	¥ 8,190	¥ 4,879	¥ 28,604	¥ (4,384)	¥ 24,220	
Segment assets	78,971	61,587	37,750	38,257	216,565	(8,864)	207,701	
Segment liabilities	21,569	31,495	17,802	10,825	81,691	(11,514)	70,177	
Other:								
Depreciation and amortization	2,545	2,598	859	1,316	7,318	(28)	7,290	
Investment in associated companies accounted for by the equity method	746			6	752		752	
Increase in property, plant and equipment and intangible assets	5,082	2,857	659	2,779	11,377		11,377	

	Thousands of U.S. Dollars						Reconciliations	Consolidated
	2014							
	Reportable Segment							
	Japan	Americas	China	Asia/Europe	Total			
Sales:								
Sales to external customers	\$ 768,211	\$2,081,031	\$ 939,589	\$652,029	\$4,440,860		\$4,440,860	
Intersegment sales or transfers	250,984	4,356	71,518	6,843	333,701	\$(333,701)		
Total	\$1,019,195	\$2,085,387	\$1,011,107	\$658,872	\$4,774,561	\$(333,701)	\$4,440,860	
Segment profit	\$ 66,981	\$ 158,715	\$ 135,740	\$ 77,678	\$ 439,114	\$ (58,883)	\$ 380,231	
Segment assets	885,611	693,825	600,326	460,568	2,640,330	(69,055)	2,571,275	
Segment liabilities	290,508	284,312	322,859	118,612	1,016,291	(103,729)	912,562	
Other:								
Depreciation and amortization	30,729	28,232	7,620	17,311	83,892	(156)	83,736	
Investment in associated companies accounted for by the equity method	11,663			73	11,736		11,736	
Increase in property, plant and equipment and intangible assets	52,274	65,086	6,363	70,222	193,945		193,945	

Notes: The above reconciliations include the following:

1. The reconciliations of “segment profit” of ¥6,061 million (\$58,883 thousand) and ¥4,384 million include intersegment eliminations of ¥203 million (\$1,973 thousand) and ¥430 million, and the Company's administrative expenses of ¥4,360 million (\$42,366 thousand) and ¥4,153 million, which could not be allocated to each segment for the years ended March 31, 2014 and 2013, respectively.

2. The reconciliations of “segment assets” of ¥7,107 million (\$69,055 thousand) and ¥8,864 million include the Company's investments in subsidiaries, which amounted to ¥14,176 million (\$137,740 thousand) and ¥14,405 million, intersegment elimination of receivable of ¥10,729 million (\$104,246 thousand) and ¥11,477 million, and long-term investment securities held by the Company and its subsidiaries, which amounted to ¥16,673 million (\$162,003 thousand) and ¥15,372 million for the years ended March 31, 2014 and 2013, respectively.

3. The reconciliations of “segment liabilities” of ¥10,676 million (\$103,729 thousand) and ¥11,514 million for the years ended March 31, 2014 and 2013, respectively, are intersegment eliminations.
4. The reconciliations of “depreciation” of ¥16 million (\$156 thousand) and ¥28 million for the years ended March 31, 2014 and 2013, respectively, are intersegment eliminations.

Segment-Related Information

1. Information about products and services

Sales of a single product to external customers represent more than 90% of the consolidated sales amount. Consequently, details are not presented.

2. Information about geographical areas

(1) Sales

Millions of Yen					
2014					
Japan	Americas	China	Asia/Europe	Other	Total
¥77,670	¥214,559	¥97,349	¥67,151	¥324	¥457,053

Millions of Yen					
2013					
Japan	Americas	China	Asia/Europe	Other	Total
¥69,036	¥172,148	¥67,749	¥50,127	¥271	¥359,331

Thousands of U.S. Dollars					
2014					
Japan	Americas	China	Asia/Europe	Other	Total
\$754,668	\$2,084,718	\$945,867	\$652,462	\$3,145	\$4,440,860

Notes: 1. Sales are classified by country or region based on the location of customers.

2. Sales to the Americas area for the year ended March 31, 2014, which included sales to the United States of ¥149,895 million (\$1,456 thousand) and sales to Canada of ¥50,639 million (\$492 thousand), exceeded 10% of consolidated net sales.

3. Sales to the Americas area for the year ended March 31, 2013, which included sales to the United States of ¥124,618 million, exceeded 10% of consolidated net sales.

(2) Property, Plant, and Equipment

Millions of Yen				
2014				
Japan	Americas	China	Asia/Europe	Total
¥23,642	¥19,961	¥4,432	¥14,218	¥62,253

Millions of Yen				
2013				
Japan	Americas	China	Asia/Europe	Total
¥21,802	¥15,063	¥3,870	¥8,135	¥48,870

Thousands of U.S. Dollars				
2014				
Japan	Americas	China	Asia/Europe	Total
\$229,712	\$193,946	\$43,063	\$138,148	\$604,869

3. Information about major customers

Name of Customer	Millions of Yen	
	2014	
	Sales	Related Segment Name
Honda of America Mfg., Inc.	¥73,571	Americas
Honda	57,054	Japan
Honda Canada Inc.	50,639	Americas
Guangqi Honda Automobile Co., Ltd.	48,359	China

Name of Customer	Millions of Yen	
	2013	
	Sales	Related Segment Name
Honda of America Mfg., Inc.	¥62,734	Americas
Honda	44,420	Japan
Honda Canada Inc.	35,477	Americas
Guangqi Honda Automobile Co., Ltd.	28,556	China

Name of Customer	Thousands of U.S. Dollars	
	2014	
	Sales	Related Segment Name
Honda of America Mfg., Inc.	\$714,837	Americas
Honda	554,348	Japan
Honda Canada Inc.	492,022	Americas
Guangqi Honda Automobile Co., Ltd.	469,873	China

4. Information about impairment loss on long-lived assets by reportable segment

	Millions of Yen						
	2014						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Impairment losses of assets	¥202	¥25	¥181				¥408

	Millions of Yen						
	2013						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Impairment losses of assets	¥251	¥75					¥326

	Thousands of U.S. Dollars						
	2014						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Impairment losses of assets	\$1,963	\$238	\$1,760				\$3,961

5. Information about bargain purchase gain

The bargain purchase gain for the years ended March 31, 2014 and 2013 was as follows:

	Millions of Yen						
	2014						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Bargain purchase gain	¥97			¥0			¥97

The above bargain purchase gain in Japan was incurred due to the acquisition of TECH TOEI CO., LTD as a wholly owned subsidiary on March 28, 2014.

	Millions of Yen						
	2013						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Bargain purchase gain				¥10			¥10

The above bargain purchase gain was incurred due to additional investment in TS TECH SUN RAJASTHAN PVT. LTD. on December 5, 2012.

	Thousands of U.S. Dollars						
	2014						
	Japan	Americas	China	Asia/ Europe	Other	Eliminations/ Corporate	Total
Bargain purchase gain	\$942			\$1			\$943

20. INFORMATION ABOUT LOSS ON DISASTER

Due to the outbreak of a fire in the China subsidiary in September 2013 and severe flooding in Thailand in October 2011, the Group recognized losses for the years ended March 31, 2014 and 2013 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Loss on disposal of property, plant, and equipment	¥ 96		\$ 936
Loss on disposal of inventories	115		1,115
Fixed cost during shutdown		¥ 84	
Repair costs of machines, tools, and plants	82	273	796
Other	63	63	615
Total	¥356	¥420	\$3,462



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TS TECH Co., Ltd.:

We have audited the accompanying consolidated balance sheet of TS TECH Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TS TECH Co., Ltd. and its consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

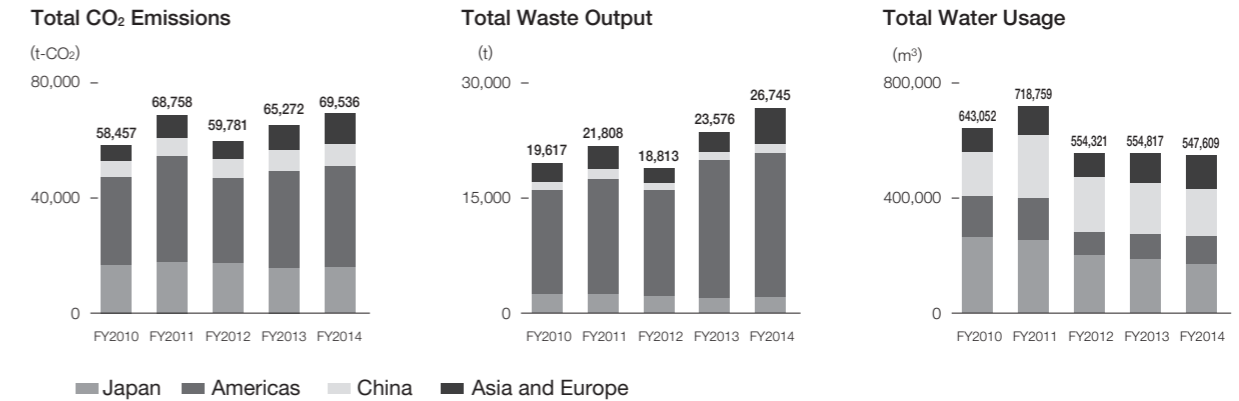
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

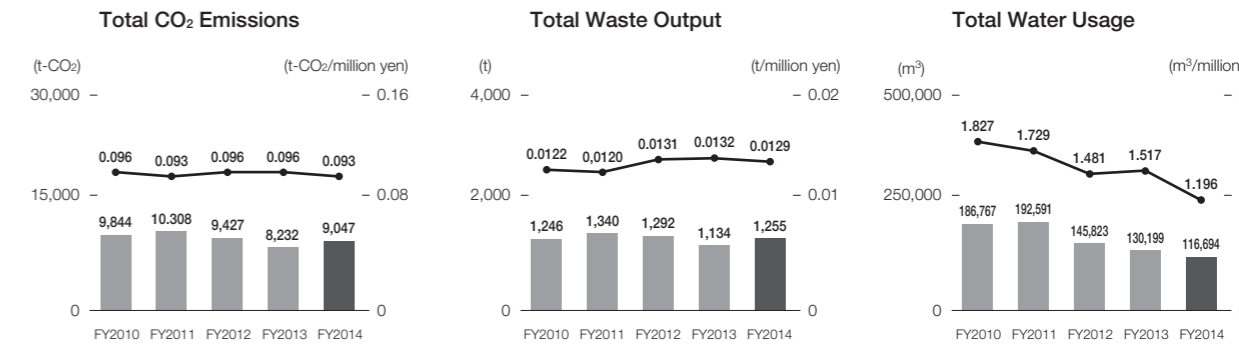
June 24, 2014

Member of  
Deloitte Touche Tohmatsu Limited

Environmental Data for the TS TECH Group

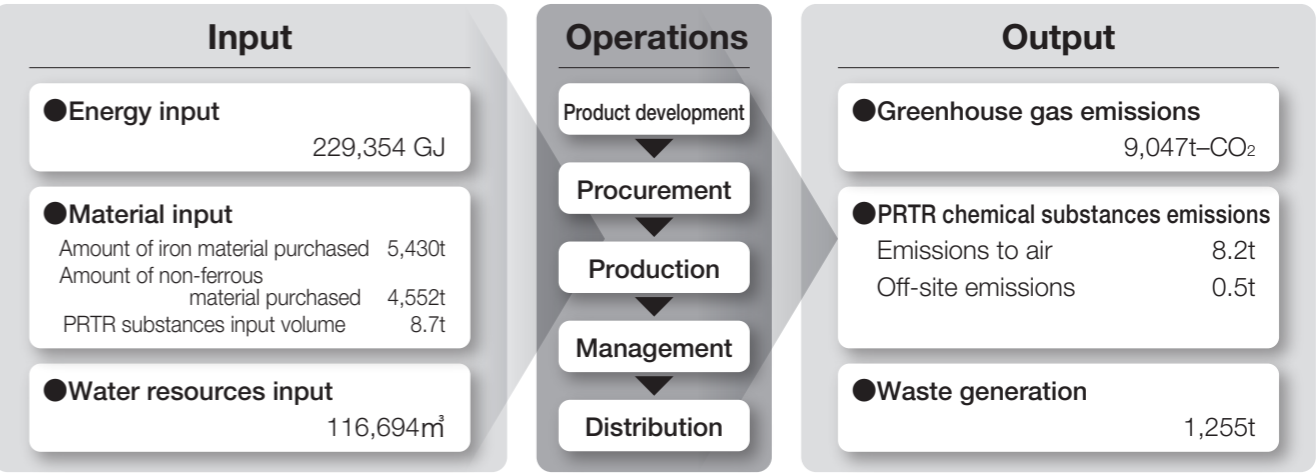


Environmental Data for TS TECH



Note: Line graph values are per unit of production (right scales).

Material Flow



Status of Soil Pollution Cleanup on Grounds of Saitama Plant (Gyoda)

TS TECH chose in situ bioremediation, which has little effect on the ecosystem and small environmental impact, to clean up the soil pollution on the grounds of the Saitama Plant (Gyoda) reported on May 10, 2013 in the Saitama Prefectural News No. 623 and on TS TECH's website. The cleanup work got underway in October 2013. Boring and groundwater monitoring results within the area requiring measures to be taken eventually decreased below the pollution standard. Accordingly, the Company judged that the soil and groundwater in the vicinity had been cleaned up and announced completion of the bioremediation work. With respect to future actions, measurements will be taken periodically (four times a year) at an observation well to check the progression of the completed measures. After it has been confirmed for two years that there is no groundwater pollution, the zone designation will be lifted.

Water Pollution Control Act/Sewerage Act

The TS TECH Group periodically monitors the release of water discharged to public water areas and drainage that soaks into the ground from each business site to confirm that the Group is in compliance with effluent standards.

Item	Unit	Head Office district		Technical Center		Saitama Plant				Hamamatsu Plant		Suzuka Plant	
		Regulatory standards	Results	Regulatory standards	Results	Regulatory standards	Results	Regulatory standards	Results	Regulatory standards	Results	Regulatory standards	Results
Hydrogen ion concentration	PH	5.0~9.0	8.4	6.0~8.4	7.2	5.8~8.6	7.4	5.0~9.0	7.3	5.8~8.6	8.2	5.8~8.6	6.4
Biochemical oxygen demand (BOD)	mg/l	(600)*	67	10	2.6	25	1.9	(600)*	63	160	1.8	25	6.8
Suspended solids (SS)	mg/l	(600)*	55	25	1.8	60	5.0	(600)*	29	200	5.9	90	7.4

\* The regulation values are self-imposed.

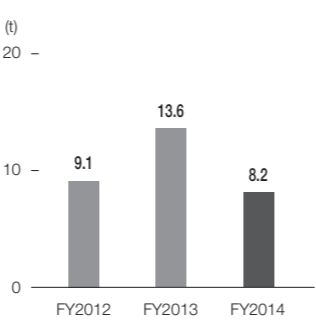
PRTR Act (The Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof)

The TS TECH Group reports annually the amount of chemical substances emitted into the air. There have been no incidents or problems to date.

Handling of PRTR Substances in FY2014

	Saitama Plant (Gyoda)	Hamamatsu Plant	Suzuka Plant
Amount handled (t)	1.1	6.5	1.1
Amount emitted into air (t)	0.6	6.5	1.1
Amount transferred (t)	0.5	—	—

Amount Emitted into Air



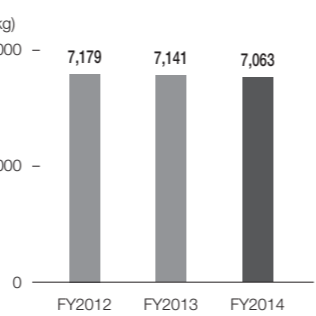
PCB Act (Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes)

TS TECH business sites are storing polychlorinated biphenyls (PCBs) contained in power receiving equipment (transformers and capacitors) for waste treatment, as indicated in the table on the right. The Company will continue to safely store and manage PCB waste.

PCB Storage in FY2014

Business site	Weight (kg)
Head Office	514
Technical Center	1,755
Saitama Plant	2,479
Hamamatsu Plant	—
Suzuka Plant	2,315
Total	7,063

Amount of PCBs Stored

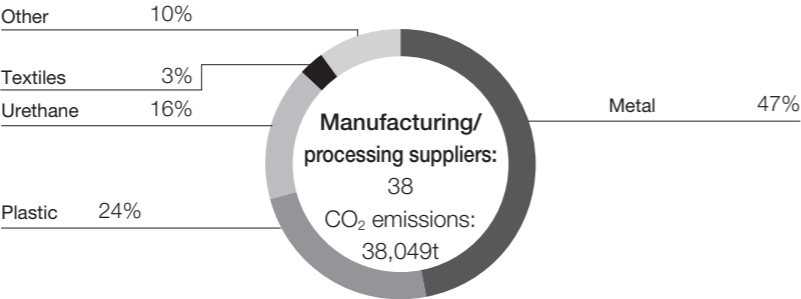


Survey of Suppliers' CO<sub>2</sub> Emissions

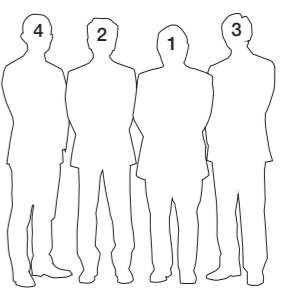
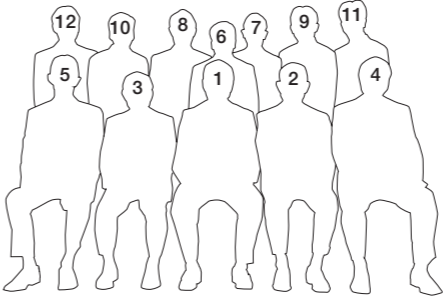
TS TECH started a CO<sub>2</sub> emissions survey targeted at its main manufacturing and processing suppliers in fiscal 2011.

FY2014 Supplier CO<sub>2</sub> Emissions Survey

(CO<sub>2</sub> emissions by industries of manufacturing/processing suppliers)



Directors and Auditors (as of June 24, 2014)



Directors

- |                                                       |                    |
|-------------------------------------------------------|--------------------|
| 1. President (Representative Director)                | Michio Inoue       |
| 2. Executive Vice President (Representative Director) | Toyohide Ishii     |
| 3. Senior Managing Director (Representative Director) | Kazuhisa Saito     |
| 4. Senior Managing Director                           | Takuo Arai         |
| 5. Senior Managing Director                           | Kazuhiko Hikida    |
| 6. Senior Managing Director                           | Tatsuo Wada        |
| 7. Managing Director                                  | Yoshiaki Yui       |
| 8. Managing Director                                  | Minoru Maeda       |
| 9. Managing Director                                  | Masanari Yasuda    |
| 10. Director                                          | Yoshitaka Nakajima |
| 11. Director                                          | Hitoshi Yoshida    |
| 12. Director                                          | Yutaka Arai        |

Auditors

- |                        |                  |
|------------------------|------------------|
| 1. Auditor (Full-Time) | Masao Uzawa      |
| 2. Auditor (Full-Time) | Akira Nemoto     |
| 3. Auditor             | Takeshi Hanamura |
| 4. Auditor             | Tatsuya Motoda   |

Global Supply Capabilities Meeting Local Needs  
Optimally Through a Network of 13 Countries

The TS TECH Group has established a regional control system composed of the Americas, China, and Asia and Europe, with Japan at the center of the global operations. The Group maintains close cooperation between regions, and has strengthened its system of production support from Japan as well as its omni-directional management system.



Locations Overseas

- 1

TRI-CON INDUSTRIES, LTD.
- 2

TS TRIM INDUSTRIES INC.
- 3

TS TECH USA CORPORATION
- 4

TS TECH AMERICAS, INC.
- 5

TS TECH ALABAMA, LLC.
- 6

TRIMOLD LLC
- 7

TS TECH INDIANA, LLC
- 8

TST NA TRIM, LLC.
- 9

TS TECH CANADA INC.
- 10

TRIMONT MFG. INC.
- 11

INDUSTRIAS TRI-CON DE MEXICO, S.A. DE C.V.
- 12

TST MANUFACTURING DE MEXICO, S. DE R.L. DE C.V.
- 13

TS TECH DO BRASIL LTDA.
- 14

GUANGZHOU TS AUTOMOTIVE INTERIOR SYSTEMS CO., LTD.
- 15

GUANGZHOU TECH INTERIOR TRIM MANUFACTURING CO., LTD.
- 16

GUANGZHOU TS TECH AUTOMOTIVE INTERIOR RESEARCH & DEVELOPMENT CO., LTD.
- 17

GUANGZHOU TSK AUTO PARTS CO., LTD.
- 18

NINGBO FTZ TS TRIMONT AUTOMOTIVE INTERIOR INC.
- 19

NINGBO EPZ TS TRIMONT AUTOMOTIVE INTERIOR INC.
- 20

WUHAN TS-GSK AUTO PARTS CO., LTD.
- 21

TS TECH (HONG KONG) CO., LTD.
- 22

TS TECH TRIM PHILIPPINES, INC.
- 23

PT. TS TECH INDONESIA
- 24

TS TECH (THAILAND) CO., LTD.
- 25

TS TECH ASIAN CO., LTD.
- 26

TS TECH (KABINBURI) CO., LTD.
- 27

TS TECH SUN INDIA PRIVATE LIMITED
- 28

TS TECH SUN RAJASTHAN PRIVATE LIMITED
- 29

TS TECH (MANDAL) PRIVATE LIMITED
- 30

TS TECH UK LTD
- 31

TS TECH DEUTSCHLAND GmbH
- 32

TS TECH HUNGARY Kft.

Overseas business sites

- Number of countries

13
- Number of corporations

43
- Number of business sites

71 locations
- Number of production sites

51 locations

Number of employees by region  
(as of March 31, 2014)

- Japan

2,213
- The Americas

6,844
- China

3,307
- Asia and Europe

2,791
- Total

15,155

Locations in Japan

- 1

HEAD OFFICE
- 2

TECHNICAL CENTER

Research and development, sales, procurement, and quality management
- 3

SAITAMA PLANT

Manufacture of seats for automobiles, door trim, roof trim, and steering wheels
- 4

HAMAMATSU PLANT

Manufacture of seats for automobiles, motorcycles, door trim and seats for construction equipment and jet skis
- 5

SUZUKA PLANT

Manufacture of seats for automobiles and door trim

- 1

KYUSYU TS CO., LTD.

Manufacture of seats for motorcycles and resin-based products
- 2

SUN CHEMICAL INDUSTRY CO., LTD.

Rubber parts and resin-based products
- 3

TS LOGISTICS CO., LTD.

Logistics
- 4

TECH TOEI CO., LTD.

Manufacture of seats frames for automobiles
- 5

SOWA SANGYO CO., LTD.

Manufacture of wire frames for seats and resin-based products

Expanding Our Global Network  
while Increasing Competitiveness



TST MANUFACTURING DE MEXICO,  
S. DE R.L. DE C.V.

Establishing a New Company in Mexico to Boost our Competitiveness in the U.S.A.

TS TECH started a new company as a component supply hub in Mexico to help us address severe competition in the U.S.A. Operations are slated to begin in October 2014 as we work to strengthen our components business, for which we are also targeting sales to other customers.



Saitama Plant (Gyoda)

Consolidating and Restructuring the Interior Product Business in the Saitama Area as Part of our Production Reforms

Operations began at our new seat plant in Saitama in January 2013 and at our new interior trim plant in Saitama in March 2014. Going forward, we will strive to use these facilities as “mother” plants for global production while further boosting production efficiency and driving forward the evolution of production technology.



# Making Significant Advances as a Global Company



**Mitsuo Ogawa**  
Representative Director  
Craig Consulting Co., Ltd.

After graduating from Waseda University, he served a stint at a major automotive-related manufacturer before going on to earn a Master in Business Administration (MBA) from the University of Pittsburgh. He then worked at Sanwa Research Institute, PwC Consulting, and IBM Business Consulting. In 2004 he struck out on his own and established Craig Consulting Co., Ltd. His areas of specialty are organizational theory and organization revitalization. In addition to CSR consulting, he has expanded his business scope into M&A, business strategy formulation, and human resources development. He is also a visiting professor on organizational theory in the Weekend MBA Program at the Nagoya University of Commerce & Business. Among his recent books is “How ISO 26000 Will Change Management” (Nikkei Publishing Inc.).

Last year, I identified three challenges TS TECH had to embrace in order to make further advances as a global company. These were strengthening its system for implementing CSR, staying tuned in to changing trends in the international community, and strengthening CSR throughout the supply chain.

The Company has made progress in all three areas. First, it has strengthened risk management under the TS TECH Corporate Governance (TSCG) program and reinforced the framework for examining and evaluating its own operations. Second, it is building structures to ensure that the Legal Affairs Section stays advised of global legal trends, while also taking steps to raise awareness of employees throughout the Group. Third, it has strengthened its mechanisms for considering CSR performance when purchasing from new suppliers. TS TECH can be admired for its commitment to working to overcome these issues one by one, seriously and in good faith.

TS TECH’s CSR is summed up in the TS Philosophy of “becoming a company welcomed with joy by stakeholders.” The example that most vividly demonstrates this is Za Forum. This is an initiative to consider the Company’s philosophy and technology with regard to the definition of “seating,” together with external stakeholders and then publicly present the results.

As part of this, the initiative for young researchers called the Za Lab has yielded results, including the development of the Aibou Seat, which automatically adjusts to each person’s body shape. The story of the development of this seat is included in this year’s report, so I really hope that readers will look at it.

The Za Lab initiative is a good example of the TS Philosophy going beyond mere words to be presented to the community in a tangible form. It is also an innovative initiative that serves as a forum for the Company’s employees to feel pride in their experience and skills. As the next challenge for the Za Lab, I would really like it to include non-Japanese nationals so that TS TECH can function as a global company in both name and reality. Diversity is truly the soil from which innovation grows.

I would like TS TECH with its management policy of developing as a leading company in CSR to make further efforts in two areas.

The first is to identify environmental changes that have high potential to affect the Company’s business significantly in the future, despite having no impact at present. For example, seats are currently disposed of at the same time a vehicle is scrapped, but TS TECH should give consideration to seats that can be recycled as it uses finite resources such as leather. In addition, the development of products such as seats that help drivers not get tired even on poor roads could help to eliminate the mobility divide for emerging nations.

The other area is allowing a multiplicity of stakeholder perspectives to permeate throughout the company’s business divisions. I think that education programs are the key to this. I would like TS TECH to use the mechanisms it already has in-house, including TS Camp and TS Academy, to educate employees about businesses designed to address social issues. If this can be achieved, the company should be able to attract even more outstanding researchers. I look forward to seeing the future path of the Company that created the Za Lab.

# Corporate Data and Stock Information

## Corporate Data (as of March 31, 2014)

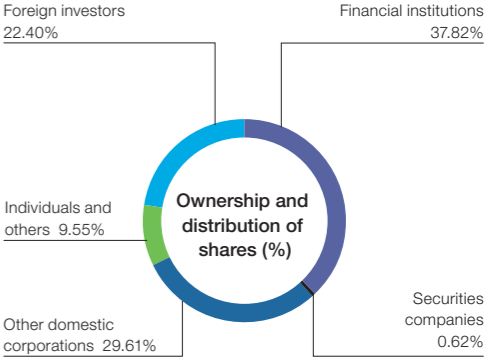
Company Name	TS TECH Co., Ltd.
Establishment	December 5, 1960
Head Office	3-7-27 Sakae-cho, Asaka-shi, Saitama 351-0012, Japan
Common Stock	¥4,700,000,000
Corporate Representative	President, Michio Inoue
Lines of Business	Manufacturing and sales of seats for automobiles; interior trim and interior components for automobiles; motorcycle seats; and motorcycle parts and accessories
Number of Employees	15,155 (consolidated) 1,733 (non-consolidated)
Closing of Accounts	March 31
Securities Traded	Tokyo Stock Exchange (First Section)
Main Banks	The Bank of Tokyo-Mitsubishi UFJ, Ltd. / Sumitomo Mitsui Banking Corporation / Saitama Resona Bank, Limited
Main Customers	Honda Motor Co., Ltd. / Honda R&D Co., Ltd. / Honda Trading Corporation / Honda Access Corp. / Suzuki Motor Corporation / Yamaha Motor Co., Ltd. / Kawasaki Heavy Industries, Ltd. / Fuji Heavy Industries Ltd. / PARAMOUNT BED CO., LTD.

## Stock Information (as of March 31, 2014)

Total Number of Shares Authorized to Be Issued	272,000,000
Total Number of Shares Outstanding	68,000,000
Number of Shareholders	10,023

## Major Shareholders (as of March 31, 2014)

	Equity participation	
	Number of shares held (thousands)	Voting stake (%)
Honda Motor Co., Ltd.	15,360	22.6
Japan Trustee Services Bank, Ltd. (Trust Account)	4,278	6.6
Mitsui Sumitomo Insurance Company, Limited	2,451	3.6
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Trust Bank, Limited Reitrust Portion, Sumitomo Mitsui Banking Corporation Pension Trust Account)	2,199	3.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,983	2.9
Sumitomo Life Insurance Company (Standing proxy : Japan Trustee Services Bank, Ltd.)	1,940	2.9
Saitama Resona Bank, Limited	1,720	2.5
Bridgestone Corporation	1,536	2.3
Taiyo Life Insurance Company	1,400	2.1
Mitsubishi UFJ Trust and Banking Corporation	1,360	2.0



\* Treasury stock is included in "Individuals and others".



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URL: <http://www.tstech.co.jp>

